

CHAPTER 18

STUDY PLAN

VA LIFE INSURANCE

OBJECTIVE

To learn about the different types of life insurance plans available to veterans, and the terms and conditions associated with them.

REFERENCES:

- Title 38, U.S. Code, Chapter 19.
- Title 38, Code of Federal Regulations, Parts 6, 7, 8, 8a, and 9.
- Insurance Operations Manual M29-1
- Veterans Benefits Manual, § 11.6
- *Federal Benefits for Veterans, Dependents and Survivors*, 2014 edition
- VA Pamphlet 29-9, *Service-Disabled Veterans Insurance: RH: Information and Premium Rates*
- VA Handbook H-29-98-1, *Servicemembers' and Veterans' Group Life Insurance Handbook* (May 2014)
- *VA Life Insurance Programs for Veterans and Servicemembers* (January 2006)
- *VA Form 29-4364, Service-Disabled Veterans (S-DVI) Insurance Application*
- *VA Fact Sheets:*
 - *Servicemembers' Group Life Insurance, March 2015*
 - *Veterans' Group Life Insurance, March 2015*
 - *Veterans' Mortgage Life Insurance, March 2015*
 - *Service-Disabled Veterans Insurance, March 2015*
 - *Traumatic Injury Protection Under Servicemembers' Group Life Insurance, March 2015*
 - *Family Servicemembers' Group Life Insurance, March 2015*

SUMMARY

The Department of Veterans Affairs (VA) either directly administers or supervises the administration of eight current insurance programs, covering veterans and active duty servicemembers from World War I to the present. All VA insurance activities are centralized to the VA Regional Office and Insurance Center (VAROIC) in Philadelphia, Pennsylvania.

SERVICE-DISABLED VETERANS INSURANCE (S-DVI)

The Insurance Act of 1951 established an insurance program for veterans with service-connected disabilities, the Service-Disabled Veterans Insurance (S-DVI) program, identified by policy number prefix **"RH"**. This program is still open to veterans who are adjudicated as having a service-connected disability of any severity (including 0%), and continues to accept new enrollees. The veteran must apply for this insurance within two years from the date of notification that service connection is established for a condition. 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.

The normal policy coverage is \$10,000; premiums for this may be waived if the veteran becomes totally disabled from any cause prior to age 65. The veteran may then apply for \$20,000 of supplemental coverage (for a total of \$30,000), providing application is made within one year from the date the veteran is notified of eligibility for waiver of the basic premium because of total disability. However, premiums on the supplemental coverage may not be waived. Beginning November 1, 2000, premium rates for **"RH"** policies were capped at age 70 levels.



In 1959 an additional provision was made for those veterans who were eligible to apply for S-DVI but who became incompetent and then died as a result of service-connected disability before their legal fiduciary could make application. This gratuitous S-

DVI, identified by policy number prefix "**ARH**", is for a maximum amount of \$10,000 and is payable in a lump sum only, to the veteran's spouse; or if no spouse, to the children, in equal shares; or if no children, to the parents, in equal shares. Application for gratuitous S-DVI must be received within two years of the veteran's death.

SERVICEMEMBERS' GROUP LIFE INSURANCE (SGLI)

The Servicemembers' Group Life Insurance (SGLI) program was established in 1965. This is a group life policy issued by the Prudential Insurance Company of America, and is administered by the Office of Servicemembers' Group Life Insurance (OSGLI) under VA supervision. The program provides full-time coverage of up to \$400,000 (beginning September 1, 2005) to all commissioned officers, warrant officers and enlisted members of the Armed Forces, as well as to commissioned members of the National Oceanic and Atmospheric Administration and the U.S. Public Health Service, to cadets and midshipmen of the U.S. Service Academies, and to Ready Reservists who are scheduled to perform at least 12 periods of inactive duty training per year.

Maximum coverage of \$400,000 is automatic for the eligible servicemember or Reservist upon entry onto active duty or Reserve status, unless the member declines coverage or elects reduced coverage, in increments of \$50,000. Full-time coverage remains in effect throughout the member's period of active duty or Reserve status, and for a period of 120 days following separation or release. However, if the servicemember is totally disabled at the time of separation from active duty, he or she may obtain free (no-cost) coverage upon application until the total disability ends or for two years, whichever occurs first. In order to preserve life insurance, the member must either convert the SGLI coverage to Veterans' Group Life Insurance (VGLI) or to an individual commercial life insurance policy before the expiration of the covered period.

