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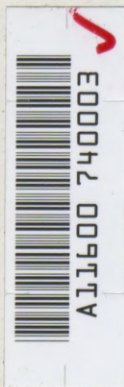
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ADMINISTRATIVE EXPENSES OF RETIRED EMPLOYEES HEALTH BENEFITS

GOVERNMENT

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HEARING BEFORE THE COMMITTEE ON OFFICE AND CIVIL SERVICE HOUSE OF REPRESENTATIVES EIGHTY-EIGHTH CONGRESS FIRST SESSION

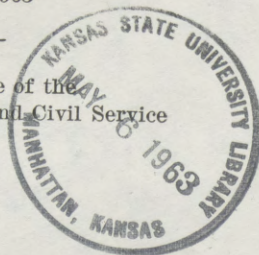
ON

H.R. 3517 and H.R. 4820

BILLS TO AMEND THE RETIRED FEDERAL EMPLOYEES
HEALTH BENEFITS ACT WITH RESPECT TO GOVERN-
MENT CONTRIBUTION FOR EXPENSES INCURRED IN THE
ADMINISTRATION OF SUCH ACT

MARCH 26, 1963

Printed for the use of the
Committee on Post Office and Civil Service



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ADMINISTRATIVE EXPENSES OF RETIRED EMPLOYEES HEALTH BENEFITS

TUESDAY, MARCH 26, 1963

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE OF THE
POST OFFICE AND CIVIL SERVICE COMMITTEE,
Washington, D.C.

The committee met, pursuant to call, at 10:40 a.m., in room 215, House Office Building, Hon. Morris K. Udall presiding.

Mr. UDALL. The subcommittee will come to order.

This subcommittee was appointed to hold hearings on the identical bills H.R. 3517, sponsored by Mr. Henderson, and H.R. 4820, sponsored by Mr. Corbett, both on the basis of an official recommendation of the Civil Service Commission.

The subcommittee is composed of Mr. Burkhalter, Mr. Pool, Mr. Broyhill, Mr. Barry, and I was designated chairman.

Mr. Burkhalter is a member of the Subcommittee on Census and Government Statistics which is meeting at the Census Bureau this morning so he will not be present.

(The bill H.R. 3517 follows:)

[H.R. 3517, 88th Cong., 1st sess.]

A BILL To amend the Retired Federal Employees Health Benefits Act with respect to Government contribution for expenses incurred in the administration of such Act

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That sections 4(b) and 6(c) of the Retired Federal Employees Health Benefits Act (74 Stat. 850 and 851; 5 U.S.C. 3053(b) and 3055(c)) are hereby repealed.

SEC. 2. Section 8(a) of such Act (74 Stat. 851; 5 U.S.C. 3057(a)) is amended by adding at the end thereof the following sentence: "In addition, the Government shall contribute annually and there shall be deposited in the Fund amounts for payment of expenses incurred by the Commission in administering this Act."

SEC. 3. Section 8(b) of such Act (74 Stat. 851; 5 U.S.C. 3057(b)) is amended to read as follows:

"(b) The Fund shall be available without fiscal year limitation for all payments on account of the health benefits plan negotiated under section 3 of this Act, for payment of the Government's contribution provided for by section 6(a) of this Act to agencies of the Government which administer a retirement system for civilian employees of the Government, and for payment of expenses, within such limitations as may be specified annually in appropriation acts, incurred by the Commission in administering this Act."

Mr. UDALL. A similar proposal was made in the 87th Congress and approved by the full committee as an amendment to H.R. 10706. It was not acted upon by the House, however.

The purpose of this legislation is to eliminate the limitation now contained in the Retired Federal Employees Health Benefits Act relating to administrative expenses of the Civil Service Commission

and to provide instead that limitation of administrative expenses will be fixed annually in the fiscal year appropriation act.

When enacting the Retired Federal Employees Health Benefits Act, Congress limited the amount which could be paid from the health benefits fund for administrative expenses of the Civil Service Commission to 2 percent of the Government contribution.

The 2-percent limitation was applicable for the first time during fiscal year 1963. The amount available for fiscal year 1963 under this limitation was \$282,000. However, this amount did not cover the cost of the work required to be performed by the Commission during the current fiscal year.

