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Veterans' Benefits: Current Life Insurance Programs

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Summary

The Department of Veterans Affairs (VA) administers and supervises several life insurance programs for active servicemembers and veterans. The VA supervises the Servicemembers' Group Life Insurance (SGLI) and Veterans' Group Life Insurance (VGLI) programs, which are administered by the Office of Servicemembers' Group Life Insurance (OSGLI), a division of Prudential Insurance Company of America. The Service-Disabled Veterans' Insurance (S-DVI) program, on the other hand, is administered entirely by the VA. Access to VA-administered life insurance programs gives servicemembers and veterans, who may not be eligible for private life insurance policies, the opportunity to carry group life insurance. This provides for their families in the event of the servicemember's or veteran's death.

In September 1965, with the passage of P.L. 89-214, Congress established the SGLI program and mandated the VA to enter into an agreement with the private insurance industry to meet the insurance needs of Vietnam era servicemembers. As a result, VA established an agreement with Prudential Financial to administer its policies. When first enacted, the SGLI program provided up to $10,000 in coverage for policyholders. Today, servicemembers can receive a maximum of $400,000 insurance coverage under the program.

On August 1, 1974, with the enactment of P.L. 93-289, VGLI became available to servicemembers. VGLI provides for the conversion of SGLI after separation from active military duty. VGLI is a five-year renewable term policy that, like SGLI, provides a maximum of $400,000 of coverage.

Servicemembers may have their SGLI and VGLI proceeds paid either as a lump sum or over a period of 36 months. The lump sum payment may, at the beneficiary's election, be in the form of a single check via a retained asset account (called an Alliance Account). Free financial counseling is available to SGLI and VGLI beneficiaries.

During the Korean War, before SGLI and VGLI were established, Congress passed the Insurance Act of 1951 (P.L. 82-23) and established the S-DVI program. S-DVI was created to meet the insurance needs of certain veterans with service-connected disabilities, many of whom would not be eligible for private life insurance due to their service-connected disabilities. Currently, policies are issued for a maximum face value of $10,000. Retained asset accounts are not offered under the S-DVI program.

This report provides information on the current VA life insurance programs available for servicemembers and veterans, management and administration issues, and associated policy issues.

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Introduction

The Department of Veterans Affairs (VA) has administered and supervised several life insurance programs for servicemembers and veterans since 1919. Currently, three VA life insurance programs that provide benefits to the families of servicemembers and veterans are still enrolling new policyholders. These programs are Servicemembers' Group Life Insurance (SGLI), Veterans' Group Life Insurance (VGLI), and Service-Disabled Veterans' Insurance (S-DVI). The VA's Regional Office and Insurance Center (VAROIC) in Philadelphia, PA, supervises SGLI and VGLI, but the day-to-day administration of the programs is handled by the Office of Servicemembers' Group Life Insurance (OSGLI), a division of the Prudential Insurance Company of America. The Service-Disabled Veterans' Insurance (S-DVI) program, on the other hand, is administered entirely by the VA. Access to VA-administered life insurance programs gives servicemembers and veterans, who may not be eligible for private life insurance policies, the opportunity to carry group life insurance. This provides for their families in the event of the servicemember's or veteran's death.

Across all VA insurance programs, 7.1 million people have $1.3 trillion in face value of insurance coverage.[1]

This report is structured into three major sections. The first section provides an overview of the VA's different life insurance programs, including eligibility requirements, premium rates, and benefits. The second section describes the VA's management and administrative structure, as well as how policy proceeds to beneficiaries are currently paid out for SGLI, VGLI, and S-DVI. The third section discusses major areas of congressional interest and policy issues as they pertain to SGLI, VGLI, and S-DVI.

Servicemembers' Group Life Insurance Program

In September 1965, Congress established the Servicemembers' Group Life Insurance program in P.L. 89-214 by mandating the VA to enter into an agreement with the private insurance industry to meet the insurance needs of Vietnam era servicemembers.[2] Since 1965, Congress has amended SGLI to include all eligible servicemembers in the uniformed services.

The SGLI program, through a group policy issued by the Prudential Insurance Company of America, provides low-cost term insurance protection to servicemembers. It is administered by the Department of Veterans Affairs Regional Office and Insurance Center's Office of Servicemembers' Group Life Insurance, located in Philadelphia, PA. When first enacted, the SGLI program provided up to $10,000 in coverage for members. Today, all servicemembers can receive a maximum of $400,000 insurance coverage under the program. As of September 30, 2012, about 2.4 million members of the uniformed services were covered under the program.[3]

Under the Veterans' Survivor Benefits Improvement Act of 2001 (P.L. 107-14), Congress extended coverage to the spouses and children of servicemembers covered under the SGLI

[1] [1] Department of Veterans Affairs, Regional Office and Insurance Center, *VA Life Insurance Programs for Veterans and Servicemembers Handbook*, Philadelphia, PA, January 2012, p. 13.

[2] The term "servicemember" refers to a person on active duty, active duty for training, or inactive duty training in the uniformed services in a commissioned, warrant, or enlisted rank, or grade, or as a cadet or midshipman of the U.S. Military Academy, U.S. Naval Academy, U.S. Air Force Academy, or the U.S. Coast Guard Academy.

[3] Department of Veterans Affairs, Regional Office and Insurance Center, *VA Life Insurance Programs for Veterans and Servicemembers Handbook*, Philadelphia, PA, January 2012, p. 13.

program. The FY2005 Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Tsunami Relief (P.L. 109-13) added Traumatic Injury Protection Insurance to SGLI, which extended the program to provide short-term financial assistance to servicemembers suffering from traumatic injuries.[4]

Eligibility Requirements

Full-time and part-time life insurance coverage are both provided through the SGLI program.[5] According to the *Servicemembers' and Veterans' Group Life Insurance Handbook*, full-time coverage is provided to the following **active duty servicemembers** under calls or orders that exceed 30 days:

- commissioned, warrant, and enlisted members of the Army, Navy, Air Force, Marine Corps, Coast Guard, the National Oceanic and Atmospheric Administration (NOAA) Commissioned Corps, and the Public Health Service (PHS) Commissioned Corps;
- members of a uniformed service's Ready Reserve/National Guard that are assigned to a unit or position in which they may be required to perform active duty or active duty for training and are scheduled to perform at least 12 periods of inactive duty training annually that is creditable for retirement purpose under Title 10 of the *U.S. Code*;[6]
- members of the Individual Ready Reserve (IRR) who volunteer for assignment to a "mobilization" category under Section 12304 (i)(1) of Title 10 of the *U.S. Code*;
- cadets or midshipmen of the U.S. Military Academy, the U.S. Naval Academy, the U.S. Air Force Academy, and the U.S. Coast Guard Academy; and
- Reserve Officers' Training Corps (ROTC) members, cadets, or midshipmen while attending field training or practice cruises.[7]

The following members of the **Reserves** (who are ineligible for full-time coverage) are eligible for part-time coverage while on active duty under calls or orders that exceed 30 days:

- commissioned, warrant, and enlisted members of the Army, Navy, Air Force, Marine Corps, and Coast Guard Reserves (except temporary members of the Coast Guard Reserve);
- members of the IRR during one-day call-ups;
- PHS Reserve Corps;
- Army National Guard and Air National Guard while performing duty under Sections 316, 502, 503, 504, or 505 of Title 32 of the *U.S. Code*;[8] and

[4] Traumatic Injuries are discussed further in the text under the heading "SGLI Traumatic Injury Protection Program." Also, see 38 C.F.R. §9.20 for more information on traumatic injuries.

[5] "Full-time" or "part-time" coverage depends on level of active military service.

[6] Title 10 of the *U.S. Code* includes laws relating to the U.S. Armed Forces.

[7] Department of Veterans Affairs, *Servicemembers' and Veterans' Group Life Insurance Handbook,* H-29-98-1, Washington, DC, February 2012, p. 29.

[8] Title 32 of the *U.S. Code* includes laws relating to the National Guard.

- ROTC members, cadets, and midshipmen while attending field training or practice cruises.[9]

SGLI Coverage and Premium Rates

Currently, the maximum SGLI coverage is $400,000.[10] This coverage amount ($400,000) is automatic when the servicemember enters into a period of active duty or reserve status. A servicemember can reduce coverage, from the maximum of $400,000, in decrements of $50,000. Members may elect to either decline coverage or reduce coverage by completing SGLI program Form SGLV-8286.[11] However, proof of good health is required[12] if the member decides to obtain or increase coverage after he or she had previously chosen to reduce or decline coverage.[13]

This insurance is forfeited when an insured servicemember is found guilty of mutiny, treason, spying, or desertion, or, as a conscientious objector, refuses to perform service or refuses to wear his or her uniform.[14]

Full-Time Coverage

Servicemembers who are eligible for full-time SGLI coverage are covered through their period of active duty or qualifying reserve status. They are also covered for a period of 120 days (with no premium) after their separation or release from active duty or reserve status.[15]

The Veterans' Housing Opportunity and Benefits Improvement Act of 2006 (P.L. 109-233) extended the free 120-day coverage period to two years for certain disabled servicemembers and their dependents. This change allows SGLI policyholders that are totally disabled (unable to work) at the time of their separation or release from service to keep their SGLI coverage for up to two years. This coverage is classified as the SGLI Disability Extension, and the servicemember is obligated to apply for the coverage after he or she has separated from service.[16]

When a servicemember with full-time SGLI coverage is released from active duty or the Reserves, he or she may convert his or her coverage to VGLI or to a commercial life insurance policy with any of the participating commercial insurance companies.

Part-Time Coverage

Servicemembers eligible for part-time SGLI coverage are only covered during the time in which they are on active duty or active duty for training, and the period in which they are traveling to and from such duty. Part-time coverage servicemembers are eligible for the free 120-day period

[9] Department of Veterans Affairs, *Servicemembers' and Veterans' Group Life Insurance Handbook,* H-29-98-1, Washington, DC, February 2012, pp. 29.

[10] The most recent change to SGLI maximum coverage amount was made on September 1, 2005.

[11] This form can be found on the VA Website at http://insurance.va.gov/sgliSite/forms/8286(07-19-2011).pdf.

[12] "Proof of good health" shall be submitted at the applicant's own expense (38 U.S.C. §1977(g)).

[13] 38 U.S.C. §1967(c).

[14] 38 U.S.C. §1973.

[15] 38 U.S.C. §1967, and §1968.

[16] Department of Veterans Affairs, *Servicemembers' and Veterans' Group Life Insurance Handbook*, H-29-98-1, Washington, DC, February 2012, p. 31.

of coverage only if they incur a disability or a preexisting disability is aggravated during a period of duty.[17]

Beneficiaries

Servicemembers can select anyone as the beneficiary of their insurance policies. If a servicemember fails to name someone, the insurance proceeds, by law, must be distributed in the following order:

1. widow or widower, or, if none,
2. children (***not including stepchildren***), or, if none,
3. parents, or, if none,
4. executor of the estate, or, if none,
5. other next of kin.[18]

If the servicemember chooses not to be insured under the SGLI program, chooses to be insured for less than the SGLI maximum amount, or names someone other than his or her spouse or child as the beneficiary, the law requires that the spouse of the servicemember must be notified by the uniformed service.[19]

Premium Rates

The cost of SGLI is generally shared by the servicemember and the government. Each servicemember is responsible for paying a monthly premium (unless in a combat zone, in which case the government pays the full premium), and the government and Prudential pay the cost of all death claims. The SGLI insurance premium is deducted from the servicemember's pay. The premium rates are mutually agreed upon by the VA and the contractor (Prudential Insurance Company of America).

Currently, the basic SGLI premium rate decreased from the 2007 rate of 7.0 cents per month per $1,000 of coverage, to 6.5 cents per month per $1,000 of coverage.[20] **Table 1** shows premium rates for both full-time and part-time active duty servicemembers and reservists:[21]

Table 1. Monthly SGLI Premiums

Amount of Insurance	Monthly SGLI Premium
$50,000	$3.25
$100,000	$6.50
$150,000	$9.75
$200,000	$13.00
$250,000	$16.25

[17] 38 U.S.C. §1967-1968.

