

1022

89/44
884/10
In 7/9

Y 4
. P 84/10
In 1/9

IMPROVED LIFE INSURANCE BENEFITS



HEARINGS
BEFORE THE
COMMITTEE ON RETIREMENT, INSURANCE,
AND HEALTH BENEFITS
OF THE
COMMITTEE ON
POST OFFICE AND CIVIL SERVICE
HOUSE OF REPRESENTATIVES
EIGHTY-NINTH CONGRESS

SECOND SESSION

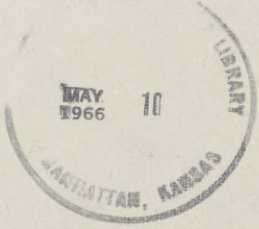
ON

H.R. 11879, H.R. 13723, and related bills

BILLS TO PROVIDE FOR IMPROVED BENEFITS UNDER THE
FEDERAL EMPLOYEES' GROUP LIFE INSURANCE ACT OF 1954,
TO STRENGTHEN THE FINANCIAL CONDITION OF THE FUND
CREATED BY SUCH ACT, AND FOR OTHER PURPOSES

FEBRUARY 15, 16, AND APRIL 1, 1966

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



U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1966

59-466

COMMITTEE ON POST OFFICE AND CIVIL SERVICE

TOM MURRAY, Tennessee, *Chairman*

JAMES H. MORRISON, Louisiana
THADDEUS J. DULSKI, New York
DAVID N. HENDERSON, North Carolina
ARNOLD OLSEN, Montana
MORRIS K. UDALL, Arizona
DOMINICK V. DANIELS, New Jersey
LINDLEY BECKWORTH, Texas
ROBERT N. C. NIX, Pennsylvania
JOE R. POOL, Texas
WILLIAM J. GREEN, Pennsylvania
SPARK M. MATSUNAGA, Hawaii
PAUL J. KREBS, New Jersey
RAYMOND F. CLEVENGER, Michigan
JAMES M. HANLEY, New York
JOHN V. TUNNEY, California
CHARLES H. WILSON, California

ROBERT J. CORBETT, Pennsylvania
H. R. GROSS, Iowa
GLENN CUNNINGHAM, Nebraska
EDWARD J. DERWINSKI, Illinois
ROBERT F. ELLSWORTH, Kansas
ALBERT W. JOHNSON, Pennsylvania
JOHN H. BUCHANAN, Jr., Alabama
JAMES T. BROYHILL, North Carolina

CHARLES E. JOHNSON, *Staff Director*
B. BENTON BRAY, *Associate Staff Director*
JOHN H. MARTINY, *Counsel*
WILLIAM A. IRVINE, *Assistant Staff Director*
THEODORE J. KAZY, *Senior Staff Assistant*

SUBCOMMITTEE ON RETIREMENT, INSURANCE, AND HEALTH BENEFITS

DOMINICK V. DANIELS, New Jersey, *Chairman*

LINDLEY BECKWORTH, Texas
WILLIAM J. GREEN, Pennsylvania
SPARK M. MATSUNAGA, Hawaii
RAYMOND F. CLEVENGER, Michigan
JAMES M. HANLEY, New York

GLENN CUNNINGHAM, Nebraska
H. R. GROSS, Iowa
JOHN H. BUCHANAN, Jr., Alabama

Ex Officio Voting Members

TOM MURRAY, Tennessee

ROBERT J. CORBETT, Pennsylvania

CONTENTS

Statement of—

Brady, John C., legislation chairman, National Association of Internal Revenue Employees-----	Page 52
Dulski, Hon. Thaddeus J., a Representative in Congress from the State of New York-----	5
Goodman, Sidney A., president, National Postal Union, accompanied by David Silvergleid, secretary-treasurer-----	58
Griner, John F., president, American Federation of Government Employees, accompanied by Thomas G. Walters, special assistant to the president for legislation, and W. J. Voss, director of research--	45
Huffman, Floyd, president, National Rural Letter Carriers' Association, accompanied by Carey W. Hilliard, vice president, and John W. Emeigh, secretary-----	73
Jaspan, Daniel, legislative representative, National Association of Postal Supervisors-----	63
Jones, Roger W., Special Assistant to the Director, Bureau of the Budget, accompanied by David McAfee, of the Bureau staff-----	22
Karsten, Hon. Frank M., a Representative in Congress from the State of Missouri-----	2
Lasseter, Dillard, legislative counsel, Organization of Professional Employees, Department of Agriculture-----	76
McAvoy, Harold, national president, National Association of Post Office Mail Handlers-----	58
McCart, John, operations director, Government Employees' Council, AFL-CIO-----	66
Macy, Hon. John W., Jr., Chairman, U.S. Civil Service Commission, accompanied by Andrew E. Ruddock, Director of the Bureau of Retirement and Insurance-----	6, 88
Messer, Ross A., legislative representative, National Association of Post Office and General Services Maintenance Employees-----	78
Murphy, John J., national president, National Customs Service Association-----	69
Nilan, Patrick J., legislative director, United Federation of Postal Clerks, accompanied by Joseph F. Thomas, director of organization--	53
Olsen, Hon. Arnold, a Representative in Congress from the State of Montana-----	18
O'Toole, James, president, National Association of Postmasters, accompanied by Lemuel Houston, legislative chairman, and John P. Snyder, executive director-----	71
Pepper, Hon. Claude, a Representative in Congress from the State of Florida-----	20
Rademacher, James H., vice president, National Association of Letter Carriers; accompanied by J. Stanley Lewis, secretary-treasurer, and Charles N. Coyle, assistant secretary-treasurer-----	31
Stoffer, Henry J., president, National League of Postmasters-----	77
Tarr, Clarence M., president, National Association of Retired Civil Employees, accompanied by John Overholt, legislative counsel-----	81
Wolkomir, Nathan T., president, National Federation of Federal Employees, accompanied by Harold E. Finnegan, legislative employee relations assistant-----	36
Communications submitted by—	
Macy, Hon. John W., Jr., Chairman, U.S. Civil Service Commission, to Hon. Tom Murray, Chairman, Committee on Post Office and Civil Service, letters dated:	
September 10, 1965-----	3
February 14, 1966-----	6
March 31, 1966-----	88
Hughes, Phillip S., Assistant Director for Legislative Reference, Bureau of the Budget, to Hon. Tom Murray, Chairman, Committee on Post Office and Civil Service, letters dated:	
September 10, 1965-----	4
February 14, 1966-----	23

IMPROVED LIFE INSURANCE BENEFITS

TUESDAY, FEBRUARY 15, 1966

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON RETIREMENT,
INSURANCE, AND HEALTH BENEFITS OF THE
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
Washington, D.C.

The subcommittee met at 10 a.m., in room 215, Cannon Building, the Honorable Dominick V. Daniels (chairman of the subcommittee) presiding.

Mr. DANIELS. The Subcommittee on Retirement, Insurance, and Health Benefits will now come to order.

The subcommittee is meeting this morning to receive testimony on H.R. 11879 and related bills, to provide for improved benefits under the Federal Employees' Group Life Insurance Act of 1954, and to strengthen the financial condition of the fund created by such act.

This legislation proposes the first substantial change in the Life Insurance Act since its passage in 1954—a program that millions of Government employees and their families heavily depend upon for a major part of their insurance protection. Many Members of Congress have indicated their interest in and concern for the progress of this program during its 12-year history, as demonstrated by the number and scope of bills that have been introduced to improve and update its provisions.

This legislation offers an answer to the needs of the life insurance program, and to the objectives of a progressive program that is adequate and meaningful, and one which serves the best interests of both the employee and the Government.

This legislation proposes to provide—

(1) An increase of at least 50 percent in life insurance coverage by increasing a Federal employee's coverage from 100 percent of annual salary to 150 percent thereof, plus an equal amount of accidental death and dismemberment insurance;

(2) An increase in the present limitation of \$20,000 of coverage to \$45,000, such limitation applying to salaries that exceed \$29,000;

(3) A modification of the reduction of coverage after retirement from a monthly depreciation of 2 percent to 1 percent, and from the present minimum value of 25 percent to a minimum of 50 percent of face value, thereby guaranteeing a death benefit of at least three-fourths of a retiree's final salary;

(4) A requirement that the Government contribution, which now is one-third of the premium costs, be increased to one-half of total premiums, thereby providing the improved benefits by

increasing the Government's biweekly payments from 12½ cents to 30 cents and the employee's payments from 25 cents to 30 cents per \$1,000 of coverage.

Before receiving the testimony of our first witness, the Chair desires to announce that in the event time does not permit all direct testimony to be received upon adjournment of the subcommittee tomorrow, additional witnesses will be heard at 10 o'clock, Thursday, February 17, rather than on Friday, February 18, as previously announced. The Chair requests the cooperation of all witnesses to this end in the presentation of their statements.

The Chair desires to call as the first witness the Honorable Frank M. Karsten, Representative in Congress from the State of Missouri.

Mr. Karsten, the Chair desires to welcome you here. I understand you were a former member of this committee, Congressman.

STATEMENT OF HON. FRANK M. KARSTEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI

Mr. KARSTEN. It is always a pleasant experience to visit the Committee on Post Office and Civil Service. Several years ago, before I was elected to the Committee on Ways and Means, it was my privilege to serve on this great committee. I look back on my service and associations here with many fond memories and I must admit, with a tinge of regret. If it were not for the fact that the rules of the House prohibit dual service on committees, I might be sitting here this morning.

I appear here this morning in support of H.R. 11879 and, also, to urge that this bill be amended to provide insurance coverage for reemployed annuitants.

Under the existing Insurance Act, the Civil Service Commission has generally excluded from coverage, retired employees and reemployed under conditions not terminating their title to annuities. For insurance purposes, retirees fall into two broad classifications upon reemployment in the Government; those who lose title to annuity when reemployed and those who retain their annuity title while reemployed. Retirees who lose annuity title upon reemployment are treated for insurance purposes the same as new employees and present no problem insofar as insurance is concerned.

However, there is a small number of retirees who retain annuity title while employed and they are excluded from insurance coverage. In these cases the annuity is suspended or the salary is reduced by the amount of annuity. Most of those reemployed workers serve for brief periods and are properly excluded as are other temporary employees but others serve for substantial periods and are proper subjects for insurance coverage as active employees.

I should like to call attention of the committee to legislation I have proposed, H.R. 2052, to extend insurance benefits to these employees, and urge the inclusion of some language along these lines in the pending insurance bill.

The Bureau of the Budget has indicated there would be no opposition to the enactment of such a proposal providing it is modified with a clarifying amendment respecting termination of free insurance upon reemployment. The Civil Service Commission holds the same view and Chairman Macy, in his letter of September 10, 1965, to the

chairman of the Committee on Post Office and Civil Service, concluded his report with the following comment:

If amended as suggested, the Commission favors enactment of H.R. 2052.

I appreciate the time the committee has given me this morning. I know you have many witnesses to be heard. I don't wish to trespass further on your time, but I do urge you to consider the suggestion I have advanced with reference to this small group of employees.

Mr. DANIELS. Mr. Karsten, H.R. 2052 is the bill you previously introduced?

Mr. KARSTEN. It is, Mr. Chairman.

Mr. DANIELS. Do you have a copy of Commissioner Macy's letter?

Mr. KARSTEN. I do have a copy of his letter. If it would please the committee, I would be glad to submit it for the record and, if I may, ask unanimous consent to include it and the report of the Bureau of the Budget.

Mr. DANIELS. Without objection, they will be received.

(The letters follow:)

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., September 10, 1965.

HON. TOM MURRAY,
*Chairman, Committee on Post Office and Civil Service,
House of Representatives.*

DEAR MR. CHAIRMAN: This refers further to your request for Commission report on H.R. 2052, a bill to extend the benefits of the Federal Employees' Group Life Insurance Act of 1954 to certain retired employees reemployed under conditions not terminating title to annuity.

Section 2(a) of the Insurance Act authorizes the Commission to exclude employees from coverage "on the basis of the nature and type of employment or conditions pertaining thereto such as, but not limited to, short-term appointments, seasonal or intermittent employment, part-time employment, and employment of like nature." Under this authority the Commission has, by regulation in effect since the group program began in 1954, excluded from coverage (with one exception not here material) "retired employees reemployed under conditions not terminating their title to annuities."

For insurance purposes, retirees fall into two broad classifications upon reemployment in the Government; those who lose title to annuity when reemployed, and those who retain their annuity title (usually with annuity suspended or salary reduced by the amount of annuity) while reemployed. Retirees who lose annuity title upon reemployment are treated for insurance purposes the same as new employees and present no problem requiring amendatory legislation.

H.R. 2052 deals with retirees who retain annuity title while reemployed and are excluded from insurance coverage by Commission regulation. Most of these reemployed retirees serve for relatively brief periods and are thus rightly excluded as are other temporary employees, but others serve for substantial periods and are proper subjects for insurance coverage as active employees. Because some carried free insurance into retirement and others did not, however, the problem of extending insurance coverage to proper cases cannot be adequately solved by administrative action. The Commission has authority to exclude only on the basis of conditions of employment, and could not distinguish between insured and uninsured retirees. Further, since insurance approximates current annual basic salary, recognition of a larger amount previously carried into retirement would not be possible.

H.R. 2052 incorporates an amendment to insure this type of individual. Effective on enactment, the amendment would extend to the reemployed retiree (already serving or thereafter hired under an appointment for regular non-temporary service) insurance under the following conditions:

1. Any free life insurance held as a retiree would cease.
2. He would have group life insurance (plus accidental death and dismemberment insurance) in relation to the gross annual basic salary of his reemployment position, for which he and his agency would pay at the regular rates.

3. If, after separation, his reemployment service forms the basis for increased annuity, he would be considered as again retiring and (if qualified) retain life insurance without further cost.

4. In the event of death, either during or after separation from reemployment, the amount of life insurance payable could never be less than the amount which would have been paid had he not been reemployed.

5. If, after separation, his reemployment service does not form the basis for increased annuity, any free life insurance previously held as a retiree would be reinstated. If not previously insured as a retiree, his group insurance would cease upon separation, subject to a 31-day extension of life insurance during which time he could convert (without medical examination) all or any part of it to a commercial policy of life insurance at standard premium rate.

6. The conversion privilege would be available in all cases at separation from reemployment, so that the individual entitled to retention or reinstatement of free insurance could forgo it and convert to a commercial policy if he considered such action to his advantage.

We suggest that subsection (b) of the bill be amended by striking all wording after the word "cease" on line 3, page 2 and inserting in its place the following: "if he again becomes eligible to be insured as an employee. Unless he gives written notice that he desires not to be insured, the amount of life insurance which shall be paid after his death shall in no case be less than the amount which would have been paid if he had not been reemployed."

