CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

February 28, 2002

H.R. 2222

Veterans Life Insurance Improvement Act of 2001

As introduced on June 19, 2001

SUMMARY

H.R. 2222 contains provisions that would affect several insurance programs administered by the Department of Veterans Affairs (VA). CBO estimates that enacting this legislation would raise direct spending by $17 million in 2003, $114 million over the 2003-2007 period, and $241 million over the 2003-2012 period. In addition, the bill would increase spending subject to appropriation by negligible amounts each year. Because the bill would affect direct spending, pay-as-you-go procedures would apply.

H.R. 2222 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2222 is shown in Table 1. This estimate assumes the legislation will be enacted by October 1, 2002. The costs of this legislation fall within budget function 700 (veterans benefits and services).

TABLE 1. ESTIMATED BUDGETARY IMPACT OF H.R. 2222 (By fiscal year, in millions of dollars)

	2002	2003	2004	2005	2006	2007
CHANGES IN DIRECT SPENDING						
Estimated Budget Authority	0	17	18	30	21	28
Estimated Outlays	0	17	18	30	21	28

BASIS OF ESTIMATE

The legislation would affect direct spending for four insurance programs administered by VA. Table 2 summarizes those effects, and individual provisions that would affect direct spending are described below.

TABLE 2. ESTIMATED CHANGES IN INSURANCE PROGRAMS UNDER H.R. 2222
(Outlays in millions of dollars, by fiscal year)

Description of Provision	2002	2003	2004	2005	2006	2007
Alternate Beneficiaries for USGLI and NSLI	0	0	0	11	1	6
Premium Reductions for S-DVI	0	15	16	17	18	18
Expand Coverage for VMLI	0	2	2	2	2	3
Eliminate Age Restrictions for VMLI	0	a	a	1	1	1
Total Changes in Insurance Programs	0	17	18	30	21	28

NOTES: USGLI=United States Government Life Insurance
NSLI=National Service Life Insurance
S-DVI=Service-Disabled Veterans Insurance
VMLI=Veterans Mortgage Life Insurance
Estimated changes in budget authority would equal estimated changes in outlays.

a. Less than $500,000.

Alternate Beneficiaries. Section 2 of H.R. 2222 would allow payments of proceeds to alternate beneficiaries of certain VA life insurance policies. United States Government Life Insurance (USGLI) and National Service Life Insurance (NSLI) are programs that were established during World War I and World War II to provide life insurance coverage to servicemembers, many of whom could not afford the high premiums associated with commercial policies. Under current law, there is no time limitation within which a named beneficiary is required to file a claim. Because these policies are old, VA sometimes has great difficulty finding the individuals to whom the proceeds should be paid. Moreover, an alternate beneficiary cannot be paid unless VA determines that the principal beneficiary died before the policyholder. VA is required to hold the unclaimed funds indefinitely as a liability to honor any possible future claims.

Section 2 would allow VA to pay USGLI or NSLI proceeds to a named alternate beneficiary if the principal beneficiary has not made a claim within two years after the death of the policyholder or the enactment date of this bill, whichever is later. If no claim has been made by any named beneficiary within four years of the policyholder's death or bill enactment, the Secretary may pay the proceeds to any person deemed entitled to the funds.

VA estimates there are currently about 4,000 policies with no locatable primary beneficiary. VA also predicts that an additional 200 policies will require settlement each year where the primary beneficiaries cannot be found. According to VA, the current policies have an average face value of $5,750 and new policies would have an average face value of $9,600. CBO assumes that VA will be able to find another beneficiary for two-thirds of the policies and that two-thirds of these will be paid after two years with the other third paid after four years. CBO estimates the cost of section 2 would be $11 million in 2005, $18 million over the 2005-2007 period, and $25 million over the 2005-2012 period.

Based on data provided by VA, CBO estimates that VA would need to hire two additional employees to handle the larger caseload associated with paying claims to alternate beneficiaries of USGLI or NSLI proceeds. Since the surplus from the insurance trust funds would cover almost all of the costs of new hires, CBO estimates that spending subject to appropriation would increase by less than $10,000 a year under this provision.

Premium Reductions. Section 3 would reduce the premiums for Service-Disabled Veterans Insurance (S-DVI) by updating the mortality table used to calculate the rates for new policyholders. The program was established to provide certain disabled veterans with life insurance at premiums based on the mortality rates of comparable nondisabled individuals. Since the collected premiums are not large enough to cover the cost of the program, VA has always subsidized this program. Lowering the premiums would allow more veterans to participate in the program but would also increase the amount of the VA subsidy.

CBO obtained data from VA that compared the projected subsidies to the S-DVI program if premiums for policyholders were maintained at the current rates against the estimated subsidies needed if premiums were reduced as proposed in this section. Data from VA indicates that premiums could be reduced by between 40 percent and 75 percent depending on the veteran's age and type of life insurance issued if the new mortality tables were used to calculate premiums for new policyholders. Using these differences in the premiums and assuming that participation in the program would double from 3,600 to 7,200 policyholders, CBO estimates that this provision would cost $15 million in 2003, $83 million over the 2003-2007 period, and $183 million over the 2003-2012 period.

Expand Coverage for Mortgage Life Insurance. Veterans Mortgage Life Insurance (VMLI) provides coverage to certain severely disabled veterans who have received grants for specially adapted housing from VA. VMLI pays off the outstanding balance of the mortgage upon the veteran's death. Under current law, the maximum coverage allowed under VMLI is $90,000. Section 4 would increase this amount to $200,000. By doing so, this provision would increase the number of veterans who have their entire mortgage balance covered by insurance from 62 percent to 99 percent. According to VA, about 3,000 veterans participate in the program.

Since the premiums charged to these veterans are based on the mortality rates of comparable nondisabled individuals, the program requires a subsidy from VA to cover the costs of the claims. While the proposed change in coverage would increase the premiums paid by the policyholders, it would also increase the amount of the subsidy required from VA. CBO used data provided by VA that compared the projected subsidies to the VMLI program if the current coverage level was maintained against the estimated subsidies needed if the coverage was expanded to $200,000. The difference represents the additional subsidy that would be required from VA. CBO estimates that enacting this provision would cost about $2 million in 2003, $11 million over the 2003-2007 period, and about $29 million over the 2003-2012 period.

Eliminate Age Restriction for Mortgage Life Insurance. Under current law, VMLI coverage terminates at age 70. Section 5 would allow veterans who already have VMLI to maintain coverage regardless of age. A recent survey conducted for VA found that 12 percent of veterans whose VMLI was terminated had their coverage terminated due to the age restriction. Based on data from VA, CBO estimates that the increased subsidy required under this provision would cost less than $1 million a year.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays that are subject to pay-as-you-go procedures are shown in Table 3. For the purposes of enforcing pay-as-you-go procedures, only the effects through fiscal year 2006 are counted.

TABLE 3. ESTIMATED IMPACT OF H.R. 2222 ON DIRECT SPENDING AND RECEIPTS
(By fiscal year, in millions of dollars)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Changes in outlays	0	17	18	30	21	28	24	25	26	26	27
Changes in receipts	Not applicable										

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 2222 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

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