OVERSIGHT HEARING ON THE DEPARTMENT OF VETERANS AFFAIRS LIFE INSURANCE PROGRAM

HEARING

BEFORE THE

SUBCOMMITTEE ON BENEFITS

OF THE

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THURSDAY, SEPTEMBER 25, 2003

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON BENEFITS,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, DC

The subcommittee met, pursuant to notice, at 10:30 a.m., in room 334 Cannon House Office Building, Hon. Henry Brown (chairman of the subcommittee) presiding.

Present: Representatives Brown of South Carolina, Miller, Bradley, Michaud, and Davis.

OPENING STATEMENT OF CHAIRMAN BROWN

Mr. BROWN. Good morning. The hearing will come to order.

Ranking Member Michaud and I would like to remind everyone that our hearing is being broadcast live throughout the world, in real time, over the Internet. Additionally, the hearing is being recorded and will be accessible on the committee's award-winning website. The staff asked me to say that.

Before we begin, I would like to stress the importance of receiving testimony by the date requested in the invitation letters. This subcommittee has, and will continue, to give witnesses at least 4 weeks notice in anticipation of a hearing. In order for members and staff to properly prepare, we must have your testimony in a timely manner. I appreciate those who consistently meet these deadlines.

We are meeting today to learn more about the Department of Veterans Affairs life insurance program and any operational or policy issues the Department faces in administering the program for servicemembers and their families. The Federal government first began issuing life insurance policies in 1914, and issued more than 4 million policies during World War I. Today, VA's insurance program is the seventh largest insurance program in the United States, with more than 7 million individuals insured for about $750 billion. Coverage is provided to active duty servicemembers, their spouses and children, and veterans—disabled and non-disabled alike.

I regret this is the first oversight hearing on insurance issues in a long, long time, aside from taking testimony on various legislative initiatives over the years that affect this program. I commend the Philadelphia Insurance Center for being named the recipient of the Secretary's 2002 Robert W. Carey Quality Award, as well as their score of 90 on the American Customer Satisfaction Index. I have spent all my life in the business world and it is evident to me that VA's insurance program is one of the best-managed in the government.

I would like to recognize several VA insurance personnel who traveled from Philadelphia to observe the hearing: Mr. Joseph McCann, Assistant Director for Insurance; Mr. Thomas Buffington, Chief of Policy, Procedures and Information Technology; Mr. George Poole, Chief of Planning, Oversight and Actuarial Studies, and Ms. Ruth Berkheimer, Insurance Specialist; and Ms. Kristan Hoffman, Insurance Specialist. Welcome all.

I now turn to the Ranking Member, Mr. Michaud, for his opening remarks.

OPENING STATEMENT OF HON. MICHAEL H. MICHAUD

Mr. MICHAUD. Thank you very much, Mr. Chairman. I don't want to say that this hearing is unusual, but often when we hold hearings to review various aspects of VA benefits, we mainly hear a lot of complaints and concerns. So it is good to have a hearing that we are able to offer congratulations and compliments. I am pleased that you were able to schedule this hearing to review the operations of the Department of Veterans Affairs insurance program. By all accounts, the VA insurance program is doing an excellent job of meeting the needs of those who have paid the supreme sacrifice for our Nation. On behalf of more than 10,000 veterans with life insurance in force in Maine and their families, I want to thank you.

The men and women who work in the insurance program are truly caring for the widows, the widowers, and orphans of our deceased servicemembers. The Servicemembers and Veterans' Group Life Insurance Advisory Committee and the Program Evaluation of Benefits for Survivors of Veterans with Service-Connected Disabilities have offered several suggestions for improvements to the insurance program. And I note that these suggestions have not been incorporated in the VA's budget request. I am also concerned that the severely disabled veterans may be missing out on the benefits of the life insurance program provided for them due to lack of timing and accurate information.

And I want to thank you for your testimony that you will be giving today, and I look forward to hearing that testimony.

And once again thank you very much, Mr. Chairman, for having this hearing today and for all that you do to help veterans across the country.

Mr. BROWN. Thank you, Mr. Michaud. It is a pleasure working with you and the other members of this committee. And thank you for your support for veterans.

At this time we will recognize our first panel if they would come forward. While they are testifying, you will probably hear some bells go off. We are expecting votes some time before 11 o'clock. And if that happens, we will have to recess for just a short period of time and then we will come back and finish testimony.

On our panel this morning we have Mr. Lastowka. He is the Director of the VA Regional Office and Insurance Center. He is accompanied by Mr. Steve Wurtz and Mr. Mike Tarzian. Air Force

Colonel Virginia Penrod is the Director of Compensation, Military Personnel Policy in the Office of the Deputy Under Secretary of Defense. I look forward to your testimony and any recommendations you may have for us to make your operations run even smoother. It is hard to beat 90 percent, but we certainly will keep trying. Thank you.

STATEMENTS OF THOMAS M. LASTOWKA, DIRECTOR, VA REGIONAL OFFICE AND INSURANCE CENTER, VETERANS BENEFITS ADMINISTRATION, ACCOMPANIED BY STEPHEN WURTZ, DEPUTY ASSISTANT DIRECTOR FOR INSURANCE, VETERANS' BENEFITS ADMINISTRATION; AND MIKE TARZIAN, CHIEF, ACTUARIAL STAFF, VETERANS' BENEFITS ADMINISTRATION; AND COL. VIRGINIA S. PENROD, (USAF), DIRECTOR OF COMPENSATION, MILITARY PERSONNEL POLICY, DEPARTMENT OF DEFENSE

STATEMENT OF THOMAS M. LASTOWKA

Mr. LASTOWKA. Thank you, Mr. Chairman, and thank you members of the committee. I appreciate the opportunity to inform the committee of the current status of life insurance programs that are supervised and administered by the Department of Veterans Affairs.

I want to thank you, Mr. Chairman, for the kind words that you had to say to the insurance staff. And I wish to apologize for any role we may have played in delivering late testimony. I will convey your words back to the Department of Veterans Affairs.

I will summarize my written testimony, and I would ask that the complete written testimony be included for the record. First, I am pleased to report that the VA's insurance programs remain in a sound financial condition. VA insurance programs provide over $750 billion of coverage to over 7.5 million veterans, servicemembers, and family members. Nearly $15 billion in the insurance trust fund's investments are earning an average of 6.5 percent return. Over the last 5 years, VA has returned $3.5 billion in dividends to policy-holders and have paid over $5 billion in debt claims and endowments. In addition, the Servicemembers and Veterans Group Life Insurance programs paid about $2.5 billion in claims during the same period. Six of the programs are administered directly by the VA while two programs are contracted with Prudential Life Insurance Company of America and we provide the management and oversight.

In 1998, Congress charged the VA with formally evaluating its life insurance programs. Overall, the results were very positive. Three recommendations have been implemented. That is removing the provision terminating Veterans' Mortgage Life Insurance at age 70; offering SGLI coverage for spouses and children; and reducing VGLI premiums to make them more comparable to commercial rates. We are pleased that Congress passed legislation to implement the first two recommendations, and we have administratively reduced the VGLI premium significantly.

Turning to our in-house programs and administered programs, we have capped insurance premiums at age 70 for most of our policy-holders. And for most term capped policyholders we provide a termination dividend that may be used to purchase paid up insurance. Congress has authorized the use of dividends to purchase paid up additional insurance. Some veterans who took advantage of this option early on have increased their coverage from the basic $10,000 to over $100,000.

We benchmark with the Life Office Management Association, a life industry insurance group. VA insurance average processing times are far better than industry averages in nearly every major area. The insurance program has been recognized as an industry leader for customer satisfaction. And a study conducted by the University of Michigan's School of Business, it found our customer satisfaction scores one of the highest in government or industry.

Turning to the SGLI and VGLI programs, the maximum amount of protection has increased to $250,000. In the year 2001, Congress authorized family SGLI coverage. It provides servicemembers and spouses and children with automatic coverage. This past July, we reduced SGLI premiums, saving servicemembers $138 million each year. VA has also reduced VGLI premiums three times in the past 4 years for an overall reduction of 40 percent.

In addition to reducing premiums, VA has increased its outreach effort to separating servicemembers. We supply them with a VA life insurance brochure, which provides information on all VA insurance programs. We contact by letter or by phone those with a military disability rating of 60 percent or higher to further ensure that the most severely disabled are aware of their benefits.

Prudential's Office of Servicemen's Group Life Insurance processes death claims in less than half the time of the industry average and provides special handling for cases resulting from Operations Enduring Freedom and Iraqi Freedom, paying most of those claims within 48 hours.

Mr. Chairman, VA insurance is a valuable benefit to our uniformed services. We at VA will continue to make it our priority to provide the best service and lowest possible cost to the government and policyholders, as well as to enhance the insurance benefits for our veterans and servicemembers. As times require, we can assure that we will do all in our power to continue these efforts.

Mr. Chairman, I would like to thank the committee. And I am available for any questions.

[The prepared statement of Mr. Lastowka appears on p. 23.]

STATEMENT OF COL. VIRGINIA S. PENROD

Col. PENROD. Mr. Chairman, Congressman Michaud, and distinguished members of the committee, it is an honor to come before you to discuss the VA-managed insurance program for servicemembers. Together Servicemembers Group Life Insurance, and its derivative, Veterans Group Life Insurance, constitute an extraordinary life insurance program for people in uniform and continuing thereafter. We have a great working relationship with the VA Insurance Center staff. They are responsive and have often stepped in to help us meet our program responsibilities. We have nothing but praise for these fine people.

As stated by Mr. Lastowka, Servicemembers Group Life Insurance provides automatic maximum coverage of $250,000. This means that no members are without full coverage unless he or she specifically chooses that condition. This may seem to be more insurance coverage than a young person may need. However, a member is free to reduce coverage to a level he or she feels is appropriate.

On behalf of the servicemembers the Department thanks VA for the continuous reduction in the premium the member pays for coverage. The convenience and affiliated benefits make Servicemembers Group Life Insurance very economical. Also, the availability of Veterans Group Life Insurance on a lifetime basis is an important part of the completeness of the program. With the recent premium reductions, VGLI is getting stronger everyday. And, finally, the addition of coverage for spouses and children makes the program truly comprehensive and second to none.

I would like to add that the Department is extremely pleased with the responsiveness of the Office of Servicemembers Group Life Insurance, which typically pays completed claims within 48 hours of receipt. Overall, the Servicemembers and Veterans Group Life Insurance program structure has proven to be one of exceptional strength that keeps it among the best in the business. The program is working well and the Department of Defense is a very satisfied customer. The Department also appreciates Congress' and especially this committee's tremendous support of this program. I will answer any questions that you may have.

[The prepared statement of Colonel Virginia Penrod appears on p. 37.]

Mr. BROWN. Thank you, Colonel. Mr. Lastowka, you have told us about the benefits and program enhancements that have already been implemented as a result of the recent program evaluation. Are there any other recommendations that have not yet been implemented that you might want to recommend today?

Mr. LASTOWKA. Mr. Chairman, three recommendations that have not been implemented. The three unimplemented recommendations include increasing the maximum coverage of SDVI from $10,000 to $50,000, reducing SDVI premiums based on an updated mortality table, and increasing the current Veterans' Mortgage Life Insurance coverage from the current maximum of $90,000 to between $150,000 and $200,000. We are studying the recommendations and alternatives to them. I'm not in a position to make a recommendation.

Mr. BROWN. Thank you very much. And if you would put those in writing for us, we will certainly take a look at it.

Mr. LASTOWKA. We will be pleased to offer technical assistance, sir.

Mr. BROWN. Yes, sir, I appreciate it. Thank you. Col. Penrod, we certainly would like to welcome you and understand you have been in your current position for 2 months.

Col. PENROD. Yes, sir.

Mr. BROWN. And may we assume this is your first time appearing before a congressional committee?

Col. PENROD. It is, sir.

Mr. BROWN. Okay, well, you did a great job and thank you for coming. A couple of questions, please. Are the majority of our servicemembers insured for the maximum coverage amount?

Col. PENROD. Sir, we have 98 percent that take full—excuse me, 92 percent take full coverage and 6 percent take partial. Two percent do not take coverage.

Mr. BROWN. How about the younger servicemembers, how do those figures relate?

Col. PENROD. For younger servicemembers we have about 38 percent that take—do not take the insurance.

Mr. BROWN. Is that right, that many, okay.

Col. PENROD. But actually—if you think about it, of the 2 percent that don't take coverage, it is 38 percent of that percent which is less than 1 percent.

Mr. BROWN. I got you, okay. Well, thank you very much for coming, and I have no further questions. Mr. Michaud, do you have any questions of the panel?

Mr. MICHAUD. Yes, thank you very much, Mr. Chairman. Yes, my question, you had mentioned about the three recommendations that have not been adopted and could you elaborate a little more of what the advantages and disadvantages of not adopting those recommendations might be?

Mr. LASTOWKA. Sir, it is within the overall package of veterans' benefits, the overall package of policy, and budget policy, there are some difficulties. We would have some difficulties with some of them and would like to look at alternatives. We simply have been unable to come to a package that we could convince ourselves is the right one to offer.

Mr. MICHAUD. Mr. Chairman, if I might submit later additional questions and if you would be able to respond in writing because I would be interested in what the advantages of those recommendations would be for our veterans.

Mr. LASTOWKA. Certainly we would respond to any questions that you would put forward, sir.

Mr. MICHAUD. And any disadvantages as well. Without taking a position on it, I would be curious what those advantages and disadvantages would be.

Colonel, what is the Department of Defense doing to make sure that the servicemembers who are discharged from the military service due to medical disability are made aware of their ability to convert their SGLI insurance to the VGLI program?

Col. PENROD. Sir, when our members are discharged, they are provided briefings on all of their benefits upon retirement or separation. I would have to get back to you on the record whether or not we have a problem with that. As far as I know we do not currently have a problem.

(The information follows:)

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The Services provided transition counseling to the Service member who is discharged from service due to a medical disability. This counseling include SGLI and VGLI. In addition, the Department of Veterans Affairs contacts each member individually to explain the Service member's VA benefits, which includes VGLI. The Services report these are well-established programs and they are not experiencing any difficulty in providing data to the Service member.

Mr. MICHAUD. So they are briefed on that?

Col. PENROD. Yes, sir. Each service has programs for the member when he/she is separated, or retired on what their benefits are. They have transition programs.

Mr. LASTOWKA. Mr. Michaud, if I might volunteer. The VA Insurance Program notifies each member being separated of these eligibility for VGLI and contacts by letter or phone any member separated with military disability rating of 60 percent or above who has not already applied for VGLI.

Mr. MICHAUD. Okay, thank you. Thank you, Mr. Chairman.

Mr. BROWN. Thank you, Mr. Michaud. Any other questions from the members? Mr. Miller?

Mr. MILLER. Let the record show that Mr. Michaud stole my question. (Laughter.)

Mr. BRADLEY. Thank you, Mr. Chairman. The question I have is the linking if you will, or the possible linking of SGLI to commercial underwriting practices and why that isn't done, what would it take to change it, if a study was in order or if there had been consideration by DOD and the VA to move in this direction what impediments there would be?

Mr. LASTOWKA. Congressman, currently, as you know, there is no underwriting for SGLI. We insure all members of the uniformed services. We are always open to look at alternatives. Without having a specific proposal, it would be difficult for me to comment on that.

Mr. BRADLEY. Well, maybe you could. Just comment then in a more general sense. The existing practices for general members of society for life insurance depends on their age, depends on their income level, and then their packages are generally pegged off of that. Whereas, my understanding, at least for members of the services, it is a one size fits all, something that may not work for a lot of people. And so in a general way why are you not looking at more standardized practices for life insurance underwriting for the rest of the public?

Mr. LASTOWKA. Congressman, right now we have a very successful SGLI program based on universal coverage. We have discussed within the SGLI Servicemembers' Group Life Insurance Advisory Council the possibility of say wage-based insurance. And generally the consensus is that we prefer to insure at one set amount. Generally most VA insurance programs have come into existence when there has been no alternative in the private sector. When we have looked at those people within the military needing higher amounts of insurance, we have found that that has been available. And we are reluctant as a group to upset the success of the program. Nonetheless, we are more than willing to look at different approaches. As I have testified, we are always looking to enhance the program. And if we thought that we could enhances, we would gladly consider it.

Mr. BRADLEY. Thank you.

Mr. BROWN. Isn't it true that they pay about $200 a year for $250,000 coverage?

Mr. LASTOWKA. Right they are paying $16.25 a month. So that is less than $200 a year.

Mr. BROWN. Yes, right, that is pretty cheap coverage.

Mr. LASTOWKA. We work hard to administer the SGLI program with almost no overhead. Currently, over 98 percent of premiums go directly to insurance benefits for our veterans.

Mr. BROWN. That is pretty amazing. Ms. Davis, do you have a question?

OPENING STATEMENT OF HON. SUSAN A. DAVIS

Mrs. DAVIS. Thank you, Mr. Chairman and Mr. Michaud. And thank you very much for being here. I know that you are providing very effective leadership, and I appreciate that very much. I come from San Diego and our housing prices are pretty high. So we hear from veterans about their issues around that. And you referenced mortgage life insurance and the interest I think in trying to increase that. I also know that there are some issues around trying to find some offsets to do that.

