

BY THE COMPTROLLER GENERAL  
Report To The Chairman,  
Committee on Veterans' Affairs,  
United States House Of Representatives  
OF THE UNITED STATES

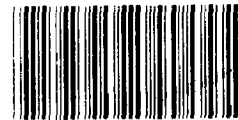
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Problems In Administering The  
Servicemen's Group Life Insurance Program  
In The Ready Reserve

A large number of reservists in the Servicemen's Group Life Insurance Program are receiving free insurance coverage at the expense of other members because the law has no provision to cancel coverage for members who do not pay their premiums. Although the program is financially sound, some of the services are not forwarding premiums to the Veterans Administration for members who are not making payments as they are legally required to do. Also, some of the services need to improve their billing and collection systems. The services and the Veterans Administration have had continuous problems determining the eligibility of some Ready Reservists for the program.

Because inflation has eroded the value of insurance coverage, GAO believes that the Veterans Administration should study the possibility of increasing insurance benefits and make any necessary recommendations to the Congress.

This report recommends that the Congress amend the Veterans Insurance Act to create a more clearly defined and equitable program.



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MAY 1, 1980

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

B-198153

The Honorable Ray Roberts  
Chairman, Committee on  
Veterans' Affairs  
House of Representatives

*HSE03900*

Dear Mr. Chairman:

In response to your request of August 7, 1979, we are submitting our report, "Problems in Administering the Servicemen's Group Life Insurance Program in the Ready Reserve." The report makes a number of recommendations to correct the problems identified.

*AGC000005*

We discussed the report with the Department of Defense and the Armed Services. We obtained official comments from the Department of Transportation (Coast Guard) *AGC000006* *AGC000007* *DLG04590* the Veterans Administration, and the Prudential Insurance Company. The Department of Defense and the services generally agreed with the report findings and recommendations. The Veterans Administration had reservations about the implementation of some of the recommendations and believed the issues of eligibility, increased insurance coverage, and termination of insurance coverage for nonpayment of premiums should be handled by the Department of Defense.

*AGC000006*

*AGC000007*

We are sending copies of this report to the Secretary of Defense, the Secretaries of the Armed Services, and the Administrator of Veterans Affairs. As your office requested, we will not distribute the report further until the Committee hearings. At that time we will send copies to interested parties and to others upon request.

Sincerely yours,

Comptroller General  
of the United States

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D I G E S T

The Veterans Administration (VA) and the uniformed services have had problems administering the Servicemen's Group Life Insurance Program and determining the eligibility of some reservists since the Veterans Insurance Act of 1974 extended coverage to members of the Ready Reserve. The Congress needs to amend the act to make it easier for the VA and the services to administer the program.

PROBLEMS IN ADMINISTERING THE PROGRAM

The program is reported to be in a good financial position and has a contingency reserve of \$138.3 million. However, delinquent premiums exceed \$1.3 million for 13 percent of the reservists currently participating in the program. GAO could not determine the extent of delinquent premiums for separated members because the services do not maintain this data. However, it is estimated that, in the Navy alone, members separated and indebted for insurance could owe as much as \$3.3 million. (See pp. 4 to 6 and p. 11.)

Even though the amount of delinquent payments is substantial, the program has sufficient funds to allow for a possible rate reduction. Presently, VA is considering such a move. VA should consider that inflation has eroded the value of the \$20,000 coverage established in 1974 to the point where the value of the policy is now about \$13,000. VA may want to propose to the Congress an increase in insurance benefits. (See pp. 4 and 5.)

(FPCD-80-45)

Reservists who do not pay premiums cannot be denied insurance because the law provides automatic coverage for \$20,000 unless the members elect to decline or reduce coverage. (See p. 4.)

Insurance programs similar to Servicemen's Group Life generally terminate insurance coverage for those who fail to pay their premiums. For example, the National Guard Associations' group life insurance programs cancel coverage when premiums are 4 or more months in arrears. GAO believes that the law should be amended to allow the services to terminate members' coverage if they fail to pay premiums.

The law requires the services to deduct sufficient funds from their appropriations to pay the premiums for all participating Ready Reservists and forward these funds to VA. But only the Marine Corps and Coast Guard comply with this requirement. The other services forward only the actual premiums they collect.

On two occasions VA has directed the services to submit all funds due. The Army, Navy, and Air Force have not complied because they believe the program is intended to be self-supporting and should not be subsidized by the Government. The services should obviously comply with the statutory requirement that they forward to VA sufficient funds to cover all premiums. However, GAO agrees with the position that the program should be self-supporting and recommends actions aimed at this objective.

For reservists in a pay status, the services deduct insurance premiums from drill pay. Pay-status reservists, however, owe more than \$985,000 in premiums, of which \$462,000 is 4 or more months delinquent. Some of these reservists may have quit voluntarily, yet are carried on unit rolls to inflate manpower strength figures. This problem was discussed in a previous GAO

report, "Army Guard and Reserve Pay and Personnel Systems are Unreliable and Susceptible to Waste and Abuse" (FPCD-80-30, Jan. 28, 1980.)

Reservists in a nonpay status--drilling for retirement credits--are required to pay premiums directly to the services. The Army's and Navy's systems for accounting, billing, and collecting premiums for these reservists have some deficiencies. For example, the Army does not bill for delinquent payments. The Navy's accounting system, on the other hand, contains members who have separated from the Naval Reserve, and they are being billed as if they were participating in the program.

#### PROBLEMS IN DETERMINING ELIGIBILITY

Although the present program has been in effect for almost 6 years, there is still some doubt and confusion in determining eligibility for some members in the Ready Reserve drilling for retirement points only and for new enlistees awaiting basic training. This is due mainly to a problem of interpreting a certain section of the law which bases eligibility on a member being scheduled to perform at least 12 periods of inactive duty training.

The law does not stipulate whether members in a nonpay status are required to perform scheduled periods of inactive duty training. The services have expressed concern about the lack of an obligation by these members scheduled for training. The Air Force obtains written commitments from members scheduled for training, but the commitments are not legally binding. (See pp. 17 to 18.)

New enlistees awaiting basic training may be offered coverage, depending on their drill status and the individual service's

policy. The Army National Guard and the Army Reserve offer coverage to new members awaiting basic training, regardless of pay status or nonpay drill status. The other services offer coverage only to those in a pay status, except the Air Force which does not offer coverage to any new enlistees. The National Guard believes that these individuals should be covered, regardless of their pay status. VA, however, disagrees that new enlistees in a nonpay status should be covered. (See pp. 14 to 17.)

#### RECOMMENDATIONS

The Congress should revise the Veterans Insurance Act to

- terminate insurance coverage for members that fail to pay their premiums and
- delete the provision of the law requiring the services to forward funds from their appropriations to cover all reservists participating in the program. (See p. 12.)

In addition, the Administrator of Veterans Affairs should submit to the House Committee on Veterans' Affairs his recommendations concerning

- an appropriate grace period for paying premiums before insurance coverage is cancelled;
- the possibility of raising the insurance benefits ceiling;
- the clarification of whether new enlistees awaiting basic training should be eligible for Servicemen's Group Life Insurance; and
- the clarification of whether individuals scheduled to perform inactive duty training



should also be obligated to perform and complete this training to maintain eligibility. (See pp. 12 and 18.)