The expected coverage of annuitants and, consequently, the actual amount of the Government contribution, was considerably less than anticipated—95 percent anticipated coverage as compared with actual coverage of 60 percent. Also, the cost of administration has been more than was anticipated. Thus, the Commission was faced with a serious budgetary problem because the 2-percent limitation, which resulted in making only \$282,000 available for fiscal 1963 was inadequate.

Temporary relief was granted by the Independent Offices Appropriations Act for 1963, Public Law 87-741, which authorizes an amount not to exceed \$375,000 for administrative expenses incurred by the Commission during the fiscal year ending June 30, 1963.

It is the purpose of this legislation to provide permanent relief by removing the 2-percent limitation and permitting the Appropriations Committee to authorize such administrative expense as may be justified by the Commission each year.

Our first witness this morning will be Mr. Andrew E. Ruddock, Director, Bureau of Retirement and Insurance, Civil Service Commission.

Mr. Ruddock, we are happy to have you with us this morning and you may proceed as you see fit.

STATEMENT OF ANDREW E. RUDDOCK, DIRECTOR, BUREAU OF RETIREMENT AND INSURANCE, U.S. CIVIL SERVICE COMMISSION, ACCOMPANIED BY TOM WALTERS, U.S. CIVIL SERVICE COMMISSION

MR. RUDDOCK. Mr. Chairman and members of the subcommittee. I appreciate the opportunity to appear for the Commission in support of the proposal involved in these bills, each of which was introduced by Commission request. Chairman Macy asked me to convey his regret that, due to a prior out-of-town commitment, he could not be here to express his interest in favorable consideration of this legislation.

By letter of January 21, 1963, to the Speaker of the House of Representatives, the Commission explained in detail the need for amendment of the basic Retired Federal Employees Health Benefits Act to repeal the rigid 2-percent ceiling on use of the health benefits fund for administrative expenses, and to provide instead for fixing the limitation annually in appropriation acts after fiscal year 1963. I suggest that the Commission's January 21 letter be made a part of the record of this hearing.

Mr. UDALL. Without objection, the January 21 letter will be made a part of the record at this point.

(The letter follows:)

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., January 21, 1963.

HON. JOHN W. MCCORMACK,
Speaker of the House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: When enacting the Retired Federal Employees Health Benefits Act (Public Law 86-724, 74 Stat. 849), Congress with Commission concurrence limited the amount which can be paid from the fund for administrative expenses of the Civil Service Commission to 2 percent of the Government's contributions. The Commission is facing a serious budgetary problem because the 2-percent limitation is inadequate. With respect to fiscal year 1963, the first year in which a limitation would have been applicable, we sought temporary relief through appropriation language. Authority to expend additional funds for administrative expenses was granted in the Independent Offices Appropriation Act, 1963 (Public Law 87-741). The enclosed draft bill is proposed as a permanent solution to the problem by amendment of the basic legislation to eliminate the arbitrary 2-percent limitation and provide instead that the limitation will be fixed annually in appropriation acts.

During the development of the original legislation it was expected that practically all of the 415,000 eligible annuitants would elect health benefits coverage under the new law and, based on this assumption, the Government's contributions would range between \$15 and \$25 million for the first year. While we had no experience in the operation of the program, our judgment was that 2 percent of such an amount would have been adequate for administrative expenses.

For fiscal year 1961, which represented only the initial phase of getting the program into operation following its enactment on September 8, 1960, administrative expenses totaled \$411,456. At the time budget estimates were prepared for fiscal year 1962, the first year after the act became effective, we based the computation for the Government contribution on an expected coverage of 400,000 annuitants, 95 percent of the eligibles, with one-half electing family plans and one-half, self-only plans. The anticipated coverage would have required a Government contribution of \$20,900,000. The 2-percent limitation would have allowed \$418,000 for administrative expenses.

