**Table of Contents**

**CHAPTER 10. Surrender for Cash or Reduced Paid-Up Insurance**

|  |  |
| --- | --- |
| **Subsection** | **Name** |
| 10.01 | Policies with Cash Value |
| 10.02 | Persons Who May Surrender a Policy |
| 10.03 | Net Cash Value |
| 10.04 | Date Cash Value is Established |
| 10.05 | Premiums Paid in Advance |
| 10.06 | Date Deductions are Credited |
| 10.07 | Policies Surrendered for Cash |
| 10.08 | Indebtedness Recovered on Cash Surrender |
| 10.09 | Refund of Credits |
| 10.10 | Effect of Surrender |
| 10.11 | Requirements |
| 10.12 | Applications |
| 10.13 | Disability Waiver |
| 10.14 | Limited Pay Policies |
| 10.15 | Lapsed NSLI Policy |
| 10.16 | Correction of Action Taken by VA |
| 10.17 | Payment of Cash Surrender Value |
| 10.18 | Disposition of Unpaid Installments at Death of Insured |
| 10.19 | Cancellation of Application for Cash Surrender |
| 10.20 | Automatic Surrender |
| 10.21 | Policies Surrendered for Reduced Paid-Up Insurance |
| 10.22 | Timely Applications |
| 10.23 | Reduced Paid-Up Insurance |
| 10.24 | Indebtedness Recovered on Surrender for Reduced Paid-Up Insurance |
| 10.25 | Use of Credits |
| 10.26 | Effective Date of Surrender for Reduced Paid-Up Insurance |
| 10.27 | Applications for Surrender for Reduced Paid-Up Insurance |
| 10.28 | Withdrawal of Application for Surrender for Reduced Paid-Up Insurance |

**10.01 POLICIES WITH CASH VALUE**

1. All permanent plans of insurance in force by payment or disability waiver of premiums have cash values upon completion of the first policy year. The reserve is increased by one-twelfth of the increase in reserve for the current year for each month a premium has been paid or waived and earned.
2. Term policies in force by payment or disability waiver have no cash value, except in the following situation:
3. Termination reserve values have been established based upon the 1980 Commissioners Standard Ordinary Basic Table and interest at five per centum per annum in accordance with accepted actuarial practices for term policies under the National Service Life Insurance policy prefixed with “V” or Veterans Special Life Insurance policy prefixed with “RS,” issued on a 5-year level premium term plan in which premiums have been capped (frozen) at the renewal age 70 rate. This termination reserve is used to purchase paid-up additional insurance as the basic term policy is cancelled. This paid-up additional insurance is maintained as part of the current insurance master record. 38 CFR 8.33
4. Paid up additional insurance has cash value immediately upon earning. See Chapter 5, 5.14.
5. Authority for surrendering a policy or paid up additions for cash value or for reduced paid-up insurance is included in:
6. 8 U.S.C. 1906 (NSLI)
7. 38 CFR 8.11, 8.15, 8.33

**10.02 PERSONS WHO MAY SURRENDER A POLICY**

1. The insured, if competent.
2. VA appointed federal fiduciary (38 CFR 8.32)
3. The insured through an attorney-in-fact, provided an appropriate power of attorney or other documentation is of record.
4. The legal guardian (committee, conservator, curator, or trustee) for an incompetent insured, provided the application is supported by documentation of court appointment from the court of jurisdiction. A specific court order is not required to request a cash surrender.

**10.03 NET CASH VALUE**

The net cash value available for cash surrender or reduced paid-up insurance, is the reserve plus the dividends on deposit minus any indebtedness.

**10.04 DATE CASH VALUE IS ESTABLISHED**

When a policy is surrendered for cash or for reduced paid-up insurance the cash value will be established as follows:

1. **Premiums Paid By Deduction From Service Pay.** When the allotment is on a month-in-advance basis, the cash value will be established as of the last day of the premium month in which the application is submitted.

1. **Premiums Paid By Deduction From VA Benefits.** The last day of the premium month in which the application was submitted.
2. **Premiums Paid By Other Methods.** The last day of the premium month in which the application was submitted if premiums are paid through that date. When the application is submitted within the grace period and there is insufficient dividend credit to pay the current premium, the policy will be surrendered as of the last day of the premium month prior to the month in which the request for surrender was submitted.