Present wording leaves the way open for a reemployed annuitant, insured as a retiree, to waive coverage before becoming insured as an employee and to contend that his free insurance did not cease because he did not again become "insured as an employee." While it is clear from the terms of section 5(a) of the Insurance Act that an election not to be insured results in cessation of all insurance "under the policy"—which would include free insurance held as a retiree—a case such as this would present a problem which might require action by the courts to determine the intent. The suggested amended wording would operate to stop the free insurance held as a retiree if the individual again became eligible for insurance as an employee and any waiver of the employee coverage would mean cessation of all insurance under the policy.

We are unable to furnish an estimate of the cost of the bill, as we do not know the number of reemployed annuitants or their present insurance status. Since the insurance program has been in effect more than 11 years, it seems reasonable to assume that the great majority are already insured. Added benefit cost could result from increasing the present amount of insurance because of a higher salary, and full or partial elimination of past reductions. Employee deductions and agency contributions during reemployment would partially offset this added cost, which in the aggregate should be relatively small.

If amended as suggested, the Commission favors enactment of H.R. 2052.

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

By direction of the Commission:

Sincerely yours,

(Signed) JOHN W. MACY, Jr.,
Chairman.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., September 10, 1965.

Hon. TOM MURRAY,
Chairman, Committee on Post Office and Civil Service, House of Representatives,
213 Cannon House Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: Reference is made to the committee's request for the views of the Bureau of the Budget respecting H.R. 2052, a bill to extend the benefits of the Federal Employees' Group Life Insurance Act of 1954 to certain retired employees reemployed under conditions not terminating title to annuity.

The purpose of the bill is to extend life insurance coverage to reemployed annuitants who retain title to annuity while reemployed. At the present time, these annuitants are not permitted to be insured as active employees, although other retirees, employed under conditions terminating title to annuity, are able to participate in the insurance program as active employees.

H.R. 2052 would provide life insurance coverage as active employees for such reemployed annuitants, terminating any free insurance held as a retiree, based

on previous service, during reemployment. In the event of death, the insurance payable would be no less than the amount which would have been payable had reemployment not occurred.

In a report which the Chairman of the Civil Service Commission is submitting to your committee on this bill, favorable to its enactment, he suggests a clarifying amendment respecting termination of free insurance on reemployment.

There would be no objection from the standpoint of the administration's program to enactment of H.R. 2052, modified as suggested by the Civil Service Commission.

Sincerely yours,

(Signed) PHILLIP S. HUGHES,
Assistant Director for Legislative Reference.

Mr. DANIELS. Any questions, Mr. Hanley?

Mr. HANLEY. No. I want to commend Mr. Karsten on his fine report and, certainly, it is going to assist greatly in the deliberations on this matter. Thank you.

Mr. KARSTEN. Thank you very much. Thank you, Mr. Chairman.

Mr. DANIELS. Our next witness is an esteemed member of the Post Office and Civil Service Committee, the Honorable Thaddeus J. Dulski, Member of Congress from the 41st District of the State of New York.

STATEMENT OF HON. THADDEUS J. DULSKI, REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. DULSKI. Mr. Chairman, I am deeply grateful to you and this subcommittee in permitting me to state my views on my bill, H.R. 3150. I applaud the subcommittee's consideration of this worthwhile legislation in the early days of this session of Congress. I am particularly gratified that your bill, H.R. 11879, incorporates the provision of my bill to modify the depreciation of coverage after retirement.

Mr. Chairman, I am but one of many Members of Congress who feel that the Federal employees' group life insurance program, with over a decade of successful operation, has matured to the point that a review of its experience is timely. The legislation under consideration today—proposals that would constitute the first material change in the program since its enactment—certainly fulfills the needs of a program that, ideally, should be progressive.

The life insurance program is one that was designed to fill a need for Federal employees, and a need of the Federal Government in 1954. In its time it has become a program that many, if not most, Federal employees rely upon as the greater part of their total life insurance program. To think of a program that was newborn in 1954 as one that is adequate for the needs of today and the future is, indeed, a superficial view.

The establishment of the life insurance program, although somewhat late in conception, was most certainly a progressive step forward. Not only did it offer an important fringe benefit of employment, but was in keeping with long-established practices of private industry. I wonder, however, whether the Government, in its role of a model employer, is as forward-looking in this respect as is the business community, particularly when it is a well-known fact that private enterprise, if not paying the entire cost of life insurance coverage, is at least contributing half of the premiums.

I believe that the Government of the wealthiest country on earth should be able to at least equal the standards provided in the private

sector of our Nation. I believe it is financially practical and desirable to grant better insurance coverage, and that it is possible to do so without creating an undue financial burden on either the Government or the Federal employee.

Mr. Chairman, I commend you and my colleagues on this subcommittee for your forward-looking approach to a problem which is of the utmost concern to the vast majority of Federal employees and their families. There is a distinct need for this legislation, and I assure you of my fullest support in obtaining its enactment.

Mr. DANIELS. Thank you, Congressman Dulski.

Our next witness is the Honorable John W. Macy, Jr., Chairman of the U.S. Civil Service Commission, accompanied by Mr. Andrew E. Ruddock, Director of the Bureau of Retirement and Insurance.

**STATEMENT OF HON. JOHN W. MACY, JR., CHAIRMAN OF THE
U.S. CIVIL SERVICE COMMISSION, ACCOMPANIED BY ANDREW
E. RUDDOCK, DIRECTOR OF THE BUREAU OF RETIREMENT
AND INSURANCE**

Mr. MACY. Mr. Chairman, thank you very much. It is a pleasure for us to appear before you again to testify for the Civil Service Commission in connection with your consideration of this legislation to amend the Federal employees' group life insurance program.

The Commission's report to the chairman of the full committee dated February 14, 1966, sets forth our official position on the Insurance Act amendments proposed by the bill. With your permission, Mr. Chairman, I suggest that the report be incorporated in the record of the proceedings at this point.

Mr. DANIELS. Without objection, it is so ordered.

(The report follows:)

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., February 14, 1966.

HON. TOM MURRAY,
*Chairman, Committee on Post Office and Civil Service,
House of Representatives.*

DEAR MR. CHAIRMAN: This refers further to your requests for Commission report on H.R. 11879, H.R. 12045, and H.R. 12129, identical bills to provide for improved benefits under the Federal Employees' Group Life Insurance Act of 1954, to strengthen the financial condition of the fund created by such act, and for other purposes.

Under the Insurance Act, covered employees now have group life insurance, and accidental death and dismemberment insurance, each in an amount, not exceeding \$20,000, equal at all times to the annual basic salary rate raised to the next higher \$1,000 unless the salary rate is a multiple of \$1,000, in which case the insurance amount is exactly equal to salary. Employees pay for their insurance at a Commission-determined rate which by law cannot exceed 25 cents biweekly for each \$1,000 of life insurance. The Government contributes, from agency appropriations, at a Commission-determined rate which by law may not exceed one-half the rate set for employees. Since the program began in 1954, the Commission has prescribed 25 cents and 12½ cents, the statutory maximums, as the respective biweekly contribution rates for each \$1,000 of life insurance.

These contributions cease when an employee separates, but if retired on an immediate annuity either for disability or after at least 12 years' Federal service, he may retain his life insurance protection (not accidental death and dismemberment insurance) after retirement without further payment for it. Although the coverage after retirement operates without further contribution by the retiree or the Government, the face amount of life insurance held at retirement is subject to reduction at the rate of 2 percent each month starting the second month after retirement date or the second month after the retiree reaches age 65, which-

ever is later. The 2 percent monthly reduction stops after a maximum reduction of 75 percent has been applied, leaving in force thereafter 25 percent of the life insurance held by the employee at time of retirement.

Each of these bills proposes four changes in the Insurance Act, as follows:

1. Effective upon enactment (and not applicable to anyone who died, separated, or retired before that date) the insurance amounts available under the program would be raised by 50 percent, affording life insurance (plus a like amount of accidental death and dismemberment insurance) equal at all times to annual basic salary raised to the next higher \$1,000, multiplied by 1½. This would produce a schedule of insurance amounts ranging from \$1,500 up to a maximum of \$45,000.

2. Effective upon enactment the statutory maximum on the employee contribution rate would be raised by 5 cents, giving the Commission authority to set employee payments at a rate not exceeding 30 cents biweekly for each \$1,000 of life insurance.

3. Effective the first pay period beginning on or after July 1, 1966, the Government would be required to contribute from agency appropriations at a rate equal to the biweekly rate set for employees' contributions for each \$1,000 of life insurance.

4. Effective the first pay period beginning on or after July 1, 1966, the rate and extent of the after-age-65 reduction in the free life insurance of retirees would be lowered from 2 percent to 1 percent monthly, and the reduction would stop at 50 percent rather than 75 percent of the face value of life insurance held at retirement.

Under the normal rule of statutory construction the above change in the after-65 reduction of the insurance of retirees would apply prospectively from and after the stated effective date, and would have no effect on the case of anyone who died, or was separated or retired prior to that date. To make this unmistakably clear and also to make the changes in respect to employee-employer contribution rates effective at the same time, we would suggest the following technical revision in the effective date provisions of these bills:

"SEC. 2. (a) Subsection (a) of the first section of this Act shall become effective upon date of enactment, but shall have no effect for the purpose of determining the amount of insurance payable for the death or dismemberment of any person who died, retired, was separated or otherwise ceased to be insured, prior to such date of enactment.

"(b) Subsections (b) and (c) of the first section of this Act shall become effective the first day of the first pay period which begins on or after July 1, 1966.

"(c) Subsection (d) of the first section of this Act shall become effective July 1, 1966, but shall have no effect in the case of any person who died, retired, was separated or otherwise ceased to be insured, prior to such effective date."

Financing and costs of proposals

[Biweekly rates per \$1,000 of life insurance—In cents]

	Present program	Proposed program	Increase
Level cost	44.8	56.2	11.4
Premium income	37.5	56.2	18.7
From employee	25.0	28.1	3.1
From agencies	12.5	28.1	15.6

[Total annual costs—In millions]

	Present program	Proposed program	Increase
Level cost	\$212.2	\$400.0	\$187.8
Premium income	177.6	400.0	222.4
From employee	118.4	200.0	81.6
From agencies	59.2	200.0	140.8

¹ Actuarial valuation of the group life insurance program as of June 30, 1964, showed 44.8 cents to be the total level biweekly premium per \$1,000 of life insurance required to adequately finance the existing program on a permanent basis.

Group life insurance for Federal employees is an important fringe benefit, but it is only one part of a large and expensive package of benefits. The cost of benefits for civilian personnel has become so significant, both in absolute terms and in comparison to similar expenditures in industry, that additional measures require careful scrutiny. The President's Special Panel on Federal Salaries in 1965 called attention to the seriousness of this problem. Consideration of new proposals on a piecemeal basis is no longer adequate. Costs and benefits must be considered in their long-term implications and in relation to total compensation, to assure that the benefits meet employee needs and that costs are reasonable in terms of comparability with compensation in non-Federal employment.

The total cost of benefits supplementary to pay for both civilian and military personnel is difficult to determine reliably, but it now appears to exceed \$7 billion per year. Since most benefits by their terms are linked to salary, their cost tends to increase each year. In retirement, for example, annuities are based on high-5 average salary of civilian or final base pay of military personnel, and they are automatically raised if living costs rise after retirement; so their ultimate costs will inevitably exceed estimates based on present pay levels. Insurance and leave benefits are subject to the same sort of escalation. Hence the long-term cost implications of each liberalization of benefits is a matter of serious concern.

If Federal benefits are considered in comparison with industry, the concern and need for careful appraisal of the total fringe benefit picture in making program changes is reinforced. In his testimony before your committee June 10, 1965, on pay legislation, Mr. Ewan Clague, the then Commissioner of Labor Statistics, Department of Labor, cited that the President's Special Panel on Federal Salaries had concluded in 1965 that "there now appears to be approximate overall equality" between Government and private enterprise with respect to expenditures for white-collar workers. He indicated that total expenditures for fringe benefits for these workers in private industry and for classified Federal employees amounted to nearly 25 percent of payroll.

As a consequence, new commitments for Federal fringe benefits must be searchingly assessed to assure that total compensation of Federal and non-Federal employees remains substantially comparable. The total fringe benefit package must be considered also in relation to its values for different groups of employees. Benefits at present are, in practice, most valuable for long-term employees. This policy has much to recommend it; it provides reward for long service and encourages stability of experienced personnel. Leave provisions are particularly liberal for employees with more than 15 years of service. Retirement credits mount rapidly after 10 years of service, and the whole system encourages service of 30 years or more. Life insurance gains value as the employee's pay rises with longer service; and both life insurance and health benefits extend coverage into retirement for employees with over 12 years of service. Hence the career employee derives special benefits from existing provisions which tend to fulfill much of the financial need attendant upon his last illness and death.

Conversely, the benefits have less value for shorter term employees, especially for the large numbers of young people in Government. For example, in 1965, insurance payments on behalf of employees who died in their twenties averaged \$6,000, while payments for those who died at the end of their careers, between 60 and 65, averaged close to \$7,500. Thus the older employee profits most from the low group rate and from the Government's contribution. Increase in the life insurance therefore will result in increased Government expenditure for the employees who already enjoy the most favored position and will again do little for those whose protection remains so faulty at present.

The Government's group life insurance program was planned and created to supplement employees' private insurance programs—not to constitute a substitute therefor. The earnings-schedule plan incorporated in this program provides a sound economic basis for amount of insurance. This extension-of-pay concept considers group life insurance as the proper medium to, in effect, continue an employees' salary for a year after his death. The Commission views this approach as adequate at the present time, and is unable to favor increasing coverage, thereby minimizing or in some cases obviating the need for private programs, through either (a) prescribing a minimum figure or (b) raising each employee's insurance by a flat amount or by relating it to salary for more than 1 year. It also considers as reasonable under the circumstances the statutory provision limiting Government contributions to half that paid by employees.

The proposal to lower the rate and extent of the after-age-65 reduction in the free insurance of retirees is particularly unjustifiable. The rise from 44.8 cents to 56.2 cents in the level biweekly cost per \$1,000 of insurance involved in these proposals would be attributable solely to this feature. The proposed change is contrary to the basic purpose of the life insurance program, which is intended to

provide its maximum protection at ages when family obligations, and the need in case of death, are greatest. This feature is objectionable also because it would favor a particular group, older employees nearing retirement who have contributed the least, and provide no immediate benefit for younger employees who would continue in the service, paying premiums at the higher rate the change would require. The Commission strongly opposes any change in the after-65 reduction in retirees' insurance.

