

June 2005

MILITARY  
PERSONNEL

DOD Needs Better  
Controls over  
Supplemental Life  
Insurance Solicitation  
Policies Involving  
Servicemembers



G A O

Accountability \* Integrity \* Reliability



Highlights of [GAO-05-696](#), a report to congressional requesters

## Why GAO Did This Study

Servicemembers are engaged overseas in hostile actions that threaten their lives and possibly the future financial security of their families, should they die. To address their financial security needs, some servicemembers have purchased additional life insurance to supplement that offered by the government. Concerns have been raised, though, about solicitation violations, as well as problems in the system for setting up payroll allotments for such insurance. The Department of Defense (DOD) recently published a revised draft directive on solicitation but will not implement the directive until at least 90 days following this GAO report. GAO addressed three primary issues: (1) the extent to which DOD solicitation regulations are being violated; (2) the extent to which DOD personnel are adhering to allotment regulations for the purchase of supplemental life insurance; and (3) the extent to which the new directive addresses ongoing problems in supplemental life insurance solicitation policies.

## What GAO Recommends

GAO is making five recommendations to improve DOD's oversight of its solicitation and allotment policies. DOD concurred with GAO's recommendations.

[www.gao.gov/cgi-bin/getrpt?GAO-05-696](http://www.gao.gov/cgi-bin/getrpt?GAO-05-696).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Derek Stewart at (202) 512-5559 or [stewartd@gao.gov](mailto:stewartd@gao.gov).

## MILITARY PERSONNEL

# DOD Needs Better Controls over Supplemental Life Insurance Solicitation Policies Involving Servicemembers

## What GAO Found

DOD does not know the extent to which life insurance agents violate on-installation commercial solicitation regulations and does not actively disseminate information on all confirmed violations to other parts of DOD or to state insurance regulators. GAO found that violations are occurring. For example, in responses to GAO's 2004 survey of personal financial management program managers, one-quarter said prohibited practices such as misleading sales presentations had occurred occasionally or routinely on their installations in the prior 12 months. Also, between October 2001 and October 2004, DOD revoked agents' on-installation solicitation approval at least 26 times. The reason DOD does not have complete data on violations is that it does not have adequate mechanisms for ensuring the systematic tracking of violations. The dissemination problem is attributable to a lack of oversight by the DOD policy office and an ambiguity in its guidance. DOD cannot develop an effective and efficient process for curbing violations without maintaining accurate data on the number, types, and severity of violations and disseminating confirmed violation data to relevant parties.

DOD cannot determine the extent to which DOD personnel adhere to allotment regulations because of problems with DOD's payroll databases and the different ways in which regulations are implemented. DOD's Financial Management Regulations, among other things, restrict who can submit an allotment form for supplemental life insurance. GAO could not determine the number of servicemembers with supplemental life insurance allotments due to database limitations, such as all insurance allotments (for example, for life and automobile) sharing the same code. Contrary to regulations, GAO found finance personnel accepting allotment forms without confirming they came from authorized sources. Some said they did this to ensure that policies started promptly. Database problems limit DOD's visibility over prohibited practices, such as those for group solicitation and the acceptance of allotment forms without proper authorization. In addition, GAO could not substantiate the assertion that servicemembers are prevented from using allotments to purchase supplemental life insurance and has identified reasons why this is probably not a widespread problem.

DOD's revised directive on commercial insurance solicitation practices on DOD installations adds new requirements, but does not fully address oversight deficiencies. The revised directive will incorporate the interim policy and practices now in place and, to partially address the problems cited above, will add requirements for gathering and disseminating information on confirmed violations. Those requirements, however, will focus on banned agents only, rather than all confirmed violations. The result will be DOD's continuing inability to identify the number, types, and severity of all violations, or to recognize patterns of violations. The directive will also add requirements that installation commanders inquire into alleged violations of the solicitation regulation.

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# Contents

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<b>Letter</b>		1
	Results in Brief	5
	Background	7
	DOD Does Not Know the Extent of Solicitation Violations and Does Not Disseminate Information on All Confirmed Violations	12
	Data on Payroll Allotments for Supplemental Life Insurance Unreliable and Procedures for Submitting Such Allotments Are Not Always Being Followed	23
	DOD's Revised Directive Adds New Requirements, but Does Not Fully Address Oversight Deficiencies	32
	Conclusions	36
	Recommendations for Executive Action	37
	Agency Comments and Our Evaluation	39

---

## Appendixes

<b>Appendix I: Scope and Methodology</b>	45
<b>Appendix II: Details on Selected Recent In-Depth Investigations</b>	50
<b>Appendix III: Allotment Forms</b>	58
<b>Appendix IV: Comments from the Department of Defense</b>	60
<b>Appendix V: GAO Contact and Staff Acknowledgments</b>	65

---

## Related GAO Products

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<b>Tables</b>		66
	Table 1: 14 Practices Prohibited by the DOD Directive on Personal Commercial Solicitation on DOD Installations	9
	Table 2: Locations and Years That Commanders Banned Agents from an Installation—October 2001 through October 2004	16
	Table 3: Installations in the United States where GAO Conducted Site Visits from July to December 2004	46

---

<b>Figures</b>	Figure 1: Personal Financial Management Program Managers' Perceptions of the Frequency with Which Selected Solicitation Prohibitions Were Violated on Their Installation from January through December 2004	14
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Figure 2: States Where Installation Commanders Banned Agents from October 2001 through October 2004, States Reporting Ongoing Investigations of Supplemental Life Insurance Solicitation to Servicemembers in December 2004, and the Number of Active Duty Servicemembers in the States

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**Abbreviations**

DFAS	Defense Finance and Accounting Service
DOD	Department of Defense
DODIG	Department of Defense Inspector General
SGLI	Servicemembers' Group Life Insurance

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June 29, 2005

### Congressional Requesters

Military personnel are engaged overseas in hostile actions that threaten their lives and possibly the future financial security of their families, should they die. As a result, some servicemembers purchase additional life insurance to supplement the benefits available through the government-offered Servicemembers' Group Life Insurance (SGLI) and other programs. In July 2004, we reported on the lump sum benefits and annuities available to servicemembers' survivors as well as the survivors of personnel employed by federal, state, and large municipal governments.<sup>1</sup> Recently, legislation was enacted to increase the maximum SGLI coverage to \$400,000 and the death gratuity payment from \$12,420 to \$100,000.<sup>2</sup> With the enactment of this legislation, the number of policies and amounts of supplemental life insurance sold to servicemembers could change from current levels.

The Department of Defense (DOD) and the services have regulations to govern on-installation solicitation for supplemental life insurance, as well as other types of commercial products. Among other things, an installation must approve agents before they are allowed to solicit, and the agents must agree to abide by regulations that include prohibitions of 14 types of practices. Violation of the regulations can result in the denial, suspension, or revocation of agents' or companies' approvals to solicit on the installation. Hereafter such agents are referred to as banned agents.

Servicemembers who elect to supplement SGLI's coverage may purchase their additional coverage using payroll allotments or other types of payments such as checks or electronic transfers from checking or savings accounts. An important feature of the allotment process is a DOD-wide regulation that requires either the servicemembers or their representatives

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<sup>1</sup> See GAO, *Military Personnel: Survivor Benefits for Servicemembers and Federal, State, and City Government Employees*, GAO-04-814 (Washington, D.C.: July 15, 2004). Additional information on the benefits provided to survivors of deceased servicemembers is available in Congressional Research Service, *Military Death Benefits: Status and Proposals*, RL32769 (Washington, D.C.: Feb. 16, 2005).

<sup>2</sup> Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Tsunami Relief, for the Fiscal Year Ending September 30, 2005, Pub. L. No. 109-13, sec. 1012-1013 (May 11, 2005).

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with a special power of attorney to submit the allotment form for supplemental life insurance.

Some servicemembers have reported experiencing problems when purchasing supplemental life insurance. For example, a soldier described misleading sales presentations and other concerns during congressional hearings in 2004. Similarly, DOD reports in 1999 and 2000 cited problems that included deceptive sales practices, violations of DOD policies regarding on-installation insurance solicitation, ineffective state insurance regulation programs, and inadequate safeguards in the allotment system used to pay for the supplemental life insurance.<sup>3</sup> Negative effects associated with activities such as misleading sales presentations could include servicemembers' purchasing a product that either can be bought elsewhere more cheaply or does not meet their life insurance needs.

Recently, a different type of life insurance-related concern has also been voiced. Some life insurance officials have asserted that servicemembers' chains of command have prevented personnel who wanted additional life insurance from actually purchasing it when they attempted to set up a payroll allotment.<sup>4</sup> If servicemembers who truly want supplemental life insurance are prevented from obtaining it, they may have less than their desired level of coverage.

The Office of the Under Secretary of Defense for Personnel and Readiness is responsible for developing the policies and procedures governing personal commercial solicitation; and the heads of DOD components, or their designees, are responsible for ensuring implementation of the regulations and compliance with their provisions. The Defense Finance and Accounting Service (DFAS) oversees the financial management regulations and the payroll computer systems and databases.

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<sup>3</sup> See *Final Report: Insurance Solicitation Practices on Department of Defense Installations* (May 15, 2000), and DOD Office of the Inspector General, *Commercial Life Insurance Sales Procedures in DOD*, Report No. 99-106 (Arlington, Va.: Mar. 10, 1999).

<sup>4</sup> See, for example, Amy Klamper, "Life Insurance for Troops in Iraq Nixed," *National Journal* (Apr. 3, 2004).

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In response to earlier problems and recommendations for change, the Office of Morale, Welfare, and Recreation Policy—within the Office of the Under Secretary of Defense for Personnel and Readiness—has been revising the DOD directive that governs the marketing and sale of life insurance and other commercial products on DOD installations.<sup>5</sup> The Department of Defense Appropriations Act for Fiscal Year 2005 contained provisions indicating that the revised directive cannot be implemented until at least 90 days after we issue the present report.

As agreed with your offices, this report addresses three issues: (1) the extent to which agents are violating DOD's policies governing the solicitation of supplemental life insurance to active duty servicemembers on domestic installations; (2) the extent to which DOD personnel are adhering to regulations that govern how active duty servicemembers establish payroll allotments to purchase supplemental life insurance; and (3) the extent to which the new directive addresses ongoing problems in supplemental life insurance solicitation policies.

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<sup>5</sup> DOD Directive 1344.7, *Personal Commercial Solicitation on DOD Installations* (Feb. 13, 1986).

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In conducting this review, we limited the scope of our work to supplemental life insurance solicitations occurring on installations in the United States and to active duty servicemembers.<sup>6</sup> Additional emphasis was given to findings pertaining to junior enlisted servicemembers because DOD and insurance officials have indicated that this subgroup is more likely to encounter problems with the marketing and sale of supplemental life insurance as well as with establishing payroll allotments for such purchases. Numerous methods were used to gather and assess information for this review. We examined DOD, service, and selected installation policies on personal commercial solicitation on installations and the establishment of allotments for supplemental life insurance, as well as oversight management principles identified in the Government Performance and Results Act of 1993.<sup>7</sup> We also reviewed GAO, DOD, life insurance industry, and other reports. We interviewed officials from DOD, life insurance companies and associations, and other organizations such as the Consumer Federation of America to identify the many perspectives on the issues being studied. In conjunction with our work on another report, we sent a survey to all 175 managers of DOD's personal financial management programs on installations in the United States.<sup>8</sup> We also surveyed the insurance commissioners for the 50 states, the District of Columbia, and four territories: American Samoa, Guam, Puerto Rico, and the Virgin Islands. In addition, we interviewed personnel from the state insurance commissioner's office for 4 of the 6 states in which we conducted site visits to military installations, as well as personnel from the state insurance commissioner's office in Georgia. We also asked insurance companies and two national insurance associations to identify agents and company representatives who could be interviewed about solicitation and allotment practices at locations near the six installations we visited.

During our six site visits, we requested materials related to the marketing and sale of supplemental life insurance and the establishment of allotments for that purpose. Those materials included a list of life insurance agents approved for on-installation solicitation, handouts distributed to assist servicemembers in determining their need for supplemental life insurance,

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<sup>6</sup> An ongoing GAO effort is examining the characteristics of the commercial products being marketed to servicemembers and the regulation of those products.

<sup>7</sup> Pub. L. No. 103-62 (Aug. 3, 1993).

<sup>8</sup> See GAO, *Military Personnel: More DOD Actions Needed to Address Servicemembers' Personal Financial Management Issues*, [GAO-05-348](#) (Washington, D.C.: Apr. 26, 2005).



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documentation of violations of personal commercial solicitation and insurance-related policies, and complaints related to insurance solicitation and allotment processing. While on site visits, we conducted interviews or focus groups with installation leaders; the coordinator for the installation's personal commercial solicitation program; servicemembers; legal assistance attorneys from the Judge Advocate General corps; finance department personnel who managed and processed allotments; family support center staff responsible for personal financial management training and counseling activities; staff from morale, welfare, and recreation; and representatives of on-installation banks and credit unions. We observed the methods used to process and enter allotments for supplemental life insurance into the pay system. We assessed the reliability of allotment databases, and we later note in this report, limitations associated with the databases that prevented us from accurately estimating the number of allotments or amount of payments for supplemental life insurance. We performed our work from May 2004 through May 2005 in accordance with generally accepted governmental auditing standards. Additional information on our scope and methodology can be found in appendix I.

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## Results in Brief

DOD does not know the extent to which agents are violating DOD's regulations governing the solicitation of supplemental life insurance to active duty servicemembers on installations in the United States and does not actively disseminate information on all confirmed violations to other interested parties. DOD had not collected information on the number, types, and severity of violations. Data from our survey of all DOD personal financial program managers on domestic installations, our interviews conducted on six installations, and cases where life insurance agents had been banned from installations indicate that solicitation violations are occurring. In response to our 2004 survey, at least one-quarter of financial program managers responding to our survey indicated that five types of prohibited life insurance practices (such as providing misleading sales presentations) occasionally or routinely occurred on their installation during the preceding 12 months. Also, at least 26 cases of banning agents for violations occurred between October 2001 and October 2004. Prior to our request for DOD to determine the number of enforcement actions when agents had been banned, DOD had not actively disseminated violation information to other parts of DOD or to state regulators. The absence of evaluative and reporting requirements in DOD's solicitation directive contributed to DOD's failure to assemble and disseminate such data. Failure to gather comprehensive information on all violators and

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disseminate it to all parts of DOD and appropriate state regulators limits the military's ability to effectively and efficiently identify problem agents or companies as well as patterns of violations.

DOD cannot determine the extent to which DOD personnel adhere to allotment regulations because of problems with DOD's payroll databases and the different ways regulations are implemented. Database constraints prevented us from determining the number of servicemembers using supplemental life insurance allotments or the amount of money being paid to companies. We were unable to develop reliable estimates because of database quality concerns that we have previously documented as well as problems with the allotment forms. These problems limit the visibility that DOD and the installations have over the perceived need by servicemembers for supplemental life insurance. Second, contrary to DFAS regulations, some finance personnel have accepted forms to start the allotments without verifying that the person submitting the form was authorized to do so. Finance personnel said they do so to ensure that policies start promptly, but starting allotments without servicemembers' awareness can negatively affect members' finances and their unit's morale and readiness. The DOD solicitation directive discusses a 7-day "cooling-off" period between when E1s, E2s, and E3s sign a supplemental life insurance application and when finance personnel certify the allotment. But ambiguity in the requirement and the use of generic allotment forms can result in inconsistent enforcement of this requirement. Finally, some insurance officials maintain that chains of command prevent servicemembers from purchasing life insurance by not processing their allotments. We were unable to substantiate that assertion, based on our inability to obtain sufficient participation in our servicemember focus groups. Servicemembers may have decided not to purchase a particular policy for other reasons such as buyer's remorse or finding a more economically priced policy.