After the law went into effect on July 1, 1961, actual participation was substantially lower than anticipated—approximately 60 percent elected coverage. During fiscal year 1962, our first operating year, experience in dealing with a large body of elderly people clearly indicated a continued high level of activity because of the many changes, late enrollments, tremendous volume of inquiries, and difficulty in communicating with the retired group. These unavoidable costs proved to be higher than expected and it was necessary to request additional apportionment, which was approved by the Bureau of the Budget in March 1962. At the close of fiscal year 1962, administrative expenses totaled \$473,539.

The amount originally proposed for administrative expenses for fiscal year 1963, was based on the maximum allowable under the 2-percent limitation of Government contributions as limited in section 4(b) and section 6(c) of the act. This amount (\$282,000) will not cover the cost of work which must be performed during the year. The Commission and the carrier of the uniform plan (Aetna Life Insurance Co.) have jointly reviewed the claims experience under this program and have concluded that, even though experience is limited to date and despite the fact that there is a strong indication that the premium rate structure may not be wholly adequate to support benefit costs through the policy year 1962, there will be no increase in the premium rate structure for annuitants and survivors covered under the uniform plan this year. However, hospital room rates have increased by more than 10 percent in the 18 months ending December 31, 1961, and unless there is some unexpected reversal of the constantly upward trend in the cost of this and other health-care services, a premium rate increase of approximately 15 percent will be unavoidable for the policy year beginning July 1, 1963. To make this rate change effective by July 1, 1963, will require additional administrative costs in fiscal year 1963 but no additional Government contributions will be needed until fiscal year 1964. The Commission revised its estimates of total administrative expenses for 1963 and, as previously mentioned, obtained a temporary solution to the problem—appropriation language which, in effect, temporarily amended the limitation of 2 percent provided in the basic act.

In future years the Commission will be faced with an acute budgetary problem unless the arbitrary 2-percent limitation is amended. As the group of annuitants becomes smaller, the amount of Government contributions will decrease, but administrative expenses are not expected to decline at the same rate and in certain years may increase because of rate changes, benefit changes and/or Federal employees pay legislation.

This problem can be solved on a permanent basis by amending the basic legislation to repeal the 2-percent limitation in section 4(b) and 6(c) of the act, and by providing that the fund shall be available for payment of expenses within such limitation as may be specified annually in appropriation acts. This change will permit the exercise of discretion in determining the amount actually needed for administrative expenses each year.

There is accordingly attached a draft bill to effect the desired result. The Commission recommends its introduction and early enactment into law.

The Bureau of the Budget advises that from the standpoint of the administration's program there is no objection to the submission of this proposal.

By direction of the Commission:

Sincerely yours,

JOHN W. MACY, Jr., *Chairman.*

A BILL To amend the Retired Federal Employees Health Benefits Act with respect to Government contribution for expenses incurred in the administration of such Act

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That sections 4(b) and 6(c) of the Retired Federal Employees Health Benefits Act (74 Stat. 850 and 851; 5 U.S.C. 3053(b) and 3055(c)) are hereby repealed.

SEC. 2. Section 8(a) of such Act (74 Stat. 851; 5 U.S.C. 3057(a)) is amended by adding at the end thereof the following sentence: "In addition, the Government shall contribute annually and there shall be deposited in the Fund amounts for payment of expenses incurred by the Commission in administering this Act."

SEC. 3. Section 8(b) of such Act (74 Stat. 851; 5 U.S.C. 3057(b)) is amended to read as follows:

"(b) The Fund shall be available without fiscal year limitation for all payments on account of the health benefits plan negotiated under section 3 of this Act, for payment of the Government's contribution provided for by section 6(a) of this Act to agencies of the Government which administer a retirement system for civilian employees of the Government, and for payment of expenses, within such limitations as may be specified annually in appropriation acts, incurred by the Commission in administering this Act."

MR. RUDDOCK. I shall not take up your time by repeating the details given in the Commission's letter. However, there are two items of information which I believe should be discussed as an aid to your consideration of this legislative proposal.

The first item concerns background. The budgetary problem arising from the 2-percent limit on administrative expenses was recognized by the Commission early in 1962. In April 1962 the Commission decided to seek appropriations committee approval of additional administrative funds for fiscal year 1963 and to recommend to the substantive committees the amendatory legislation under consideration today. Before proceeding with this plan, however, the Commission sought congressional reaction to the approach. This was done by Commission letter of April 25, 1962, to the chairman, Subcommittee on Independent Offices, House Appropriations Committee, and letter of May 2, 1962, to the chairman of your full committee.