Our opposition to these bills does not mean we oppose needed constructive changes in the insurance program. Its financing should be improved without delay. The present total biweekly premium income of 37½ cents per \$1,000 of insurance is 7.3 cents below the amount required to pay all insurance benefits on a long-range basis. We urge amending the Insurance Act to give the Commission authority to adjust contribution rates as necessary to meet the estimated level premium cost, subject to maintaining the existing 2-to-1 ratio for sharing costs as between employees and Government. An appropriate change to this end would be a provision raising the maximum biweekly employee contribution rate to 35 cents. With this added authority, the Commission would expect to prescribe 30 cents and 15 cents as the employee and Government contribution rates effective the first pay period starting on or after July 1, 1966.

Also, the existing \$20,000 maximum on insurance, set 11 years ago, is unrealistic and discriminatory in terms of today's top Government salary levels. We recommend amending the law to set a maximum which would be based upon and adjusted automatically to correspond to the salary assigned by law to level II of the Federal executive salary schedule—currently \$30,000.

Enactment of these improvements, embodied in the attached substitute draft bill, would not alter the existing 44.8-cent level biweekly premium cost of insurance and would result in an added annual cost to Government of about \$12 million.

In summary, the Commission opposes the enactment of any of the features contained in these subject bills. The Commission believes that (1) insurance amounts should continue to approximate 1 year's salary, (2) cost-sharing between employee and Government should remain on the existing two-thirds, one-third basis, and (3) no change should be made in the reduction applied to retirees' insurance after age 65.

The Commission strongly recommends early enactment of the amendments proposed in the substitute draft, to provide urgently needed improvement in the financing of the insurance program and to raise the maximum on insurance to a realistic level.

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

By direction of the Commission:

Sincerely yours,

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

SUBSTITUTE DRAFT

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) section 3(a) of the Federal Employees' Group Life Insurance Act of 1954, as amended (5 U.S.C. 2092(a)), is amended (1) to substitute the following text immediately before the colon: "Each employee to whom this Act applies shall be eligible to be insured for an amount of group life insurance, approximating his annual compensation, not exceeding the annual rate of compensation assigned by law to level II of the Federal executive salary schedule, plus an equal amount of group accidental death and dismemberment insurance, in accordance with the following schedule, which shall be extended automatically to correspond to any increase in the rate of annual compensation assigned by law to level II of the Federal executive salary schedule", and (2) to extend the schedule beginning with the last line thereof to read:

"19, 000	20, 000	20, 000	20, 000
20, 000	21, 000	21, 000	21, 000
21, 000	22, 000	22, 000	22, 000
22, 000	23, 000	23, 000	23, 000
23, 000	24, 000	24, 000	24, 000
24, 000	25, 000	25, 000	25, 000
25, 000	26, 000	26, 000	26, 000
26, 000	27, 000	27, 000	27, 000
27, 000	28, 000	28, 000	28, 000
28, 000	29, 000	29, 000	29, 000
29, 000	-----	30, 000	30, 000"

(b) Section 5(a) of such Act, as amended, is amended by substituting the figure "35" for the figure "25".

SEC. 2. For the purpose of determining the amount of insurance payable for any death or dismemberment, the amendments made by subsection (a) of the first section of this Act shall have no effect in the case of any person who died, retired, was separated or otherwise ceased to be insured prior to the date of enactment of this Act.

Mr. MACY. The Federal Employees' Group Life Insurance Act, in effect since August 29, 1954, is generally and rightly regarded as one of the most effective fringe benefit programs available to Federal employees. The program has served well its major objective of providing added protection to the families of Federal employees through low-cost group life insurance. In the 11-year period ending June 30, 1965, nearly \$916 million was paid to the survivors of about 173,000 employees and annuitants. In fiscal year 1965 alone, almost \$129 million was paid in 23,390 claims. Most of these benefits have been paid to widows and children. At the present time, the total life insurance in force under this, one of the largest of all group contracts, is about \$20 billion. Future years will see an ever-increasing number of dollars paid in benefits.

Covered employees now have group life insurance in an amount roughly equal to annual basic salary—up to a maximum of \$20,000—plus the same amount of accidental death and dismemberment insurance. The Civil Service Commission determines how much employees pay for the insurance, subject to a statutory maximum of 25 cents biweekly per \$1,000 of life insurance. The Commission also determines the rate of agency contributions, likewise subject to a statutory maximum of one-half the amount paid by the employee. Since the start of the program we have set each rate at its maximum; employees have been paying 25 cents, and agencies 12½ cents biweekly for each \$1,000 of insurance.

The latest actuarial valuation of the life insurance program, as of June 30, 1964, established that the total level premium required for permanent, adequate financing of the existing program is 44.8 cents biweekly per \$1,000 of life insurance. Thus, the present total premium income of 37½ cents biweekly per \$1,000 of insurance—the maximum we can prescribe under existing law—is 7.3 cents below the amount needed to pay all insurance benefits in the long-term future.

All insurance contributions cease when an employee separates, but if he retires on an immediate annuity for disability or after 12 years' service, his life insurance, without accidental death and dismemberment protection, may be carried into retirement free. While coverage after retirement is free, without further contribution by the retiree or the Government, a 2-percent monthly reduction is applied against the face amount of life insurance held at retirement, starting after retirement date or after the retiree reaches age 65, whichever is later. This reduction stops after a maximum 75-percent reduction has run. This leaves in force, after total reduction, 25 percent of the life insurance held at retirement.

Each of the bills under consideration today proposes these three principal changes in the life insurance system.

1. The insurance available would be increased by 50 percent for present and future employees. Employees would be eligible for life insurance—plus a matching amount of accidental death and dismemberment insurance—equal at all times to annual salary raised to

the next higher \$1,000, multiplied by $1\frac{1}{2}$. The proposed range of coverage would thus be from \$1,500 to \$45,000.

2. The ceiling on the employee contribution rate would be raised from 25 cents to 30 cents biweekly per \$1,000 of life insurance, and effective the first pay period starting on or after July 1, 1966, agency contributions would be required to equal the biweekly rate set for employees.

3. The after-age-65 reduction in the free insurance of future retirees would be lowered to 1 percent monthly, with a maximum reduction to 50 percent rather than 25 percent of the amount of insurance held at retirement.

The Commission is unable to agree to any of these proposed changes in the insurance program. Our reasons for recommending against this legislation are stated in detail in our formal report. However, I would like to point up these reasons once more, and very briefly.

Group life insurance for Federal employees is an important fringe benefit, but it is only one of a varied and expensive package of benefits provided in addition to pay. The cost of fringe benefits for civilian personnel has become so significant, both in absolute terms and in comparison to similar expenditures in private industry, that we can no longer afford the luxury of considering new proposals on a piecemeal basis.

New commitments for Federal fringe benefits must be carefully assessed to assure that total compensation of Federal and non-Federal employees remain substantially comparable. Studies in this area reported in mid-1965 indicated an approximate overall equality in Government and private enterprise expenditures for white-collar workers, with fringe benefits for the group amounting to nearly 25 percent of payroll.

The insurance program changes proposed by this legislation would carry a substantial price tag even in terms of existing pay scales. The level biweekly premium rate per \$1,000 of life insurance would be increased from 44.8 cents to 56.2 cents. The level annual cost of the program in dollars would rise from \$212.2 million to \$400 million, with an increase in Government cost through higher agency contributions of \$140.8 million annually.

The Government's group life insurance program was planned and created to supplement and not to replace employees' private insurance programs. The Commission believes that insurance approximating 1 year's salary is adequate in this sense, particularly when considered in combination with other existing benefits—survivor annuities under the retirement system and protection afforded by the health benefits program, which tend to fulfill much of the financial need attendant upon an employee's last illness and death. The Commission also considers as reasonable under present circumstances the statutory provision limiting agency contributions to half the employee rate.

We strongly oppose any lowering of the after-65 reduction in the free insurance of retirees. This feature by itself would occasion the rise in the level biweekly cost from 44.8 to 56.2 cents previously mentioned. But most importantly it would be contrary to the basic purpose of the program, which is intended to provide its maximum insurance protection at ages when family obligations, and needs in case of death, are greatest.

Our position on these bills does not mean we are not in favor of needed, justifiable changes in the insurance program. Its financing

should be improved as soon as possible and the outdated \$20,000 maximum on life insurance, set 11 years ago, should be raised to a level in keeping with today's top Government salaries.

We urge amending the Insurance Act to raise the maximum employee contribution rate to 35 cents per thousand biweekly, so that starting July 1, 1966, the Commission may prescribe 30 cents and 15 cents as the employee and Government contribution rates needed for adequate permanent financing. We also recommend amending the law to set an insurance maximum which would be based upon and adjustment automatically to correspond to the salary rate for level II of the Federal Executive Salary Schedule—currently \$30,000.

Enactment of these improvements would not alter the existing 44.8-cent level biweekly premium per \$1,000 of insurance and would involve an added annual Government cost of \$12 million.

In short, the insurance program changes we are endorsing are confined to the same features—improved financing and a realistic \$30,000 maximum—that were embodied in your 1965 bill, Mr. Chairman, H.R. 6926, which was passed by the House May 3, 1965, and is now pending before the Senate Committee on Post Office and Civil Service.

Mr. Ruddock and I will be pleased to answer any questions.

Mr. DANIELS. Mr. Macy, the Federal Employees' Group Life Insurance Act was enacted in 1954. At that time did the law provide for employees to contribute 25 cents biweekly and the Federal agencies 12½ cents biweekly?

Mr. MACY. It prescribed those as maximum amounts of contribution.

Mr. DANIELS. Were those contributions that have been made since 1954, or did the amounts vary?

Mr. MACY. No; the amount has been set at the maximum for the entire period of time.

Mr. DANIELS. That entire period?

Mr. MACY. Yes, sir.

Mr. DANIELS. So, there has been no change in the premium contributions by either the employee or the employer?

Mr. MACY. That is correct.

Mr. DANIELS. And the limitation of \$20,000 likewise was in the original law and has remained constant during this period of time?

Mr. MACY. That is also correct.

Mr. DANIELS. I note from your testimony and the report of the Commission that at the present time the level costs for the present program is 44.8 cents, and under the proposed bill this would be increased to 56.2 cents, or an increase of 11.4 cents per thousand dollars?

Mr. MACY. That is correct.

Mr. DANIELS. I take it that your major objection to the bill is the increased cost which would jump up from the present amount of \$212,000,000 to \$400 million?

Mr. MACY. Yes. The primary opposition is based on the cost, with a secondary opposition on policy grounds, with the view that such a liberalization, in the light of the total package of benefits, does not appear to be supported by actual need.

Mr. DANIELS. Well, Mr. Macy, all costs are going up, are they not?

Mr. MACY. They are indeed.

Mr. DANIELS. Salaries, cost of living, and everything else—they are increasing from day to day, year to year.

Mr. MACY. Consequently it is necessary that an employer consider those costs and make certain the investment of expenditures will have the most significant return.

Mr. DANIELS. Now the Government hasn't contributed any more toward its share of the cost since this program was adopted. They paid 12½ cents constantly during the whole period of time?

Mr. MACY. That is correct.

Mr. DANIELS. Your testimony shows that this program is being operated at a loss, with the employees contributing 25 cents biweekly and the Government 12½ cents, thereby incurring a deficit of 7.3 cents per \$1,000; is that correct?

Mr. MACY. Yes.

Mr. DANIELS. For how long a period of time have we incurred this deficit? What has been the trend since the program has been adopted?

Mr. MACY. The trend has been that the premiums contributed have fallen behind actual costs, starting about 5 years ago. And the margin of deficit has increased with each passing year. So clearly there is need for a change in the financing provisions, so that there can be an increase on the part of both the Government and the employee to meet the long-term cost of the program.

Mr. DANIELS. Has the administration or Civil Service Commission at any time during the past 5 years made any such recommendation?

Mr. MACY. Yes. At the hearings a year ago the change in the financing as proposed in your bill was strongly supported by the Commission. As I indicated in the final paragraph of my statement, I believe that that legislation would permit the Commission to meet the financial problem that I have cited.

Mr. DANIELS. On page 4 of your statement you state that no new proposals should be considered in a piecemeal basis. Would you care to elaborate on what you mean by a "piecemeal basis"?

Mr. MACY. Yes; I would be happy to. It is our belief that the various fringe benefits provided by the Government for Federal employees need to be viewed as a total package of supplemental compensation or benefits. And that in judging any modification or liberalization of one program, the total set of programs needs to be considered.

Further, the various benefits are interrelated. There is an interrelationship between the retirement provisions and the life insurance provisions, and any modification in one should contemplate the impact that those modifications will have on the other.

Finally, we have become increasingly aware of the impact of changes in active salary levels upon fringe benefits. For example, in this program the Government share of the cost of the insurance goes up by about a half million dollars for every 1 percent of salary increase that is involved. We know that for every increase in salary there is a substantial impact on the retirement fund. So it is our belief that now, and in the future, any change in compensation or changes in fringe benefits need to be studied in terms of gross compensation for the Federal employee, both salary compensation and fringe benefits.

Mr. DANIELS. If I understand you correctly, are you suggesting that we defer final action on the bills before the committee until we consider salary legislation as well?

Mr. MACY. I would feel that any changes in the life insurance program, such as proposed in these bills, should be considered in conjunction with any changes in salary, changes in the retirement plan, changes in the leave plan, so that the Congress has the opportunity to look at the total picture, rather than just one segment of it, in this case life insurance.

Mr. DANIELS. You mention the subject of retirement. Mr. Macy, when you were here last March to testify on the retiree bills, if my memory serves me correctly, you stated that the President had appointed a Cabinet Committee to study all Federal retirement systems, and that its report was due to be filed on December 1, 1965. Was that report filed on that date?

Mr. MACY. No. That report has not been filed. Further work is continuing on it.

Mr. DANIELS. When do you think it will be filed?

Mr. MACY. Very shortly. Very shortly, because, in line with what I indicated in response to your previous question, the view is that the recommendations flowing from that study need to be considered in relation to any recommendations relating to compensation and relating to changes in salary.

Mr. DANIELS. I might say that it is my thought, as chairman of this subcommittee, that we take no final action on this bill and the other bills under consideration until that report is filed. I am going to suggest that to the members of the subcommittee.

Mr. MACY. I regret the report is not available and before you at this time. This has turned out to be a comprehensive and complex task and it has taken more time than anticipated. The study did include a consideration of the very features that you have before you in this subcommittee at the present time. It studied the life insurance program and the relationship of the life insurance program to retirement and other fringe benefit features.

Mr. DANIELS. Also on page 4 of your statement you say the total compensation of Federal and non-Federal employees remains substantially comparable. Studies in this area reported in mid-1965 indicated an approximate overall equality in Government and private enterprise expenditures for white-collar workers, with fringe benefits for the group amounting to nearly 25 percent of payroll.

What studies are you referring to there?

Mr. MACY. These are Bureau of Labor Statistics studies, which were made at the request of the Bureau of the Budget and the Civil Service Commission, to compare fringe benefits provided by the Government with those provided by private enterprise for the same groups.