DOD's revised directive on personal commercial solicitation on DOD installations adds new requirements, but does not fully address oversight problems. The draft directive incorporates existing interim guidance on financial education and current procedures pertaining to advertising and commercial sponsorship by solicitors. The draft directive also adds new requirements for gathering and disseminating data on solicitation violations, including maintaining a list of banned agents and disseminating such information to state regulators. However, the focus of the new requirements is on banned agents only. As was noted earlier, however, gathering and disseminating only the information concerning violations severe enough to cause the banning of agents will prevent DOD from

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identifying the number, types, and severity of all confirmed violations, or to recognize patterns of violations. The proposed new requirements also include having installation commanders inquire into any alleged violations of the solicitation regulation, and having insurance agents provide servicemembers with a DOD-wide questionnaire to evaluate their solicitation experience. The installation commander's inquiries could improve DOD's oversight of solicitation violations if an additional requirement existed for reporting all confirmed violations to higher-level commands. The questionnaire may be of limited value because it documents interactions that were not described as problems during our site visits—that is, insurance agents complying with requirements by soliciting in one-on-one prearranged appointments with servicemembers. An additional change in the directive, requiring insurance agents to clearly identify insurance products, could result in servicemembers' having better information for making decisions on purchasing supplemental life insurance.

We are making five recommendations to improve DOD's policies and practices regarding supplemental life insurance solicitation on bases in the United States and the allotment process to purchase such products. Our recommendations pertain to enhancements to oversight requirements for evaluation and reporting violations, clarifications of ambiguous requirements, and improvements to the procedures used for allotments to purchase supplemental life insurance. In commenting on a draft of this report, DOD concurred with our recommendations.

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## Background

DOD's directive on personal commercial solicitation establishes the policies and practices governing supplemental life insurance sales on installations in the United States and overseas.<sup>9</sup> Each service provides additional policies and practices regarding on-installation commercial solicitation, and some installations further specify how these DOD and service policies and practices will be implemented locally.<sup>10</sup> Importantly, DOD and the service policies do not cover supplemental life insurance

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<sup>9</sup> DOD Directive 1344.7, *Personal Commercial Solicitation on DOD Installations* (Feb. 13, 1986).

<sup>10</sup> Army Regulation 210.7, *Commercial Solicitation on Army Installations* (Apr. 22, 1986); Secretary of the Navy Instruction 1740.2D, *Solicitation and Conduct of Personal Commercial Affairs* (Apr. 27, 1987) for the Navy and the Marine Corps; and Air Force Policy Directive 36-29, *Military Standards* (June 1, 1996).

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solicitation that occurs off an installation. For example, servicemembers can obtain life insurance through the Internet or from companies that advertise in private-sector publications aimed at military personnel. Also, some life insurance agents might sell supplemental life insurance off the installation after (1) the agents initially generated leads on potential customers through on-installation efforts such as sponsorship of morale, welfare, and recreation events; or (2) other types of initial contacts that include offering servicemembers a free meal at a local restaurant.

Although the steps used to obtain permission to solicit on an installation may vary, the DOD directive notes that solicitors must meet the following requirements: be duly licensed, have the permission of the installation commander, and have made a specific appointment with a servicemember and conduct it in family quarters or other areas designated by the installation commander. The supplemental life insurance products offered on installations in the United States must comply with the insurance laws for the applicable state, contain no restrictions by reason of military service or occupation unless the restrictions are clearly stated on the face of the contract, plainly indicate any extra premium charges if they are imposed for reasons of military service or occupation, and contain no variation in the amount of death benefit or premium based on the length of time the contract has been in force unless the variations are clearly described therein.

In addition to specifying requirements for the solicitors and the life insurance products, the DOD directive identifies the 14 prohibited practices, shown in table 1.<sup>11</sup> Committing any of the prohibited practices can result in an agent or an agent's affiliated insurance company being banned. Among the other grounds for banning agents are failure to be duly licensed to sell insurance products under applicable federal, state, or local municipal laws; personal misconduct while on the installation; possession or attempted possession of allotment forms or their facsimiles;<sup>12</sup> and substantiated complaints or adverse reports regarding goods or services and the manner in which they are offered.

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<sup>11</sup> DOD Directive 1344.7, sec. 6.4.

<sup>12</sup> DOD Directive 1344.7, sec. 6.5. This DOD directive authorizes an installation commander to deny or revoke permission to an insurance agent or affiliated insurance company in possession of or attempting to possess allotment forms or their facsimiles to solicit on military installations.

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**Table 1: 14 Practices Prohibited by the DOD Directive on Personal Commercial Solicitation on DOD Installations**

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**Prohibited Practices**

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Solicitation of recruits, trainees, and transient personnel in a mass or captive audience.

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Making appointments with or soliciting military personnel who are in on-duty status.

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Soliciting without appointment in areas utilized for housing or processing of transient personnel, barracks areas used as quarters, unit areas, family quarters, and areas provided by installation commanders for appointed interviews.

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Use of official identification cards by retired or reserve members of the military services to gain access to installations for the purpose of soliciting.

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UProcurer, attempting to procure, or supplying roster listings of DOD personnel for commercial solicitation purposes.

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Offering unfair, improper, and deceptive inducements to purchase or trade.

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Using rebates to facilitate transactions or to eliminate competition.

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Using manipulative, deceptive, or fraudulent devices, schemes, or artifices, including misleading advertising and sales literature.

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Using oral or written representations to suggest or give the appearance that DOD sponsors or endorses any particular company, its agents, or the goods, services, and commodities it sells.

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Full-time DOD personnel making personal commercial solicitations or sales to DOD personnel who are junior in rank or grade.

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Entering into any unauthorized or restricted area.

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Using any portion of installation facilities, including quarters, as a showroom or store for the sales of goods and services, unless otherwise authorized.

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Using any portion of installation facilities, including quarters, as a showroom or store for the sales of goods and services, unless otherwise authorized.

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Advertising addresses or telephone numbers of commercial sales activities conducted on the installation, except authorized activities conducted by family members of military families residing in military housing.

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Source: DOD Directive 1344.7.

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During the past decade, DOD issued two reports that addressed problems with on-installation supplemental life insurance solicitation. In March 1999, the DOD Inspector General (DODIG) found that improper solicitation practices occurred at all 11 of the sampled installations.<sup>13</sup> The improper practices included presentations by unauthorized personnel, presentations to captive audiences, solicitation during duty hours, solicitation in the barracks, and subjecting servicemembers to sales pressure and misleading sales presentations. The DODIG noted that the personal commercial solicitation directive was adequate but that additional controls were needed to administer and enforce the solicitation process. Among other things, the DODIG suggested there was a need for improved oversight at the installation level, stricter enforcement procedures when improper solicitation practices are substantiated, and additional interface with state regulatory authorities. In May 2000, a report commissioned by the Office of the Under Secretary of Defense for Personnel and Readiness reviewed insurance solicitation practices on DOD installations and identified many of the same concerns and recommendations contained in the DODIG report.<sup>14</sup> In September 2000, DOD's Office of Force Management Policy established an insurance solicitation oversight working group to develop a strategy for eliminating prohibited life insurance solicitation practices on DOD installations. The working group's recommended improvements were included in a draft revision of the directive on personal commercial solicitation, and this draft revision was published for public comment in August 2003.

An important step in purchasing supplemental life insurance is making the arrangement to pay for it. Some servicemembers pay for the insurance with a payroll allotment,<sup>15</sup> a process that is governed by the DOD's Financial Management Regulation and individual service policies and is under the responsibility of DFAS. While the process for starting an allotment for supplemental life insurance varies across services and installations, it can be summarized in three steps:

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<sup>13</sup> See DODIG, Report No. 99-106.

<sup>14</sup> See *Final Report: Insurance Solicitation Practices on Department of Defense Installations*.

<sup>15</sup> DOD, *Financial Management Regulation* 7000.14-R, Vol. 7A, Definitions, page xlv, indicates that an allotment is the definite portion of the pay and allowance of a person in the military service, which DFAS is authorized to pay directly to a person or an institution.

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1. Servicemembers or their representatives with a special power of attorney complete an allotment form and submit it either directly to the installation finance office or to the finance office through the servicemembers' unit administrative office.
  2. The installation finance office processes the allotment requests and electronically submits them to DFAS.
  3. The first monthly payments are made to vendors more than a month after the forms are submitted, because the processing of the allotment requests takes time and the once-a-month payments result in the need to wait for half of the payments to be taken out of each of the servicemembers' next two payroll deposits.

The allotments for all types of commercial insurance are supposed to be coded as an AI discretionary allotment when they are entered into a DFAS database.<sup>16</sup> The procedure for purchasing SGLI with an allotment is different from that used to purchase private supplemental life insurance with an allotment. One reason is active duty servicemembers are automatically insured for the maximum SGLI coverage. Servicemembers may subsequently elect to reduce their SGLI coverage, or to cancel it entirely.

DOD's effort to revise the directive began in 2002 after reports<sup>17</sup> in 1999 and 2000 documented problems with supplemental life insurance solicitation on installations and made recommendations for improvement. In 2003, DOD obtained public comments on a draft directive during a public forum available to interested parties. Those comments and other input from sources such as DOD's general counsel served as the basis for a draft directive published in the Federal Register on April 19, 2005, and discussed during a public hearing held on May 6, 2005, to obtain additional comments.

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<sup>16</sup> DOD, *Financial Management Regulation* 7000.14-R, Vol. 7A, Chapters 41 and 42 (February 2002), contains the policies and procedures for allotments. Each military service also has additional allotment processing policies and practices. See, for example, Army Regulation 37-104-4, *Military Pay and Allowances Policy and Procedures—Active Component*, Chapter 24 (Sept. 30, 1994).

<sup>17</sup> DODIG, Report No. 99-106, and *Final Report: Insurance Solicitation Practices on Department of Defense Installations*.

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## DOD Does Not Know the Extent of Solicitation Violations and Does Not Disseminate Information on All Confirmed Violations

DOD does not know the extent to which life insurance agents are violating regulations pertaining to on-installation personal commercial solicitation, and it does not actively disseminate information about all confirmed violations<sup>18</sup> to other portions of DOD and state insurance regulators. Although many of the sources that we contacted for our review identified violations, DOD does not know how widespread the violations are because it has not collected information on the number, types, and severity of the violations. Even when violations have been severe enough to result in commanders banning agents from their installation, DOD did not actively provide that information to other installations or to state insurance regulators. The absence of evaluative and reporting requirements in the solicitation directive, as well as ambiguity in the directive about the dissemination of information, are some of the reasons for these situations that limit DOD's ability to provide oversight of supplemental life insurance solicitation on installations and prevent violators from having access to servicemembers on installations.

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## DOD Does Not Know the Extent to Which Life Insurance Agents Have Violated Solicitation Policies on Domestic Installations

Because of the absence of evaluation and reporting requirements, DOD has not collected the data that it needs to monitor the number, types, and severity of life insurance agents' violations of DOD's regulations regarding on-installation solicitation. But data from our review suggest that the violations are not restricted to a few installations. Our data regarding alleged violations of the 14 prohibited practices identified in DOD's commercial solicitation directive came from multiple sources: perceptions expressed in a DOD-wide survey and numerous interviews at six installations; information on the number and geographical dispersion of cases where installation commanders had banned agents during the past 3 years because of violations; and a review of in-depth documentation for four of the cases serious enough to result in banning agents.

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<sup>18</sup> Confirmed violations are acts that an installation commander has determined, after consideration of the entire record to include any information submitted by the insurance company(s) and agent(s) involved, are violations of DOD's commercial solicitation policies and procedures.



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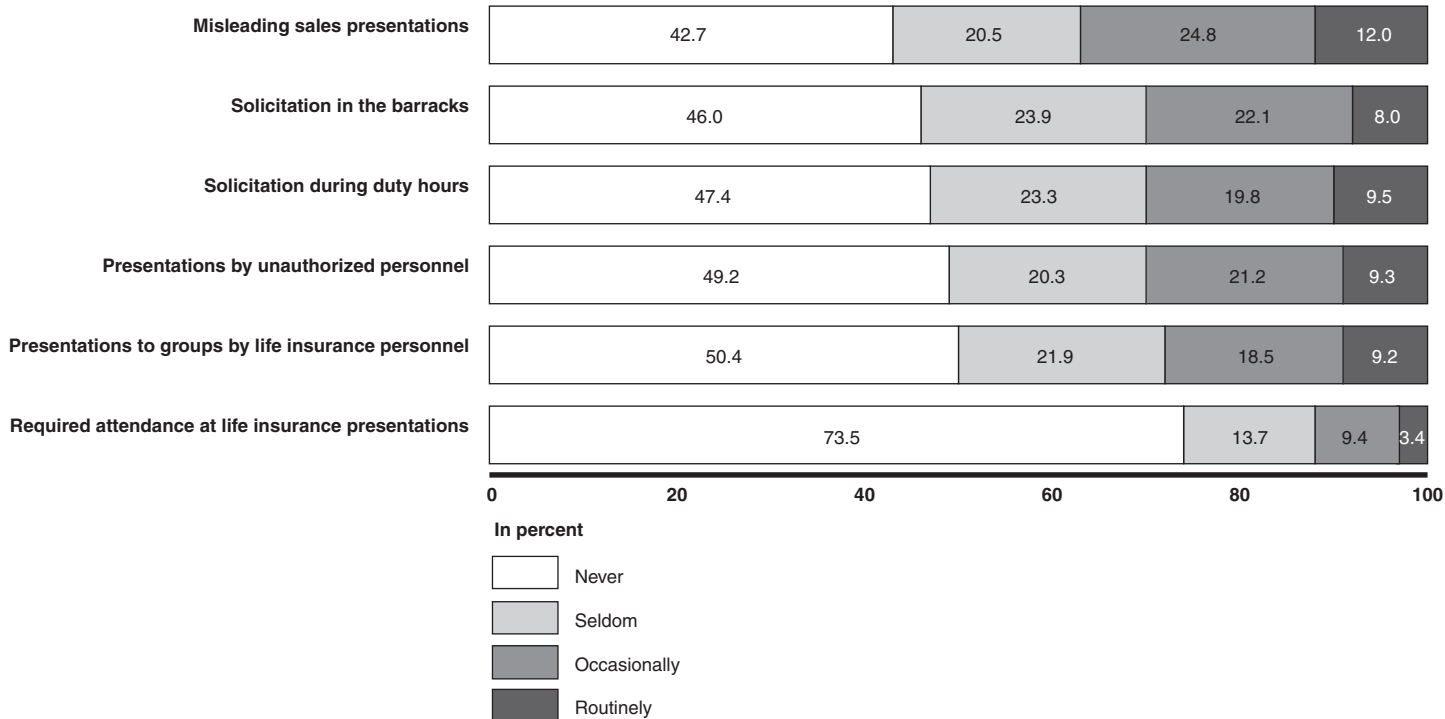
A survey of personal financial management program managers<sup>19</sup> on installations in the United States indicated that six types of prohibited solicitation practices were perceived to have occurred with varying frequency on their installations during the prior 12 months.<sup>20</sup> More than one-third of the managers indicated that misleading sales presentations regarding supplemental life insurance had occurred occasionally or routinely on their installations, and more than one-quarter said that four of the other five prohibited practices had occurred at least occasionally (see fig. 1). In interviews conducted during our visits to six installations, multiple sources—for example, solicitation coordinators, legal assistance attorneys, servicemembers, and insurance agents—indicated that the types of violations shown in figure 1 had occurred on their installations. For three or more of the six installations, multiple sources told us of agents inappropriately using their military retiree credentials to gain access to servicemembers for life insurance solicitation purposes, life insurance agents possessing or processing allotment forms, and life insurance agents participating in military-sponsored training. The installations had little or no documentation to show that the violations identified in the interviews had been reported or investigated.