Finally, GAO recommends that the Secretaries of the military departments and the Secretary of Transportation evaluate the adequacy of their accounting and administrative procedures for billing and collecting premiums from non-pay-status reservists participating in the program. (See p. 12.)

#### AGENCY COMMENTS

The Department of Defense, the uniformed services, and the Coast Guard concur with GAO's recommendations. VA agrees that the present Servicemen's Group Life Insurance law needs change but believes that the initiative for such change should be Department of Defense's responsibility.

We believe that VA, as the supervisor and policyholder of the Servicemen's Group Life Insurance Program, should take the lead in proposing needed changes to the Servicemen's Group Life Insurance law.



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ABBREVIATIONS

GAO	General Accounting Office
NFC	Naval Finance Center
OSGLI	Office of Servicemen's Group Life Insurance
RC-PAC	Reserve Components - Personnel and Adminis- tration Center
SGLI	Servicemen's Group Life Insurance
VA	Veterans Administration
VGLI	Veterans Group Life Insurance

## CHAPTER 1

### INTRODUCTION

In August 1979 the House Committee on Veterans' Affairs asked us to evaluate the effectiveness of the administration of the Servicemen's Group Life Insurance (SGLI) program relating to Ready Reservists and to determine if legislative changes were needed to better manage the program. (See app. I.)

The SGLI program was established by Public Law 89-214 on September 29, 1965. The initial program provided \$10,000 of group life insurance coverage to all active duty members of the uniformed services, the Commissioned Corps of the United States Public Health Service, and the National Oceanic and Atmospheric Administration. In June 1970 the program was amended to increase maximum coverage to \$15,000 and provide part-time coverage to reservists only during periods of actual training. In 1972 SGLI coverage was extended to cadets and midshipmen of the service academies.

The latest amendment, the Veteran's Insurance Act of 1974 (Public Law 93-289, effective May 24, 1974), increased the maximum coverage to \$20,000 and provided full-time coverage to members of the Ready Reserve and members eligible for assignment to the Retired Reserve. Furthermore, the amendment established a new program for members released from active duty which provides for converting SGLI to a 5-year nonrenewable policy known as Veterans Group Life Insurance (VGLI).

The SGLI program is to be self-supporting during peacetime--all normal costs are to be paid by participating members. In times of war the Government is to pay the cost of all death claims exceeding the level of death claims which would have resulted during normal peacetime service.

### PROGRAM ADMINISTRATION

The principal parties involved in administering the SGLI program are the Veterans Administration (VA), the Uniformed Services, and the Prudential Insurance Company.

VA is responsible for the overall supervision of the SGLI program. It negotiated a group insurance policy with Prudential and has legal authority to determine who is eligible and covered under the program. Its other functions include establishing premium rates in consultation with

Prudential, collecting premiums from the services and forwarding the funds to Prudential, and providing forms and pamphlets needed for the program. VA is not responsible for collecting individual premiums.

The Prudential Insurance Company is responsible for insuring the servicemen and for processing and paying benefit claims. To carry out the program, Prudential established the Office of Servicemen's Group Life Insurance (OSGLI) at its Newark, New Jersey, office.

The uniformed services are responsible for notifying individuals of their eligibility and coverage under SGLI, collecting and accounting for premiums, and forwarding collections to VA. The law requires the services to forward sufficient funds to VA to pay the premiums for all members covered. Also, the services are to notify OSGLI about the deaths of insured members and the status of their premium payments.

#### RESERVES' PARTICIPATION IN THE SGLI PROGRAM

The Veterans Insurance Act of 1974 extended full-time SGLI coverage to members of the Ready Reserve. This includes members who are required to perform active duty, active duty for training, or who are scheduled for 12 or more periods of inactive duty training that is creditable for retirement purposes. Inactive duty training is usually performed monthly during four consecutive 4-hour drills on a selected weekend at Reserve centers. Active duty for training usually includes 2 weeks of summer camp and other training at service schools.

The Ready Reserve is divided into the Selected Reserve and the Individual Ready Reserve. As of September 30, 1979, there were about 1.2 million Ready Reservists--about 819,000 in the Selected Reserve and 403,000 in the Individual Ready Reserve. The services provided us the following data on the number of Ready Reservists participating in SGLI.

<u>Branch</u>	<u>Total Ready Reservists</u>	<u>Participants in SGLI</u>
Army Reserve and National Guard	741,834	505,251
Air Force Reserve and Air National Guard	194,502	166,550
Marines	92,497	30,822
Navy	173,809	89,887
Coast Guard	<u>19,753</u>	<u>11,227</u>
Total	<u>1,222,395</u>	<u>803,737</u>

Reservists that participate in the SGLI program may be authorized to drill for pay and/or retirement points without pay. These reservists are classified in training pay categories as shown in appendix II. A chart showing SGLI eligibility in relation to the various training categories is included in appendix III. Most reservists that participate are in a "pay" status and normally drill one weekend each month, performing between one and four drills during that weekend. Reservists in a "nonpay" status include both prior-service and non-prior-service members. Prior-service members are reservists who drill for retirement credits only. Non-prior-service members are new enlistees either in or awaiting basic training.

#### SCOPE OF REVIEW

We conducted our review at (1) VA, Washington, D.C., and the Veterans Administration Center, Philadelphia, Pennsylvania, (2) United States Army Finance and Accounting Center, Ft. Benjamin Harrison, Indiana, (3) Army Reserve Components Personnel and Administration Center, St. Louis, Missouri, (4) Air Force Accounting and Finance Center, Denver, Colorado, (5) Naval Finance Center, Cleveland, Ohio, (6) Prudential Insurance Company, Newark, New Jersey, (7) the Pentagon, Washington, D.C., and (8) U.S. Coast Guard, Washington, D.C.

At these sites, we interviewed officials responsible for administering SGLI; reviewed the collection and billing procedures implemented by the services in administering the program; and obtained and reviewed data concerning the financial status of the program (we did not verify this data), the number of reservists who participate in the program, the number who are delinquent in premium payments, and the number of cases where benefits were paid to beneficiaries of members whose premiums were delinquent.

## CHAPTER 2

### IS THE SGLI PROGRAM BEING EFFECTIVELY ADMINISTERED?

The SGLI program is in a good financial position with a large contingency reserve of \$138.3 million. VA is considering reducing the reserve surplus by lowering premium rates. Since the maximum \$20,000 coverage is now worth about \$13,000 in 1974 dollars, VA may want to consider the possibility of raising the maximum coverage.

Although the SGLI program is reported to be financially sound, VA and the uniformed services are experiencing some problems administering the program in the Ready Reserve. According to information provided by the services, as of September 30, 1979, about 13 percent of the 803,700 reservists participating in the program were delinquent and owed premiums exceeding \$1.3 million. The extent of delinquent premiums for members who have separated from the services could not be determined because of insufficient records.