[18] 38 U.S.C. §1970(a).

[19] 38 U.S.C. §1967(f). Also 38 C.F.R. §9.40

[20] The most recent change to SGLI premium rates was made on July 1, 2008.

[21] Department of Veterans Affairs, Regional Office and Insurance Center, *VA Life Insurance Programs for Veterans and Servicemembers Handbook*, Philadelphia, PA, January 2011, p. 30.

Amount of Insurance	Monthly SGLI Premium
$300,000	$19.50
$350,000	$22.75
$400,000	$26.00

Source: Department of Veterans Affairs, Regional Office and Insurance Center, *VA Life Insurance Programs for Veterans and Servicemembers Handbook,* Philadelphia, PA, January 2012, p. 30.

Note: These premiums do not include the $1.00 premium for Traumatic Servicemembers' Group Life Insurance (TSGLI) coverage. Full-time servicemembers are charged one of the above premiums once monthly. Part-time servicemembers are charged one of the above premiums once annually.

Extra Hazard of Duty Cost

Each branch of service is liable, under law, to pay the additional cost of claims due to the extra hazards of serving in the military.[22] The amount is determined by the VA and paid by the Department of Defense (DOD) on behalf of the uniformed service.

Each year the VA actuaries study the mortality rate of the most recent three years of servicemembers' claim experience. This allows them to develop the average death rate by age. The rate is used to determine the expected number of death claims. At the end of each policy year, the expected death claims are compared with the actual number of incurred death claims. If the actual death claims exceed the estimated death claims, the excess claims are multiplied by the average amount of insurance per servicemember to determine the extra hazard cost for each uniformed service.

If the annual extra hazard cost paid is lower than the estimated amount, Prudential Insurance will refund the excess funds to the VA. Excess funds are deposited into the revolving fund. If the extra hazard cost paid exceeds the annual estimated amount, then the VA is responsible for reimbursing Prudential from the revolving fund.[23]

Family Servicemembers' Group Life Insurance Coverage

SGLI coverage was extended to the spouses and dependent children of insured servicemembers by the Veterans' Survivor Benefits Improvements Act of 2001 (P.L. 107-14).

Family Servicemembers' Group Life Insurance (FSGLI) coverage is automatically issued to the servicemember's spouse and children, based on the information in the servicemember's personnel records. Servicemembers may decline family coverage or may elect reduced coverage by completing SGLI program Form SGLV-8286A, Family Coverage Election and Certificate.[24] However, proof of good health of the spouse or child is required if the servicemember decides to obtain or increase coverage for his or her spouse or child after he or she has previously chosen to reduce or decline coverage.[25]

[22] The term "extra hazards" refers to the amount of additional monies required to pay death claims that exceed those that would be incurred under normal peacetime conditions.

[23] 38 U.S.C. §1969.

[24] This form can be found on the VA Website at http://insurance.va.gov/sgliSite/forms/8286A_2010-12-22.pdf.

[25] Department of Veterans Affairs, *Servicemembers' and Veterans' Group Life Insurance Handbook,* H-29-98-1 Washington, DC, February 2012, p. 37.

FSGLI Spousal Coverage

Spouses of servicemembers on active duty or reservists, including National Guard members eligible for full-time SGLI coverage, can be insured up to the maximum amount of $100,000 in increments of $10,000. However, spousal coverage cannot exceed the servicemember's SGLI coverage. Premiums for spousal coverage are deducted from the servicemember's or reservist's pay.[26] **Table 2** shows the premium rates for spouses based on age and amount of coverage.

Table 2. Monthly Premium Rates for SGLI Spousal Coverage

	Age of Spouse						
Amount of Insurance	**Under Age 35**	**Age 35 to 39**	**Age 40 to 44**	**Age 45 to 49**	**Age 50 to 54**	**Age 55 to 59**	**Age 60 and Over**
$100,000	5.00	6.50	8.50	13.00	25.00	37.00	50.00
$90,000	4.50	5.85	7.65	11.70	22.50	33.30	45.00
$80,000	4.00	5.20	6.80	10.40	20.00	29.60	40.00
$70,000	3.50	4.55	5.95	9.10	17.50	25.90	35.00
$60,000	3.00	3.90	5.10	7.80	15.00	22.20	30.00
$50,000	2.50	3.25	4.25	6.50	12.50	18.50	25.00
$40,000	2.00	2.60	3.40	5.20	10.00	14.80	20.00
$30,000	1.50	1.95	2.55	3.90	7.50	11.10	15.00
$20,000	1.00	1.30	1.70	2.60	5.00	7.40	10.00
$10,000	0.50	0.65	0.85	1.30	2.50	3.70	5.00

Source: Department of Veterans Affairs, Regional Office and Insurance Center, *VA Life Insurance Programs for Veterans and Servicemembers Handbook,* Philadelphia, PA, January 2012, p. 38. Rates shown were effective July 1, 2010.

Notes: Spouses of servicemembers can receive coverage up to $100,000. However, the spouse's coverage amount can never exceed that of the servicemember's coverage amount. For example, if the servicemember has $70,000 of SGLI coverage, the spouse's coverage can be a maximum of $70,000 (Department of Veterans Affairs, Regional Office and Insurance Center, *VA Life Insurance Programs for Veterans and Servicemembers Handbook,* Philadelphia, PA, January 2012, pp. 37-4022.

A spouse of a servicemember or active duty reservist may convert his or her coverage to a commercial life insurance policy with any participating commercial insurance companies. Coverage for a spouse will end 120 days after any of the following events:

- The date the servicemember elects (in writing) to terminate his or her spouse's coverage;
- The date the servicemember elects (in writing) to terminate his or her own SGLI coverage;
- The date of the servicemember's death;
- The date the servicemember separates from service; or

[26] Ibid. p. 38.