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<sup>19</sup> The personal financial management program manager is a professional staff member designated and trained to organize and execute financial planning and counseling programs for the military community. See [GAO-05-348](#) for additional details on the managers, the program, and other findings from the survey.

<sup>20</sup> The six types of violations used as survey items were based on findings from the 1999 DODIG report (see DODIG, Report No. 99-106). The report showed that seven types of prohibited practices occurred on the studied installations. Because supplemental life insurance solicitation was one of many issues covered in our survey, the other types of violations were excluded to limit the time required to answer the survey.

**Figure 1: Personal Financial Management Program Managers' Perceptions of the Frequency with Which Selected Solicitation Prohibitions Were Violated on Their Installation from January through December 2004**



Source: GAO.

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After we asked DOD if it had a list of insurance agents and companies whose solicitation privileges had been withdrawn, DOD requested the information from the services and installations.<sup>21</sup> As of April 2005, DOD's request for information identified 51 cases that occurred on installations in the United States from April 1998 through October 2004. Some installations supplied information on enforcement actions that did not result in the banishment of agents or companies. Table 2 provides information on 26 cases in which commanders banned agents—25 from DOD's list and one additional case we later identified—from October 2001 through October 2004.<sup>22</sup> Examining only the more recent cases minimizes the possibility that a case would have been the basis for findings in the 1999 and 2000 DOD reports on supplemental life insurance. Table 2 shows that the 26 cases occurred on 11 installations in eight states. Our analysis additionally revealed that agents from one life insurance company were involved in 9 (about 35 percent) of the 26 cases, and agents from another company were involved in 6 (about 23 percent) of the cases.

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<sup>21</sup> After gathering the data for this review, DOD posted information about the 51 cases on a DOD Web site.

<sup>22</sup> It is likely that more than 26 enforcement actions resulted in commanders banning agents from their installation during the period of interest. DOD acknowledged that its list was probably incomplete; and we found an additional case at Fort Bliss, Texas. Also, 6 of the 51 cases did not include a date for the commander's actions, but the actions may have occurred during our restricted period of interest. In addition, some of the cases in DOD's list, such as those at Beale Air Force Base, California, indicate that events occurred in multiple years, but we only counted the events as one case. Finally, since DOD told us that its request for information pertained to banned agents only, additional cases would probably result if DOD made another request for *all* enforcement actions.

**Table 2: Locations and Years That Commanders Banned Agents from an Installation—October 2001 through October 2004**

State	Installation, listed by separate action	Year
California	Beale Air Force Base	2003
	Beale Air Force Base	2003
	Camp Pendleton Marine Corps Base	2003
	Camp Pendleton Marine Corps Base	2003
Georgia	Fort Benning	2003
	Fort Benning	2004
	Fort Benning	2004
	Fort Benning	2004
	Fort Benning	2004
	Fort Benning	2004
	Fort Benning	2004
	Fort Gordon	2003
	Fort Gordon	2003
	Fort Gordon	2003
Kansas	Fort Gordon	2004
	Fort Gordon	2004
	Fort Gordon	2004
	Fort Gordon	2004
	Fort Gordon	2004
Kansas	McConnell Air Force Base	2002
Illinois	Naval Station Great Lakes	2001
Mississippi	Naval Construction Battalion Center Gulfport	2003
North Carolina	Fort Bragg	2004
	Fort Bragg	2004
Texas	Fort Bliss	2003
Virginia	Fort Eustis	2002
	Fort Eustis	2002
	Fort Eustis	2004
	Naval Amphibious Base Little Creek	2003

Source: DOD data, and GAO analysis.

Our review also examined the in-depth documentation for two cases from Camp Pendleton, California, and two cases at Fort Benning, Georgia, both of which are listed in table 2. The documentation, sometimes more than 200 pages, illustrates the situations that led to the violations, the types of violations occurring, and the amount of effort required to conduct the investigations. The cases are summarized as follows, and additional details on each are provided in appendix II.

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- Camp Pendleton: In 2003, an insurance agent requested and obtained authorization to teach a class on veterans' affairs benefits and financial planning to Marines. During the class, the agent said very little about veterans' benefits but spoke at length about investments. The agent distributed cards for Marines to provide contact information. Using this information, the agent later sold Marines insurance policies at their homes and on duty, sometimes without appointments. During the meetings, Marines were given the impression that the agent represented the Department of Veterans Affairs. This agent's solicitation privileges were suspended for 2 years by the installation.
  - Camp Pendleton: In 2003, insurance agents requested and obtained permission to teach veterans' affairs classes to Marines fresh from boot camp. The classes, with required attendance, started as veterans' benefits discussions but shifted to investment sales pitches after non-commissioned officers left the classrooms. Agents distributed applications, allotment forms, and statements of understanding, encouraging participants to sign quickly, not read the forms, leave the dollar amount lines blank, and provide signed photocopies of their identification cards. The Marines were not allowed to take any paperwork with them and were told that copies would be sent to their home of record. The agents, including at least one retired Marine, were fired by their employer. Refunds were offered to those who purchased policies.
  - Fort Benning: In 2003 and 2004, agents accessed soldiers in a basic combat training brigade through unit non-commissioned officers for the express purpose of providing financial planning classes. In unit classrooms, the agents discussed the value of investing. At the end of the presentations, soldiers who desired additional information completed a form. Weeks later, the agents met with soldiers individually or in small groups in the unit's area. The agents were fired from the companies they represented, and several officers and enlisted personnel involved in arranging the presentations were reprimanded. The manager for DOD's personal commercial solicitation program said that he was unaware of any other instance where enforcement included punishment of installation personnel, but added that his office does not track such information.
  - Fort Benning: In 2002, two agents accessed soldiers in the infantry training brigade through unit non-commissioned officers for the express purpose of providing financial management classes. The classes were

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included on the training scheduled in conjunction with other personal financial affairs presentations and were conducted in unit classrooms. Non-commissioned officers escorted the soldiers to the classrooms. According to the investigation, some of the non-commissioned officers had knowledge of the solicitation actions taking place. These agents later had their solicitation privileges revoked by the installation, and refunds were provided to those who purchased policies.

DOD-wide, service-specific, and installation-level factors contribute to the lack of information on violations. The absence of evaluation and reporting requirements in DOD's directive on personal commercial solicitation is a primary reason why the services and installations do not emphasize assessment and why DOD cannot estimate the extent to which life insurance agents are violating the 14 proscribed practices and other parts of the directive.<sup>23</sup> The absence at the installation level of documentation of confirmed violations by life insurance agents is also caused by several other factors, including: (1) the time it takes for personnel to lodge a complaint and other personnel to investigate it; (2) reluctance to get either the agents or installation personnel in trouble, especially when the agents appear to have the support of someone in the chain of command; and (3) the lack of knowledge about permitted and prohibited practices by both individuals being solicited and other servicemembers who allow life insurance agents to conduct financial training or perform other prohibited practices.

The lack of documentation on confirmed violations can result in negative outcomes for both DOD and the life insurance industry. For instance, DOD is unable to identify the extent of specific types or patterns of problems, such as multiple instances of the same violation for agents from a single insurance company. Furthermore, DOD cannot determine whether there are many agents violating the regulations on a few occasions; a small number of agents violating the regulations on many occasions; or many people talking about a relatively few, well-publicized violations. Without knowing the extent of the problem, DOD cannot develop an effective and efficient strategy for curbing the violations. The lack of documentation could also negatively affect the life insurance industry and its agents. "Broad brush" complaints create a negative image of the industry. Some of the agents we interviewed were concerned that the highly publicized cases

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<sup>23</sup> The Army is the only service with a regulation requiring that violations be reported to the service level.

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are painting a negative picture of them and their profession, even though they said they had not violated the regulations on personal commercial solicitation.

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### DOD Does Not Disseminate Information about All Confirmed Violations and Enforcement Actions to Other Parts of DOD or to State Life Insurance Regulators

The DOD policy office responsible for oversight of supplemental life insurance solicitation on installations does not routinely disseminate information on all confirmed violations to installations, to the services, or to state life insurance regulators. Although the DOD solicitation directive provides installation commanders with discretionary authority to report banned agents to their military department, they are not obliged to do so. Specifically, if installation commanders believe it is warranted, they can recommend extending or lifting actions taken against life insurance agents on other installations to their respective military departments. Additionally, the Office of the Secretary of Defense for Personnel and Readiness could, when appropriate, extend or lift the actions for other military departments.<sup>24</sup> Notably, the current solicitation directive does not require the installation commander to routinely report information on all confirmed violations to state insurance regulators.<sup>25</sup> It merely requires installations to notify appropriate state licensing authorities if the grounds for withdrawing solicitation privileges involve the eligibility of the agent or company to hold a state license or meet other regulatory requirements.<sup>26</sup>

One indication that installation commanders and DOD policy officials have had only limited communications about violations was the absence of a DOD list of cases where agents had been banned from installations for violating the personal commercial solicitation directive. The DOD policy office did not generate its list of cases until we requested the information for this review. This lack of information sharing occurred even when policy violations were severe enough to warrant the banning of agents. These communications-related problems continued despite three recommendations in the 1999 DODIG report: (1) require that all

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<sup>24</sup> DOD Directive 1344.7, sec. 6.5.2.4.

<sup>25</sup> It is important to involve state insurance authorities because in accordance with the McCarran Ferguson Act, 15 U.S.C. sec. 1011-1015 (1948), the life insurance industry generally is regulated under state laws. The Military Personnel Financial Services Protection Act, S. 418, 109th Congress, sec. 6 (2005) was introduced in Congress this year and would, if enacted into law, make it clear that state law shall apply to insurance activities conducted on military installations.

<sup>26</sup> DOD Directive 1344.7, sec. 6.5.2.2.

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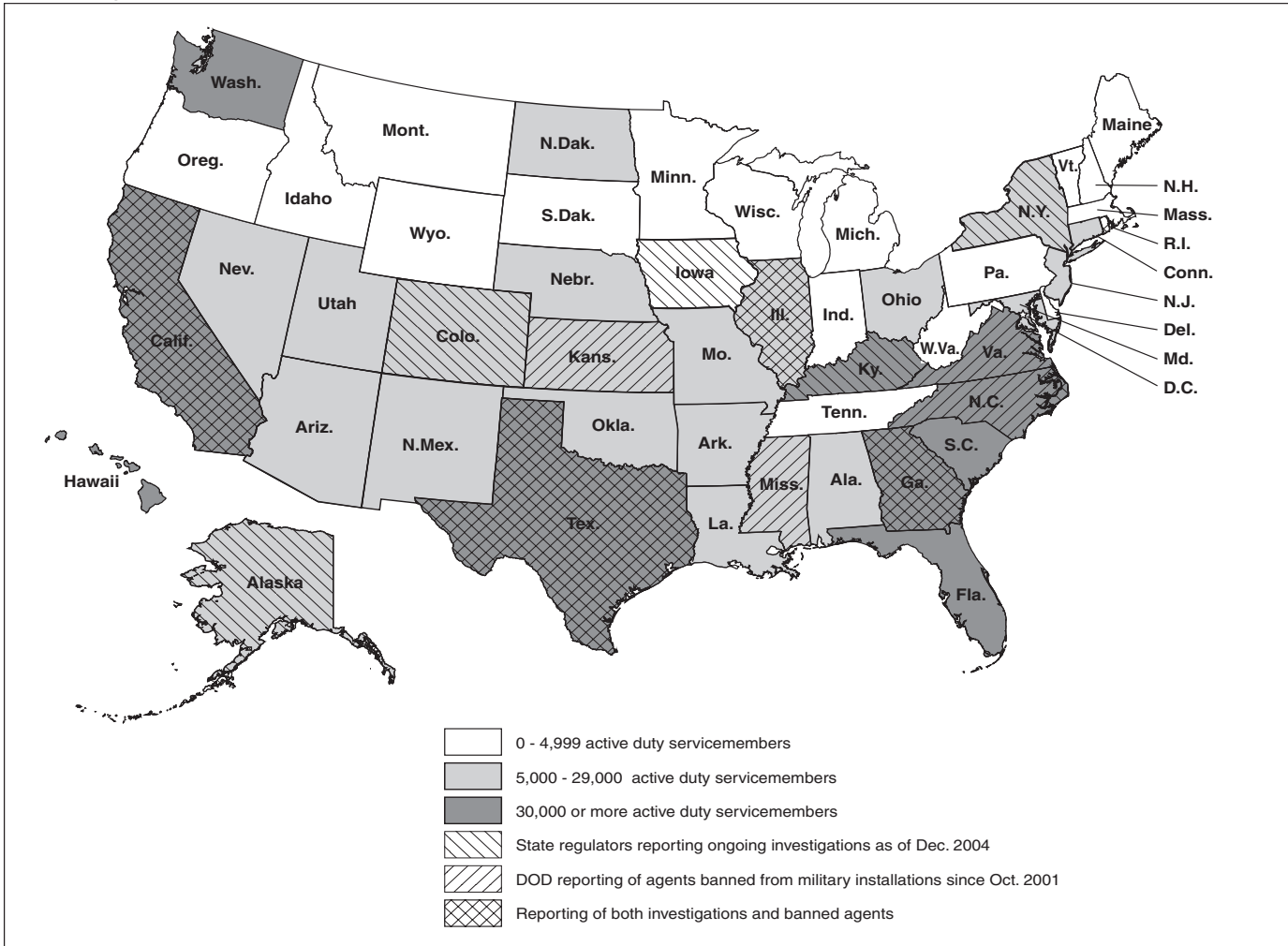
installations in the local area and the services' higher commands be notified of "any adverse actions" taken against an insurance agent; (2) require the services to track such actions and report the information to the office with oversight responsibility; and (3) increase the interaction with state life insurance regulators. During our visits to six installations, solicitation coordinators told us that they did not routinely interact with their counterparts on other installations, but several of the insurance agents that we interviewed said they were approved to solicit on multiple bases in multiple states.

We found a similar lack of communication between the various parts of DOD and state insurance regulators. In our December 2004 survey of all state insurance commissioners' offices, only one state reported that DOD had notified it of disciplinary actions taken against a life insurance agent during the prior 12 months, even though several of the 26 cases in table 2 occurred during the same period. Our survey also revealed that 100 percent of the life insurance commissioners' offices responding to our survey said it would be a good practice if DOD were to notify their offices whenever it took a disciplinary action against a life insurance agent, and 68 percent said they would like more communications with the military.

