



# REPORT TO THE CONGRESS

## Legislation Needed To Avoid Servicemen's Bearing War-Time Mortality Costs Under The Servicemen's Group Life Insurance Program 8-114859

Veterans Administration

*May 29, 1969*

BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES

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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-114859

To the President of the Senate and the  
Speaker of the House of Representatives

This is our report on legislation needed to avoid servicemen's bearing war-time mortality costs under the Servicemen's Group Life Insurance Program. Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Bureau of the Budget, and to the Administrator of Veterans Affairs.

*James B. Abate*

Comptroller General  
of the United States

COMPTROLLER GENERAL'S  
REPORT TO THE CONGRESS

LEGISLATION NEEDED TO AVOID SERVICEMEN'S  
BEARING WAR-TIME MORTALITY COSTS UNDER THE  
SERVICEMEN'S GROUP LIFE INSURANCE PROGRAM  
Veterans Administration B-114859

D I G E S T

WHY THE REVIEW WAS MADE

The Serviceman's Group Life Insurance (SGLI) program is administered by a commercial insurance firm and is supervised by the Veterans Administration (VA). The program provides group life insurance to members on active duty in the uniformed services, including Public Health Service and Environmental Science Service Administration.

Premiums for this insurance, which include cost of administration, are deducted monthly from servicemen's pay and remitted by each uniformed service to VA, which in turn remits them to the commercial insurance firm. During fiscal year 1968 servicemen's premiums amounted to about \$83 million.

Under normal peacetime conditions this program would be self-supporting and would not require any Government subsidy. During wartime, however, the Government subsidizes the program through extra-hazard payments to the commercial insurance firm for death claims traceable to war. Because of the conflict in Vietnam, claims have far exceeded peacetime levels and the Government's extra-hazard costs for fiscal year 1968 amounted to about \$147 million.

The General Accounting Office (GAO) made this review after a survey showed that, although VA computed the Government's extra-hazard costs in accordance with the formula prescribed by law, the application of the formula resulted in the servicemen's bearing a portion of the costs of death claims traceable to the Vietnam conflict, which appeared to be contrary to congressional intent.

FINDINGS AND CONCLUSIONS

On the basis of GAO's review of the legislative history of the law authorizing SGLI, GAO believes that the Congress intended that the Government bear all mortality costs traceable to the extra hazards of war. (See p. 7.)

GAO found, however, that the application of the formula contained in the law to compute the Government's extra-hazard costs resulted in servicemen's contributing about \$15 million during fiscal year 1968 for the costs of death claims traceable to the Vietnam conflict. (See p. 5.)

Tear Sheets

In effect, the law provides that during peacetime conditions the servicemen's premiums reflect the actual mortality experience of the uniformed services, while during wartime conditions the servicemen's premiums be based on the mortality experience of the U.S. male population. The mortality experience of the uniformed services, including mortalities during the 120-day post separation period, for calendar years 1966 and 1967, exclusive of Vietnam casualties, was 1.62 deaths per 1,000 servicemen, while the mortality experience of the U.S. male population of the same average age as the servicemen, as shown in the latest (1966) population table, is 2.04 deaths per 1,000 men.

GAO concluded that use of the formula prescribed by law to compute the Government's extra-hazard costs under the program is not accomplishing the intent of the legislation. (See p. 8.)

RECOMMENDATION OR SUGGESTION

See section entitled "Matters for Consideration by the Congress" below.

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Associate Deputy Administrator stated that VA agreed in general with the data presented in the report and that the substitution of a standard of the servicemen's peacetime mortality would require a change in the law.

MATTERS FOR CONSIDERATION BY THE CONGRESS

Thus, it is GAO's view that, in order to implement the intent of the legislation--that the Government bear all mortality costs traceable to war--the Congress should consider amendatory legislation which would require that the computation of extra-hazard costs for the SGLI program be based on the annual normal mortality rate of members covered under the program rather than on the rate shown in U.S. population mortality tables.

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COMPTROLLER GENERAL'S  
REPORT TO THE CONGRESS

LEGISLATION NEEDED TO AVOID SERVICEMEN'S  
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FINDINGS AND CONCLUSIONS

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GAO found, however, that the application of the formula contained in the law to compute the Government's extra-hazard costs resulted in servicemen's contributing about \$15 million during fiscal year 1968 for the costs of death claims traceable to the Vietnam conflict. (See p. 5.)

