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National Security and
International Affairs Division

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July 18, 1997

The Honorable Steve Buyer
Chairman, Subcommittee on Military Personnel
Committee on National Security
House of Representatives

Subject: Reserve Forces: Follow-up on the Ready Reserve Mobilization
Income Insurance Program

Dear Mr. Chairman:

On January 9, 1997, you asked our office to review the Ready Reserve Mobilization Income Insurance Program to assess the need for the program, the Department of Defense's (DOD) implementation of the program, and the program's actuarial soundness. As we began planning for the review, we learned that the DOD Inspector General (IG) had already begun a detailed examination of the program. In a meeting on January 24 with your staff, DOD IG representatives, and our office, it was agreed that, to avoid possible duplication, the IG would continue its review and we would participate, to the extent necessary, to ensure that the Subcommittee's concerns were addressed.

The IG issued its final report on the program on June 18, 1997. This letter summarizes our views on the report and on the IG's work to address the Subcommittee's concerns. This letter also responds to a question posed to us during the Subcommittee's May 8, 1997, hearing on the program. That question relates to the government's potential liability for insurance payouts to reservists who were activated for Bosnia and may claim that they were never provided an opportunity to enroll in the insurance program.

OUR VIEWS ON DOD IG'S REPORT

As agreed with the Subcommittee and summarized in a February 10, 1997, letter to you, we did not independently review the Ready Reserve Mobilization Income Insurance Program or meet with DOD officials to verify the accuracy of the IG's work. Rather, our role was to help ensure that the IG's examination of

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the program adequately addressed the Subcommittee's concerns. To that end, we reviewed the IG's audit plan, obtained background information and key documents related to the program, observed several DOD working group meetings where problems in the program were discussed, obtained two briefings from the IG staff, and reviewed the IG staff's draft and final reports.

The IG staff incorporated several of our suggestions into their audit plan, and we believe that they used a reasonable methodology in their review to address the Subcommittee's concerns. After reviewing the IG staff's draft report, we provided detailed comments suggesting minor changes or additional information that could add clarity or make the report more complete. The IG staff incorporated several of our comments into their final report.

Overall, we believe that the DOD IG's final report provides a balanced overview of the design, implementation, and future viability of the program. We also believe information presented in the report addresses the Subcommittee's concerns about the program as expressed in the Chairman's January 9, 1997, letter. Further, based on our knowledge of the DOD IG staff's work and on our limited work, we agree with the report's conclusion that the program is not actuarially or fiscally sound and should be suspended while DOD reexamines the need for and possible alternatives to the program.¹

We believe the report would have been more thorough had the IG incorporated two additional comments we made on their draft report. First, the report states that the program suffered from the consequences of circumstances beyond the control of its managers. We agree that once the program was implemented in October 1996, there was little that DOD could have done to change the outcome. However, as we noted in our May 8, 1997, testimony before the Subcommittee, warnings of potential program problems were made to DOD managers prior to program implementation, but little was done to address the warnings.²

¹The Senate Armed Services Committee and the House National Security Committee have proposed termination of this program in their reports on the National Defense Authorization Act for Fiscal Year 1998.

²Reserve Forces: Observations on the Ready Reserve Mobilization Income Insurance Program (GAO/T-NSIAD-97-144, May 8, 1997).

Minutes from the August 1995 meeting of the DOD Education Benefits Board of Actuaries generally discussed and the Board's August 9, 1996, letter specifically stated the following four concerns about the mobilization income insurance program:

"1. **Volatility:** Benefit payments are caused by mobilizations that are very infrequent, but that can produce large numbers of benefit claims when they occur. The Fund could easily be exhausted by unfavorable experience in the early years despite a premium rate that would be adequate over a longer period.

"2. **Experience data:** Mobilization experience depends on the changing world situation and the role of the reserves, which may vary substantially from previous experience used to compute premiums.

"3. **Anti-selection:** Reservists who perceive a substantial risk of mobilization will enroll in greater numbers and buy more insurance. This phenomenon could result because of their military specialty or because mobilization seems likely at the time of enrollment.

"4. **Pre-existing condition:** The Bosnia call-up appears likely to extend beyond October 1, 1996, when the insurance program takes effect. Although reservists then on active duty are ineligible, others who replace them can purchase insurance and trigger substantial benefits in fiscal year 1997. Such outlays may endanger the Fund right away."

Since the enactment of the mobilization insurance program, all of these concerns have been realized. In view of the Board's expressed concerns, DOD could have discussed the issues with the Congress prior to program implementation to determine whether the program needed to be modified in any way. However, to our knowledge, this step was not taken.

Second, the IG's report concluded that DOD did not have sufficient time to successfully market the program to reservists because the DOD Education Benefits Board of Actuaries did not finalize premium rates until August 9, 1996. As a result, reservists did not have sufficient information or time to make an

informed decision about enrollment, and in some cases, reservists may not have been offered an opportunity to enroll in the program.