Figure 2 shows the states where installation commanders took 26 enforcement actions to ban agents from October 2001 through October 2004; states where regulators indicated on our survey that the office had an ongoing investigation involving life insurance sales to servicemembers; and the number of active duty servicemembers in the states. State regulators reported in our survey that they had ongoing investigations in nine states: Alaska, California, Colorado, Georgia, Illinois, Iowa, Kentucky, New York, and Texas. Regulators' investigations were occurring in four states (California, Georgia, Kentucky, and Texas) that have at least 30,000 servicemembers in them. Four states (California, Georgia, Illinois, and Texas) had both an ongoing investigation by the state insurance regulators in December 2004 and an installation where an agent had been banned between October 2001 and October 2004.



**Figure 2: States Where Installation Commanders Banned Agents from October 2001 through October 2004, States Reporting Ongoing Investigations of Supplemental Life Insurance Solicitation to Servicemembers in December 2004, and the Number of Active Duty Servicemembers in the States**



Source: DOD for the number of servicemembers and banned life insurance agents, and GAO for ongoing investigations by state regulators.

Note: We do not display results for the District of Columbia or for the four territories because (1) state regulators indicated that they had no ongoing investigations or they did not respond and (2) DOD's list did not include banned agents in the five locations.

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Since the DODIG made recommendations to improve information sharing 6 years earlier that were not implemented, the absence of oversight by the DOD policy office appears to be the primary reason for the past lack of DOD-wide information sharing on banned agents and the continued lack of information sharing on lesser confirmed violations. Ambiguity in the solicitation directive about who should disseminate violations-related information to state regulators and the types of information that should be disseminated may have contributed to a lack of information sharing. Another reason for the lack of contact relates to uncertainty regarding the states' ability to govern what occurs on an installation. Several state regulatory officials stated that they were uncertain about whether they had jurisdiction over life insurance sales on military installations. DOD officials informed us that they began meeting with the National Association of Insurance Commissioners in May 2005 to address some of these issues, and legislation<sup>27</sup> has been introduced in Congress to require greater communication between DOD and the association. Additionally, several installation officials stated that their office considered the involvement of state regulators only for serious complaints or problems that involved life insurance products.

The failure to disseminate information to other parts of DOD or to state insurance regulators about agents and companies who violate the solicitation policy—especially when the violations were serious enough to ban agents—can enable violators to continue operating on other installations. State insurance regulators in North Carolina told us that by not reporting violations to state regulators, installations prevent the state regulators from determining whether further actions, such as revocation of licenses, are warranted. Maintaining a list only of banned agents does not allow DOD or state regulators to spot patterns of violations by agents or companies that may have committed multiple lesser violations on multiple installations. If present, such patterns would be detectable only when solicitation coordinators are able (1) to identify the other installations where the agents or companies are approved to operate and (2) to communicate with their peers on the other installations about violations committed there by the agents or companies. Limited communications between installations also hinders the promotion of best practices. For example, other installations might be interested in Camp Pendleton's testing of agents before approving them for on-installation solicitation. When determining whether to ban some agents from Camp Pendleton,

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<sup>27</sup> Military Personnel Financial Services Protection Act, S. 418, 109th Congress, sec. 6 (2005).

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investigators were able to show that the agents correctly answered test questions about prohibited practices— yet still committed the prohibited practices.

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## Data on Payroll Allotments for Supplemental Life Insurance Unreliable and Procedures for Submitting Such Allotments Are Not Always Being Followed

We could not determine the extent to which servicemembers follow DOD's and the services' allotment processing policies when purchasing supplemental life insurance because of limitations in the allotment databases and the different ways that finance offices were accepting forms to start the allotments. Even with DFAS assistance, we could not generate reliable monthly estimates of the number of servicemembers with, or the amount of money allotted for, supplemental life insurance. The unreliability of estimates stemmed from longstanding database and computer system constraints, such as the coding used when gathering and entering the life insurance allotments into the databases and computer problems that we have documented in prior reports. Another problem area with supplemental life insurance allotments is the lack of certification that occurred when allotment forms were submitted to and processed by some finance offices. Contrary to financial management regulations, some finance personnel were accepting allotment forms through the mail or from individuals without verifying that the submitter was either the servicemember or that person's representative with a special power of attorney. We could not substantiate insurance officials' and agents' assertion that servicemembers were being prevented from using allotments to purchase life insurance. Several factors suggest that all servicemembers who want to obtain supplemental life insurance can do so.

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## Databases of Allotment Information Cannot Be Utilized to Monitor Servicemembers' Use of or Perceived Need for Supplemental Life Insurance

We, with assistance from DFAS, attempted but could not determine with sufficient reliability either the number of servicemembers who have allotments for supplemental life insurance products or the number of dollars that servicemembers pay as allotments to life insurance companies each month. Although DOD's Financial Management Regulation<sup>28</sup> supplies the primary guidance governing the procedures used to gather allotment information and then electronically enter and store the information, each service has a policy and procedures directing how to implement the DOD regulations. Among other things, the military services' policies and procedures specify how allotments for supplemental life insurance and other products or services are to be coded, the number of discretionary allotments that each servicemember is allowed, and which forms can be used to initiate allotments. Allotments to purchase life insurance are also governed by the DOD directive on personal commercial solicitation. The directive requires a 7-day cooling-off period between the time when E1s through E3s sign a supplemental life insurance application and the time the allotment is certified.<sup>29</sup>

A variety of DFAS database-related constraints limit the visibility that the DOD solicitation policy office, the services, and installations have over servicemembers' use of and perceived need for supplemental life insurance. These constraints include the following:

- Although the databases can be used to identify servicemembers with an insurance allotment (an AI code), the allotment could be for servicemembers' or family members' life, health, automobile, or other insurance. Conversely, other servicemembers' insurance allotments are not detectable if they are coded for savings (an AS code) or other types of accounts that the servicemembers also have with the company providing supplemental life insurance.
- Servicemembers are limited to six allotments in total and one discretionary allotment per company, even if they have multiple

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<sup>28</sup> DOD, *Financial Management Regulation* 7000.14-R Vol. 7A, Chapters 41 and 42; DFAS-INM (Army), Part 6, Chapter 1; DFAS-DE (Air Force) Manual 7073-1, Chapter 57; DJMS Procedures Training Guide (Navy), Part 6; DFAS-KC 7220.31-R (Marine Corps), Chapters 23-25 and appendixes N, O, P, and Q.

<sup>29</sup> DOD Directive 1344.7, encl. E3.3.2.

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accounts (supplemental life insurance, savings, and so forth) with a company.

- DOD and service regulations permit the use of at least seven different allotment forms, but forms such as the government-wide Standard Form 1199A or DOD-wide DD Form 2558 do not ask whether the allotment is for supplemental life insurance. (See app. III for a copy of each form.)
- The payroll databases cannot tell how many servicemembers pay insurance companies directly by checks, electronic withdrawals from personal accounts, and so forth.
- DFAS maintains separate databases for the different military services, and the code used to identify an insurance company is not the same for all services. Creating a DOD-wide list requires additional work to merge the resulting information.

DOD was informed about some of these database constraints in the 1999 DODIG report, in which analysts noted that they could not determine what portion of the allotments were made specifically for life insurance.

A major cause of these database-related problems is DOD's systems supporting servicemembers' pay. In our earlier reports, we documented serious problems with these systems, noting that they were prone to error and required manual data reconciliation, correction, and entry across nonintegrated systems.<sup>30</sup> While a significant system enhancement project is under way to improve the administration of military pay, DOD is likely to continue operating with existing system constraints for several years. The continued use of forms that do not require information and coding specific to life insurance could cause allotment data to continue to be unreliable for oversight purposes, even when the new computer system becomes operational. Information obtained during interviews indicated another cause for data unreliability. Some interviewees suggested that servicemembers might use codes other than AI to avoid the additional requirements encountered when starting allotments for supplemental life insurance. The additional requirements include the cooling-off period and

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<sup>30</sup> See GAO, *DOD Systems Modernization: Management of Integrated Military Human Capital Program Needs Additional Improvement*, [GAO-05-189](#) (Washington, D.C.: Feb. 11, 2005), and GAO, *Military Pay: Army National Guard Personnel Mobilized to Active Duty Experienced Significant Pay Problems*, [GAO-04-89](#) (Washington, D.C.: Nov. 13, 2003).

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the requirement to submit a paper form for all supplemental life insurance allotments, rather than using the electronic MyPay system.

The absence of data regarding which servicemembers do or do not carry supplemental life insurance limits the oversight that DOD policy officials and installation solicitation coordinators can exert. For example, the inability to obtain accurate data prevents the DOD policy office from monitoring increased or decreased perceived needs for supplemental life insurance, an important issue now that new legislation has been enacted to almost double the lump sum death benefits offered through the government. Also, the lack of accurate data prevents the solicitation coordinators from easily checking whether servicemembers on an installation submitted an unusually large number of new allotments for supplemental life insurance during a short period, a possible sign of mass solicitation to recruits or trainees or other prohibited practices.

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### Allotments for Supplemental Life Insurance Have Been Started without Verifying Required Authorization and the Elapse of the Cooling-Off Period

Contrary to regulations, some finance personnel have accepted allotment forms to start supplemental life insurance without verifying that the person submitting the form is authorized to do so or, if applicable, that a cooling-off period has occurred. According to DOD's Financial Management Regulation, establishment of, discontinuance of, or changes to existing allotments for supplemental life insurance are to be based on a written request by a servicemember or someone with a special power of attorney on behalf of the servicemember.<sup>31</sup> For junior enlisted servicemembers, the DOD directive on personal commercial solicitation provides an additional requirement: "For personnel in pay grades E-1, E-2, and E-3, at least seven days shall elapse for counseling between the signing of a life insurance application and the certification of an allotment. The purchaser's commanding officer may grant a waiver of this requirement for good cause, such as the purchaser's imminent permanent change of station."

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<sup>31</sup> DOD, *Financial Management Regulation* 7000.14-R, Vol. 7A, Chapter 41, sec. 410801. This regulation allows most financial allotments to be established through MyPay, DOD's automated payroll program. MyPay allows servicemembers to start, stop, or change allotments with financial institutions when the funds are directed to be sent to a savings or checking account. MyPay is not intended to be used for allotments to purchase supplemental life insurance. Use of MyPay to establish a supplemental insurance allotment makes it impossible for installation officials to monitor or enforce the proper use of insurance allotments and other parts of the on-installation personal commercial solicitation requirements.

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Nonetheless, DOD personnel and insurance agents indicated that some offices accepted allotment forms personally submitted by insurance agents or through the mail with only the signature on the form serving as proof that the servicemember wanted to start an allotment for supplemental life insurance. For example:

- A life insurance agent is alleged to have submitted allotment forms at Fort Bragg for servicemembers who later said they had not wanted the policies for which they were paying.
- Finance office personnel at Naval Station Great Lakes said that about half of all insurance allotment forms submitted to and processed by their office came from insurance agents.
- DFAS representatives who process allotments for Marines stated that they accepted and processed allotment forms submitted directly from Marines through the mail without the required certification.
- Finance office personnel at Lackland Air Force Base were concerned about the high number of mailed allotment forms from insurance companies or otherwise on behalf of servicemembers and requested DFAS guidance on processing such forms.

Several reasons were suggested for DOD personnel's acceptance of allotment forms that were not submitted personally by the servicemembers or their representatives with a special power of attorney. DFAS personnel representing the Marines said that they accepted and processed mailed insurance allotment forms from Marines who, due to their transitional status, were unable to properly certify the forms, but wished to promptly initiate policies or to keep policies from lapsing. In addition, Air Force personnel said that servicemembers have tight training schedules that make it more convenient to mail the forms than to hand carry them to the finance office. The Air Force has recently clarified its policies to require contacting servicemembers and verifying the request when allotment forms are received by mail.

The causes are different for noncompliance with the requirement to have 7 days elapse between the time junior enlisted servicemembers sign a life insurance application and the time an allotment is certified. On allotment forms such as the governmentwide Standard Form 1199A or the DOD-wide DD Form 2558, no one is asked to certify that the required cooling-off period and, possibly, counseling have occurred. Therefore, these forms do

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not require finance personnel to determine whether the full 7 days have elapsed before they certify the allotment. Other causes for noncompliance with the required cooling-off period are ambiguities in the directive. First, the requirement for a cooling-off period may be for all life insurance allotments started by junior enlisted servicemembers, but its inclusion in a directive governing only on-installation solicitation could cause finance officials to interpret the requirement as applying only to those allotments for supplemental life insurance sold on an installation to junior enlisted servicemembers. Second, it is unclear whether the counseling is required or optional during the cooling-off period. Further, the directive and the standard allotment forms do not contain procedures for documenting whether the counseling took place. Third, it is unclear when the commanding officer must sign a waiver for the cooling-off period and/or counseling.

Starting a supplemental life insurance allotment for servicemembers who do not want one or were not required to allow the cooling-off period to elapse can result in extra expenses for servicemembers who may already be financially challenged. Even if servicemembers receive premium reimbursements like those promised by insurance companies following the incidents at Fort Benning, Fort Bragg, Camp Pendleton, and possibly other places, months can pass between the paying for the allotments and the reimbursements. During that time, servicemembers are without a portion of their income, and this decreased income could result in budgeting difficulties and fees for such things as bounced checks and late payments. As we pointed out in our April 2005 report on the financial conditions of servicemembers and their families,<sup>32</sup> pressure from creditors, falling behind in paying bills, and bouncing two or more checks were negative financial events reported by approximately one-eighth to one-fifth of servicemembers on a 2003 DOD-wide survey.<sup>33</sup> In addition, more than 10 percent of servicemembers answered “in over your head” or “tough to make ends meet but keep your head above water” when the survey asked them to characterize their financial condition. For servicemembers who

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<sup>32</sup> See [GAO-05-348](#).

<sup>33</sup> Sampling errors of estimates for servicemembers do not exceed +/- 5 percentage points. These sampling errors do not include errors due to other sources, such as potential bias attributable to the overall 35 percent response rate. DOD conducted research to assess the impact of this response rate on overall estimates. We have no reason to believe that potential non-response bias in the estimates not otherwise accounted for by DOD's research is substantial for the variables we studied in our earlier 2005 report.



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were already having financial difficulties, unplanned allotments and any extra expenses could result in debt and bad credit histories for servicemembers, as well as adversely affect unit readiness and morale as the chain of command attempts to address any resulting financial problems.

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**Assertion That Servicemembers Are Prevented from Purchasing Supplemental Life Insurance Could Not Be Substantiated**

Some insurance officials and agents asserted that chains of command prevent servicemembers from purchasing supplemental life insurance, but we were unable to substantiate the assertion. As we have previously mentioned, DOD's Financial Management Regulation requires that servicemembers or their representative with a special power of attorney complete and submit an allotment form if the supplemental life insurance is to be purchased with a payroll deduction. Also, the previously discussed requirement for a cooling-off period and possibly counseling for junior enlisted personnel is important to examining the life insurance officials' and agents' assertion.