**10.05 PREMIUMS PAID IN ADVANCE**

All premiums paid in advance of the date established for the cash value will be refunded on the basis of their present value.

**10.06 DATE DEDUCTIONS ARE CREDITED**

All deductions taken from the cash value for payment of premiums, loan, etc., on another policy will be credited as of the date the request was submitted.

**10.07 POLICIES SURRENDERED FOR CASH**

1. The effective date of a surrender for cash will be the end of the premium month in which the application for surrender is delivered to VA or as of the date of the disbursement for the cash value, whichever is later.
2. A policy on extended term insurance may be surrendered for its cash value unless the policy lapsed prior to the end of the first policy year.
3. A policy surrendered for reduced paid-up insurance may be surrendered for its cash value.
4. Paid-up additional insurance, purchased with the termination value of a 5- Year level premium term policy under the NSLI or VSLI programs due to lapse or request, may be surrendered for the available cash value upon written request.
5. There is no waiting period before paid-up additions are eligible for cash surrender.
6. Policies surrendered for cash are not eligible for reinstatement.
7. When a life policy is surrendered for cash, the paid-up life additions may be retained if the insured so desires. When an endowment policy is surrendered for cash, the paid-up endowment additions must be surrendered also.
8. When a life policy is surrendered for cash and there are both paid-up additions on the policy and an outstanding loan, the ratio between the reserve on the paid-up additions and the reserve on the basic policy will determine the amount of loan balance on the paid-up additions after the surrender.
9. When paid-up additions only are surrendered for cash, the proceeds are payable in a lump sum.

1. When paid-up additions only are surrendered and the entire proceeds are applied to reduce the loan indebtedness on the basic policy, the loan interest will be calculated as of the postmark date of the application. If any portion of the proceeds is to be sent to the insured, the accumulated interest on the loan repayment will be calculated as of the last date of the premium month in which the application is submitted.

**10.08 INDEBTEDNESS RECOVERED ON CASH SURRENDER**

​The following types of indebtedness will be recovered from the reserve of a policy being surrendered for cash:

1. **Policy Loan.** Outstanding loan on the policy being surrendered.
2. **Premiums.** Premium lien or shortage on the policy being surrendered.
3. **Insurance Overpayment.** An overpayment lien on any of the insured's contracts will be deducted from the cash value. If the overpayment lien is on a policy other than the one being surrendered, the insured will be advised of the action taken. He will be told that if he objects to the action taken and returns the check representing the cash value of the surrendered policy, the transaction will be canceled and his policy will be restored to the same status it was in before the action was taken.
4. **Finance Indebtedness and Tax Levy.** Finance indebtedness (other debts to VA only) and tax levies will be deducted from the reserve of a policy surrendered for cash. The insured will be told that if they object to the action taken and returns the check representing the cash value of the surrendered policy (to include the finance indebtedness or tax levy) the transaction will be reversed and the policy will be restored to the same status it was in before the action was taken.

**10.09 REFUND OF CREDITS**

The following credit items will be refunded in a lump sum with the first disbursement:

1. Unpaid dividends.
2. Dividend credits and deposits.
3. Premium overages.
4. Unused premiums.

**10.10 EFFECT OF SURRENDER**

When a policy is surrendered for cash, all rights and privileges under the policy are also surrendered.

**10.11 REQUIREMENTS**

The following requirements must be met to surrender a policy for cash:

1. The application must be completed and signed by the person authorized to surrender the policy, and
2. The policy must have cash value.

**10.12 APPLICATIONS**

The following types of applications may be submitted to request a cash surrender:

1. VA Form 29-1546, Application for Cash Surrender Value and Policy Loan (Government Life Insurance), or
2. Any type of written request which clearly expresses the intent of the insured. When the intent is not clear and the insured expresses an urgent need for funds, the document may be accepted and processed as an informal loan application after a telephone contact is attempted and noted, and if all other requirements are met.
3. A faxed request should be treated the same as a hard copy, mailed to the office.
4. An electronically scanned document outlined in a, b, c, above, and appropriately signed, is also acceptable.
5. An email request is not acceptable.