Could you maybe share just a little bit more information about how hopeful you are that perhaps we will be able to increase that in the future. Are there mechanisms that we perhaps haven't explored for doing that? How do we get that to the point that certainly I know Congressman Filner has been working on this issue?

Mr. LASTOWKA. Well, there is no mechanism for increases in coverage in the Veterans' Mortgage Life Insurance Program which is for severely disabled, basically wheelchair-bound veterans. So there is no automatic mechanism. Obviously, one of the ways of addressing that is to look at what is possible under the program evaluation's recommendations. But I am not in a position to give a specific proposal on that today, Congresswoman. I am sorry.

Mrs. DAVIS. Is there generally support for moving in that direction if we could find the wherewithal to do it or is there concern, perhaps a feeling that that might not be what we want to do?

Mr. LASTOWKA. I think the only way I could honestly answer that with what I know is to say when you look at the whole package of veterans' benefits and the whole budget of the United States, that we haven't come to an adequate program for that yet.

Mrs. DAVIS. Okay, and we are certainly talking about a relatively small population.

Mr. LASTOWKA. A very small population. There are approximately 2,800 veterans covered under the Veterans' Mortgage Life Insurance Program. And only 1,800 of them would be affected by an increase in coverage limits.

Mrs. DAVIS. Okay, I appreciate that. For those this obviously is an important issue and if we can move forward and at least work with some of those issues that would be very helpful.

I wanted also just to ask about the evaluation of the SDVI program recommended basing premiums on the 1980 actuarial tables?

Mr. LASTOWKA. That is correct, ma'am.

Mrs. DAVIS. Have they been updated?

Mr. LASTOWKA. No, they have not. This recommendation would require legislation. There has been legislation offered by Members of Congress on this issue but none of the bills have become law at this time.

Mrs. DAVIS. Do you think we will likely see that change, that shift to more current tables? I guess what is holding that up, why aren't we doing that?

Mr. LASTOWKA. Again, Congresswoman, I would have to say in terms of my understanding we would have to look at the entire budget for veterans' benefits as well as for the United States of America and determine if this proposal an be implemented within these budget limits.

Mrs. DAVIS. Okay. And the American Legion has recommended that veterans be given an opportunity to obtain a long-term care policy similar to that provided to federal employees. And I am wondering would the VA insurance program be able to operate such a program?

Mr. LASTOWKA. I am here. I am competent to address proposals concerning long tern insurance.

Mrs. DAVIS. Does anybody have any other thoughts about that? Okay. Thank you. Thank you very much.

Mr. BROWN. Thank you, Ms. Davis. And thank you, panel. It is certainly evident that we do have a government program that works, and we appreciate you all coming and sharing this good information with us today. And we will certainly take a look at those issues that, Mr. Lastowka, and see if legislatively we can do something about it. Thank you all for being here.

Mr. LASTOWKA. Thank you, Mr. Chairman.

Mr. BROWN. Thank you, Colonel. Glad to have you as your first witness before the Congress. Thank you.

The next panel will now come forward.

Appearing before us in the second panel is Mr. Brian Lawrence, representing the Disabled American Veterans; Mr. Donald Mooney is with The American Legion; Mr. Richard Jones is representing AMVETS, and Mr. Carl Blake is representing Paralyzed Veterans of America. Your written statements will be included in the printed record of the hearing, and I would ask that you limit your testimony to 5 minutes. Thank you for that. Mr. Lawrence.

STATEMENTS OF BRIAN E. LAWRENCE, ASSISTANT NATIONAL LEGISLATIVE DIRECTOR, DISABLED AMERICAN VETERANS; DONALD L. MOONEY, ASSISTANT DIRECTOR FOR RESOURCE DEVELOPMENT, THE AMERICAN LEGION; RICHARD JONES, NATIONAL LEGISLATIVE DIRECTOR, AMVETS; AND CARL BLAKE, ASSOCIATE LEGISLATIVE DIRECTOR, PARALYZED VETERANS OF AMERICA

STATEMENT OF BRIAN E. LAWRENCE

Mr. LAWRENCE. Good morning, Mr. Chairman and members of the subcommittee. On behalf of the Disabled American Veterans, we thank you for the opportunity to testify on the VA life insurance program. The 1.2 million members of the DAV are veterans who incurred injuries or illnesses during their military service to our Nation.

Many disabled veterans rely on the VA as their only source of life insurance. So it is important that the VA life insurance program is fulfilling its intended purpose, which is to provide coverage to service-disabled veterans who cannot purchase commercial insurance at standard rates. The DAV is very pleased with the VA Regional Office and Insurance Center in Philadelphia. Though faced with a daunting level of responsibility, the Insurance Center fulfills its many responsibilities in a very efficient manner. Policies for RH insurance are normally approved or disapproved within 1 to 3 months of application. The time frame for approval or disapproval of an application for supplemental RH is within one month. VMLI is effective immediately upon approval of specially adapted housing and the Insurance Center pays death claims within 3 days.

Over the past 12 months 95 percent of veterans responding to surveys conducted by the Insurance Center rated its performance as satisfactory or better. The insurance Center deserves the highest praise for its consistent and impressive record of efficiency.

But despite the efficient operation at the Insurance Center, problems have occurred in the delivery of insurance benefits. VA regional offices have in the past failed to code award letters properly and thousands of veterans were not notified of their eligibility for VA insurance. This error was identified by the insurance center and corrective measures were taken. However, the DAV would like to ensure that no veterans were overlooked. If it has not already been accomplished, we recommend that action be taken to notify any such veterans of their eligibility.

Administrative errors will inevitably occur in a bureaucracy as large as the VA. Such problems can be handled with corrective policy measures. However, fundamental flaws require the hand of Congress and it is clear that the VA insurance program is fundamentally flawed. The program falls far short of delivering the protection it was originally intended to provide. Government life insurance programs have limited basic coverage to $10,000 since their inception under the War Risk Insurance Act of 1917. In 1917, they were an excellent benefit. More than 93 percent of military members adopted the maximum coverage because they knew that in the event of their death, their family members would have the financial resources available to pay for the cost of a home and also to cover the cost of living for a considerable amount of time.

The Sears & Roebuck Company sold pre-fabricated houses in the early 1900's. Its 1920 catalogue featured 80 models ranging in price from $4,900 to $6,000. So obviously $10,000 went much further in 1917 than it does in 2003. According to the United States Census Bureau, median housing costs in 2001 were in excess of a $1,000 per month. At such levels, a VA insurance claim would be grossly insufficient as a source of security income. A surviving spouse and dependents would not be able to afford housing for even one year. Clearly, the original intent of VA insurance has been almost entirely forgotten.

In 1998, the VA issued a report stating that the basic coverage is inadequate. The report also noted the SDVI premiums are much higher than standard commercial rates because they are based on outdated mortality tables. In order to address these concerns, the report recommended that legislation be proposed to increase the coverage to $50,000 and to lower premiums by basing them on the 2001 CSO mortality table.

Legislation should be enacted to amend Title 38 to increase the amount of basic insurance under SDVI. Year after year delegates to our national convention have adopted resolutions supporting such an amendment. The DAV supports increasing the face value along with basing premiums on current mortality tables. DAV members believe that our Nation owes a great debt to veterans, especially those who are so disabled by service-connected conditions that they cannot qualify for life insurance. It is our government's responsibility to ensure that injuries related to military service are fully compensated.

My written testimony includes additional recommendations. But for the sake of brevity I will mention them and not elaborate. They include increasing Veterans' Mortgage Life Insurance from $90,000 to $150,000, excluding life insurance benefits from income determinations for other government programs, and to provide an extended period to apply for SDVI.

Mr. Chairman, thank you very much for your consideration of our testimony and thank you for the opportunity to provide our views.

[The prepared statement of Mr. Lawrence appears on p. 43.]

Mr. BROWN. Thank you, Mr. Lawrence, for coming and sharing this information with us. We all are very concerned about the quality of life for our veterans and we appreciate your advocacy.

Mr. LAWRENCE. Thank you, sir.

Mr. BROWN. Mr. Blake, are you prepared to go next?

STATEMENT OF CARL BLAKE

Mr. BLAKE. Certainly, Mr. Chairman. Mr. Chairman, Ranking Member Michaud, and members of the subcommittee, PVO would like to thank you for the opportunity to testify today concerning the VA's life insurance program. The life insurance program is vital to the long-term stability of disabled veterans and their families who would not otherwise be able to afford insurance.

As a beneficiary of the VA's life insurance program, I can attest to the value of this benefit. Due to the severity of my disability, the cost of regular life insurance from a private insurance company would be very costly. And the same could be said for our military servicemembers. They often face high costs for private insurance from private companies because they are not so willing to insure individuals who are in high-risk professions. This is why it is important that the VA maintain a viable life insurance program for veterans and severely disabled veterans.

I would just like to reiterate a couple of the points made by my colleague from the Disabled American Veterans on behalf of the independent budget. The first is that the service-disabled veterans insurance needs to be increased from its current level of $10,000 to $50,000. The current SDVI benefit does not begin to cover the cost of living that would provide a meaningful income replacement for the families of deceased and severely-disabled veterans.

PVA would also like to recommend that the premiums be—the premium table be changed within the veterans' insurance program because it does not accurately reflect the current mortality tables that most private insurance companies recognize.

I would also like to talk about the Veterans' Mortgage Life Insurance program. It is very close to PVA's heart because of its tie directly to the specially-adapted housing grant, which our members are the highest users of, both the insurance and the grant program. Without the adapted housing grant, many of our members would be unable to purchase or build a home that is suitable for their special needs. We believe that the amount of the VMLI program should be increased from the current level of $90,000 to $150,000. This would more accurately reflect the always changing and ever increasing values of homes, particularly accessible homes that are being built today.

I would also like for you to consider the value of government life insurance policies as income or assets. The independent budget states, "For nursing home care under Medicaid, the government forces veterans to surrender their government life insurance policies and apply the amount received from the surrender for cash value toward nursing home care before Medicaid will cover the related expenses of needy veterans."

PVA is concerned that veterans are forced to give up one benefit just to receive another. In accordance with the recommendations of the independent budget, PVA urges this committee and Congress to enact legislation that would exempt the cash value dividends and proceeds of VA life insurance from consideration as income when a veteran is seeking benefits from other federal programs.

PVA believes that the benefits of the life insurance programs administered by the VA are not equitable to the needs that disabled veterans and their families have. That is not to say that this is not a successful program. It certainly is. It is time to bring these benefits to a level consistent with the original intent of these programs. As we continue to add new military men and women to the ranks of our disabled veterans, we must not fail to improve the benefits that they will depend on.

PVA would like to thank you for the opportunity to testify today, and I would be happy to answer any questions that you might have.

[The prepared statement of Mr. Blake appears on p. 47.]

Mr. BROWN. Thank you, Mr. Blake. Mr. Mooney.

STATEMENT OF DONALD L. MOONEY

Mr. MOONEY. Good morning, Mr. Chairman, and members of the subcommittee. The American Legion appreciates this opportunity to share its views on the Department of Veterans Affairs life insurance programs for veterans, active duty members, and their dependents.

Initially, Mr. Chairman, during this time of a national trial, the American Legion would like to express its appreciation to VA for the special efforts they are taking to ensure 48-hour payment of casualty claims arising out of operations in the Middle East and South Asia.

The American Legion recognizes the VA Insurance Center in Philadelphia as an exemplary operation with few parallels in either government or the private sector. Comparisons show the Center's costs are lower than the private sector and much lower than the Prudential unit in Newark, which runs the SGLI and VGLI programs. Improved performance is also seen on the American customer satisfaction index, an insurance industry benchmark. VA's score of 90 compared to the private sector score of 71 and the Federal government's overall score of 69 reflects excellence in the performance of the Department. For that reason, the American Legion believes that even better service would result if SGLI and VGLI were moved to VA's Philadelphia Center.

In response to an American Legion program proposal, VA now provides outreach to those servicemembers being discharged on a disability retirement at a rating of 60 percent or greater to ensure they are fully aware of the availability and requirements for coverage. This outreach involves direct phone calls, personal letters, new brochures, and interactive websites and has resulted in a 20 percent increase in enrollment.

Mr. Chairman, the American Legion has nothing but good to say about life insurance. However, we do, as always, have suggestions. The American Legion fully supports the VA recommendation to increase the current 1 year free SGLI total disability extension to 2 years. This would give some added leeway to severely disabled veterans who are often precluded by their disabilities from proper financial planning and will improve VA's outreach programs. The American Legion would like to see a federal subsidy for a portion of the VGLI premium costs. We do not believe active duty personnel should subsidize premium costs for service-disabled veterans as is now the case.

Following a 2001 study, several proposals for improvement of VA service-disabled programs were developed. The study concluded that the present SDVI program was inadequate due to an insufficient $10,000 face value, severe time limits, and eligibility requirements, and a continuing lack of awareness of the program on the part of disabled veterans. Only unemployable disabled veterans under 65 qualify for supplemental SDVI for which they must pay full premiums. One proposal would provide veterans up to $50,000 of level premium term insurance up to age 70 at which point the amount of insurance would reduce to a paid up policy of 20 percent face value. A standard disability premium waiver would apply. And total coverage under all programs would not exceed $50,000.

While the American Legion has long been in favor of this enhancement to SDVI, we favor a longer eligibility period than the 10 years following release. We also believe that disabled veterans who receive increases in their evaluations to the required 60 percent should be eligible to apply. And this provision should be extended to the regular SDVI program.

The American Legion suggests increasing the maximum amount of supplemental SDVI from $20,000 to $40,000 for those who are already insured and for those who qualify but are outside the enrollment period. We suggest offering a new enrollment period for veterans outside the current period and that period should be at least one and preferably 2 years.

Veterans' Mortgage Life Insurance provides coverage to certain disabled veterans who receive grants for specially-adapted housing. The current maximum amount of VMLI is $90,000. While the VA home loan guarantee limit is $252,500. VMLI coverage is clearly inadequate for most areas of the country.

Finally, we support excluding government life insurance policies from being considered assets when determining eligibility for federally-funded programs, primarily Medicare and Medicaid. Currently, VA policies are included for purposes of determining an individual's resources, often disqualifying that individual from other federal benefits. As a result, some insured surrender their policies to reduce their assets. The forced surrender of these policies defeats congressional intent in providing them.

Finally, Mr. Chairman, the American Legion would like to address an area of veterans' benefits that could well be served by a new program of VA insurance.

Mr. BROWN. Mr. Mooney, let me get your attention just a minute. You heard some noise in the background a while ago. That was a call to vote. I apologize for cutting you off but I know we want to give Mr. Jones a little bit of time.

Mr. MOONEY. Okay.

Mr. BROWN. And, Mr. Jones, if you wouldn't mind summarizing. I know a lot of these issues have been repeated two or three times. If you have got some new issues that you want to bring forward, if you wouldn't mind doing that. And, Mr. Mooney, if you have got some points that you want to conclude in a short, brief moment because we are going to have to move over to vote.

Mr. MOONEY. Mr. Chairman, my remarks about long-term care are in much greater detail in my written submission.

Mr. BROWN. Okay, if you would submit that in writing for us and we will certainly take it under consideration as we look at the other concerns.

Mr. MOONEY. Thank you, Mr. Chairman.

[The prepared statement of Mr. Mooney appears on p. 53.]

Mr. BROWN. Thank you very much, too.

Mr. Jones, I hate to do this to you. It is just not part of our control to be able to direct when the votes are going to come, and I apologize. But if you could just wrap it up pretty quick for us.

STATEMENT OF RICHARD JONES

Mr. JONES. Chairman Brown, AMVETS fully understands your responsibilities, which is why we so much appreciate the opportunity to come by and speak to you, Ranking Member Michaud, Representative Miller, and Representative Bradley. AMVETS is pleased to be here. And we know that this hearing is being broadcast to such a potentially large audience. We think that is a great opportunity for all Americans to hear how important these issues are.

The issues that we bring to this panel today have been spoken of already. We think that home ownership is a great American dream. It is part of the American fabric. We want to support it in every way. We do think there are some positions that currently need to be attended to. We think the VMLI, the Veterans' Mortgage Life Insurance program, sir, does need some updating. We do need to make sure that these folks can negotiate a good home. And the other issues that have been brought up are innovative and appropriate. We ask that you take a close look at our independent budget, of which AMVETS is a proud author, and see several of the issues there that we recommend be reformed by either Congress or the administration.

Again, Chairman Brown, we recognize your responsibilities. We thank you for your service. And we very much appreciate this opportunity today for AMVETS to come by. And on behalf of our commander, John Sisler, and our nationwide membership, we all thank you very much for what you do for veterans and their families.

[The prepared statement of Mr. Jones appears on p. 57.]

Mr. BROWN. Okay, gentlemen, thank you very, very much for coming today and being part of this. We have got the folks from Philadelphia in the room that heard the concerns. And we are grateful for your advocacy for such a great cause and such a great group of men and women that made America safe. I thank you. I don't have any questions. But, Mr. Michaud, do you have a statement?

Mr. MICHAUD. I have no questions, just a written question I will submit in writing plus correspondence from Mr. Evans to the Secretary of the VA, I would like to include in the record that is dealing with the SDVI for me.

