STATEMENT OF

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Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to testify today on several legislative items of interest to the Department of Veterans Affairs (VA). Accompanying me today are Robert Epley, Associate Deputy Under Secretary for Policy and Program Management, and John Thompson, Deputy General Counsel.

Before I discuss the bills the Subcommittee is considering today, I would like to note that, as you know, these measures would affect direct spending and receipts and, therefore, would be subject to pay-as-you-go (PAYGO) rules. Accordingly, the support VA expresses here for the subject bill provisions is contingent on accommodating the provisions within the budget submitted by the President.

H.R. 1108

First, Mr. Chairman, I would like to provide VA's views on H.R. 1108. This bill would amend 38 U.S.C. § 103(d) to remove the bar on the payment of Dependency and Indemnity Compensation (DIC) benefits to surviving spouses who remarry after age 55. VA supports enactment of this legislation.

The DIC program provides tax-free monthly benefits to the surviving spouses of veterans who die in or as a result of military service. Current law denies DIC during periods of surviving spouses' subsequent marriages or (in cases not involving remarriage) during periods when they live with another person and hold themselves out openly to the public to be that persons' spouses.

DIC was created for two purposes: to replace family income lost due to the servicemember's or veteran's death and to serve as reparation for the death. In 1956, the Servicemen's and Veterans' Survivor Benefits Act replaced the preexisting death compensation program and the $10,000 Servicemen's Indemnity Act payment with DIC. The House Select Committee on Survivor Benefits explained, in a 1955 report, H.R. Rep. No. 84-993, that, "these two separate and distinct survivor benefit programs . . . would become one. To this limited extent one of the objectives of the committee, greater simplicity, would be accomplished and the long-term interest and equity of survivors protected." This Act established a monthly DIC rate for widows consisting of a fixed rate plus a percentage of the basic pay prescribed for the deceased servicemember's pay grade and length of service. It is apparent from this Committee Report that the fixed rate represented the "indemnity" or reparation element of the compensation and the percentage of the deceased servicemember's basic pay represented the "dependency" or income-replacement element. In this manner, DIC was intended to meet, at least in part, the Government's obligation to those who died in the defense of our country. An expansion of eligibility for DIC would well serve this purpose for the following reasons.

Marital decisions often involve consideration of economic consequences, and often those consequences are different for older surviving spouses, who may no longer be in the job market and who may have insufficient income apart from DIC to maintain a basic standard of living regardless of whether they remarry. The beneficiaries targeted by this proposal are particularly disadvantaged by loss of DIC upon remarriage because they are often retired or contemplating retirement, may be disabled, and may be living on a fixed income. Those whose deceased-veteran spouses had been severely disabled may have foregone careers of their own in order to care for them. Thus, they are often unable to offset lost DIC by earnings or other income. Furthermore, when a surviving spouse of advanced age remarries, termination of DIC may impose severe financial hardship because the new spouse, similarly advanced in age, is generally preparing for retirement or is already retired, may be disabled, and may be living on a fixed income. In other words, the new spouse also may have limited income and may be unable, because of age or disablement, to augment it. To the extent the DIC program was intended to provide a replacement for a veteran's contribution to household support, this contribution is still necessary for a surviving spouse of advanced age even if the surviving spouse remarries, because remarriage often does not adequately provide for his or her subsistence needs. Further, to the extent that DIC provides indemnification for the veteran's death, the basis for compensation is not eliminated by the surviving spouse's remarriage.

The new provision would assist surviving spouses by allowing those over age 55 to maintain their standards of living, thus removing any economic disincentive to remarriage. A veteran's surviving spouse would be able to enter into a second marriage without fear of economic deprivation, and the elderly couple would be permitted to live together in comfort and dignity—legally married.

Benefits for surviving spouses of military retirees through the Department of Defense's (DoD) Survivor Benefit Plan do not terminate if remarriage takes place at age 55 or thereafter. In addition, we note that Social Security survivors' benefits do not terminate if remarriage takes place at age 60 or thereafter. The proposed amendment would thus better align DIC benefits with benefits provided to surviving spouses of military retirees under DoD's Survivor Benefit Plan and to surviving spouses under the Social Security program.

