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**Chapter 5. Dividends**

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**Subchapter 1. Dividends for Current and Future Years**

**5.01 GENERAL**

1. The authority for payment of dividends on NSLI (National Service Life Insurance), including Veterans’ Special Life Insurance (VSLI) and Veterans’ Reopened Insurance (VRI) and USGLI (United States Government Life Insurance) is contained in 38 U.S.C. 1906, 1923, 1925, and 1944. They are payable from gains and savings as determined by the Secretary, and are payable on the day before the anniversary date of the eligible policy unless the Secretary shall declare them payable on some other date.
2. Dividends on government life insurance are referred to as annual or regular dividends, special dividends, or termination dividends. For the most part they are payable on the life contract; however, both regular and special dividends have been paid on some TDIP (total disability income provisions) attached to NSLI policies.
3. Historical dividend rate scales are available from the Actuarial Staff. Current dividends are calculated by VA systems.
4. Dividends are not payable on insurance:
5. Issued under the provisions of 38 U.S.C. 1922 (RH Insurance)
6. Issued under the provisions of 38 U.S.C. 1904(c).

1. Issued under the ordinary life plan to replace the amount of insurance reduced under a nonparticipating modified life plan issued under 38 U.S.C. 1904(c).
2. On which premiums are waived under the provisions of 38 U.S.C. 1912(d) during the period such waiver is in effect.
3. Policies which are canceled.
4. Earned dividends are not forfeited when insurance is canceled under 38 U.S.C. 1911 and 1954 (persons guilty of mutiny, treason, spying or desertion, or who, because of conscientious objections refuse to perform service in the Armed Forces, etc.). Forfeiture under either of those sections applies only to the rights to insurance but does not affect the earned dividends or contract values (including paid up additions) existing on the date of cancellation.
5. Policies fraudulently obtained even though VA retains the premiums paid before the date of the fraud decision.
6. Policies fraudulently reinstated from the date of reinstatement even though VA retains the premiums from the date of reinstatement to the date of fraud

decision. Dividends earned before the fraudulent reinstatement are payable.

1. When a modified life policy has been reduced because the insured reached age 65 or 70, depending upon the particular policy, the dividend is computed in the usual way and then doubled to compensate for the reduction. If special ordinary life was purchased when the modified life was reduced, dividends on the modified life are computed as provided above and dividends on the special ordinary life are computed in the usual way. The doubling of dividends applies only to those reduced modified life policies on which premiums are being paid or waived and does not include paid-up additions which may be attached to these policies, or reduced paid-up insurance (how paid 2).
2. An annual dividend will be reduced to offset a lien indebtedness before it is applied to purchase paid-up additions.
3. When dividends are authorized or authorized and made pending, the transaction history print line will include dividends on the parent policy, the life paid-up additions and the endowment paid-up additions, if all three are present.

**5.02 ELIGIBILITY**

1. Accounts on which premiums are paid and earned for at least 1 month in the dividend year are eligible to participate in dividends for that year. (The dividend year is the 12-month period from the preceding anniversary date to the current anniversary date of the policy). Paid-up policies are eligible to participate in dividends. Insurance inforce as extended term insurance is eligible to participate; however, dividends are not currently being paid on extended term which arose from a modified life or special ordinary life plan.
2. For dividend purposes, premiums are considered paid if paid by direct remittance or a deduction from service or retired pay, deduction from benefit payments, waived under section 1912 or 1948 for total disability (except 1912(d)), deductions from policy loans, application of dividends to premiums, or if liens are established to pay missing premiums. Dividends are not payable for "skip months" on term accounts as the premiums for these months are not paid.
3. When paid-up additions are changed because of a change of plan, the paid-up additions will be entitled to dividends from the effective date of the paid-up additions or from the last anniversary date through which dividends have been credited on the paid-up additions, whichever is later, to the date of change.
4. The dividends will be authorized as of the date of change using the dividend rate schedule for the year of change, if available; otherwise, the dividend rate schedule for the prior year.

**5.03 WHEN PAYABLE**

1. The dividend for each eligible policy is payable on the day before the policy anniversary date unless the policy is terminated sooner by death or surrendered for cash. (On extended term insurance policies, the anniversary date is the anniversary date of the parent policy.) Dividends may be authorized in the 11th month if the premium for the 10th month has been paid and the dividend is sufficient to pay premiums for both the 11th and 12th months.
2. Dividends due on death and cash surrender cases for the months after the policy anniversary up to the date of termination will be paid at the time of settlement. They will be computed in the same manner and at the same monthly rate as regular dividends, using the last year's dividend rate if the rate for the current year is not available. For accounting and other purposes, these dividends will be paid as settlement dividends. Dividends due on matured endowment policies are also paid at time of settlement.

**5.04 DIVIDEND MONTHS PAYABLE**

1. In reviewing an account for the current dividend, months for which premiums are paid and earned will be counted:

From the:

1. Anniversary date in the preceding calendar year, if the account was effective before that date; or
2. Effective date, if the account was established by issue, renewal, or current date conversion effective in the preceding calendar year; or
3. Date the change became effective, if the account was established by retroactive conversion, division, or change of permanent plan after the anniversary of the account in the preceding calendar year.

To the:

1. Current anniversary, if the account was active to that date, or the date of lapse, if before the current anniversary; or
2. Effective date of change, if the account was closed by conversion, consolidation, or change of permanent plan before the current anniversary; or
3. Premium due date following the date of surrender, if surrender was before the current anniversary and the insurance was in force.

**NOTE:** When surrender is for paid-up insurance, a dividend is payable on the parent contract up to the date of surrender for paid-up insurance and on the paid-up insurance to the anniversary date of the parent contract.

1. Dividend months payable on NSLI extended insurance accounts will be counted as follows:

From the:

1. Anniversary month of the parent policy in the preceding calendar year, if the parent policy lapsed on or before that month; or
2. Month of lapse of the parent policy (effective month of extended term insurance) if lapse occurred during the current dividend year.

To the:

1. Current anniversary month of the parent policy, provided extended insurance was in force at the end of the dividend year; or
2. Last full calendar month in which extended insurance expired, or calendar month of death, if this occurred before the anniversary month of the parent policy.
3. Premium due date following the premium month in which the extended term insurance was surrendered for its cash value.

**NOTE:** When indebtedness exceeds the reserve and insurance is automatically surrendered, dividends are payable only for the full policy months the insurance was in force after the preceding anniversary date. For example, when the anniversary date is November 1 and the insurance is terminated March 15, the current dividend will be for 4 months, November through February.

​**5.05 DISPOSITION OF DIVIDENDS OF LESS THAN $1**

1. When the account is on a premium paying basis and the dividend option is cash, dividends of less than $1 will be disposed of as indicated below:
2. When the gross dividend is less than $1 and there is no indebtedness on the account, the payment will be disbursed.
3. When part of the dividend is used to pay a lien or shortage and the balance of the dividend is less than $1, the balance will be retained as a premium credit. The system will release VA Form 29-5885, Information About Your Insurance, with an appropriate message.
4. When the account is on a premium-paying basis, the dividend option is dividend credit, and the insured requests a dividend credit balance of less than $1, the refund will not be made on an initial request unless it is indicated that the insured is aware that the balance is less than $1.

**5.06 DIVIDEND OPTIONS**

1. There are nine options for disposition of dividends. They are:
2. Credit
3. Cash
4. Deposit (permanent plans only)
5. Premium
6. Indebtedness
7. Paid-up additions (NSLI, VSLI, and VRI only)
8. Net Cash
9. Net PUA
10. Net Loan-Lien
11. A request for an option other than one of the above will be rejected and the insured advised of the available options.