In effect, the law provides that during peacetime conditions the servicemen's premiums reflect the actual mortality experience of the uniformed services, while during wartime conditions the servicemen's premiums be based on the mortality experience of the U.S. male population. The mortality experience of the uniformed services, including mortalities during the 120-day post separation period, for calendar years 1966 and 1967, exclusive of Vietnam casualties, was 1.62 deaths per 1,000 servicemen, while the mortality experience of the U.S. male population of the same average age as the servicemen, as shown in the latest (1966) population table, is 2.04 deaths per 1,000 men.

GAO concluded that use of the formula prescribed by law to compute the Government's extra-hazard costs under the program is not accomplishing the intent of the legislation. (See p. 8.)

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See section entitled "Matters for Consideration by the Congress" below.

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The Associate Deputy Administrator stated that VA agreed in general with the data presented in the report and that the substitution of a standard of the servicemen's peacetime mortality would require a change in the law.

MATTERS FOR CONSIDERATION BY THE CONGRESS

Thus, it is GAO's view that, in order to implement the intent of the legislation--that the Government bear all mortality costs traceable to war--the Congress should consider amendatory legislation which would require that the computation of extra-hazard costs for the SGLI program be based on the annual normal mortality rate of members covered under the program rather than on the rate shown in U.S. population mortality tables.

INTRODUCTION

The General Accounting Office has made a review of the procedures used in computing extra-hazard costs paid by the Government under the Servicemen's Group Life Insurance program.

During our survey of the Veterans Administration's supervision of the SGLI program, we examined into whether VA was computing extra-hazard costs in accordance with the formula contained in the law. We noted that, although VA computed the Government's cost in accordance with the formula prescribed in the law, the application of the formula resulted in the servicemen's bearing a portion of death claims traceable to the Vietnam conflict, which appeared to be contrary to congressional intent. Thus, we decided to examine further into the congressional intent of the law authorizing SGLI and to determine the extent to which mortality costs traceable to the Vietnam conflict are borne by the servicemen.

This report is directed to a matter that we believe warrants consideration of the Congress and does not include an overall evaluation of the SGLI program. The scope of our review is discussed on page 10 of this report.

On September 29, 1965, Public Law 89-214 (38 U.S.C. 701) was enacted authorizing the SGLI program. The program provides group life insurance to members on active duty in the uniformed services, defined in the law as the Army, Navy, Air Force, Marine Corps, Coast Guard, Public Health Service, and Environmental Science Service Administration.

Under the program the individual member is automatically insured for \$10,000, unless he elects to be insured for \$5,000 or not to be insured at all. The insurance continues for 120 days after members' separation from service (post separation period) without any premium payment during this period.

The average insurance-in-force during fiscal year 1968 was as follows:



<u>Branch of service</u>	<u>Average number of insureds</u>	<u>Average amount (in millions)</u>
Army	1,491,000	\$14,768.0
Navy	756,000	7,552.5
Air Corps	699,800	8,975.1
Marine Corps	285,900	2,858.1
Coast Guard	36,600	366.0
Public Health	6,400	64.4
Environmental Science	<u>285</u>	<u>2.8</u>
Total active duty	3,475,985	34,586.9
Post-separation insurance	<u>253,248</u>	<u>2,519.8</u>
Average in-force during year	<u>3,729,233</u>	<u>\$37,106.7</u>
In-force at end of year	<u>3,800,000</u>	<u>\$37,800.0</u>

SGLI is administered by a commercial insurance firm (primary insurer) and is supervised by VA. Premiums for this insurance, which include cost of administration, are deducted monthly from servicemen's pay and remitted by each uniformed service to VA, which in turn remits them to the primary insurer. The individual serviceman's premium has been set at \$2 a month for \$10,000 and \$1 a month for \$5,000 of insurance.

Under normal peacetime conditions this program would be self-supporting and would not require any Government subsidy. During wartime, however, the Government subsidizes the program through extra-hazard payments to the primary insurer for death claims traceable to war. Because of the conflict in Vietnam, claims have far exceeded peacetime levels and, as of June 30, 1968, the Government had contributed approximately \$730 million in extra-hazard payments.

A list of the principal VA officials responsible for administration of the insurance activities discussed in this report appears as appendix II.