This amendment is subject to the PAYGO limitations of the Omnibus Budget Reconciliation Act of 1990. If enacted, it would increase direct spending in VA benefits programs. VA estimates that enactment of this provision would result in benefit costs of $269 million for the five-year period Fiscal Year (FY) 2003 through FY 2007 and $749 million for the ten-year period FY 2003 through FY 2012.

H.R. 2095

The next bill I will discuss, Mr. Chairman, is H.R. 2095. This measure would reduce the VA home loan funding fee paid by Reservists to the same level at most other veterans. VA supports this proposal to eliminate the additional .75 percent of the loan amount currently imposed on Reservists to obtain VA housing loan benefits.

In 1992, the Congress granted VA housing loan entitlement to persons whose only military service was in the Selected Reserve (including the National Guard). To be eligible for these benefits, Reservists must have completed 6 years of honorable service in the Selected Reserve, or have been released earlier for a service-connected disability. Entitlement for Reservists sunsets September 30, 2009. In most cases, Reservists pay a funding fee that is .75 percent higher than the fee charged veterans who served on extended active duty. For example, Reservists who have never used VA housing benefits before would pay a 2.75 percent fee to obtain a no-downpayment loan to purchase a home. Generally, veterans with qualifying active duty would pay a 2 percent fee to obtain the same loan. Veterans entitled to compensation for service-connected disabilities are exempt from the fee.

Under H.R. 2095, Reservists would pay the same fee currently charged other veterans.

In recent years, there has been an increased emphasis on the use of Reservists as part of the Armed Forces actively employed for national defense. Many members of the Reserves and National Guard were activated following the terrorist attacks of September 11, 2001. They have played and continue to play a vital role in support of our active forces and in homeland security. In addition, Reservists have been deployed to other trouble spots around the world such as Bosnia, Kosovo, and the Persian Gulf. In recognition of the importance of the Selected Reserve to our current defense efforts, VA supports this measure.

VA estimates that enactment of H.R. 2095 would result in PAYGO costs of approximately $3.27 million in the first year and approximately $32.66 million through FY 2009.

H.R. 2222

Mr. Chairman, VA supports the enactment of H.R. 2222. This bill would make improvements to various life insurance programs for veterans. The bill's estimated PAYGO costs are $93.9 million over five years.

Section 2 of H.R. 2222 would authorize the payment of unclaimed National Service Life Insurance (NSLI) and United States Government Life Insurance (USGLI) proceeds to an alternate beneficiary.

Under current law, there is no time limitation under which a named beneficiary of an NSLI or USGLI policy is required to file a claim for proceeds. Consequently, when the insured dies and the beneficiary does not file a claim for the proceeds, VA is required to hold the unclaimed funds indefinitely in order to honor any possible future claims by the beneficiary. VA holds the proceeds as a liability. While extensive efforts are made to locate and pay these individuals, there are cases where the beneficiary simply cannot be found. Under current law, we are not permitted to pay the proceeds to a contingent or alternate beneficiary unless we can determine that the principal beneficiary predeceased the policyholder. Consequently, payment of the proceeds to other beneficiaries is withheld.

A majority of the existing liabilities of unclaimed proceeds were established over ten years ago. As time passes, the likelihood of locating and paying the principal beneficiary becomes more remote. In fact, the older the liability becomes, the more unlikely it is that it will ever be paid even though other legitimate heirs of the insured have been located.

Section 2 of H.R. 2222 would grant the Secretary authority to authorize payment of NSLI and USGLI proceeds to an alternate beneficiary when the proceeds have not been claimed by the named beneficiary within two years following the death of the policyholder or within two years of this bill's enactment, whichever is later. The principal beneficiary would have two years following the death of the insured to file a claim.

Afterwards, a contingent beneficiary would then have two years to file a claim. Payment would be made as if the principal beneficiary had predeceased the insured. If there were no contingent beneficiary to receive the proceeds, payment would be made to those equitably entitled, as determined by the Secretary. As occurs under current law, no payment would be made if payment would escheat to a State. Such payment would be a bar to recovery of the proceeds by any other individual.

Section 2 of the bill would apply retroactively as well as prospectively, and is similar to the time-limitation provisions of the Servicemembers' and Veterans' Group Life Insurance programs and the Federal Employees Group Life Insurance program.

Insofar as payment to beneficiaries is made from the insurance trust funds, there are no direct appropriated benefit costs associated with this section of the bill. The liabilities are already set aside and would eventually be paid, either as payment to beneficiaries that eventually claim the proceeds, or released from liability reserves and paid as dividends.