**5.07 SELECTION OR CHANGE OF DIVIDEND OPTION-COMPETENT VETERANS​ ​**

1. The insured, while competent, may select or change a dividend option. In the absence of a selection, dividends are held under the credit option. The insured or the insured through an attorney-in-fact, legal guardian, or federal fiduciary may request withdrawal of dividend credit or deposit monies.
2. The insured may change a dividend option by either written request or telephone contact.
3. Requests by telephone will be accepted subject to the following conditions:
4. The request must be made by the insured. This will be established through internal identity verification procedures.
5. The dividend option will not be changed to cash if the request is made concurrently with an address change. The insured will be informed that these actions, if requested concurrently, must be requested in writing.
6. Written confirmation will be released to the insured’s last address of record, when a dividend option change is accepted by telephone.
7. Changes of option may be made at any time, but such change will not affect the disposition of dividends which became payable before the date of the request for change except as follows:
8. When the insured requests withdrawal from dividend credit, unpaid premiums for the month in which the refund is being made will be withdrawn from dividend credit prior to refund.
9. When the credit option is in effect on the anniversary date and a request for cash, premium, or deposit option is received postmarked after the anniversary date but before the dividend is processed, the new selection will be honored. However, any amount required for premiums under the credit option will be applied.
10. Care will be exercised to distinguish between requests which are intended only to change the disposition of future dividends or only to withdraw dividends held under the credit or deposit option. When the request is not specific or the intent of the insured is not clear, the insured will be asked to clarify the request before any action is taken.
11. When the insured has more than one policy and does not indicate otherwise, it will be assumed that the selection or change of option covers all policies, provided the selected option is acceptable on all policies.
12. The effective date of selection or change of dividend option will be the date the request is mailed or otherwise delivered to the VA.

**5.08 SELECTION OR CHANGE OF DIVIDEND OPTION-INCOMPETENT VETERANS​ ​**

1. Dividend option selections, requests for change of dividend option or requests for withdrawals from dividend credit or deposits, submitted by a federal fiduciary, legal guardian (includes guardian, conservator, curator, committee or trustee appointed by court order), or power of attorney (POA) are acceptable. When the dividend withdrawal is requested by a legal guardian or POA, the refund will be processed. When the dividend withdrawal amount is requested by a federal fiduciary, refer to guidelines in M29-1, Part 1, Chapter 6.03.
2. When notice of termination of incompetency is received, VA will ensure the next dividend payment letter and annual statement are sent to the Veteran rather than the prior fiduciary.
3. If an incompetent Veteran requests a change of dividend option, it will be disapproved and the federal fiduciary (or legal guardian or POA if of record) will be notified.
4. If a guardian has not been appointed and the insured is a patient in a VA hospital, refund will be made to the Director of that hospital.

**5.09 CREDIT OPTION**

1. ​This option provides for the retention of dividends as a credit with interest, to pay premiums monthly to prevent lapse. If the insured fails to pay a premium when due or within the time allowed, a monthly premium is withdrawn from the dividend credit balance.
2. Under the credit option, a dividend for the current year is subject to automatic application for the 11th and 12th month premiums provided premium for the 10th month of the policy year has been paid and the dividend amount is sufficient to pay both the 11th and 12th month premiums.
3. Dividends earned on one policy of an insured may be applied automatically in payment of:
4. Due and unpaid premiums on any other policy of the insured regardless of the insurance fund;
5. Unpaid premiums in connection with a change of permanent plan or other contract change, provided the dividend became payable before the expiration of the grace period allowed for payment of the unpaid premium involved.
6. Dividend credit is placed on deposit on the same policy on which it was earned. A dividend credit under one contract may never be transferred to a deposit account on another contract.
7. When a permanent plan is divided, the dividend credits will be similarly divided. When two or more permanent plans are consolidated, dividend credits will also be consolidated.
8. Upon conversion of all or part of a term policy, the disposition of dividend credit will be as indicated below.
9. When a term policy is converted or a part is converted and the balance of the term insurance is discontinued, the entire dividend credit on the term contract becomes the credit account on the permanent plan policy. This credit option continues unless the insured requests a change of option. Although the deposit option was not available before conversion, it becomes available upon conversion. The entire credit and future regular dividends may then be placed on deposit, upon request of the insured.
10. When part of the term policy is converted and the balance of the term insurance is continued in force, the dividend credit, as of the date of conversion, is divided into two credit accounts in the same proportion as the basic term contract is divided. The credits on the permanent plan policy may be changed to deposit upon request of the insured. The credits on the term plan may not be changed to dividend deposits.
11. When part of a term policy is converted, part is continued as term insurance and the balance is discontinued, the dividend credit is divided into two accounts. The division is in the same proportion as the face amount of the permanent plan and the face amount of the term insurance continued in force relates to the combined total of the face amounts of the two policies. The credit on the permanent plan may be changed to deposit upon the request of the insured.
12. When part of a term policy is converted and any part of the remainder discontinued, the dividend credit for the discontinued term insurance may not be retransferred, if that insurance is later reinstated.
13. When final lapse action is taken on a term policy, the option in the master record will not be changed. When there is an existing dividend credit which could not be used to prevent lapse, it will be disposed of as indicated below:
14. If there are additional policies in force other than as extended term or paid-up insurance, transfer the credit to an active account.
15. If there are no additional policies or if the additional policies are in force as extended term insurance, the credit will be refunded provided it is $1 or more. If it is less than $1, it will be transferred to the appropriate variance account.
16. When final lapse action is taken on a permanent plan of insurance, the option in the master record will not be changed. On single-policy cases, the dividend will be paid in cash if the how paid code is 1 (not in force) or 4 (extended term insurance). On multiple-policy cases, the dividend will be authorized as a pending disbursement if the how paid code is 1 and credits if the how paid code is 4. When a pending disbursement is created, clerical action is required to determine if the dividend is to be paid in cash or transferred to an active account. When there is an existing dividend credit on multiple-policy cases which could not be used to prevent lapse, it will be disposed of as indicated below:
17. Retained on the account on which it was earned if that account is on extended term insurance.
18. Transferred to an active account if the lapsed policy is not in force as extended term insurance.
19. If the how paid code is 2, reduced paid-up, the dividend is paid in cash.

**5.10 PREMIUM OPTION**

1. This option provides for application of dividends for payment of premiums in advance on the policy on which the dividend is earned. Since dividends are payable on the day before the policy anniversary date and that date is within the period allowed for payment of the 10th month of the policy year, the dividend is subject to application as premiums provided the:
2. Premium for the 10th month of the policy year has been paid;
3. Dividend is sufficient to pay premiums for the 11th and 12th months.
4. The premium option is not valid under the conditions listed below:
5. Premiums are being paid by allotment from service pay, VA matic or deductions from VA benefits.
6. Premiums are waived because of total disability.
7. If a limited payment life policy has been paid up.
8. The policy is lapsed and an application for reinstatement is not pending.
9. The policy is surrendered for reduced paid-up insurance.
10. If the insured selects the premium option and one of above conditions exists, the insured will be advised that the option is unacceptable and furnished the necessary form for change of option.