Mr. BROWN. Okay, without objection.

(See pp. 17, 19 and 64.)

Mr. BROWN. Thank you, gentlemen. Thank you all for coming. Colonel, glad to have you here. We will conclude this meeting today and we will have to run and go vote. Thank you so much.

[Whereupon, at 11:15 a.m., the subcommittee was adjourned.]

APPENDIX

U.S. House of Representatives
COMMITTEE ON VETERANS' AFFAIRS

ONE HUNDRED EIGHTH CONGRESS
335 CANNON HOUSE OFFICE BUILDING
WASHINGTON, DC 20515
http://veterans.house.gov

August 4, 2003

Honorable Anthony Principi
Secretary
Department of Veterans Affairs
Washington, DC 20420

Dear Secretary Principi:

It is my understanding that thousands of veterans may have been effectively denied a timely opportunity to apply for Service Disabled Veterans Insurance (RH) because of the failure of regional offices to properly notify veterans of their potential eligibility for this benefit. I am requesting that any veteran who fails to apply for this benefit within the two-year time limit because VA failed to send an RH notification package to the veteran be considered for an extension of time to file or other equitable relief. I am also requesting that a special notice be sent to all compensation recipients advising them of their potential eligibility for RH insurance, the criteria for eligibility, and the procedures for applying.

Please clarify whether or not this problem has been resolved. According to a March 17, 2003 Compensation and Pension Training Letter, instructions were provided to the field indicating steps which would "probably generate the insurance notification letter package." Please advise me of the steps taken to assure that the RH information is being provided to each eligible veteran.

Your response by September 5, 2003 is appreciated. If any additional information is needed, please contact Mary Ellen Mc Carthy, Democratic Staff Director, Subcommittee on Benefits at 202-225-9756. Thank you for your attention to this matter.

Sincerely,
Lane Evans
LANE EVANS
Ranking Democratic Member

March 17, 2003

Compensation and Pension Service Training Letter 03-02

Purpose of This Letter

To provide Veterans Service Representatives (VSRs), Senior Veterans Service Representatives (SVSRs), and supervisory regional office personnel, including Directors and Veterans Service Center Managers (VSCMs) with guidelines on implementing proper Service Disabled Veterans Insurance notification for RH insurance ('RH' is a code, not an acronym.) We will provide:

- Clear expectations for adequate notification to veterans about entitlement to RH Insurance
- Useful sample Target data entry procedures to ensure RH Insurance notification forms and pamphlets are automatically generated out of the Benefits Delivery Network (BDN).

Background Procedures

M21-1, Part V, 5.02b(9) directs that letter code indicators be used to generate content on BDN notification letters. Due to provisions of 38 CFR 3.103, we have relied on PCGL letters to notify claimants of decisions regarding service-connected issues, and have gotten out of the habit of using any BDN letter code indicator, since the award notification letter is routinely suppressed.

The Philadelphia Regional Office and Insurance Center (ROIC) has informed us that we have failed to consistently code the letter indicator 'A' (additional service-connected condition) on the 301 screen, which may have caused thousands of veterans to be uninformed of their potential entitlement to insurance benefits.

On supplemental awards, use of the 301 screen's BDN letter code indicator 'A' generates a *separate* insurance notification letter package. Hines Information Technology Center (ITC) staff assembles and mails the insurance notification packages nightly. The insurance notification letter package is generated even when the award letter is suppressed.

On Original awards, use of the 'A' letter indicator is prohibited by the system; however, placing an 'X' or 'Y' in ORIGINAL on the 301 screen will properly generate the insurance notification letter package.

As VA employees, we must make every effort to see that our veterans are adequately informed about all of the benefits to which they may be entitled.

THE SECRETARY OF VETERANS AFFAIRS
WASHINGTON

September 24, 2003

The Honorable Lane Evans
Ranking Democratic Member
Committee on Veterans' Affairs
U. S. House of Representatives
Washington, DC 20515

Dear Congressman Evans:

Thank you for your letter of August 4, 2003, regarding your concerns that every veteran properly receives information regarding potential eligibility for Service Disabled Veterans Insurance (S-DVI). The Department of Veterans Affairs (VA) has taken steps to assure that the S-DVI information is being provided to each eligible veteran.

The Veterans Benefits Administration (VBA) informs disabled veterans of their potential eligibility for insurance coverage in several ways just before discharge and during the months thereafter. VBA also trains its employees on how and when to send eligibility solicitation packages. These packages include a notification letter, a benefit pamphlet, and a required application form. This documentation explains the eligibility criteria for S-DVI and the proper procedures for applying for this insurance benefit. Regrettably, mistakes were made and some veterans may not have been properly notified of their potential eligibility at the time of disability award notification. However, VBA's renewed emphasis on training all employees should result in timely notification to veterans regarding potential life insurance benefits.

Although the current Benefits Delivery Network (BDN) system does not allow for retrieval of information that would identify past veterans who were improperly notified, VA has taken appropriate actions, as described in the enclosed fact sheet, to ensure that veterans are properly notified of potential eligibility to S-DVI.

I hope this information is reassuring to you and will be helpful in responding to inquiries from constituents and others with concerns regarding this subject.

Sincerely yours,

Anthony J. Principi

Enclosure

**Fact Sheet in Response to an Inquiry From
The Honorable Lane Evans Regarding
Veteran Notification of Potential S-DVI Eligibility**

Issue

Congressman Lane Evans, in an August 6, 2003, letter to Secretary Principi, related a concern that potential eligibility information for Service Disabled Veteran Insurance (S-DVI) was not being provided to every veteran. "[T]housands of veterans may have been effectively denied a timely opportunity to apply for Service Disabled Veterans Insurance (RH) because of the failure of regional offices to properly notify veterans of their potential eligibility for this benefit."

The Veterans Benefits Administration (VBA) informs disabled veterans of their potential eligibility for insurance coverage in several ways just before discharge and during the months thereafter. VBA also trains its employees on how and when to send eligibility solicitation packages. These packages include a notification letter, a benefit pamphlet, and a required application form. This documentation explains the eligibility criteria for S-DVI and the proper procedures for applying for this insurance benefit. Regrettably, mistakes were made and some veterans may not have been properly notified of their potential eligibility at the time of disability award notification. However, VBA's renewed emphasis on training all employees should result in timely notification to veterans regarding potential life insurance benefits.

Discussion

It should be noted, while some veterans may not have received S-DVI reminder information with their C&P award letter, an award letter is not the only VA vehicle for S-DVI information notification.

1. In addition to the C&P award notification reminder letter, the Department of Veterans Affairs publishes and updates yearly the <u>Federal Benefits for Veterans and Dependents</u>. This publication is available at any VA facility, and contains the salient information of eligibility and timeframes to apply for S-DVI.

2. VA employees routinely instruct various veteran representative organizations during scheduled or ad hoc outreach efforts about the need to timely apply for S-DVI.

3. All veterans, upon separation from the uniformed services, receive the Veterans Assistance Discharge System (VADS) mailing as soon as VA receives a copy of the DD-214/215. This mailing contains information about VA benefits and includes the timeframes to apply.

4. VA maintains a web site that lists the benefits available from VA, with eligibility requirements, as well as filing requirements.

5. Notwithstanding all the above methods to notify veterans of their S-DVI eligibility, VBA's Insurance Service has generated various outreach materials designed to repeatedly remind servicemembers and veterans of their potential eligibility for S-DVI.

- In 1996, the SGLV Form 8286 was revised to include general information on all VBA benefits. This form is given to all active duty members (and reservists) on their first day of entry onto active duty, and every time thereafter when changing beneficiaries or coverage. While centering attention on Servicemembers' Group Life Insurance, it contains a full page on VBA benefits (and it includes life insurance and how to contact VA).

- Since 2001, all separating servicemembers receive materials entitled Plan Today, Protect Tomorrow. This material contains detailed information on all the various life insurance programs available from VA.

- In its outreach to new veterans discharged from the service due to disability, the Insurance Service sends letters and makes phone calls to those veterans adjudged 60% or greater disabled by their respective service, apprising them of various VA life insurance programs, including S-DVI.

- The Insurance Service requested that VA Form 21-8674, entitled "Disability Compensation Award Attachment Important Information," be revised so that the insurance information contained therein would read as follows:

  "HOW CAN YOU RECEIVE GOVERNMENT LIFE INSURANCE?

If you receive a rating for a new service-connected disability (even 0%), you may be eligible for government life insurance if you are in good health (except for the service-connected conditions) and apply within two years of this notification of your new disability rating. Call our toll-free number (800-669-8477) or visit our web site http://www.insurance.va.gov for further information about Service-Disabled Veterans Insurance."

The updated VA Form 21-8674, revised by VBA in October 2002, appears on VA's web site.

6. VBA is working on a permanent change to the Personal Computer Generated Letter (PCGL) application that would include, with every disability notification letter, a paragraph explaining the eligibility criteria for S-DVI and proper procedures for applying for this insurance benefit.

7. VA as a whole, and VBA and its Compensation and Pension (C&P) and Insurance Services in particular, are keenly interested in ensuring that all veterans receive proper notification of their eligibility for benefits and the necessary timeframes to apply. The VBA insurance notification processes currently use eight outreach vehicles to inform or invite claims for S-DVI. In addition, the C&P Service Training Letter dated March 17, 2003, reiterated the procedures to properly generate an outreach insurance notification letter package.

Although the current Benefits Delivery Network (BDN) system does not allow for retrieval of information that would identify past veterans who were improperly notified, VA has taken appropriate actions, as described above, to ensure that veterans are properly notified of potential eligibility to S-DVI.

Veterans Benefits Administration
September 2003

STATEMENT OF THOMAS LASTOWKA, DIRECTOR, PHILADELPHIA
VA REGIONAL OFFICE AND INSURANCE CENTER
DEPARTMENT OF VETERANS AFFAIRS
BEFORE THE HOUSE COMMITTEE ON VETERANS' AFFAIRS
SUBCOMMITTEE ON BENEFITS
September 25, 2003

Opening Remarks

Thank you, Mr. Chairman, for the privilege to appear today before this subcommittee. I appreciate this opportunity to inform you of the current status of the life insurance programs that are supervised and administered by the Department of Veterans Affairs.

With the many changes in the programs since we last testified before the subcommittee, I am pleased to report that the VA's insurance programs remain in sound financial condition and are self-supporting, with the exception of two programs that provide coverage to disabled veterans at the same premiums rates as for non-disabled veterans. Currently more than $14.7 billion in Insurance Trust Fund investments are earning an average of 6.6 percent return. Over the last five years, VA has returned $3.6 billion in dividends to policyholders, paid over $5.2 billion in death claims and endowments, and paid $738 million in policy loans and cash surrenders. In addition, the Servicemembers' and Veterans' Group Life Insurance Programs paid $2.4 billion in claims during that same time period.

Size and Scope of the Insurance Program

VA's administered and supervised insurance programs provide $750 billion of coverage to more than 7.5 million veterans, servicemembers, and their families. If compared with the commercial life insurance industry, VA would rank as the tenth largest life insurance company based on total amount of coverage provided. Six of the programs are administered directly by VA, while two programs, representing 97 percent of the coverage amount, are contracted out to the Prudential Insurance Company of America, with VA providing oversight.

Throughout my testimony I will generally be discussing the administered and supervised programs separately.

The disbursements in our administered programs are projected to be over $2 billion in FY 03. Of this total, nearly $578 million will be paid in dividends to 1.5 million policyholders with participating policies and $1.7 billion in death benefits will be paid to beneficiaries in both the administered and the supervised programs). I am pleased and proud to report that our performance in delivering these services to veterans and their beneficiaries meets or beats world class standards and industry benchmarks, as I will discuss later.

All Insurance operations, headquarters functions, and Information Technology (IT) and programming support staff are co-located at the Philadelphia Regional Office and Insurance Center. This integration of policy and operations provides for short lines of communication from the frontline public contact employees through the operating officials and program managers. This in turn results in focused effort, teamwork, and appreciation for veteran customers, and provides one of the highest levels of customer service and satisfaction in government.

I would now like to give a more detailed picture of the overall financial health of the programs, administrative expenses, and rates of return on investments in the programs.

Financial Status

Program Audits
All of VA's Insurance Programs are independently audited each year.

Administered Programs
The Office of the Inspector General has given VA's administered programs an unqualified audit opinion for the last eleven years. For the last three years, the accounting firm of Deloitte and Touche has conducted the audit of Insurance's Chief Financial Officer (CFO) Statements through a contract with the Inspector General. Prior to this the Office of the Inspector General conducted the audits.

In addition, the Insurance Center established an Internal Controls staff in 1992 to ensure the continual integrity of all financial disbursements in the program. We believe the Insurance Program has installed effective safeguards designed to prevent erroneous or fraudulent payments wherever possible. One test of the effectiveness of these safeguards is the number of erroneous payments made to beneficiaries. In 2002, 99.98 percent of over $1.7 billion in payments were made accurately.

Supervised Programs
Prudential Insurance Company of America contracts annually with PriceWaterhouseCoopers for an audit of the SGLI Program. The Program obtained favorable audits for Policy Years 1998 and 1999 and VA and Prudential are awaiting the results of audits for Policy Years 2000 and 2001. VA expects favorable audits for these years as well.

Administrative Expenses

Administered Programs
In terms of administrative expenses, up until 1995 most of VA's administered programs' administrative expenses were funded by government appropriations. Since that time, Congress has authorized the payment of administrative expenses out of excess earnings from the National Service Life Insurance (NSLI), United States Government Life Insurance (USGLI), and Veterans Special Life Insurance (VSLI) programs. The mechanism that authorizes the annual recovery of such expenses from these funds is contained within the Department's annual appropriations act. The trust funds provide for the payment of claims for policyholders into the future. VA Insurance personnel salaries and expenses are now paid from these funds resulting in a slight reduction in the dividends we pay to policyholders. Approximately 93% of our administrative expenses for the administered programs is reimbursed by the trust funds, while 7% of expenses for those programs that are not self-supporting continue to come from appropriated funds. During the last five years, 1998 through 2002, administrative expenses for all administered programs averaged about $40 million per year.

Supervised Programs
By law, administrative expenses for running the SGLI Program are paid out of the investment income earned on the assets of the program. During Policy Year 2002, these expenses totaled nearly $13 million. This figure is higher than previous years due to the program's investment in a new computer system, amounting to almost $4 million in development and system costs. Without this one time cost, administrative expenses totaled only 1.8 percent of premium income and 1.9 percent of total program disbursements.

It should be noted that the SGLI program is group life insurance, unlike VA's administered programs, which are individual policies. This accounts for the difference in the operating costs between the two programs.

While I am discussing expenses, I would like to talk about some major financial developments in the administration of the SGLI Program that affect expenses.

Demutualization
On December 18, 2001, the Prudential Insurance Company of America demutualized. In this process, the company was transformed from a mutual to a stock life insurance company. Due to the demutualization, VA received 369,000 Prudential shares. It is VA's intent to sell the stock in six blocks, approximately every six months over three years, through the Bureau of Public Debt and Legg Mason.

The first two sales of 61,500 shares occurred on April 15, 2003 and September 2, 2003, and netted approximately $1.9 million and $2.3 million respectively. The monies from the sale of this stock have been deposited in the SGLI contingency reserve fund for the benefit of the SGLI Program. The additional funds will assist in VA's efforts to reduce premiums for all policyholders.

Management Fee for Prudential
In light of Prudential's recent demutualization, its management requested that an annual nominal profit component of $400,000 be added to the SGLI contract.

Since the origin of the program, Prudential and the companies that provide reinsurance have not received a profit for their participation in the program. They have received only reinsurance premiums in return for providing such coverage to the program. In its request for the new management fee, Prudential arrived at the $400,000 amount by analyzing what it would have earned on the SGLI Program had the risk charge been calculated in a manner similar to the risk charges used on other large group life insurance cases. The SGLI Program has been charged substantially less for risk charge than these other clients.

The fee requested by Prudential would be deducted from the investment income that Prudential credits to the program each year, which now amounts to more than $100 million. This investment income is significantly higher than what Prudential credits on other large group policies with similar reserves because of the unique financial arrangement made at the origin of the program that SGLI would receive its full rate of return, rather than just a guaranteed rate.

Return on Insurance Investments
The returns on both the administered and supervised programs are gradually declining.

Administered Programs
For the administered programs, by law VA is required to invest the assets in secure, low-risk Treasury securities. These securities are scheduled to mature over a 15-year period so that monies are available to meet our claims each year. From 1998 through 2002, annual investment returns ranged from 6.75 percent to over 8 percent.

Supervised Programs
Prudential manages the assets of the SGLI Program and invests them in bonds and mortgage loans. While these investments have slightly more risk than the Administered programs, overall the investments are considered low-risk in order to ensure the program can pay future claims. From 1998 through 2002, annual investment returns ranged from over 6 percent to almost 8 percent.

Insurance Mission and Program Evaluation

With the program's financial status in a strong position, VA Insurance has focused its efforts on meeting its mission of providing life insurance benefits to veterans and servicemembers that are not available from the commercial insurance industry because of lost or impaired insurability resulting from military service.