Ready Reservists who continually fail to pay premiums cannot be denied SGLI coverage under the law because reservists eligible for the insurance are automatically covered for \$20,000 unless they formally decline or reduce the coverage. Reservists that neglect to pay their premiums are receiving free insurance at the expense of those members who are paying their premiums in good faith. Therefore, we believe the law should be amended to allow the services to terminate insurance coverage to members not paying premiums.

The law requires the services to forward to VA sufficient funds from their appropriations to pay the premiums for all Ready Reservists insured under SGLI. The Marine Corps and Coast Guard, however, are the only services meeting this requirement. The other services maintain that the program is intended to be self-supporting and should not be subsidized by the taxpayers; therefore, they forward to VA only actual premiums collected. We agree that the program should be self-supporting and that appropriated funds should not be used to subsidize the program.

### FINANCIAL STATUS OF THE SGLI PROGRAM

At the end of policy year 1979 (June 30), VA reports that the SGLI program had a contingency reserve of \$138.3 million--an increase of \$24.8 million from 1978. In 1979 approximately \$105 million was collected from the



Active and Ready Reserve forces \$83.1 million was paid out in death benefits, and \$1 million was used to pay VA administrative costs.

The law permits funds to be transferred from the SGLI program to the VGLI program and the Retired Reserve SGLI program. At the end of policy year 1979 for example, \$45.1 million had been transferred from the SGLI program to VGLI, and \$24 million had been transferred to the Retired Reserve SGLI program. These transfers were used to cover excess benefit claims and administrative costs over premium collections in both the VGLI and Retired Reserve SGLI programs.

Because of the financial status of the SGLI program, VA is considering another premium reduction. In July 1978, for example, VA reduced the \$3.40 monthly premium for the \$20,000 coverage, to \$3 a month, or \$36 a year. VA should consider that inflation has eroded the value of the \$20,000 coverage established in 1974 to the point where the value (using 1974 dollars) of the policy is \$13,000. Therefore, VA may want to consider proposing to the Congress an increase in the amount of coverage.

#### THE PROBLEM OF PREMIUM DELINQUENCY

Data provided by the services indicates that 13 percent of the pay-status reservists and 60 percent of the non-pay-status reservists who participate in the program are 1 month or more behind in their premium payments. As the tables show, approximately 91,850 pay-status reservists and 10,800 non-pay-status reservists owe \$985,000 and \$325,000, respectively.

<u>Service</u>	<u>Pay-status reservists</u>			
	<u>Number of participants</u>	<u>Number delinquent</u>	<u>Amount</u>	<u>4 or more months delinquent</u>
Army	499,443	75,604	\$789,293	\$358,770
Air Force	165,201	(a)	(a)	(a)
Marines	29,476	(a)	39,039	(a)
Navy	83,513	15,900	155,687	103,556
Coast Guard	<u>7,961</u>	<u>350</u>	<u>1,050</u>	<u>330</u>
Total	<u>785,594</u>	<u>91,854</u>	<u>\$985,069</u>	<u>\$462,656</u>

a/These data elements were not provided by the services.

<u>Service</u>	<u>Non-pay-status reservists</u>			
	<u>Number of participants</u>	<u>Number delinquent</u>	<u>Amount</u>	<u>4 or more months delinquent</u>
Army	5,808	2,846	\$ 99,179	\$ 97,040
Air Force	1,349	36	528	374
Marines	1,346	398	5,661	3,175
Navy	6,374	4,413	168,307	154,205
Coast Guard	<u>3,266</u>	<u>3,115</u>	<u>51,758</u>	<u>30,755</u>
Total	<u>18,143</u>	<u>10,808</u>	<u>\$325,433</u>	<u>\$285,549</u>

We requested SGLI data for Ready Reservists from the time the program began to September 30, 1979. None of the services were able to provide data back to 1974. In addition the data in the table is for differing time periods for each service.

We did not test the data's reliability and completeness. However, we recently issued two reports on the Army and Navy Reserve pay and personnel systems (FPCD-80-30, Jan. 25, 1980, and FPCD-79-12, Mar. 6, 1979). These reports show that the pay and personnel systems do not have adequate controls and do not provide current and accurate information.

The services attribute the high rate of delinquent premiums to the legislative provision which provides automatic coverage for eligible reservists but does not provide a remedy for reservists who do not pay their premiums.

According to the SGLI law, if members die before paying premiums, premiums will be deducted from insurance proceeds awarded to beneficiaries. Prudential informed us that, during 1978 and 1979, it deducted premiums from proceeds of 274 reservists who died with SGLI premiums in arrears for 4 or more months. One reservist had not paid premiums for 3-1/2 years at the time of his death.

Insurance programs similar to SGLI generally have provisions for cancelling insurance of members who do not pay premiums. This is true for the National Guard Association which sponsors life insurance programs in over 30 States. Insurance premiums for the National Guard Association's programs are deducted monthly from guardsmen's drill pay by the Army and Air Force finance centers. These centers notify State associations when a guardsman's premiums are 4 months in arrears. The associations then notify delinquent members that they must pay their premium balances or their coverage will be cancelled. According to association officials, this procedure has been effective in keeping premium delinquencies at a minimum.

In the VGLI and the Retired Reserve SGLI programs, participants are required to submit their premiums directly to OSGLI. If a member fails to pay premiums within 31 days after the due date, the member's life insurance coverage is lapsed. Service officials believe that a similar provision should be incorporated in the SGLI law for Ready Reservists. Such a provision would alleviate delinquency problems. We agree and believe the law should be changed to allow the services to terminate insurance of those members who do not pay premiums. We also believe a termination provision should include a reinstatement policy.

PROGRAM FUNDING NOT IN  
ACCORDANCE WITH THE LAW

The SGLI law requires the services to deduct from their appropriations and forward to VA sufficient funds to pay the premiums for all Ready Reservists covered by the insurance. The services are required by law to reimburse their appropriations by collecting premiums from covered reservists. As mentioned previously, only the Marine Corps and Coast Guard forward premiums to VA in this manner. The other services forward only the actual funds collected.

This problem was discussed at a SGLI conference in April 1978. VA's representative informed the services that "payments to the VA should be made on actual onboard strengths and no deductions should be taken for those individuals who fail to make premium payments." In October 1979 the Director of the Veterans Administration Center in Philadelphia sent a letter to the Department of Defense stating that it is the services' responsibility to pay the premiums for those members who are not making payments.

The Army, Navy, and Air Force have not complied with VA's request because they maintain that the SGLI program is intended to be self-supporting and should not be subsidized by the services. We agree with this position and believe the law should be changed to allow the services to transfer to the SGLI fund only premiums collected.

SERVICES' COLLECTION AND BILLING  
SYSTEMS COULD BE IMPROVED

All services deduct SGLI premiums from the drill pay of pay-status reservists. When a reservist does not drill, the SGLI debt is carried forward and collected from the reservist's next available pay. Data provided by the services showed premiums of \$985,000 in arrears from pay-status reservists, of which \$462,600 was delinquent 4 or more months as of October 1979. It is possible that a large portion of these premiums are due from reservists who have continually missed drills yet are carried on unit rolls by commanders. These members may have actually quit the Reserves but may have been kept on unit rosters for manpower strength purposes. Therefore, even though they have ceased drilling, they maintain their SGLI coverage.