1. When the premium option on a policy becomes invalid for one of the reasons listed below, the option will be changed to the credit option and the insured advised of that action and the other options available.
2. Premiums are being paid by allotment from service pay, VA Matic, or deductions from VA benefits.
3. Premiums are waived because of total disability.
4. If a limited payment life policy has been paid up. (When an indebtedness exists on the policy and there are no other policies on a premium-paying basis, the option will be changed to the indebtedness option instead of the credit option provided no further premiums are due.)
5. When the premium option becomes invalid because of lapse, the following rules will apply:
6. Term and Permanent Plan Without Extended Term Insurance. The dividend will be paid in cash on the policy anniversary date provided there are no other policies in force by payment or waiver of premium. On single- policy cases, payment is automatic. On multiple-policy cases where the how paid code is 1, the dividend is established as a pending disbursement transaction with a 970 callup. Clerical action is required to determine if the dividend should be paid in cash or transferred as a dividend credit to an account in force by payment or waiver of premium. When the how paid code is 4, the dividend is authorized under the credit option.
7. Permanent Plans with Extended Term Insurance. On single-policy cases, the system will automatically pay the dividend in cash. On multiple-policy cases, the dividend will be authorized as dividend credit.
8. When the how paid code is 2 (reduced paid-up insurance), the dividend will be paid in cash.

**5.11 DEPOSIT OPTION**

1. ​This option may be selected on paid-up policies and other permanent plans in force other than as extended term insurance. If this option was selected before the date of lapse, the option will not be changed without a valid request. However, dividends becoming due on a lapsed policy (how paid code 1 or 4) will be paid in cash even though the master record shows the deposit option.
2. Disposition of Dividends on Deposit on Lapsed Policies. Dividends on deposit plus interest to the date of lapse are used with the policy reserve in calculating the period of extended term insurance and pure endowment, if any. When the total amount of money, less any indebtedness, is more than sufficient to meet the conditions described below, the amount not required will be retained and the insured advised that it is refundable upon request.
3. Endowment Plans. The amount available is more than sufficient to purchase extended term insurance to the end of the endowment period and pure endowment in excess of the face amount of the policy, less indebtedness.
4. Life Plans. The amount available is more than sufficient to purchase extended term insurance to the end of the mortality table on which premiums were established.
5. Request for Refund of Dividends on Deposit After Date of Lapse. Dividends on deposit may not be refunded after the date of lapse. If an insured requests refund after the expiration of the grace period but within 31 days thereafter, the requested amount will be refunded minus three monthly premiums. The insured will be advised that it was necessary to place the insurance in force before the refund, and he or she will be allowed 15 days from the date of the letter to return the payment for cancellation of the informal reinstatement. The explanation will include a comparison between the coverage provided when dividends on deposit are used with the reserve and when they are not. If the payment is returned, the account will be restored to the status it would have been if premiums had not been deducted and the refund made. If the insured requests refund more than 31 days after expiration of the 31-day grace period, he or she will have to meet reinstatement requirements before the dividend deposit can be refunded.
6. Disposition of Dividends on Deposit at Time of Surrender for Reduced Paid-up Insurance. Dividends on deposit plus interest up to the date of surrender are used with the reserve in calculating the amount of paid-up insurance. In processing a surrender for reduced paid-up insurance, the insured will be advised that dividends on deposit will be applied to purchase insurance unless he or she requests refund within 15 days. The letter will give the amount of reduced paid-up insurance that the reserve plus dividends on deposit will purchase, the amount of reduced paid-up insurance that the reserve only will purchase, and the balance, if any, which will be payable to him or her. If a reply is not received in 15 days from the date of the letter, dividends on deposit will be applied to purchase reduced paid-up insurance. When the amount is more than sufficient to purchase insurance equal to the face amount of the policy, less indebtedness, the remaining amount will be held under the deposit option on the paid-up policy.
7. Re-establishment of Dividends on Deposit in Reinstatement. Upon reinstatement of a permanent plan policy, the amount of dividend deposit used to purchase extended term insurance is reestablished under the dividend deposit account. Upon request of the policyholder, the amount may be used to pay all or part of the cost of reinstatement. Any amount used to reinstate may not later be reestablished as dividend credit or deposit.
8. Disposition of Dividends on Deposit Upon Division or Consolidation of Policies. When a permanent plan is divided, dividends on deposit will be similarly divided. When two or more permanent plans are consolidated, dividends on deposit will also be consolidated.

**5.12 CASH OPTION**

1. Under the cash option, payment of the dividend is by direct deposit (or check if direct deposit is not available) payable to the insured if competent. If the insured is incompetent, the dividend is payable to a court-appointed guardian or a federally appointed fiduciary. See M29-1, Part 1, Chapter 6.03 for handling of dividend refunds in the case of incompetent insureds.

**NOTE:** A VA Form 29-504, Notice of Payment Due Incompetent Veteran, will be sent to the Veterans Services Manager if the dividend is refunded to other than a court-appointed guardian or a Director, VA Medical Center. A court-appointed guardian is identified as a guardian, conservator, curator or tutor, committee, or trustee.

1. Except in certain termination or settlement cases, the cash option must be selected on or before the date the dividend is payable. However, when the credit option is in effect on the anniversary date and a request for cash is received postmarked after the anniversary date but before the dividend is processed, the new selection will be honored. Any amount required for premiums under the previous existing credit option will be applied.

**5.13 INDEBTEDNESS OPTION**

1. This option provides for application of dividends as of the policy anniversary date to reduce an outstanding loan or lien. When there is both loan and lien indebtedness on a policy, payment of the loan will take precedence over payment of a lien on the same policy. When there is no loan or lien on the policy, the dividends will be applied to a loan or a lien on any other policy which the insured may have. If there is more than one other loan or lien account, the dividends will be applied (in the following precedence: (1) The largest variable loan, (2) the largest 5 percent loan; (3) the largest 4 percent loan; and (4) the largest lien account outstanding at the time the dividend is payable.
2. When the indebtedness is liquidated, the option will be changed automatically to the credit option. On a single- or two-policy case, the system will automatically change the option when authorizing the next dividend. If the dividend is more than sufficient to pay all indebtedness, the amount remaining will be added to a dividend credit balance or established as a dividend credit account on the policy from which the dividend was authorized.