The preliminary studies showed that the fringe benefits in terms of percentage of payroll generally were equal, at about 25 percent of payroll. The composition of the benefits differed somewhat, but the total, in terms of percent of payroll, were roughly the same.

Now yesterday the Bureau of Labor Statistics released a new report, Bulletin No. 1470, which is entitled "Supplemental Compensation for Nonproduction Workers, 1963," which is the published material from that survey as requested by the Bureau and the Commission.

It may very well be that you would wish to have this document for consideration in conjunction with this hearing.

Mr. DANIELS. Thank you, Mr. Commissioner. We will have it filed in the records of this hearing.

Now on page 5 of your statement you say, and I quote:

The Commission also considers as reasonable under present circumstances the statutory provision limiting agency contributions to half the employee rate.

Under what conditions would you consider it unreasonable?

Mr. MACY. The view is that any change in the 2-to-1 ratio would be an unreasonable Federal expenditure.

Mr. DANIELS. Why do you say that? Is that a matter of opinion?

Mr. MACY. That is a matter of judgment; it is a matter of judgment that this represents a reasonable distribution of cost for this particular benefit.

Mr. DANIELS. I take it that you consider as unreasonable the proposal in my bill that the Government contribute an amount equal to the employee?

Mr. MACY. Yes; we figure the 2-to-1, rather than the 1-to-1 ratio is more reasonable.

Mr. DANIELS. I respectfully disagree with you, Mr. Macy.

Mr. MACY. Well the rule of reason sometimes finds that there are differences of opinion.

Mr. DANIELS. Now turning to page 6 of your statement. You make a recommendation that the present outdated \$20,000 maximum on life insurance, set 11 years ago, should be raised to a level in keeping with today's top Government salaries, and you propose it be increased to \$30,000.

Mr. MACY. That is correct. Pegging that to level II of the Federal Executive Salary Act of 1964, so that in the event there are future adjustments in salaries, the pegging at that level would make an automatic adjustment in the maximum level of insurance.

Mr. DANIELS. Why don't you peg it to level I?

Mr. MACY. The view was that there is only a relatively small number of jobs at level I—only the Cabinet officers—and that level II constituted a more appropriate ceiling. Again, a matter of judgment.

Mr. DANIELS. Mr. Macy, I do not wish to usurp all of the time of this committee, but I do want to compliment you for your fine statement and for your very frank and honest answers to the questions imposed.

Mr. MACY. Thank you, Mr. Chairman.

Mr. DANIELS. Mr. Matsunaga?

Mr. MATSUNAGA. Thank you, Mr. Chairman.

Mr. Macy, on page 5 you speak of the annual cost of the program, you say it would rise from \$212.2 million to \$400 million, with an increase in Government cost through higher agency contributions of \$140.8 million annually.

Is the \$140.8 included in the \$400 million, or is that extra?

Mr. MACY. It is included. This would be the Government's share, Mr. Matsunaga. That amount is roughly the same as the cost of a 1-percent increase in salaries for Classification Act and postal employees.

Mr. MATSUNAGA. Then you oppose this measure but you recommend approval of an earlier measure introduced last year?

MAY 1966 10

Mr. MACY. Yes, sir.

Mr. MATSUNAGA. Now pending in the Senate?

Mr. MACY. I believe the two provisions included in H.R. 6926, which this subcommittee reported out last year and which the House passed May 3, embodies the two provisions which we believe are desirable at this time. One relates to the financing condition and the other to raising the maximum.

Mr. MATSUNAGA. What will the difference in cost be as between that bill and this bill?

Mr. MACY. The cost of that bill is \$12 million.

Mr. MATSUNAGA. \$12 million additional?

Mr. MACY. That is correct.

Mr. MATSUNAGA. That is all, Mr. Chairman.

Mr. DANIELS. Mr. Hanley?

Mr. HANLEY. Mr. Chairman, I can only state I think it is regrettable that so many years have been allowed to elapse before we moved in the direction of upgrading this aspect of the benefit program.

Just one question, Mr. Chairman.

With respect to employee contributions, what is the comparability with respect to the Government and private industry on this?

Mr. MACY. On this particular provision, the industry plans are mixed, but I would say in all candor that, in many of the industry plans we have studied, the employer's share is higher than one-third. But as I stated earlier, I believe it is necessary to look at the total cost to the Government as an employer of the whole range of fringe benefits, not just the relative costs on this particular item.

Mr. HANLEY. I have no further questions, Mr. Chairman.

Mr. DANIELS. Mr. Commissioner, going back to your statement on page 6, you mention amending the employee contributions rate to 35 cents per \$1,000 biweekly starting July 1, 1966, so that the Commission may prescribe 30 cents and 15 cents as the employee and Government contribution rate. You ask 35 cents and then say you would prescribe 30 and 15. Those figures don't seem to jibe in my mind.

Mr. MACY. The 30 and 15 cents, equaling 45 cents, would cover the 44.8.

Mr. DANIELS. I know, that is the reason why you recommend that. But why do you ask for 35 cents?

Mr. MACY. Why we are proposing 35 cents is to provide in the law a new maximum to permit future adjustments, without having to return to the Congress for a specific request.

Mr. DANIELS. And if it did go to 35 cents biweekly for employees, then you would recommend the Government contribution be half that amount?

Mr. MACY. That is correct. In other words, continue the ratio at 2 to 1, but we would make an adjustment so the combined premium, employees' contribution and agency contribution, would cover the cost.

Today, as you pointed out earlier, we are running about 7 cents short per thousand dollars biweekly. The proposal is that the legislation lift the ceilings, which are now at 25 cents and 12½ cents, to 35 cents for the employee and the Government would pay half of that, if it was necessary at some time to go up to an amount that equaled that. Our present figures show if we went to 30 cents and 15 cents, we would, for the present, cover the long-term cost of the insurance program.

Mr. DANIELS. In light of your experience, do you believe that the trend will be toward increased costs?

Mr. MACY. I believe so. I think perhaps Mr. Ruddock can give you a more precise answer on that.

Mr. RUDDOCK. I think the trend would be upward only to the extent that we have liberalization in the system. For example, since 1954 we have had several amendments to the Life Insurance Act without any increase in the premium structure, or without any increase in the Commission's authority to fix the premium at a higher level. In the beginning of the program, insurance was carried into retirement only if the individual, retiring for nondisability reasons, had at least 15 years of service. That was reduced to a requirement of 12 years of service, a relatively minor amendment, but still one which would reflect cost over a long time period.

At the beginning of the program insurance began to reduce at age 65 by 2 percent a month even for the employee in service. That was amended so that the reduction does not apply until after retirement occurs.

Again, a slight cost item which would be reflected over a period of time.

A third amendment that comes to mind; the 15 years of service and then later the 12 years of service required to carry insurance into retirement originally had to be civilian service. Then provision was made that it could be a combination of civilian and military. So if we had similar relatively minor changes going into the future, there would be a tendency for the costs to rise and there should be, we believe, some flexibility in the rate the Commission could set.

Mr. DANIELS. Retirement, insurance, and health benefits is a new area for me. I have been chairman of this subcommittee since we reorganized just last year so my experience in this field has been quite limited.

I would like to know from you if the Commission has the authority under existing law to not only set the rates for employees but also to fix the contribution paid by Federal agencies?

Mr. MACY. Yes; that has been the law since 1954.

Mr. DANIELS. In other words, this authority rests with the Commission?

Mr. MACY. With the Commission, but with the provision of a maximum amount for the employee; namely, 25 cents.

Mr. DANIELS. Would you recommend any change in that law or do you feel the authority ought to continue to reside with the Commission?

Mr. MACY. I feel the authority pattern as it is set forth in the law is sound.

Mr. DANIELS. You don't believe Congress ought to take that authority?

Mr. MACY. Well, I am always reluctant to say no to such a question, but it would seem to me that there is greater flexibility and therefore, a greater opportunity to respond to changes. However, if the Congress deems otherwise, we can certainly operate under congressional authority. It may be that rather than the 35 cents, that is proposed here, you would prefer to authorize only 30 cents. The 30 cents will cover the cost as we see it at the present time.

Mr. Chairman, one point Mr. Ruddock reminds me of and I think this is responsive to your earlier question, the longer the delay in

adjusting the rate, in order to cover the increased costs, the higher the rate will have to be, because as Mr. Ruddock pointed out these additional features that were enacted have a rising cost curve. And if we defer raising the rate, when it is raised, we will have to raise it higher.

Mr. DANIELS. Do you agree with the Chair's suggestion that we defer action on this bill until the President's Cabinet Committee files its report? You said salaries, insurance benefits, health benefits, retirements, should all be considered, not piecemeal, but in its entirety. So if we deferred action for a month or two, no great damage would come during that period of time; would it?

Mr. MACY. No; that would be my feeling. I think that would be highly desirable, Mr. Chairman. In fact, it may very well be you would wish to have the subcommittee hear testimony on retirement, life insurance, and health benefits in the light of the report of that committee as forwarded by the President.

Mr. DANIELS. Now I don't know if you are an expert on salaries, but do you feel that there is comparability in salaries paid to Federal employees for the same services performed by people engaged in private industry?

Mr. MACY. This is the statutory objective of the 1962 act. The action of the Congress since that time has moved Federal salaries toward that objective. It has not been completely fulfilled up to the present time. It is nearly fulfilled in the lower end of the scale. It is about a year behind in the middle range and about 2 years behind in the upper range of the pay scale.

Mr. DANIELS. Thank you, sir.

Mr. MACY. Thank you.

Mr. DANIELS. Our next witness is a member of the committee, the Honorable Arnold Olsen, Representative in Congress from the State of Montana.

STATEMENT OF HON. ARNOLD OLSEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MONTANA

Mr. OLSEN. Mr. Chairman and members of the subcommittee, I want to thank you for this opportunity to appear before you in support of the bills introduced by yourself, Mr. Chairman, Mr. Matsunaga, and Mr. Hanley, liberalizing the Federal Employees' Group Life Insurance Act.

The Federal employees' life insurance program, established in 1954, provides each covered employee with group life insurance, plus an equal amount of accidental death and dismemberment insurance, approximating annual basic salary up to a maximum of \$20,000. Life insurance may continue free after active employment ends, if the employee retires on immediate annuity after 12 or more years of service or on account of disability. Employees pay 25 cents, and the Government 12½ cents, the statutory maximums, every 2 weeks for each \$1,000 of life insurance. The amount of free life insurance held by a retiree is subject to reduction, after date of retirement or after age 65, at the rate of 2 percent a month until it is reduced to 25 percent of the original amount.

During the last session of the Congress I introduced H.R. 2639, a bill to amend the act of 1954 by changing the reduction rate to 1

percent a month and increasing the maximum amount of insurance remaining after reduction to 50 percent of the original amount.

The bills before you contain this provision, and would also broaden the coverage to 150 percent of annual salary, raise the limitation on the amount of insurance to \$45,000, and increase the Government's contribution to half the cost of the premium charges. I would like to go on record here as favoring all four provisions of the legislation.

Life insurance is vitally important to persons in all walks of life, and particularly to salaried workers in the lower income brackets. It is often the only means by which they can provide a small estate at time of death or even provide money to absorb funeral expenses. Millions of Government employees, wives, and children depend heavily on the Federal employees' life insurance program for a major part of their insurance protection.

Today's high cost of living—and high cost of dying—make a life insurance policy of less than \$5,000 pitifully inadequate. For many employees, particularly those in the lower pay brackets, the Federal life insurance policy is the only one they can afford to own. Our employees need the assurance that their wives and children will have some measure of protection after they are gone.

It is also essential that the Government take a more equitable share of the cost of the Federal program. Private industry has done a good deal more for its employees in the health and life insurance field than the Government is doing at the present time. Many large firms in private industry pay the entire cost of life insurance provided for their employees. We are, again, lagging behind private industry in providing fringe benefits for employees when we should be setting the pace.

We here in the Congress have an obligation to the men and women so faithfully serving our country to give them, and their families, the added protection of the Daniels bill. Benefits, such as in the bills before you, are generally better appreciated by employees than a salary increase. In this instance, the benefit is estimated to equal the Government cost of a salary increase of 1 percent. However, the benefit to the employee is a great deal more than the cost here of \$140 million, because the employee is given an opportunity to save and then to benefit from the Government contribution and his saving because of the greater insurance protection after retirement.

The Government also benefits because in these times it wants the people to save. Here is a real incentive—indeed it is compulsory—to save, and the saving will be at a greater rate.

I also want to call attention to the administration's point of view. The administration wants salaries, insurance, and retirement benefits, and all fringe benefits to be considered in one package. These are to be considered against recent guidelines set as maximums to fight inflation.

In 1962, however, the administration was recommending that Federal employees catch up with private industry. There is a reversal here, because today the administration no longer talks about catching up. Today, they are talking about holding them back, holding Federal employees back by making them abide by the guidelines, when, for goodness sake, in the past the Federal employees never caught up to the guidelines. Too many years have the Federal employees been passed by and never reached anything like guidelines. Now, I think

these things ought to be considered separately by our separate subcommittees because in each instance our subcommittees then could find out how much do the Federal employees have to do in this category to catch up. I submit in this field of insurance, to catch up, the Federal employees should be in here asking that the entire insurance be paid for by the employer. They are not asking that much, because they are aware that they can only take a small step at a time.

I submit that the Daniels-Matsunaga-Hanley and Olsen bills are a very small step indeed toward the Federal employees catching up with the private employment.

Thank you very much, Mr. Chairman.

Mr. DANIELS. It is always refreshing to have you as a witness, Mr. Olsen. I want to congratulate you on your very fine statement.

Mr. Matsunaga?

Mr. MATSUNAGA. Mr. Chairman, this sounds more like a mutual admiration society. But I wish to commend our colleague for expressing his point of view with which I am sure we all agree.

Mr. HANLEY. I, too, want to add my congratulatory remarks to yours. My colleague, Congressman Olsen, obviously possesses a great deal of expertise in this particular area as he does many others on the basis of the legislation he introduced in the previous session; it certainly will be most helpful in the deliberation of the matter at hand.

I concur with him with respect to the fact that this is a matter that should be considered specifically as opposed to any package proposal that might emanate as a result of the salary study.

Mr. OLSEN. Thank you very much. Thank you gentlemen, I will quit while I am ahead.

Mr. DANIELS. The next witness is Hon. Claude Pepper, a Representative from the State of Florida.

STATEMENT OF HON. CLAUDE PEPPER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. PEPPER. Mr. Chairman, I am very happy for the privilege of appearing before your subcommittee to speak in behalf of H.R. 11879 and companion bills to liberalize life insurance benefits for Federal employees.

