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SENATE

REPORT
No. 1303

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

MAY 5 (legislative day, APRIL 30), 1942.—Ordered to be printed

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

REPORT

[To accompany H. R. 4402]

The Committee on Finance, to whom was referred the bill (H. R. 4402) to provide for the renewal of veterans' 5-year level-premium-term policies of insurance for an additional 5-year period, having considered the same, report favorably thereon and recommend that the bill do pass.

The purpose of the bill, as set out in the report of the Committee on World War Veterans' Legislation of the House, is to authorize holders of 5-year level-premium-term policies of United States Government life insurance to renew such policies for a fourth 5-year period, at the premium rate for the attained age without medical examination.

This legislation is similar to legislation previously reported by the Senate and House committees and enacted into law which permitted the same privilege of renewing 5-year level-premium-term policy. A bill similar to this one was last enacted on June 1, 1937 (Public, No. 127, 75th Cong.).

The Finance Committee concurred in the opinion of the Committee on World War Veterans' Legislation of the House, that any man who has such a policy at present should not be denied the privilege of renewing this type of insurance if he so desires, and further concur in the following excerpts from the report of the House committee:

> The committee also recognize 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 into other types of insurance at the present time.
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> However, in the long run, the committee wish to point out the marked disadvantages of level-premium term policy to veterans as they become older in point of age.
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> 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.
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> 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 of the Administrator of Veterans' Affairs is self explanatory and is as follows:

VETERANS' ADMINISTRATION,
Washington, June 2, 1941.

Hon. JOHN E. RANKIN,
Chairman, Committee on World War Veterans' Legislation,
House of Representatives, Washington, D. C.

MY DEAR MR. RANKIN: Further reference is made to your letter dated April 22, 1941, requesting a report on H. R. 4402, Seventy-seventh Congress, a bill 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 holders of 5-year level-premium term policies of United States Government life insurance to renew such policies for a fourth 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 two renewals since authorized for periods of 5 years each, making a total period of 15 years during which the Government insurance may be carried on the 5-year term plan. Term insurance, except to provide temporary protection for short periods of time, is unsatisfactory to both insurer and insured. The term premium advances with each renewal of the contract period and this advance is so rapid at the older ages that it results in a premium rate which is practically prohibitive and which frequently causes a forfeiture of the insurance. While the premium for a policy under a life or endowment plan of insurance is always higher in the beginning than the current term premium, the cost to the insured over a period of time is always less under these forms of insurance, due to the fact that interest helps to pay a part of the cost of protection and thus reduces the amount of actual cash contribution of the insured. It is always to the advantage of the insured to convert to a life or endowment plan at the earliest possible moment.

The United States Government life-insurance fund is a trust fund contributed by the policyholders and administered by the Government as trustee for the sole benefit of the policyholders. In granting any benefits or privileges in connection with the administration of this fund consideration should be given to the best interests of the entire body of policyholders. The experience under the fund shows that the healthier lives have selected the insurance plans which require the payment of the higher-premium rates, while the less desirable lives from an insurance viewpoint have selected the plans bearing the lower premium rates. As a consequence of this selection both the death rate and the disability rate under the 5-year term plan are much higher than under any other plan of insurance granted. Any further extension of the period during which term insurance may be carried will be certain to result in adverse selection against the United States Government life-insurance fund.

As above stated, term insurance is desirable only to cover an emergency and the period during which such insurance may be carried is necessarily limited. In the majority of cases insurance protection is desired for the whole period of life and consequently term insurance must eventually be converted to some permanent form of insurance. The longer this conversion is delayed the greater the cost to the insured.

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 that 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.

In view of the foregoing the Veterans' Administration is unable to recommend favorable consideration of the bill.

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.

Very truly yours,

FRANK T. HINES, *Administrator.*

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