**5.14 PAID-UP ADDITIONS OPTION**

1. This option became available on July 1, 1972 to policyholders with V insurance, on January 1, 1975 to policyholders with RS and W insurance, and on January 1, 1980 to policyholders with J, JR, and JS insurance. Under this option the dividend is applied as a single premium at the attained age of the insured to purchase paid-up insurance. On life contracts, including 5-LPT insurance, the dividend is applied to purchase paid-up life insurance. On endowment contracts, the dividend is applied to purchase paid-up endowment insurance that will mature at the same time as the basic contract. Paid-up additions are always provided in dollars, not dollars and cents. When a paid-up addition is calculated, the amount is rounded to the closer dollar. The paid-up insurance has cash and loan values. Dividends will be paid on it, but at a lower rate than the basic policy. The $10,000 maximum of insurance does not apply to accounts involving the paid-up additions. The beneficiary designation on the basic contract will apply to the paid-up additions. Accumulated dividend credits and deposits could have been used to purchase paid-up additions if application in writing by the insured was submitted on or before December 31, 1972. After that date accumulated dividend credits and deposits may not be used to purchase the paid-up additions except for the one-year open season from September 1991 to August 1992.
2. The insured may not select this option if the insurance is lapsed (including on extended insurance) on the date of selection.
3. Dividends due on lapsed or extended insurance accounts may be used to purchase paid-up additions, if the paid-up additions option is of record on the date of lapse. If the option is changed from the paid-up additions option while the account is lapsed or on extended insurance, the option may not be changed back to the paid-up additions option until the account is reinstated.
4. The final dividend due on maturing endowment accounts may not be used to purchase paid-up additions, even though there are existing paid-up additions and that is the dividend option of record, unless the dividend is paid on an accelerated basis.
5. Settlement dividends will not be used to buy paid-up additions, but will be paid in cash, even though there are existing paid-up additions. No settlement dividend was payable on the paid-up additions prior to the policy anniversary date in 1972.
6. The reserve of the paid-up additions will be combined with the reserve of the basic policy when computing the loan value of the policy. There is no waiting period before a loan may be made on the paid-up additions.
7. When the basic policy is 5-LPT, a loan may be granted on the paid-up additions only. Any unpaid term insurance premiums will not be deducted from the loan. However, a loan may be granted to pay premiums or to satisfy a request made by the insured.
8. The reserve of the paid-up additions will be used to prevent the basic policy from being terminated because the loan indebtedness equals or exceeds the policy reserve.
9. There is no waiting period before the paid-up additions are eligible for cash surrender.
10. When a basic policy is surrendered for cash, paid-up life additions may be retained if the insured so desires. When a basic endowment policy is surrendered for cash, the paid-up endowment additions must be surrendered also.
11. When a policy is surrendered for cash or reduced paid-up insurance and there are both paid-up additions on the policy and an outstanding loan, the loan will be proportioned between the reserve on the paid-up additions and the reserve on the basic policy to determine the amount of loan balance on the paid-up additions after the surrender.
12. When paid-up additions only are surrendered for cash, the proceeds are payable in a lump sum.
13. The reserve of the paid-up additions will not be used to prevent lapse of the parent policy.
14. Paid-up additions will be retained in the master record when the basic policy is lapsed or at expiration of extended insurance. The basic policy will be set up for purge but will remain on tape until the paid-up additions are deleted from the master record.
15. When a policy lapses and is going to be placed on extended insurance and there are both paid-up additions on the policy and an outstanding loan, the loan will be proportioned between the reserve on the paid-up additions and the reserve on the lapsed basic policy to determine the amount of loan that will be collected from the lapsed basic policy and the amount of loan that will remain on the paid-up additions.
16. When two or more 5-LPT policies with paid-up additions are consolidated and converted, the paid-up additions will also be consolidated and retained as part of the new permanent plan.
17. When a policy with paid-up additions is split into two or more policies, the paid-up additions will be split proportionately. If the amount of paid-up additions to be split is an odd amount, the parent policy will be assigned the extra dollar.
18. When a term policy with paid-up additions is converted to an endowment policy, dividends earned after the conversion will be applied to purchase paid-up endowment additions. This will result in two paid-up additions segments:
19. The paid-up life additions purchased before the conversion.
20. The paid-up endowment additions purchased after the conversion.
21. When a permanent plan life policy with paid-up additions is changed to another life contract, no adjustment of the paid-up additions is required.
22. When a permanent plan life policy with paid-up additions is changed to an endowment contract, the paid-up life additions may be retained, without any adjustment, or the cash value of the paid-up life additions applied to purchase paid-up endowment additions based on the basic endowment policy and the attained age of the insured, or to purchase the same amount of paid-up endowment additions as there were paid-up life additions with the insured paying the difference in reserve.
23. When an endowment policy with paid-up endowment additions is changed to a life contract, the paid-up endowment additions may be exchanged for the same face value of paid-up life additions, with the difference in cash value paid in cash to the insured, or, at the request of the insured, used to pay premiums or applied to an outstanding loan. The paid-up endowment additions may not remain as endowment additions. Also, the face value of paid-up life additions may not exceed the face value of paid-up endowment additions.
24. When the basic policy is reduced, it is not necessary to reduce the paid-up additions, except at the request of the insured.
25. When an insured reinstates a lapsed policy and the dividend option on the date of lapse was paid-up additions, any earned dividends payable at reinstatement may be applied to purchase paid-up additions. If the option was other than paid-up additions, dividends payable at reinstatement may not be used to purchase paid-up additions.
26. If a lapsed account on extended insurance is reinstated and the dividend option on the date of lapse was paid-up additions, the difference between the dividends paid on the extended insurance and the dividends payable at reinstatement may be applied to purchase the paid-up additions. If the option is changed from the paid-up additions while the extended insurance is in force or the option was not paid-up additions on the date of lapse, dividends payable at reinstatement may not be used to buy the paid-up additions.
27. Paid-up endowment additions mature concurrently with the basic policy and will be paid under the same settlement option. When an endowment policy with paid-up endowment additions and paid-up life additions matures, and there is an outstanding loan, the loan will be paid from the proceeds of the maturing endowments.
28. On death cases, the dividend for the year in which death occurs will not be applied to purchase paid-up additions unless the date of death is on or after the PDN (processing day number) on which the computer system created the paid-up additions. If the date of death is an earlier day number and paid-up additions have been credited for that year, the action will be reversed and the dividend which had been applied to purchase paid-up additions will be included in the settlement as a dividend.
29. When the basic policy is not in force (how paid 1) and a dividend is authorized on paid-up additions, if the amount of the dividend will buy $0.49 or less of paid-up additions, the amount of the dividend will be entered or added to any existing credit in the premium credit or shortage field of the master record.
30. When the basic policy is in force (other than how paid 1) and a supplementary dividend is authorized, if the amount of the supplementary dividend will buy $0.49 or less of paid-up additions, the amount of the supplementary dividend will be entered or added to any existing credit in the premium credit or shortage field of the master record.
31. When an authorized dividend is entered in the premium credit or shortage field of the master record as provided in subparagraphs o and p above, a dividend notice will not be released to the insured.
32. When the amount of an authorized dividend will buy more than $0.49 of paid-up additions but less than $ 1, the amount of the dividend will be used to buy paid-up additions in the amount of $1.

**5.15 NET CASH OPTION**

1. The net cash dividend option automatically applies the dividend towards payment of the annual premium.
2. To prevent lapse of a policy, dividends may be authorized in the 11th month of the policy year if the premium for the 10th month has been paid and the dividend is sufficient to pay premiums for both the 11th and 12th months, at a non-discounted rate. Money in excess of that needed to bring the policy current will be applied to the premium at a discounted rate, if applicable.
3. If the dividend is more than the amount needed to pay the premiums to the next anniversary date, the excess or remaining dividend will be paid to the insured via direct deposit or Treasury check.
4. When premiums are paid to the end of the premium paying period, the option will be changed to cash.
5. If the annual dividend amount is insufficient to pay premiums to the next anniversary date, the insured will be billed from the next month due to the anniversary date. The billing will be accomplished approximately 45 days prior to the next premium due date.

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**​5.16 NET PUA OPTION**

1. ​This option automatically applies the dividend towards payment of an annual premium. Any excess dividend will be used to purchase PUAs.
2. 10th Month Rule: To prevent lapse of a policy, dividends may be authorized in the 11th month of the policy year if the premium for the 10th month has been paid and the dividend is sufficient to pay premiums for both the 11th and 12th months, at a non-discounted rate. Money in excess of that needed to bring the policy current is applied to the premium at a discounted rate, if applicable.
3. If the premiums are paid to the end of the premium paying period, the option will be changed to PUA.
4. If the annual dividend amount is insufficient to pay premiums to the next anniversary date, the insured will be billed from the next month due to the anniversary date. The billing will be accomplished approximately 45 days prior to the next premium due date.

**5.17 NET LOAN LIEN OPTION**

1. This option automatically applies the dividend towards payment of an annual premium. Any excess dividend will be used to reduce any outstanding indebtedness.
2. 10th Month Rule: To prevent lapse of a policy, dividends may be authorized in the 11th month of the policy year if the premium for the 10th month has been paid and the dividend is sufficient to pay premiums for both the 11th and 12th months, at a non-discounted rate. Money in excess of that needed to bring the policy current is applied to the premium at a discounted rate, if applicable.
3. If the premiums are paid to the end of the premium paying period, the option will be changed to LOAN/LIEN.
4. If the annual dividend amount is insufficient to pay premiums to the next anniversary date, the insured will be billed from the next month due to the anniversary date. The billing will be accomplished approximately 45 days prior to the next premium due date.

