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SENATE.

{ REPORT
No. 749.

AMENDMENT TO THE WAR-RISK INSURANCE ACT.

FEBRUARY 20, 1919.—Ordered to be printed.

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

R E P O R T.

[To accompany S. 5555.]

The Committee on Finance, to whom was referred the bill (S. 5555) to amend the war-risk insurance act, having considered the same, report thereon with a recommendation that the bill do pass.

A letter from the Secretary of the Treasury, under date of February 7, 1919, is appended hereto and made a part of this report.

TREASURY DEPARTMENT,
Washington, February 7, 1919.

MY DEAR SENATOR: I am inclosing herewith a tentative draft of a bill amending the war-risk insurance act. It provides for the enlargement of the permitted class of beneficiaries of converted insurance and directs the setting aside of a reserve fund for such insurance.

In my opinion, the early passage by the Congress of a bill similar in effect to that inclosed is of such vital importance to the success of the bureau in administering the provisions of the war-risk insurance act authorizing the conversion of insurance heretofore granted that I earnestly request that you give it the earliest possible attention. The reasons for requesting the legislation proposed may be thus briefly stated:

1. *The setting aside of an insurance reserve.*—Section 402 of the act authorizes the inclusion in the insurance contract of provisions for "dividends from gains and savings, and such other provisions for the protection and advantage of and for alternative benefits to the insured and the beneficiaries as may be found to be reasonable and practicable." This and other provisions of the act make it clear that Congress expected that the contracts of converted insurance to be issued should make provisions for dividends substantially similar to those usually found in life-insurance policies issued by private companies. It is also reasonable to infer that Congress expected that the gains and savings out of which these dividends were to be paid should, as in the case of private insurance companies, be realized from interest on reserve and savings in mortality. Hence, the Secretary of the Treasury should invest the reserve fund obtained from premiums on converted insurance in such a manner as to realize interest in excess of the basic rate of 3½ per cent upon which the reserve is calculated. This action could probably be taken by the Secretary without receiving additional authority from the Congress, but the importance of the proposed action is so great, affecting as it must the work of the bureau through half a century, and the sums involved are so large that it would be unwise to proceed without receiving the express direction of the Congress. I am advised that the success of the plan to continue the

insurance of our soldiers in converted form depends largely upon the step proposed to be taken.

The considerations which lead me to think that the Congress should direct the establishment and maintenance of such a reserve fund may be set forth more specifically as follows:

(a) In receiving level-rate premiums for converted insurance from the soldier in the earlier years of the insured's life the Government takes from him more money than necessary to cover the cost of the protection granted to him during those years. This excess or reserve morally and equitably belongs to the insured and is held by the Government for his benefit. It is in a sense a trust fund, which the Government should use not for its own expenses but for the benefit of the insured. Moral obligation, as well as sound insurance practice, requires the Government to invest this reserve fund in such a way as to secure the highest interest obtainable consistent with safety.

(b) By using such a reserve fund for the purchase of farm-loan bonds issued by the Federal land bank an interest return substantially equal to 4½ per cent could be secured with perfect safety. At the same time one of the Government's most admirable economic agencies would be aided.

(c) The history of fraternal insurance organizations which failed to provide in early years a reserve fund shows what would be the effect of a failure on the part of the Government to set aside a reserve to support the converted insurance granted under the war-risk insurance act. If premium receipts should be applied in payment of current claims under matured insurance, with no setting aside of a reserve, the amount of the appropriations that would be required of Congress would at first, relatively speaking, be misleadingly small and would later become inordinately large. In short, sound economic theory, as well as the considerations of simple justice mentioned in (a) above, require the maintenance of a reserve.

2. *Enlargement of permitted class of beneficiaries.*—Section 402 provides that in case the permitted beneficiaries of the insured die before the insured, or before they have received all of the 240 installments payable after his death, the installments remaining unpaid shall be forfeited to the Government, only the reserve value, if any, being payable to the estate of the insured. This was a wise and fair provision in the case of war-time term insurance. As the Government was giving to the insured the extra cost of insurance due to war hazards, there was no unfairness in declaring that it would not pay if the soldier's immediate dependents should have failed, but the same considerations do not apply to the converted insurance carried by the soldier under peace-time conditions, and for which he pays in full. It is only reasonable that the soldier who pays in full for his insurance should be given a wider selection of beneficiaries among his relatives, and it is but simple justice that he should receive in full the insurance he pays for without fear of forfeiture in case no person within the permitted class survives him. The proposed bill attached hereto enlarges the class of permitted beneficiaries so as to include uncles, aunts, nephews, and nieces of the insured. It further provides that if no such person within the enlarged class of beneficiaries survives the insured, the commuted value of the installments remaining unpaid shall become a part of the estate of the insured, but if the surviving beneficiaries within that class die before receiving all of the installments payable, then the commuted value of the unpaid installments shall become payable to the estate of the last surviving member of the permitted class. It is to be noted that the amount payable in such cases to the estate of the insured or of the last surviving beneficiary is the commuted value of the unpaid installments, and not merely the reserve of the policy, which alone is payable under the existing provisions of the act.

I am satisfied that the legislation proposed is entirely consistent with the purpose of the act and essential to the successful administration of those provisions requiring the conversion of the annual term insurance into other forms of insurance suitable to the peace-time needs of insured soldiers and sailors. This opinion is supported by the advice of the best insurance experts in this country, who, after careful study during many weeks of all the problems involved, and having special regard for the best interests of the men in the military and naval service, have incorporated some of the provisions of the proposed legislation in the recently completed policy forms for converted insurance. If these policies are to be issued as drawn and the work of conversion thereunder to begin, it is necessary for the Congress to pass the legislation proposed, and it is respectfully requested that this be done at the earliest possible day.

Sincerely, yours,

HON. F. M. SIMMONS,
Chairman Committee on Finance,
United States Senate.

QUARTER GLASS, *Secretary.*