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82D CONGRESS, 1st Session } SENATE { REPORT No. 492

RENEWAL OF 5-YEAR LEVEL-PREMIUM-TERM INSURANCE FOR WORLD WAR II VETERANS

JUNE 25 (legislative day, JUNE 21), 1951.—Ordered to be printed

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

REPORT

[To accompany H. R. 4000]

The Committee on Finance, to whom was referred the bill (H. R. 4000) to amend subsection 602 (f) of the National Service Life Insurance Act of 1940, as amended, to authorize renewals of level-premium-term insurance for successive 5-year periods, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

By virtue of this act the Committee on Finance adopts the report of the Committee on Veterans' Affairs which is as follows:

EXPLANATION OF THE BILL

The purpose of this proposal is to permit the renewal of any national service life insurance 5-year level-premium-term policy for successive periods of 5 years at the premium rate for the attained age and without medical examination.

Under the present law, any such policy issued on the term plan before January 1, 1948, may be renewed for an additional 5-year period. This bill provides that all term policies may be renewed every 5 years at the election of the insured and upon the payment of higher rates based upon attained age. No medical examination would be involved. This bill is consistent in effect with the policy established by the Congress with respect to United States Government life term insurance, under which renewals have been authorized successively for a second, third, fourth, and fifth 5-year period.

It is also consistent with the provisions of Public Law 23 of this Congress, which created a new system of insurance protection for veterans serving on or after June 27, 1950. Under the new section 621 of the National Service Life Insurance Act, as added by Public Law 23, persons granted term insurance after their discharge from service have the right to renew such insurance for successive 5-year-term periods.

As indicated by the report of the Veterans' Administration, the enactment of this bill would not involve any additional cost to the Government or to the national service life-insurance fund.

The report of the Veterans' Administration follows:

VETERANS' ADMINISTRATION,
Washington 25, D. C., May 11, 1951.

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

DEAR MR. RANKIN: This is in reply to your request for a report by the Veterans' Administration on H. R. 4000, Eighty-second Congress, a bill to amend subsection 602 (f) of the National Service Life Insurance Act of 1940, as amended, to authorize renewals of level-premium-term insurance for successive 5-year periods.

The purpose of the bill is to amend the first proviso of section 602 (f) of the National Service Life Insurance Act of 1940, as amended, to provide that at the expiration of any term period any national service life-insurance policy which has not been exchanged or converted to a permanent plan of insurance, may be renewed as level-premium-term insurance for a successive period of 5 years at the premium rate for the then attained age without medical examination, provided the required premiums are tendered prior to the expiration of such term.

The bill would remove the present restriction on renewal of national service life insurance issued on a term plan so that such insurance could be renewed for an unlimited number of 5-year periods. Under present law, any national service life-insurance policy issued on a 5-year level-premium-term plan before January 1, 1948, and which has not been exchanged or converted to a permanent plan of insurance, may be renewed as level-premium-term insurance for an additional period of 5 years at the premium rate for the then attained age without medical examination, provided the required premiums are tendered prior to the expiration of the first term period. Such policies issued on or after January 1, 1948, may not be so renewed.

In order to provide the Congress a factual presentation of the advantages of insurance on permanent plans as opposed to a continuation of term insurance by means of periodic renewals, it is believed the following information should be made available in connection with this proposal.

Term insurance is a desirable form of protection for comparatively short periods of time when it is desirable to secure the maximum amount of insurance at the lowest premium rates at the attained age of the insured. Because of the increase in premium rates for each successive term, the cost of protection on a term plan becomes prohibitive as the insured becomes older.

The level premium legal reserve system was devised in order to overcome the objections to the renewable term plan. Under this system the premiums are adjusted to provide for level premiums payable throughout the premium-paying period. During the earlier years the insured under this plan pays more than the amount of premium required under a term plan. Insurance on a permanent plan is more advantageous to the insured than insurance on a term plan for the reason that not only will the premiums 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 35 years of two veterans, A and B, now aged 25 years, on the assumption that both veterans live to attain the age of 60 years. Veteran A takes out an ordinary life policy issued at age 25 for $10,000 paying thereon a level annual premium of $162.20 which will never increase during his lifetime. Veteran B takes out a 5-year term policy issued at age 25 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 at the premium rate for his attained age. The annual premium on this term policy during the first 5 years is $79.30. During the third 5-year period the insured will be required to pay an annual premium of $90, during the fifth 5-year period $117.20, and during the seventh 5-year period $209.50.

At the end of the 35-year period, that is, at attained age 60, vertean A has an ordinary life policy under which there is a cash value of $4,823.30 or a loan value of $4,533.90. If he wishes to discontinue the payment of premiums he may secure a paid-up life policy in the amount of $7,234.40, 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 17 years and 52 days without the payment of any further premiums. If he desires to keep his policy in full force after attaining age 60 it may be continued until his death by the payment of the original annual premium of $162.20.

On the other hand veteran B, upon attaining age 60, 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 60 to 64, inclusive, is $307.80; for ages 65 to 69, inclusive, $470; and for ages 70 to 74, inclusive, $731.60. If veteran B, upon attaining age 60, desires to continue his protection under the level premium life plan it will be necessary for him to pay the premium at the ordinary life rate for age 60 which is $599.10 per year.

An examination of the above figures and the comparative results under the two plans shows 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.

Whether insurance on a renewable term plan, even if available, would be desired by a large proportion of veterans is debatable. The experience under United States Government life insurance does not indicate that the majority of veterans prefer insurance on the term plan. Of the policyholders now carrying the approximately half million policies in force, less than 10 percent of those who could have had 5-year term insurance now carry it on this plan despite the fact that the term policy is renewable without medical examination at the end of each 5-year period.

The enactment of H. R. 4000, Eighty-second Congress, would not involve any additional cost to the Government, or to the national service life insurance fund, except that its passage might result in veterans carrying more insurance than they would otherwise, with consequent additional extra-hazard claims chargeable to the national service life insurance appropriation.

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

Sincerely yours,

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

CHANGES IN EXISTING LAW

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

SECTION 602 (F) OF PUBLIC LAW 801, SEVENTY-SIXTH CONGRESS

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

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