We discussed the problem of nonparticipating reservists in our January 28, 1980, report entitled "Army Guard and Reserve Pay and Personnel Systems are Unreliable and Susceptible to Waste and Abuse" (FPCD-80-30). The report stated:

"\* \* \* more than 10,000 Army guardsmen and 5,000 Army reservists missed all of their drills during the first half of fiscal year 1979, and another 24,000 guardsmen and 10,800 reservists missed half or more of their drills during the same period. These 49,800 infrequently drilling guardsmen and reservists amount to about 10 percent of the Guard Force and 8.5 percent of the Reserve Force."

The report showed that members who fail to regularly attend drills are eventually separated and indebted for SGLI premiums.

In contrast to pay-status reservists, non-pay-status reservists are required to pay their SGLI premiums directly to the services. Each service has different accounting and collection systems for these individuals. The Army and Navy have experienced some problems in billing and collecting SGLI premiums from non-pay-status reservists. Air Force, Marine Corps, and Coast Guard officials said they have not experienced major problems, but we did not evaluate or test the adequacy of their established procedures.

### Army

The Army's accounting system for non-pay-status reservists is maintained by the Reserve Components-Personnel and Administration Center (RC-PAC) in St. Louis, Missouri. At the beginning of each year, RC-PAC mails each non-pay-status member participating in the SGLI program 12 premium payment coupons. The individuals are to designate the amount of coverage and submit their payments on a monthly, quarterly, or yearly basis at their discretion.

RC-PAC does not notify members who are delinquent in premium payments. According to RC-PAC officials, their automated system cannot provide data on the total amount of delinquent SGLI premiums beyond 18 months. The data provided us as of September 30, 1979, showed 5,808 non-pay-status reservists were participating in the SGLI program, and 2,846 of them owed a total of approximately \$99,200. RC-PAC officials acknowledged that their present system of accounting and billing for SGLI premiums for non-pay-status reservists was inadequate and stated that they have begun to improve the system.

As premiums are collected, RC-PAC forwards them to the Army's Finance and Accounting Center. RC-PAC officials were unaware of statutory provisions requiring them to forward funds sufficient to pay the premiums for all reservists covered by SGLI.

### Navy

The Navy also has substantial problems administering the SGLI program. The SGLI system for the Naval Reserve is administered at the Naval Finance Center (NFC) in Cleveland,

Ohio. SGLI information for reservists is recorded and maintained on two separate data files. SGLI premiums are deducted monthly from pay-status reservists' drill pay and are recorded on the Naval Reserve drill pay master file. A second file, the SGLI master file, maintains a record of premiums deducted from reservists in a pay status and maintains a record of SGLI amounts due and paid by reservists drilling in a nonpay status. The SGLI master file is used to bill all non-pay-status reservists participating in the program.

Using the SGLI master file, NFC bills non-pay-status reservists in 6-month cycles. In fiscal year 1979, NFC mailed 14,788 notices during its first billing cycle and received payment from 4,250 reservists (29-percent response rate). During the second cycle, NFC sent 10,839 followup bills and received an additional 1,317 payments. Of the 15,089 reservists billed for the year, 5,567 reservists (37 percent) paid all or some portion of premiums due. Thus, 9,522 naval reservists (63 percent) did not acknowledge SGLI bills during fiscal year 1979.

On two different occasions, February 1979 and November 1979, we asked NFC officials to give us the number of non-pay-status reservists whose premiums were delinquent. They first told us that, as of November 1978, 19,923 non-pay-status reservists owed more than \$3.3 million in SGLI debts. In their second response, they told us that, as of November 1979, 6,374 non-pay-status reservists participated in SGLI and 4,413 of these owed \$168,300 in delinquent premiums.

We questioned NFC officials on the large discrepancy between (1) the number and amount of delinquencies in arrears as of November 1978 in comparison to November 1979 and (2) the number of billing notices mailed in fiscal year 1979 as opposed to the number of non-pay-status reservists participating in SGLI in fiscal year 1979. NFC officials responded to the disparities in delinquent accounts by stating that a number of reservists on the SGLI master file no longer participate in the Reserve program. However, their removal from the SGLI master file has been impeded because termination dates were not received from the Naval Reserve Personnel Center and, in some instances, were not posted to the SGLI master file when received by NFC. If a termination date was not received or not posted, reservists remained on the SGLI master file and each month the amount due continued to accumulate on their account. As a result, over a period of time these delinquent balances became excessive, totaling \$3.3 million when the file was queried in September 1978.

In summary, the data NFC provided us as of November 1979 (\$168,300) represents the amounts owed by members the Navy identified as being in a nonpay status. (See p. 6.) The data as of November 1978 (\$3.3 million) apparently included a large number of members who had separated from the Navy, but who may or may not be indebted for SGLI premiums. Therefore, the extent of SGLI premiums in arrears for the Navy could range from \$325,000 to \$3.3 million.

Like the Army and Air Force, the Navy does not forward sufficient funds to cover all SGLI participants. Instead, it forwards only actual premiums collected.

### CONCLUSIONS

A large number of pay-status and non-pay-status reservists participating in the SGLI program are behind in their premium payments, but the law does not allow them to be dropped from the program. As a result these individuals are receiving free insurance coverage at the expense of other program participants.

Although the services are not forwarding to VA all premiums owed, the program is currently reported to be in a good financial position. However, inflation has eroded the value of coverage offered servicemen. Therefore, as part of its study on reducing premiums, VA should also study premium rates members would be charged for increased coverage. The current \$3 a month, or \$36 a year, for the maximum \$20,000 coverage is a nominal rate and may not have to be increased for additional coverage.

The Army, Navy, and Air Force are not following the provision of the law requiring them to forward to VA sufficient funds from their appropriations to pay premiums for all Ready Reservists covered by SGLI. These services forward only those premiums actually collected. However, until the law is amended, the services are required to establish accounts receivable and transfer from their appropriations an amount sufficient to cover all participating reservists.

The Army's and Navy's SGLI billing and collection systems for non-pay-status reservists are ineffective and need to be improved. The Army does not send out delinquency notices and cannot provide data on the total amount of premiums owed beyond 18 months. The Navy also has problems in determining the amount of premiums owed and appears to be sending billing notices to members who have separated from the Navy but who may or may not owe SGLI premiums.

## RECOMMENDATIONS

To improve the administration of the SGLI program and to make the program more equitable for all participating members, we recommend that the Congress (1) amend the SGLI law to allow the services to terminate coverage for members who fail to pay their premium payments within an appropriate grace period and (2) delete the provisions of the law requiring services to forward funds from their appropriations to cover all Ready Reservists participating in the program.