There are approximately 4,000 existing policies in which payment has not been made due to the fact that we cannot locate the primary beneficiary, despite extensive efforts. Over the years, the sum of moneys held has aggregated to approximately $23 million. On a yearly basis, about 200 additional policies (with an average face value of $9600, or approximately $1.9 million annually) are placed into this liability because the law prohibits payment to a contingent beneficiary or to the veteran's heirs. It is estimated that approximately two-thirds of the 4,000 policies will eventually be paid as a result of this legislation. Additionally, in anticipation of the fact that VA will not be able to pay about one-third of these policies, nearly $7 million has already been released to surplus and made available for dividend distribution.

VA estimates that the enactment of this section would result in PAYGO costs of $15 million during FYs 2003-2007 and a total of $25 million during FYs 2003-2012.

Adjudication of these 4,000 policies would entail administrative costs of approximately $154,000, representing two full-time employee equivalence (FTE) in claims processing and support. Approximately 94 percent of this cost would be reimbursed to the Veterans Benefits Administration’s General Operating Expense (GOE) account from the surplus of the trust funds, leaving about $9,000 in government costs (which assumes that about six percent of the policies are Service-Disabled Veterans Insurance, which has no surplus and for which appropriated funds are used to cover administrative costs).

Section 3 of H.R. 2222 would reduce the premium rates for Service-Disabled Veterans Insurance (S-DVI) by prospectively changing the mortality table upon which premiums are based. The S-DVI program was intended to provide service-disabled veterans with the ability to purchase insurance coverage at "standard" premium rates. S-DVI premiums are currently based on an old mortality table, i.e., the 1941 Commissioners Standard Ordinary (CSO) Mortality Table with 2.25 percent interest. In 1951, when this program began, these premium rates were competitive with commercial insurance policy rates. Insofar as life expectancy has significantly improved over the past fifty years, a more recent mortality table would reflect lower mortality and, hence, lower premium rates. Section 3 would provide that S-DVI premiums be based on the 1980 CSO Basic Mortality Table with an interest rate of five percent. While just changing to a more recent mortality table would assist new entrants into the program, it would not render any assistance to those already insured under the program unless the new mortality table, with its inherent lower premiums, was made available to them also.

Section 3 of this bill would provide service-connected disabled veterans parity with the average American's ability to purchase adequate amounts of life insurance at competitive rates. This section of H.R. 2222 would ensure that service- connected disabled veterans have the ability to obtain life insurance at standard premium rates without regard to their physical disabilities. Our goal is to provide insurance protection to veterans who have lost their ability to purchase commercial insurance at standard (healthy) rates because of their service-connected disabilities. Participants receive a subsidy equal to the difference between the premiums they pay – which account for age but not disabilities – and the actual cost of coverage.

VA estimates that the enactment of section 3 of H.R. 2222 would result in PAYGO costs of $66 million during FY 2003-2007 and a total of $150.7 million during FYs 2003-2012.

Section 4 of H.R. 2222 would increase the maximum coverage under the Veterans' Mortgage Life Insurance (VMLI) program to $200,000. VMLI provides mortgage life insurance coverage to certain severely service-disabled veterans who have received specially-adapted housing grants 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.

The maximum amount of mortgage life insurance was last increased on December 1, 1992, when it was raised from $40,000 to $90,000. This resulted in the VMLI program covering a high percentage (91 percent) of the total mortgage balances that these severely disabled veterans held. With the increase in housing costs over the past nine years, the percentage of total mortgage balances covered has decreased significantly.

As of the start of this fiscal year, the VMLI program was providing $201 million of coverage while the outstanding mortgage balances for these veterans totaled $255 million. The coverage percentage has declined from 91 percent to 79 percent. This points to the inadequacy of the VMLI current maximum of $90,000. If the maximum coverage amount were increased to $200,000, the program would cover 98 percent of the total mortgage balances outstanding. The need for the increase is even more compelling if viewed from the perspective of the number of veterans in the VMLI program who have their entire mortgage balances insured. At the current level of $90,000, only 62 percent of participants have their entire mortgage balance covered. This means that in 38 percent of the cases, if the veteran died, the survivors would still have mortgages remaining on their homes. If the maximum were raised to $200,000, 98 percent of participants would be able to have their mortgages fully covered.