- The date of the servicemember's divorce from his or her spouse.[27]

FSGLI Child Coverage

A child is considered to be a dependent of a servicemember if the child is unmarried and under the age of 18, or became permanently incapable of self-support before the age of 18. Dependent children include all natural born children, legally adopted children, and stepchildren who are under the care of the servicemember. A child is also considered to be a dependent if he or she is between the ages of 18 and 22 and is enrolled in an approved educational institution. Dependent children covered under an active duty servicemember's or reservist's SGLI policy are insured at the maximum amount of $10,000 each (at no cost to the servicemember). The child is covered up to 120 days after the servicemember has separated from service.[28]

The Veterans' Benefits Improvement Act of 2008 (P.L. 110-389) added benefits for families of stillborn children born on or after October 10, 2008, under the FSGLI program. Previously, stillborn children were excluded from coverage. Servicemembers who experience the death of such a dependent child are eligible to receive a $10,000 payment (the maximum amount under FSGLI child coverage).

Coverage for a child will end 120 days after the servicemember's separation or release from service or assignment (in the case of Ready Reserve). There are currently no conversion options for children.

SGLI Traumatic Injury Protection Program

Since its inception in 2005, the Traumatic Servicemembers' Group Life Insurance (TSGLI) program has provided short-term financial assistance to servicemembers who suffer from traumatic injuries while on active duty.[29] TSGLI is not an optional program, but an automatic coverage program under the SGLI program, and its purpose is to ease the burden for servicemembers and their families during times of extensive recovery and rehabilitation. TSGLI premiums are $1.00 per month and are deducted from the servicemember's pay.

Eligibility

Servicemembers who are covered under the SGLI program are automatically covered by the TSGLI program. However, TSGLI does not cover spouses and children who are covered under the SGLI program, nor does it cover those under the VGLI program. Eligibility and certification for payment are determined and provided by each servicemember's uniformed service.[30]

The VA Secretary prescribes by regulation which conditions are eligible for, or excluded from, TSGLI coverage.[31] The losses covered by TSGLI include the following conditions:

- total and permanent loss of sight, speech, or hearing;

[27] Department of Veterans Affairs, *Servicemembers' and Veterans' Group Life Insurance Handbook,* H-29-98-1 Washington, DC, February 2012, p. 38.

[28] Ibid., pp. 38-39.

[29] Department of Veterans Affairs, *Servicemembers' and Veterans' Group Life Insurance Handbook,* H-29-98-1 Washington, DC, January 2012, pp. 33-36. Also 38 C.F.R. §9.20.

[30] Department of Veterans Affairs, *Servicemembers' and Veterans' Group Life Insurance Handbook,* H-29-98-1 Washington, DC, February 2012, pp. 33-36.

[31] 38 U.S.C. §1980A.

- amputation of hand or the loss of four fingers on the same hand or the loss of a thumb;
- amputation of the foot or loss of all toes;
- loss of four toes on the same foot or the loss of the big toe;
- limb salvage;
- quadriplegia, paraplegia, hemiplegia, or uniplegia;
- burns (2nd degree or more covering 20% or more of the body or 20% or more of the face);
- facial reconstruction;
- coma resulting from traumatic injury;
- inability to perform two activities of daily living due to traumatic brain injury;[32]
- inability to perform two activities of daily living due to other traumatic injury;
- certain genitourinary conditions;[33] and
- continuous 15-day inpatient hospital care due to traumatic injury.[34]

The Veterans' Benefits Act of 2010 (P.L. 111-275) provided that the VA Secretary may distinguish in payments for qualifying loss of a dominant hand and qualifying loss of a non-dominant hand.

Losses Excluded From TSGLI Payment

Injuries sustained while committing or attempting to commit a felony and losses caused by the following are excluded from TSGLI payment:

- mental disorder;
- mental or physical illness or disease, unless the illness or disease is caused by a pyogenic (pus forming, often from a wound) infection, biological, chemical, or radiological weapon, or accidental ingestion of a contaminated substance;
- attempted suicide;
- self-inflicted wounds;
- diagnostic procedures, preventive medical procedures (i.e., inoculations), medical or surgical treatment for an illness or disease, or any complications arising from such procedures or treatment; or
- the servicemember's willful use of illegal or controlled substances, unless they are administered or taken on the advice of medical professionals.[35]

[32] The phrase "inability to perform two activities of daily living" means the inability to independently perform two or more of the following six functions: bathing, continence, dressing, eating, toileting, or transferring.

[33] Permanent loss of use or anatomical loss of: penis; testicle; vulva; uterus; ovary; vaginal canal; or urinary system function.

[34] Department of Veterans Affairs, Regional Office and Insurance Center, *VA Life Insurance Programs for Veterans and Servicemembers Handbook*, Philadelphia, PA, January 2012, p. 35-36.

[35] Ibid., pp. 36.

Benefit Amount

TSGLI benefit amounts depend on the type and severity of a servicemember's injury and range from $25,000 to a maximum of $100,000. Servicemembers who suffered injuries between October 7, 2001, and December 1, 2005, may receive retroactive TSGLI benefits regardless of SGLI coverage status.[36]

Veterans' Group Life Insurance Program

On August 1, 1974, Veterans' Group Life Insurance (VGLI) became available to former servicemembers (P.L. 93-289). VGLI provides for the conversion of SGLI after separation from active duty. The administration of the VGLI program is handled by the OSGLI, a division of the Prudential Insurance Company of America. VGLI is a five-year renewable term policy which provides a maximum of $400,000 of coverage. VGLI policyholders have the right to renew their coverage at the end of each five-year term period. Policyholders may also convert VGLI to an individual commercial policy at any time with any of the participating private companies without proof of insurability. VGLI has no cash, loan, paid up, or extended values and does not pay dividends.

Eligibility Requirements

Veterans eligible for the VGLI program are:

- Ready Reserves/National Guard SGLI policyholders who are separated, retired, or released from assignment;
- insured SGLI members who are being released from active duty or active duty for training under a call or order to duty that does not specify a period of less than 31 days;
- Ready Reservists who have part-time SGLI coverage and who, while performing duty (or traveling directly to or from duty), suffer an injury or disability that causes them to be uninsurable at standard premium rates;[37] and
- people assigned to the IRR of a military service or to the Inactive National Guard (ING). This includes members of the Public Health Service Inactive Reserve Corps (IRC).[38]

After separation from service, servicemembers have 120 days to apply for VGLI without providing evidence of insurability (good health). Servicemembers who do not apply for VGLI within 120 days of separation from service have an additional year in which to apply for VGLI. During this additional year servicemembers are required to submit the initial premium and provide evidence of insurability (good health) in addition to the application for VGLI. If a

[36] Ibid., p. 34. The Veterans' Benefits Act of 2010 (P.L. 111-275) eliminated the requirement, effective October 1, 2011, that the traumatic injury be incurred in the theater of operations for Operation Iraqi Freedom or Operation Enduring Freedom.