**10.13 DISABILITY WAIVER**

When an application for cash surrender pertains to a policy on which premiums are waived due to total disability, three attempts will be made to call the insured before disapproving the application. If the Veteran is incompetent, three attempts will be made to contact the guardian by phone. If the Veteran or guardian is reached, the benefits of a loan vs. cash surrender should be discussed. If unsuccessful in reaching the authorized person by telephone, a conservation letter explaining why the original application for cash surrender has been disapproved will be sent. VA Form 29-1546, Application for Cash Surrender Value and Policy Loan, will be enclosed. If the insured or guardian resubmits an application for cash surrender, or states by phone the they still wish to surrender the policy, the request will be referred to a Section Chief or the Division Chief, Policyholders Services Division, for consideration.

**10.14 LIMITED PAY POLICIES**

1. When an informal application for cash surrender pertains to a limited payment life policy on which premiums are paid and earned to the end of the premium-paying period, the application will not be processed unless it is evident that the insured is fully aware of the pertinent facts regarding his or her action or has been advised of the advantages of retaining the insurance. This request will be forwarded to the Lead Insurance Specialist for review and consideration.
2. Formal applications for cash surrender, if in order, will be processed without delay. This includes applications on limited payment life policies on which premiums are paid and earned to the end of the premium-paying period.

**10.15 LAPSED NSLI POLICY**

An NSLI policy will be surrendered under extended term insurance whenever an application for cash surrender is mailed after the expiration of the 31-day grace period. When a policy is surrendered for cash under extended term insurance, the cash value will be established as of the last day of the premium month in which the request is submitted.

**10.16 CORRECTION OF ACTION TAKEN BY VA**

When a loan is granted in lieu of cash surrender and the insured reiterates his or her request for cash surrender within 31 days from the date of the VA Form 29-l468b, Notice of Approval of Policy Loan, the effective date of the cash surrender will be based on the original request, and the loan will be recovered with no interest charged.

**10.17 PAYMENT OF CASH SURRENDER VALUE**

1. A disbursement for the cash surrender value will be made payable to a competent insured only to the address or bank account given on the application or to the address or bank account given by an attorney-in-fact. If the insured is incompetent, the disbursement will be made payable to the insured, care-of the power of attorney, VA appointed fiduciary, or legal guardian, committee, etc. of the insured and a VA Form 29-504, Notice of Payment Due Incompetent Veteran, will be sent to the appropriate VA Regional Office. See 6.03 for additional information on payment threshold requirements before releasing funds to incompetent Veterans.
2. The cash surrender value will be paid in one sum (option 1). However, the cash surrender value may also be paid in equal monthly installments (36 to 240) in multiples of 12 (option 2) or in installments under the RLI (refund life income) (option 5). The insured may also select any combination of two options (cash and either one of the installment options). In addition, he or she may elect to have all or part of the cash value applied to pay premiums or reduce a lien or loan on any other active account(s). Applications received with no option selected will be paid under the cash option (option 1).
3. If payments are being made under option 2, the insured may request the present value of the remaining unpaid installments in one sum. If payments are being made under the RLI, the insured may request the present value of the remaining unpaid guaranteed installments in one sum.
4. If an RLI option is selected, payments will be made in monthly installments for such period certain as may be required in order that the sum of the installments certain, including a last installment of such reduced amount as may be necessary, shall equal the cash value of the contract, less any indebtedness, with such payments continuing throughout the lifetime of the insured. All settlements under RLI shall be calculated on the basis of the Annuity Table for 1949. The age of the insured (based on his or her date of birth) as of the date of surrender is used to determine the amount of the monthly installment for the refund life income option.
5. If the option selected requires monthly installments of less than $10, the amount payable shall be paid in such maximum number of monthly installments as are a multiple of 12 as will provide a monthly installment of not less than $10.
6. When a policy is surrendered for cash and the insured requests payment under option 5 (refund life income), the amount of any dividend accumulations, dividend credit and/or deposit, will be added to the reserve and any indebtedness will be deducted. The total amount used to purchase the annuity may not exceed the face amount of the surrendered policy. Any cash value in excess of the face amount will be paid in one sum.

**10.18 DISPOSITION OF UNPAID INSTALLMENTS AT DEATH OF INSURED**

1. If the insured has elected to receive the proceeds of the cash surrender in equal monthly installments (option 2) or in installments under RLI (option 5), the insured may elect that upon his or her death, the present value of any remaining unpaid guaranteed installments be paid to his or her beneficiary in one sum or continue to be paid to the end of the guaranteed period under the original option.
2. If the insured dies before receiving all installments due and no designated beneficiary survives, the present value of the remaining installments will be paid to the insured's estate in one sum, provided such payment would not escheat.
3. If the designated beneficiary survives the insured, the present value of the remaining installments will be paid in one sum to the beneficiary unless the beneficiary has elected to continue the installment under the option selected by the insured.