To assist the Congress, we recommend that the:

- Administrator of Veterans Affairs submit to the House Committee on Veterans' Affairs his recommendations for an appropriate grace period for paying premiums.
- Administrator of Veterans Affairs study the possibility of increasing SGLI benefits and propose recommendations to the Congress.
- Secretaries of the Armed Services and the Secretary of Transportation evaluate the adequacy of their accounting and administrative procedures for billing and collecting premiums from non-pay-status reservists participating in the program. The systems should be current, accurate, and readily accessible to provide reliable data.

## AGENCY COMMENTS

The Department of Defense, the Uniformed Services, and the Coast Guard agreed with our recommendations. VA, on the other hand, believes that

- a termination provision would eliminate the automatic coverage provision of the SGLI law and increase the administrative burden on the Government and
- most of the proposals for change in the SGLI program should be the Department of Defense's responsibility.

We disagree with VA's contention that terminating an individual's insurance for nonpayment of premiums would eliminate the automatic coverage provision of the law. We are not asking for a change in the automatic eligibility criteria but only that those eligible pay their premiums to meet the self-supporting provision of the law. In this regard, we believe that a termination provision would alleviate delinquency problems, enhance the program's self-supporting nature, and create a more equitable insurance program for those individuals who pay premiums in good faith. Also, while we



recognize that additional resources will be necessary to implement the termination provision of the law, such additional resources are already needed to improve administrative and accounting procedures of the SGLI program.

We also believe that VA, as the supervisor and policyholder of the SGLI program, should take the lead in proposing needed changes to the SGLI law.

## CHAPTER 3

### PROBLEMS IN DETERMINING ELIGIBILITY FOR SGLI

Even though the present SGLI program has been in effect for almost 6 years, there is still some doubt and confusion over the eligibility of certain individuals participating in the program. This has centered around two groups of ready reservists: non-prior-service members awaiting basic training and prior-service members in a nonpay status.

Title 38, United States Code, section 765 (5)(b) allows full-time SGLI coverage to any person who:

"\* \* \* volunteers for assignment to the Ready Reserve of a uniformed service and is assigned to a unit or position in which he may be required to perform active duty, or active duty for training, and each year will be scheduled to perform at least 12 periods of inactive duty training that is creditable for retirement purposes under chapter 67 of title 10." (Under-scoring added.)

According to Army officials, VA has issued several decisions on SGLI coverage for new enlistees which appeared to be based on members' pay status. The Army disagreed that pay status was a criterion for SGLI eligibility. VA officials contend that their decisions were not based on members' pay status but on members' obligation to perform the specified periods of drill training. As a result of the confusion over this issue, some new enlistees in some services are covered by SGLI, while those in others are not. Also, while prior-service members in a nonpay status generally receive SGLI coverage, some of the services have questioned this eligibility for members who are not performing 12 scheduled drills. We believe the law should be amended to more clearly define the eligibility criteria.

#### NEED TO CLARIFY ELIGIBILITY OF NEW ENLISTEES

The Army National Guard and the Army Reserve offer SGLI coverage to new enlistees awaiting basic training, regardless of pay or nonpay drill status. The Air Force does not offer SGLI to any new enlistee. The other services offer SGLI coverage only to those in a pay status. As of September 30, 1979, about 13,100 new reservists were offered SGLI coverage and 2,700 were denied SGLI coverage because of different interpretations of the law by VA and the services.

After the SGLI law was amended in 1974, the Adjutant General of the Army issued a decision which allowed new enlistees in a nonpay status to be automatically eligible for SGLI coverage. In March 1976 the National Guard requested a legal opinion from the VA General Counsel on the eligibility of these members. The National Guard considered these individuals eligible because new enlistees must attend drills while awaiting basic training.

In March 1978 the VA General Counsel ruled that new enlistees awaiting initial active duty training were not eligible for SGLI. This decision stated that, although these service members appeared to meet the statutory requirements, they did not pay any premiums during the time between enlistment and entrance to basic training. Such persons, in VA's opinion, were not eligible even though they may have obligated themselves to perform at least 12 periods of inactive duty training a year. The VA Office of General Counsel stated:

"Although the individuals with whom we are concerned appear to meet the statutory requirements, the legislative history of the act is silent as to whether Congress intended to provide them with full-time coverage from the date of their enlistment. In fact, there is nothing in the history to indicate that Congress was even aware of their unique status prior to their entry on initial active duty for training."

In December 1978 the National Guard solicited another VA General Counsel decision on the basis of a change in Army and National Guard regulations concerning new enlistees. Basically, this change involved allowing these individuals to drill for pay for 90 days before entering basic training. Accordingly, the National Guard wanted to know if these individuals were eligible for SGLI during the 90 days in which they were in a paid drill status and during the interval between the end of the 90 days and entry into basic training. In October 1979 VA issued an administrative decision that allowed these individuals coverage because they are obligated to attend drills, and premiums will be deducted from their pay. VA also ruled that coverage would be extended to these individuals only for 120 days from the time they are separated or released from a paid drill status.

In December 1979 the Army Reserve requested a VA decision on SGLI coverage for new enlistees and other Ready Reservists. This request was specifically initiated to clarify who was eligible. In January 1980, VA responded with an

administrative opinion, stating that all new enlistees were entitled to full-time coverage as long as they fulfilled the requirements of the law, including being scheduled to perform 12 periods of inactive duty training.

Army National Guard and Army Reserve officials at the U.S. Army Finance and Accounting Center claim that this VA opinion further confused the issue because of inconsistencies between the administrative decisions and the March 1978 VA legal opinion. In their view, the inconsistency involves whether SGLI eligibility is based on meeting the schedule to perform criteria of the law or being in a pay status.

Army National Guard officials contend that their enlistees should be eligible for SGLI coverage because they become active duty reservists upon the date of their enlistment. National Guard enlistees who do not immediately enter basic training upon enlistment are delayed only because of the lack of available training slots. For this reason, National Guard officials believe that their enlistees differ from Reserve enlistees of other services who can be subject to delayed enlistment at the enlistees' option.

VA officials stated that five legal cases are pending which involve individuals who died after enlisting but hadn't entered basic training. These individuals had been told of their eligibility for SGLI and had designated beneficiaries who are now attempting to collect benefits. VA denied benefits because the individuals involved did not meet the criteria of the law. In one of the cases, however, a U.S. District Court in Alabama has ruled against the U.S. Government and Prudential by allowing the payment of SGLI proceeds. In this case the National Guard member in question was in a non-pay status from the date of his enlistment in August 1977 to the date of his death in January 1978. During this period, the individual never attended any drill sessions and paid no premiums. However, the Army was debiting members' SGLI account for premiums owed. The Court ruled that SGLI coverage:

"\* \* \* extends to any person who is assigned to a unit (1) which has the requisite amount of inactive duty training annually and (2) in which he may be required to perform active duty or active duty for training. \* \* \* Since the deceased \* \* \* had been assigned to a unit which had the proper amount of inactive duty training and since

he was subject to initial active duty training at any time, this Court is of the opinion that the proper beneficiary is entitled to the \$20,000 proceeds due on the policy."

