

Prepared Statement
of
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INTRODUCTION

Mr. Chairman, and subcommittee members, the Department of Defense welcomes the opportunity to appear before you today to discuss the VA-managed insurance programs for servicemembers. Together, Servicemembers' Group Life Insurance (SGLI) and its derivative, Veterans' Group Life Insurance (VGLI), constitute an extraordinary life insurance program for people in uniform, and continuing thereafter. While the program applies equally to all branches of the Uniformed Services, those of the Department of Defense represent the vast majority of persons affected, making DoD the principal program client. And it is in that context that we view this program -- where the Department, as an employer client, obtains a product for our people.

PRIMARY ASPECTS OF THE PROGRAM

Let me emphasize that, in the Department's view, the program is working extremely well, and the Department of Defense is a very satisfied customer with respect to this program. In the following paragraphs, I address several aspects of the program.

Administrative structure

As I stated earlier, the DoD is an employer client for the overall SGLI/VGLI program, obtaining a benefit for our people from the Department of Veterans Affairs (VA). The VA, in turn, contracts with Prudential to manage the benefits, as well as the day-to-day aspects of the VGLI program. Finally, Prudential and other companies underwrite the broader risks of the program. We believe this program structure, while mostly invisible to us, is an important aspect of the program that makes it particularly robust. We have a great working relationship with the VA Insurance Center staff and have always found them to be most responsive to our needs and very considerate of the difficulties we sometimes encounter in implementing new programs and fulfilling our duties to track coverage, beneficiaries, and collect premiums. They have often stepped in to help us meet our program responsibilities. We have nothing but praise for these fine people.

Availability

The SGLI program provides automatic maximum coverage. This means that no member is without full coverage unless he or she specifically chooses that condition. This includes coverage for a spouse and children as well. While we have an occasional complaint about automatic maximum

coverage feature, the instances of such are relatively few and far between. On the other side, we have no doubt, from the instances when maximum benefits are paid to a grieving survivor, that full and automatic coverage is an essential element of the overall strength of this program. This is of some special significance today, in that the Reserves, who may not need maximum coverage from day to day, may need it when they are activated and put at greater risk. The automatic full coverage ensures these members have the coverage they desire. In addition, if the member finds the coverage is greater than they desire, it is easy for them to adjust. In most cases, the increased coverage is seen as a positive benefit.

Level of coverage

On one hand, \$250,000 may seem to be more insurance coverage than a young person needs. On the other, it may appear to be insufficient for a senior officer. However, senior members typically can, and do, obtain extra coverage at an economical price from one of many groups that serve the military community. Most officers increase their insurance as they progress in their career. The junior member is free to reduce the SGLI coverage to a level he or she feels appropriate. The member sees that his or her life is valued the same as that of the senior member. Most members tend to keep the highest level of coverage. Thus, the automatic maximum coverage may

result in higher overall coverage than needed to insure the financial risks of young members. However, we often find that the beneficiaries expect to receive the maximum benefit level and believe that the member would not choose anything less. From this perspective, the automatic maximum often keeps anguish from being added to grief and sorrow.

Premiums and Program Costs

Third, there is the cost to the member -- the premium. SGLI premiums are one price for all. The Department believes this keeps the program simple and is a positive aspect of the program. Also, the cost of coverage has been regularly reduced over the years and is at an all time low today. Although it is possible for some members to search and find competitively priced insurance from other providers, the convenience and affiliated benefits make the SGLI program very economical. Affordable premiums are important to the success of the program. Member paid premiums cover the full cost of peacetime death rates. This is fundamental to the nature of insurance -- sharing the cost to remove the risk of economic shock. Member premiums also help pay some administrative cost of VA and Prudential for program administration. We appreciate that these costs are well managed in these programs and their impact on premiums is nominal.

There is some cost sharing in the program. The Department of Defense bears the administrative cost of collecting premiums, tracking coverage, and beneficiary designations. The Service would also bear the cost of the extra hazards of military service should death rates exceed normal peacetime levels. While the Department has not used this feature since the Vietnam era, it provides the assurance of affordable premiums for those exposed to these extraordinary risks.

Finally, with respect to cost sharing, the cross flow by which SGLI helps keep down the cost of VGLI is an important means of making the costs of this program affordable to those who need it most. Many of these veterans would not be able to purchase insurance, at least not at affordable rates.

Delivery of Benefits

The Department is extremely pleased with the responsiveness of the Office of Servicemembers Group Life Insurance (OSGLI), which typically pays completed claims within 48 hours of receipt. In addition, there is now the option of an accelerated benefit for the terminally ill. The addition of the Alliance Account, which provides delivery of proceeds with greater security and convenience, is a positive improvement. Finally, the provision of beneficiary counseling helps beneficiaries understand how to manage the

proceeds in ways that will provide them a more secure future. This is a very valuable benefit for our survivors.

Completeness

The availability of VGLI on a lifetime basis is an important part of the completeness of this program. With the recent VGLI premium reductions, this program is getting stronger everyday. VGLI is available to both the one-term veteran as well as the career retiree. Not every member wants to keep this insurance, but VGLI makes continuing insurance affordable to those who might have encountered some problems in service that would otherwise render them uninsurable or insurable for a high premium.

With the recent enhancement to cover spouses and children, the Department believes the program is now truly comprehensive, and second to none. Implementation of this program was not without frustration, but it has been a very positive addition to the program. The Department receives few, if any, complaints now that the program is underway.

CONCLUSION

All in all, the SGLI has proven to be one of the best programs of its kind ever conceived. The structure of the program provides strength and agility. The Department of Defense, as the employer client, relies on VA as

the Government provider, to keep the program operationally sound.

Prudential, as a premier private sector insurance company, keeps bringing to the program the most modern and attractive features available to the insurance industry. This makes for a progressive benefit that just keeps getting better. Overall, the SGLI and VGLI program structure has proven to be one of exceptional strength that keeps the program among the best in the business. The Department of Defense is a very satisfied customer!