TRAUMATIC INJURY PROTECTION (TSGLI)

Beginning December 1, 2005, an additional special Traumatic Injury Protection (TSGLI) feature is also provided to all servicemembers who are presently covered under SGLI, and will be retroactively provided to servicemembers who received covered injuries while serving in Operation Iraqi Freedom or Operation Enduring Freedom between October 7, 2001 and November 30, 2005. The servicemember may not decline this coverage unless he/she also declines basic SGLI coverage. Payments will range from \$25,000 up to a maximum of \$100,000. Covered traumatic injuries include permanent total blindness in one or both eyes; severance of one or both hands, or one or both feet, at or above the wrist or ankle; permanent total deafness in one or both ears; severance of the thumb and index finger of the same hand; 3rd-degree burns covering 30% or more of the face, or 30% or more of the body; hemiplegia, paraplegia, or quadriplegia; or coma or inability to carry out activities of daily living due to traumatic brain injury.

FAMILY SGLI (FSGLI)

The **dependent spouse** and **child** of an eligible servicemember or Reservist may also be insured, under Family SGLI (FSGLI). The servicemember or Reservist must be insured under SGLI before dependents may be insured under this program. Coverage is \$100,000 for the spouse, unless



the sponsor elects coverage of less than \$100,000, and \$10,000 for each child. When the sponsoring servicemember or Reservist is separated or released from active duty or Reserve status, the insured spouse will have 120 days to convert the FSGLI policy to a commercial life insurance policy (there is no equivalent coverage under VGLI for a spouse). FSGLI insurance for a dependent child will terminate when the sponsoring servicemember is separated or released from active duty or Reserve status. The same time limits and other restrictions will apply if the sponsor should die while insured under SGLI.

Part-time SGLI coverage is provided to eligible Reservists (but not to their dependents) who do not qualify for full-time coverage. Part-time coverage is in effect only on the actual days of active duty or active duty for training and the travel to and from such duty. Coverage may be extended for 120 days if the member incurs or aggravates a disability during a period of such duty.

VETERANS' GROUP LIFE INSURANCE (VGLI)

The Veterans' Group Life Insurance (VGLI) program was established in 1974. Like SGLI, the program is a group life policy issued by the Prudential Insurance Company of America, and is administered by OSGLI under VA supervision. VGLI is a renewable five-year term insurance. It can be converted at any time to an individual commercial life insurance policy with any one of the participating commercial insurance companies.



VGLI insurance is a term life insurance only. It does not pay dividends. There is no loan, cash, paid-up, or extended insurance values, and there are no provisions for waiver of premiums or other benefit because of total disability.

Servicemembers and Reservists with full-time SGLI coverage are eligible for VGLI upon being released from active duty or the Reserves, provided that application for coverage is submitted within 120 days following separation (or within two years following separation, if the servicemember is totally disabled at time of separation). Members of the Ready Reserve who have part-time coverage under SGLI are also eligible for VGLI if they incur or aggravate a disability while performing active duty or active duty for training, which renders them uninsurable at standard rates. Finally, members of the Individual Ready Reserve (IRR) and Inactive National Guard (ING) are

eligible for VGLI, provided they apply for coverage within 120 days after assignment, and for so long as they remain members of the IRR or ING.



Beginning September 1, 2005, VGLI will be issued in increments of \$50,000 up to \$400,000, but may not exceed the amount of SGLI in force at the time the veteran separated from active duty or the Reserves. Persons who were discharged from service prior to September 1, 2005 and who were enrolled in SGLI continue under the previous limits: VGLI will be issued in increments of \$10,000 up to a maximum of \$200,000, but not to exceed the amount of SGLI coverage in effect at time of discharge from service.

Since rates for term insurance increase as the policyholder gets older, a Decreasing Term Option has been added for older policyholders. This keeps the premiums level for life while the coverage declines by 25% over three successive five-year renewal periods, then remains level thereafter at 25% of the original coverage.