**​5.18 INTEREST RATES**

​Interest rates earned on dividend credit and deposit accounts are published on an annual basis by the Actuarial Staff, VA Insurance Center, Philadelphia PA. Current and historical interest rates are available in the Insurance system. Historical interest rates can be found under Comp Tools – Dividend Credit/Dividend Interest Rates in VA Insurance systems.

**5.19 CALCULATION OF INTEREST**

1. On and after January 1, 1964, interest is earned on dividends held under the credit or deposit option for less than a full policy year. Prior to that date, interest was computed only on the dividend balance as of the day preceding the policy anniversary.
2. Interest is compounded annually on the day preceding the policy anniversary date by obtaining the annual interest on the dividend balance and adding to it any interest which has accumulated since the last policy anniversary date due to withdrawals before the end of the current policy year.
3. To compute interest on amount withdrawn prior to the end of the current policy year, daily interest factors are used. That interest is referred to as accumulated interest and is held as such until the end of the policy year, at which time it becomes a part of the total annual interest. The following are exceptions:
4. Under the dividend credit option, part or all accumulated interest will be used if needed to prevent lapse.
5. When the full amount of dividends held as credit or on deposit is withdrawn at the request of the insured for payment in cash or application to premiums or to an indebtedness, accumulated interest is included in the payment.
6. When the insured requests a refund of all or part of the dividends held as credit or on deposit, interest will be calculated on the amount refunded from the prior policy anniversary date to the day the refund is processed. When withdrawals are made at the request of the insured for payment of premiums or loan or lien indebtedness, interest will be calculated to the postmark date of the request.

**5.20 DELAY IN REFUND OF DIVIDEND CREDIT/DEPOSIT AMOUNTS**

If a second request for refund of a dividend credit/deposit is received and action was not taken on the original request, the transaction date for refund purposes will be the day the refund is processed.

**Subchapter 2. Dividends for Prior Years**

**5.21 GENERAL**

The rules and requirements for processing regular dividends for the current and future years are in subchapter 1. This subchapter contains information on dividends for prior years.

**5.22 USGLI DIVIDENDS**

1. Payment of regular or annual dividends commenced in 1920.
2. Five-Year Level Premium Term: Dividends were not paid on any of these policies from 1920 to 1926 and from 1933 through 1956.
3. Five-Year Convertible Term: Dividends were paid on these policies in 1932 and 1933, but no dividend was paid after that date until 1940.
4. Extended Term Insurance: Annual dividends were paid on extended term insurance from 1920 through 1929, but not after that date. (Extended term insurance did participate in the l961 special dividend.)
5. Special Endowment at Age 96 Plan: The first dividend paid on the special endowment at age 96 plan was in 1969, but dividends were not paid on reduced paid-up policies.
6. Prior to December 31, 1958 dividends were paid in cash or held on deposit unless the insured requested that they be applied to pay premiums or an indebtedness.
7. Special dividends were paid in 1949, 1953, 1958 and 1961. Termination dividends were paid on certain policies from 1953 through 1961.

**​5.23 NSLI DIVIDENDS**

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1. Payment of regular or annual dividends on NSLI commenced in 1952; however, two special dividends were paid prior to that date. To be eligible for the 1954 and prior year annual dividends, premiums had to be paid (or waived because of total disability) and earned for at least 3 months. (Exception: A dividend was payable when premiums were paid for 1 or 2 months during the dividend year prior to establishment or following discontinuance of an in-service waiver.) For 1955 and later years, premiums had to be paid or waived because of total disability and earned for at least 1 month. In addition, premium for December 1954 or any subsequent month in the 1955 dividend year had to be paid and earned for entitlement to the 1955 regular dividend. Dividends on the participating modified life plans of insurance were paid for the first time in 1969.
2. Public Law 36, 82d Congress, approved May 18, 1951, provided that regular dividends becoming due and payable after January 1, 1952, would be held under the credit option unless the insured requested one of the other options. (38 U.S.C. 1907)
3. The 1948 special dividend was the first dividend paid on NSLI and the only dividend for which an application was required. The rules covering the payment of this dividend and other special dividends are in subchapter 4.
4. Public Law 92-188 provided the authority to pay dividends on NSLI paid-up additions only, where no basic policy remains in force. The law passed on December 15, 1971 and administratively became effective the following year for NSLI policies.

1. Reduced paid-up policies participated in annual and special dividends. Dividends on extended term insurance for V policies commenced in 1961. Dividends on extended term insurance for W policies (the pure endowment portion only) commenced in 1975.
2. Annual dividends were paid on disability provisions attached to NSLI policies from 1956 through 1958. Special dividends were paid on the $5 TDIP (ND) provisions in 1959 and 1964. The rules covering payment of these dividends are in subchapter 3.

**5.24 VSLI DIVIDENDS**

1. Public Law 93-289, effective May 24, 1974, provided for policies prefixed by RS and W to become participating policies. These policies shared in the regular dividends for the first time, commencing January 1, 1975.
2. The dividends were authorized and paid under the same options and rules now in effect on other NSLI participating policies. The exceptions were as follows:
3. The gross minimum dividend payable for 12 months was $1.20. There was no minimum for periods covering less than 12 months.
4. Dividends authorized for 12 months in the amount of $1.20 were not adjusted as a result of lapse, reinstatement, contract change, surrender or death.
5. No dividend was payable on any terminal action, such as death, maturity or surrender processed and finalized for settlement prior to January 1, 1975.
6. No dividend was payable on contract changes, such as conversions, change of plan or reduction processed prior to January 1,1975, with an effective date in 1974.
7. No dividend was payable on cases in which final lapse action was taken prior to January 1, 1975.
8. No dividends were payable on extended term insurance cases prior to 1999 except when there was pure endowment. On such cases, the dividend was payable only on the pure endowment amount.
9. Action dates for whole life paid-up additions were based on maturity at age 96.

**​5.25 VRI DIVIDENDS**

1. The VRI program began paying dividends in 1980 under the same options and rules now in effect on other NSLI participating policies.
2. In order to further liquidate excess surplus, termination dividends were first authorized for “JR” and “JS” in 1985. “JS” termination dividends were last paid in 1998. JR” termination dividends were last paid in 1996.

1. In 1999, a special dividend of $120,000 was distributed among 55 “JS” policyholders.
2. In 2014, there was a distribution of excess surplus to JS policyholders and beneficiaries on behalf of insureds having active policies as of January 1999.

**5.26 DATE OF PAYMENT OF REGULAR DIVIDENDS**

1. Regular or annual dividends were due and payable on the day before the policy anniversary date unless the Administrator declared them payable on some other date.
2. Dividends for the following years were paid on an accelerated basis:

1961 1963 1964 1965 1967 1972 1975 1976 1977

**5.27 ACCELERATED PAYMENT OF REGULAR DIVIDENDS**

1. The 1961 dividend was deemed payable on the day preceding the March premium due date. The 1963, 1964 and 1965 dividends were deemed payable on the day preceding the January premium due date. The 1967, 1972, 1975 and 1976 dividends were deemed payable the day preceding the February premium due date. The 1977 dividend was deemed payable on the day preceding the April premium due date.