The VMLI program is subsidized with appropriated funds since these veterans are charged standard premium rates. An increase in the maximum coverage amount to $200,000 would affect 1,286 of the 3,385 veterans covered by the program. While the premiums charged these veterans would increase, the subsidy required from the government would also rise. A consulting team of Systems Flow, Economic Systems, Macro International, and Hay Group recently completed a *Program Evaluation of Benefits for Survivors of Veterans with Service-Connected Disabilities*, and many of the provisions of the proposed bill, including the provisions of this section, are consistent with the recommendations of that evaluation.

VA estimates that the enactment of section 4 of H.R. 2222 would result in PAYGO costs of $10.8 million during FYs 2003-2007 and a total of $28.4 million during FYs 2003-2012.

Section 5 of H.R. 2222 would provide that Veterans' Mortgage Life Insurance (VMLI) may be carried by the insured beyond age 70, but would limit new issues to ages 69 and below. These policy provisions are fairly comparable to those of commercial life insurance policies, except for the VMLI provision that coverage terminates at age 70. As part of the *Program Evaluation of Benefits for Survivors of Veterans with Service-Connected Disabilities*, the contracting company, Systems Flow, compiled a report, "VA Insurance and DIC Programs - Profile of Users and Non-Users and Beneficiaries," of the VA insurance and DIC programs. This report included a finding that, among users whose VMLI insurance was terminated, 12 percent of them had their insurance terminated due to their reaching age 70. Because of such terminations, VA is not providing financial security to the veterans' families.

Insofar as premium income for the VMLI program only covers about 25 percent of claims costs, this is a relatively heavily subsidized program. However, since it is only open to a small group of veterans (those eligible for specially-adapted housing), the increase in the subsidy to allow coverage past age 70 is relatively nominal. The provisions of this section are consistent with the recommendations of the before-mentioned Program Evaluation Report.

VA estimates that the enactment of section 5 of H.R. 2222 would result in PAYGO costs of $2.1 million during FYs 2003-2007 and a total of $5.3 million during FYs 2003-2012.

H.R. 3731

The final bill I will be discussing today, Mr. Chairman, is H.R. 3731. This bill provides for an increase in the annual limit on funds available to compensate State approving agencies (SAA's) for work undertaken on behalf of VA, including approving educational institutions and programs for which veterans and other entitled participants receive VA-administered education benefits. VA supports this bill.

H.R. 3731 would increase the annual limit on funds available to compensate SAA's from $14,000,000 in FY 2002 to $18,000,000 in FY 2003. The amounts for FYs 2004 and 2005 would increase by 3 percent each year ($18,540,000 in 2004, $19,096,000 in 2005). Funding for FY 2006 and each succeeding fiscal year would remain fixed at the FY 2005 level. (If there is no change to the current law, the $14,000,000 level of funding will revert to $13,000,000 for FY 2003 and thereafter.) This bill also specifies that the various SAAs would receive the same proportion of payments under the newly allocated funding limits as they would receive if those funding limits did not exist.

Because of the cost-of-living pay increases mandated by State law, salaries for State employees have gone up since the last SAA funding increase in 1994. Additionally, over the last two years, the SAAs have been called upon to perform new and time-consuming duties as part of their mission. For example, Public Law 106-419, enacted on November 1, 2000, initiated the licensing and certification test payment program and allowed VA to delegate the approval responsibility under the program to the SAAs. The SAAs accepted this additional responsibility even though it was not covered in their contracts.

In recent years, a number of SAAs have worked closely with private industry and State and local governments to encourage placement of veterans in apprenticeship and on-job training programs. However, many other SAAs that wanted to do more outreach could not do so due to a lack of resources. Now, newly-enacted Public Law 107-103 requires SAAs, in addition to VA, to actively promote the development of VA programs of on-job training (including apprenticeship programs). Furthermore, that law requires SAAs to conduct outreach programs and provide outreach services to eligible persons and veterans about education and training benefits available under applicable Federal and State laws. Clearly, increased funding is needed to enable the SAAs to carry out these additional duties effectively .

VA estimates that enactment of this provision would result in PAYGO costs of $5 million for FY 2003, $29 million for the five-year period FY 2003 through FY 2007, and $59 million for the ten-year period FY 2003 through FY 2012.

Thank you, Mr. Chairman. I will be pleased to answer any questions you or other members of the Subcommittee may have.