VETERANS' MORTGAGE LIFE INSURANCE (VMLI)

Veterans' Mortgage Life Insurance (VMLI) is a special mortgage life insurance issued only to those severely disabled veterans who have been issued a Special Adapted



ADVOCACY TIP

Because there could be potential liability concerns for yourself and your office, it is a good practice that if you assist a veteran in completing a Beneficiary Designation/Change form, you require that they mail the form to the VA Insurance Center themselves. That protects you and your office if the form is lost and/or otherwise undelivered to the Insurance Center before the veteran dies.

Housing grant by VA. Coverage is automatic unless the veteran specifically declines it. The maximum amount of the policy is \$200,000, and coverage decreases as the amount of the mortgage decreases. The insurance is payable only upon the veteran's death, and only to the mortgage lender. VMLI is not available if the veteran is 70 years old or more when eligibility for Special Adapted Housing arises. If the home is refinanced or

remortgaged, the maximum amount of insurance will not be reinstated. If the veteran is a part owner of the home, the insurance will cover only the percentage of the title in the veteran's name. The insurance coverage terminates if the mortgage is fully paid off, or if the veteran terminates ownership of the property securing the mortgage. Beginning December 6, 2002, VMLI no longer automatically terminates upon the veteran's 70th birthday. Beginning October 1, 2005, VMLI premiums were reduced an average of 35 per cent for all current policyholders.

DISBURSEMENTS

VA insurance proceeds other than SGLI or VGLI are paid either as a **lump sum** or in guaranteed installments of from 36 to 240 monthly payments. If **installments** are selected and no beneficiary survives the insured, or no beneficiary survives to receive all of the guaranteed installments, any available amounts will be paid in a lump sum to the veteran's estate (or for USGLI policies, the estate of the last surviving beneficiary). If a lump-sum option is selected, the proceeds are paid to the beneficiary's estate unless the insured has directed that they be paid to contingent beneficiaries. If multiple beneficiaries are named, the share(s) of any beneficiaries who die before the veteran are paid to the surviving beneficiaries. (See the Sample Claim Form on Page 6-9.)

SGLI and VGLI policy proceeds are payable either as a lump sum, or in installments of not more than 36 equal monthly payments. If the lump sum option is chosen, the proceeds are deposited into an interest-bearing account called an "Alliance Account," which is guaranteed by Prudential. The beneficiary is issued a checkbook from which checks may be written against the account, for any amount from \$250 up to the full amount of the proceeds.

SGLI and VGLI policies also have an "**accelerated benefit**" provision for terminally ill insured persons. This permits payment of up to one-half the face amount of the policy (reduced by the amount of interest which would have been earned but for the early payment) to the insured person prior to his or her death, in increments of \$5,000. Medical certification of life expectancy of nine months or less is required.

PREMIUMS

With certain exceptions, all VA policies have provision for **waiver of premiums** if the policyholder becomes totally disabled prior to age 65. The total disability need not be service-connected, but must last for at least six months. USGLI policyholders who elected the "Endowment at Age 96" option do not have waiver of premiums for total disability. Totally disabled veterans who have "**RH**" policies may be granted a waiver of premiums for the basic policy (\$10,000), but not for any supplemental coverage. Veterans who qualify for VMLI are totally disabled by definition, and there is no waiver of premiums. All USGLI, NSLI, VSLI, and VRI policies except for "**RH**", "**JR**", and "**JS**" also have a Total Disability Income Provision, which pays a monthly amount should the insured become totally disabled before age 65. VGLI does not have waiver of premiums for total disability.

Insurance premiums which are not waived may be paid in any of several different ways: by direct payment (check or money order payable to VA); by allotment from service pay or military retired pay (if the insured veteran is receiving service pay or military retired pay); by deduction from VA benefits (if the veteran is receiving VA compensation or pension); by automatic deduction from the insured veteran's checking account (VA MATIC); or by using insurance dividends to pay the premiums.



DIVIDENDS AND CASH VALUE

USGLI, NSLI (except prefix "H"), VSLI, and VRI policies all pay **annual dividends**. Unless specified otherwise, dividends will be credited to an interest-bearing account, to be added to the cash value of the insurance. Other options include direct payment to the policyholder; using the dividends to pay premiums in advance; using the dividends to purchase additional paid-up insurance; or using the dividends to reduce indebtedness by applying them towards a loan or lien on the policy.