In November 1998, Congress charged VA to evaluate the adequacy and effectiveness of VA life insurance programs in meeting its mission, particularly the needs of survivors of disabled veterans. VA undertook a contractor-assisted program evaluation of the insurance programs that culminated in a May 2001 report. This systematic program evaluation also met the requirements of the Government Performance and Results Act, which requires VA to review the Insurance Program and determine whether it is meeting the intended outcomes of making life insurance available and affordable to servicemembers and veterans.

Overall, the Program Evaluation results were very positive. The findings stated that "several of the expected outcomes are largely fulfilled...and the availability and affordability of VA insurance for disabled veterans exceed availability and affordability in the private sector". However, it also provided some concrete recommendations for improvement, including:

- Remove the provision terminating Veterans Mortgage Life Insurance coverage at age 70.
- Offer Servicemembers' Group Life Insurance coverage for spouses and children.
- Reduce VGLI premium rates to make them more comparable to commercial rates.

VA Insurance is gratified that the Congress has already passed legislation to implement the first two items, and that VA was able to significantly reduce VGLI premiums. Servicemembers now have Family Coverage, Veterans Mortgage Life Insurance no longer terminates at age 70, and VGLI premium rates have been reduced three times in the last four years.

Administered Program Status

I would like to discuss in more detail the status of the administered programs including benefits and enhancements, delivery of those benefits, and our performance in delivering them. But first, let me provide you some additional background on the administered programs.

Brief Background

The six insurance programs administered directly by the Department of Veterans Affairs cover approximately 1.7 million lives for a total of $20 billion. These programs cover veterans from every major war dating back to World War I. Four of the programs are closed to new issues while two programs remain open: Service-Disabled Veterans Insurance for veterans with service-connected disabilities and Veterans' Mortgage Life Insurance for severely disabled veterans who have received a specially-adapted housing grant from VA. The other administered programs are closed to new issues and the remaining policyholders are aging. and will continue to do so even with the creation of any new programs of insurance. As this occurs, policyholder dividends will decrease but the programs will remain financially strong. Additional information on these administered insurance programs as of September 30, 2002 is provided by the following chart.

Administered Programs (as of September 30, 2002)

	Policy Prefix	Open Era Issue Dates	Number of Policies In Force	Average Age	Deaths per 1,000
USGLI	K	January 1, 1919 to April 24, 1951	13,217	85.2	108.3
NSLI	V	October 8, 1940 to April 24, 1951	1,502,463	77.9	56.7
VSLI	RS, W	April 25, 1951 to December 31, 1956	227,341	70.6	23.4
VRI	J, JR, JS	May 1, 1965 to May 2, 1966	67,531	78.6	64.4
S-DVI	RH	April 25, 1951 to Present	148,913	56.7	29.9
VMLI	N/A	August 11, 1971 to Present	3,060	51.6	37.2

Benefits and Enhancements
In addition to the legislated program enhancements noted above, VA has worked to provide other benefits to veterans covered under our administered programs.

Term Premiums Capped At Age 70
In 1984 and 1989, VA capped National Service Life "V" and Veterans Special Life "RS" term insurance premiums, respectively, at the age-70 rate to provide financial relief for our older policyholders who kept their term insurance. As you can see from the table below, when a veteran renews his or her "V" or "RS" term policy at age 70 or above, his or her premiums will never increase beyond the age-70 rate, for the life of the policy. Because of the loss of income to the insurance programs due to premium capping, dividends to older term policyholders have been reduced in recent years. However, the net savings to the veteran who is age 70 or older due to premium capping will always be greater than the higher premiums and lost dividends.

	"V" Five-Year Term Plan Monthly Premiums for $10,000			"RS & RH" Five-Year Term Plan Monthly Premiums for $10,000	
Age	After Capping	Prior To Capping		After Capping	Prior To Capping
70	$61.80	$61.80		$58.70	$58.70
75	$61.80	$94.50		$58.70	$88.60
80	$61.80	$150.40		$58.70	$133.30
85	$61.80	$266.00		$58.70	$199.40

Termination Dividend for Term Capped Policies
To better serve our older term capped policyholders who have paid premiums for more than 40 years, a regulation effective September 11, 2000, provides a termination dividend should the term policy be voluntarily or involuntarily canceled. The termination dividend is used to purchase paid-up insurance, which veterans may cash surrender if they prefer. Paid-up insurance insures the veteran for life with no premium payments required. Termination dividends for term capped policies provide some financial relief for our older policyholders. As a result of this benefit enhancement, approximately 5,000 older veterans receive a total of $9 million each year in termination dividends that are used to purchase paid-up insurance.

In addition, Congress passed legislation, effective November 1, 2000, that capped Service-Disabled Veterans Insurance "RH" term premiums at the age 70 rate as well. This provides substantial financial relief to our RH term policyholders.

Delivery of Benefits
We have expanded the number of ways our veterans can access information about their accounts or about the Insurance programs in general.

Toll-Free Service
Since the addition of our toll-free phone service in 1988, Insurance has transitioned from a mail business to a phone business. We currently answer approximately 800,000 calls per year with a busy signal rate of only two-tenths of one percent. In fact, on most days of the year, no callers receive a busy signal. Our Interactive Voice Response System (IVR) enables policyholders to access their insurance account using a touch-tone telephone, and obtain account-specific information 24 hours a day, seven days a week. IVR allows access to general policy information, cash and loan values, and dividend information. It can also release forms such as loan applications, premium and dividend status letters, and blank

beneficiary designation forms. IVR currently handles 4 percent of calls, or the equivalent of three employees.

Even with traditional mail we have tried to incrementally increase timeliness and efficiency. By using several unique post office box numbers for correspondence, applications, and claims, the mail is presorted for us by the post office before being delivered directly to our operating divisions. Our customers can also make inquiries via electronic mail.

Insurance Website and Self Service
The VA Insurance website (www.insurance.va.gov) has been available since mid-1999 and provides information on all VA Insurance programs including eligibility, how to file a claim, frequently asked questions, and forms. Under our Self-Service initiative, policyholders can even access their policy record through the website. They can view the status of their insurance account, policy values, and beneficiary information. Shortly, they will also be able to make certain account changes, such as address and dividend option changes, request dividend refunds or loans, and complete certain applications online. Personal Identification Numbers (PINS), along with other identifying insurance data, are being used to validate the identity of the insured.

VA Insurance has also implemented a range of technological advancements to assist in our customer service efforts.

Paperless Office
No document in insurance is more important than the Beneficiary and Option Designation. After a veteran has paid for insurance for fifty years or more, we need to be certain that the proceeds are paid in accordance with his or her wishes. Beginning in 1999, we began a three-year mass mailing sending virtually every insured a new beneficiary designation form. As these designations were returned, they were imaged and made available on line. These early efforts led to our paperless office initiative. Under this initiative, all incoming claims documents (e.g., correspondence, claim forms, beneficiary designations) are scanned, indexed, stored and retrieved on-line as electronic images, and work is automatically distributed through our workflow system. Output from the computer system and letters created by Insurance employees are captured electronically and stored as images without producing paper output. Over 5 million images are currently accessible by Insurance employees from their PCs. When a document has been imaged, the workflow system automatically routes it for appropriate action. This system simplifies and speeds our work processing and allows us to improve our phone service and response times to veterans, since all key documents related to the file are accessible immediately rather than having to be retrieved from paper files. Preliminary results show an improvement in average processing time. As of August 2003, we were processing 76% of our claims work using paperless workflow. We will have 100% of our claims work in paperless workflow by the end of this fiscal year.

As a result of the paperless initiative, more than two million Insurance folders were retired in January 2002, saving the program over $1 million annually by eliminating the need to store and handle paper folders in the Insurance Center.

SKIPPES (Skills, Knowledge, and Insurance Practices and Procedures Embedded in Systems)

This initiative involves analysis and re-engineering of strategically targeted work processes and the development of performance support tools for these work processes in our Policyholders Services and Claims Divisions. The project ensures that best practices are defined and implemented and that any needs for automation are identified. Also, as will be discussed later, SKIPPES is an important part of our succession planning.

Interagency Data Exchanges

VBA Insurance Service has important cooperative relationships with a number of other government agencies and commercial companies. The most extensive cooperation is with elements of the Department of Defense, the Social Security Administration, and Prudential Financial, Inc.

The most significant cooperation with the Department of Defense centers on the activities involved with the administration of the Servicemembers' Group Life Insurance program. The activities include the receipt of over $600 million in annual premium payments and information about recently separated active duty servicemembers and reservists in order to do outreach concerning eligibility for Veterans' Group Life Insurance.

Another significant Insurance cooperative effort is with the Social Security Administration. On a daily basis, Social Security shares address information that has enabled Insurance to keep policyholders' addresses current and correct and, thereby, to pay more than $11 million in liabilities that had been returned because we did not have a correct address for the veteran. In fact, we have highly automated this system and 68 percent of address updates are done automatically, without clerical intervention. The cooperation with Social Security has also enabled Insurance to be more effective in stopping payments when beneficiaries have died and to reach out to beneficiaries in order to have them initiate a claim for the insurance upon the death of the veteran. It has also ensured that over 98% of the Social Security numbers on Insurance's computer records are accurate. As the first government agency to use Social Security information in this way, Insurance was also able to participate in the design and standards of use of on-line access to Social Security information.

Performance

In our administered programs, a total of 411 full-time equivalent Insurance employees work together to provide world-class service to our policyholders and their beneficiaries. The Life Office Management Association (LOMA), a life insurance industry group with whom we benchmark, regularly surveys the commercial insurance industry on processing "turnaround" times. VA Insurance average processing times are far better than the industry averages in nearly every major area. For example, as seen in the chart below, VA processes death claims in 2.8 workdays versus 7.7 days for the commercial insurance industry. In addition, VA's abandoned call rate, the number of callers who hang up after reaching the phone system, is less than 1%, a world-class level, and almost 5 times lower than the industry average.

Individual Life Insurance Turnaround Times Survey - Winter 2002 (FY2001 Data)
VA Insurance Data vs. Industry Company Data (47 companies)

	In Calendar days	*In Work Days*

SERVICE	Industry Averages	VA Insurance Averages	Industry Averages	VA Insurance Averages
Cash Loans	2.7	3.7	1.9	**2.5**
Cash Surrenders	5.9	4.1	4.0	**2.8**
Death Claims	11.3	4.1	7.7	**2.8**
Waiver of Premium	5.5	4.5	3.8	**3.1**
Beneficiary Changes	3.8	1.5	2.6	**1**
Correspondence	7.1	3.7	4.9	**2.5**
Abandoned call rate	5.6%	0.9%		

In May 2001, the Insurance Center's consistent delivery of customer service was recognized in a national study, the American Customer Satisfaction Index (ACSI). The index is produced annually by a partnership between the University of Michigan Business School, the American Society for Quality, and the CFI Group. The study gauges customer service among both private companies and public organizations and serves as the "gold standard" for over 200 companies by allowing those companies and agencies to benchmark their results. The ACSI evaluated our most critical function, death claims processing. The Insurance Center's score was 90.0 (on a scale of 100). Our scores exceeded the private sector's score of 71.2 and the federal government-wide score of 68.6. In fact, the highest individual rating of any insurance company was 80. We have recently asked the ACSI to evaluate the performance of our call center as well.

Supervised Program Status

Now that I have addressed VA's administered life insurance programs in detail, I would like to turn to the supervised programs - Servicemembers' Group Life Insurance (SGLI) and Veterans' Group Life Insurance (VGLI).

Brief Background
The SGLI and VGLI programs are administered by the Office of Servicemembers' Group Life Insurance in Livingston, New Jersey, while VA provides supervision and guidance. These programs insure approximately 5.8 million lives for a total of $726 billion.

SGLI covers active duty servicemembers, reservists, and their families, including the Coast Guard and uniformed members of the Public Health Service and the National Oceanic and Atmospheric Administration. The SGLI participation rate is 98 percent for active duty servicemembers and 96 percent for reservists. SGLI coverage expires 120 days after separation, unless an extension of up to one year from separation is granted for a total disability incurred in service.

VGLI is a program of post-separation insurance. Initially, VGLI provided five-year, non-renewable transition term coverage to recently discharged veterans with SGLI coverage at the time of discharge. However, VGLI is now renewable for life with the ability to convert to a commercial policy at any time. VGLI covers veterans leaving active duty service, separating Ready and Retired Reservists, Individual Ready Reserves (IRR) and the Inactive National Guard (ING). The current VGLI participation rate is eight percent.

More detailed information on the SGLI and VGLI programs, as of September 30, 2002, is provided by the following chart.

Supervised Programs (as of September 30, 2002)				
	Program Beginning Dates	Number of Policies In Force	Average Age	Deaths per 1,000
SGLI				
Member	September 29, 1965	2,406,500	30.1	0.76
Spouse	November 1, 2001	1,013,000	N/A	N/A
Child	November 1, 2001	2,100,000	N/A	N/A
VGLI	August 1, 1974	390,881	42.4	3.41

Program Expansions
The maximum amount of protection has increased significantly over the 38 years that the program has been in existence. Coverage was originally limited to $10,000. However, due to the continued efforts of Congress, the coverage levels have been periodically increased, and as of April of 2001 the maximum coverage stands at $250,000.

With Congressional support, additional growth in the program has occurred with the extension of coverage eligibility to new groups of insureds. One such expansion occurred in October 1996 when separating Ready and Retired Reservists became eligible for VGLI. However, the largest expansion in recent years, Family Coverage, occurred in 2001. It provides insured servicemembers' spouses with automatic coverage of $100,000, or the coverage level of the servicemember, whichever is less. Premiums are based on the spouse's age and are deducted from the member's pay. Servicemembers' children are also automatically insured, at no cost to the servicemember, for $10,000 per child.

Accelerated Benefit Option (ABO)
In 1998, Congress passed legislation creating an ABO. This benefit provides terminally ill insureds access to up to 50 percent of the face amount of their coverage during their lifetime. The insured must have a medical prognosis of life expectancy of nine months or less.

Benefits and Enhancements
During the late 1990's, servicemembers and veterans in the SGLI and VGLI programs benefited from our partnership with Prudential when we adopted a number of program enhancements that Prudential had developed for its own programs.

Alliance Accounts
In June 1999, SGLI and VGLI beneficiaries began receiving their proceeds through a checking account rather than by the traditional single check for the full amount of the insurance proceeds. This checking account is called an "Alliance Account." The beneficiary receives a checkbook for an interest bearing account from which the beneficiary can write a check for any amount of $250 or more, up to the full amount of the proceeds. Alliance Accounts earn interest at a competitive rate, are guaranteed by Prudential Insurance

Company of America, and, most importantly, give the beneficiary time to make financial decisions while his or her funds are secure, earning interest, and providing immediate access to money at all times.

Beneficiary Financial Counseling Service
In October 1999, VA instituted the Beneficiary Financial Counseling Service (BFCS) for SGLI and VGLI beneficiaries. This benefit is a comprehensive personal financial advisory service initially provided through Ernst & Young, LLC, but now being offered through KPMG. BFCS provides SGLI and VGLI beneficiaries financial guidance to ensure that they properly manage their finances to meet future needs such as retirement, college costs, and mortgage obligations. Counseling provides guidance on matters like managing the their new personal financial situation, budgeting cash flow, analyzing net worth, understanding the estate settlement process, investing life insurance proceeds, and identifying the need for other advisors if necessary (e.g., attorney, accountant).

The service provides telephone counseling for beneficiaries completing forms via the Internet, or by mail if Internet access is not available. Counselors talk to beneficiaries by phone or in person if requested. Beneficiaries then have toll-free access to financial counselors for one year and receive a KPMG newsletter.

Nine percent of eligible beneficiaries currently utilize this service. When VA surveyed users of BFCS last year, 91 percent of respondents felt that the counseling was helpful and nearly 60 percent indicated that their financial status had improved as a result. There is no cost to beneficiaries for this service; the costs are absorbed by the program.

Premium Reductions
Another area in which there have been major developments in recent years is premium reductions in the SGLI and VGLI programs. VA continues to pursue every opportunity to reduce premium rates in order to ensure premiums remain competitive.

SGLI Premium Reductions
While the maximum amount of coverage in the SGLI program has steadily increased, the premium rate for basic SGLI coverage has steadily decreased. As of July 1, 2003, the monthly rate was reduced from 8 cents to 6.5 cents per $1,000 of insurance. For the 91 percent of servicemembers that carry the maximum coverage of $250,000, this decreases their monthly premium from $20 to $16.25 per month. This will save servicemembers $96 million next year, with similar savings in each successive year.

Rates were also decreased across the board for SGLI Family Coverage, beginning on July 1, 2003. Some age groups saw their rates drop substantially. For example, those at ages 35-39 will see a 42% reduction in their premiums. Overall, servicemembers will save an additional $42 million next year from this premium reduction, with similar savings occurring in each successive year.

VGLI Premium Reductions
As I mentioned earlier, VA has reduced VGLI premium rates three times in the past four years, most recently in October 2002. Overall, VGLI rates have been reduced 40 percent as a result, with reductions ranging as high as 46 percent at some ages.

Delivery of Benefits
Now I would next like to provide you with some information on developments in customer access in the SGLI and VGLI programs over the last few years.