Under date of May 4, 1962, Chairman Murray advised that after appropriate conferences agreement had been reached on the procedure outlined by the Commission. He concluded his letter as follows:

There being no objection to the procedure there outlined, I will expect an official administration recommendation for permanent substantive legislation to make suitable provision for these administrative expenses in the years following the fiscal year which will end June 30, 1963.

Recommendation for the substantive legislation went forward to Congress July 27, 1962, but pressure of other business precluded action on the resulting bills—H.R. 12824, S. 3633—before adjournment of the 87th Congress. As a consequence, the Commission resubmitted its recommendation as soon as possible after the 88th Congress convened.

The second item concerns a recent development. The Commission's letter of January 21 indicated an anticipated 15-percent increase in premium rates for annuitants enrolled under the uniform health benefits plan for the policy year beginning July 1, 1963. This anticipated increase has since become a reality. Effective July 1, premium rates of some 135,000 annuitants enrolled under the uniform plan will increase by about 15 percent. In the exercise of the discretion given it under the basic act, the Commission also decided to similarly increase the Government's contribution to these annuitants as well as to about 110,000 other annuitants enrolled in various qualified private plans. The increased contributions will become effective July 1, 1963. All of these annuitants must be notified of these developments. The necessary notices have been prepared for insertion and mailing with their annuity checks April 1.

Enactment of H.R. 3517 or H.R. 4820 will permit the exercise of discretion in determining the amount actually needed for administrative expenses each year and avoid the budget problem produced by the current provision which limits the Commission to 2 percent of Government contributions for administrative expenses, regardless of the actual requirements.

There are three main reasons why funds limited to 2 percent of Government contributions have been and in the future will be inadequate to cover administrative expenses:

One, annuitant participation has been substantially lower than was anticipated. We expected 95 percent participation, but only about 60 percent of eligible annuitants elected to participate. Lower participation means a correspondingly smaller Government contribution and less money available for administrative expenses.

Two, dealing with annuitants on health benefits matters has proved far more costly than was expected. Experience in dealing with these thousands of elderly people on a subject that is new to most of them has shown a continuing and disproportionately high level of activity due to enrollment changes, late enrollments, and correspondence—all stemming from the difficulty in communicating effectively with the retired group.

Three, this program involves a closed group which can only decrease with the passage of time. This natural decrease in the size of the group will mean a gradual reduction in both Government contributions and in administrative costs. Yet the characteristics of the group are such that Government contributions will decrease at a more rapid pace than will administrative costs. Thus, if the 2-percent limitation were to be retained, the budgetary problem would become increasingly acute from year to year.

I urge favorable consideration on the part of this committee.

I would be glad to answer any questions.

MR. UDALL. Thank you for your statement, Mr. Ruddock. The gentleman from Virginia.

Mr. BROYHILL. Yes. This 2-percent limitation, that applied just to the legislation we passed that brought the previously retired Federal employees into the health insurance program or the original health insurance program?

Mr. RUDDOCK. This applies to the second piece of legislation, Mr. Broyhill. The act of 1959 authorized the Commission to set up health benefit plans for employees who were then active employees. It also provided that they would continue in retirement with the same health benefit plan paying the same premium.

Mr. BROYHILL. That did not have the 2-percent limitation?

Mr. RUDDOCK. The 1959 act did not have the 2-percent limitation. Then in 1960, the act was passed authorizing the establishment of a health benefit plan and participation in private plans for people whose Federal service had ended before July 1, 1960. There were about 415,000 retired employees and survivors of deceased Federal employees, who were receiving annuity July 1, 1960, so they were ineligible to participate in the plan for active employees. It is for the retired employees that the limitation, the 2 percent, of Government contribution being available for administrative expenses applies.

Mr. BROYHILL. This original estimate that 95 percent would participate and then only 60 percent did actually choose to participate, do you have any idea why you had so many casualties or why such a small percentage participated?

