

AMENDING SECTION 602 (M) OF THE NATIONAL SERVICE LIFE INSURANCE ACT OF 1940 (PUBLIC, NO. 801, 76TH CONG.) TO PROVIDE FOR A PERSON IN THE MILITARY SERVICE TO SECURE INSURANCE EFFECTIVE AS OF DATE OF APPLICATION BY PAYMENT OF THE FIRST PREMIUM WITHIN 30 DAYS THEREOF

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JANUARY 16, 1942.—Ordered to be printed

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Mr. CLARK of Missouri, from the Committee on Finance, submitted the following

## REPORT

[To accompany S. 1935]

The Committee on Finance, to whom was referred the bill (S. 1935) to amend section 602 (m) of the National Service Life Insurance Act of 1940 (Public, No. 801, 76th Cong.) to provide for a person in the military service to secure insurance, effective as of date of application by payment of the first premium within 30 days thereof, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

1. Amend the title of the bill to read:

A bill to amend section 602 (m) of the National Service Life Insurance Act of 1940 (Public, Numbered 801, Seventy-sixth Congress), as amended, to enable a person in active service in the Army, Navy, Marine Corps, or Coast Guard to secure such insurance effective as of date of application by advance of active service pay, and for other purposes.

2. Strike out all after the enacting clause and substitute in lieu thereof the following:

That section 602 (m), title VI, of an Act entitled "An Act to provide revenue, and for other purposes," approved on October 8, 1940 (Public, Numbered 801, Seventy-sixth Congress), be, and the same is hereby, amended by striking out the period at the end thereof and inserting a colon and the following proviso: "*Provided*, That an amount equal to the first premium due under a National Service Life Insurance policy may be advanced from current appropriations for active service pay to any person in the active service in the Army, Navy, Marine Corps, or Coast Guard, which amount shall constitute a lien upon any service or other pay accruing to the person for whom such advance was made and shall be collected therefrom if not otherwise paid: *Provided*, That no disbursing or certifying officer shall be responsible for any loss incurred by reason of the advance herein authorized: *And provided further*, That any amount so advanced in excess of available service or other pay shall constitute a lien on the policy within the provisions of section 5, Public Law Numbered 866, Seventy-sixth Congress, approved October 17, 1940."

The committee fully recognizes the hardship upon the dependents of those entering military or naval service without sufficient funds immediately to avail themselves of the opportunity to secure National Service life insurance, and believes that enactment of the bill as amended will meet an urgent need and accomplish a worthy objective.

One of the basic purposes for which the National Service Life Insurance Act of 1940 was enacted was to provide for those entering active military or naval service an opportunity of securing insurance protection which they could not have received from commercial companies because of the fact that many policies issued by such companies contain a clause voiding the same or requiring the payment of a higher premium if the insured enters the military service. Further, it is necessary, perhaps, in many instances for one entering the service to lapse his commercial policy where it has the so-called war clause because of inability to pay the increased premium required. In other words, the purpose of the National Service Life Insurance Act was to afford the same insurance protection at no increased cost to those persons who normally would have carried or were carrying insurance in civil life.

Under the plan provided by the bill as amended, the payment of the first premium will be assured as an incident of the applicant's allotment or authorization to deduct such premium from his active-service pay. This provision accomplishes the relationship of debtor and creditor and will have a salutary effect upon insurance settlements, without involving the National Service Life Insurance fund, since the allotment of pay which will have been advanced to insurance applicants for the purpose of payment of the first premium will obviate the necessity of withholding settlement of claims pending receipt of the premium payment from the service departments. Provisions for advance of service pay for proper purposes have heretofore been enacted into law. (See 10 U. S. C. 864, 30 Stat. 420, 721; 34 U. S. C. 875, 39 Stat. 1181.)

The Veterans' Administration has recommended favorable consideration of the bill as amended, and has informed the committee that advice had been received from the Bureau of the Budget that while the bill in its original form would not be in conflict with the program of the President, there would be no objection to the Veterans' Administration presenting to your committee such information and suggestions as would be deemed pertinent with reference to the proposed legislation.

The report of the Administrator of Veterans' Affairs is as follows:

VETERANS' ADMINISTRATION, *October 20, 1941.*

HON. WALTER F. GEORGE,

*Chairman, Committee on Finance,*

*United States Senate, Washington, D. C.*

MY DEAR SENATOR GEORGE: Further reference is made to your letter dated October 7, 1941, requesting a report on S. 1935, Seventy-seventh Congress, a bill to amend section 602 (m) of the National Service Life Insurance Act of 1940 (Public, No. 801, 76th Cong.) to provide for a person in the military service to secure insurance, effective as of date of application by payment of the first premium within 30 days thereof, which provides:

"That section 602 (m), title VI, of an Act entitled 'An Act to provide revenue, and for other purposes,' approved on October 8, 1940 (Public, Numbered 801, Seventy-sixth Congress), be, and the same is hereby, amended by striking out the period at the end thereof and inserting a colon and the following proviso: 'Provided, That for the purpose of payment of the first premium, the submission with

the application of a valid authorization, effective on the date of the application, for deduction from active-service pay of the amount of the premium, shall be deemed equivalent to cash tendered with the application; and in such case if the applicant be otherwise eligible for national service life insurance, the policy shall be effective from the date of the application."