Toll-Free Service
The Office of Servicemembers' Group Life Insurance (OSGLI) instituted toll-free service in September 1993. OSGLI now handles an average of over 3,900 calls per week. Written inquires are down from 38,000 in 1993 to 13,000 in 2002. In addition, OSGLI has instituted a toll-fee fax service.

Internet Service
VA Insurance's website fully incorporates SGLI and VGLI information, including a link for e-mail inquiries. In the first quarter of FY 04, VGLI policyholders also will have access to their policy information through the Insurance website, which is part of our self-service initiative that I discussed earlier. Future enhancements include those that will be available for the administered programs, such as the ability to change addresses and beneficiary information.

Program Initiatives
In addition to VA's continuing efforts to reduce premiums and enhance benefits in the SGLI Program, VA has also undertaken two major initiatives designed to improve service to veterans.

Outreach Efforts to Separating Servicemembers
We supply VA Life Insurance Brochures to VA's Military Service Coordinators (MSCs), military Transition Assistance Personnel (TAP), veterans service organizations, and the Coast Guard, Public Health Service, and National Oceanic and Atmospheric Administration.

The professionally designed brochures provide basic information on all VA Insurance programs The MSC and TAP personnel provide the brochures to separating servicemembers during Transition Assistance Program briefings on their VA benefits.

Outreach Efforts to Disabled Veterans
In addition to providing the VA Life Insurance Brochure, we are also committed to reaching out to our disabled veterans. Since June 2001, the Insurance Center has conducted special outreach through personalized letters and phone calls to separating servicemembers who were discharged on disability retirement at a rating of 60 percent to 100 percent by their service and who have not applied for either the SGLI Disability Extension or VGLI. Since disabled veterans may have difficulty obtaining commercial life insurance at affordable premium rates and the window to apply for these programs is limited, we are making an extra effort to inform them of their entitlement.

Performance
The Office of Servicemembers' Group Life Insurance continues to provide excellent service to insureds in the SGLI and VGLI programs.

Claims Payment Processing
OSGLI's average claims processing time for the twelve months prior to July 2003 is 3.1 days

in comparison to the industry average performance of 7.7 days, and their accuracy rate is 99.9 percent. This is despite a dramatic increase in claims during the last year as a result of the addition of Family Coverage.

OSGLI also continues to handle disaster claims, such as the September 11th terrorist attack and the Columbia shuttle disaster, in a very efficient manner. We are currently providing special attention to all Operation Enduring Freedom and Operation Iraqi Freedom casualties and paying most claims within 48 hours.

Customer Service Survey Responses
During the last three years, toll-free call center satisfaction scores have ranged from 86% to 91.5%. OSGLI continues to work to maintain and improve this score through call center improvements, such as reducing the average speed of answer and abandoned call rate.

Customer satisfaction rates have remained stable despite heavy increases in contact by phone and email. Since 2000, telephone calls have increased from more than 192,000 per year to almost 204,000 per year and e-mails have increased from 788 per year to more than 6,000 per year.

Looking Ahead

In closing, I would like to discuss our plans to maintain the health of the programs into the future.

Administered Programs Declining Size
The administered programs are closed to new issues and the remaining policyholders are aging. In our largest program, NSLI, the average age is 78. Despite this trend, we will still have nearly a million policies in force in the year 2010. This trend, of course, is based on the assumption that there are no major changes within the Insurance Program.

SGLI Expansions
In contrast to the decline in the Administered Programs, we are assuming the supervised programs will continue to grow

Succession Planning
With regard to the future of the Insurance Program, senior leadership recognizes the importance of teaching the next generation of employees the skills to assume leadership of the Program. We have actively recruited through both the Presidential Management Intern and the Outstanding Scholar Programs and continually support employees' development through VA and VBA leadership programs.

In addition, VA has developed an FTE Workload Model that estimates our staffing requirements and makes retirement projections in order to predict our future needs in both operations and management. Utilizing this model, we know that we will be seeing numerous retirements of experienced personnel within the next ten years. In order to preserve their institutional knowledge for current and future employees, we are developing the SKIPPES training skills module, which I discussed earlier.

Closing Remarks

Mr. Chairman and Committee Members, given the difficult times for military families during Operation Iraqi Freedom, VA Insurance is an important benefit to our Armed Forces. In many cases, the insurance we provide is the only insurance available, due to the substantial disabilities incurred in service and for those who are going into harm's way. We at VA continue to make it our priority to provide the best possible service at the lowest possible cost to both the government and our policyholders, and to enhance insurance benefits for veterans and servicemembers. You can be assured we will do everything in our power to continue these efforts.

Prepared Statement

of

Colonel Virginia S. Penrod

Director of Compensation

Office of the Deputy Under Secretary of Defense

(Military Personnel Policy)

Before the Veterans Benefits Subcommittee

House Committee on Veterans Affairs

September 25, 2003

Not for publication until released by the subcommittee

INTRODUCTION

Mr. Chairman, and subcommittee members, the Department of Defense welcomes the opportunity to appear before you today to discuss the VA-managed insurance programs for servicemembers. Together, Servicemembers' Group Life Insurance (SGLI) and its derivative, Veterans' Group Life Insurance (VGLI), constitute an extraordinary life insurance program for people in uniform, and continuing thereafter. While the program applies equally to all branches of the Uniformed Services, those of the Department of Defense represent the vast majority of persons affected, making DoD the principal program client. And it is in that context that we view this program -- where the Department, as an employer client, obtains a product for our people.

PRIMARY ASPECTS OF THE PROGRAM

Let me emphasize that, in the Department's view, the program is working extremely well, and the Department of Defense is a very satisfied customer with respect to this program. In the following paragraphs, I address several aspects of the program.

Administrative structure

As I stated earlier, the DoD is an employer client for the overall SGLI/VGLI program, obtaining a benefit for our people from the Department of Veterans Affairs (VA). The VA, in turn, contracts with Prudential to manage the benefits, as well as the day-to-day aspects of the VGLI program. Finally, Prudential and other companies underwrite the broader risks of the program. We believe this program structure, while mostly invisible to us, is an important aspect of the program that makes it particularly robust. We have a great working relationship with the VA

Insurance Center staff and have always found them to be most responsive to our needs and very considerate of the difficulties we sometimes encounter in implementing new programs and fulfilling our duties to track coverage, beneficiaries, and collect premiums. They have often stepped in to help us meet our program responsibilities. We have nothing but praise for these fine people.

Availability

The SGLI program provides automatic maximum coverage. This means that no member is without full coverage unless he or she specifically chooses that condition. This includes coverage for a spouse and children as well. While we have an occasional complaint about automatic maximum coverage feature, the instances of such are relatively few and far between. On the other side, we have no doubt, from the instances when maximum benefits are paid to a grieving survivor, that full and automatic coverage is an essential element of the overall strength of this program. This is of some special significance today, in that the Reserves, who may not need maximum coverage from day to day, may need it when they are activated and put at greater risk. The automatic full coverage ensures these members have the coverage they desire. In addition, if the member finds the coverage is greater than they desire, it is easy for them to adjust. In most cases, the increased coverage is seen as a positive benefit.

Level of coverage

On one hand, $250,000 may seem to be more insurance coverage than a young person needs. On the other, it may appear to be insufficient for a senior officer. However, senior members typically can, and do, obtain extra coverage at an economical price from one of many groups that serve the military community. Most officers increase their insurance as they progress in their career. The junior member is free to reduce the SGLI coverage to a level he or she feels appropriate. The member sees that his or her life is valued the same as that of the senior member. Most members tend to keep the highest level of coverage. Thus, the automatic maximum coverage may result in higher overall coverage than needed to insure the financial risks of young members. However, we often find that the beneficiaries expect to receive the maximum benefit level and believe that the member would not choose anything less. From this perspective, the automatic maximum often keeps anguish from being added to grief and sorrow.

Premiums and Program Costs

Third, there is the cost to the member -- the premium. SGLI premiums are one price for all. The Department believes this keeps the program simple and is a positive aspect of the program. Also, the cost of coverage has been regularly reduced over the years and is at an all time low today. Although it is possible for some members to search and find competitively priced insurance from other providers, the convenience and affiliated benefits make the SGLI program very economical. Affordable premiums are important to the success of the program. Member paid premiums cover the full cost of peacetime death rates. This is fundamental to the nature of insurance -- sharing the cost to remove the risk of economic shock. Member premiums also help pay some administrative cost of VA and Prudential for program administration. We appreciate that these costs are well managed in these programs and their impact on premiums is nominal.

There is some cost sharing in the program. The Department of Defense bears the administrative cost of collecting premiums, tracking coverage, and beneficiary designations. The Service would also bear the cost of the extra hazards of military service should death rates exceed normal peacetime levels. While the Department has not used this feature since the Vietnam era, it provides the assurance of affordable premiums for those exposed to these extraordinary risks.

Finally, with respect to cost sharing, the cross flow by which SGLI helps keep down the cost of VGLI is an important means of making the costs of this program affordable to those who need it most. Many of these veterans would not be able to purchase insurance, at least not at affordable rates.

Delivery of Benefits

The Department is extremely pleased with the responsiveness of the Office of Servicemembers Group Life Insurance (OSGLI), which typically pays completed claims within 48 hours of receipt. In addition, there is now the option of an accelerated benefit for the terminally ill. The addition of the Alliance Account, which provides delivery of proceeds with greater security and convenience, is a positive improvement. Finally, the provision of beneficiary counseling helps beneficiaries understand how to manage the proceeds in ways that will provide them a more secure future. This is a very valuable benefit for our survivors.

Completeness

The availability of VGLI on a lifetime basis is an important part of the completeness of this program. With the recent VGLI premium reductions, this program is getting stronger everyday. VGLI is available to both the one-term veteran as well as the career retiree. Not every member wants to keep this insurance, but VGLI makes continuing insurance affordable to those who might have encountered some problems in service that would otherwise render them uninsurable or insurable for a high premium.

With the recent enhancement to cover spouses and children, the Department believes the program is now truly comprehensive, and second to none. Implementation of this program was not without frustration, but it has been a very positive addition to the program. The Department receives few, if any, complaints now that the program is underway.

CONCLUSION

All in all, the SGLI has proven to be one of the best programs of its kind ever conceived. The structure of the program provides strength and agility. The Department of Defense, as the employer client, relies on VA as the Government provider, to keep the program operationally sound. Prudential, as a premier private sector insurance company, keeps bringing to the program the most modern and attractive features available to the insurance industry. This makes for a progressive benefit that just keeps getting better. Overall, the SGLI and VGLI program structure has proven to be one of exceptional strength that keeps the program among the best in the business. The Department of Defense is a very satisfied customer!

STATEMENT OF
BRIAN E. LAWRENCE
ASSISTANT NATIONAL LEGISLATIVE DIRECTOR
OF THE
DISABLED AMERICAN VETERANS
BEFORE THE
COMMITTEE ON VETERANS' AFFAIRS
SUBCOMMITTEE ON BENEFITS
UNITED STATES HOUSE OF REPRESENTATIVES
SEPTEMBER 25, 2003

Mr. Chairman and Members of the Subcommittee:

I am pleased to present the views of the Disabled American Veterans (DAV) regarding the Department of Veterans Affairs (VA) Life Insurance Program. The 1.2 million members of the DAV are veterans who incurred service-connected injuries or illnesses as a result of their military service to our nation.

The DAV appreciates the Subcommittee's bipartisan efforts to ensure the VA Life Insurance Program is fulfilling its intended purpose, which is to provide life insurance coverage to service-disabled veterans who cannot purchase commercial insurance at standard rates. Many disabled veterans rely on the VA as their only source of life insurance.

Background of VA Insurance Program

Men and women serving in the United States Armed Forces face a much higher risk of death or debilitating injuries than most of their fellow citizens. Historically, private sector insurance companies have been unable or unwilling to provide affordable coverage for such a large number of high-risk clientele. Disabled veterans especially have faced difficulty and uncertainty when attempting to purchase life insurance.

The government began bridging the gap between the lack of insurance coverage and the needs of servicemembers during World War I. Government life insurance policies had already been established just prior to the war for merchant mariners and ship owners, via the War Risk Insurance Act. The War Risk Insurance Act was amended to include a provision for voluntary life insurance for members of the Armed Forces. VA data indicates that nine out of every ten soldiers, sailors, and marines opted for the maximum coverage of $10,000. This enormous response and level of acceptance made the United States government the largest provider of life insurance in the nation.

The government continued to insure servicemembers and veterans during World War II and Korea. Prior to the war in Vietnam, the government reduced its operation to avoid competition with commercial companies' newfound interest in selling life insurance to veterans. However, the government was unable to withdraw from the insurance business completely because commercial insurers still refused to provide coverage for disabled veterans, who were still considered high risk. As such, private companies began covering ordinary risks while the government continued its responsibility for higher indemnities associated with disabled veterans.

Currently, five VA life insurance programs remain open to new issues; however, only two of the five open programs are administered by the VA. Both of these programs, Service-Disabled Veterans Insurance (SDVI) and Veterans' Mortgage Life Insurance (VMLI), are specifically designed for disabled veterans.

SDVI is life insurance for veterans with service-connected disabilities. Congress created the program in 1951 via Public Law 82-23 to provide life insurance to service-connected disabled veterans at standard rates. The basic program, which is called "RH Insurance," insures eligible veterans up to $10,000. A supplemental policy, called "Supplemental RH Insurance," gives certain disabled veterans extra coverage of up to $20,000. VMLI is mortgage life insurance for veterans who are so severely disabled that they qualify for a home adaptation grants.

Even with a narrow focus on a specific category of veterans, the VA insurance program is immense. According to their most recent data from 2001, the VA was the 7th largest insurer in the country, with 5 million individuals insured for $761 billion.

VA Insurance Program Administration

The VA Regional Office and Insurance Center in Philadelphia manages the government life insurance programs. For the insurance programs that are administered directly by the VA, the Insurance Center in Philadelphia is responsible for:

- collecting premiums
- processing policy actions (change of address, loans, cash surrenders, etc.)
- paying death and disability claims
- performing all actuarial functions
- formulating policy, plans and procedures
- evaluating performance of the insurance program and
- designing, developing, installing and maintaining application software which supports the life insurance programs.

The Insurance Center also supervises the Servicemembers' and Veterans' Group Life Insurance programs, which are administered by Prudential Insurance Company of America.

Despite a daunting level of responsibility, the Insurance Center has established a very efficient and timely operation. Policies for RH Insurance are normally approved or disapproved within 1 to 3 months after application. The time frame for approval/disapproval of an application for Supplemental RH Insurance is 1 month and VMLI is effective immediately upon approval of a specially adapted housing grant. The Insurance Center pays death claims within 3 days, and loans and cash surrenders within 2 days.

Over the past 12 months, 95 percent of veterans responding to surveys conducted by the Insurance Center rated its performance as satisfactory or better. The Insurance Center's consistent delivery of excellent customer service was also recognized in a national study by the American Customer Satisfaction Index. The index measures customer service among both private and public companies. The Insurance Center's most important function, death claims processing, scored a 90 on a scale of 100. The Insurance Center's score far exceeds both the private insurance sector's score of 71 and the federal government-wide score of 69.

The Insurance Center was also the recipient of the 2002 Secretary of Veterans Affairs, Robert W. Carey Quality Award. Presented annually since 1992, the Carey Award is VA's highest and most prestigious award for organizational effectiveness and performance.

In addition to its impressive record of efficiency, the Insurance Center consistently searches for ways to improve benefits and reduce costs for veterans. On July 1, 2003, the monthly premium for SGLI was reduced from 8 to 6.5 cents for every $1,000 of coverage, a 19 percent reduction. Last October, VGLI premiums were reduced for veterans ages 40-59. This was the third VGLI premium reduction since 1999. As a result, veterans pay 40 percent less for VGLI coverage than they did 4 years ago.

The Insurance Center also ensures that all casualty claims from Operation Enduring Freedom and Operation Iraqi Freedom are specially-controlled and are paid within 48 hours of receipt of claim.

The DAV is quite pleased with the operational issues regarding VA insurance. The program is administered effectively and the VA Insurance Center should be commended for upholding its responsibilities in such a proficient manner.

VA Insurance Program Proposals

Increase SDVI Coverage and Lower SDVI Premium Rates

Despite the efficient manner in which the VA Insurance Program is administered, the program falls far short of delivering the protection it was originally intended to provide.

Government life insurance programs have limited basic coverage to $10,000 since their inception under the War Risk Insurance Act in 1917. Then, they were an excellent benefit. More than 93 percent of military members adopted the maximum coverage of $10,000 because they knew that in the event of their death, their family members would have financial resources available to pay for the cost of a home and living expenses for a considerable amount of time. For example, Sears, Roebuck and Co. sold prefabricated houses in the early 1900's by mail-order. Its 1920 catalogue featured 80 models, ranging in price from $4,904 to $629. Obviously, $10,000 went much further in 1917 than it does in 2003.