**10.19 CANCELLATION OF APPLICATION FOR CASH SURRENDER**

1. If a request for cancellation of an application for cash surrender is received before the issuance of the surrender disbursement, the application will be disapproved. If the cancellation request is received before the date of the surrender disbursement (the issuance of which could not be halted), or before the end of the premium month in which the application was delivered to the VA, the insured will be allowed 15 calendar days to return the payment.
2. A cash surrender reversal action will occur automatically if the surrender check, Treasury check or direct deposit item is returned under one of the conditions listed below:
3. The request for cancellation is mailed within 15 calendar days from the date of the surrender disbursement and it appears that the insured was misled, or did not understand the surrender action.
4. The request for cancellation is mailed within 16 to 31 calendar days from the date of the surrender disbursement and the insured states that there was a misunderstanding. In addition, the insured must furnish an acceptable reason for the delay in writing to VA concerning the surrender action. If there was no misunderstanding or the insured submits no reason for the delay, he or she will be advised that the surrender is final and the surrender check will be returned to him or her.
5. A request for cancellation mailed more than 31 days after the date of the Treasury check or direct deposit item will ordinarily not be honored. However, this will not preclude favorable action in the unusual case in which the insured returns or offers to return the cash surrender proceeds, clearly explains a misunderstanding, and advances reasons beyond his or her control as the cause of the delay in submitting the request.
6. If, after being advised that the surrender action is final, the insured protests the decision, or if unusual circumstances in an otherwise unadjustable case seem to warrant further consideration; for example, a question of competence, the case should be briefed and forwarded for decision to the Assistant Director for Insurance Operations. In these cases, the cash surrender proceeds must be returned to the VA.
7. A cash surrender reversal action will be effected if it is established that the insured was incompetent at the time the surrender application was mailed. In these cases, the cash surrender proceeds must be returned to the VA.
8. A cash surrender reversal action will be effected whenever the cash surrender proceeds are returned because of death and before the end of the premium month in which the surrender was made effective, or within the 31-day grace period of the last due date.

**10.20 AUTOMATIC SURRENDER**

1. If the insured was notified 90 days prior to the date the policy will be terminated by automatic surrender, the policy will cease and become void the day the loan indebtedness equals or exceeds the policy reserve, on the parent policy and the paid-up additions, (if attached). Dividends on deposit are considered part of the policy reserve. Liens are not considered as part of the indebtedness for automatic surrender. A policy that is properly terminated for automatic surrender is not eligible for reinstatement.
2. When the approaching cancellation date is less than 90 days in the future, or has passed and the insured was not previously notified of the condition, the insured will be given 90 days from the date of notice to reduce the loan indebtedness below the cash value. When a dividend credit exists, the insured will be requested to give his or her permission to apply dividend credit against the indebtedness. If permission is not given and the policy is surrendered, the dividend credit balance will be refunded. If the insured, without making any payment to reduce the indebtedness, dies after the automatic surrender date but prior to the end of the 90-day period from the date of notice, the insurance is considered in force on the date of death. The outstanding loan, with interest to the date of death, will be deducted from the settlement.
3. If notice to the insured is returned as undeliverable and efforts to obtain a current address fail, it will be considered that notice was given. Insurance protection will cease as of the date the loan indebtedness equals or exceeds the cash value.

**10.21 POLICIES SURRENDERED FOR REDUCED PAID-UP INSURANCE**

1. All permanent plan policies that have a cash value and are not paid-up by their terms may be surrendered for reduced paid-up insurance. A life policy (Modified Life, Ordinary Life, 20-Payment Life, 30-Payment Life) will be surrendered for reduced paid-up life insurance. An endowment policy (20-Year Endowment, 30-Year Endowment, Endowment at Age 60, Endowment at Age 62, Endowment at Age 65, Endowment at Age 96) will be surrendered for reduced paid-up endowment insurance. The reduced paid-up endowment insurance will mature on the date the parent policy would have matured.
2. Policies surrendered for reduced paid-up insurance are not eligible for reinstatement.

**10.22 TIMELY APPLICATIONS**

An application for reduced paid-up NSLI will be disapproved if it is submitted while the policy is in a state of lapse and there are no credits available to pay the unpaid premium(s).