Mr. RUDDOCK. It isn't something that we can definitely put our finger on. We were frankly amazed when the Government offered to make a contribution to help these people, most of them elderly, pay for their health benefits coverage, that the participation was not 95 percent or higher. We did get letters from a number of these people indicating, for example, "I am a veteran of the Spanish American War. As a veteran, I get all of the health care that I need."

We received similar replies from some World War I veterans. We got other letters in which there was an indication that some family member was working for an employer, and already had a plan that permitted participation for the whole family. So, this was not needed.

We also got letters from some of these people saying, "I am 92 years old. I have lived all of my life without any health benefits' coverage. I think I can get along for my few remaining years without it."

Probably a bigger reason, and this we just can't put our fingers on precisely, was lack of understanding on the part of these people. Mr. Walters, at the time that we were trying to get the word to these people, talked to dozens of groups of these elderly people. He can testify from his personal knowledge that you can tell them, you can tell them again and then they will ask a question indicating that the message just hasn't gotten through.

Now consider this difficulty in face-to-face conversation and then compare it with having to deal with most of these people by correspondence, where no matter how simply you write it, how simple you make it, it is not understood.

We had a number who did not reply.

Mr. BROYHILL. Mr. Ruddock, I think this is a most interesting point here because we have some people, you know, that run around here and insist on making everybody over 65 come under some compulsory form of health and hospitalization insurance. They say that

people over 65 can't support themselves, they can't adopt their own private voluntary plans.

Here we have a group of 415,000, I think, higher than average intelligence people—I think our Federal employees are higher than the national average as far as educational background, and so certainly retired employees should be—415,000 of them, all of whom are on some form of annuity and here is a plan that the Congress did approve, providing for Government participation in it and we only have a 60-percent acceptance.

I would like to know more in detail as to why we have that 40-percent casualty. I think the most acceptable reason that you gave, the one most acceptable to me, is the one I could see a little more clearly and that is the fact they failed to understand the benefits of the program and necessity of it. I think that is human nature. You do not like to pay out for some anticipated catastrophe that you don't anticipate. You do not like to anticipate such an event occurring and it may be we will have to do a great deal more salesmanship. Maybe this 2-percent administrative fee has got to be upped in order to provide some funds for selling the program and telling them about the program.

I think that more programs like this being enacted by private industry to bring their people in the years of retirement under some form of a health, hospitalization insurance system, would eliminate, not the necessity because it isn't necessary, but maybe the sales appeal a lot of people are using for socialized medicine.

Now those that are going into retirement, those that we approve or those that were in the original act, the active employees that had it in their years of retirement, what percentage of those are keeping their policies?

Mr. RUDDOCK. That is so close to 100 percent you cannot see the difference.

Mr. BROYHILL. Which does indicate, because they knew about the program, they kept it because they are the same type of people, once they go into retirement.

Mr. RUDDOCK. Yes, they have one big advantage and this is partly the reason that we attribute the low participation here to a problem of communication. The people who were still actively employed on July 1, 1960, had an opportunity for face-to-face conversation with 1 of the 43,000 agency people that the Civil Service Commission trained to explain the availability of the health benefits.

Mr. BROYHILL. You are emphasizing that the reason you dropped off 35 or 40 percent is because of lack of communication and the knowledge of the program?

Mr. RUDDOCK. We think that is the reason. We think that is particularly true because over and over again, we get a letter from a son or daughter who says:

I was going through father's or mother's papers and I found they sometimes say

unopened, a letter from the Civil Service Commission which explained the availability of health benefits coverage. Father just doesn't understand these things. Or, father isn't interested. Is it possible for father to come in and participate now?

So as far as participation is concerned, it is constantly open. We did not put any close-off date, so that if father, through a misunderstanding or lack of interest or whatever, did not elect to participate, he may come in at any time and take the basic coverage of the uniform plan or he may begin to participate in a privately sponsored plan and begin to receive the Government contribution, which helps him pay the premium.