**NOTE:** Dividends on accounts with the paid-up addition option were paid on the customary policy anniversary date.

1. When the dividend option was credit or deposit, a full year’s interest was added to any dividend credit or deposit balance existing on the day the dividend was deemed payable. The current dividend was credited after the addition. Commencing with the 1964 dividend, interest was also allowed on the current dividend from the premium due date in the month the dividend was deemed payable to the anniversary date of the policy. The formula for calculating interest and the interest factors for the different anniversary months for these dividends is in paragraph 5.29. There was no interest reversal as a result of withdrawals occurring between the date interest was added and the policy anniversary date.
2. When the dividend option was other than credit or deposit and there was a dividend credit or deposit balance, a full year’s interest was added on the 1961, 1963 or 1964 policy anniversary date (plus 30 days). On the 1965, 1967, 1972, 1975, 1976 and 1977 dividends, a full year’s interest was added on the following basis:
3. If there was no automatic withdrawal action to the dividend credit or deposit balance prior to the anniversary date (plus 30 days), annual interest was added as of the anniversary date,
4. When there was a withdrawal prior to the anniversary date, annual interest was added prior to processing the withdrawal.
5. When there was a dividend overpayment, usual rules for recovery of indebtedness were followed except that dividend overpayments resulting from accelerated dividends were not deducted from the reserve available to purchase extended term insurance or reduced paid-up insurance.

**5.28 ELIGIBILITY FOR DIVIDENDS FOR PRIOR YEARS**

1. A lapsed policy was eligible for a regular or a supplemental regular dividend by payment of premiums in arrears in the reinstatement of a policy. However, the payment of premiums in arrears did not make a policy eligible for participation in a prior special dividend with the exceptions noted below:
2. 1948 and 1951 Special Dividend: In the reinstatement of a participating NSLI policy, a dividend or supplemental dividend was due if the number of paid months in the 1948 and/or 1951 dividend period was increased by payment of premiums in arrears.
3. 1953 Special Dividend: A USGLI policy surrendered under section 5 of the Servicemen's Indemnity and Insurance Acts of 1951 prior to 1953 and reinstated or replaced under 38 U.S.C. 1981 was due a 1953 special dividend. The dividend payable on such a case was calculated by adjusting the 1953 special dividend for the period the policy was in force prior to 1953 and by adding the amount of interest earned on the fund between certain dates. The amount payable in each case was determined by the Actuarial Staff.
4. The payment of the reserve in antedating a policy did not make it eligible for a dividend for the period covered by the payment of the reserve.

**5.29 CALCULATING INTEREST WHEN PAYING DIVIDENDS EARLY**

1. The formula for calculation of interest on the 1964, 1965, and 1967 accelerated dividends under the dividend credit/deposit options from the January premium due date to the policy anniversary date was the amount of the accelerated dividend times interest factor equals interest.
2. The interest rates and interest factors used in calculating interest on dividends authorized under the dividend credit or deposit in advance of the policy anniversary date in 1964, 1965, and 1967 are shown in exhibit A (USGLI) and exhibit B (NSLI).
3. The formula for calculation of interest on the 1972 accelerated dividends under the dividend credit/deposit options from the February 1972 premium due date to the 1972 policy anniversary date was the amount of the accelerated dividend times interest factor equals interest on 1972 dividend.
4. The interest rates and interest factors used in calculating interest on dividends authorized under the dividend credit or deposit options in advance of the policy anniversary date in 1972 are shown in exhibit C (USGLI) and exhibit D (NSLI).

**EXHIBIT A. INTEREST FACTOR CHART - USGLI**

Policy Number of Days Interest Factor (3.5%)

Anniversary Month

January None None

February 31 .0030

March 59 .0057

April 90 .0086

May 120 .0115

June 151 .0145

July 181 .0174

August 212 .0203

September 243 .0233

October 273 .0262

November 304 .0292

December 334 .0320

**EXHIBIT B. INTEREST FACTOR CHART - NSLI**

Policy Number 1964 1965 and 1967

Anniversary of Days Interest Factor (3%) Interest Factor (3.25%)

Month

January None None None

February 31 .0025 .0028

March 59 .0048 .0053

April 90 .0074 .0080

May 120 .0099 .0107

June 151 .0124 .0134

July 181 .0149 .0161

August 212 .0174 .0189

September 243 .0200 .0216

October 273 .0224 .0243

November 304 .0250 .0271

December 334 .0275 .0297

**EXHIBIT C. INTEREST FACTOR CHART-USGLI**

Policy Anniversary Month Number of Days Interest Factor (4.25%)

January None None

February None None

March 28 .00326

April 59 .00687

May 89 .01036

June 120 .01397

July 150 .01747

August 181 .02108

September 212 .02468

October 242 .02818

November 273 .03179

December 303 .03528

**EXHIBIT D. INTEREST FACTOR CHART-NSLI**

Policy Anniversary Month Number of Days Interest Factor (4.5%)

January None None

February None None

March 28 .00345

April 59 .00727

May 89 .01097

June 120 .01479

July 150 .01849

August 181 .02232

September 212 .02614

October 242 .02984

November 273 .03366

December 303 .03736

**Subchapter 3. Regular and Special Dividends On Total Disability Income Provision (NSLI)**

**5.30 REGULAR DIVIDENDS**

1. Effective with the 1956 regular dividend, NSLI policies with the TDIP were classified separately from those without the provision for dividend purposes. The gross dividend on the separately classified policies consisted of the dividend payable on the life insurance contract and an additional dividend on the disability provision. Regular dividends were not payable on the disability provision after the 1958 policy year.
2. Dividends on the disability provision were payable annually on the date preceding the anniversary date of the life insurance, regardless of the anniversary date of the disability provision. In addition to meeting eligibility requirements for the dividend on the life insurance contract, except as noted in subparagraph d below, the TDIP premium for at least l month, payable to the NSLI fund, had to be paid and earned for the policy to be eligible for the TDIP dividend. The amount of dividend was based on the number of months’ life insurance and disability premiums, respectively, were paid during the policy year. The TDIP portion of the dividend for 1956 was based on the number of months TDIP premiums were paid between the anniversary or issue date in 1955 and the anniversary date in 1956 of the life insurance contract. No premiums paid before the 1955 anniversary date of the life insurance contract were counted for the TDIP dividend.
3. When premiums were waived under 38 U.S.C. 1912 and the insured received total disability income payments, dividends were payable on the life insurance contract, but not on the disability provision after payments started. (See example in subpart. g(3) below.)
4. Dividends were payable for the number of months TDIP premiums were paid during the period a section 1924 waiver was in force on the life insurance through the 1958 policy year. When TDIP premiums on a non-participating life insurance contract were payable to the NSLI fund, dividends were payable on the disability provision. No dividends were payable when TDIP premiums were payable to the NSLI appropriation.
5. TDIP dividends were disposed of under the same option as that of the life insurance contract.
6. Life insurance and TDIP portions of dividends were charged to the applicable calendar year dividend expense account. Life insurance and TDIP portions of dividends were not separated in maintaining dividend credit and dividend deposit accounts.
7. Several examples illustrating the rules of eligibility for TDIP dividends are shown below:
8. Life insurance and TDIP effective June 1, 1947, both active through May 31, 1958. Dividend for 1958 payable for 12 months on life insurance and TDIP.
9. Life insurance effective June 1, 1956, TDIP added December 1, 1957, both active through May 31, 1958. Dividend for 1958 payable for 12 months on life insurance and 6 months on TDIP.
10. Life insurance and TDIP effective June 1, 1947, and premiums paid through March 31,1958. Insured totally disabled beginning September 3, 1957, and still totally disabled May 31, 1958 [38 U.S.C. 1912 waiver effective October 1,1957. TDIP payments began March 3, 1958. Dividend for 1958 payable for 12 months on life insurance (4 paid and 8 waived), and 10 months on TDIP (4 paid and 6 waived).
11. Life insurance and TDIP effective August 1, 1950. In-service waiver effective August 1, 1951, and still effective July 31, 1958; TDIP in force through July 31, 1958. Dividend for 1958 payable for 12 months on TDIP only.
12. Life insurance effective June 1, 1947, under NSLI fund lapsed January 1, 1948, and reinstated August 1, 1949, as "H" insurance under NSLI appropriation. TDIP added September 1, 1953, as "ND " under NSLI fund. Life insurance and TDIP active through May 31,1958. Dividend for 1958 payable for 12 months on TDIP only.