**10.23 REDUCED PAID-UP INSURANCE**

1. When a policy is surrendered for reduced paid-up insurance, the amount of paid-up insurance is that amount that the net cash value will purchase when applied as a net single premium at the insured's attained age. The attained age is the age on the birthday anniversary nearest to the effective date of the policy plus the number of years and months from that date to the date the paid-up insurance becomes effective.

1. When an insured requests that his insurance be surrendered for a specified amount of paid-up insurance and payment in cash of the remaining reserve, such requests will be honored. An insured may also request that his insurance be surrendered with a certain amount of reserve paid in cash and the balance used to purchase paid-up insurance.
2. Any existing premium credits will be refunded unless the credit is less than $1 or is needed to prevent lapse of another policy.
3. While dividends on deposit may be used with the reserve to purchase reduced paid-up insurance, the amount of reduced paid-up insurance may not exceed the face amount of the parent policy.
4. A new policy is not issued when a surrender for paid-up insurance is processed. Instead, a VA Form 29-1546a, Notice-Surrender for Paid-Up Insurance Approved, showing the amount of paid-up insurance, will be furnished.
5. When surrendering a policy for reduced paid-up insurance, the insured must first be told the amount of paid-up insurance he will receive. If dividends on deposit are involved, the letter will also explain that the dividends will be applied to purchase additional paid-up insurance unless a refund is requested within 15 days.
6. If the parent policy earned dividends the reduced paid-up policy will also earn them. Also, all reduced paid-up policies have cash and loan values.
7. If reduced paid-up insurance is purchased by the surrender of a Modified Life policy, the policy plan must be changed to Reduced Modified Life at Age 65 or Reduced Modified Life at Age 70 when the insured reaches the age at which his Modified Life policy would have been reduced. The face amount of the reduced paid-up insurance, however, is not subject to further reduction.

**10.24 INDEBTEDNESS RECOVERED ON SURRENDER FOR REDUCED PAID-UP**

**INSURANCE**

1. The following types of indebtedness will be recovered from the reserve of a policy being surrendered for reduced paid-up insurance:
2. Policy Loan. Outstanding loan on the policy being surrendered.
3. Premiums. Premium lien or shortage on the policy being surrendered.
4. Insurance Overpayment. Overpayment lien on the policy being surrendered for reduced paid-up insurance except that a lien that resulted from overpayment of an accelerated dividend will not be deducted from the reserve.
5. When a policy is surrendered for reduced paid-up insurance and there are both paid-up additions on the policy and an outstanding loan, the ratio between the reserve on the paid-up additions and the reserve on the surrendered basic policy will determine the amount of loan that will be collected from the surrendered basic policy and the amount of loan balance on the paid-up additions after the surrender.

**10.25 USE OF CREDITS**

While dividends held on deposit become part of the reserve of cash value when a policy is surrendered for reduced paid-up insurance, other credits may not be used to purchase a larger amount of reduced paid-up insurance.

**10.26 EFFECTIVE DATE OF SURRENDER FOR REDUCED PAID-UP INSURANCE**

The effective date of reduced paid-up insurance will be the premium due date following the last premium month on which the cash value is established.

**10.27 APPLICATIONS FOR SURRENDER FOR REDUCED PM-UP INSURANCE**

Application for reduced paid-up insurance may be made on:

1. VA Form 29-1546, Application For Cash Surrender Value/Policy Loan Value, or
2. Any type of document which clearly expresses the intent of the insured.

**10.28 WITHDRAWAL OF APPLICATION FOR REDUCED PAID-UP INSURANCE**

1. When the VA Form 29-1546a, Notice-Surrender for Paid-Up Insurance Approved, is returned by the insured, if competent, or by the fiduciary, power of attorney, or legal guardian, custodian, committee, if the insured is incompetent, advising that the surrender is not desired, and the postmark date of the request is before the expiration of the period premiums have been paid for and earned, the surrender will be canceled.
2. In all other instances where the insured expresses dissatisfaction with the surrender for paid-up insurance, the insured’s request will be forwarded to the Assistant Director for Insurance Operations for review and decision.
3. When it is determined that the insurance may not be restored, the insured will be advised that the surrender was granted in accordance with his request, and cannot be canceled. The same time period limitations for restoration of insurance apply as for cash surrender under 10.19.