Except for SGLI, VGLI and VMLI policies, an insurance policy has a **cash value** equal to the reserve (the paid-up amount) plus any dividends held on deposit plus interest, less any indebtedness. After the policy has been in force for at least one year with all

premiums either paid or waived, the policy may be surrendered for its cash value upon written request. However, if a policy is surrendered for cash it may not thereafter be reinstated. A loan for up to 94% of the value of the reserve less any indebtedness may be made on a policy which has been in force for at least one year with all premiums either paid or waived.

DESIGNATION OF BENEFICIARIES

An insured veteran may name any person(s) or legal entity as **beneficiary**, including corporations and estates. Unless the veteran specifies otherwise, beneficiary designation(s) will apply to all of the veteran's policies. If there are multiple beneficiaries, the share distribution must equal 100%. Principal and contingent beneficiaries must always be clearly identified as such. All beneficiary designations must be in writing on the appropriate Beneficiary Designation form for each insurance program and must be witnessed. If no beneficiary is designated, the standard order of distribution is: **1.** spouse; **2.** children (in equal shares); **3.** parents (in equal shares); **4.** executor/administrator of the estate; or **5.** other next of kin. (See the sample designation form in this chapter.) The insured veteran retains ownership of the policy or policies, and retains the absolute right to name or change beneficiaries regardless of state court orders, property settlements, or divorce decrees to the contrary. Ownership of the policy may not be divested from the insured, nor may it be transferred to a trust (however, a trust may be named as a beneficiary).

If the veteran is adjudged **incompetent** by a court of competent jurisdiction, the legal representative (guardian, conservator, etc.) may make a beneficiary designation on the veteran's behalf, with the specific authorization of the court. An alternative is to have the veteran make the change of beneficiary during a lucid moment; this must be witnessed by a physician, who must then verify in writing that the insured had the capacity to understand the nature and consequences of the action. A last will and testament may not be used to make a change of beneficiary, although it can be used to designate changes in payment options.



STUDY QUESTIONS

Using the assigned references and reading materials, answer the following questions:

1. Beginning in 1991, gratuitous S-DVI insurance is payable to the beneficiary only as a lump-sum payment. (T/F)

38 U.S.C. §§ 1917(b)(1-4); 1922(b)(4)

2. For veterans who qualify for VMLI insurance, the maximum coverage is

\$_____.

- a. \$55,000
- b. \$75,000
- c. \$200,000
- d. \$115,000

38 U.S.C. § 2106 (b)

3. The maximum coverage available under SGLI is \$400,000, and is automatically assigned upon entry onto active duty. May the servicemember elect lesser coverage? (Y/N)

38 U.S.C. § 1967(a)(1)(3)(A)(i)

4. The spouse of a servicemember covered under SGLI may also be insured under SGLI, and may convert that insurance to either VGLI or to a commercial life insurance policy, if the spouse makes a request within 120 days of the date the sponsoring servicemember is separated from active duty. (T/F)

38 U.S.C. § 1968(b)(3)(A)

5. A veteran who was covered under SGLI while on active duty, who is not totally disabled, may convert that policy to VGLI by making application within 180 days of separation from active duty. (T/F)

38 C.F.R. § 9.2(b)(1)

6. To qualify for S-DVI coverage, a veteran must have at least one compensable (10%) service-connected disability. (T/F)

38 U.S.C. § 1922(a)

7. Who is the beneficiary on a VMLI policy?

- a. The mortgage holder (lender) on the veteran's specially adapted house.
- b. The veteran's spouse.
- c. Any co-mortgagee other than the veteran's spouse.
- d. None of the above.

38 U.S.C. § 2106(e)

8. Can a veteran name a new insurance beneficiary in his or her will? (Y/N)

38 C.F.R. § 8.19

9. What is the time limit for applying for coverage under the S-DVI ("RH") insurance program?

- a. Six months after separation from active duty, if the veteran has a disability.
- b. One year from the date the veteran applies for service connection for a disability.
- c. One year from the date VA notifies the veteran of the grant of service-connection.
- d. Two years from the date VA notifies the veteran of the grant of service-connection.

38 U.S.C. § 1922(a)

10. How many current insurance programs does the Department of Veterans Affairs administer, either directly or indirectly?

- a. Six (6)
- b. Eight (8)
- c. Twelve (12)
- d. Sixteen (16)

38 U.S.C., Chapter 19

11. Unless specified otherwise, a beneficiary designation applies to all of the veteran's insurance policies. (T/F)

38 U.S.C. § 1970(e)