[37] Members who join the Ready Reserves/National Guard after release from active duty are eligible to continue their SGLI coverage for as long as they remain in the Ready Reserves/National Guard. They are also eligible to convert their active duty SGLI coverage to VGLI coverage.

[38] Department of Veterans Affairs, *Servicemembers and Veterans Group Life Insurance Handbook*, H-29-98-1, Washington, DC, February 2012, p. 41.

servicemember does not apply for VGLI within the one year and 120 days allotted following separation from service, he or she becomes ineligible for coverage under VGLI.

Servicemembers who are totally disabled[39] at the time of separation from active duty and are granted a free two-year extended SGLI coverage period are automatically enrolled in VGLI at the end of the two-year extension period.[40]

VGLI Coverage and Premium Rates

The maximum amount of coverage for VGLI is $400,000 if the veteran separated from service after September 1, 2005. If the veteran separated from service prior to September 1, 2005, his or her maximum coverage is $250,000, according to the Servicemembers' Group Life Insurance Enhancement Act of 2005 (P.L. 109-80). VGLI coverage is issued in multiples of $10,000 up to the maximum amount of coverage. VGLI coverage, at the time of conversion from SGLI, may not exceed the amount of SGLI coverage that the veteran had at the time he or she was released from active duty or the reserves. However, a veteran may increase his or her coverage once in every five-year period by $25,000 if the veteran is under the age of 60, and still to the statutory maximum coverage amount.[41]

The Veterans' Benefit Act of 2010 (P.L. 111-275) permitted certain VGLI policyholders, at every fifth anniversary, to increase their VGLI coverage by up to $25,000, with total coverage limited to the maximum available at the time of renewal. If the current VGLI coverage is for less than $375,000, the policyholder may purchase an additional $25,000 of VGLI coverage (the amount for the increase in coverage cannot be less than $25,000 if the current coverage is less than $375,000). If the current VGLI coverage is more than $375,000, the policyholder can purchase the amount that increases the coverage to $400,000.

Beginning on April 11, 2011, VGLI policyholders were allowed to increase their coverage under the following guidelines:

- The additional coverage must be requested during the 120-day period prior to the 5-year VGLI anniversary of the policy;
- The insured does not have to answer any medical questions;
- The total amount of coverage cannot exceed $400,000 (the current maximum total coverage available); and
- The insured must be under the age of 60 on the coverage effective date of the 5-year VGLI anniversary of the policy.

To be covered under VGLI, veterans must pay premiums. VGLI premium rates are determined by age and amount of insurance. For example, a veteran who is aged 29 or younger would pay $32 per month for the maximum $400,000 coverage, while a veteran who is aged 75 or older would

[39] Any impairment of mind or body which continuously renders it impossible for the insured to follow any substantially gainful occupation; the permanent loss or loss of use of both feet, or both hands, or both eyes, or one foot and one hand, or one hand and one eye; the total loss of hearing in both ears; or the organic loss of speech. Veterans having any of the before mentioned disabilities are considered totally disabled regardless of employment. Servicemembers having other disabilities are considered totally disabled only when the disability would prevent the member from engaging in substantially gainful employment.

[40] The two-year period for conversion from SGLI to VGLI for disabled servicemembers was made permanent by the Veterans' Benefits Act of 2010 (P.L. 111-275) and is effective for separations from service after June 14, 2005.

[41] The first five-year period begins on the one-year anniversary of the date the veteran becomes insured under VGLI.

pay $1,800 per month for the same $400,000 coverage.[42] **Table 3** lists monthly premium rates per age group per coverage amount.

[42] Department of Veterans Affairs, Regional Office and Insurance Center, *VA Life Insurance Programs for Veterans and Servicemembers*, Philadelphia, PA, January 2012, p. 44.

Table 3. VGLI Monthly Premium Rates

	Amount of Insurance					
Age	**$400,000**	**$300,000**	**$200,000**	**$100,000**	**$50,000**	**$10,000**
Thru 29	$32.00	$24.00	$16.00	$8.00	$4.00	$0.80
30 thru 34	40.00	30.00	20.00	10.00	5.00	1.00
35 thru 39	52.00	39.00	26.00	13.00	6.50	1.30
40 thru 44	68.00	51.00	34.00	17.00	8.50	1.70
45 thru 49	88.00	66.00	44.00	22.00	11.00	2.20
50 thru 54	144.00	108.00	72.00	36.00	18.00	3.60
55 thru 59	268.00	201.00	134.00	67.00	33.50	6.70
60 thru 64	432.00	324.00	216.00	108.00	54.00	10.80
65 thru 69	600.00	450.00	300.00	150.00	75.00	15.00
70 thru 74	900.00	675.00	450.00	225.00	112.50	22.50
75 & Over	1,800.00	1,350.00	900.00	450.00	225.00	45.00

Source: Department of Veterans Affairs, Regional Office and Insurance Center, *VA Life Insurance Programs for Veterans and Servicemembers Handbook*, Philadelphia, PA, January 2012, p. 44.

VGLI Payment of Premiums

The VGLI program offers various options for paying premiums. Policyholders may choose to pay the premiums on a monthly, quarterly, semi-annual, or annual basis. Discounted premiums are available for some of these options. **Table 4** shows the different payment options available under VGLI and their associated discounts.

Table 4. VGLI Premium Payment Options

Frequency of Premium Payment	Methods of Premium Payment Available	Annual Premium Discount Rate
Monthly	Allotment from military pay	No Discount
	Deduction from VA compensation payments	
	Check	
	On-demand deduction from checking account or credit card account	
Quarterly	Check	2.50% Discount
	On-demand deduction from checking account or credit card account	
Semi-annually	Check	3.75% Discount
	On-demand deduction from checking account or credit card account	

Annually	Check	
	On-demand deduction from checking account or credit card account	5.00% Discount

Source: Department of Veterans Affairs, Regional Office and Insurance Center, *VA Life Insurance Programs for Veterans and Servicemembers Handbook*, Philadelphia, PA, January 2012, p. 43.