During a meeting at the start of our review, officials from insurance companies and national insurance associations asserted that some servicemembers were being prevented from purchasing supplemental life insurance. Also, a firm that sells supplemental life insurance on and off multiple installations supplied us with documents<sup>34</sup> on 1,344 servicemembers who completed insurance applications from October 2002 through September 2004 but did not subsequently start a policy through the firm. During site visits to two of the installations where the majority of the 1,344 servicemembers were based at the time of completing their applications, we attempted to conduct focus groups with subgroups of those servicemembers. Our points of contact on the installations indicated that many of the servicemembers had rotated to other installations or were in training that could not be missed.

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<sup>34</sup> Approximately 65 percent of the files included an allotment form with a servicemember's signature.

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Although we could not determine how representative these 1,344 applications were of all applications completed without a purchase being made, this case study of the experiences at one firm provides some insight into the viability of cost-related alternative reasons why servicemembers might not follow through with the purchase of supplemental life insurance coverage. Our analysis of the 1,344 cases showed that 831 applications were for E1 through E3 servicemembers, and the per person average monthly cost of the products in the applications was \$92.<sup>35</sup> For those 831 junior enlisted personnel, 3 percent of the cases contained only an application for life insurance, 52 percent contained only an application for what an official from the firm characterized as “a life insurance product with an accumulation fund,”<sup>36</sup> and 45 percent included both types of applications.

Military officials, servicemembers, and insurance officials and agents identified reasons—in addition to being actively prevented from processing a supplemental life insurance allotment form—why servicemembers might not start a policy after completing an application. These other reasons included:

- The counseling supplied during the 7-day cooling-off period could have been misinterpreted as an implicit order from the chain of command not to purchase the insurance, rather than as advice about the advantages and disadvantages of purchasing supplemental life insurance or a particular type of coverage.
- The counseling could have resulted in the servicemember’s following through on purchasing a supplemental policy but obtaining it from another vendor, and possibly at a lower price.
- Some servicemembers may have developed buyers’ remorse when they later considered the competing demands on their compensation.

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<sup>35</sup> At the time that applications were completed, coverage through the government-offered SGLI was \$16.25 per month for \$250,000 of coverage. During our review, insurance officials stated that they too offered similar term-life policies for approximately the same amount.

<sup>36</sup> GAO has another review under way that is examining, among other things, the quality of the financial products—including supplemental life insurance—offered to servicemembers.

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- Servicemembers may have completed the application because of high pressure sales practices, knowing they would not later file an allotment form.
  - An allotment may not get started because of a lost or missing allotment form.

Although we were not able to determine whether chains of command were intentionally preventing servicemembers from purchasing supplemental life insurance, information of four types suggests that the inability to purchase supplemental life insurance coverage is probably not a widespread problem. First, 85 percent of the state insurance regulators in our survey indicated that no insurance company had filed a complaint regarding the sale of life insurance to servicemembers on installations from October 2003 through December 2004, and the other 15 percent said they did not know. Second, most of the insurance agents identified by the national insurance associations and interviewed during our six installation visits indicated that they had not experienced a problem with the allotment process. In contrast, agents for two life insurance companies typically reported a problem, and the concerns related primarily to the processing of allotments on two installations that were served by the firm that supplied us with the more than 1,000 cases. Third, when we were able to talk with servicemembers identified as having completed insurance applications without starting allotments, they indicated that they did not purchase the supplemental life insurance for reasons other than prevention by the chain of command.<sup>37</sup> Finally, if servicemembers wanted life insurance and were actively prevented by the chain of command from filing allotment forms to make the purchase, they could pay the premiums by check, electronic withdrawals from other financial accounts, or some other means, without further chain of command intervention.

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<sup>37</sup> It is impossible to determine whether the installation directed us only to servicemembers who chose not to purchase the policies for reasons other than active prevention. We did, however, receive written statements from two junior enlisted servicemembers and we contacted one on his personal cell phone. He confirmed that he did not want the policy after completing the application. In addition, to lessen the likelihood that other servicemembers would not answer truthfully when speaking in a focus group, we administered an anonymous survey before the focus group sessions to promote honest responses about each individual's experiences in the solicitation and allotment processes.

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## DOD's Revised Directive Adds New Requirements, but Does Not Fully Address Oversight Deficiencies

DOD's revised directive on personal commercial solicitation practices on DOD installations incorporates new requirements, but does not address all oversight problems.<sup>38</sup> Numerous changes have been proposed. Some interim policy and practices that are currently in place have been incorporated into the draft revision. Also, requirements for gathering and disseminating information have been proposed, but they do not fully address oversight deficiencies. Still other proposed requirements address issues such as the type of information that life insurance agents will provide to servicemembers to describe the product being offered by the agent.

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## Draft Directive Proposes to Incorporate Existing Interim Policy and Formalized Practices Already in Place

One of the larger sets of additions to the draft directive proposes to incorporate interim policy that DOD issued in 2002 about on-installation financial education presentations.<sup>39</sup> Those additions generally prohibit representatives of commercial loan, finance, insurance, or investment companies from providing such presentations. With certain restrictions, the presentations may, however, be provided by representatives of the following types of organizations: credit unions and banks located on military installations,<sup>40</sup> nongovernmental, noncommercial organizations expert in the field of personal financial affairs, and those that are either tax-exempt (under 26 U.S.C. 501(c)(3) or (c)(23)) or under a contract with the government. Among other things, restrictions require that the presenter and educational materials use disclaimers to indicate clearly that they do not endorse or favor any commercial supplier, product, or service. Also, the installation commander shall consider the company's history of complying with on-installation commercial sales instructions if the presenting organization is affiliated with a company that sells or markets insurance or other financial products.

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<sup>38</sup> 70 *Fed. Reg.* 20316 (2005).

<sup>39</sup> 70 *Fed. Reg.* 20316 (2005), part 50.11 (g).

<sup>40</sup> The draft directive also requires banks and credit unions operating on DOD installations to provide financial counseling services as an integral part of their financial service offerings. Banks and credit unions operating on DOD installations are subject to additional requirements specified in other DOD policies (for example, DOD Directive, 1000.11, *Financial Institutions on DOD Installations* (June 9, 2000); DOD, *Financial Management Regulation* 7000.14-R, Vol. 5, Chapter 34 (September 2000)).

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An additional change to the draft solicitation directive incorporates procedures pertaining to advertising and commercial sponsorship that were already in place at some of the installations we visited.<sup>41</sup> For example, the draft directive notes that solicitors are allowed to provide commercial sponsorship of DOD morale, welfare, and recreation programs or events on installations but are not to contact participants without their written permission. Interviews with insurance agents and installation personnel during our site visits indicated that agents were already generating lists of future contacts through the use of forms that program or event participants completed, indicating their permission for the future contact.

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**Proposed Evaluation,  
Reporting, and  
Dissemination  
Requirements Do Not Fully  
Address Oversight  
Deficiencies**

DOD has taken some positive steps to improve its oversight of personal commercial solicitation on installations by proposing to add four new sets of requirements that pertain to gathering and disseminating evaluative data. Each of the requirements has associated problems that could limit the usefulness of the gathered and disseminated data.

Two sets of proposed changes add requirements for gathering and disseminating information about violations on banned agents. As we noted earlier, continued gathering and disseminating information on only those violations severe enough to result in banning an agent will result in DOD's continuing to be unable to (1) identify the number, types, and severity of all violations and (2) recognize patterns of violations. Failure to disseminate information on all confirmed violations to all parts of DOD and to state regulators can allow violators to continue operating on installations.

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<sup>41</sup> 70 *Fed. Reg.* 20316 (2005), part 50.11 (f).

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As the result of another proposed addition to the draft directive, installation commanders will be required to inquire into any alleged violations of the solicitation regulation or questionable solicitation practices.<sup>42</sup> This step could increase the DOD's oversight of the number, types, and severity of confirmed violations occurring throughout all military installations if there were also an additional requirement to report all confirmed violations to higher-level commands. Some factors that could keep the number of inquiries into potential violations artificially low are the lack of knowledge about which solicitation practices are prohibited, the steps required to report a violation, and whom to contact when a suspected violation occurs. We reported in April 2005 that only the Army is monitoring the completion of required personal financial management training for junior enlisted personnel, and it estimated that about 18 percent of that group had not received the required training. Our earlier review did not assess the amount or the types of life insurance-related training provided, but we noted that each service administered its personal financial training differently.<sup>43</sup> When we recommended additional DOD oversight by requiring the services to develop and implement plans to monitor the training, the Under Secretary of Defense for Personnel and Readiness partially concurred with our recommendation but noted that the DOD instruction governing personal financial management training had sufficient procedures to let the military departments accomplish their responsibilities.

Another proposed addition to the draft directive would require an insurance agent to provide a servicemember with a new DOD-wide questionnaire that would contain questions about the servicemember's experiences during the prearranged appointment with the agent for solicitation.<sup>44</sup> The value of information obtained from this assessment instrument may be very limited, and might even create an erroneous impression of what has occurred during the typical solicitation appointments. The questionnaire will document interactions that were not described as problem areas during our visits to six installations—that is, life insurance agents who were complying with the requirement to prearrange one-on-one solicitation meetings. Also, the voluntary completion of the forms will result in a lack of transparency, since some

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<sup>42</sup> 70 *Fed. Reg.* 20316 (2005), part 50.11 (c) (3).

<sup>43</sup> See [GAO-05-348](#).

<sup>44</sup> 70 *Fed. Reg.* 20316 (2005), part 50.11 (a) (iii).

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forms may not be turned in for a variety of reasons: For example, they were never distributed by an agent, or the servicemembers did not want to take the time to fill in and drop off the form. In addition, the directive includes no requirement to submit the data to higher levels so that service-wide and DOD-wide information can be developed.

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### Other Changes Will Result in Better Explanation or Clarification of Existing Requirements

Another change merits special mention because it could result in servicemembers' having better information for making decisions about whether or not to purchase a specific amount or type of supplemental life insurance coverage.<sup>45</sup> All financial products that contain insurance features must clearly explain the insurance features of those products. The draft regulation elaborates further about insurance products, stating that if there is a savings component to an insurance product, the agent shall provide the customer written documentation, which clearly explains how much of the premium goes to the savings component per year, broken down over the life of the policy. This document must also show the total amount per year allocated to insurance premiums. The customer must be provided a copy of this document that is signed by the insurance agent. One problem that might be encountered in implementing this proposed requirement is the absence of any guidance about what types of information must be contained in the written description and who (for example, the installation's solicitation coordinator or the National Association of Insurance Commissioners) would judge whether the information is conveyed clearly.

Three other changes in the draft also merit mention. First, solicitors are prohibited from contacting DOD personnel by calling a government telephone or by sending an e-mail to a government computer unless the parties have a pre-existing relationship. Second, solicitors with military identification cards and/or vehicle decals must present documentation issued by the installation authorizing solicitation when entering the installation for that purpose. Third, commercial sponsors may not use sponsorship to advertise products and/or services not specifically agreed to in the sponsorship agreement.

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<sup>45</sup> 70 *Fed. Reg.* 20316 (2005), part 50.11 app. A.

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A DOD official informed us that DOD plans to review the findings and recommendations of our report and then request more public comments after our report is issued. He also indicated DOD will not publish a final revised directive until at least 90 days after the issuance of our report, consistent with the provisions of Section 8133 of the Department of Defense Appropriations Act for Fiscal Year 2005.<sup>46</sup>

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## Conclusions

DOD cannot identify the extent to which life insurance agents are violating solicitation policies or procedures, the types, severity, or patterns of violations. A proposed new provision in the draft directive would require DOD to maintain and disseminate a master file on banned agents, but this new provision will still not provide DOD with a full picture of the important but missing data outlined in the prior sentence. For example, DOD's current list (1) is not searchable to help solicitation coordinators quickly check on agents who want to be approved or re-approved for on-installation solicitation, (2) does not provide the same information on every case as is evidenced by the absence of dates for 6 of the 51 cases, (3) does not identify the specific types of violations that occurred—data critical for identifying patterns of violations, and (4) probably does not contain information on all agents who installation commanders have determined violated regulations but have not done something severe enough to be banned. The continued absence of these important data will force DOD, the services, and installations to take actions based on isolated incidents, anecdotes, and other possibly insightful, but non-optimum information. DOD has, however, taken a positive step by including a requirement in the draft directive to maintain a list of contacts for state insurance regulators, but it does not require installation commanders to keep state regulators generally informed about all confirmed solicitation violations occurring on their installation. This ambiguity could result in some relevant violations not getting reported to state regulators. Similarly, ambiguity is present in the wording of the requirement for the cooling-off period for junior enlisted servicemembers who want to purchase supplemental life insurance. While DOD's draft directive clarified that the period is 7 calendar days, other ambiguities were identified earlier in this report. Failure to address these issues during the current revision could result in inconsistent enforcement of that requirement.

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<sup>46</sup> Pub. L. No. 108-287, sec. 8133 (Aug. 5, 2004).



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The quality of the information in the DFAS payroll databases limits the ability of other parts of DOD in their efforts to (1) monitor servicemembers' perceived need for supplemental life insurance and (2) detect prohibited group presentations as evidenced by large numbers of new allotments for supplemental life insurance. Continued reliance on multiple generic allotment forms and a generic data entry code that does not distinguish different types of insurance products (for example, life versus automobile) will perpetuate existing data reliability problems. Furthermore, the continued use of generic forms to start a supplemental life insurance allotment results in a missed opportunity for DOD to institute steps to address solicitation requirements whose enforcement has not been assessable. For example, DOD has no current forms or other assessment methods for documenting that the required cooling-off period for junior enlisted personnel occurred, servicemembers received required documents from life insurance agents, and the finance or administrative staff who accepted the allotment form for supplemental life insurance also verified that the person submitting it was either the purchaser or the servicemember's representative with a special power of attorney. With regard to this last enforcement and documentation issue, our review found some noncompliance with the requirement that only servicemembers or their representatives with special power of attorney could start supplemental life insurance allotments. Even though some of the reasons for the noncompliance may be well-meaning, some of the instances where finance officials have accepted such allotment forms from unauthorized persons have resulted in banning agents, diverting valuable resources away from the military mission to conduct investigations, and possibly placing servicemembers and their families at financial risk when unanticipated allotments begin for unwanted products. Adherence to existing regulations would go far to eliminating these negative effects.

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## Recommendations for Executive Action

We are making five recommendations. We recommend that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness to take the following actions in revising DOD's solicitation regulation:

- Develop and implement, with the services, a DOD-wide searchable violations database that uses consistent data elements and coding across services. Solicitation coordinators or others at the installation would then be required to enter the installation name, violating agent's name, insurance company supplying the product, type(s) of violation(s), date and type of action taken, and other information important for

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identifying patterns of violations and facilitating efficient data collection and dissemination of information on confirmed violators to all installations and state insurance regulators.

- Specify in the revised directive that the installation commander is responsible for notifying state insurance regulators, the service secretariat, and DOD, when the commander has determined that agents or companies have violated DOD, service, or installation policies. Requiring installation commanders to contact appropriate state officials regarding all confirmed violations of DOD's commercial solicitation directive increases the likelihood that state insurance officials will be provided an opportunity to determine if further action such as revocation of a state license is warranted.
- Clarify the portion of the revised directive that pertains to the cooling-off period that must elapse before junior enlisted personnel can start an allotment to purchase supplemental life insurance. Addressing and eliminating the ambiguities that we have identified about what is required versus optional could result in better compliance with the directive.