We did put a close-off on the major medical portion of the uniform plan. I'm sure you will understand the reason why. If major medical were constantly open, we could expect the type of situation in which the average person would sign up for basic coverage only, which provides hospital room and board for 31 days, hospital extras, surgery under a fee schedule, and then at the first sign of a serious illness, would come in and say, "I will take the major medical and I will begin paying the premium now because I'm definitely going to need it." So, there had to be a close-off on the availability of the major medical portion. But, so far as participation in the program is concerned, that is constantly open.

Mr. UDALL. I have one question that I am sure we will face either in the full committee or when we reach the floor. If only 60 percent instead of 95 percent, as anticipated, decided to participate in this program, why haven't the administrative expenses been reduced correspondingly?

Mr. RUDDOCK. I think they have, sir. If we had had the 100 or 95 percent participation, our administrative expenses would have been higher than they are at the present time. We just underestimated the time and the cost of dealing with these people.

I have just a few figures which might help. We are currently receiving 200 changes in enrollment each week. This is a level of activity that you would not expect from a group this size. We would not expect it.

We are receiving 550 pieces of correspondence each week where they want some point explained or they want to ask some question.

We are still receiving 82 late enrollments per week. Now the original enrollment began in April of 1961, but we are still receiving 82 enrollments per week.

Mr. UDALL. Let me ask one further question in this connection. Should this legislation be passed, what is the approximate amount of additional appropriation that would be requested above the 2 percent? How much money are we talking about in considering the passage of these bills?

Mr. RUDDOCK. I think the figures that you indicated in your opening statement cover that point. The 2 percent would produce \$282,000.

Mr. UDALL. You actually received from the Appropriations Committee \$375,000, which did represent the approximate cost?

Mr. RUDDOCK. That is the approximate difference. In addition to the \$375,000, there is pending in the supplemental request, an authorization for the amount represented by the salary increases authorized by last year's law, which would put the figure, as I remember it, to \$393,100, just a little over \$390,000 total.

Mr. UDALL. So this coming fiscal year, if this bill is enacted, we are really talking about an additional Federal expenditure in the order of \$100,000 to \$150,000?

Mr. RUDDOCK. That is right, sir.

Mr. BROYHILL. Mr. Ruddock, how did we overcome this last year? Did we appropriate money?

Mr. RUDDOCK. The Appropriations Committee in the Independent Offices Appropriations Act said—I cannot remember the exact words—but the effect was notwithstanding the 2-percent limitation, we are authorizing \$375,000 for the administrative expenses of the Commission. This was done after consultation with this committee.

Mr. BROYHILL. Which was actual legislation on the appropriations bill, was it not? Actually, we could continue under this same system.

Mr. RUDDOCK. We could, except that we are in the somewhat awkward position of having substantive law fix the limitation at 2 percent and we would then be relying on the exercise of the discretion by the Appropriations Committee to in effect override the substantive provision once a year.

Mr. BROYHILL. Isn't what we are doing really making legitimate what the Appropriations Committee did last year?

Mr. RUDDOCK. I think that is a good explanation.

Mr. UDALL. I think the gentleman from Virginia has hit the point precisely. It is a question whether we are going to continue with this 2-percent limitation or remove it so that the appropriations people each year can realistically decide what is necessary. In that connection, could you tell me the amount that will be asked this year in the 1964 budget? It was \$375,000 last year?

Mr. RUDDOCK. I believe \$392,000.

Mr. UDALL. \$392,000 would be requested this year.

Mr. RUDDOCK. May I point out that the action taken in the appropriations side of the Congress was taken after consultation with the House Post Office and Civil Service Committee and after agreement by the chairman of this committee, that he would not object to that course of action last year, but did expect substantive legislation to be submitted for early consideration by this committee.

Mr. UDALL. Did counsel have any inquiries here?

Mr. MARTINY. The only other thing I might point out is that this is the same procedure that is followed under the Life Insurance Act and the regular employees Health Benefits Act, that is, that there is no 2-percent limitation and the administrative expense authorization is the amount that is fixed by the Appropriations Committee and this language will bring this program in line with the other programs.

Mr. RUDDOCK. That is right. There is no arbitrary limitation whatsoever on the Life Insurance Act. On the Health Benefits Act for active employees, the amount basically authorized by the law for administrative expenses of the Commission is 1 percent of the employee and agency contribution. But the administrative expenses on that are running so far below that figure, we are closer to one-tenth of 1 percent than we are to the 1 percent that is basically authorized, so we live within a lesser limitation which is fixed each year in the Appropriations Act.