**5.31 SPECIAL DIVIDENDS (TDIP)**

1. In July 1959 a special TDIP dividend was paid on NSLI accounts with a $5 ND rider. The dividend was payable as of the July premium due date under the option of record. For those options other than cash, the dividend was available for application to premiums or for adding to credit/deposit accounts as of the July premium due date. The special dividend was paid if:
2. The December 1958 insurance and/or TDIP premium was paid and earned at any time prior to June 1, 1959, or
3. The December 1958 insurance and/or TDIP premium was waived because of disability, or
4. The December 1958 premium on the basic policy was paid and earned prior to June 1, 1959 or waived because of disability, and TDIP coverage had ceased sometime prior because the insured had reached age 60.

**NOTE:** A $5 rider surrendered for the $10 benefit prior to January 1, 1958 was eligible for the special TDIP dividend. Also, if December 1957 became a skip month (term contract) by virtue of a reinstatement of both the insurance and the rider prior to June 1, 1959 the account was eligible for the dividend.

1. NSLI policies to which a participating $5 rider is or was attached were eligible for the 1964 special TDIP dividend if the policy was eligible for the 1959 special TDIP dividend and in force during any one of the premium months of July 1963 through January 1964. For this purpose, a policy was considered in force if the premium for one of the above months was timely paid or waived or was in force under extended insurance or paid-up insurance during one of the above months. The dividend was 125 percent of the 1959 special TDIP dividend with a $340 maximum payment. It was payable on the day before the January 1964 due date of the eligible policy and was available for the purposes of dividend options as of that date. Interest was added to the dividend amount placed in the credit or deposit account from the January 1964 premium due date of eligible policy to the 1964 anniversary date of that policy. Interest was not to be adjusted on withdrawals which occurred between the date of interest addition and the 1964 anniversary date of the policy.

**Subchapter 4. Special Dividends on NSLI**

**5.32 SPECIAL DIVIDENDS - GENERAL**

1. A special dividend was a one-time distribution of an excess in the insurance fund. It was derived from excess interest earned or from funds in excess of regular reserves previously set aside to provide an additional safety margin against unexpected contingencies. However, the first two special dividends on NSLI were mainly derived from savings in mortality in the years prior to payment of regular or annual dividends.
2. Four special dividends were paid on policies on which premiums credited to the NSLI Fund were paid and earned, or waived under section 602(n) of the NSLI Act of 1940, as amended. They are referred to as the 1948, 1951, 1961 and 1963 special dividends.
3. A special dividend was also paid on certain RS/W policies in 1961.

1. No claim by an insured for payment in cash of a special dividend declared prior to January 1, 1952, will be processed unless such claim was received within 6 years after such dividend was declared. If a claim is received it will be returned with a Dividend Inquiry letter or Dividend Hoax letter (38 U.S.C. 1907 (b)). This will be considered a complete response without further communication.

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**5.33 1948 SPECIAL DIVIDEND (N AND V POLICIES ONLY)**

1. This dividend was based on premiums paid from the effective date of the policy to the policy anniversary date in 1948. Payment was made under the cash option and commenced approximately January 16, 1950. An application for payment of the 1948 Special Dividend was required since about two thirds of the policies were lapsed and no current address was available. The announcement that the dividend would be paid was made in June 1949, and applications for applying were available at all post offices and VA offices in August 1949. These forms were associated with records of the dividend to be paid to each individual. The first checks were mailed on January 16, 1950, and by the end of 1950, over $2.7 billion, or 98 percent of the amount due, had been paid to about 16 million veterans.
2. The dividend rate for policyholders age 40 and under at age of issue was 55 cents per $ 1,000 of insurance for each month the insurance was in force. The rate decreased at the older ages. Any indebtedness due VA was deducted from the amount payable, and the amount deducted was shown on the form accompanying the check. In those cases where the indebtedness exceeded the dividend, a letter was sent.
3. To be eligible, premiums had to be paid and earned or waived under section 602(n) for a minimum of 3 months between the date of issue to the policy anniversary in 1948. Accounts created by conversion, renewal, change of permanent plan, or division, and the accounts from which they were created, were considered together in computing the number of months for which dividends were payable within the dividend payment period. On the basis that the converted, renewed, or changed contract, or the contract resulting from division was in continuation of the original contract, both were eligible even though only one or two months' premiums were paid on either the original or subsequent contract, provided a combined total of three or more months' premiums were paid within the dividend period. Where unrelated policies of an insured were involved, the number of months paid was not combined to arrive at an aggregate of 3 or more months to determine the dividend eligibility of either contract.
4. The dividend was paid on paid-up insurance, but not on extended term, gratuitous, or on insurance for which premiums were credited to the NSLI appropriation. Contract insurance under the NSLI fund, stemming from gratuitous insurance, was eligible for dividends.
5. The calculation of the dividend was based on the following factors:
6. The number of months’ premiums were paid or waived because of disability.
7. The age of the policyholder on the date of issue of the policy.
8. The face amount of the policy.
9. Dividend rate.

**5.34 1951 SPECIAL DIVIDEND (N AND V POLICIES ONLY)**

1. This dividend was based on premiums paid from the policy anniversary date in 1948 (or effective date if the policy was issued between 1948 and 1950, both dates inclusive) to the policy anniversary date in 1951. Payment was made under the cash option. An application for payment was not required. A review of inactive accounts commenced soon after December 14, 1950, to select eligible policies and to obtain current mailing addresses. The preparation of authorization cards on active accounts commenced in February 1951 by policy anniversary month, and mailing of checks commenced approximately March 5, 1951. A sum of approximately $685 million was authorized for payment.
2. To be eligible, premiums had to be paid and earned or waived because of a disability for a minimum of 3 months during the dividend period. An in-service waiver was considered in reaching the minimum of 3 months; however, a dividend was not payable for the month or months the in-service waiver was in force. Accounts created by conversion, renewal, change of permanent plan, or division, and the accounts from which they were created, were considered together in computing the number of months from which dividends were payable within the dividend payment period.
3. The calculation of the dividend was based on the following factors:
4. The number of months premiums were paid or waived because of disability.
5. The age of the policyholder on the date of issue of the policy.
6. The face amount of the policy.
7. Dividend rate.

**5.35 1961 SPECIAL DIVIDEND (V POLICIES ONLY)**

1. Participating policies were eligible for a special dividend if the January, February, March or April 1961 premium was timely paid or waived due to total disability. Payment of premiums for one of the above months as a month of lapse did not make the policy eligible.
2. A reduced paid-up or extended term insurance policy effective on or before the due date of January 1961 was eligible provided the reduced paid-up or extended insurance was in force on the January 1961 premium due date of the parent policy.
3. The dividend was based on the largest amount of insurance in force during the eligibility period if the policy was reinstated, reduced, lapsed or surrendered for reduced paid-up insurance during the eligibility period.
4. The dividend was based on the last type of insurance in force during the eligibility period if a term policy was converted in the full amount or a permanent plan policy was changed during the eligibility period.
5. A limited payment life on which the premium-paying period had ended was eligible provided it was in force under premium-paying conditions during the premium month of January, February, March or April l961.
6. The dividend was deemed payable on the day preceding the June 1961 premium due date and was payable under the option of record.