According to the United States Census Bureau, median housing costs in 2001 were in excess of $1000 per month. At such levels, a VA insurance claim would be grossly insufficient as a source of security income. A surviving spouse and dependents would not be able to afford housing for even one year. The United States Bureau of Labor Statistics inflation calculator indicates that $10,000 in 1917 would equate to more than $106,000 of purchasing power in today's market. In 1917, $10,000 was greater than the average annual income for a member of the United States Congress, in 2003, an annual income of $10,000 is slightly above poverty level. Clearly, the original intent of VA insurance has been almost entirely forgotten.

Legislation should be enacted to amend title 38, United States Code, § 1922(a), to increase the amount of insurance coverage available under SDVI. Year after year, delegates to the DAV National Convention have adopted resolutions supporting such an amendment. DAV members believe that our nation owes a great debt to veterans, especially those who are so disabled by service-connected conditions that they cannot qualify for life insurance. It is our government's responsibility to ensure that injuries related to military service are fully compensated.

The views of the DAV regarding VA insurance are shared by many of our fellow veterans' service organizations. Each year for the past 17 years, the DAV has joined the Veterans of Foreign Wars, the Paralyzed Veterans of America, and AMVETS, in developing *The Independent Budget* (IB). The IB is a collaborative effort to predict the needs of veterans in the coming fiscal year. For a number of years, the IB has called upon Congress to enact legislation to increase the maximum protection under base SDVI policies to at least $50,000.

In 1998, the VA issued a report titled the "Program Evaluation of Benefits For Survivors of Veterans With Service-Connected Disabilities" which found that the $10,000 basic coverage is inadequate. The report also noted that SDVI premiums are much higher than standard commercial rates because they are based on outdated mortality tables. In order to address these concerns, the report recommended that legislation be proposed to increase SDVI coverage to $50,000 and to lower SDVI premiums by basing them on the 2001 CSO Mortality Table (the table currently used by the National Association of Insurance Commissioners).

The DAV supports increasing the face value of SDVI, along with basing SDVI premiums on current mortality tables. In accordance with title 38, United States Code, § 1922 (a), SDVI premiums are based on 1941 mortality tables. Because life expectancy has improved since the inception of the SDVI program, premiums based on the higher mortality rates of 1941 no longer fulfill congressional intent to provide life insurance to service-connected disabled veterans at standard rates. As noted in the VA's report, disabled veterans are paying higher premiums than today's standard rates. Disabled veterans should not be subsidizing the higher cost of insurance caused by their own service-connected disabilities. Mortality tables should be revised as recommended by the Program Evaluation of Benefits For Survivors of Veterans With Service-Connected Disabilities.

Increase VMLI Coverage from $90,000 to $150,000

The VA provides severely disabled veterans, who have received grants for specially adapted housing, with up to $90,000 of VMLI. VMLI is intended to pay off the outstanding balance of the mortgage in the event of the veteran's death. Currently, this amount covers only about 75% of outstanding mortgage balances because the maximum amount has not been increased in more than a decade. VMLI was last adjusted on December 1, 1992, when it was raised from $40,000 to $90,000.

Veterans who are so severely disabled that they qualify for a home adaptation grant should not have their mortgage insurance reduced by the simple passage of time. The DAV, in concurrence with the other members of the IB, recommends that the maximum coverage be increased to at least $150,000. At this level, VMLI would cover 93 percent of outstanding mortgage balances.

In addition to increasing the amount of coverage available under VMLI, the DAV recommends extending eligibility for VMLI to disabled veterans who are rated as permanently and totally disabled.

Exclude VA Life Insurance Benefits from Income Determinations

Eligibility for certain Federal benefit programs is based upon limits to financial resources. Individuals whose assets exceed such limitations are not eligible to participate in such programs. Under current law, the cash value of a VA life insurance policy is considered a liquid asset in determining eligibility for other needs-based government programs. As a result, some disabled veterans surrender their policies in order to reduce their assets and qualify for these programs. For example, some disabled veterans must surrender their VA life insurance policies to qualify for nursing home care under Medicaid.

The Government created life insurance programs to allow disabled veterans to maintain coverage despite their disability. The intent was for veterans to maintain policies so that their dependents would have financial security in the event of the veterans' death. Surrendering policies to qualify for other Federal benefits clearly runs counter to the original intent regarding these policies. Veterans should be able to maintain their modest VA life insurance policies to cover the expenses of burial and for other purposes, without being excluded from other Federal benefits.

The DAV urges the committee to pass legislation to exempt the dividends and proceeds from VA life insurance policies from being counted as income for purposes of eligibility for other government programs.

Provide an Open Period to Apply for SDVI

Disabled veterans can apply for SDVI within one year from the date the VA grants service connection. Many eligible veterans, because of financial difficulties and problems associated with readjustment to civilian life, do not apply within the 1 year eligibility period. After the transition to civilian life is complete and greater financial stability is attained, many disabled veterans are able to afford SDVI but are not able to purchase comparable insurance coverage in the private sector.

The DAV urges the committee to pass legislation that would authorize an "open period" for eligible service-connected disabled veterans to apply for coverage under SDVI.

Summary

On behalf of the 1.2 million members of the DAV, I thank you for the opportunity to present our views on the VA Insurance Program. The Subcommittee's efforts to improve VA benefits illustrates to our nation's disabled veterans that their dedicated service and sacrifices are not forgotten. Clearly, the DAV's mission to improve the lives of disabled veterans is shared by the Subcommittee. We appreciate your efforts and look forward to working together on future issues.

STATEMENT OF

CARL BLAKE,

ASSOCIATE LEGISLATIVE DIRECTOR,

PARALYZED VETERANS OF AMERICA

BEFORE THE HOUSE COMMITTEE ON VETERANS' AFFAIRS,

SUBCOMMITTEE ON BENEFITS

CONCERNING THE

DEPARTMENT OF VETERANS AFFAIRS

LIFE INSURANCE PROGRAM

SEPTEMBER 25, 2003

Chairman Brown, Ranking Member Michaud, members of the Subcommittee, PVA would like to thank you for the opportunity to testify today concerning the Department of Veterans Affairs' (VA) Life Insurance Program. The life insurance program is vital to long-term stability of disabled veterans and their families who would not otherwise be able to afford insurance.

As a beneficiary of the VA's life insurance program, I can attest to the value of having that benefit available. Due to that severity of my disability, the cost of regular life insurance from a private insurance company would be very costly. The same can be said for military servicemembers. They often face high costs for private insurance because private companies are not so willing to insure individuals who serve in high risk professions. This is why it is important that the VA maintain a viable life insurance program for veterans and severely disabled veterans.

The United States formed a government run insurance program after the onset of the First World War. Although we did not begin military involvement in Europe until 1917, many of our merchant mariners who supplied goods and food to Europe faced the prospect of being sunk by German submarines. In order to allow merchant mariners to have access to affordable insurance, Congress passed the War Risk Insurance Act, which provided insurance protection for cargo and crew ships supplying allies in Europe. The U.S. government recognized the German threat, so it chose to provide insurance to those ship owners and merchants who were sacrificing their lives.

When the U.S. finally became engaged in the war, President Wilson asked the Secretary of Treasury to appoint a committee of experts from the insurance, social services and medical community that would make recommendations to Congress on how to meet the needs of those soldiers who were serving and their dependents during the war and after. The subsequent recommendations included an amendment to the War Risk Insurance Act that allowed servicemembers to choose voluntary life insurance. In a relatively short amount of time, the U.S. government became the largest provider of life insurance in the country. The program proved to be very successful as nearly every military servicemember elected to receive the insurance benefit which provided a maximum amount of $10,000. The government continued to provide different insurance programs to veterans of World War II, the Korean War, and the Vietnam War. Today, two VA insurance programs remain open for new issues. The Service-Disabled Veterans Insurance (SDVI) and Veterans' Mortgage Life Insurance (VMLI) programs are designed specifically to provide for the insurance needs of disabled veterans.

The SDVI program was established in 1951 and it remains open to new issues. Veterans who are eligible must have been discharged from military service after April 25, 1951 under other than dishonorable conditions and have a service-connected disability. The veteran must file an application with the VA for SDVI within two years of receipt of the service-connected rating. The maximum amount of the SDVI policy is still $10,000. The VA also provides a supplemental SDVI for veterans who already have a basic SDVI policy and who become eligible for a waiver of premiums due to total disability. The supplemental amount of insurance is $20,000.

PVA, along with the co-authors of *The Independent Budget*—Disabled American Veterans, Veterans of Foreign Wars, and AMVETS—continues to recommend improving the SDVI benefit. It is unfortunate that the SDVI policy is still $10,000 more than 50 year after the program was started. The current SDVI benefit does begin to cover the cost-of-living that would provide a meaningful income replacement for the survivors of service-disabled veterans. In accordance with a report released in May 2001 on the SDVI, *The Independent Budget* recommends that Congress enact legislation that would increase the maximum SDVI amount to $50,000.

PVA also believes that the VA needs to revise its premium schedule to more accurately reflect the current mortality tables. The current premium schedule for SDVI is based on mortality tables from 1941. This is unreasonable given the improved life expectancy of Americans shown by current mortality tables. The current SDVI premium schedule is no longer competitive with private insurance providers who have changed their premiums to reflect the longer life expectancy. PVA, in accordance with *The Independent Budget*, recommends that Congress enact legislation to authorize the VA to revise its premium schedule for SDVI.

The VA instituted the Veterans Mortgage Life Insurance (VMLI) program in 1971 to provide mortgage life insurance to severely disabled veterans. Only veterans who are eligible for the Specially Adapted Housing Grant qualify for VMLI. The Specially Adapted Housing Grant and VMLI are particularly important to PVA members who are all severely disabled veterans who suffer from a spinal cord injury or disease. Without the Adapted Housing Grant, many of our members would be unable to purchase or build a home that is suitable for their special needs. VMLI gives our members and their dependents some security when purchasing that new home. In the event that the veteran dies, his or her survivor will receive VMLI to help pay off the mortgage of the home. The amount of coverage provided by VMLI cannot exceed $90,000. This program is still open to new issues.

The maximum VMLI pay out has not been increased since 1992. In the ten years since that increase, the cost to build or purchase an accessible home has risen dramatically. Many PVA members own homes that have mortgages that exceed the maximum value of VMLI. This leaves many severely disabled veterans without coverage for the outstanding amount of their mortgages. This problem is compounded by the fact that the most severely disabled veterans may not have the option of purchasing extra life insurance from private insurance companies at reasonable costs. PVA, in accordance with recommendations made in this years' *Independent Budget*, recommends that Congress enact legislation that would increase the maximum VMLI coverage from $90,000 to $150,000. This would bring this program more in line with the costs of accessible housing today.

Another important issue for PVA is the consideration of the value of government life insurance policies as income or assets. As stated in *The Independent Budget*:

> "For nursing home care under Medicaid, the government forces veterans to surrender their government life insurance policies and apply the amount received from the surrender for cash value toward nursing home care before Medicaid will cover the related expenses of needy veterans."

PVA is concerned that veterans are forced to give up one benefit just to receive another. In accordance with the recommendations of *The Independent Budget*, PVA urges Congress to enact legislation that would exempt the cash value, dividends, and proceeds of VA life insurance from consideration as income when a veteran is seeking benefits from other federal programs.

PVA believes that the benefits of the life insurance programs administered by the VA are not equitable to the needs that disabled veterans and their families have. It is time to bring these benefits to a level consistent with the original intent of these programs. PVA would be happy to work with this Committee to draft legislation to improve SDVI and VMLI. As we continue to add new military men and women to the ranks of our disabled veterans, we must not fail to improve the benefits that they will depend on.

PVA would like to thank this Committee again for holding this hearing. I would be happy to answer any questions that you might have.

Information Required by Rule XI 2(g)(4) of the House of Representatives

Pursuant to Rule XI 2(g)(4) of the House of Representatives, the following information is provided regarding federal grants and contracts.

Fiscal Year 2002

Court of Appeals for Veterans Claims, administered by the Legal Services Corporation—National Veterans Legal Services Program—$179,000 (estimated).

Fiscal Year 2001

Court of Appeals for Veterans Claims, administered by the Legal Services Corporation—National Veterans Legal Services Program—$242,000.

Fiscal Year 2000

General Services Administration—Preparation and presentation of seminars regarding implementation of the Americans With Disabilities Act, 42 U.S.C. §12101, and requirements of the Uniform Federal Accessibility Standards—$30,000.

Federal Aviation Administration—Accessibility consultation--$12,500.

Court of Appeals for Veterans Claims, administered by the Legal Services Corporation—National Veterans Legal Services Program—$200,000.

**STATEMENT OF
DONALD L. MOONEY, ASSISTANT DIRECTOR
FOR RESOURCE DEVELOPMENT
VETERANS AFFAIRS AND REHABILITATION DIVISION
THE AMERICAN LEGION
BEFORE THE
SUBCOMMITTEE ON BENEFITS
COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES
ON
THE DEPARTMENT OF VETERANS AFFAIRS' LIFE INSURANCE PROGRAMS**

SEPTEMBER 25, 2003

Mr. Chairman and Members of the Subcommittee:

The American Legion appreciates this opportunity to share its views on the status, recent changes, and proposal for the Department of Veterans Affairs (VA) life insurance protection and benefit programs for veterans and active duty members and their dependents.

These programs are divided into two distinct categories; VA administered policies from the Philadelphia VA Insurance center, covering veterans up to the 1950s, the United States Government Life Insurance (USGLI), National Service Life insurance (NSLI) and Service Disabled Veterans Insurance (SDVI) and VA supervised policies covering veterans post 1970s, Servicemembers Group Life Insurance (SGLI) and Veterans Group Life Insurance (VGLI), administered by the Prudential Insurance Company.

VA, in addition, directly administers the Veterans Mortgage Life Insurance (VMLI) for veterans who qualify for VA housing grants for specially adapted homes. Overall these programs provide millions of veterans, military personnel and family members with almost half a trillion dollars of life insurance coverage.

The American Legion recognizes that the VA Insurance center in Philadelphia has evolved into an exemplary operation with few parallels in either government or the private sector. Efforts to achieve an almost paperless, 100 percent computerized claims workflow by September 30, 2003 will result in even higher efficiencies.

Cost comparisons show the VA's Philadelphia operation is much lower than private sector insurance providers, and significantly lower than the SGLI/VGLI unit in Newark, NJ. VA's improved performance is also seen in the customer satisfaction area with a 95 percent satisfactory rating for the past year. The American Legion notes this was recently recognized in a national study, the American Customer Satisfaction Index (ACSI), which provides a "gold standard" that over 200 companies use as benchmark for their performance. VA's score of 90 compared to the private insurance sector's score of 71 and the federal government's overall score of 69 shows a clear difference in the performance of the department. The Philadelphia insurance center was also awarded VA's highest organizational performance award in 2002.

A recent initiative begun in 2001 by VA's Insurance management, in response to an American Legion proposal, provides an insurance outreach effort for those servicemembers being discharged on disability retirement at a disability rating of 60 percent to 100 percent to ensure they are fully aware of the transition process and requirements for such coverage when they are released. This outreach involves special letters and direct phone calls, and has resulted in a 20 percent increase of these particular veterans enrolling. The American Legion agrees with a VA recommendation to increase the current one year free SGLI Total Disability Extension to two years. This would give some added leeway to severely disabled veterans, who are often precluded by their disabilities from proper personal financial planning, and will improve the VA outreach programs. The American Legion fully supports this proposal.

The American Legion has seen veterans, in the worst service-connected disabled conditions, lose the right to insurance coverage within a short time of leaving service. These beneficiaries receive very little in the way of benefits, because they are either unaware of the actions required or are simply unable to take the proper steps needed to ensure their service coverage remains in effect.

New brochures widely distributed to all interested organizations, public and private, and comprehensive interactive websites contribute to VA's veteran's service network. The American Legion notes VA is taking special care that all casualty claims from operations in the Middle East and South Asia are especially controlled and paid within 48 hours of receipt of a claim and required documentation.

Also in the SGLI/VGLI area, due to the demonstrated efficiency, cost savings, customer satisfaction performance, it is the opinion of The American Legion that better service would accrue to the group policyholders in these programs if the SGLI/VGLI operation were moved into VA's Philadelphia center. The American Legion would like to see a federal subsidy for this portion of VGLI premium costs. Veterans benefits are a moral obligation of government in their fundamental nature, and we do not believe active duty personnel should have to subsidize premium costs for service-disabled veterans as is now the case.

Several proposals for improvement of the VA service-disabled insurance programs have been developed in the past few years that involve primarily service-connected disabled veteran's life insurance coverage. In 2001, a study was completed for the Congress on the adequacy of VA's insurance programs. Generally, the result of the study was that the present SDVI program was completely inadequate due to obsolete and unrealistic face values, severe time limits and qualifying requirements, and the continuing lack of awareness of the existence of the benefit on the part of disabled veterans.

Two separate proposals were developed from this study. One proposal would provide such veterans up to $50,000 term insurance coverage on a level, permanent premium basis up to age 70, at which point the amount of insurance would reduce to 20 percent of the face value held, but which would then be in a paid-up insurance state. A standard disability waiver of premiums provision would also apply, and the aggregate of service-disabled coverage held under all such programs would not exceed $50,000. Qualifying criteria would be the same as for the current SDVI program, but with the added constraint of an overall eligibility period of applying for such within 10 years of release from active duty and that applying veterans be under age 65. Premium rates would be level and based on the 2001 Commissioner's Standard Ordinary (CSO) Mortality Table.