According to VA officials, the Justice Department is currently appealing this case.

NEED TO CLARIFY ELIGIBILITY CRITERIA  
FOR PRIOR-SERVICE MEMBERS

One criterion for SGLI eligibility is that a Ready Reservist will be scheduled to perform at least 12 periods of inactive duty training each year that is creditable for retirement points. 1/ But, the law does not stipulate that reservists need to perform the scheduled periods of drill training. This situation has created confusion as to whether eligibility for SGLI should be linked to a formal commitment by a Ready Reservist in a nonpay status.

Ready Reservists in a pay status, however, are obligated to perform specific periods of inactive duty training. These reservists are attached to units who generally perform either 48 or 24 drills of inactive duty training each year. In contrast, non-pay-status members volunteer to perform periods of inactive duty training without obligation. In this regard, the Air Force has reservations about whether these individuals are actually eligible for SGLI.

The Air Force initially believed that only those individuals who were scheduled to perform periods of inactive duty training with an assigned unit were eligible for SGLI. According to this interpretation, the only members within this definition were those in a pay status. In June 1974 the Department of Defense's General Counsel informed the Air Force, as well as the other services, that coverage should be extended to nonpay members.

Currently, all the services provide SGLI coverage to certain nonpay reservists, but the Air Force continues to have reservations about this coverage because these individuals are not obligated to perform such training. Therefore,

---

1/Although the law does not define what constitutes 12 periods of inactive duty training, the services have interpreted this section to mean 12 drills. A drill is 4 hours of training.

the Air Force distributes a form letter soliciting each non-pay-status member's declaration of intent to perform at least 12 periods of inactive duty training. Air Force officials stated that the declaration is the individual's moral obligation to perform, rather than a contractual obligation.

We could not ascertain whether non-pay-status members drilling for retirement points are performing the 12 drills of inactive duty training because the services themselves are not monitoring performance as a criteria for SGLI eligibility. However, we did determine that about 60 percent of these non-pay-status members are delinquent in premium payments; whereas, about 16 percent of members in a pay status, contractually obligated to perform scheduled unit drills, are delinquent.

### CONCLUSIONS

The Uniformed Services and VA have had continuous problems in determining eligibility of some members of the Ready Reserve. These problems involve (1) new enlistees awaiting basic training and (2) prior-service members in a nonpay status. Much of the confusion regarding the eligibility of these individuals is a result of the lack of clarity in the SGLI law. Thus, VA has been unable to

- resolve to the satisfaction of the services, the eligibility of new enlistees and
- resolve the issue of whether actual performance as well as scheduled performance of inactive duty training is necessary to maintain eligibility for SGLI.

### RECOMMENDATIONS

In view of the questions concerning eligibility, we recommend that the Administrator of Veterans Affairs submit proposals to the Congress as to

- whether new enlistees awaiting basic training should be eligible for SGLI and
- whether an individual scheduled to perform inactive duty training should also be obligated to perform and complete such training to maintain eligibility.

AGENCY COMMENTS

The Department of Defense, the uniformed services, the Coast Guard, and VA concur that the present statutory provisions governing the eligibility of reservists for SGLI coverage should be clarified. VA believes that any legislative proposals and initiative in this area, however, should be the responsibility of the Department of Defense.

VA noted that the draft report misstated its position on the eligibility of non-prior-service enlistees for SGLI coverage. The draft report originally stated that VA's position was that new enlistees had to be in a pay status to be eligible for SGLI, which was the Army's interpretation of VA's decision. The report has been changed to show that this was the Army's interpretation; however, confusion still exists over this issue, as some new enlistees are being covered while others are not.

DEMOCRATS

RAY ROBERTS, TEX.  
 DAVID E. BATTERFIELD III, VA.  
 DON EDWARDS, CALIF.  
 S. V. (SONNY) MONTGOMERY, MISS.  
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 ROBERT W. EOGAN, PA.  
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NINETY-SIXTH CONGRESS

RAY ROBERTS  
 CHAIRMAN

**U.S. House of Representatives**  
**COMMITTEE ON VETERANS' AFFAIRS**  
 333 CANNON HOUSE OFFICE BUILDING  
 Washington, D.C. 20515

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 HAROLD S. SAWYER, MICH.  
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 GARY A. LEE, N.Y.

August 7, 1979

A. M. WILLIS, JR., STAFF DIRECTOR  
 MACK G. FLEMING, CHIEF COUNSEL

The Honorable Elmer B. Staats  
 Comptroller General of the  
 United States  
 U.S. General Accounting Office  
 441 G Street  
 Washington, D.C. 20548

100-9-21-38

Dear Mr. Staats:

As part of our oversight responsibility on the veterans' benefits programs, the Committee has become concerned about the effectiveness of administration of the Servicemen's Group Life Insurance (SGLI) program with particular concern for SGLI coverage provided Reservists and National Guardsmen by Public Law 93-289.

The information your staff provided us earlier this year and the Veterans Administration's response to specific questions on that aspect of the program indicate that a complete evaluation should be made of the program. For that reason, the Committee requests that you perform an evaluation addressing such issues as:

- Is the program effectively administered?
- Are premium collections sufficient to cover the cost of the program?
- Have there been instances where benefits were paid, but members had not paid premiums?
- What procedures are followed by the services in cancelling non-premium paying members?
- Are legislative changes needed to better manage the program?



Since I plan to ask the Chairman of the Subcommittee on Compensation, Pension, Insurance and Memorial Affairs to hold hearings on the SGLI program early next year, I would appreciate receiving your report and recommendations for improving the program by April 15, 1980.

Your cooperation and assistance on this issue is greatly appreciated.

Sincerely,

A handwritten signature in cursive script that reads "Ray Roberts". The signature is written in black ink and is positioned to the right of the word "Sincerely,".

