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Statement of
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Federal Personnel and Compensation Division
Before the
Subcommittee on Compensation, Pension, Insurance
and Memorial Affairs of the Committee
on Veterans' Affairs
on
The [Servicemen's Group Life Insurance Program]

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the findings in our May 1, 1980, report on the administration of the Servicemen's Group Life Insurance (SGLI) program. Our review, which was performed at your request, focused on the program's coverage of the Ready Reserve. 1/

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 supervising the program, which includes establishing

1/The Ready Reserve consists of the Army National Guard, Army Reserve, Navy Reserve, Marine Corps Reserve, Coast Guard Reserve, Air National Guard, and Air Force Reserve.

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premium rates and collecting premiums from the uniformed services. The uniformed services are responsible for notifying Ready Reservists of their eligibility and coverage under SGLI, for collecting and accounting for premiums, and forwarding collections to VA. The Prudential Insurance Company insures the program and pays the benefit claims.

We found that (1) a large number of Ready Reservists are not paying premiums and as a result are receiving free insurance coverage, (2) the uniformed services are not complying with the law's requirement to forward funds to the VA for Ready Reservists who do not pay premiums, and (3) the uniformed services and the VA are having some difficulties in determining the eligibility of certain members of the Ready Reserve. These problems have existed since the Veterans Insurance Act of 1974 extended SGLI coverage to members of the Ready Reserve.

I will now briefly discuss our findings and recommendations for correcting these problems.

PREMIUM DELINQUENCIES

About 13 percent or 103,000 Ready Reservists currently participating in the program are delinquent in their premium payments and owe about \$1.3 million. Approximately \$750,000 of this amount represents delinquencies of 4 or more months. This does not include amounts owed by members who have separated from the Ready Reserve. We could not determine the size of this debt from available records, but we did find indications that it could be sizable. For example, data provided by the Navy

indicates that the total indebtedness of both its active and separated Ready Reservists could be as much as \$3.3 million.

We attribute much of this delinquency to the provision of the law which grants automatic coverage to eligible Ready Reservists, but does not provide for terminating coverage for reservists who do not pay their premiums.

According to the law, if members die before paying premiums, the unpaid amounts will be deducted from insurance proceeds awarded to beneficiaries. The Prudential Insurance Company informed us that during 1978 and 1979, it deducted premiums from proceeds of 274 Ready Reservists who died with 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. We believe that if a provision to terminate the insurance was added to the SGLI law, it would greatly alleviate the delinquency problems.

PROGRAM FUNDING NOT IN
ACCORDANCE WITH THE LAW

The law requires the uniformed services to deduct from their appropriations and forward to VA sufficient funds to pay the premiums for all Ready Reservists covered by SGLI. The uniformed services are also required by law to reimburse their appropriations by collecting premiums from the participants. We found, however, that only the Marine Corps and Coast Guard forward premiums to VA in this manner. The Army, Navy, and Air Force forward only the actual funds collected.

The Army, Navy, and Air Force have not complied with the law because they maintain that the SGLI program is intended to be self-supporting and should not be subsidized by the Government. We agree that the program should be self-supporting and believe the law should be changed to allow the uniformed services to submit only premiums collected. However, this change should only be made if a termination provision is also included in the SGLI law which would reduce the amount of delinquent premiums.

Until the law is amended, however, the uniformed services should be required to forward all funds due VA.

PROBLEMS IN DETERMINING ELIGIBILITY

While the program has been in effect for 6 years, there are still doubts on whether some Ready Reservists are eligible for SGLI. Specifically, this involves new enlistees in the Ready Reserve awaiting basic training and Ready Reservists drilling for retirement credits without pay.

At the time of our review, the Army offered SGLI coverage to all its new Ready Reserve enlistees including those who had not yet entered basic training. The Air Force did not offer coverage for new enlistees before basic training while the other uniformed services offered coverage before basic training only to those eligible to receive pay. As of September 30, 1979, about 13,100 new enlistees were offered coverage and 2,700 others were denied coverage because of these differing interpretations of the law.

VA rulings on the eligibility question have added to the confusion. The Army believes, and we would tend to agree, that the VA rulings have been unclear on whether all new enlistees are eligible for coverage. In fact, there are five legal cases pending in which Army Ready Reservists died after enlisting but before beginning training. Although the Army had provided SGLI coverage to these reservists, VA denied payments to their beneficiaries. One of these cases has gone to court and the beneficiary's claim was upheld. The court's ruling was primarily based on the fact that the reservist's unit was scheduled to perform periods of training which met the requirements of the law, even though the reservist himself had not participated in any of the training sessions. We have been informed that the Justice Department is appealing this case.

Another problem with SGLI eligibility involves Ready Reservists who have previous military experience and drill for retirement credits without pay. The law states that a Ready Reservist must be scheduled to perform 12 periods of inactive duty training in order to be covered by SGLI. This situation raises a question as to whether eligibility should be linked to a formal commitment to attend unit training assemblies or whether actual attendance should be required.

Ready Reservists who drill for pay are obligated to perform specific periods of inactive duty training. On the other

hand, Ready Reservists who drill for retirement credits volunteer to perform periods of inactive duty training without obligation.

We believe that the law is not clear on SGLI eligibility, and this has undoubtedly contributed to the difficulties that VA and the uniformed services have experienced in interpreting the law. The law must be clarified on whether new enlistees awaiting basic training are eligible for SGLI coverage and whether Ready Reservists scheduled to perform inactive duty training should also be obligated to perform and complete this training to maintain their eligibility. Unless the law is clarified, the problems we found are sure to continue.

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That concludes my statement, Mr. Chairman. My colleagues and I will be pleased to answer any questions.