While we agree that the program suffered because of poor marketing, we believe that DOD had sufficient time to develop a successful marketing plan. For example, according to the IG report, (1) the Congress initially directed DOD to investigate the feasibility of a mobilization income insurance program in 1991; (2) initial legislative proposals to establish a program were developed in June 1994; (3) hearings on the program were held in March and April 1995; and (4) the program was enacted on February 10, 1996, as a part of the National Defense Authorization Act for Fiscal Year 1996 (P.L. 104-106). Even though the precise premium rates were not known until August 9, 1996, DOD could have provided general information about the program much earlier as part of an orchestrated marketing strategy. This would have given potential enrollees more time to consider the program. This would be especially important since DOD knew potential enrollees would have only 60 days to decide once they had an opportunity to enroll.

Moreover, DOD could have taken steps to establish the premium rates earlier. For example, shortly after the legislation was enacted, DOD could have called a special meeting of the DOD Education Benefits Board of Actuaries to establish premium rates.

POTENTIAL LIABILITY FROM THE PROGRAM'S IMPLEMENTATION

During the Subcommittee's May 8, 1997, hearing on the Ready Reserve Mobilization Income Insurance Program, you asked us whether the government could be liable for the payment of benefits to reservists who were activated for Bosnia and may claim they had not been given an opportunity to enroll in the program. We found nothing in section 512 of the National Defense Authorization Act for Fiscal Year 1996 (P.L. 104-106) or in DOD's implementing instructions that would authorize retroactive enrollment in the program or give rise to government liability for payment to reservists in Bosnia who were not enrolled when activated.

The law required the Secretary of Defense to establish the program and to offer eligible members of the reserve components an opportunity to enroll for coverage "promptly after the insurance program is established" (see 10 U.S.C. 12524(a)(2)). To implement the program, DOD issued Instruction 1341.10 on

July 5, 1996. The instruction provided that members of the Ready Reserve, as of September 30, 1996, other than those on full-time active duty, were to be offered an opportunity to enroll for coverage under the program. Members who failed to fill out the appropriate insurance form within 60 days after being offered the opportunity were deemed to have declined coverage under the program. An election to decline coverage may not be revoked (see 10 U.S.C. 12524(c).

To be entitled to the payment of benefits, a reservist must have already been enrolled in the program when ordered involuntarily into covered service. More specifically, to be covered, the reservist must have completed the enrollment process, elected the amount of benefit, and paid the corresponding monthly premiums. Otherwise, DOD has no basis to determine whether the reservist is entitled to payment or the amount owed, if any.

In our view, if a reservist could show that DOD had failed to offer an opportunity to enroll in the program, the reservist may be entitled to enroll in the program for future coverage. However, we are unaware of a basis in law to provide retroactive coverage for an individual who was not enrolled in the program before being activated for duty in Bosnia or elsewhere.

AGENCY COMMENTS AND OUR EVALUATION

In commenting on a draft of this report, the DOD IG stated that the report fairly presented the results of its evaluation and the working relationship established between the IG and our office. However, the IG made comments about our two concerns with its report. First, the IG believed that its report appropriately incorporated the DOD Education Benefits Board of Actuaries' concerns about the program. The IG stated that (1) the Board's concerns in its August 1996 letter primarily related to the difficulties in determining program premium rates; (2) minutes from the Board's 1995 meeting should not be viewed in the same context as the Board's 1996 letter because details of the program were not established at that time; and (3) since the executive branch's policy in August 1996 was that the Bosnia operation would end in December 1996, DOD had no reason to ask the Congress to alter the program.

We agree that the Board's 1996 concerns were expressed in the context of the difficulty in determining rates for the program and that the Board's 1995 discussions concerning the program were more general in nature. Nevertheless, in both instances, the Board presented clear warnings about potential problems in the program. We continue to believe that the significance

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of the problems noted by the Board warranted DOD action, such as discussing the issues with the Congress prior to program implementation.

Second, the IG stated that it is not feasible to market any insurance product until the premium rates are known. Since the premiums for the mobilization income insurance program were not established until August 1996, DOD had insufficient time to market the program.

We agree that DOD had little time to market the program after August 1996 because the program was implemented in October 1996. However, our point is that DOD could have taken steps to establish premium rates earlier. For example, shortly after the authorizing legislation was enacted in February 1996, DOD could have called a special meeting of the DOD Education Benefits Board of Actuaries to establish premiums for the program. This would have allowed significantly more time to market the program.

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We are sending copies of this letter to the Ranking Minority Member of your subcommittee; the Chairmen and Ranking Minority Members of the Senate Armed Services and the House National Security Committees; the Inspector General, Department of Defense; the Secretary of Defense; and the Assistant Secretary of Defense for Reserve Affairs. We will make copies available to others upon request.

Please contact me at (202) 512-5140 if you or your staff have any questions on this letter. Major contributors to this letter were Valeria G. Gist, Mark C. Speight, and Gary W. Phillips.

Sincerely yours,



Mark E. Gebicke
Director, Military Operations
and Capabilities Issues

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