

purpose was to assure Reserve officers on active duty that their rank and order of precedence on the Reserve promotion lists would not be jeopardized by their continued service on active duty. The combination of these two circumstances, however, led to the practice of retiring Reserve officers from active duty with retirement pay based on a Reserve grade in which they have never served.

We brought our findings to the attention of the Secretary of Defense and suggested that a separate and specific legislative proposal on this matter be developed and submitted to the Congress. In response, the Deputy Assistant Secretary of Defense (Manpower) indicated that the retirement grade and pay under active duty retirement laws should be directly linked with active duty service and pointed out that a provision to bring this about had been included in comprehensive officer personnel legislation submitted to the Congress. Regarding our suggestion that separate legislation be developed and proposed, he stated that, in the event the comprehensive proposal was not enacted, consideration could be given to a separate proposal.

As shown in our report, a provision to terminate the subject practice had, on two prior occasions, been included as part of comprehensive legislative proposals that were not acted on by the Congress.

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POSSIBLE SAVINGS BY DISCONTINUING THE PURCHASE OF PUBLIC LIABILITY INSURANCE COVERING ACQUIRED PROPERTY, FEDERAL HOUSING ADMINISTRATION, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Our review of premium costs and claims relating to public liability insurance purchased by property management brokers under contract to the Federal Housing Administration indicated that elimination of the requirement that brokers purchase this coverage could result in significant savings to the agency. Premium costs for this type of insurance covering bodily injury amounted to about \$340,000 a year, which was far in excess of the claims being paid under this coverage. For example, the agency records showed that only about \$9,200 in claims for bodily injury were paid over the 8-year period from January 1957 through October 1965. The annual amount of realizable savings cannot be realistically estimated in advance because the amounts of future claims cannot be predicted nor can the amounts of increases and decreases in administrative costs which would result from the agency's assumption of risk be readily determined at this time. However, in view of the agency's claim experience over a number of years, we believe that the overall long-term net savings which would result from elimination of premium costs of about \$340,000 a year would be significant.

In view of the past experience of the Federal Housing Administration, we believe that it would be more economical for the agency to adopt the Government's long-standing policy of self-insurance by assuming the risks covered by this type of insurance, as the agency has previously done with respect to hazard insurance risks on its acquired properties and general comprehensive liability risks in all contracts except those of management brokers.