VGLI Coverage Reduction Schedule

As veterans age, they incur higher premium rates for insurance coverage, as shown in **Table 5**. To lessen or maintain cost at older ages, veterans may gradually reduce the amount of their VGLI coverage. VA recommends the following schedule that will allow veterans to maintain level premiums ($225 per month) while reducing coverage at the ages of 65 and older:

Table 5. VGLI Coverage Reduction Schedule

Age Group	Coverage Level	Monthly Premium
65-69	$150,000	$225
70-74	$100,000	$225
75 & over	$50,000	$225

Source: Department of Veterans Affairs, Regional Office and Insurance Center, *VA Life Insurance Programs for Veterans and Servicemembers Handbook*, Philadelphia, PA, January 2012, p. 45.

Commercial Conversion Criteria

VGLI policyholders may convert to individual commercial policies at any time with a commercial company that participates in the program without proof of insurability so long as their VGLI premiums are paid up to the date of the conversion. However, once a veteran converts his or her coverage to a commercial policy, he or she may no longer renew his or her VGLI coverage. Veterans that convert to commercial policies are issued standard premium rates regardless of their health, but coverage may not exceed the amount of VGLI coverage that the members had at the time of conversion. In addition, the conversion policy must be a permanent policy, such as a whole life policy. Other types of policies, such as term, variable life, or universal life insurance, are not allowed as conversion policies. Spouses and children may not be covered under VGLI.

To convert a VGLI policy, the veteran must

- select a company from the participating companies listing;
- submit an application to the local sales office of the company selected;
- obtain a letter from the OSGLI verifying coverage; and
- give a copy of that notice to the agent who takes the application.

Service-Disabled Veterans' Insurance Program

During the Korean War, Congress passed the Insurance Act of 1951 (P.L. 82-23) and established the Service-Disabled Veterans' Insurance (S-DVI) program, which is administered entirely by the VA. S-DVI was created to meet the insurance needs of certain veterans with service-connected disabilities, many of whom would not be eligible for private life insurance due to their service-connected disabilities.[43] S-DVI is available as a permanent plan or as a five-year term policy for disabled veterans, and policyholders can apply for up to $10,000 in coverage. Policies for this insurance are issued with the letters "RH" in front of the policy number. RH insurance is considered nonparticipating, which means that no dividends are paid to policyholders. S-DVI is still being issued to new policyholders, and it is currently the only issue of direct VA life insurance for veterans that is open to new policyholders. **Table 6** shows basic statistics related to S-DVI, including the current number of veterans covered and the average age of covered veterans.

Table 6. S-DVI Current Coverage Information

Number of veterans with 5-year term policies	58,860
Number of veterans with permanent plan policies	139,183
Total amount of insurance in force	$2.3 billion
Average coverage per veteran	$11,8158
Average age of covered veteran	61.5
Average annual death rate	37.3 per 1,000
Total disbursements FY2010	$147.0 million
Percentage of policies on premium waivers	49%

Source: Department of Veterans Affairs, Regional Office and Insurance Center, *VA Life Insurance Programs for Veterans and Servicemembers Handbook*, Philadelphia, PA, January 2012, p. 25.

Note: Veterans may choose either a five-year term policy or a permanent plan policy when applying for S-DVI.

Eligibility Requirements

To be eligible for S-DVI, a veteran must have

- been released from military service for reasons other than dishonorable discharge or bad conduct discharge awarded at General Court-Martial;[44]
- been released from active duty on or after April 25, 1951;
- been rated for a service-connected disability or disabilities (even if only 0%), but is otherwise in good health; and
- applied within two years of receiving a rating for a new service-connected disability.[45]

[43] 38 U.S.C. §101.

[44] If the veteran has been released for bad conduct discharge awarded at Special Court-Martial he or she may be eligible if the administering agency determines that, for its purposes, the discharge was not under dishonorable conditions.

[45] Service-connected disabilities are evaluated according to the VA Schedule for Rating Disabilities in Title 38, *Code of Federal Regulations*, Part 4.

Ratings for service-connected disabilities are determined by the severity of the veteran's disability on a scale from 0% to 100%. 0% is a valid rating and is different from no rating at all. A 0% rating means that a service-connected disability exists, but it is not so disabling that it entitles the veteran to compensation payments. Under S-DVI, all veterans with a service-connected disability are eligible for coverage, no matter the rating. However, the veteran must submit an insurance application within two years from the date that he or she is notified about the disability rating. If the veteran does not apply within that time but service connection is later established for some new condition, the veteran will then have two years from the date of notice of that new condition to apply.

S-DVI Premiums and Disability Provisions

Premiums charged for S-DVI coverage are

- based on the rates that healthy people would have been charged when the program started in 1951, and based on 1941 mortality tables; and
- waived for veterans who are totally disabled.

Because the program insures many veterans who have severe disabilities, premium payments are insufficient to pay all claims and are supplemented yearly by congressional appropriations.

Premiums paid for S-DVI coverage increase as policyholders get older. On November 1, 2000, to provide financial relief from high premium rates for veterans at advanced ages, "RH" term premiums were "capped" at the age 70 renewal rate. Therefore, annual premiums for policyholders were "capped" at $69.73 per $1,000 of coverage.[46]

A major issue for "RH" policyholders is that "RH" premiums are much higher than standard commercial rates because they are based on outdated mortality (1941) tables. The following statement was made at a hearing in the 111th Congress, concerning the VA's current use of 1941 mortality tables to determine S-DVI premium rates:

> the current mortality tables are almost 70 years old. Tables now are based on the assumption that disabled vets die at an average age of 58, which is no longer true given today's record. As life expectancy has significantly improved over the past 60 years, commercial insurance companies have used up-to-date mortality tables. The newest table in general used by the insurance industry has premium rates roughly 50 percent lower than S-DVI rates.[47]

Because life expectancy has improved since the adoption of the S-DVI 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. To address these concerns, it has been recommended that legislation be introduced to lower S-DVI premiums by basing them on the 2001 CSO Mortality Table, the table currently used by the National Association of Insurance Commissioners.

