**Table of Contents**

**CHAPTER 23. REDUCTION AND DIVISION**

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| **Subsection** | **Name** |
| 23.01 | Reduction |
| 23.02 | Disposition of Reserve |
| 23.03 | Requirements for Reduction |
| 23.04 | Division (or Split) |
| 23.05 | Effective Date of Change |
| 23.06 | Reduction with Total Disability Income Provision |
| 23.07 | Reinstatement and Reduction |
| 23.08 | Reduction of a Contract in Force as Extended Term Insurance |
| 23.09 | Indebtedness at Time of Reduction |
| 23.10 | Reduction of Reduced Paid-Up Insurance |
| 23.11 | Beneficiary and Optional Settlement Designation |

**23.01 REDUCTION**

1. The face amount of a government life insurance policy may be reduced in multiples of $500 to an amount not less than $1,000.
2. When a basic policy with paid-up additions is reduced, the paid-up additions do not need to be reduced, except at the request of the insured.

c. The limitation under 23.01(a) does not apply to reduced paid-up insurance.

**23.02 DISPOSITION OF RESERVE**

1. When a permanent plan policy is reduced after having been in force by the payment or waiver of premiums for at least 1 year, upon request of the insured, the reserve value of the amount of insurance discontinued may be:
2. Withdrawn in cash;
3. Applied in payment of premiums, including:
4. Future premiums;
5. Premiums in arrears and interest, when reinstating; or
6. Premiums on any other NSLI contract.
7. Applied in repayment of a loan or lien indebtedness on any NSLI contract;
8. Used to purchase paid-up insurance; or

1. Used to purchase extended term insurance.

b. The reserve value of the amount discontinued may be used only to purchase extended insurance protection in the following instances:

1. Permanent plans in force by payment of premiums or waiver of premiums for not less than 3 months nor more than 11 months, except a modified life plan or any plan issued under 38 U.S.C. 1925;
2. Modified life plans in force by payment of premiums or waiver of premiums for not less than 3 months that have not been surrendered for cash or paid-up insurance; or
3. Permanent plans issued under 38 U.S.C. 1925 in force for not less than 1 year.

c. For extended term insurance issued under b(1) or (2), the insurance shall be for an amount of insurance equal to the face value of the policy less any indebtedness for such time from the due date of the premium in default as the reserve of the policy less any indebtedness will purchase when applied as a net single premium at the attained age of the insured.

d. For extended term insurance issued under b(3), the insurance shall be for an amount of insurance equal to either the initial face amount of insurance less any indebtedness, for lapses that occur prior to the insured’s 65th or 70th birthday (depending on plan) or the ultimate face amount of the insurance less any indebtedness, for lapses that occur on or after the insured’s 65th or 70th birthday (depending on plan). See 38 CFR 8.14 (c) for further details on calculating the initial or ultimate face amount of insurance.

**23.03 REQUIREMENTS FOR REDUCTION**

1. Request for Reduction
2. A request in writing over the signature of the insured stating the amount of insurance to be retained is all that is required for reduction. If a permanent plan policy has been in force 1 year or more, disposition of the reserve value of the amount surrendered should be indicated. If disposition of the reserve value is not indicated before expiration of the grace period, the amount of a permanent plan policy for which premiums have not been timely paid will lapse and automatically be extended as term insurance.

b. Premium

1. If insurance is in force by payment of premiums, an amount sufficient to pay the first premium should be submitted with the application. If not, it will be deducted from the cash value, if any, or the insured may authorize any credit of record to pay such premium. For term accounts, the first premium in the reduced amount must be paid or made available from any existing credits.

1. If insurance is in force under waiver of premiums provision, no premium payment is necessary.
2. If insurance is lapsed and in force under extended insurance, no premium payment is necessary. Payment is required in an amount sufficient to reinstate coverage, in any amount, on a premium-paying basis.

**23.04 DIVISION (OR SPLIT)**

a. In connection with a reduction, a division (sometimes referred to as a "split") will be affected and the retained amount of insurance will be carried under the original contract number, with a new number assigned to the remainder, when:

1. The insured requests that the reserve on the surrendered amount of a permanent plan contract, in force 1 year or longer, be applied to purchase paid-up or extended term insurance;
2. The reserve value on the surrendered amount of a permanent plan contract, in force for more than 3 months but less than 1 year, is to be automatically applied to purchase extended term insurance; or
3. A part of a contract in force under extended term insurance is reinstated and the remainder continued as extended term insurance.
4. Division will also be affected when:
5. The insured requests conversion of part of a policy to a permanent plan, and part is to be continued on the term plan or converted to a different permanent plan; or
6. The insured requests part of a permanent plan policy changed to another plan, and part continued on the original plan or changed to a different plan.
7. When no other change is involved, an insurance contract may be divided into two or more contracts under the following conditions:
8. The request for division must be over the written signature of the insured, or the insured’s guardian/fiduciary and the required premium, if any, should accompany the request.
9. The amount of each contract issued must be in multiples of $500 and not less than $ 1,000, and the total amount of all contracts issued as a result of the division must equal the face amount of the original contract before division.
10. Division of a lapsed contract may not be made until reinstatement requirements are met, except where the insurance is in force under extended term insurance.
11. A new policy number will be assigned to each new contract issued.

e. When division of a contract results in a division of an outstanding loan, the outstanding loan will be apportioned between the existing contract and any new contract.

**23.05 EFFECTIVE DATE OF CHANGE**

a. The effective date of change for reduction will be as follows:

1. The due date of the premium month in which the reduction was submitted, if the premium for that month has not been paid, and there is no dividend credit available sufficient to complete the premium for the full amount of insurance for that month.
2. The due date of the next premium month:
3. If the premium for the month in which the request is submitted has been paid, or there is dividend credit available sufficient to complete the premium for the full amount of insurance for that month.
4. If waiver of premiums is in effect.
5. If insurance is in force under extended term insurance.
6. If the method of payment is by allotment or deduction from VA benefits.