Life insurance is one of the very best ways that has been devised whereby people in a responsible society can provide for their surviving dependents during the sad period after their death. People with ample life insurance can face oncoming old age with calm dignity, certain that the burden of their last illness and funeral will not deprive loved ones of necessary means of support. We recognized the need for life insurance for our employees 12 years ago when Congress enacted the Federal Employees' Group Life Insurance Act of 1954. Under that act and later amendments, every Federal employee is given the right to subscribe to life insurance equal to his annual salary, rounded out to the next thousand dollars, and pay two-thirds of the premium by regular deduction from his salary. The balance of the premium is paid by the Government. Upon retirement, after at least 12 years of service, his life insurance is continued with the premiums paid entirely by the Government. At age 65 or upon re-

tirement, whichever is later, the value of the insurance starts to drop 2 percent per month, until it has decreased to 25 percent of its former value.

We now have 12 years of experience under this law, and we find that some liberalization is necessary. H.R. 11879 and companion bills propose to increase the amount of insurance available to each employee to 150 percent of his annual salary, rounded out to the next even thousand or half thousand dollars, and to increase the Government's contribution from one-third to one-half of the cost of the premiums. Also, it is proposed that hereafter the reduction in the value of the insurance starting at age 65 or upon retirement, whichever is later, shall be only at the rate of 1 percent per month, and that the reduction will be halted when the value has decreased 50 percent.

These are all excellent proposals. Experience has shown that each person should have substantially more than 1 year's salary in life insurance, and 150 percent of a year's salary is a proper provision. Private industry is moving ahead very rapidly in bearing a greater share of the cost of insurance provided for its employees, as shown by testimony presented to you by numerous witnesses. Also, the previous plan of reducing the insurance by 75 percent after age 65 proved to be too drastic. There is some lessening of responsibility in most cases at about age 65 or later, but it seldom amounts to even 50 percent, and the reduction to 25 percent is excessive. It is most proper to cut the reduction rate to 1 percent per month, and halt the reduction at 50 percent.

H.R. 11879 as introduced would take care of the life insurance problems for all present employees during the remainder of their service, and thereafter during their retirement. They will never have the haunting thought that sudden death might deprive their loved ones of means of support during the sad adjustment period.

Mr. Chairman, I am also concerned for those former employees who worked long and faithfully for the Government and are now retired. Approximately two-thirds of the half million former employees now on the retirement rolls are covered by insurance under the Federal Employees' Group Life Insurance Act. I am concerned for these people because there are about 30,000 Federal retirees living in the State of Florida, and about 20,000 of these have Government group life insurance. In most cases, they have already experienced a reduction in this insurance, and many thousands find that they have lost three-fourths of the insurance they had when they retired.

Many of these former employees worked for many years under salary scales much lower than the rates prevailing today. This means that the original value of their insurance was less than that carried by employees in their same jobs today. Now, we propose to increase the present employee's insurance by 50 percent, and to let him continue half of the increased amount after the reduction period, and these changes should be made. At the same time, can we, in the name of justice, refrain from giving some relief to those former employees who are faced with the stark reality of having lost all but a shadow of the insurance they took out to provide for their loved ones in their hour of need?

Mr. Chairman, in behalf of the 20,000 retirees in my State of Florida and over 300,000 others in other States, I urge that H.R. 11879

be amended to extend to present retirees the change in reduction rate from 2 to 1 percent per month, to limit the reduction of their insurance to 50 percent, and to restore to 50 percent of original value all insurance now in force which had decreased to less than 50 percent of such value.

Thank you for the opportunity to appear and make this statement.

Mr. DANIELS. Our next witness is the Honorable Roger W. Jones, special assistant to the Director, Bureau of the Budget, accompanied by David McAfee of the Bureau staff.

The staff director informs me you were formerly Chairman of the Civil Service Commission, Mr. Jones.

Mr. JONES. That is correct. I had the honor to precede Mr. Macy in that position.

**STATEMENT OF ROGER W. JONES, SPECIAL ASSISTANT TO THE
DIRECTOR, BUREAU OF THE BUDGET, ACCOMPANIED BY
DAVID MCAFEE OF THE BUREAU STAFF**

Mr. JONES. Mr. Chairman and members of the subcommittee, if I may be permitted just a moment of personal reminiscing, this date has special significance to me because it was almost exactly 30 years ago today that I made my first appearance before the old House Post Office and Civil Service Committee, that was the 16th day of February 1936. I feel we get a little sentimental about these anniversaries as we grow older and I am very glad that 30 years later I can still be here.

Mr. DANIELS. Well, I think it is a great honor to have you here today on your 30th anniversary, and you have had a wealth of experience in appearing before congressional committees, so therefore it will be a great pleasure to listen to what you have to say on this important legislation.

Mr. JONES. Thank you, Mr. Chairman. I have a short written statement. The Bureau of the Budget appreciates this opportunity to present its views and recommendations concerning H.R. 11879, which would make substantial changes in the principles of the life insurance program for Federal civilian employees, and greatly increase its cost.

H.R. 11879 would modify the Federal Employees' Group Life Insurance Act in three respects. Then, Mr. Chairman, the statement makes the three points which have already been made by you and Mr. Macy. I do not think I need to repeat the ways in which the legislation changes the present act.

Going on with the statement, as is pointed out in the Bureau's report on H.R. 11879, and companion identical bills, H.R. 12045 and H.R. 12129, the Bureau of the Budget cannot support the legislation in its present form and recommends against its favorable consideration. I request that the Bureau's report be included in the record of these hearings.

Mr. DANIELS. Without objection, it is so ordered.
(The Budget Bureau's report is as follows:)

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., February 14, 1966.

HON. TOM MURRAY,
*Chairman, Committee on Post Office and Civil Service,
House of Representatives, Cannon House Office Building,
Washington, D.C.*

DEAR MR. CHAIRMAN: Reference is made to the committee's requests for the views of the Bureau of the Budget respecting H.R. 11879, H.R. 12045, and H.R. 12129, identical bills to provide for improved benefits under the Federal Employees' Group Life Insurance Act of 1954, to strengthen the financial condition of the fund created by such act, and for other purposes.

These bills would (1) provide a new schedule of insurance coverage approximating 150 percent of current salary rate for group life insurance, and for accidental death and dismemberment insurance, not to exceed a new maximum of \$45,000 for each; (2) change the financing provisions, increasing employee and agency contributions; and (3) increase the free life insurance provided after retirement and attaining age 65.

The Federal Employees' Group Life Insurance Act now provides the covered employee with an amount of group life insurance, and an amount of accidental death and dismemberment insurance, each equal to the next higher thousand above the employee's annual wage or salary. This amount of group life insurance—with double payment in case of accidental death—is over and above other Federal payments to the employee's survivors that may be due under the civil service retirement system or the Federal Employees' Compensation Act, and, of course, is in addition to the life insurance payments to his survivors which the employee has provided in his personal financial plan. These bills would increase the present group insurance coverage by 50 percent, or by dollar amounts ranging up to \$15,000 in the top salary bracket. We believe the proper objective of the group insurance program for Federal employees is best served by the present pattern of equating coverage with current salary.

The present maximum group life insurance coverage amount of \$20,000 was established in 1954, but increases in Federal salary rates in the past 12 years have made that ceiling unrealistic. A better ceiling would be \$30,000, which is the figure provided in H.R. 6926, a bill already approved by the House of Representatives. If the ceiling were stated as an amount equal to the salary rate of level II of the Executive Salary Schedule, it would hereafter maintain an appropriate relationship to the Federal salary structure.

The maximum employee contribution rate was fixed at \$0.25 per thousand, biweekly, in the 1954 act, and the employing agency rate at not to exceed one-half the employee rate, each as fixed by the Civil Service Commission. These bills would increase the maximum employee rate to \$0.30 per thousand, biweekly, and would require the employing agency rate to be equal to the employee rate. The Civil Service Commission reports that present contribution rates fall considerably short of covering the level premium cost of the present program. It is, accordingly, desirable that the maximum employee contribution rate be raised, so that both employee and Government contributions could be increased. However, we believe the present cost-sharing formula is appropriate, and that doubling the Government's contribution, as would be required by these bills, is unwarranted.

Finally, the bills would increase the free life insurance protection now provided under the act on retirement, after reaching age 65. Life insurance is now continued, without contribution, after retirement, but the amount in force is reduced 2 percent a month after age 65 or retirement, whichever is later, until the amount in force has reached 25 percent of the face amount at retirement. These bills would lower the reduction rate on insurance in force to 1 percent per month until the insurance in force is reduced only to 50 percent of the amount at retirement. Thus, the bills would double the group life insurance coverage for retired employees over age 65, a group whose relative need for survivor protection is least.

The Civil Service Commission estimates the annual cost of this bill to the Government would be about \$141 million.

The Bureau of the Budget believes that added annual expenditures of this magnitude for these purposes are unwarranted, and, accordingly, strongly urges against favorable consideration of these bills in their present form, as their enactment would not be consistent with the administration's objectives.

Sincerely yours,

(Signed) PHILLIP S. HUGHES,
Assistant Director for Legislative Reference.

Mr. JONES. With the committee's consent, I should like to discuss the Bureau's objections briefly, but in somewhat greater detail than in our formal report upon the legislation.

Basically, the Bureau's adverse position on H.R. 11879 stems from two chief considerations: (a) opposition to change in the principles underlying the group life insurance program, and (b) opposition to the added cost to the Government which would result.

In summary, as we understand them, the principles of the present program are: (1) provision of insurance in direct relationship to annual pay during the period of the employee's active career, (2) reduction in the amount of coverage after the need for survivor protection declines, and (3) cost sharing on a one-third-Government-two-thirds-employee basis, in amounts adequate to cover the level premium cost of the program. In our opinion, need to change these principles has not been demonstrated.

The Civil Service Commission estimates that the annual cost of the legislation to the Government would be about \$141 million. The Bureau of the Budget believes that annual added expenditures of this magnitude for the life insurance program are unwarranted, when cost of other employee benefits is taken into consideration.

I regret that I am not in a position at this time to discuss the administration's position on the cost relationships and appropriate expenditure levels of all employee benefits. I am sure that the subcommittee will understand my inability to do so.

The Bureau of the Budget has participated in the work of the President's Cabinet Committee on Federal Staff Retirement Systems. The Committee has reviewed not only retirement benefits but also related benefits, including group life insurance. The report of the Cabinet Committee will be presented to the President shortly. Pending the President's consideration of that report, and transmittal to the Congress of his recommendations, the Bureau hopes that final action on H.R. 11879 can be deferred.

In the meantime, however, it is appropriate to restate the Bureau's belief that changes in Federal salary rates enacted during the past 11 years have made the present \$20,000 ceiling on life insurance anomalous. Consonant with the position taken on this issue last year, the Bureau supports an increase in the insurance ceiling, but we believe that the new ceiling authorized by H.R. 11879 is higher than is necessary under the principles of the Group Life Insurance Act. If the subcommittee decides that final action on H.R. 11879 cannot be deferred, we suggest that the specific ceiling of \$45,000 be deleted and the ceiling be expressed in terms of "the rate now or hereafter provided for level II of the Executive Salary Schedule." This rate is now set at \$30,000.

Mr. DANIELS. Why do you pick the figure of \$30,000; why not \$40,000?

Mr. JONES. We picked the level II rate for the reason Mr. Macy indicated, that there is only a small handful of people covered by the Insurance Act whose salaries are in excess of \$30,000, or level II. Level II reached up to the highest level at which career people are paid. It corresponds to the top career level in the military and foreign services. And we felt that the Cabinet figure of level I, now at \$35,000, was just a little out of range. This is, as Mr. Macy said, purely a question of judgment.

Similarly, the Bureau has hitherto indicated its belief that improvement in the protection for survivors of Federal employees may be warranted. But we question whether the liberalization in insurance coverage of H.R. 11879 would be the most appropriate means for providing the improvement.

In April 1965, the President's Special Panel on Federal Salaries, which was chaired by Mr. Marion Folsom, former Secretary of HEW, found existing survivor protection to be inadequate for younger and lower paid employees who need the protection the most. This issue and means for dealing with it are discussed in the report of the Cabinet Committee on Federal Staff Retirement Systems. Survivor protection is provided not only by the group life insurance program but also under the benefits structure of the Civil Service Retirement Act and the Federal Employees' Compensation Act. Change in the protection provided by those laws may be better means for dealing with the needs of the younger and lower paid employees. We believe that the President will make specific recommendations on this subject in the near future.

Next, as to the contribution rates, the Bureau agrees that the group life insurance system should be soundly financed on a current basis. We believe that the Civil Service Commission should continue to have authority, as the agency administering the system, to increase contributions whenever experience indicates that it is necessary to do so. An increase in contributions now is needed, but such an increase should be flexibly imposed and should be in accord with the present cost-sharing principle, which limits the agency contribution to one-half the current employee contribution. In raising the present Government rate from 12.5 to 30 cents, or more than double the present rate, the bill continues the inflexibility of the present law and proposes a change in formula. We cannot support either change.

Finally, we oppose the change that the bill would make in the present reduction schedule for retired employees over age 65. In our opinion to triple insurance protection at this age, would be an improper use of the employee and agency contributions. Not only is the insurance need of older persons less after retirement, but we must also remember that insurance coverage after retirement is free to the employee. Furthermore, the retirement law now provides for upward adjustment in employee and survivor annuities as the cost of living rises. This feature of the retirement system also reduces the need for insurance in later years.

To sum up, the Bureau of the Budget—

(1) Has no objection to a change in the insurance coverage to raise the ceiling to \$30,000,

(2) Does not object to an increase in the maximum employee contribution which would permit the Civil Service Commission, based on its analysis of experience, to raise the contribution rates for both employees and agencies within the framework of the present cost-sharing formula,

(3) Strongly recommends that the present reduction schedule be maintained.

In closing, Mr. Chairman, I should like to call to the subcommittee's attention one other matter. This has been briefly referred to by Chairman Macy. It is broadly related to the legislation under

consideration and is important in the context of the value attributed to life insurance in our total civilian compensation system.

Life insurance is only one of the wage or salary supplements available to Federal civilian employees. Taken together, all of the supplemental benefits, including retirement and survivor annuities, leave, special pay and allowances, unemployment insurance, indemnity payments under the Federal Employees' Compensation Act, health insurance, and life insurance, amount to a large and growing percentage of payroll. We believe that all elements in the compensation system must be related and that the executive and legislative branches should have current, comprehensive information about fringe benefits. Without such information we are not in a good position to measure the effect of any change in one or all of the fringe benefit elements.

Up to the present time we have made only an initial effort to get that information. We urge the support of the Committee on Post Office and Civil Service in providing funds to carry forward the necessary work, as contained in the 1967 budget for the Bureau of Labor Statistics.