We recommend that the Secretary of Defense direct the Defense Finance and Accounting Service to take the following actions:

- Determine what current and future modifications should be made to the regulations, forms, and procedures used to initiate and electronically capture supplemental life insurance allotments so that more useable data are available to the DOD, service, and installation offices responsible for overseeing supplemental life insurance solicitation. This step might include developing and implementing a single code and form that would be used for supplemental life insurance allotments and to document compliance with requirements that DOD has previously had little visibility over.
- Issue a message to all finance offices and the Defense Finance and Accounting Service offices that process allotments for supplemental life insurance to remind personnel that DOD's Financial Management Regulation indicates that only servicemembers or their designated representatives with special power of attorney for the prescribed purpose are authorized to start, stop, or modify financial allotments. If deviations from the policy are warranted to allow mailed allotment

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forms, the Defense Finance and Accounting Service should specify the additional verification required in those situations.

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## Agency Comments and Our Evaluation

DOD's comments are included in this report as appendix IV. DOD partially concurred with our first two recommendations and fully concurred with the three remaining recommendations.

In commenting for DOD, the Principal Deputy for Personnel and Readiness raised three issues concerning the thoroughness and accuracy of our review.

First, DOD incorrectly stated that our review was only to look at the complaints of the insurance industry and that after we did not substantiate these complaints, we instead looked at DOD's oversight of commercial insurance solicitation on DOD installations. While we were aware of the industry's complaints, we focused our review on broader systemic issues, like the implementation of DOD and service policies, procedures, and regulations governing the marketing and sale of supplemental life insurance on domestic military installations. Focusing on these systemic issues, however, allowed us to determine whether the complaints had merit. At every stage during our review, we emphasized that we were asked to review compliance with DOD's regulations and policies on both the marketing and sale of life insurance on installations and the processing of financial allotments for such products. For example, in the letter notifying the Secretary of Defense that we were beginning our review and at our first meeting with DOD and service representatives, we listed the following three researchable questions:

1. What are DOD's and the services' policies and procedures for the marketing and sale of life insurance policies to military personnel and the processing of financial allotments for military personnel?
2. How do DOD and service regulations affect the marketing and sale of life insurance policies and the processing of financial allotments to military personnel?
3. How are the processes and procedures for the marketing and sale of life insurance policies and the handling of financial allotments, especially for commercial products like life insurance policies, implemented at Fort Bragg, Fort Lewis, and other military installations?

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Our report fully addressed solicitation and allotment issues in addition to providing our congressional requesters with an update on the revision of DOD's personal commercial solicitation directive, as they also requested. Further, DOD stated that our report makes only minor mention of the fact that we did not substantiate the insurance industry's assertions that servicemembers were being prevented from using allotments to obtain life insurance. To the contrary, we devoted a section of our report to the issue, but that issue was only one of many allotment-related concerns that we addressed in that portion of the report.

Second, DOD expressed concern about our use of survey data in examining the extent to which insurance solicitation violations were occurring on installations. The most significant reason for using the survey was the incompleteness and other problems associated with the data that DOD maintains on violations. The problems with those data are addressed more fully in our later response to DOD's partial concurrence with our first recommendation. Because we were aware that survey data are unsubstantiated, we supplemented that information with data gathered from other sources such as DOD's list of banned agents and information gathered from a wide variety of individuals during our six visits to military installations. DOD similarly conducts surveys to monitor other personnel issues. For example, the Office of the Under Secretary of Defense for Personnel and Readiness conducted a survey of over 75,000 servicemembers asking for unsubstantiated perceptions about racial/ethnic discrimination and harassment<sup>47</sup> and these data could be combined with compliance-related information from DOD's investigations of alleged violations to give the department a more complete view of the issue. DOD also stated that we should have disclosed the wording used in the survey. The information that DOD reviewed in our figure 1 is the exact wording of our survey items. Although the wording for the overall question, "During the past 12 months, how often have the following practices concerning supplemental life insurance taken place on the installation?" was changed to a declarative sentence to increase readability, our paraphrasing is a true representation of what we asked. Finally, the response rate of 75 percent for our survey of all personal financial management program managers on U.S. installations is higher than the rate obtained on recent DOD-wide surveys such as the August 2004 survey which had a response rate of 40 percent. Given these facts, we believe that our discussion about the

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<sup>47</sup> See Defense Manpower Data Center, *Armed Forces Equal Opportunity Survey*, DMDC Report No. 97-027 (Arlington, Va.: August 1999) p. 40.

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extent of solicitation policy violations was appropriate, especially since DOD had information on only the subset of violations serious enough to merit banning an agent from an installation.

Lastly, DOD maintained that we made a false statement about the department not knowing the extent of personal solicitation policy violations. DOD's point is incorrect on several grounds. First, early in our review in May 2004, we asked DOD officials whether a DOD-wide database existed that the services could use to report to DOD insurance agents or companies that have had their solicitation privileges withdrawn. DOD officials told us that while there was such a system, it was up to the services to provide updated information. DOD officials said at the time there was no comprehensive information available to document such actions. In October 2004—approximately 5 months after we asked for a list of all banned agents—DOD provided us with information similar to that provided on its Commanders Page Web site as of April 2005. At the time we received this information, the Director of the program that oversees personal commercial solicitation told us that the list may not be complete and accurate—which we found to be true—but that it provided all of the information that the services had reported. Second, DOD's list of banned agents did not include all cases where insurance agents or companies were banned. As we reported, personnel at Fort Bliss, Texas, indicated that the installation commander had banned an agent who was not included on DOD's Commanders Page Web site as of April 2005. Third, unless DOD bans *every* agent who violates in any way the solicitation policy regardless of the severity of the violation, its data on banned agents are not equivalent to knowing the extent of *all* confirmed violations.

Regarding DOD's comments about our recommendations, DOD partially concurred with our first recommendation to develop and implement a searchable violations database, but DOD's explanation of its partial concurrence does not identify any additional steps to address the deficiencies that we identified with their current procedures. As we noted in our report, the monitoring system should focus on all confirmed violations of solicitation policies and not just on those severe enough to result in agents being banned. By establishing a database on all confirmed violations, DOD would have a more complete picture of solicitation violation activities to better identify patterns, types, and severity of confirmed violations. If patterns are found, they could serve as the basis for identifying actions to eliminate the recurring or systemic problems. Our proposed database would also provide installation solicitation officers with a resource to check whether agents requesting solicitation approval or

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re-approval at their installations were involved in prior violations at other locations.

DOD partially concurred with our second recommendation that installation commanders notify state insurance regulators of confirmed violations of solicitation policies. DOD's position is that such reporting by installation commanders should only be required when the violations involve the eligibility of the agent to hold a state license and to meet other regulatory requirements. We believe that DOD should report all confirmed violations to state regulators. Installation commanders and their legal advisers may not have the expertise needed to determine whether a solicitation violation involved license-eligibility or regulatory requirements. Having installation commanders report all confirmed violations to state regulators would allow the regulators to decide whether further action is appropriate. As we pointed out in our report, state insurance officials from North Carolina were concerned that DOD's lack of reporting violations prevented them from determining whether further actions, such as revocation of licenses, are warranted.

DOD concurred with our third recommendation and stated that it had identified an additional ambiguity in the current revised directive regarding who is responsible for monitoring and enforcing the cooling-off period for supplemental life insurance purchases. DOD's proposed revision addresses the concerns that we raised.

DOD concurred with our fourth recommendation and stated that they will consider our proposed changes for a future enhancement of their pay system. In addition, DOD said that it will review its regulations and forms to determine what current and future modifications should be made.

DOD concurred with our fifth recommendation and stated that it will issue a message identifying who can start, stop, or modify allotments to all finance offices and Defense Finance and Accounting Service offices that process allotments.

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As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after its issue date. At that time, we will provide copies of this report to interested congressional committees and the Secretary of Defense. We will also make copies available to others upon request. This report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

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If you or your staff have any questions regarding this report, please contact me at (202) 512-5559 or [stewartd@gao.gov](mailto:stewartd@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff members who made major contributions to this report are listed in appendix V.

A handwritten signature in black ink that reads "Derek B. Stewart". The signature is written in a cursive style with a large initial 'D' and 'S'.

Derek B. Stewart  
Director, Defense Capabilities and Management

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*List of Congressional Requesters*

The Honorable Tom M. Davis  
Chairman  
Committee on Government Reform  
House of Representatives

The Honorable Duncan L. Hunter  
Chairman  
Committee on Armed Services  
House of Representatives

The Honorable Christopher Shays  
Chairman  
Subcommittee on National Security, Emerging Threats  
and International Relations  
Committee on Government Reform  
House of Representatives

The Honorable Jim Cooper  
The Honorable Martin T. Meehan  
The Honorable Ellen O. Tauscher  
House of Representatives



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# Scope and Methodology

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In addressing the objectives of our engagement, we reviewed reports that had been issued by GAO, DOD, and others, including the life insurance industry. We interviewed officials from DOD, life insurance companies and associations, and other organizations, such as the Consumer Federation of America, to identify the many perspectives on the issues being studied. In connection with another report, we constructed, pre-tested, and administered insurance- and allotment-related survey questions to all 175 installation-level managers of DOD's personal financial management programs located in the United States.<sup>1</sup> We received completed surveys from 131 installations, yielding an overall response rate of 75 percent, which ranged from a low of 62 percent for the Air Force to 93 percent for the Marine Corps. We also constructed, pre-tested, and administered an e-mail survey to the insurance commissioners for the 50 states, the District of Columbia, and four territories: American Samoa, Guam, Puerto Rico, and the Virgin Islands. We received completed surveys from 46 states, the District of Columbia, and one U.S. Territory, yielding an overall response rate of 87 percent. We did not receive surveys from four states (California, Delaware, Florida, and Idaho) and three territories (American Samoa, Guam, and the Virgin Islands). We later contacted the four non-responding states to verify if they had any investigations on insurance sales practices on military installations, and only California responded to our inquiries. In addition, we interviewed personnel from the state insurance commissioner's office for four of the six states where we conducted site visits to military installations, as well as personnel for the commissioner's office in Georgia. We also asked insurance companies and two national insurance associations to identify agents and company representatives who could be interviewed about solicitation and allotment practices at the six installations. During site visits, we requested materials related to the marketing and sale of supplemental life insurance and the establishment of allotments for that purpose. Those materials included a list of life insurance agents approved for on-installation solicitation, handouts distributed to assist servicemembers in determining their need for supplemental life insurance, documentation for violations of personal commercial solicitation and insurance-related policies, and complaints related to insurance solicitation and allotments. While on the site visit, we conducted individual interviews or focus groups with the following types of individuals: installation leaders; the coordinator for the installation's commercial solicitation program; servicemembers; legal assistance attorneys from the Judge Advocate General corps; finance department

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<sup>1</sup> See [GAO-05-348](#).

personnel who managed and processed allotments; family support center staff responsible for personal financial management training and counseling activities; staff from morale, welfare, and recreation; and representatives of on-installation banks and credit unions.

We limited our scope to the sale—marketing, solicitation, and purchase—of life insurance to active duty servicemembers on installations in the United States. Emphasis was given to findings pertaining to junior enlisted servicemembers since DOD and insurance officials have indicated that this subgroup is more likely to encounter problems with the marketing and sale of supplemental life insurance and establishment of an allotment for such a purchase. During the course of our work, we visited six installations (see table 3). We selected the installations based on inputs from DOD and insurance officials, and with due consideration for the large number of Army personnel deployed to Iraq and Afghanistan. We did obtain additional information on completed and ongoing large-scale investigations of violations that occurred on other installations: Fort Benning, Georgia, and Fort Stewart, Georgia, although we did not conduct site visits to these installations.

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**Table 3: Installations in the United States where GAO Conducted Site Visits from July to December 2004**

<b>Service</b>	<b>Installation</b>
Army	Fort Bragg, North Carolina
	Fort Campbell, Kentucky
	Fort Lewis, Washington
Navy	Naval Station Great Lakes, Illinois
Marine Corps	Camp Pendleton, California
Air Force	Lackland Air Force Base, Texas

Source: GAO.

To address the extent to which agents were violating DOD's policies governing the solicitation of supplemental life insurance to active duty servicemembers on domestic installations, we reviewed and analyzed DOD, service, and selected installations' policies and directives governing personal commercial solicitation, primary among these was the DOD directive on personal commercial solicitation on DOD installations. We also reviewed DOD reports on commercial life insurance sales;<sup>2</sup> materials provided by insurance association and company officials, as well as insurance agents; and state government announcements such as those from the office of the Georgia state insurance commissioner about investigations of and enforcement actions against some companies and agents who sold supplemental life insurance to servicemembers. We contacted the Federal Trade Commission to ascertain whether its Military Sentinel system contained any information on complaints or investigations on supplemental life insurance sales to servicemembers. We obtained a wide range of perspectives about the sale of supplemental life insurance to servicemembers during meetings with DOD and service headquarters officials, officials from companies and two life insurance associations (the American Council of Life Insurers and the National Association of Insurance and Financial Advisors), and a representative of the Consumer Federation of America. In addition to interviewing staff from the insurance commissioners' offices in four of the six states where we visited installations and in the state of Georgia, we constructed, pre-tested, and administered an e-mail survey to the insurance commissioners for the 50 states, the District of Columbia, and four territories. We also used responses about supplemental life insurance-related issues from a survey of all DOD personal financial management program managers, professional staff employed on most installations who were responsible for coordinating the financial management training, counseling, and other assistance provided to servicemembers. During our site visits, we asked that the command point of contact provide us with the following types of materials: a list of life insurance agents approved for on-installation solicitation, handouts distributed to assist servicemembers in determining the need for supplemental life insurance, documentation for violations of personal commercial solicitation and insurance-related policies, and complaints related to insurance solicitation. While on the installation, we conducted individual or focus group interviews with the following types of installation personnel or offices: installation leadership, the coordinator for

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<sup>2</sup> *Final Report: Insurance Solicitation Practices on Department of Defense Installations*, and DODIG, Report No. 99-106.

the installation's commercial solicitation program, legal assistance attorneys from the Judge Advocate General corps, and family support center staff responsible for financial training and counseling activities. We also asked the life insurance associations and company officials for the names of agents that we could interview while on our site visits. As part of our site visits, we conducted interviews with on-installation bank and credit union officials, asking about current and planned efforts to offer supplemental life insurance through their financial institution.

To address how effectively DOD personnel are adhering to DOD's regulations that govern how active duty servicemembers establish payroll allotments to purchase supplemental life insurance, we interviewed officials from DFAS at their headquarters and field offices associated with each service. We also reviewed and analyzed guidance documents governing servicemembers' use of allotments that DFAS, the services, and selected installations provided to us. We interviewed finance officials at the installations we visited and observed the data entry process used to electronically transmit data from the installation to the payroll accounting system maintained by DFAS. At several installations, we also interviewed officials at administrative units that serve as intermediaries in the processing of servicemembers' allotments and asked questions as personnel demonstrated the procedures used in submitting, processing, and confirming allotment transactions.