The American Legion has long been in favor of this enhancement to the VA's SDVI program, bringing it into line with today's economic realities. The standard SDVI maximum of $10,000 has long been insufficient, and only the most disabled veterans under age 65 who cannot work because of their disabilities qualify for supplemental SDVI coverage, for which they must pay full premiums.

We feel this option is a step in the right direction, but we favor a more extensive overall eligibility period than the 10 years after release from active duty specified in VA's proposal. We also believe that service-disabled veterans who receive increases in their service-connected disabilities, rather than only those who receive original ratings for service-connection, should be eligible to apply for such coverage and that such a provision be extended to the regular SDVI program as well. In connection with this it has been our experience that the present two year eligibility period from the date of notification of a rating is too restrictive and should be extended to a more appropriate time period for all SDVI programs. Too many disabled veterans lose the chance for much needed insurance coverage because they are unaware of the program or because they were not able to see beforehand how their service-connected disabilities would progress.

Further, as the majority of applications for SDVI are currently from Viet Nam era veterans, The American Legion supports an open period on this program for this group is appropriate, especially in light of their current service-connected disability levels and the deficiencies in the VA insurance programs in effect during that time.

The American Legion suggests increasing the maximum amount of the present Supplemental SDVI coverage from the current $20,000 limit to $40,000 for those who are already insured under the current SDVI program, or who would qualify only for the current program due to being outside the designated application period for the above proposal. It is obvious that $20,000 is not a sufficient amount of coverage for such veterans, who by definition are totally disabled from their service-connected disabilities – making gainful employment virtually impossible. Such additional coverage would allow desperately needed relief for this group. Additionally, The American Legion suggests offering a new enrollment period for those who would qualify for SDVI coverage, but are outside the eligibility period as set by law, that such a re-opened period be at least of one, and preferably two, years duration.

Lastly in the SDVI area, VA wishes to lower premiums to a more reasonable level. SDVI premiums are based on an old mortality table, i.e. the 1941 CSO Mortality Table. In 1951, when this program began, these premium rates were competitive with commercial insurance policy rates; however, as life expectancy has significantly improved over the past 60 years, a more recent mortality table would reflect lower mortality and, hence, significantly lower premium rates.

VA has one other insurance program for specially disabled veterans; the Veterans Mortgage Life Insurance (VMLI) program. VMLI provides mortgage life insurance coverage to certain severely disabled veterans who have received grants for Specially Adapted Housing from VA. The insurance is intended to pay off the outstanding balance of the mortgage in the event of the veteran's death. The current maximum amount of VMLI allowed an eligible veteran is $90,000, dating from December 1, 1992, the previous limit being $40,000.

The American Legion's National Commander, John Brieden, presented testimony to a joint hearing of the House and Senate Veterans' Affairs Committees requesting that the current limit of VA Home Loan Guarantee of $252,500 be raised to $300,000 and that higher limits be established for areas of the country with higher housing costs. In San Francisco, California in 2002 the median price of a home was $482,300, an actual decrease of .3 percent from 2001. In Boston, Massachusetts the median price of a home was $358,000; in the New York City Metro area, $285,600; and here in Washington D.C. the median home cost $229,100 in 2002, up 19.8 percent from $183,700 in 2001. Clearly the current VMLI coverage is inadequate in these areas.

Finally, attention must be brought to the VA recommendation excluding Government life insurance benefit, from being considered as income or resources for purposes of determining eligibility for, or the amount of benefits under, any Federal or federally-assisted program or for any other purpose.

Eligibility for certain Federal or federally assisted benefit programs, primarily Medicare and Medicaid, is based upon certain asset or resource limitations. Under existing law, VA insurance benefits are included for purposes of determining the value of an individual's assets and such inclusion often results in disqualifying that individual from federal benefits. As a result, some policyholders, that would otherwise choose to maintain life insurance, surrender their policies in order to reduce their assets and qualify for these benefits.

Under this VA proposal, the value of government life insurance benefits would not be a factor in an individual's ability to qualify for other Federal or federally assisted benefit programs. The average age of NSLI policyholders is 77, generally an age where eligibility for medical assistance and nursing home care benefits under Social Security's Medicare and Medicaid programs is a primary concern. The American Legion does not oppose congressional action to exclude government life insurance proceeds from all Federal income and asset limit benefits programs. The forced surrender of these policies to qualify for other Federal benefits obviously defeats congressional intent in providing them.

Mr. Chairman, The American Legion would like to address an area of veteran's benefits that could be well served by a new program of VA insurance: long term care.

The veteran population is projected to decline significantly – from 26.5 million in 2000, to approximately 17.9 million in 2020, and to 15 million in 2030. This increasingly older veteran population will result in increased demand for long-term care, to include nursing homes and community health care programs and services.

The CARES Commission is currently reviewing planning initiatives and developing market plans for each Veterans Integrated Services Network (VISN) addressing effective and efficient utilization of its capital assets. Long-term care is to be added later, once CARES is incorporated into VA's strategic plan. Unfortunately, VA's 2003-2008 Strategic Plan has little to say about long term care, except to express concern over the quality and availability of contract nursing home care. The American Legion is deeply concerned that the continuum of care mandates of the Veterans Millennium Health Care and Benefits Act will not receive the appropriate attention anytime in the foreseeable future.

Currently, VA provides long-term care, either in its own facilities or through per diems paid to State Veterans Homes and contract nursing home care for veterans service connected at 70 percent and higher, certain other service-connected and nonservice-connected veterans. All other veterans are considered for long term care on a case-by-case basic, subject to space and resource availability. A VA long-term care insurance program could provide both institutional and non-institutional long-term care for more veterans.

Nursing home care is expensive: the national average cost of a semi-private room in a nursing home is $52,000 annually. Depending upon the location and the type of facility preferred, costs can be significantly higher. Nursing home costs have been increasing approximately 5 percent a year. If this trend continues for another 30 years, the cost of nursing home care (for a semi-private room) in 2032 is expected to be $190,000 a year. Home health care is also expensive the national average annual cost being well over $20,000 ($18/hour, five hours per day, five days a week for a home health aide). This is expected to climb to $68,000 by 2030.

Today, the federal government and many other employers offer premium based long-term care insurance. In the case of the federal program, employees are able to select services packages they believe they will need and pay into the program over time. With compounding of interest on premiums, they are funding their own long-term care. Those without this opportunity must rely on Medicare and Medicaid to provide long-term care. Medicaid is designed to protect those with minimal assets. To qualify, many people "spend down" nearly all of their assets. Medicare only pays limited amounts for skilled care following a hospital stay. It does not cover purely custodial care, the type that is required by most people in nursing homes.

The American Legion believes a similar long-term care insurance program for veterans would not only provide security for aging veterans and their families, but would create a funding pool large enough to incentivize the private nursing home industry to build new capacity. Given the success of VA's insurance activity, the VA would be the most logical choice to administer such a program.

Mr. Chairman, that completes my testimony. Again, I thank you for allowing The American Legion the opportunity to provide comment on these programs and issues which are crucial to this nation's military personnel, their families, and the honored veterans. The American Legion looks forward to working with this Subcommittee on these issues.

SERVING
WITH
PRIDE

Statement for the Record

of

Richard "Rick" Jones
AMVETS National Legislative Director

before the

Committee on Veterans' Affairs
Subcommittee on Benefits
U.S. House of Representatives

on

The Department of Veterans Affairs' Life Insurance Program

Thursday September 25, 2003
10:30 AM, Room 334
Cannon House Office Building

AMVETS

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Chairman Brown, Ranking Member Michaud, and Members of the Subcommittee:

On behalf of AMVETS National Commander S. John Sisler and the nationwide membership of AMVETS, I am pleased to offer our views to the Subcommittee on Benefits regarding the Department of Veterans Affairs' Life Insurance program. For the record, AMVETS has not received any federal grants or contracts during the current fiscal year or during the previous two years in relation to any of the subjects discussed today.

Mr. Chairman, AMVETS has been a leader since 1944 in helping to preserve the freedoms secured by America's Armed Forces. Today, our organization continues its proud tradition, providing, not only support for veterans and the active military in procuring their earned entitlements, but also an array of community services that enhance the quality of life for this nation's citizens.

AMVETS applauds this Subcommittee and its effort to examine the policy and administrative issues VA faces in operating the seventh largest insurance program in the United States.

One of the most important insurance programs operated by VA is the Veterans' Mortgage Life Insurance (VMLI) program. It is widely recognized that homeownership helps create stable and safe communities. Thus, the expansion of homeownership has been a longstanding goal of the Federal Government and part of the fabric that makes up the American dream.

Clearly, no matter where a veteran lives, their home is a central part of their life. Indeed, home ownership is probably one of a veteran's most valuable assets. And for many disabled veterans the VMLI program affords peace of mind that a home purchase can be affordably negotiated.

As you know, VMLI is available to severely disabled veterans who receive a Specially Adapted Housing grant. Maximum coverage is $90,000. Protection is issued automatically unless the veteran declines coverage. Coverage automatically terminates when the mortgage is satisfied. If a mortgage is disposed of through sale of the property, VMLI may be obtained on the mortgage of another home.

As a co-author of **The Independent Budget,** AMVETS strongly supports recommendations made earlier this year to increase the maximum coverage of the Veterans' Mortgage Life Insurance program. The last time VMLI was increased was 1992, more than a decade ago. Despite efforts to increase VMLI in the last Congress to $150,000 from the current level of $90,000, measures were not completed and the increase remains yet to be accomplished.

We firmly believe that the VMLI program helps significantly to contribute in making the American dream of owning a home come true for many more of our disabled veterans and their families than would otherwise be possible without such a program. However, it is a program that has fallen behind the times. As such, it deserves your attention and commands your support.

Another important VA program that helps demonstrate our nation's gratitude to those who have been disabled in service to country is the Service-Disabled Veterans' Insurance (SDVI) program. The SDVI is available only to those who have received a service-disabled rating and who have been honorably discharged. The maximum face value of the policy, however, remains a mere $10,000.

As a whole, Americans today have a universe of options when looking at life insurance. Unfortunately, for many disabled veterans, options are limited, and they often face difficulty obtaining affordable life insurance in the commercial marketplace.

While there remain numerous ways for disabled veterans to plan for their future, many disabled veterans owe a substantial portion of their financial peace of mind to the SDVI life insurance program.

AMVETS believes that life insurance can help disabled American veterans ensure that their surviving spouses and children would have some degree of financial security. In this regard, we recommend that Congress increase SDVI coverage to at least $50,000. Clearly the current level would not replace lost income for the survivors of service-disabled veterans.

Though VA has adjusted premium rates for the Service Members Group Life Insurance and Veterans Group life Insurance programs, AMVETS notes that the premiums for the SDVI program remain unreconstructed. It is our understanding that VA continues to base its rates on mortality tables from 1941, when life expectancy was lower, hence mortality rates higher. It is time to revise, update and improve this important program, and the members of AMVETS encourage your considered action.

In closing Mr. Chairman, AMVETS looks forward to working with you and others in Congress to ensure the earned benefits of all of America's veterans are strengthened and improved. As we find ourselves in times that threaten our very freedom, our nation must never forget those who ensure our freedom endures. AMVETS thanks the panel for the opportunity to address these issues.

STATEMENT OF

PAUL A. HAYDEN, DEPUTY DIRECTOR
NATIONAL LEGISLATIVE SERVICE
VETERANS OF FOREIGN WARS OF THE UNITED STATES

TO THE

SUBCOMMITTEE ON BENEFITS
COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

WITH RESPECT TO

DEPARTMENT OF VETERANS AFFAIRS' LIFE INSURANCE PROGRAM

WASHINGTON, D. C. SEPTEMBER 25, 2003

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

On behalf of the 2.6 million members of the Veterans of Foreign Wars of the United States (VFW) and our Ladies Auxiliary, I appreciate the opportunity to present our views on the Department of Veterans Affairs' (VA) Insurance Program. Historically the Department of Veterans Affairs has provided life insurance benefits to veterans and servicemembers that are not available to them from the commercial insurance industry due to service connected disability or the high risk involved with military service. Since its inception in 1914, VA's insurance program mission has been to offer veterans and active duty members accurate, timely, low cost premiums at competitive rates.

In May 2001, Department of Veterans Affairs Insurance Center was recognized in a national study by the American Customer Satisfaction Index as "consistently delivering excellent customer service in all areas of its insurance programs." The VFW has found - through its own evaluations - VA's insurance program to be reliable and extremely well-run. Therefore, we would like to limit our comments to areas within the various insurance programs that legislation will improve.

Service-Disabled Veterans' Insurance (SDVI) was created to provide insurance for those veterans whose service-connected disability prevents them from receiving commercial life insurance. A recent VA report, *Program Evaluation of Benefits for Survivors*, studied the various VA insurance programs and determined several problem areas within SDVI. The VFW agrees with the report's assessments and finds that these areas should be addressed.

First, increase the maximum coverage to $50,000. The current program has an initial benefit of only $10,000 with the option to purchase $20,000 in supplemental life insurance. Increasing this amount is essential. As VA's report notes, over half of SDVI beneficiaries receive less than $15,000 from all insurance sources—an amount that is far below the recommended insurance level of two to three times the insured's annual income. As SDVI frequently represents the sole, or largest, source of life insurance, the VFW believes that it is imperative that the amount of coverage be increased if VA is to truly meet the intent of the SDVI program.

Second, update the actuarial table used to determine premiums for the program. Currently, VA uses an actuarial table from 1941 that does not accurately reflect the increased life span and enhanced health most Americans enjoy due to vast improvements in medicine and technology. As a result, this outdated table results in veterans paying significantly higher life insurance premiums. If VA is to provide insurance at rates comparable to the commercial market, it is essential that a more modern table be used.

Servicemembers' Group Life Insurance (SGLI) is available to servicemembers, reservists and their family members. The program provides low-cost term insurance protection to servicemembers through a group policy issued by a commercial life insurance company. Current coverage is available in $10,000 increments up to the maximum of $250,000 for a monthly premium of $16.25. Coverage is automatic upon commencement of active duty or reserve status however members may decline or elect a reduced coverage amount.

The VFW applauds the improvements made to the program in 2001 (PL 107-14) which included adding spouses and children under the SGLI program and increasing the overall benefit to $250,000, but our organization would like to see the current one year free SGLI Total Disability extended to two years as well as eliminate the need for an application. By extending the SGLI total disability extension to two years, Congress will allow VA Outreach Programs additional time to contact veterans who may not know about the extension or the availability to convert their SGLI to Veterans Group Life Insurance (VGLI). Thus, Congress will enable many totally disabled veterans who would not otherwise be able to obtain commercial life insurance to obtain VGLI coverage.

Veterans Group Life Insurance provides term insurance to veterans upon separation from service. It allows all veterans who were covered by SGLI, regardless of health, to covert from SGLI to a 5-year renewable policy under VGLI. It is intended to provide low-cost policy life insurance during the readjustment period. VGLI is convertible to permanent plan insurance with a commercial company. Currently there are over 100 commercial companies that VGLI participants can choose from. According to VA's Executive Report, *Program Evaluation of Benefits for Survivors,* VGLI costs are consistent with what [veterans] would pay if purchasing the equivalent coverage in the private sector."

In 1971, the *Veterans' Mortgage Life Insurance (VMLI)* program was created as a way to provide mortgage life insurance to severely disabled veterans who have received VA adapted housing grants. VMLI is payable to the mortgage holder and assists those veterans who would have the greatest difficulty in securing fair-priced financing.

The last VMLI increase was in 1992, when the Veterans' Benefits Act (P.L. 102-568) increased coverage to $90,000. Since then housing costs have risen substantially and many veterans have mortgages that exceed the maximum face value of VMLI.

The veterans eligible for this program are those most in need of assistance. Their disabilities frequently place them at an economic disadvantage, which is, in part, alleviated by the VMLI program. The VFW believes that these disadvantages would be further lessened for the veteran by increasing the coverage to $200,000.

Other needed changes with regard to insurance include the following VFW-supported initiatives:

Allowing life insurance payment carried by veterans to go to an alternate beneficiary when the first beneficiary does not enter a claim within two years of the veteran's death. Currently there is no time limitation under which a named beneficiary of a National Service Life Insurance or United States Government Life Insurance policy is required to file a claim for proceeds. Consequently, when the insured dies and the beneficiary does not file a claim, VA holds the unclaimed funds indefinitely so as to honor any future claim. The VFW believes that it is essential that these benefits be paid in a timely manner to the proper beneficiary. Allowing for an alternate beneficiary designated by the insured would help to close the gap on payment when a veteran dies.

For the purposes of other Federal programs such as nursing home care under Medicaid, the government forces veterans to surrender their government (VA) insurance policies. It also counts dividends and the proceeds from life insurance, calculated at the time of death, as part of the veteran's and /or beneficiary's income. Those who would benefit are survivors and dependents with small insurance policies that often place them above the income threshold for other benefits. These benefits should be exempt from countable income when determining eligibility under other Federal programs. The VFW believes that this is the right and equitable thing to do for our nation's defenders.