The purpose of the bill is to make a valid authorization for deductions of premiums from active-service pay equivalent to cash tendered with the application for insurance.

The present requirement that premiums due upon insurance be paid at the time insurance protection attaches is in accordance with sound and established insurance practice and in some instances, at least, the grant of insurance protection without such payment of premiums will result in payment of indemnity by the Government as insurer for which no consideration has, in fact, been paid.

National Service Life Insurance is operated upon the mutual plan for the benefit of all of the policyholders therein. The National Service Life Insurance fund is composed of the moneys paid in as premiums by the policyholders together with investment earning thereon. All losses are paid from the fund. While section 607 of the National Service Life Insurance Act provides for the recoupment by the fund from the National Service Life Insurance appropriation of losses and waived premiums when death or total disability is traceable to the extra hazard of military or naval service, many of such losses occur to policyholders while in the service under circumstances wherein recoupment by the fund cannot be made and such losses consequently must be borne solely by the fund. In the latter type of case loss would, in effect, fall upon policyholders of National Service Life Insurance. It is obviously inequitable to extend insurance protection at the expense of the fund to persons who do not pay premiums for the protection enjoyed.

One of the basic purposes for which the National Service Life Insurance Act of 1940 was enacted was to provide for those entering active military or naval service an opportunity of securing insurance protection which they could not have received from commercial companies because of the fact that many policies issued by such companies contain a clause voiding the same or requiring the payment of a higher premium, if the insured enters the military service. Further it would be necessary, perhaps, in many instances for one entering the service to lapse his commercial policy where it had a so-called war clause because he could not pay the increased premium required. In other words, the purpose was to afford the same insurance protection at no increased cost to those persons who normally would have carried or were carrying insurance in civil life. There was no intent to create a gratuity of any sort; that is to say, there was no intent to offer to or induce the carrying of insurance by any person who was not financially able to carry the same in civil life.

For the reasons above set forth, the Veterans' Administration is of the opinion that the existing practice of requiring payment of the first premium at the time the insurance coverage commences, under section 602 (m) of the National Service Life Insurance Act, is in accord with sound insurance principles and procedure.

However, it may be urged as against the views above set forth that the need for insurance may be felt more keenly by virtue of entering the service when there is no opportunity to secure the same and that persons who normally would not carry insurance, or who might have difficulty in financing the coverage, because of the exigencies of the situation, would secure the same by loan obtained through private arrangement.

The Veterans' Administration fully recognizes the hardship upon the dependents of those entering military or naval service without sufficient funds immediately to avail themselves of the opportunity to secure insurance and is fully in sympathy with the objective proposed by the bill. It is believed, however, that the proposed objective would be more satisfactorily reached by an advance of funds from the service pay of the individual rather than by requiring, in lieu of payment of the first premium, the acceptance of an allotment or authorization for deduction from pay which may be rendered worthless by the discharge, desertion, or death of the allottee before he has earned sufficient pay to equal the amount allotted. Under such plan, the relationship of debtor and creditor may be accomplished without involving the National Service Life Insurance fund, since payment of the first premium will be assured as an incident of the applicant's allotment or authorization to deduct such premium from his active service pay. Such provision would also have a salutary effect upon insurance

settlements, since the allotment of pay which will have been advanced to insurance applicants for the purpose of payment of the first premium will obviate the necessity of withholding settlement of claims pending receipt of the premium payment from the service departments. There are precedents for advance of service pay. (See 10 U. S. C. 864, 30 Stat. 420, 721; 34 U. S. C. 875, 39 Stat. 1181.)

Accordingly, it is suggested that the bill be amended by striking the proviso therefrom and substituting the following:

*“Provided, That an amount equal to the first premium due under a National Service Life Insurance policy may be advanced from current appropriations for active service pay to any person in the active service in the Army, Navy, Marine Corps, or Coast Guard, which amount shall constitute a lien upon any service or other pay accruing to the person for whom such advance was made and shall be collected therefrom if not otherwise paid; Provided, That no disbursing or certifying officer shall be responsible for any loss incurred by reason of the advance herein authorized; And provided further, That any amount so advanced in excess of available service or other pay shall constitute a lien on the policy within the provisions of section 5, Public Law No. 866, Seventy-sixth Congress, approved October 17, 1940.”*

If amended in the manner above suggested, the Veterans' Administration would recommend favorable consideration of the proposed legislation.

Advice has been received from the Bureau of the Budget that enactment of the bill in its present form would not be in conflict with the program of the President but that there would be no objection to the Veterans' Administration presenting to your committee such information and suggestions as are deemed pertinent with reference to the proposed legislation.

Very truly yours,

FRANK T. HINES, *Administrator.*