According to a computation made on the basis of expenditures in fiscal 1963, the cost to the Government of civilian employee benefits amounts to 23.5 percent of basic payroll. A report published by the Bureau of Labor Statistics in December 1965, shows that 1963 fringe benefit expenditures by the private enterprise establishments canvassed by the Bureau of Labor Statistics totaled 23.8 percent—almost exactly the same percentage as the Federal expenditures for the same purposes. The Bureau of Labor Statistics report "Supplementary Compensation for Nonproduction Workers, 1963," is too voluminous and detailed for inclusion in the record of these hearings, but I should like to leave a copy for use of the committee's staff. I am sure that the Bureau of Labor Statistics will make additional copies available if the committee wishes to have them.

If the subcommittee has questions, I shall be glad to try to answer them or to obtain the necessary answers for insertion in the record.

The figures that Mr. Macy gave and the figures to which I have referred that compare Federal expenditures and private enterprise expenditures are contained on page 91 of the BLS report.

Mr. DANIELS. In your statement you state two chief objections to the proposed legislation. One of them is that you object to any changes in the principles underlying the group life insurance program, and secondly, the added cost to the Government.

Primarily your objection is the increased cost that would ensue from this legislation.

Mr. JONES. I don't think, Mr. Chairman, I could say primarily. I think the opposition is about equally based on both principles, but of course they intertwine. When you change the principles, you increase the cost.

Mr. DANIELS. When you refer to principles, specifically what do you mean?

Mr. JONES. The principles are, as we understand them, No. 1, that the insurance program would be tied to the rate of annual salary for the period of active service; No. 2, that the insurance would decline as the need for insurance decreased—an assumption of our society which may now be more debatable than it was at one time—but that as people grow older their children become independent and self-

supporting and the need for insurance decreases; and third, that the program would be currently financed by the Government and the employees on a one-third/two-thirds basis.

The original ratio of one-third/two-thirds I think was closer to the pattern that prevailed in industry 11 years ago than it is now. As Mr. Macy pointed out in response I believe to one of your questions, Mr. Chairman, there is a tendency now in private industry for more and more of the insurance, life insurance costs, to be assumed by the employer.

But over the years, since we have had fragmentary data on fringe benefits, we have felt that this ratio was about right on the Government side, because of the fact that our fringe benefit system attaches a much greater percentage of value to some other elements than is the case in private industry.

The most noticeable of these, of course, is in our leave system, which if the comparisons are accurate, indicates that on the Federal side, our leave, excluding sick leave, has a value of about 11.5 percent of basic payroll, whereas on the private enterprise side, it is only 8 percent. It is this kind of discrepancy that has tended to make us hold to the opinion that the one-third/two-thirds ratio on the life insurance program was approximately correct, if we kept all of these things in balance.

Mr. DANIELS. Well, don't you think as we move on from year to year, from one generation to another, that there might be changes in these underlying principles?

Mr. JONES. I don't have the slightest doubt of that. All I am saying is, from the Budget Bureau's point of view, we don't think the time to make the change has come yet.

Mr. DANIELS. I might point out a substantial change was made only last year in the retirement benefits paid to retired employees.

Mr. JONES. This is correct, and we think there will be proposals before you presently to make still further changes—changes which will perhaps minimize the need for changes in the insurance program.

Mr. DANIELS. In the event we increase the amount of contribution to be made by the employee, this would naturally also affect the employer's contribution.

You propose that Federal employees pay 30 cents biweekly and the Federal agencies contribute 15 cents. Now, if we give the Commission greater latitude in setting the rates, do you not think the Commission would be susceptible to pressure from the Bureau of the Budget to minimize or delay increasing the premiums they deem warranted?

Mr. JONES. I do not, sir; no. My feeling is that the kind of actuarial work which we can do on this account enables us to give a precise estimate of cost, and that adjustment of the employee and employer contribution rates to reflect those costs on the basis of the actuarial computation would be protection against any kind of pressure of any sort.

If the formula is set on a one-third/two-thirds basis, then the Commission would have no option except to maintain that formula. The actuarial data would be quite sufficient to support any necessary change that came along to the satisfaction of anyone.

Mr. DANIELS. You feel, in view of the other benefits which are given to Federal employees, that no change should be made in the formula. However, should it be proved that the benefits paid to

people in private industry in comparable positions to the Federal employees are more advantageous to those employees, then you would think a change should be made in the formula?

Mr. JONES. I would say then was the time to come back to Congress and discuss the matter again.

Mr. DANIELS. I would like to say, Mr. Jones, that it will be my recommendation, as chairman of this committee, to defer final consideration of these bills before the committee until we have had an opportunity to not only listen to all of the witnesses who desire to testify, but also to await the receipt of the President's Cabinet report on retiree legislation.

Mr. JONES. We appreciate that, Mr. Chairman. I'm quite sure this will be moving more rapidly than it has in the last few weeks.

Mr. DANIELS. Mr. Matsunaga?

Mr. MATSUNAGA. Thank you, Mr. Chairman.

Mr. Jones, I want to congratulate you on your 30-year anniversary. If I am here half of that time, I will be happy.

I believe we can agree, Mr. Jones, that the Federal employee has not quite caught up with the counterpart in non-Federal employment.

Mr. JONES. Not all of them; no.

Mr. MATSUNAGA. We can also agree that salary increases are rather tough to get out of Congress because of the administration's position as stated, and that about the only way we can really catch up is by providing increases, as in this case, a 1 percent or equivalent increase by fringe benefits.

Now my question is, What is the practice in private employment relative to the rate of contribution by employer and employee?

Mr. JONES. Congressman, it is mixed. It goes across a wide spectrum. We have information from a fairly substantial number of industry groups and individual plants. It goes all of the way from a life insurance program which is paid for entirely by the employer down to a program which is even less generous than ours, in that it is 75 percent employee, 25 percent employer.

In some other instances there are group life insurance programs available to employees of a plant, but only on the basis of complete carrying of cost by the individual employee. This I think we could not consider really as a "benefit" program at all. It is simply a group life insurance plan which happens to be open on a group basis to the employees of a given plant.

The tendency in industry, insofar as we can measure it, and we do not have overall figures, is far greater coverage than 1 year's salary and is in the direction of at least 50-50 sharing of costs. There are a good many plants which now have gone to the year-and-a-half salary basis, which is contemplated in this legislation, Mr. Chairman.

We recognize this: we admit it. But we still believe that, taking the overall package together, we have about the right mix of Federal fringe benefits at this time; and that the insurance element of those benefits should not be changed, first, until we have taken a look at the other proposals that we believe will be made by the administration, and, second, until we make a decision as to whether the mix on these fringe benefits, percentagewise, is approximately correct today, or whether it should be changed.

Mr. MATSUNAGA. In the area of life insurance right now, if you were to strike an average, would you say in private industry the contribution amounts to about 50-50?

Mr. JONES. No; I couldn't go that far, Congressman, because I don't think we have figures which are sufficiently determinative to let us strike an average. We have some isolated information.

But I certainly, of my own knowledge, would not be able to say that the average in industry was 50-50. The evidence frankly is mixed. I don't know it is not the case, neither do I know that it is.

Mr. MATSUNAGA. Would you go to the extent of saying the tendency is toward a greater contribution by the employer.

Mr. JONES. This appears to be the tendency, on the basis of the information we have.

Is that correct? Do you agree with that, Mr. McAfee?

Mr. McAFEE. That is correct.

Mr. JONES. I think the Bureau of Labor Statistics would also agree with that.

Mr. MATSUNAGA. Thank you.

Mr. DANIELS. Mr. Hanley.

Mr. HANLEY. Mr. Jones, I too want to congratulate you on your 30th anniversary today.

You have indicated that the time for a change has not come with respect to this proposal. On the other hand, your statement indicates that the Bureau has hitherto indicated its belief that improvement in the protection for survivors of Federal employees may be warranted. This, of course, is somewhat contradictory.

I wondered what, in your opinion, would be the basis for a change, if not at this point.

Mr. JONES. This refers to the insurance program. As I indicated, Mr. Hanley, I think we have two and possibly a third problem in survivor protection. The first is survivor protection for young employees who die or are killed on the job or die as a result of job-connected injuries at a time when they have young children. In terms of the general set of values of our society, we believe these people have a greater need than people like myself, for example, whose children are all grown up and are now self-supporting.

Secondly, there is the problem of highly inadequate survivorship benefits of any kind for short-term service people in the Federal Government, because there is no vesting under the Federal retirement system of benefits until after an employee has been in service for 5 years. So if anything happens to him in the first 5 years, he is colloquially "out of luck."

After 5 years, for a number of years more, the formula provides very small benefits. This is the problem, or the first two problems, with which the Retirement Committee has attempted to deal in its report, which will be before the President in a few days.

Another problem, which I have already alluded to, is the mix of fringe benefits, in the way in which they provide survivor benefits, whether you get them under the Retirement Act, or indemnity acts like FICA, or whether you get them through an insurance program. Tied into that is the third, coming back around the bush to the younger employee, so long as you stay with the concept of insurance related to annual pay, or some increment on annual pay, it is difficult to provide much extra protection for the younger employee. So we rather meet ourselves coming back.

It is our belief that, all other factors being equal, it would be better to do this by improved survivorship benefits of one sort or another than by an increase in the face amount of insurance.

Take an employee who comes in at approximately \$5,000 a year. Under the bill his insurance goes up to \$7,500. I don't believe this is as good a coverage for him, because it would be really a one-time payment to his widow if he should be killed or die, as an improvement in her annuity benefits under a formula, that would mean a good deal more than an additional \$2,500 over a period of time when her need was greatest, when the children were small, or until she remarried.

Mr. HANLEY. Does the Bureau have a recommended program that would assist this inadequacy?

Mr. JONES. The Cabinet Committee on Retirement Systems has dealt with this problem extensively in its report, and we have reason to believe the report will be in the hands of Congress within a relatively short period of time.

Mr. HANLEY. This particular report is aside from the salary report?

Mr. JONES. Yes, the salary report is a different issue. As has been correctly indicated in the newspapers, the administration is this year looking at compensation as a totality. Part of the compensation is pay, another part of the compensation are these things we call fringe benefits, the added benefits, leave, life insurance, health benefits, and so on.

In our discussions within the administration and in the informal discussions which we have had with the representatives of the employee organizations up to the present time, and consistent with the application of the wage-price guidelines of the Council of Economic Advisers, we have been trying to look at the picture of total compensation. That is one of the reasons why there has been some delay in presenting the administration's recommendation to the Congress. We had to finish up the retirement report, we had to finish up the work on the pay report, which is also required by law to come to Congress and get the two things married together so they can get before this committee and the two subcommittees that have jurisdiction.

Mr. HANLEY. Currently, do you have a target date on completion of this report?

Mr. JONES. We do within the executive branch; yes, sir. But the President's schedule, of course, will have to be the President's to decide.

We hope to get the materials before him within a matter of days.

Mr. HANLEY. I see. Thank you, Mr. Jones. I have no further questions, Mr. Chairman.

Mr. JONES. Mr. Chairman, I will leave this blue book, the "Bureau of Labor Statistics," with the staff director if I may.

I appreciate the opportunity to appear before the committee.

Mr. DANIELS. Thank you, Mr. Jones.

Mr. DANIELS. Our next witness is Mr. James H. Rademacher, vice president, National Association of Letter Carriers.

**STATEMENT OF JAMES H. RADEMACHER, VICE PRESIDENT,
NATIONAL ASSOCIATION OF LETTER CARRIERS; ACCOMPANIED
BY J. STANLY LEWIS, SECRETARY-TREASURER, AND CHARLES
N. COYLE, ASSISTANT SECRETARY-TREASURER, NATIONAL
ASSOCIATION OF LETTER CARRIERS**

Mr. RADEMACHER. Mr. Chairman, I have on my left our very able secretary-treasurer, Mr. J. Stanly Lewis, and on my right is our able assistant secretary-treasurer, Charles N. Coyle. Our president, Jerome Keating, is out of the city on official business and extends his best wishes to this committee. He joins all of us in expressing our profound appreciation for the actions of this committee last year, in which this subcommittee was the first committee to report out major legislation which has such significant value to those people who needed it the most, the retirees. And you, Mr. Chairman, and this committee are to be commended.

I wish it would be possible for you to read our correspondence from these people who are so appreciative of the fact that they have received these increases because of the keen interest of the committee and despite the fact that the same spokesmen who have already appeared here this morning appeared before your committee last year and actually read the same type of opposition to that bill, the retirees bill, and as they opposed your proposals they also urged that you await that report. We are pleased that you didn't await that report, or they would still be awaiting their increases. And we hope, and we couldn't help but hear the repeated references this morning, Mr. Chairman, to the desire of your subcommittee to await receipt of that report before you take any positive action, but we certainly concur it is a good thought to see what the administration's proposals are, but at the same time we would hope you will not wait too long.

We know that all of the members of this subcommittee will be returning to office and we would not want to see this legislation be the subject matter of your deliberations next year. We hope there will be other proposals before you.

Mr. DANIELS. Mr. Rademacher, I want to thank you for your kind and gracious remarks on behalf of myself and other members of the committee. With respect to deferring action on the pending bill, I presume that the report of the President's Cabinet Committee will be filed very promptly. But if there is any undue or prolonged delay in that report being filed and made available to this committee, this committee will not wait. We propose to take action in this session of Congress, early enough that whatever the committee decides to do, assuming it does report a bill favorably, we hope to get it to the floor in time for the Congress to act upon it, and the other body as well.

Mr. RADEMACHER. Thank you very much. We are pleased to hear that.

Mr. Chairman, my name is James H. Rademacher. I am vice president of the National Association of Letter Carriers, with headquarters at 100 Indiana Avenue NW., Washington, D.C. The national association represents approximately 175,000 letter carriers located in 6,400 branches in all 50 of our States, the District of Columbia, and Puerto Rico.

I want to express our gratitude and appreciation for being permitted to testify before you on behalf of H.R. 11879, which the chairman

introduced in the House of Representatives on January 10 of this year, as well as other related bills, including H.R. 12129, introduced by Representative James Hanley and Representative Matsunaga.

As you perhaps know, I had the honor of appearing before this subcommittee on March 30 of last year to testify in support of legislation very similar to the bill now before you. Our attitude toward this wholesome and constructive legislation has not changed in any respect.

The granting of permission for postal and Federal employees to purchase life insurance up to 150 percent of their salaries is, I think, intelligent and long overdue.

The average salary of a letter carrier today is \$5,800. Under present law he can take out Federal employees' life insurance only to the value of \$6,000. Under the bill which you are considering, the limit of his purchase would be raised to \$9,000, a sum which, I am sure the chairman and the members of this subcommittee will agree is not excessively generous.

But, that additional \$3,000 could provide a very useful financial cushion to the widow and her family in a time of distress. It could make the difference in determining whether or not her son could continue in college, for instance, or whether or not a deserving child of high school age could consider entering college.