Mr. Chairman, this concludes my testimony. I thank you once again for the opportunity to present the views of the Veterans of Foreign Wars and for holding this hearing on VA's Insurance program.

WRITTEN COMMITTEE QUESTIONS AND THEIR RESPONSES

CONGRESSMAN MICHAUD TO THOMAS M. LASTOWKA

Questions for the Record
Honorable Mike Michaud
Subcommittee on Benefits
Committee on Veterans' Affairs
September 25, 2003

Hearing on VA's Life Insurance Program, Examining Policy, Operational Issues, and Recommendations for Improvements

Question 1: In your testimony you mention a number of recommendations of the 2001 evaluation of the insurance programs, which have been implemented. However a number of recommendations have not been included in the President's budget request or legislation recommended by the Administration.

I am interested in information concerning the advantages and disadvantages of the recommendations which have not been adopted, such as:

- Automatically providing SDVI insurance to any newly eligible veteran with an opportunity for the veteran to opt-out of the program
- Increasing the basic amount of the coverage
- Revising the mortality tables used for SDVI
- Increasing the maximum amount of VMLI and indexing the amount to certain data
- Offering participants who carry the maximum amount of SGLI to obtain additional optional coverage

Response: A. Automatically providing SDVI insurance to any newly eligible veteran with an opportunity for the veteran to opt-out of the program

The Program Evaluation recommended that VA automatically provide S-DVI coverage to any member or veteran with a service-connected disability who is not enrolled in VGLI. The veteran could opt out of participation by formally declining the coverage, and VA could automatically deduct premium costs from disability compensation payments to the veteran.

The advantage of providing automatic coverage to all those receiving new awards for service-connected disabilities is it would potentially increase program participation, which is currently at the four to six percent level.

VA Insurance Service believes that the disadvantages outweigh this consideration. Most veterans prefer other options available either through other VA insurance programs or from the private sector. Rather than provide better customer service, automatic coverage would impose a burden on the large majority of veterans whom our experience indicates would opt out of the program. Administering the "opting outs" and the associated refunding of premiums would be a strain on Insurance Service resources. Finally, VA would be insuring many participants who are high-risk because of non-service connected disabilities.

VA already provides automatic *eligibility* for S-DVI and a process for notifying those who are eligible. Even if S-DVI coverage were automatic, we anticipate that only a small minority of veterans would keep the insurance. The reason is that the S-DVI program is not the appropriate insurance program for everyone with a service-connected disability. Some do not want any insurance and some get their insurance through their employer. Others, particularly those with lower disability ratings, find more affordable insurance in the commercial market. Also, veterans who have separated from service may have already purchased VGLI.

A veteran who applies for S-DVI can be denied coverage on the basis of non-service connected health problems. If enrollment is automatic, there is no underwriting of these conditions, and VA would have accept many veterans into the program who represent poor health risks based on these non-service connected conditions.

B. Increasing the basic amount of the coverage

The Program Evaluation found that the current $10,000 maximum under basic S-DVI does not provide adequate coverage. The maximum is also too low when measured against the loss of household income when a service disabled veteran dies. The Program Evaluation recommended that VA cover the loss of income for at least two years after the veteran's death and proposed to increase S-DVI coverage to $50,000 for that reason.

The advantage of this proposal is that the face amount of S-DVI would compare more favorably with the average commercial policy and would cover more than two years of lost income for the survivor of the average policyholder.

However, there are serious disadvantages associated with this proposal. Increasing the face amount of the current program without making changes to the program eligibility rules would be very costly. Under S-DVI, a veteran gets a new two-year period of eligibility for every newly established service-connected disability. Many new eligibility periods are based on service-connection for minor conditions. Others are based on a natural progression of a previously established service-connected condition as, for example, when a veteran with service-connected diabetes is awarded service-connection for loss of sight due to diabetes many years later.

The system of repeatedly reopened eligibility is far more generous than the normal conditions in the commercial insurance sector. The usual period when individuals buy life insurance is in their 20s and 30s when the need for insurance is greatest and they are in good health. The median age of those purchasing commercial life insurance is 34. The median age of individuals purchasing S-DVI is 53. Although most of these applicants had the opportunity to purchase insurance during their younger years they waited until they were older and had severe health problems before purchasing S-DVI. The result is that the subsidy cost is very high relative to the amount of coverage provided. For any given subsidy level, the more generous the eligibility period, the fewer resources are available for increasing face amount and reducing premiums.

The Program Evaluation report estimates a five-year cost of $374 million and a ten-year cost of $869 million to increase S-DVI to $50,000 basing premiums on the 1980 CSO mortality table. The report also estimated that the increased benefit cost of raising S-DVI to $50,000 with the automatic enrollment feature would be $115 million over five years and $376 million over ten years. No administrative cost estimates were included.

C. Revising the mortality tables used for SDVI

The S-DVI program was intended to provide service-disabled veterans with the ability to purchase insurance coverage at "standard" premium rates. In 1951, when the program began, these premium rates were competitive with commercial insurance rates. However, as a result of improving health standards and consequent increased longevity, S-DVI premium rates are now much higher than commercial premium rates. The Program Evaluation recommended reducing premium rates to reflect more recent mortality rates based on the 1980 Commissioners Standard Ordinary (CSO) Table. Since the completion of the Program Evaluation, the National Association of Insurance Commissioners has published the 2001 CSO Table which reflects even more recent mortality experience than the 1980 table. After it is adopted by individual states, the table will be the basis for minimum reserve and cash value standards for new life insurance products in the commercial market. All new commercial life insurance products must comply with the 2001 CSO Table by January 1, 2009.

The obvious advantage of this recommendation is that premiums would be lower for disabled veterans. The table below shows a comparison of the current (1941 CSO Table) and updated premium rates (2001 CSO Table) for a variety of ages for a 5-Year Term Plan or an Ordinary Life Plan in the S-DVI Program. It also shows the now outdated 1980 CSO Table for comparison purposes.

Comparison of Current S-DVI Premium Rates with 1980 and 2001 CSO Table Updated Premium Rates						
Monthly Premiums for $10,000 of Insurance						
	5 Year Term Plan			Ordinary Life Plan		
	Current	1980	2001	Current	1980	2001
Age						
20	$2.10	$1.00	$.80	$11.10	$4.00	$4.10
30	3.20	.80	$.90	15.20	6.20	6.20
40	5.80	1.90	$1.60	21.60	10.40	9.80
50	11.90	5.00	$3.70	32.30	17.80	16.20
60	26.00	13.00	$10.00	51.00	31.30	27.90
70	58.70	34.10	$25.70	86.40	57.50	50.20

The equally obvious disadvantage of updating the mortality rates is the cost. In FY 2005, the S-DVI Program will require an appropriation of $31.2 million. This funding is necessary because the premium income does not cover the cost of insurance claims due to the high mortality rate of the disabled veterans in the program. By updating the CSO Mortality Table to reflect current mortality rates, policyholders would have to pay less for their coverage. However, the government would be required to pay more to bridge the larger gap between premium income and claims.

VA estimates the costs of changing the morality tables for the basic $10,000 of S-DVI at:

Using the 2001 CSO Table:
Five-year costs (FY05 - FY09) - $83.9 million
Ten-year costs (FY05 - FY14) - $182.7 million

Using the 1980 CSO Table:
Five-year costs (FY05 - FY09) - $73.0 million
Ten-year costs (FY05 - FY14) - $166.2 million

(It should also be noted that this proposal was included in S.2209 in the 107th Congress. No further action was taken on the bill.)

D. Increasing the maximum amount of VMLI and indexing the amount to certain data

Increasing the maximum amount of VMLI

The Program Evaluation found that the maximum Veterans' Mortgage Life Insurance (VMLI) coverage limit is inadequate. To address this situation, the study recommended increasing the current coverage maximum to between $150,000 and $200,000. H.R. 1554 "Veterans Life Insurance Improvement Act of 2003", now before the House Veterans Affairs Committee, contains a provision to increase VMLI to $200,000.

The advantage is that more veterans will have coverage on their entire outstanding mortgage balances. If the maximum coverage limit is increased to $150,000, 93% of veterans' outstanding mortgage balances will be covered. With an increase in the maximum coverage limit to $200,000, that figure rises to 97%.

Indexing the maximum VMLI coverage limit

The Program Evaluation also recommended indexing the coverage maximum based on the annual increase in new loan origination amounts as reported annually by the Federal Financial Institutions Examination Council (FFIEC). VA believes a better index would be four times VA's Loan Guaranty maximum ceiling. It is an accepted industry guideline that a mortgage can be up to four times the loan guaranty amount. The current guaranty ceiling of $60,000 allows for a maximum mortgage of $240,000.

VA's Loan Guaranty Service monitors trends in housing costs and mortgage practices to ensure that veterans receive the appropriate level of housing assistance. When conditions require, VA submits legislative proposals to Congress requesting that the ceiling be increased. If the VMLI maximum were tied to the maximum VA mortgage amount, legislative increases in the loan guaranty rate would serve the dual purpose of providing an appropriate increase in the VMLI maximum. The advantage of this approach is that the maximum coverage will always be current with the housing market.

The disadvantage of increasing the coverage maximum and indexing it to a standard guideline is the cost. Any increase in coverage in the VMLI Program will require additional government appropriations. Premium income from policyholders does not cover the cost of claims due to the high mortality rates of the severely disabled veterans in the program. Automatic increases in coverage limits based on indexing to new loan origination amounts would necessitate regular increases in government appropriations.

Increasing the coverage maximum to $150,000 would cost:
Five-year costs (FY05-FY09) - $12.4 million
Ten-year costs (FY05-FY14) - $30.0 million

An increase to $200,000 would cost:
Five-year costs (FY05-FY09)- $18.1 million
Ten-year costs (FY05-FY14) - $45.2million

These estimates only account for a one-time increase in the maximum coverage limit to $150,000 or $200,000. If the coverage maximum were increased periodically based on an index, the costs would be higher.

E. Offering participants who carry the maximum amount of SGLI an opportunity to obtain additional optional coverage

The Program Evaluation found that the coverage amounts offered by the SGLI Program compare favorably to the coverage amounts of life insurance programs provided to private and public sector employees. However, it also found that SGLI does not fully meet the life insurance needs of all participants. Although a majority of service members responded favorably about the amount and cost of SGLI coverage that they already had, there was a significant percentage (50%) that indicated they would purchase more coverage if it were available. Furthermore, about half of SGLI participants also had other life insurance.

The study recommended that VA offer participants the option to purchase optional supplemental insurance in the amount of either 50% or 100% of their basic SGLI coverage. Cost of the supplemental coverage would be fully covered by participant premiums.

The advantage is that service members who would like to have higher amounts of SGLI coverage would be afforded that opportunity.

The disadvantages are as follows:

Lower salary members would be over-insured. The purpose of insurance is to compensate for an untimely loss of earning power, and the amount of insurance offered should be commensurate with the expected amount of that loss. For lower ranked service members, the current maximum of $250,000 coverage is already a significant multiple of their annual income. Based on standard industry underwriting guidelines, further coverage would not be warranted for most members.

The recommendation runs counter to the Department of Defense's policy of equal treatment. DOD believes that a uniform maximum amount of SGLI coverage for all participants is appropriate in view of the nature of military service, which embodies the concept that the service and sacrifice of each member are of equal importance, regardless of grade or tenure. Providing higher-ranking members additional insurance without offering the same coverage to lower ranking members is not in keeping with this view.

Age-based premium structure may be necessary. Older service members with higher incomes would likely be the primary purchasers of supplemental coverage. Being older, they would experience somewhat higher mortality rates. The current flat premium rate of $.065 per month per $1,000 would not be sufficient to cover the cost of claims for this group. An age-based premium structure for the supplemental coverage may be necessary to safeguard the actuarial soundness of the program. The addition of a supplemental coverage option with an age-based premium structure would add a new layer of administrative complexity that would need to be addressed by the Department of Defense.

Higher reimbursement costs for extra hazards may be warranted. Another consideration is that the addition of supplemental SGLI coverage will expose the government to potential higher SGLI extra hazard charges. Title 38 U.S.C. 1969(b) requires the service departments to reimburse the SGLI program for claims costs traceable to the extra hazard of duty in the uniformed services. Basic SGLI coverage is nearly universal, and virtually all members carry the maximum coverage. However, many members may only opt for supplemental coverage if they are involved in hazardous duty or have adverse medical conditions. This tendency could increase the potential for extra hazard charges.

There may be additional financial risk for reinsurers. With the introduction of supplemental SGLI coverage, reinsurance companies may choose to leave the SGLI program due to their increased exposure to financial risk. To compensate for the increased risk, reinsurers that remain with the program would likely require an increase in the reinsurance premiums they receive from the SGLI program.

Appropriations may be necessary to support SGLI Program. Allowing service members to obtain optional coverage without evidence of good health would undoubtedly encourage applications from individuals with adverse medical conditions. Similarly, service members assigned to hazardous duty would likely apply for this coverage. Without limiting the enrollment period and requiring medical underwriting for the optional coverage, the SGLI program could incur financial losses that may require a subsidy.

Question 2: I understand that the VA is working on a permanent change to VA's letter informing veterans of their eligibility for service-connection of disabilities, so that information concerning the SDVI program would be included. Is there a date by which this change will be accomplished?

Response: The changes to the compensation award letter in the Personal Computer Generated Letter system are currently on hold until after completion of the Windows 2000 Upgrade that is now underway. The Compensation and Pension Service estimates that the updated letter, including information about the S-DVI program, will be deployed nationwide in February 2004.

In addition, VA Form 21-8764, Disability Compensation Award Attachment, which is mailed out with all compensation awards, is being revised to reflect changes in S-DVI information. The revised version of that form will be available in February 2004 as well.

Question 3: The evaluation of the SDVI program recommended basing premiums on the 1980 actuarial tables. Have those tables been updated for 2001? What would the cost be of updating the tables to 1980 data and any later date?

Response: See the response to question 1-C, above.

Question 4: Are you aware of any instances where a veteran has missed the opportunity to apply for the SDVI program because of the notification errors which were identified?

Response: We are unable to establish whether an individual veteran missed the opportunity to apply because of a notification error. Our automated systems do not keep a record of the mailings. However, we use several means to make sure that every veteran has multiple opportunities to learn about S-DVI.

Prior to a disabled veteran's discharge and during the months following, the Veterans Benefits Administration (VBA) communicates information about potential eligibility for insurance coverage in several ways. VBA also trains its employees on how and when to send eligibility solicitation packages. These packages include a notification letter, a benefit pamphlet, and an application form. However, the possibility always exists some veterans may not have been properly informed of their potential eligibility at the time of disability award notification. Therefore, we make sure there are other ways for veterans to learn about S-DVI and other insurance programs. These include:

- VA publishes and updates yearly the Federal Benefits for Veterans and Dependents, which is available at any VA facility.
- VA employees routinely instruct various veteran representative organizations during scheduled or ad hoc outreach efforts about the need to timely apply for S-DVI.
- VA maintains a web site that lists the benefits available from VA, with eligibility and filing requirements.
- VBA is preparing a permanent change to VA Form 21-8764 entitled "Disability Compensation Award Attachment Important Information," to include information on S-DVI and how to apply. That form is included with every compensation award letter. This revision is planned for February 2004.

- VBA is preparing a permanent change to the Personal Computer Generated Letter application that would include, with every disability notification letter, a paragraph specifically explaining the eligibility criteria for S-DVI and proper procedures for applying. This revision is also expected to be available in February 2004.

- A C&P Service Training Letter dated March 17, 2003, reiterated the procedures to properly generate an outreach insurance notification letter package for veterans who may be eligible for S-DVI coverage.

The Insurance Service has generated various outreach materials designed to repeatedly remind service members and veterans of their potential eligibility for S-DVI.

- Since 2001, all separating service members receive materials entitled "Plan Today, Protect Tomorrow". This material contains detailed information on all of the life insurance programs available from VA.

- The Insurance Service sends letters and makes phone calls to those veterans adjudged 60% or greater disabled by their respective service, apprising them of various VA life insurance programs, including S-DVI. The threshold for special outreach will soon be lowered to 50 percent.

Hearing Date: September 25, 2003
Committee: House Committee on Veterans' Affairs
Member: Rep. Michaud
Witness: Colonel Virginia Penrod
Question #1

Question: What steps do the Services take to make sure that the Service members who are discharged from military service due to medical disability are made aware of their ability to convert their SGLI insurance to the VGLI program?

Answer: The Services provide transition counseling to the Service member who is discharged from service due to a medical disability. This counseling includes SGLI and VGLI. In addition, the Department of Veteran's Affairs contacts each member individually to explain the Service member's VA benefits, which includes VGLI. The Services report these are well-established programs and they are not experiencing any difficulty in providing data to the Service member.

Hearing Date: September 25, 2003
Committee: House Committee on Veterans' Affairs
Member: Rep. Michaud
Witness: Colonel Virginia Penrod
Question #2

Question: What steps do the Services take to make sure that the Service members who are discharged from military service due to medical disability are made aware of their ability to obtain SDVI insurance, particularly if they choose not to convert to the VGLI program?

Answer: Transition briefings provided to disabled members specifically include the availability and benefit coverage under the SDVI program.