FORMULA USED TO COMPUTE THE GOVERNMENT'S  
EXTRA-HAZARD COSTS RESULTS IN THE SERVICEMEN'S  
BEARING A PORTION OF THIS COST

On the basis of our review of the legislative history of the law authorizing SGLI, we believe that the Congress intended that the Government bear all mortality costs attributable to the extra hazards of war. Our review showed, however, that the use of the formula contained in the law to compute the extra-hazard costs resulting from the conflict in Vietnam has resulted in the servicemen's contributing about \$15 million during fiscal year 1968 for the costs of death claims traceable to the Vietnam conflict.

Public Law 89-214 authorized the Administrator of Veterans Affairs to establish a tentative monthly premium rate for the first year of the program which the Administrator could continue in subsequent years or which he could re-determine from time to time on the basis of experience under the program. VA officials informed us that the term "experience" referred to in the law related to an appraisal of all the cost components in the program, of which the cost of mortality claims was the largest.

VA statistics show that the annual normal death rate of individuals in the uniformed services for calendar years 1966 and 1967, excluding Vietnam casualties, is 1.51 deaths per 1,000. VA officials informed us that deaths in the 120-day post separation period increased the annual normal death rate for calendar years 1966 and 1967 to 1.62 deaths per 1,000. Consequently, if the United States were not involved in the Vietnam conflict, premiums could be established to reflect mortality claims based on the uniformed services mortality experience.

During wartime the uniformed services are required by law to pay for the extra-hazard costs of this insurance by paying for all death claims in excess of a certain maximum. The computation of the Government's extra-hazard costs is prescribed by a formula contained in the law which, in essence, provides that the Government will pay for death

claims in excess of what the total claims would be if mortality in the uniformed services were the same as the mortality for the entire U.S. male population of the same average age as those persons covered under the program. The annual death rate of males at the average age of servicemen, as shown in the latest (1966) U.S. total male population table, is 2.04 deaths per 1,000.

In effect then, the law provides that, during peacetime conditions, the servicemen's premiums could be adjusted to reflect the actual mortality experience of the uniformed services while during wartime conditions the servicemen's premiums would be based on the mortality experience of the U.S. male population.

Currently the Government pays for death claims in excess of 2.04 deaths per 1,000 and the servicemen's premiums are based on death claims up to 2.04 deaths per 1,000. However, VA officials informed us that, if the United States were not involved in the Vietnam conflict, the servicemen's premiums would be adjusted to reflect the normal mortality experience of the uniformed services, which for calendar years 1966 and 1967 was 1.62 deaths per 1,000.

During fiscal year 1968 servicemen's premiums amounted to about \$83 million and the Government's extra-hazard costs amounted to about \$147 million. We estimated that the servicemen's premiums could have been reduced by as much as \$15 million during fiscal year 1968 if premiums had been based on the normal mortality experience of the uniformed services instead of on the mortality experience of the U.S. male population.

We discussed the basis and the method used in our \$15-million estimate with VA's Chief Actuary and he agreed that the estimate reasonably reflected the amount of premiums paid by servicemen during fiscal year 1968 for the costs of death claims traceable to the Vietnam conflict.

In our discussion of this matter with VA officials, they stated that since peacetime mortality in the uniformed services was less than that of the male civilian population, primarily because of the rigid physical requirements for service, the use of the population

mortality data resulted in shifting a portion of the death claims traceable to war onto the servicemen.

On the basis of our review of the legislative history on Public Law 89-214, it appears that it was the intent of the Congress that the Government assume all the mortality costs traceable to the extra hazards of war. In discussions on the floor of the Senate of the bill which subsequently was enacted as Public Law 89-214, Senator Smathers stated that:

"All costs traceable to extra hazards of servicemen will be borne by the Government, otherwise the program would be self sustaining." (111 Cong. Record 24730)

Similarly, in discussions on the floor of the House on this bill, Congressman Boland stated that:

"The costs traceable to the extra hazards of service, such as the fighting in Vietnam, will be borne by the Government." (111 Cong. Record 24345)

To the same effect, is language found in House Report 1003, Eighty-ninth Congress, page 7, on House bill 10873, Eighty-ninth Congress, the companion House bill to the bill eventually enacted.

The Congressional Record for September 20, 1965, shows that VA provided technical assistance to the House Committee on Veterans' Affairs in the drafting of this legislation. In discussing the technical assistance provided to the Committee, VA officials informed us that:

1. At the time legislation was being drafted it was recognized that the mortality experience of the uniformed services in peacetime would be lower than U.S. population mortality experience.
2. It was thought desirable at the time to use for this purpose a standard that would have official standing by being published data that would be updated periodically.