Mr. MARTINY. But that 1 percent is not in the substantive law, is it, of the Employees Health Benefits Act?

Mr. RUDDOCK. There is a specific provision in the act for an amount equal to 1 percent of the employee deductions and agency contributions that are deposited in the fund for the purpose of covering the administrative expenses of the Commission. It does not state it as

flatly and as rigidly as the Retired Health Benefits Act. This makes the entire fund available for that purpose, as you point out. Section 8(B) reads:

Portions of the contributions made by employees, annuitants and the Government, shall be regularly set aside in the fund as follows:

(1) A percentage not to exceed 1 percent of all such contributions determined by the Commission as reasonably adequate to pay the administrative expenses made available by section 9.

We have construed that as fixing a top limit of 1 percent on administrative expenses. Actually, the amount which has been fixed in annual appropriation acts has been far below the 1 percent.

Mr. UDALL. Does that answer your inquiry?

Mr. MARTINY. Yes.

Mr. UDALL. Any further questions? The gentleman from Virginia?

Mr. BROYHILL. No.

Mr. UDALL. Mr. Ruddock, I want to thank you for your appearance here and very effective testimony and explanation of this bill.

Are there any further witnesses to be heard?

I would ask unanimous consent and without objection, the statement of Mr. John McCart, which has no date on it, but is directed to this subcommittee, be made a part of the record at this point.

(This statement follows:)

STATEMENT OF THE GOVERNMENT EMPLOYEES' COUNCIL, AFL-CIO

Mr. Chairman and members of the subcommittee the 24 AFL-CIO member unions of the council representing Federal postal, classified, and wage board employees recommends approval of this legislation by the subcommittee.

We view the purpose of the legislation as a means of enabling the Civil Service Commission to operate the retired employees' health benefits program on the basis of actual administrative cost, rather than a fixed percentage limitation of the Federal Government's contribution to the plan.

When the health insurance law was enacted for active workers and later for annuitants, it was recognized that the project represents an unusual experiment. The combined programs covering almost 3 million primary beneficiaries is the largest of its kind in the world. As a result, a conservative approach was adopted because none could foresee all of the contingencies.

This was the case with the retired employees' plan. Congress fixed the limit on administrative expenses at 2 percent. However, the Commission could not anticipate fully the difficulties it would encounter in putting the program into operation.

Initially, it was expected that 95 percent of the eligible annuitants would enroll in the plan. Only 60 percent chose to accept the coverage offered.

In addition, unusual problems were encountered in locating retired individuals, the number of inquiries by annuitants exceeded the expected volume and unusual difficulty was experienced in communicating with retired individuals.

The result was that Congress was asked to appropriate funds to meet essential administrative expenses beyond the 2 percent. The House and Senate concurred.

The Civil Service Commission has announced that it anticipates a 15-percent increase in premiums effective in July 1963, based upon the annuitants' use of benefits under the program and the rising cost of medical, surgical and hospital care. As for the need for the proposed increase, we must reserve judgment. If an upward adjustment in premiums does occur, however, a substantial increase in workload and additional expense will be incurred in administering this aspect of the annuitants' statute. The experience in installing the plan initially makes this clear.

As a means of meeting the problem, the pending bill proposes elimination of the present statutory 2-percent limitation on administrative expenses and substitution of an annual ceiling in the appropriations act.

It is our view that the solution advanced in H.R. 3517 and H.R. 4820 is reasonable. In addition to making funds available on the basis of the actual needs of the retirees' act, Congress will retain the opportunity to review the fiscal aspects of this program which is vital to hundreds of thousands of civil service annuitants.

We commend this legislation to your favorable consideration.

The Government Employees' Council is happy to have the opportunity to comment on the two measures which are the subject of this hearing.

Mr. UDALL. There being nothing further to come before this subcommittee, the subcommittee will stand adjourned.

(Whereupon, at 11:05 a.m., the subcommittee was adjourned.)