Some S-DVI policyholders are eligible for premium waivers at no extra cost. To be eligible for a premium waiver, an insured person must have a total disability that lasts six months or longer and

[46] Department of Veterans Affairs, Regional Office and Insurance Center, *VA Life Insurance Programs for Veterans and Servicemembers Handbook*, Philadelphia, PA, January 2012, p. 23.

[47] U.S. Congress, House Committee on Veterans' Affairs, Subcommittee on Disability Assistance and Memorial Affairs, *Legislative Hearing on H.R. 2379, H.R. 2713, H.R. 2774, and H.R. 2968*, 111th Cong., 1st sess., June 24, 2009, Serial No. 111-31 (Washington: GPO, 2010), p. 2.

that starts before the age of 65. Even if the total disability started before the effective date of the policy, a waiver can still be obtained as long as the total disability is service-connected.

Eligibility Requirements

The Veterans' Benefits Act of 1992 (P.L. 102-568) made supplemental coverage accessible to S-DVI policyholders. Veterans who are totally disabled may apply for a waiver of premiums and additional supplemental coverage of up to $20,000. The Veterans' Benefits Act of 2010 (P.L. 111-275) increased the maximum coverage amount to $30,000 effective October 1, 2011. However, premiums cannot be waived on the additional supplemental coverage. To be eligible for Supplemental RH, policyholders must

- be eligible for a waiver of premiums on their basic S-DVI policy due to total disability;[48]
- apply for this coverage within one year from notice of the grant of the waiver; and
- be under the age of 65.[49]

In the period from December 1992 to September 2010, VA approved 39,336 applications for Supplemental RH.[50]

Gratuitous S-DVI ("ARH")

In 1959, Congress passed legislation to protect veterans who became incompetent due to a service-connected disability while eligible to apply for S-DVI, but who died before filing an application. This program is known as Gratuitous S-DVI (or ARH). Gratuitous S-DVI differs from S-DVI because it is

- issued posthumously,[51]
- payable to a preferred class of a veteran's relatives, and
- payable solely in a lump sum.[52]

Eligibility Requirements

Gratuitous S-DVI is granted posthumously to veterans who

- met the basic eligibility requirements for S-DVI;
- did not apply for S-DVI because of continued mental incompetence due to a service-connected disability; and
- died before a guardian was appointed or within two years of such appointment.[53]

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[48] Total disability means the veteran is unable to work on his or her own at any occupation for which he or she is suited by training, education, or experience.

[49] Department of Veterans Affairs, Regional Office and Insurance Center, *VA Life Insurance Programs for Veterans and Servicemembers Handbook*, Philadelphia, PA, January 2012, p. 22.

[50] Ibid.

[51] After death.

[52] Department of Veterans Affairs, Regional Office and Insurance Center, *VA Life Insurance Programs for Veterans and Servicemembers Handbook*, Philadelphia, PA, January 2012, p. 23.

[53] Ibid., p. 76.

Applicants must submit their applications for Gratuitous S-DVI payment within two years from the date of the veteran's death. But if the person making the claim is mentally or legally incompetent when the right to apply for the benefit expires, he or she may apply within one year after his or her incompetency ends.

Gratuitous S-DVI lets veterans' families obtain lump-sum payments of $10,000 after the veterans' deaths as long as the previously mentioned eligibility requirements have been met. Gratuitous S-DVI is only payable as a lump sum and may not be paid as an annuity.

Payment of Gratuitous S-DVI is made to the following family members in the order listed below:

1. widow or widower of the insured, if living; if not,
2. insured's child or children, if living, in equal shares; if not,
3. insured's parents, if living, in equal shares.[54]

Management and Administration

In 1919, the VA began oversight of all servicemember life insurance programs. The VA issued United States Government Life Insurance to World War I servicemembers (1919-1951), National Service Life Insurance for World War II servicemembers (1940-1951), Veterans' Special Life Insurance for Korean War servicemembers (1951-1956), and Veterans' Reopened Life Insurance for disabled World War II and Korean War servicemembers (1965-1966). All of these life insurance programs are currently closed to new issues.

The only three VA life insurance programs that provide benefits to the families of servicemembers and veterans, and that are still allowing new issues of life insurance, are S-DVI, SGLI, and VGLI. Congress passed the Insurance Act of 1951 (P.L. 82-23) and established the S-DVI program. S-DVI was created to meet the insurance needs of certain veterans with service-connected disabilities, many of whom would not be eligible for private life insurance due to their service-connected disabilities. Following S-DVI, in 1965, with the authorization of Congress (as part of establishing SGLI), the VA Administrator purchased group life insurance and selected the Prudential Insurance Company of America to cover its policies. In 1974, VGLI became available to former servicemembers under P.L. 93-289. VGLI provides for the conversion of SGLI after separation from active duty.

In 1965, the Advisory Council on Servicemembers' Group Life Insurance was established.[55] Initially, the Advisory Council is responsible for reviewing the SGLI programs and advising the VA Secretary on policy matters concerning SGLI. However, in 1974, the Advisory Council became responsible for reviewing the VGLI program as well. The Advisory Council consists of the following six members according to current law:

- Secretary of the Treasury as chairperson,
- Secretary of Defense,
- Secretary of Commerce,
- Secretary of Health and Human Services,
- Secretary of Homeland Security, and
- Director of the Office of Management and Budget.

[54] Ibid.

[55] 38 U.S.C. §1974.

The VA Regional Office and Insurance Center (VAROIC) in Philadelphia, PA, supervises the SGLI and VGLI programs. However, the OSGLI in Roseland, NJ, a division of Prudential, administers the day-to-day operations of SGLI and VGLI.

