

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

**Opening Remarks**

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

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

**Size and Scope of the Insurance Program**

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

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

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

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

government.

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

## **Financial Status**

### **Program Audits**

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

### ***Administered Programs***

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

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

### ***Supervised Programs***

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

## **Administrative Expenses**

### ***Administered Programs***

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

### **Supervised Programs**

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

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

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

#### **Demutualization**

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

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

#### **Management Fee for Prudential**

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

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

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

## **Return on Insurance Investments**

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

### ***Administered Programs***

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

### ***Supervised Programs***

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

## **Insurance Mission and Program Evaluation**

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

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

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

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

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

### **Administered Program Status**

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

### **Brief Background**

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

<b>Administered Programs (as of September 30, 2002)</b>					
Policy	Open Era	Number of	Average	Deaths	
Prefix	Issue Dates	Policies In	Age	per 1,000	
<b>USGLI</b>	<b>K</b>	<b>13,217</b>	<b>85.2</b>	<b>108.3</b>	
	<b>January 1, 1919 to April 24, 1951</b>				
<b>NSLI</b>	<b>V</b>	<b>1,502,463</b>	<b>77.9</b>	<b>56.7</b>	
	<b>October 8, 1940 to April 24, 1951</b>				
<b>VSLI</b>	<b>RS, W</b>	<b>227,341</b>	<b>70.6</b>	<b>23.4</b>	
	<b>April 25, 1951 to December 31, 1956</b>				
<b>VRI</b>	<b>J, JR, JS</b>	<b>67,531</b>	<b>78.6</b>	<b>64.4</b>	
	<b>May 1, 1965 to May 2, 1966</b>				
<b>S-DVI</b>	<b>RH</b>	<b>148,913</b>	<b>56.7</b>	<b>29.9</b>	
	<b>April 25, 1951 to Present</b>				
<b>VMLI</b>	<b>N/A</b>	<b>3,060</b>	<b>51.6</b>	<b>37.2</b>	
	<b>August 11, 1971 to Present</b>				

## Benefits and Enhancements

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

### ***Term Premiums Capped At Age 70***

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

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

### ***Termination Dividend for Term Capped Policies***

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

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

## **Delivery of Benefits**

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

### ***Toll-Free Service***

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

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

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

### ***Insurance Website and Self Service***

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

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

### ***Paperless Office***

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

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

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

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

**Interagency Data Exchanges**

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

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

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

**Performance**

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

<b>Individual Life Insurance Turnaround Times Survey - Winter 2002 (FY2001 Data)</b>	
<b>VA Insurance Data vs. Industry Company Data (47 companies)</b>	
<u><i>In Calendar days</i></u>	<u><i>In Work Days</i></u>

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

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

## **Supervised Program Status**

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

### **Brief Background**

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

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

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

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

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

### **Program Expansions**

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

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

### ***Accelerated Benefit Option (ABO)***

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

### **Benefits and Enhancements**

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

### ***Alliance Accounts***

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

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

### ***Beneficiary Financial Counseling Service***

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

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

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

### ***Premium Reductions***

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

#### ***SGLI Premium Reductions***

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

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

#### ***VGLI Premium Reductions***

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

## **Delivery of Benefits**

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

### ***Toll-Free Service***

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

### ***Internet Service***

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

## **Program Initiatives**

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

### ***Outreach Efforts to Separating Servicemembers***

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

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

### ***Outreach Efforts to Disabled Veterans***

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

## **Performance**

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

### ***Claims Payment Processing***

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

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

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

### ***Customer Service Survey Responses***

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

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

### **Looking Ahead**

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

### ***Administered Programs Declining Size***

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

### ***SGLI Expansions***

#### ***In contrast to the decline in the Administered Programs, we are assuming the supervised programs will continue to grow Succession Planning***

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

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

## **Closing Remarks**

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