RAY ROBERTS  
Chairman

## EXTRACT OF AUTHORIZED TRAINING/PAY CATEGORIES

RESERVE FORCES CATEGORY		TRAINING/PAY CATEGORY	COMPRISED OF	MINIMUM NUMBER OF PERIODS OF IDT REQUIRED ANNUALLY WITH PAY	NUMBER OF DAYS OF ADT REQUIRED ANNUALLY WITH PAY	REMARKS	
READY RESERVE	SELECTED RESERVE (Units and individuals)	A	Units of the Selected Reserve	48	For Reserves: Not less than 14 exclusive of travel time. For Guard: 15 including travel time.	Units organized to serve as units upon mobilization.	
			Individual members of the Selected Reserve	48		12 to 14 exclusive of travel time.	Individuals in units not organized to serve upon mobilization.
	CODES: S = Unit T = Nonunit U = Tng Pipeline	B	Units and individual members of the Selected Reserve	24	12 to 14 exclusive of travel time.		
			Units and individual members of the Selected Reserve	12	12 to 14 exclusive of travel time.		
			Nonprior service personnel currently on initial active duty for training.	0	Not less than 4 months.		
			Units and individual members of the Selected Reserve	36	12 to 14 exclusive of travel time.		
			Nonprior service personnel awaiting IADT (with pay)	0	0		
			Nonprior service personnel awaiting the second part of their Initial Active Duty for Training (Army Split Training Test only)	0	0		
			Nonprior service personnel serving on the second part of their Initial Active Duty for Training (Army Split Training Test only)	0	Not less than 4 months.		
			Individual members of the Ready Reserve	0	Not more than 14 exclusive of travel time.	ADT may be performed with or without pay.	
	INDIVIDUAL READY RESERVE (IRR)	CODE: R	Individual members of the Ready Reserve	0	Not more than 30.	ADT may be performed with or without pay.	
			Individual members of the Ready Reserve	0	0	May perform voluntarily with units of the Selected Reserve, enroll in correspondence courses, or participate in other nonpaid IDT for retirement points only.	
			Inactive Army National Guard	0	0		
			Members of the Ready Reserve participating in officer training programs	0	As required by the officer training program.		
Members participating in the Armed Forces Health Scholarship program			0	45			
Nonprior service personnel awaiting IADT (without pay)			0	0	Use Reserve Forces category "U".		
ACTIVE STATUS			CODE: A INACTIVE STATUS CODE: I	Key federal officers and employees in the Standby Reserve (Active Status List)	0	0	May perform voluntarily for retirement points and affiliate for this purpose with units of the Selected Reserve.
				Other members of the Standby Reserve on the Active Status List	0	0	
	Members of the Standby Reserve	0		0	No training or pay authorized.		

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Source: The Department of Defense's Official Guard and Reserve Manpower Strengths and Statistics, June 30, 1979.

APPENDIX II

APPENDIX II

ARE READY RESERVISTS IN TRAINING/PAY CATEGORIESELIGIBLE FOR SGLI COVERAGE?

Category (note a)	Selected Reserve					
	Army	Army National Guard	Air Force	Marine Corp	Navy	Coast Guard
A	Yes	Yes	Yes	Yes	Yes	Yes
B	Yes	N/A	Yes	Yes	Yes	Yes
C	Yes	N/A	N/A	Yes	Yes	N/A
F	Yes	Yes	Yes	Yes	Yes	Yes
M	N/A	N/A	N/A	N/A	N/A	N/A
P	Yes	Yes	No	Yes	N/A	N/A
Q	Yes	Yes	N/A	N/A	N/A	N/A
U	Yes	Yes	N/A	N/A	N/A	N/A
Individual Ready Reserve						
D	Yes	N/A	Yes	Part time	Unsure	No
E	N/A	N/A	N/A	N/A	N/A	N/A
H	(b)	N/A	(b)	(b)	(b)	(b)
I	N/A	No	N/A	N/A	N/A	N/A
J	Part time	N/A	Part time	Part time	Part time	Part time
K	Part time	N/A	Part time	N/A	Part time	N/A
L	Yes	Yes	No	N/A	No	N/A

a/See app. II for Defense's description of training/pay categories.

b/Yes, they are eligible, but some are eligible for part-time coverage only.

Office of the  
Administrator  
of Veterans Affairs

Washington, D.C. 20420



Veterans  
Administration

APRIL 23 1980



Mr. Gregory J. Ahart  
Director, Human Resources Division  
U. S. General Accounting Office  
Washington, DC 20548

Dear Mr. Ahart:

Thank you for the opportunity to review your April 1, 1980 draft report, "Problems in Administering the Servicemen's Group Life Insurance Program in the Ready Reserve," which addresses GAO's findings concerning the Servicemen's Group Life Insurance (SGLI) program administration and eligibility problems. The Veterans Insurance Act of 1974 provided SGLI coverage to members of the Ready Reserve. Since passage of the law, the Veterans Administration (VA) and the Uniformed Services have experienced problems with reservists who fail to pay their premiums, and in determining the eligibility of certain reservists. To assist the VA and the services in administering the program, GAO recommends that:

--the Congress amend the SGLI law to allow the services to terminate coverage for members who fail to pay their premium payments, within an appropriate grace period.

Implementation of this recommendation would, for all practical purposes, eliminate the automatic coverage feature of the program. (See 38 U.S.C. section 767.) This feature is one which, as evidenced by legislative history of the SGLI program, the Congress has considered very important. Implementation would further increase and complicate the administrative burden on the Government in servicing each individual reservist's SGLI account. In view of the report's other conclusion that the Uniformed Services present billing and collection procedures are inadequate, we would point out that a very much more complicated administrative situation would arise from permitting termination of coverage for nonpayment of premiums.

--the Congress delete the provisions of the law requiring the services to forward monies from their appropriations to cover all Ready Reservists participating in the program.

GAO notes that some of the services are not complying with the present statutory requirement to remit premiums from their appropriations for everyone covered by SGLI, and only indicates its agreement with the position of those services that the SGLI program is intended to be self-supporting. GAO does not recommend that those services comply with the present statutory requirement.

Mr. Gregory J. Ahart

GAO also recommends that I:

--submit to the House Committee on Veterans' Affairs my recommendations for an appropriate grace period for paying premiums and for the possibility of increasing the SGLI benefits instead of lowering the premium rates.

This recommendation disregards the fact that an adjustment in premium rates is a separate issue from a legislative decision to increase the maximum coverage. The premium will continue to be based upon the rate necessary to maintain the program on a self-supporting basis, notwithstanding any increase in the maximum amount of coverage. GAO suggests that most of the changes it recommends be predicated upon proposals to be developed by the VA. However, recommendations such as increasing the maximum amount of coverage, establishing an appropriate grace period before which coverage would be terminated for nonpayment of premiums, and clarifying the eligibility criteria for coverage, involve matters which can be best evaluated by the Department of Defense (DoD). Although the SGLI program is supervised by the VA, it is, in fact, part of the DoD's total military benefits package.

In view of the questions that exist over eligibility, GAO recommends that I submit a proposal to the Congress concerning

--whether new enlistees awaiting basic training should be eligible for SGLI.

Chapter 3 of the report contains an inaccuracy concerning VA's position on the eligibility of nonprior service enlistees for full-time coverage during the period of time between the date of their reserve enlistment and the date they enter initial active duty for training. The report states that the VA's position is that such enlistees must be in a pay status to be eligible for SGLI coverage. The VA's position is that such enlistees are not entitled to full-time SGLI coverage because they do not meet the statutory qualifications for coverage in 38 U.S.C. section 765(5)(B). This was the basis for all three of the VA decisions which are referred in Chapter 3 of the report as "inconsistent."

Although each of these three VA decisions also discussed the pay status of new enlistees, the primary basis for our original determination of non-coverage was that they were not obligated to attend inactive duty training prior to initial active duty for training. The VA interprets the "will be scheduled" clause of 38 U.S.C. section 765(5)(B) as not merely setting forth prospective requirements, but as expressing the imperative that there be a current obligation to perform the specified inactive duty before full-time coverage attaches. The enlistees' lack of such an obligation led to our March 1978 decision that they were not entitled to SGLI coverage.