I think that the officers of our association have demonstrated sufficiently enough over the years the fact that a letter carrier with a family does not have a chance to save very much money out of his salary. When a letter carrier dies, the widow often finds herself forced to bear alone the same burden of providing for her family which she had borne previously in company with her husband, and she must bear that burden with a greatly reduced income. She needs every bit of financial cushion the Government can afford to give her.

As a matter of fact, Mr. Chairman, I hope that one day we shall be able to achieve legislation which would set a minimum face value of \$10,000 on all Federal employee life insurance policies. I appreciate that this cannot be accomplished at this particular time, but I do feel it is a goal we should keep in sight.

We also approve wholeheartedly the provisions of these bills which will not permit the value of the life insurance policy, after retirement, to diminish below the 50-percent mark.

I think it is ruinous to the morale of a retiree to know that his value to his family is eroding swiftly at the rate of 2 percent a month to a point of virtually no return. I also think it is degrading and, in many cases, it could undermine the will to live. The golden years of retirement are clouded over with the continuing specter of relentless financial erosion.

It could also conceivably—God forbid—be a source of temptation to a hard-pressed wife of an aging retiree to indulge in a spot of discreet homicide before the money all wastes away.

Stranger things have happened. Certainly, the present law does not, let us say, offer proper incentives for a financially harassed wife to keep an ailing retiree alive.

We would also like to congratulate the authors of these bills on their plan to arrange, eventually, for the proper financing of the Federal life insurance fund.

We all have seen what has happened to the civil service retirement fund, and we have also seen the difficulties involved in restoring this

fund to a point of financial stability. The only way to prevent this happening to the life insurance fund is to take proper steps now, before a serious deficiency situation arises.

There is very little we can say about this legislation which has not already been said on other occasions. I think it is sufficient to say that we approve of the Government employees' life insurance program, and we are eager to have this program made as generous as the traffic will allow. We feel the postal and Federal employees of this country deserve generous treatment in this area.

We believe, however, that the legislation should be amended to provide that those already retired, and who have reached the age of 65, shall not have their life insurance reduced below the 50-percent mark. Certainly those who have served the Government for many years are entitled to this consideration; and we strongly urge approval of the retroactive amendment.

In conclusion, I would like to point out what is being done in private industry, in contrast with what is being done in the Federal Government.

My authority for the following figures comes from a study made by the Bureau of Labor Statistics for the years 1963-64. They appeared in Bulletin No. 1385-82, "Wages and Related Benefits."

BLS tells us that in all private industry, 58 percent of the employers have group life insurance programs for their employees through which they pay the entire cost of the premiums.

In manufacturing, the average is 60 percent.

In the subdivision entitled "Transportation, Communication, and Public Utilities," the average is 69 percent.

In wholesale manufacturing the average is 53 percent.

Among retailers the average is 47 percent.

In the subdivision including services, the average is 60 percent.

Mr. DANIELS. Do you have a copy of that bulletin?

Mr. RADEMACHER. I can see that you get it, Mr. Chairman.

While I am on that subject, since reference has already been made by the previous administration spokesmen to the bulletin that was issued yesterday, entitled "Supplementary Compensation for Nonproduction Workers, 1963," Bulletin No. 1470, I respectfully request, Mr. Chairman, that page 91 be incorporated in these hearings.

Mr. DANIELS. Without objection, it is so ordered.

Mr. RADEMACHER. That page was referred to, Mr. Chairman, and I am certain that the spokesmen for the administration inadvertently omitted in their statement the fact that this subcommittee is meeting on the subject of life insurance and not on overall fringe benefits.

Now, Mr. Chairman and Congressman Hanley, this page 91 reveals that in private industry the expenditure as a percent of basic salary is 23.8 percent for fringe benefits. The Federal Government is paying 23.5, which is truly very close. But what should have been revealed to this subcommittee is the fact concerning life insurance fringe benefits. Private industries are now spending nine-tenths of 1 percent for the cost of life insurance for the employee. The Federal Government is only paying one-third of that amount, or three-tenths of 1 percent for the cost of that fringe benefit.

Now, it is all right, Mr. Chairman, for the spokesmen to indicate the overall costs of fringe benefits, but this committee is dealing in

life insurance and it is very evident in this report that the Government of the United States is a very sad follower to the private industry in the fact that they are only paying one-third of the amount being paid by industry, so that employees can be properly insured at a cost to the employer.

I appreciate the fact that you have indicated that this entire page will be printed, because I think it is of significant importance, not only to this committee but to all those who are studying fringe benefits of Government.

(The referred to portion of Bulletin No. 1470 is as follows:)

Item	Expenditures as a percent of basic salaries	
	Private industries	Federal Government
Total.....	23.8	23.5
Total paid leave, excluding sick leave.....	8.0	11.5
Vacations.....	4.8	8.2
Holidays.....	2.9	3.0
Miscellaneous paid leave.....	.3	.4
Retirement programs.....	7.4	6.6
Legally required programs.....	2.6	.2
Private pension and retirement plans.....	4.9	6.4
Unemployment programs.....	1.6	.4
Legally required programs.....	1.5	.4
Severance or dismissal pay.....	.1	(1)
Supplemental unemployment benefits.....	(2)	(1)
Health benefit programs.....	4.2	5.1
Legally required work-connected disability programs.....	.3	.3
Other legally required programs.....	(2)	(1)
Sick leave.....	1.5	3.4
Health, accident, and life insurance.....	2.5	1.3
Life insurance, accidental death and dismemberment insurance, and death benefits.....	.9	.3
Hospitalization, surgical, and medical plans and sickness and accident insurance.....	1.6	1.0
Savings and thrift plans.....	.3	(1)
Yearend and other special bonuses.....	2.3	(1)

¹ No such program in the Federal Government in 1963.

² Less than 0.05 percent.

NOTE.—For the Federal Government, because of rounding, sums of individual items may not equal totals. Because of the method used in deriving the percents for private industries, the figures are not additive. Nevertheless, to permit a comparison of expenditures for all supplements combined, a grand total for private industries was obtained by adding the percents for individual items or groups of items.

Mr. RADEMACHER. The Research Division of the AFL-CIO informs us that these figures are a little outdated today because many of the new contracts in private industry have, for the first time this year, included a 100-percent employer-paid life insurance program.

I have cited these figures, Mr. Chairman, to show that this bill, H.R. 11879, is far from excessive.

The members of this subcommittee, along with a vast majority of the Members of the House of Representatives as a whole, have fought on our behalf to achieve a degree of true and contemporary comparability with private industry in the area of wages. As you so well know, we have not, as yet, achieved that goal.

I feel that true comparability should also include the Federal insurance programs. I think, from the figures I have cited, that it is demonstrable that the Federal employees life insurance program falls far short of achieving true and contemporary comparability with the average programs in private industry.

Any step to make the life insurance program more generous is a step toward that goal. The legislation before you, the bills previously mentioned, constitutes such a step and we support it enthusiastically and wholeheartedly.

I might add, if I may, the National Association of Letter Carriers wholeheartedly supports the amendments offered by Congressman Karsten and Congressman Olsen, H.R. 2052 and H.R. 2639, respectively.

Mr. DANIELS. Mr. Rademacher, the Chair desires to ask just one question. We have one other witness to be heard today, and we would like to have the benefit of his testimony.

Previous Government witnesses, Mr. Macy and Mr. Jones, indicated that we should not handle this legislation piecemeal, that we should consider it in the light of all other benefits paid to Government employees. I would like to have your views on that.

Mr. RADEMACHER. Mr. Chairman, I think this is a matter of opinion and the opinion should be based upon the attitudes of the committee. What is it you intend to do? Does the committee want to offer just a fringe benefit that the cost of which will depend upon the cost of other programs and then have what you are going to present to the Government employee be based upon the cost alone, or are you going to have it based upon need and the desires which are expressed to this committee? If we are going about it piecemeal, you are going to be able to bring out a bill which is going to satisfy the needs of the employees, as expressed by the committee. If you await the action of the retirement report, the salary studies, and make this one package, then some subcommittee is going to suffer, and maybe more than one subcommittee is going to suffer. Maybe they are earmarked for more money in another area and allow what you have to offer to suffer to the extent of not permitting it entirely.

I would strongly urge this subcommittee report a bill which they feel is necessary at this time, not only in having the employee be benefited by their efforts, but by having a bill which will cause the Government to be a leader and not a follower in this field.

Mr. DANIELS. The Chair purposely put that question to you because he knows you are knowledgeable and experienced in this area.

Just one further question came to mind, and that is this: What are your views with respect to changing the formula whereby the employee pays two-thirds of the premium and the Government pays one-third? Do you think that since this program was initiated in 1954 that there should be any change in that principle?

Mr. RADEMACHER. Mr. Chairman, the change recommended by the administration is retrogressive, at a time when the Government should be looking at industry and seeing how they cannot only compete, but go ahead of them. They are recommending to you that they retrogress and cause employees to pay even more of the premium.

I am frankly a little bit ashamed that we haven't mentioned in our testimony that the Government ought to pay all of it. But I believe as responsible leaders and as taxpayers ourselves, we have to tread

cautiously and present our program responsively. I don't think we should embark on an all-out program at this time in view of the Vietnam situation and other problems of the Government.

As I say, I feel ashamed we didn't ask for a hundred percent coverage. But certainly to go less than 50 percent would be unreasonable and unheard of in this modern time of labor-management policies.

Mr. DANIELS. Thank you, Mr. Rademacher.

Mr. Hanley?

Mr. HANLEY. I simply want to say, Mr. Rademacher, that I concur with the philosophy embraced in your very fine statement with one exception, and that is the homicide aspect. I have great respect for those in the postal fraternity and I would trust, regardless of what the outcome of this matter is, that no one would resort to that.

Thank you.

Mr. DANIELS. Thank you.

Our next and final witness for today is Mr. Nathan T. Wolkomir, president, National Federation of Federal Employees.

**STATEMENT OF NATHAN T. WOLKOMIR, PRESIDENT, NATIONAL
FEDERATION OF FEDERAL EMPLOYEES; ACCOMPANIED BY
HAROLD E. FINNEGAN, LEGISLATIVE EMPLOYEE RELATIONS
ASSISTANT**

Mr. WOLKOMIR. Mr. Chairman and members of the subcommittee: I know the hour is a little late—

Mr. DANIELS. Mr. Wolkomir, may I suggest that in view of the fact that your statement is 11 pages long that you submit your statement for the record? The Chair and all of the other members of the committee interested in this legislation will take the time to read it, and you may proceed to give us an oral summary of your views, if that is agreeable.

Mr. WOLKOMIR. It certainly is, Mr. Chairman. I realize that expediency is in order.

Mr. DANIELS. Without objection, your written statement will follow your oral testimony.

Mr. WOLKOMIR. Thank you very much, sir.

My name is Nathan T. Wolkomir and I am the national president of the National Federation of Federal Employees. To my right I have our legislative and employee relations assistant, Dr. Harold E. Finnegan.

As you know, our union has members in virtually all departments and agencies of Government and without any equivocation we are certainly for your bill and the related bills.

I would like to point out the recommendations that we make in contradiction to some of the testimony you heard from representatives of the administration. With your kind permission, I would like to read this beginning at the bottom of page 3 of my testimony:

In testimony on June 10, 1965, Mr. Ewan Clague, Commissioner of Labor Statistics, U.S. Department of Labor, pointed out that in a survey conducted by the Bureau, one-fourth of the companies reporting data paid all of the costs of health, accident, and life insurance plans. Three-fourths of those with contributory plans paid more than half the costs. The Federal contribution is less than half.

Mr. Clague further noted that the Federal employee makes a larger contribution relative to basic salary to his health and retirement programs than the private employee.

While the annual operating cost of government would increase, the long-range actuarial soundness of the program would be strengthened because of the increased premiums paid over a long period of time by younger employees in return for their higher insurance policies.

Then at the middle of page 4, referring to last year's testimony:

Mr. Andrew Ruddock, chief of the Civil Service Commission's Retirement and Insurance Division, said the administration agreed that Government life insurance liberalization was necessary, but he asked that it be put off until next year.

Now next year is here, and again we have heard the testimony this morning and now we are being asked to put it off until a report which we consider semiconfidential, because to the best of our knowledge, no employee organization has been asked to participate in the study of this report.

We did testify before the President's Committee last year and that was the last we heard of the report. And you know the delay that has ensued since then.

However, on the bottom of page 4, I would like to call your particular attention, gentlemen, to the following:

With no attempt to contaminate the elemental issues that are involved in this progressive move forward, is it not incumbent upon the Committee to also investigate related problems, to benefit by other experiences, and to consolidate some thinking in the public interest and in the interest of the Government employee?

Thus the National Federation of Federal Employees proposes:

1. That the insurance and health benefits program be correlated and reviewed in conjunction with our retirement program.

We are not recommending that there be any delay until such a study is accomplished. Action on the proposed legislation, yours, Congressman Hanley's and Congressman Olsen's should go forward.

Based upon the length of time we get our reports from the administration representatives, I doubt whether such a study would be completed within a year.

Mr. DANIELS. You have heard the Chair's remarks to the previous witness that he did not intend to defer action on these bills for an undue period of time?

Mr. WOLKOMIR. We certainly are appreciative of these remarks and we are wholeheartedly in accord with your remarks, Mr. Chairman.

"Life insurance" is in truth not "life" insurance but survival or beneficiary protection. Our retirement program upon death of the retiree provides similar protection. Why not marry the two programs? I exemplify with cases in point:

(a) The California State employment retirement law reads (among many other provisions, of course):

ARTICLE 5. DEATH

SEC. 21361. (b) An amount, provided from contributions by the State * * * equal to one-twelfth of the annual compensation earnable by the deceased during the 12 months immediately preceding his death, multiplied by the number of completed years of service under the system, but not to exceed one-half of such compensation—

Which I believe is in line with your proposed legislation.

I note also the California county employees' retirement law also takes care of such a death benefit program. Actually in this case the State only contributes one-half of the cost of the death benefit program, whereas the employee himself provides the other one-half.

Now we have found, and this is off the statement again, that at our national conventions, it is amazing that more than 50 percent of our resolutions are around the fringe benefit aspect, and we are wholeheartedly in accord with Congressman Olsen's statement when he stated that Government employees are more interested in this sort of a fringe benefit than they are in pay.

And going back through many years, 50 years of activity, and may I say 25 national conventions—they are held biannually—more than 50 percent of our resolutions are on fringe benefits. Less than 5 percent are on pay. And we honestly feel the Government employee is willing to pay his way on any fringe benefit that may be pursued or passed by way of legislation. They are not asking for something for nothing.

We also would like to emphasize the point, beginning on the bottom of page 6, that the National Commission on Automation and Economic Progress, after a year long study, stated the Government has a particular obligation to be a model employer. We have, of course, advocated this for the 50 years of our organization.