3. The U.S. population tables met these requirements and it was decided to use them since there were no published statistics on the actual mortality experience of the uniformed services.

Our review of the legislative history on Public Law 89-214, did not reveal any evidence that the Congress had specifically considered the effects on the servicemen's premiums in prescribing the use of population mortality tables to compute the Government's extra-hazard costs.

In passing Public Law 89-214, the Congress recognized that it was taking rapid action to meet an immediate problem and that legislation to improve or expand the program might be considered advisable at a later date. We noted that, in urging the House to act favorably on the present legislation, Congressman Donohue stated that:

"\*\*\* the grave problem of providing an adequate insurance program for those serving in our armed services, and their dependents, during this so-called cold war period is one of major concern to the members of this House. This bill permits us to translate some of our concern into realistic action. I, and I am sure a good many others here, wish it went a great deal further but it appears this is about all we are going to be permitted to consider at this time. Therefore I urge the House to adopt this bill now and at the same time let us pledge ourselves to improve and expand it at the earliest possible date in the future." (Underscoring provided.) (111 Cong. Record 24345)

#### CONCLUSION

On the basis of our review of the legislative history on Public Law 89 214, we believe that it was the intent of the Congress that the Government assume all mortality costs traceable to the extra hazards of war. As stated on page 5 the annual normal death rate of persons covered under the program for calendar years 1966 and 1967 was 1.62 deaths per 1,000. Consequently, the use of U.S. population mortality rate of 2.04 deaths per 1,000 to compute mortality costs

traceable to the extra hazards of the Vietnam conflict has resulted in the servicemen's bearing a portion of this cost. During fiscal year 1968 this portion amounted to about \$15 million.

RECOMMENDATION TO THE CONGRESS

Thus, it is our view that, in order to implement the intent of the legislation--that the Government bear all mortality costs traceable to war--the Congress should consider amendatory legislation which would require that the computation of extra-hazard costs for the SGLI program be based on the annual normal mortality rate of members covered under the program rather than on the rate shown in U.S. population mortality tables.

AGENCY COMMENTS

In commenting on our draft report, the Deputy Administrator of Veterans Affairs stated that VA agreed in general with the data contained in the report and that substitution of a standard of the servicemen's peacetime mortality would require a change in the law.

SCOPE OF REVIEW

Our review was made at the VA Central Office in Washington, D.C. We reviewed the basic legislation authorizing the SGLI program, examined pertinent agency records, and interviewed VA officials responsible for the administration of the SGLI program.

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VETERANS ADMINISTRATION  
OFFICE OF THE ADMINISTRATOR OF VETERANS AFFAIRS  
WASHINGTON, D.C. 20420

March 27, 1969

Mr. Max Hirschhorn  
Associate Director, Civil Division  
U. S. General Accounting Office (801)  
Room 137 Lafayette Building  
811 Vermont Avenue, N. W.  
Washington, D. C. 20420

Dear Sir:

Thank you for the opportunity to review your proposed draft report to Congress on your review of benefits available to servicemen through a more equitable distribution of costs under the Servicemen's Group Life Insurance Program. Members of our respective staffs have met and discussed the draft in detail.

We agree in general with the reported data. We also agree that substitution of a standard of the servicemen's peacetime mortality will require a change in the law, consideration of which you propose to recommend to the Congress.

We have requested two minor changes in the draft. These are reflected in the minutes of the meeting of our respective staffs, copies of which have been furnished the participants.

Your interest in our insurance programs is appreciated.

Sincerely,

A handwritten signature in cursive script, appearing to read "A. W. Stratton".

Associate Deputy Administrator - in the absence of  
A. W. STRATTON  
Deputy Administrator

## APPENDIX II

PRINCIPAL OFFICIALS OF THE  
 VETERANS ADMINISTRATION RESPONSIBLE FOR  
 ADMINISTRATION OF INSURANCE ACTIVITIES  
 DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
ADMINISTRATOR OF VETERANS AFFAIRS:		
W. J. Driver	Jan. 1965	Present
CHIEF BENEFITS DIRECTOR:		
A. W. Stratton	Feb. 1965	Nov. 1967
A. W. Farmer	Nov. 1967	Present
DIRECTOR, INSURANCE SERVICE:		
H. F. Moore	Sept. 1965	Oct. 1968
F. J. Petraitis	Oct. 1968	Present