1. The premium due date indicated by the insured, if reduction is requested as of a future date and if premiums are paid to that date. Reduction may not be recorded until the premium month immediately preceding the effective date requested.

b. The effective date of change for division will be the effective date of the contract being divided.

**23.06 REDUCTION WITH TOTAL DISABILITY INCOME PROVISION**

Where TDIP is to be continued on the reduced contract, the reduction of insurance and TDIP will be accomplished in one operation.

**23.07 REINSTATEMENT AND REDUCTION**

a. If the insurance is in a state of lapse, reinstatement requirements must be met before reduction will be affected; except when reducing extended term insurance under a permanent plan policy which lapsed after having been in force at least one year, and no part is to be reinstated.

1. If application for reinstatement and reduction are made in the same premium month and requirements for both have been met, the reinstatement and reduction will be processed simultaneously, regardless of the date of lapse.

c. The effective date of reinstatement will be the due date of the premium month in which reinstatement requirements are met.

**23.08 REDUCTION OF A CONTRACT IN FORCE AS EXTENDED TERM INSURANCE**

a. Extended term insurance resulting from a contract which lapsed after being in force 1 year or longer, may be reduced without reinstating any portion.

1. Extended term insurance resulting from a contract which lapsed after being in force not less than 3 or more than 11 months may not be reduced except when a part is reinstated or where it is necessary to discontinue a portion of the contract when superseded by new insurance.
2. Cash surrender for part of an insurance contract in force under extended term insurance constitutes forfeiture of all rights to the proportionate amount of the basic policy from which the extended insurance was derived and precludes subsequent reinstatement thereof.

d. When reinstating part of a contract in force as extended term insurance, no health statement or medical evidence is required when:

1. Application and tender of premiums with interest are made not less than 5 years before the date such extended term insurance will expire.
2. The extended term insurance under an endowment plan provides protection to the end of the endowment period.
3. Where the insured submits an acceptable application for reduction in the amount of a policy in force under extended term insurance and indicates he desires to reinstate part of the policy and continue part on extended term insurance, the application for reduction will be held pending if additional evidence must be obtained in connection with the application for reinstatement. Similar action will be taken in cases where the insured indicates he desires to reinstate part of the policy and apply the cash value of the amount discontinued toward the cost of reinstatement and/or future premiums. If, upon receipt of the additional evidence, it is determined that the application for reinstatement is acceptable, the applications for reinstatement and reduction will be processed simultaneously and reduction effected. If the application for reinstatement is not acceptable, the application for reduction will be disapproved.

f. The cash value of insurance in force as extended term insurance will be calculated as of the last day of the premium month in which the application is mailed or otherwise delivered to VA, or the last day of a future premium month if so specified by the insured.

g. If an insured applies for reinstatement of a reduced amount of a policy in force under extended term insurance, and payment in cash of the surrender value of the balance, the cash payment will be processed regardless of whether the application for reinstatement is or is not acceptable.

**23.09 INDEBTEDNESS AT TIME OF REDUCTION**

If the insured makes no provision for liquidating an indebtedness existing at time of reduction by means of direct payment, policy loan, deduction from cash value, or otherwise, the following principles will govern:

a. A proportionate part of the policy loan will be carried over on the retained amount of insurance.

1. Where there is a premium indebtedness including premium lien and shortage:
2. If the contract being reduced is term insurance, the entire indebtedness and interest will be transferred to the retained amount of insurance.
3. If the contract being reduced is a permanent plan and has been in force:
4. Less than 3 months, the entire indebtedness and interest will be transferred to the retained amount of insurance.
5. Not less than 3 or more than 11 months, the proportionate amount of indebtedness and interest will be deducted from the reserve on the insurance dropped, and if the reserve is not sufficient, the remainder of the indebtedness will be transferred to the retained amount of insurance.
6. One year or more, and the indebtedness and interest do not exceed the reserve on the retained amount of insurance, unless the insured desires: to liquidate the indebtedness from the cash surrender value, the entire indebtedness and interest will be transferred to the retained amount of insurance.
7. One year or more, and the indebtedness and interest exceed the reserve on the retained amount of insurance, the excess amount will be deducted from the cash surrender value of the amount of insurance surrendered, and the remaining indebtedness will be transferred to the retained amount of insurance.

c. Where there is insurance overpayment indebtedness (other than overpayments resulting from accelerated dividends), recovery may be made from cash payment of the reserve resulting from reduction of any of the insured's contracts. If the reserve is not paid in cash, the overpayment may be collected only from the reserve if the contract on which the indebtedness exists, including reserve applied to purchase extended term insurance where the policy has been in force not less than 3 months or more than 11 months.

d. Where there is indebtedness to VA (finance indebtedness), recovery may be made from cash payment of the reserve resulting from reduction of any of the insured's contracts. See 38 U.S.C 5301(b) and 38 U.S.C. 5314.

**23.10 REDUCTION OF REDUCED PAID UP INSURANCE**

A reduction of a policy that has been previously surrendered for reduced paid-up insurance may be approved if the amount of the reduction is not less than $500, and at least $1,000 of insurance remains in force and all other conditions are met.

**23.11 BENEFICIARY AND OPTIONAL SETTLEMENT DESIGNATION**

Before the insured is notified of the action taken, the beneficiary and optional settlement designation will be checked to see if they are in order. Where clarification is necessary, VA Form 29-336, Designation of Beneficiary and Optional Settlement, will be sent to the insured for completion.