How Policy Proceeds are Paid Out

SGLI and VGLI proceeds are paid either as a lump sum or with periodic payments over a period of 36 months. The lump sum payment may, at the beneficiary's election, be made as a single check (or electronic transfer) or via an Alliance Account. TSGLI proceeds may, at the beneficiary's election, be made as either a single check (or electronic transfer) or via an Alliance Account. An Alliance Account is an interest-bearing retained asset account administered through the Prudential Insurance Company of America that is similar to a checking account. Like a checking account, proceeds are deposited in the beneficiary's name and he or she is given a draft book, which the beneficiary may use to write drafts for any amount up to the full amount of the proceeds. However, unlike checks, drafts may not be used to make purchases at the point of sale. Instead, the beneficiary must write the draft and deposit it into his or her checking account, where the money will be transferred from the beneficiary's Alliance Account.[56]

Alliance Accounts are not offered under the S-DVI program, which is administered entirely by the VA. S-DVI beneficiaries may receive a lump-sum check or monthly payments, as predetermined by the veteran at the time that he or she fills out the application.

Accelerated Benefit Option

SGLI or VGLI policyholders may have access to the death benefits of their policies before they die if they exercise the Accelerated Benefit Option (ABO). This is a one-time benefit, available only if the policyholder is deemed terminally ill. If exercised, the ABO allows the policyholder to receive a lump-sum payment of the insurance subject to the following:

- Terminally ill policyholders will have access of up to 50% of the face amount of their coverage during their lifetimes.
- This money will be available in increments of $5,000.
- The insured must have a medical prognosis of life expectancy of nine months or less.[57]

The S-DVI program does not have an ABO.

Financial Counseling

Since October 1, 1999, the Beneficiary Financial Counseling Service (BFCS) has been available to VA insurance program beneficiaries. BFCS is a benefit that provides personalized objective financial counseling to SGLI, VGLI, and TSGLI[58] beneficiaries at no additional charge.

BFCS is provided by FinancialPoint. Beneficiaries may contact financial advisors to answer financial questions 24 hours a day, seven days a week, by calling FinancialPoint's toll free

[56] Beneficiaries cannot deposit additional funds into an Alliance Account.

[57] Department of Veterans Affairs, Regional Office and Insurance Center, *VA Life Insurance Programs for Veterans and Servicemembers Handbook*, Philadelphia, PA, January 2012, p. 33.

[58] The TSGLI program is administered under the SGLI program and provides short-term financial assistance to servicemembers who suffer from traumatic injuries.

number.[59] Beneficiaries may request targeted assistance; for instance, help with estate planning or saving for retirement. Beneficiaries may also request comprehensive personalized financial plans by submitting detailed financial questionnaires or having face-to-face meetings with advisors.

Policy Issues

Coverage Limit for S-DVI

Currently, S-DVI policies are issued for a maximum face value of $10,000. This amount has not been increased in almost six decades. The $10,000 maximum coverage was part of the S-DVI program at its inception in 1951.[60] By comparison, $10,000 in 1951 would be worth nearly $88,300 in 2012 after adjusting for inflation. Also, policyholders are denied the opportunity to buy additional coverage under the program.[61]

As of June 24, 2009, less than 4% of veterans who were eligible to participate in the program were insured under S-DVI.[62] According to a recent congressionally mandated study, the lowest area of veteran satisfaction was "the maximum amount of S-DVI insurance coverage that veterans were authorized to purchase."[63] Some critics say the program falls far short of delivering the protection it was originally designed to provide. For example, Brian E. Lawrence, assistant national legislative director of the Disabled American Veterans, said

> 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 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. For example, Sears, Roebuck and Co. sold prefabricated houses in the early 1900's. Its 1920 catalogue featured 80 models, ranging in price from $4,900 to $6,000. Obviously, $10,000 went much further in 1917 than it does in 2003.[64]

According to the VA, 49% of the veterans enrolled in the S-DVI program are considered totally disabled and are eligible for a premium waiver for their basic coverage.[65] Of those who were

[59] 1-888-243-7351 (SGLI or VGLI) or 1-800-428-3416 (TSGLI).

[60] U.S. Congress, House Committee on Veterans' Affairs, Subcommittee on Disability Assistance and Memorial Affairs, *Legislative Hearing on H.R. 2379, H.R. 2713, H.R. 2774, and H.R. 2968*, 111th Cong., 1st sess., June 24, 2009, Serial No. 111-31 (Washington: GPO, 2010), p. 3.

[61] Ibid., p. 2.

[62] U.S. Congress, House Committee on Veterans Affairs, Subcommittee on Disability Assistance and Memorial Affairs, *Legislative Hearing on H.R. 2379, H.R. 2713, H.R. 2774, and H.R. 2968*, 111th Cong., 1st sess., June 24, 2009, Serial No. 111-31 (Washington: GPO, 2009), p. 1.

[63] Department of Veterans Affairs, *Program Evaluation of Benefits for Survivors of Veterans with Service-Connected Disabilities, 2001*.

[64] U.S. Congress, House Committee on Veterans' Affairs, Subcommittee on Benefits, *Oversight Hearing on the Department of Veterans Affairs Life Insurance Program*, 108th Cong., 1st sess., September 25, 2003, Serial No. 108-23 (Washington: GPO, 2004), p. 10.

[65] Department of Veterans Affairs, *VA Life Insurance Programs for Veterans and Servicemembers Handbook*, Philadelphia, PA, January 2012, p. 25.

eligible in 2009, only 27% had a Supplemental S-DVI policy.[66] This means that a relatively small percentage of all S-DVI policyholders have $30,000 in total coverage, while a large majority of

[66] U.S. Congress, Senate Committee on Veterans' Affairs, *Veterans Benefits Enhancement Act of 2009*, report to accompany S. 728, 111th Cong., 1st sess., September 2, 2009, S.Rept. 111-71 (Washington: GPO, 2009), p. 3.

participants have $10,000 in total coverage. In comparison, the VGLI program offers maximum coverage of $400,000.

In addition, because coverage for S-DVI is not wholly funded by the premiums paid by policyholders, Congress appropriates funds to subsidize the program. These appropriations are necessary to support veterans who are waived from paying premiums because they are totally disabled from service-connected disabilities. Therefore, if the amount of coverage available to veterans were to increase, the appropriation allocated for the S-DVI program would also have to increase to avoid facing a shortfall.

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