To assess the extent to which the draft revision of DOD's directive will address ongoing problems with supplemental life insurance policies on DOD installations, we reviewed the Department of Defense Appropriations Act for Fiscal Year 2005<sup>3</sup> to determine the restrictions on when the draft directive could be issued. We conducted interviews with DOD program officials to discuss proposed changes, the reasons for the proposed changes, and other issues related to the draft directive. Also, DOD provided us with a copy of the draft directive as of January 2005 so that we could compare and contrast it to the current version of the directive. We compared that version to the one printed in the April 19, 2005, Federal Register announcement.<sup>4</sup> We subsequently contacted DOD policy officials to determine whether DOD intended to again request comments after our report was issued.

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<sup>3</sup> Pub. L. No. 108-287 (Aug. 5, 2004).

<sup>4</sup> 70 *Fed. Reg.* 20316 (2005).

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**Appendix I**  
**Scope and Methodology**

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We performed our work from May 2004 through May 2005 in accordance with generally accepted government auditing standards.

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# Details on Selected Recent In-Depth Investigations

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We are providing synopses of the reports that investigators prepared after they completed gathering data on alleged violations. We did not independently attempt to verify the allegations or the weight of the evidence supporting decisions reached by installation commanders. Instead, we merely summarize the information provided in the investigative reports.

**Installation:** Camp Pendleton, California

**Period when the violations occurred:** October through November 2003

**Description of the violations:** An insurance agent approached an officer requesting authorization to teach a class on veterans' affairs benefits and financial planning to squadron Marines. The officer believed the class would benefit Marines and included the agent on the training schedule. During the class, the agent spoke little about veterans' benefits, focusing more on investments. The agent distributed cards to obtain contact information and later met with Marines while they were on duty or in their homes to sell them policies. The agent described the policy as an investment plan, rather than an insurance policy, guaranteed, as stated by the agent, to provide Marines "\$500,000 to \$1,000,000 by the time they reached their sixties." The agent also tried to sell the investment plan to Marines without appointments. During the meetings, Marines were given the impression that the agent was a representative of the Department of Veterans' Affairs and was able to assist them in obtaining their benefits. On one occasion, the agent tried to obtain a MyPay personal identification number from a Marine.

Investigators determined that these actions violated prohibited solicitation practices including providing financial planning and insurance classes without prior approval; attempting to solicit or sell insurance without an appointment; attempting to sell insurance in an unauthorized area; using unfair, deceptive, misleading, or fraudulent schemes to encourage sales; and soliciting to trainees.

**Documentation to assess the scope of the problem:** The investigation report included sworn statements from 12 Marines who met with the agent as well as two other Marines approached by the agent.

**Estimated number of affected servicemembers:** The initial class included 15 to 25 Marines, and the agent conducted the class at least one other time.

**Actions taken:**

- **By the installation:** Solicitation privileges for the agent were suspended for two years for all Western area Marine Corps installations.
- **By the insurance company:** The insurance company returned the agent's solicitation pass and ceased all operations on the installation with no plans of reopening.

**Installation's interaction with state insurance commissioner's office:** The installation recently provided copies of the investigation to the state insurance commissioner.

**Installation:** Camp Pendleton, California

**Period when the violations occurred:** May through September 2003

**Description of the violations:** Under the guise of presenting information on veterans' affairs benefits, two insurance agents obtained permission from a commanding officer to provide the classes to Marines arriving from boot camp, at which attendance was required. Four people conducted the classes, including three insurance agents and the wife of one agent. According to participants, the classes started with normal veterans' benefit discussions, but shifted into an investment and life insurance sales pitch after non-commissioned officers left the room. The product was identified as a "can't lose proposition" and participants were told that participation would earn them about \$500,000 in just over 21 years. During the sales pitch, agents distributed paperwork, including applications, allotment forms, and statements of understanding, to the Marines. Participants were encouraged not to read the forms and sign them quickly, leave the amounts on the allotment forms blank, provide the insurance company representatives access to MyPay personal identification numbers, and provide signed photocopies of their identification cards. The agents brought portable printers to the meetings to obtain the necessary information. The Marines were not allowed to take paperwork with them, being told that copies would be sent to their home of record.

Investigators determined that these actions violated prohibited solicitation practices including soliciting military personnel who are in an on-duty status; soliciting without appointment in areas utilized for the housing and processing of transient personnel and in unit areas; using manipulative, deceptive, or fraudulent devices, including misleading advertising and sales literature; soliciting recruits, trainees, and other personnel while in a "mass" or "captive" audience; and violating the requirement that at least seven days elapse between the signing of a life insurance application and the certification of an allotment for personnel in pay grades E1 through E3.

**Documentation to assess the scope of the problem:** The investigation report included interviews from 26 Marines in the five classes. Additional information, such as direct deposit forms and statements of understanding, was also included.

**Estimated number of affected servicemembers:** 345



**Actions taken:**

- **By the installation:** Solicitation privileges for the agents were revoked for Camp Pendleton and all Western region Navy and Marine Corps installations.
- **By the insurance company:** The insurance company shut down its operations at Camp Pendleton and has no plans to reopen. The company terminated the three agents involved, at least one of whom was a retired Marine. Refunds were provided to 110 Marines before the June 8, 2004 cutoff date.

**Installation's interaction with state insurance commissioner's office:** The investigation report recommended the California Department of Insurance be notified of the report results. The installation recently provided copies of the report to the state insurance commissioner.

**Installation:** Fort Benning, Georgia

**Period when the violations occurred:** December 2003 through July 2004

**Description of the violations:** Four agents, two who were on Fort Benning's list of authorized insurance and investment agents, gained access to soldiers in the Basic Combat Training Brigade through unit non-commissioned officers under the pretext of providing financial planning or financial management classes. The agents conducted their briefings in unit classrooms, discussing the value of investing and providing examples of wealth accumulation. At the end of these presentations, soldiers wanting additional information were asked to complete an informational form. Following up on leads generated from the forms, the agents returned to the unit area a few weeks later and met individually or in a small group with soldiers. These follow-on meetings, involving the use of laptop computers and direct deposit forms, took place in unit classrooms or unit dayrooms. Fort Benning officials found that officers and non-commissioned officers contributed to the solicitations and a number of drill sergeants knew of the insurance presentations in the unit area.

Investigators determined that these actions violated prohibited solicitation practices including soliciting during enlistment or induction processing or during basic combat training; soliciting to mass, group, or captive audiences; and misusing the allotment of pay system.

**Documentation used to assess the scope of the problem:** The investigation report included sworn statements from a number of soldiers who met with the agents. Additional information, such as direct deposit forms, was also obtained.

**Estimated number of affected servicemembers:** 377

**Actions taken:**

- **By the installation:** Installation solicitation privileges for the agents were revoked. Three officers and seven enlisted personnel involved were reprimanded for failing to adequately safeguard the soldiers for whom they had responsibility.
- **By the insurance company:** The agents involved were fired from the insurance companies they represented. The insurance company from

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**Appendix II**  
**Details on Selected Recent In-Depth**  
**Investigations**

---

which most of the policies appear to have been sold has agreed to provide refunds to soldiers.

**Installation's interaction with state insurance commissioner's office:** The investigation report recommended that findings be shared with the state licensing agencies. Installation officials have provided information to the state of Georgia regarding these incidents.

**Installation:** Fort Benning, Georgia

**Period when the violations occurred:** July 2002 through October 2002

**Description of the violations:** Two agents conducted financial management briefings to soldiers in the infantry training brigade. The agents gained access to soldiers through unit non-commissioned officers under the pretext of providing financial management classes. The classes were imbedded into the training schedule with other personal and financial affairs presentations and were conducted in unit classrooms on the installation. The soldiers were escorted to the classrooms by non-commissioned officers, and according to the investigation, some of the non-commissioned officers had knowledge of the solicitation actions taking place. In addition to the financial management classes, one of the agents allegedly made insurance presentations in training areas to non-commissioned officers. During these presentations, some trainees met with the agent and subsequently purchased life insurance policies.

Investigators determined that these actions violated prohibited solicitation practices including soliciting during enlistment or induction processing or during basic combat training; soliciting to mass, group, or captive audiences; making appointments with or soliciting military personnel who are in an “on duty” status; and using manipulative, deceptive, or fraudulent devices or schemes to sell products, including misleading advertising and sales literature.

**Documentation used to assess the scope of the problem:** The investigation report included sworn statements from involved non-commissioned officers, soldiers who attended the briefings, and Army community affairs officials who received complaints from two of the soldiers involved.

**Estimated number of affected servicemembers:** 906

**Actions taken:**

- **By the installation:** Installation solicitation privileges for the two agents were revoked.
- **By the insurance company:** The agents involved were fired from the insurance company they represented. The insurance company offered

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**Appendix II**  
**Details on Selected Recent In-Depth**  
**Investigations**

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refunds to affected persons, and as of May 2005, about 20 percent of the soldiers received refunds.

**Installation's interaction with state insurance commissioner's office:** Installation officials have provided information to the state of Georgia regarding these incidents.

# Allotment Forms

Standard Form 1199A  
(Rev. June 1987)  
Prescribed by Treasury  
Department  
Treasury Dept. Cir. 1076

OMB No. 1510-0007

## DIRECT DEPOSIT SIGN-UP FORM

### DIRECTIONS

- To sign up for direct deposit, the payee is to read the back of this form and fill in the information requested in Sections 1 and 2. Then take or mail this form to the financial institution. The financial institution will verify the information in Sections 1 and 2, and will complete Section 3. The completed form will be returned to the Government agency identified below.
- A separate form must be completed for each type of payment to be sent by Direct Deposit.
- The claim number and type of payment are printed on Government checks. (See the sample check on the back of this form.) This information is also stated on beneficiary/annuitant award letters and other documents from the Government agency.
- Payees must keep the Government agency informed of any address changes in order to receive important information about benefits and to remain qualified for payments.

### SECTION 1 (TO BE COMPLETED BY PAYEE)

<b>A</b> NAME OF PAYEE <i>(last, first, middle initial)</i>		<b>D</b> TYPE OF DEPOSITOR ACCOUNT <input type="checkbox"/> CHECKING <input type="checkbox"/> SAVINGS																		
ADDRESS <i>(street, route, P.O. Box, APO/FPO)</i>		<b>E</b> DEPOSITOR ACCOUNT NUMBER																		
CITY	STATE	<table border="1"> <tr> <td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td> </tr> </table>																		
TELEPHONE NUMBER AREA CODE		<b>F</b> TYPE OF PAYMENT <i>(Check only one)</i>																		
<b>B</b> NAME OF PERSON(S) ENTITLED TO PAYMENT		<input type="checkbox"/> Social Security <input type="checkbox"/> Supplemental Security Income <input type="checkbox"/> Railroad Retirement <input type="checkbox"/> Civil Service Retirement (OPM) <input type="checkbox"/> VA Compensation or Pension <input type="checkbox"/> Fed Salary/Mil. Civilian Pay <input type="checkbox"/> Mil. Active <input type="checkbox"/> Mil. Retire. <input type="checkbox"/> Mil. Survivor <input type="checkbox"/> Other _____																		
<b>C</b> CLAIM OR PAYROLL ID NUMBER		<b>G</b> THIS BOX FOR ALLOTMENT OF PAYMENT ONLY <i>(if applicable)</i>																		
Prefix	Suffix	TYPE	AMOUNT																	
<b>PAYEE/JOINT PAYEE CERTIFICATION</b>		<b>JOINT ACCOUNT HOLDERS' CERTIFICATION <i>(optional)</i></b>																		
I certify that I am entitled to the payment identified above, and that I have read and understood the back of this form. In signing this form I authorize my payment to be sent to the financial institution named below to be deposited to the designated account.		I certify that I have read and understood the back of this form, including the SPECIAL NOTICE TO JOINT ACCOUNT HOLDERS.																		
SIGNATURE	DATE	SIGNATURE	DATE																	
SIGNATURE	DATE	SIGNATURE	DATE																	

### SECTION 2 (TO BE COMPLETED BY PAYEE OR FINANCIAL INSTITUTION)

GOVERNMENT AGENCY NAME	GOVERNMENT AGENCY ADDRESS
------------------------	---------------------------

### SECTION 3 (TO BE COMPLETED BY FINANCIAL INSTITUTION)

NAME AND ADDRESS OF FINANCIAL INSTITUTION		ROUTING NUMBER	CHECK DIGIT														
		<table border="1"> <tr> <td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td> </tr> </table>														<table border="1"> <tr> <td> </td> </tr> </table>	
DEPOSITOR ACCOUNT TITLE																	
<b>FINANCIAL INSTITUTION CERTIFICATION</b>																	
I confirm the identity of the above-named payee(s) and the account number and title. As representative of the above-named financial institution, I certify that the financial institution agrees to receive and deposit the payment identified above in accordance with 31 CFR Parts 240, 209, and 210.																	
PRINT OR TYPE REPRESENTATIVE'S NAME	SIGNATURE OF REPRESENTATIVE	TELEPHONE NUMBER	DATE														

Financial institutions should refer to the GREEN BOOK for further instructions.

THE FINANCIAL INSTITUTION SHOULD MAIL THE COMPLETED FORM TO THE GOVERNMENT AGENCY IDENTIFIED ABOVE.