Mr. Gregory J. Ahart

The basis for this position was restated in the subsequent October 1979 VA decision. Referring to VA's initial decision, in October we stated, "Our primary concern was that individuals were not scheduled or obligated to drill as required for full-time coverage under 38 U.S.C. section 765(5)(B)." In that same opinion, after reviewing changes in Army and National Guard regulations which would obligate new enlistees to attend inactive duty training, the VA held that,

"It is our opinion that non-prior service persons assigned to a Ready Reserve unit in a 90-day status who are required to participate in at least 12 drills of inactive duty training and who have not yet been called to their initial active duty for training, qualify for full-time SGLI coverage." (Emphasis supplied.)

In our January 1980 decision, we again reiterated that reservists were entitled to full-time SGLI coverage only if they met the qualifications of 38 U.S.C. section 765(5)(B). That opinion also contained the following statement: "We would like to point out that SGLI coverage is not based upon the pay status of an individual member."

In accord with these opinions, we request that the description of the VA's position concerning full-time SGLI coverage for new enlistees be corrected.

The GAO also recommends that I submit a proposal concerning

--whether an individual scheduled to perform inactive duty training should also be obligated to perform and complete such training to maintain eligibility.

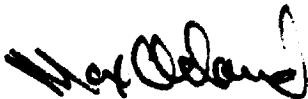
This recommendation relates to prior service members. We believe the matter of coverage for any particular class or group is the primary responsibility of the Armed Forces.

I would also suggest that the description of the pending litigation involving the issue of full-time SGLI coverage for new enlistees (which begins on page 25 of the report) be corrected. It should be noted that there are five of these cases pending, not "three or four." In these instances, the VA did not deny benefits because the individuals involved were in a nonpay status, but did deny that the individuals involved were covered by SGLI because they did not meet the statutory qualifications of 38 U.S.C. section 765(5)(B).

Mr. Gregory J. Ahart

We agree that the present statutory provisions governing the eligibility of reservists for SGLI coverage should be clarified. However, we believe it would be much more appropriate for the Department of Defense to evaluate the issues involved in redefining the eligibility criteria for SGLI coverage for reservists.

Sincerely,



MAX CLELAND  
Administrator



**U.S. Department of  
Transportation**

Office of the Secretary  
of Transportation

Assistant Secretary  
for Administration

400 Seventh Street S.W.  
Washington, D.C. 20590

April 21, 1980

Mr. Henry Eschwege  
Director, Community and Economic  
Development Division  
United States General Accounting Office  
Washington, D.C. 20548

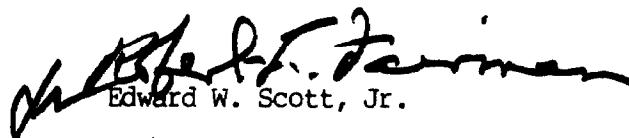
Dear Mr. Eschwege:

We have reviewed the General Accounting Office draft report, "Problems in Administering the Servicemen's Group Life Insurance Program In The Ready Reserve." The draft accurately reflects the Coast Guard's policies and operating procedures with respect to the administration of the Servicemen's Group Life Insurance program in the Coast Guard Ready Reserve. We concur with the recommendations made.

In regard to the recommendation made to the Secretary of Transportation, the Department will continue to administer the Coast Guard program by sound accounting and administrative procedures to assure billing and collection premiums for non-pay status reservists.

If we can further assist you, please let us know.

Sincerely,

  
Edward W. Scott, Jr.



**The Prudential Insurance Company of America**

Corporate Office  
Prudential Plaza, Newark, New Jersey 07101

**Nicholas M. Simonelli, F.S.A.**  
Actuarial Director  
Group Insurance Department

April 16, 1980

Mr. H. L. Krieger  
Director  
Federal Personnel and Compensation  
Division  
United States General Accounting Office  
Washington, D.C. 20548

Dear Mr. Krieger:

Mr. Winfred S. Gideon, 3rd, the Benefits Director of the Office of Servicemen's Group Life Insurance, gave me the opportunity to review the draft of the General Accounting Office Report to the House Committee on Veterans' Affairs concerning the problems in the Ready Reserve of administering the SGLI Program. This letter will serve to document my earlier comments to your office concerning this draft. Mr. Gideon has no additional comments.

With respect to the financial status of the SGLI Program, some of the financial data require clarification. The Contingency Reserve for the entire Program on June 30, 1979 as reported by Prudential to the Veterans Administration was approximately \$127.1 million, and the increase in the Reserve for that year was approximately \$22.9 million. These figures differ from the ones appearing in the draft, i.e., \$138.3 million and \$24.8 million respectively. The figures in the draft are the ones reported in the annual booklet produced by the Veterans Administration. The major reason for the difference involves a special actuarial reserve for the future mortality and conversion costs under VGLI. This reserve is calculated using a number of actuarial assumptions (e.g., mortality table, interest rate, etc.) collectively known as the valuation basis. Both the Veterans Administration and Prudential perform valuations for the VGLI coverage, but each uses a different valuation basis. Which basis is more appropriate can be known only after the experience under VGLI is revealed. Any difference in the VGLI reserves calculated by the valuation will have an inverse effect on the Contingency Reserve for the Program. Since the VGLI actuarial reserve calculated by Prudential is higher than the one calculated by the Veterans Administration, the Contingency Reserve calculated by Prudential is lower than the one calculated by the Veterans Administration. In the final analysis, however, it is the actual experience under the Program which will determine the aggregate charges against the Contingency Reserve. The actuarial reserve held for VGLI will affect only the incidence of the charges made against the Contingency Reserve over the five-year VGLI term period.

Clarification is also needed for the data given for amounts collected, amounts paid out as death benefits and administrative costs in policy year 1979. Whereas the Contingency Reserve figures apply to the entire SGLI Program, these figures

exclude the financial results of VGLI and Retired Reservists.

On the subject of premium delinquency, there is reference to the lapse practices employed by OSGLI in the administration of VGLI and Retired Reservists coverage. It is stated that a veteran's or reservist's coverage is discontinued two months after the due date of the premium in default. Actually, there is a thirty-one day grace period, and coverage would lapse if a premium payment were not paid by the end of the grace period. The reference to two months relates to a change in the status recorded on the master record within the computer system. This recording of the lapse on the master record is delayed as an administrative convenience.

With respect to establishing similar administrative practices within each branch of service, one should note that the facilities for recording premium payments in the various branches may differ from those in OSGLI and might differ among the branches. Therefore, OSGLI's lapse practices may not be the appropriate model. Whatever might be deemed appropriate for the branches of service, it would seem desirable to have a consistent practice among all of the branches. In addition, some thought with regard to reinstatement practices would be necessary. For example, how long after lapsing could an individual reinstate? How many back premiums would be required to reinstate? Will evidence of insurability (i.e., good health) be required? If it is, who would determine if a risk is acceptable? All of this translates into the branches undertaking insurance company functions. I hope this would be appreciated by Congress in considering any amendments to the SGLI law.

Sincerely,

*Nicholas M. Saminelli*

NMS/jeh

cc: Mr. Winfred S. Gideon, 3rd

(963134)



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