**5.36 1961 SPECIAL DIVIDEND (RS AND W POLICIES)**

1. Originally RS prefixed policies were non-participating, however, as of May 24,1974, Public Law 93-289 provided for policies prefixed by RS and W to become participating policies as of January 1, 1975. RS insurance became eligible for a special dividend if the RS or W insurance was in force during one of the premium months of November or December 1960 or January 1961 by timely payment of premiums, disability waiver, or as paid-up or extended term insurance, provided one of the following conditions were met:
2. The policy had been converted or exchanged for W insurance, or conversion or exchange for W insurance was applied for before September 14, 1963, or
3. If the RS insurance had not been converted or exchanged and the policy matured by death on or after the November 1960 premium due date and before September 14, 1963.
4. The dividend, payable in cash without interest, was deemed payable September 13, 1961, or when conditions were met. Dividends on policies which had been converted or exchanged for W insurance were based on the largest amount of insurance in force during the eligibility period.
5. The dividend on policies becoming eligible after September 13, 1961, and before September 14, 1963, was based on the amount of insurance converted or exchanged for W insurance or the amount in force at death but not greater than the largest amount of RS insurance in force during one of the premium months of November or December 1960, or January 1961. Payment of premiums for November or December 1960, or January 1961 as the month of lapse did not make the policy eligible for the special dividend if the policy was reinstated in the February 1961 premium month or later.
6. The number of months payable for dividend purposes was based on the number of months the insurance was in force, minus any months not paid due to lapse, or waiver of premiums under a section 1924 in-service waiver from the effective date of the RS insurance to:
7. The date of death, if death occurred within one of the premium months of November or December 1960, or January 1961 on insurance not converted or exchanged; or
8. The date of conversion or exchange to W insurance; or
9. The premium due date in February 1961, whichever is earlier.
10. When recovery of indebtedness was made for an RS/W dividend, the effective date of recovery was:
11. September 13, 1961 when the contract change or conversion from the parent RS policy was on or before that date.
12. As of the date of the contract change date for exchange or conversion from the parent RS policy provided the date was before September 14, 1963.

**5.37 1963 SPECIAL DIVIDEND (V POLICIES ONLY)**

1. Participating policies were eligible for a special dividend if the August, September, October or November 1962 premium was timely paid or waived due to total disability. Payment of premiums for one of the above months as a month of lapse did not make the policy eligible for a special dividend. Premiums were considered timely paid if paid within 61 days of the premium due date by application of dividend credit, or as the reinstatement month.
2. A policy which was surrendered for reduced paid-up insurance or was in force under extended term insurance on or before August 1, 1962, became eligible for the special dividend if the reduced paid-up or extended term insurance was in force on the August 1962 premium due date of the parent policy.
3. A fully paid-up policy became eligible for the special dividend if it was in force during any one of the premium months of August, September, October, or November 1962.
4. The dividend was based on the amount and plan of insurance last in force during the eligibility period. If a larger amount of insurance was in force during that period, the dividend was increased, based on the additional amount of insurance and plan in force at that time. (EXAMPLE: Policy lapsed and was placed on extended term insurance in reduced amount due to policy indebtedness. The special dividend was due on the reduced amount of extended term insurance at the extended term insurance dividend rate. The difference between the face amount of the permanent plan and the amount of extended term insurance at the dividend rate for the permanent plan was also due.)
5. The dividend was payable on the date preceding the January 1963 premium due date and was available for the purpose of dividend options as of that date.
6. A full year's interest for 1963 was added to any dividend credit or deposit balance existing on the day preceding the January 1963 premium due date, and the 1963 regular and special dividends were credited after the interest addition. There were no interest reversals as the result of withdrawals occurring between the January 1963 premium due date and the 1963 anniversary date of the policy.
7. The following codes were used in the insurance records in connection with payment of the 1963 dividend:

Legend Transaction Code Explanation

SPP D 1 1963 Special Dividend Paid

SP NOT PD 2 1963 Special Dividend Not Paid

SP INELIG 4 Ineligible for 1963 Special Dividend

**Subchapter 5. Special and Termination Dividends On USGLI**

**​5.38 SPECIAL DIVIDENDS ON USGLI POLICIES**

1. 1949 Special Dividend. A $40 million dividend paid on permanent plans only with effective dates of 1943 or prior. To be eligible, the December 1948 premium had to be timely paid and earned.
2. 1953 Special Dividend. A $70 million dividend paid on permanent plans with effective dates of 1947 or prior. To be eligible, the December l952 premium had to be timely paid and earned or waived under total disability. Limited payment life policies where all 20 or 30 years' premiums had been paid were eligible if the policy was in force on December 31,1952. Policies, otherwise eligible, that were on section 1924 waiver for any number of months prior to December 31, 1952, received a reduced dividend proportional to the number of months the policies were in force on a participating basis.
3. 1958 Special Dividend. A $32 million dividend paid on permanent plans and reduced paid-up policies. To be eligible, the December 1957 premium had to be postmarked prior to April 1, 1958, or waived under total disability; or the policy had to be a fully paid-up limited payment life policy. On cash surrenders and reductions, a policy was not eligible for the 1958 special dividend if a 1957 termination dividend had been paid to the policyholder.
4. 1961 Special Dividend. A $37 million dividend paid on both term and permanent plans. The rules for eligibility were the same as those for payment of the special dividend on NSLI with the following exceptions:
5. The dividends on USGLI were paid in cash.
6. A USGLI policy eligible for a termination dividend was not eligible for a 1961 special dividend.

**5.39 TERMINATION DIVIDENDS (USGLI)**

1. Termination dividends were a release of a surplus in the contingency reserve when a policy permanently severs its connection with the insurance fund. Eligibility for such dividend was limited to permanent plan policies terminating under the following conditions:
2. Termination by death, maturity as an endowment, or surrender for cash or paid-up insurance between January 1,1953, and December 31,1961.
3. Expiration of extended term insurance between January l, 1953, and December 31, 1960, under the following conditions:
4. Extended insurance without pure endowment lapsed prior to 1953 anniversary; terminated in 1958, 1959, or 1960.
5. Extended insurance without pure endowment lapsed in 1953 (on or after the anniversary date) or in the succeeding years, policy terminated in 1958, 1959 or 1960.
6. Extended insurance with pure endowment; terminated in 1958, 1959 or 1960.
7. Expiration of extended insurance between January 1, 1961, and December 31,1961, in all instances.
8. Maturity by total permanent disability award made effective between January 1, 1953, and December 31, 1961; however, the termination dividend was to be paid only upon final termination of the policy. The USGLI termination dividend program ended December 31, 1961, and dividends due on final termination of T and P accounts were paid in 1962.
9. In a case where a 1962 special dividend was paid and the policy terminated under any of the conditions outlined above, the 1961 special dividend became an overpayment at time of settlement and was recovered from the termination dividend.
10. Where a termination dividend was paid on a policy surrendered for its cash value under the provisions of section 623 of the NSLI Act of 1940 and reinstated under the provisions of 38 U.S.C. 1981, the dividend with interest had to be repaid. Repayment of the termination dividend was not required in the replacement of insurance surrendered under the same provision.