NSN 7540-01-058-0224

1199-207

**Appendix III  
Allotment Forms**

AUTHORIZATION TO START, STOP OR CHANGE AN ALLOTMENT			
<b>PRIVACY ACT STATEMENT</b>			
<p><b>AUTHORITY:</b> 37 U.S.C. Section 701, E.O. 9397.</p> <p><b>PRINCIPAL PURPOSE:</b> To permit starts, changes, or stops to allotments. To maintain a record of allotments and ensure starts, changes, and stops are in keeping with member's desires.</p> <p><b>ROUTINE USES:</b> In addition to those disclosures generally permitted under 5 U.S.C. Section 552a(b) of the Privacy Act, these records of information contained therein may specifically be disclosed outside the DoD as a routine use to the Federal Reserve banks to distribute payments made through the direct deposit system to financial organizations or their processing agents authorized by individuals to receive and deposit payments in their accounts. It may also be disclosed to the Treasury Department, Internal Revenue Service, Social Security Administration, Department of Veterans Affairs, Federal, state and local agencies for civil or criminal law enforcement. In addition it can be released for any of the blanket routine uses published at the beginning of the DFAS compilation of system of record notices.</p> <p><b>DISCLOSURE:</b> Voluntary; however, failure to provide the requested information as well as the Social Security number may result in the member not being able to start, change, or stop allotments.</p>			
<b>TO BE COMPLETED BY ALLOTTER</b>			
<b>1. BRANCH OF SERVICE (X one)</b> <input type="checkbox"/> AIR FORCE <input type="checkbox"/> MARINE CORPS <input type="checkbox"/> ARMY <input type="checkbox"/> NAVY		<b>2. NAME OF ALLOTTER (Last, First, Middle Initial)</b> (Print or type)	
<b>5. ADDRESS OF ALLOTTER (Street or Box Number, City, State, ZIP Code)</b>		<b>6. DAYTIME TELEPHONE NUMBER (Include Area Code)</b>	<b>3. SSN</b>
<b>9. NAME OF ALLOTTEE (First, Middle Initial, Last)</b>		<b>7. EFFECTIVE DATE (YYYYMM)</b>	<b>4. PAY GRADE</b>
<b>12. CREDIT LINE (If applicable)</b>		<b>8. MONTHLY AMOUNT OF ALLOTMENT</b> \$	<b>10. ALLOTMENT ACTION (X one)</b> <input type="checkbox"/> START <input type="checkbox"/> STOP <input type="checkbox"/> CHANGE
<b>14. ALLOTTEE'S MAILING ADDRESS (Street or Box Number, City, State, ZIP Code)</b>		<b>13. ALLOTMENT CLASS AUTHORIZED (X one)</b> <input type="checkbox"/> C - CHARITY/CFIC <input type="checkbox"/> D - DISCRETIONARY ALLOTMENTS (Includes dependent support, payment to financial institution, insurance, repayment of home loan, rent, etc. (Notes 1 and 2)) <input type="checkbox"/> F - CHARITY - EMERGENCY/ASSISTANCE FUND CONTRIBUTION <input type="checkbox"/> L - REPAYMENT OF LOAN TO SERVICE ORGANIZATION (Red Cross, Relief Society, etc. - Navy and Marine Corps only) <input type="checkbox"/> N - NSLI OR USGLI INSURANCE PREMIUM <input type="checkbox"/> T - PAYMENT OF DEBTS TO U.S., DELINQUENT STATE OR LOCAL INCOME/EMPLOYMENT TAXES <input type="checkbox"/> - OTHER (Specify)	
<b>15. IF FOREIGN ADDRESS COMPLETE AS FOLLOWS (Province, Country)</b>		<b>11. TERM IN MONTHS</b>	
<b>16. REMARKS</b>		<b>17. COMPANY CODE/FINANCIAL INSTITUTION/ROUTING TRANSIT NUMBER</b>	
		<b>18. ACCOUNT NUMBER/POLICY NUMBER</b>	
		<b>19. TOTAL CLASS L AMOUNT</b> \$	<b>20. TOTAL CLASS T AMOUNT</b> \$
		<b>CHECKING SAVINGS</b>	
<b>STATEMENT OF UNDERSTANDING</b>			
<p>I understand that this allotment is legal and that by voluntarily completing this form, I am responsible for:</p> <ul style="list-style-type: none"> <li>- Ensuring that the information is correct;</li> <li>- Reviewing my Leave and Earnings Statement to ensure the allotment stops, starts, or changes as directed including amount and payee;</li> <li>- Collecting overpayments from the receiver (payee) of the allotment, if I do not change or stop the allotment after a loan is repaid;</li> <li>- Contacting the receiver (payee) of the allotment, at my expense, to obtain monthly statements for my personal records.</li> </ul> <p>I also understand that any problems once the allotment is delivered to the receiver (payee) are beyond the control of the Defense Finance and Accounting Service (DFAS) and that DFAS is only responsible for ensuring proper delivery of any voluntary allotment for the period directed. I further understand that pursuant to conditions listed in the DoD 7000.14-R, Volume 7A, changes can be made by DFAS to an allottee's name, address, or account number.</p>			
<b>21. SIGNATURE OF ALLOTTER</b>			<b>22. DATE (YYYYMMDD)</b>
<p><b>NOTE 1.</b> Must be different address than allotter. Each dependent allotment must have a different credit line. Only one support allotment per dependent is allowed.</p> <p><b>NOTE 2.</b> This is a voluntary allotment and can be to any payee you desire.</p>			
<b>DD FORM 2558, SEP 2002</b>		PREVIOUS EDITION IS OBSOLETE.	

# Comments from the Department of Defense

Note: Page numbers in the draft report may differ from those in this report.



OFFICE OF THE UNDER SECRETARY OF DEFENSE  
4000 DEFENSE PENTAGON  
WASHINGTON, D. C. 20301-4000

JUN 20 2005

PERSONNEL AND  
READINESS

Mr. Derek B. Stewart  
Director  
Defense Capabilities and Management  
U.S. Government Accountability Office (GAO)  
441 G Street, N.W.  
Washington, DC 20548

Dear Mr. Stewart:


This is the Department of Defense (DoD) response to the GAO draft report, "MILITARY PERSONNEL: DoD Needs Better Controls over Supplemental Life Insurance Solicitation Policies Involving Servicemembers," dated May 27, 2005 (GAO Code 350536/GAO-05-696).

Congress requested GAO to conduct this audit in response to complaints from several insurance companies and a national insurance association. These complaints alleged military members were ordered to cancel their supplemental commercial insurance and that the Army failed to process hundreds of valid insurance allotments. These complaints also alleged several military personnel killed while serving in OIF/OEF were ordered to cancel their supplemental life insurance policies prior to their deaths. The GAO could not substantiate these allegations and this report makes only minor mention of that fact. Instead, this report is critical of the Department's oversight of commercial insurance solicitation on DoD installations.

The Department believes this report also contains misrepresentations and factual errors. The Department is concerned the report uses survey data to present unsubstantiated perceptions as fact. The report does not disclose the survey questions or how they were presented. However, this survey data is used to draw broad conclusions critical of DoD's insurance solicitation oversight. The report also claims the Department had no record or idea of the extent of personal solicitation policy violations until the GAO asked for them. This claim is false.

The Department has been statutorily prohibited from implementing needed changes to personal commercial solicitation policy until 90-days following final release of this GAO report. Therefore, the Department does not want issuance of this report to be delayed in any way. However, the Department requests the concerns identified above be noted in the final report.

Sincerely,

  
Charles S. Abell  
Principal Deputy



GAO DRAFT REPORT – DATED MAY 27, 2005  
GAO CODE 350536/GAO-05-696

“MILITARY PERSONNEL: DoD Needs Better Controls over Supplemental  
Life Insurance Solicitation Policies Involving Servicemembers”

DEPARTMENT OF DEFENSE COMMENTS  
TO THE RECOMMENDATIONS

**RECOMMENDATION 1:** The GAO recommended that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness to develop and implement, with the Services, a DoD-wide searchable violations database that uses consistent data elements and coding across Services in revising DoD’s solicitation regulation. (Page 40/GAO Draft Report)

**DOD RESPONSE:** Partially concur. The GAO recommended the Department’s database contain any enforcement action ever taken by an installation against an insurance company or agent. Although the Department has records of personal commercial solicitation enforcement actions taken over the past 13 years, the Department’s position is this database should only include suspensions and barments that are currently in force. The Department has already established a DoD-wide database with consistent data elements for reporting insurance and financial product agents currently barred or suspended from soliciting on DoD installations. This information is identified as the *Personal Commercial Solicitation Report* and is posted on the DoD Commanders Page Web site at <http://www.commanderspage.com>. This information is accessible by installation officials, military members, State and Federal regulators, insurance and investment companies, and the general public. The Department’s rationale for this approach, versus the GAO’s recommendation, is to comply with provisions contained in S. 418 and H.R. 458, which the Department anticipates will soon become law. Section 11 of these identical pieces of legislation would require the Department to keep a current list of insurance or securities agents who have been barred, banned, or otherwise limited and to inform appropriate regulatory agencies of inclusions or removals from the list. Therefore, the Department’s interpretation of congressional intent is that the list should only contain information on agents who are currently barred, banned or otherwise limited. ECD: Closed (if GAO accepts the DoD’s recommended alternative).

**RECOMMENDATION 2:** The GAO recommended that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness to specify in the revised directive that the installation commander is responsible for notifying state insurance regulators, the Service Secretariat, and DoD, when the commander has determined that agents or companies have violated DoD, Service, or installation policies. (Page 40/GAO Draft Report)

**DOD RESPONSE:** Partially Concur. The GAO recommends DoD report any violation of DoD, Service, or installation policies by insurance agents to State insurance regulators. DoD’s position is such reporting should only be required when the violation involves the eligibility of the agent to hold a State license or meet other regulatory requirements or if the agent has been

barred or suspended from soliciting on the installation. Current DoD policy requires installation commanders to notify the appropriate regulatory authorities if the grounds for an enforcement action taken against a commercial solicitor involve the eligibility of the agent or company to hold a State license or meet other regulatory requirements (ref: DoDD 1344.7, para 6.5.2.2.). The rationale for this policy is that other grounds for DoD enforcement actions, such as soliciting without an appointment, soliciting groups of trainees, use of a military ID card to gain access to an installation to solicit, etc., do not violate State insurance regulations and would be of little concern to State insurance regulators. Current DoD policy also requires installation commanders to notify an agent and their company when solicitation privileges have been withdrawn (ref: DoDD 1344.7, para 6.5.2.1.). Furthermore, provisions in Section 10 of S. 418 and H.R. 458, would prohibit an insurer from entering into or renewing a contractual relationship with a producer that solicits or sells life insurance on a military installation unless the insurer has implemented a system to report to the State insurance commissioner, disciplinary actions taken against the producer with respect to the producer's sales or solicitation of insurance on a military installation. If this provision becomes law, the responsibility for reporting DoD enforcement actions to State insurance regulators will rightfully fall upon the insurance companies whose agents have been disciplined. If provisions in Section 11 of S. 418 and H.R. 458 become law, DoD would be required to issue regulations to establish and maintain a list of barred and banned securities and insurance agents and to ensure appropriate Federal and State agencies responsible for securities and insurance regulation are promptly notified upon inclusion in or removal of an agent from the list. DoD currently maintains such a list on the Commanders Page Web site, which is already accessible to State insurance regulators. Assuming Section 11 of S.418 and H.R 458 will become law, the Department intends to revise the directive to require installations to notify appropriate State insurance or Federal securities regulators when an insurance or securities agent has been barred or suspended from soliciting on an installation. Finally, changes already proposed in the revised directive would require installations to inform the Military Department concerned of any denial, suspension, or withdrawal of solicitation privileges and require the Military Department to inform the Office of the Principal Deputy Under Secretary of Defense for Personnel and Readiness. ECD: NLT 120-days following final release of this audit report (GAO 05-696).

**RECOMMENDATION 3:** The GAO recommended that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness to clarify the portion of the revised directive that pertains to the cooling off period that must elapse before junior enlisted personnel can start an allotment to purchase supplemental life insurance. (Page 40/GAO Draft Report)

**DOD RESPONSE:** Concur. The GAO identified three ambiguities that currently exist in DoD policy regarding the supplemental life insurance allotment cooling-off period for enlisted personnel in grades E-3 and below. These are: 1) it is not clear if the cooling-off policy only applies to supplemental life insurance sold on the installation; 2) it is not clear whether counseling is required during the cooling-off period; and 3) it is unclear when the commanding officer must sign a waiver for the cooling off period and/or counseling. In addition, DoD believes there is an additional ambiguity regarding who is responsible to monitor and enforce the cooling-off period. To remove these ambiguities, paragraph E3.3.2. to Enclosure 3 of the

proposed policy will be changed to read as follows: "For personnel in pay grades E-1, E-2, and E-3, in order to provide an opportunity to obtain financial counseling, at least seven calendar days shall elapse between the signing of a life insurance application and the certification of a military pay allotment for any supplemental commercial life insurance. Installation Finance Officers are responsible for ensuring this seven-day cooling-off period is monitored and enforced. The purchaser's commanding officer may grant a waiver of the seven-day cooling-off period requirement for good cause, such as the purchaser's imminent deployment or permanent change of station." ECD: NLT 120-days following final release of this audit report (GAO 05-696).

**RECOMMENDATION 4:** The GAO recommended that the Secretary of Defense direct the Defense Finance and Accounting Service to determine what current and future modifications should be made to the regulations, forms, and procedures used to initiate and electronically capture supplemental life insurance allotments so that more useable data are available to the DoD, Service, and installation offices responsible for overseeing supplemental life insurance solicitation. This step might include developing and implementing a single code and form that would be used for supplemental life insurance allotments and to document compliance with requirements that DoD has previously had little visibility over. (Pages 40 and 41/GAO Draft Report)

**DOD RESPONSE:** Concur. Although we concur with the recommendation, we are heavily involved in the development of the Forward Compatible Pay System, which once implemented, will have the same restrictions of not being able to distinguish supplemental allotments from other insurance allotments or those that are being deposited into specially established financial institution accounts for the purpose of paying premiums. The capability does exist in the Forward Compatible Pay System to add additional allotment codes to specify more detailed information on the type of insurance a Service member is electing; however, due to the number of systems that the change would affect and the impact on the Forward Compatible Pay System development timeline, this change cannot be made at the onset of the Forward Compatible Pay System, but be considered for a future enhancement. In addition, we will review the regulations and forms to determine what current and future modifications should be made. ECD: Forward Compatible Pay System schedule is being reassessed.

**RECOMMENDATION 5:** The GAO recommended that the Secretary of Defense direct the Defense Finance and Accounting Service to issue a message to all finance offices and the Defense Finance and Accounting Service offices that process allotments for supplemental life insurance to remind personnel that DoD's Financial Management Regulation indicates that only servicemembers or their designated representatives with special power of attorney for the prescribed purpose are authorized to start, stop, or modify financial allotments. If deviations from the policy are warranted to allow mailed allotment forms, the Defense Finance and Accounting Service should specify the additional verification required in those situations. (Pages 40 and 41/GAO Draft Report)

**DOD RESPONSE:** Concur. Military Pay Operations will issue a message to all finance offices and the Defense Finance and Accounting Service offices that process allotments for

supplemental life insurance to remind personnel that DoD's Financial Management Regulation indicates that only Service members or their designated representatives with special power of attorney for the prescribed purpose are authorized to start, stop or modify financial allotments.  
ECD: June 20, 2005.

# GAO Contact and Staff Acknowledgments

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## GAO Contact

Derek B. Stewart (202) 512-5559

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## Acknowledgments

In addition to the individual named above, James Cook, Jack Edwards, Lynn Johnson, David Mayfield, Terry Richardson, Arnett Sanders, Cheryl Weissman, and Kristy Williams made key contributions to this report.

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# Related GAO Products

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*Military Personnel: DOD Comments on GAO's Report on More DOD Actions Needed to Address Servicemembers' Personal Financial Management Issues.* [GAO-05-638R](#). Washington, D.C.: May 11, 2005.

*Defense Base Act Insurance: Review Needed of Cost and Implementation Issues.* [GAO-05-280R](#). Washington, D.C.: April 29, 2005.

*Military Personnel: More DOD Actions Needed to Address Servicemembers' Personal Financial Management Issues.* [GAO-05-348](#). Washington, D.C.: April 26, 2005.

*Military Personnel: DOD's Tools for Curbing the Use and Effects of Predatory Lending Not Fully Utilized.* [GAO-05-349](#). Washington, D.C.: April 26, 2005.

*Credit Reporting Literacy: Consumers Understood the Basics but Could Benefit from Targeted Educational Efforts.* [GAO-05-223](#). Washington, D.C.: March 16, 2005.

*DOD Systems Modernization: Management of Integrated Military Human Capital Program Needs Additional Improvements.* [GAO-05-189](#). Washington, D.C.: February 11, 2005.

*Highlights of a GAO Forum: The Federal Government's Role in Improving Financial Literacy.* [GAO-05-93SP](#). Washington, D.C.: November 15, 2004.

*Military Personnel: Survivor Benefits for Servicemembers and Federal, State, and City Government Employees.* [GAO-04-814](#). Washington, D.C.: July 15, 2004.

*Military Personnel: Active Duty Benefits Reflect Changing Demographics, but Opportunities Exist to Improve.* [GAO-02-935](#). Washington, D.C.: September 18, 2002.

*Military Banking: Solicitations, Fees, and Revenue Potential.* [GAO/NSIAD-99-72](#). Washington, D.C.: April 15, 1999.

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