We thus request that this esteemed committee review the following chart, which is a comparative chart on benefits accrued, based on present programs. I will not, due to time, review the chart. I feel quite confident that the committee will review same.

We honestly feel that the health insurance aspect is involved with medicare as well as the present legislation that is being contemplated. We do need an overall study but we honestly feel there should not be any delay on the present legislation until said study is accomplished.

We would also like to recommend that the administrative agencies such as the Civil Service Commission and the Bureau of the Budget, when they are making these studies, consult the employee organizations.

In all honesty, we have a hierarchy of administration making these studies and molding human destinies for our people in the field. We honestly feel we have a better feel for what our people think than those who are making such reports and studies and we should be consulted on these matters. We have not been to date.

In conclusion, Mr. Chairman and members of the committee, I know that time is not going to permit us to rebut any of the statements made by either Commissioner Macy or Mr. Jones and other administrative representatives, but with your kind permission we would like to submit an addendum to this statement rebutting, with a factual case-by-case analysis, the statements they made and add this as part of our statement, upon completion of this particular hearing.

Mr. DANIELS. Without objection it is so ordered.

(The following matter was submitted by Mr. Wolkomir:)

I support the recommendation by Mr. Macy and Mr. Jones that the specific ceiling of \$45,000 be deleted and be expressed in terms of "the rate now or hereafter provided for level II of the executive salary schedule."

I also conditionally support the principle advocated by Mr. Macy that within a ceiling established by Congress, the Commission be authorized to adjust the charge for insurance. My support is conditioned on the establishment of the requirement that recognized employee unions participate with the Commission in the establishment of the new rates.

I strongly disagree with the position of Messrs. Macy and Jones that the need for survivor protection so declines in the later years that insurance amounting to 25 percent of the amount in force at age 65 or retirement, whichever is later, is adequate. I am confident that an analysis of salary and annuity data would establish what little opportunity the majority of Federal employees have to accumulate a significant nest egg and what a small amount of insurance an annuitant 65 or older has after just a few months at the present rate of depreciation. The attempt by Mr. Jones to justify continuance of the present rate of depreciation on the ground that the cost-of-living changes in annuities would help meet the plight of older annuitants would be absurd if implications were not so tragic to so many annuitants present and future. The majority of annuitants 65 and over have little earning capacity so savings and insurance are indispensable if the annuitant is to pass on to his survivors little more than sufficient money for a decent burial. Surely the Federal employee is entitled to look forward to more than that.

Much is made of the projected cost should the rate of depreciation be altered as proposed by H.R. 11879. I believe that an improvement in the rate of depreciation is of such importance to annuitants that they would be willing to pay a nominal fee for the new rate. I urge that serious consideration be given to such a change.

I also take issue with the assertion by Mr. Jones that the need for changing the cost-sharing mix has not been demonstrated. All of the evidence introduced at Tuesday's hearing, including an acknowledgment by Mr. Jones, was to the effect that the trend in industry was for the employer to pay at least half of the cost of the insurance program. In view of this preponderance of evidence to the contrary, I challenge Mr. Jones to present facts and figures to justify retention of the intolerable 2-to-1 mix.

Mr. WOLKOMIR. On behalf of the National Federation of Federal Employees, I express to the members of this subcommittee our especial thanks for the wholesome consideration of the legislation that you have had and also the privilege to appear before this subcommittee.

Mr. DANIELS. I want to thank you for your assistance and cooperation this morning in working with the committee and presenting your views which were very interestingly expressed. I want to compliment you.

Mr. Hanley?

Mr. HANLEY. I want to thank you too, Mr. Wolkomir, for your fine report. I regret that we have a problem with respect to time. I assure you I shall read your report and give it every consideration.

Mr. WOLKOMIR. Thank you very much, sir.

Mr. DANIELS. Mr. Cunningham, any questions?

Mr. CUNNINGHAM. No questions. Thank you, sir, for your statement.

(The aforementioned prepared statement of Mr. Nathan T. Wolkomir, submitted on behalf of the National Federation of Federal Employees, is as follows:)

PREPARED STATEMENT OF NATHAN T. WOLKOMIR, PRESIDENT, NATIONAL
FEDERATION OF FEDERAL EMPLOYEES

Mr. Chairman and members of the subcommittee, my name is Nathan T. Wolkomir. I am president of the National Federation of Federal Employees. Our union has members in virtually all departments and agencies here and overseas.

At the outset, I wish to express our deep appreciation to you, Mr. Chairman, for your interest in and keen understanding of problems affecting Federal employees and the Federal service, and with special reference to the important questions which come before this subcommittee. We wish also to express our appreciation to the other distinguished members of the subcommittee for their continuing interest and concern.

Mr. Chairman, the NFFE strongly supports H.R. 11879, which liberalizes the Federal employees' group life insurance program in a variety of important respects,

and we urge a favorable report on it and prompt action by the full Post Office and Civil Service Committee.

It is pertinent for me to point out to the subcommittee at this time that the group life insurance program is a matter of very great and special interest to the NFFE and its members.

Our organization, which was formed in 1917—50 years ago next year—pioneered in proposing the Federal group life and health benefits programs. These steps were first broached in resolutions considered and unanimously approved by successive national conventions of the NFFE. Their acceptance and implementation by the Federal Government became a top priority objective of our organization.

It is timely to note, in connection with the legislation now under consideration, that for a period of years, measures designed to put the group insurance proposals into effect were repeatedly delayed because of the failure of various contending groups to agree upon an acceptable formula.

Throughout that period the NFFE took the position, and advanced it at every opportunity, that the first and basic and most essential task was to bring a group program into being for Federal employees and the Federal service. The NFFE recognized that following the accomplishment of this first vital step it then would be possible to bring about what undoubtedly would be much-needed perfecting amendments and liberalizations, from time to time. We took the view that if perfections were sought in the first instance, the program never would "get on the road" and never even would get out of committee.

This pragmatic but sound position eventually prevailed and legislation was agreed upon in which the Federal Government at length recognized its responsibility in this area, and a long-delayed, long-overdue beginning was made. But it was recognized in all quarters, and certainly in the Congress, as a start only, and that liberalizing amendments soon would be very much in order.

Efforts in that direction have been made and some minor changes have been effected.

But the first really substantial and forward-looking changes in the group life insurance program are to be found in the provisions of H.R. 11879.

In this connection may I point out, Mr. Chairman, that the pioneering concern which the NFFE manifested in this program has continued down to the present hour.

Thus, at the last national convention of the NFFE, improvement in and liberalization of the group insurance programs, both life and health benefits, was the subject of one of the largest of all groups of resolutions considered and acted upon.

Mr. Chairman, employees of the Federal Government today are profoundly interested in improved insurance coverage, and the need for such improved coverage for employees and their families should be a primary concern of the Government as the largest single employer in the Nation.

It is pertinent to note that the concern of employees with respect to insurance protection for their families is well understood by employers in the private sector.

Insurance is a prominent feature of the personnel practices and policies of all progressive business and industry, and it should be emphasized that in a large number of instances and in a growing number of collective bargaining agreements, provision is made for the payment of the group insurance premiums in full by the employer. The NFFE is convinced that this is a sound policy and that it is one which could well be emulated by the Federal Government. I refer back to testimony of administration representatives in the last session of Congress.

In testimony on June 10, 1965, Mr. Ewan Clague, Commissioner of Labor Statistics, U.S. Department of Labor, pointed out that in a survey conducted by the Bureau, "one-fourth of the companies reporting data paid all of the costs of health, accident, and life insurance plans. Three-fourths of those with contributory plans paid more than half the costs. The Federal contribution is less than half."

Mr. Clague further noted that "the Federal employee makes a larger contribution relative to basic salary to his health and retirement programs than the private employee."

While the annual operating cost of Government would increase, the long-range actuarial soundness of the program would be strengthened because of the increased premiums paid over a long period of time by younger employees in return for their higher insurance policies.

The CSC favors life insurance policy increases for Federal employees, particularly those in the younger age brackets with families and in the lower grades,

and it also favors larger life insurance for middle and upper grade employees as well.

But it urged Congress not to approve such an increase until next year when the report of the President's Committee on Retirement, which also will deal with life insurance, will be available.

Andrew Ruddock, chief of the CSC's Retirement and Insurance Division, said the administration agreed that Government life insurance liberalization was necessary, but he asked that it be put off until next year.

Ruddock disclosed the administration was working on proposals that would provide a \$10,000 minimum life insurance policy for lower salaried Government workers, and perhaps as much as 150 to 200 percent of salary for other Federal workers. In other words, an employee earning \$9,000 a year under the 150 percent salary formula would be entitled to \$13,500 worth of life insurance or \$18,000 under the 200 percent formula.

With no attempt to contaminate the elemental issues involved in this progressive move forward, is it not incumbent upon the committee to also investigate related problems, to benefit by other experiences, and to consolidate some thinking in both the public interest and in the interest of the Government employee? The National Federation of Federal Employees thus proposes:

1. That the insurance and health benefits program be correlated and reviewed in conjunction with our retirement program.

Life insurance is in true not "life" insurance but survival or beneficiary protection. Our retirement program upon death of the retiree provides similar protection. Why not marry the two programs? I exemplify with cases in point:

(a) The California State employment retirement law reads (among many other provisions, of course):

"ARTICLE 5. DEATH

"SEC. 21361. (b) An amount, provided from contributions by the State * * * equal to one-twelfth of the annual compensation earnable by the deceased during the 12 months immediately preceding his death, multiplied by the number of completed years of service under the system, but not to exceed one-half of such compensation."

(b) The California county employees' retirement law reads:

"ARTICLE 12. DEATH BENEFIT

"SEC. 31781. (b) The death benefit shall consist of an amount, provided from contributions by the county or district equal to one-twelfth of the annual compensation earnable by the deceased during the 12 months immediately preceding his death, multiplied by the number of completed years of service under the system, but not to exceed 50 percent of such annual compensation."

Actually the State only contributes one-half the cost of the death benefit because of other provisions in the law, i.e.—the actuarial cost of the system is computed and the employee and the employer each contribute the actuarial equivalent of one-half the cost of the system.

In our case this would mean approximately 6½ percent basic plus the 1 percent we now pay for the insurance, plus about another one-half percent for the increased benefit or a total deduction for Federal employees of about 8 percent (which turns out to be the average deduction for State and county employees with the benefit already in their act.)

At the present time, Federal departments and agencies contribute only one-third of the premium costs. H.R. 11879 recognizes the urgent need to update the Government's attitude in this area and would increase that contribution to one-half of the total premium.

So our proposal is that we should investigate the possibility of our "life" insurance law being amended so as to set it up as a "death" benefit in our retirement system to provide as above up to one-half our final year salary as a firm benefit. We might consider it as a lump-sum contribution to our "lump" sum as now provided for in our act for which we would get a refund if we died and all the benefits had been paid or terminated (as currently the law in our act).

Gentlemen, please observe that the approximate \$300 million now in the "private reserve" fund would then go into the GSRA retirement fund along with any "profits." Certainly the retirement fund urgently needs the money. At the same time, this could offset administration concern of dollar costs—evident every time the forgotten Government employee requests equitable fringe benefits.

2. That in line with the recommendation of the National Commission on Technology, Automation, and Economic Progress (after a yearlong study), "the Government has a particular obligation to be a model employer" (for 50 years advocated by NFFE). We thus request this esteemed committee to review the following chart, a comparative chart on benefits accrued based on present programs:

COMPARISON OF MEDICARE AND FEHBA BENEFITS

Federal employee (or retired employee) over 65 eligible for HIB had expenses of \$25 a day for hospital room and board for 100 days, other hospital expenses of \$300, and medical expenses of \$200. The following would be payable under medicare or the Federal Employees' Health Benefits Act:

	Medicare	FEHBA		
		Blue Cross-Blue Shield		Aetna
		Member hospital	Nonmember hospital	
First 60 days hospital.....	\$1,460	\$1,500	\$720.00	\$1,400
Next 40 days.....	450	1,000	480.00	800
Other hospital expenses.....	270	300	270.00	220
Medical expenses.....	120	200	200.00	140
Total expenses.....	2,300	3,000	1,670.00	2,560
For an additional 20 days at \$25 a day, other hospital expenses of \$75 and medical expenses of \$100, the comparison would be—				
Hospital room and board.....	0	500	240.00	400
Other hospital expenses.....	0	75	67.50	60
Medical expenses.....	180	200	200.00	80
Total for additional 20 days.....	80	675	407.50	540
Combined total for 120 days.....	2,380	3,675	2,077.50	3,100

¹ SMIB enrollment required.

² If covered by fee schedule under basic benefits; if not covered by fee schedule, amount payable under supplementary benefits would be \$80 for both 100-day period and 20-day period.

NOTE.—Wives under 65, children under age 21, and disabled children are included under family coverage in FEHBA plans; they are not under medicare.

We believe that the low benefits obtained are self-explanatory. We thus take the stand that in view of the aforementioned Commissioner's stand, and I quote: " * * * it pointed out that 'if an employee leaves the Federal service, he loses family survivorship benefits which ordinarily apply as well as the benefits of low group rates on life and health insurance.'

"Therefore, the report states, 'ways should be explored to correct these deficiencies.'"

3. Another related "health insurance" aspect concerns medicare. The grapevine states that one administrative proposal "would give present employees the option to be covered by the basic medicare program to start next July 1, or to remain out of it. But coverage would be compulsory for new employees hired after that date. Federal employees and their dependents would have to be 65 or older to benefit from the basic medicare program which includes hospitalization and related benefits. The cost to the employees would be 0.35 of 1 percent on the first \$6,600 of salary, and would rise gradually to 0.8 of 1 percent. It is assumed the President will ask Congress to amend the new Medicare Act to extend its hospitalization coverage to Federal employees who are now exempt from it. Former and present Federal employees, age 65 or older, are free to buy medicare's medical supplemental benefits at a cost of \$3 a month."

It is considered that there is a relationship between life, health, retirement, and medicare programs consonant with "Great Society" concepts. An in-depth analysis would thus alleviate contradictions in fact that in truth give rise to an "Age of Great Anxiety" rather than an "Age of Great Society" for the Government employee.

H.R. 11879 also is forward-looking in that employees would be insured for 150 percent of their annual salaries, to the next higher \$1,000.

Thus, a Federal employee in the \$9,000-\$10,000 bracket, for example, who now has \$10,000 in life insurance, under H.R. 11879 would have \$15,000 in coverage plus an equal amount of accidental death and dismemberment insurance.

Moreover, the bill is progressive in that it modifies the reduction of insurance coverage at age 65 or retirement from a monthly depreciation of 2 percent to 1 percent a month, and from the present minimum value of 25 percent of face value to a minimum of 50 percent of face value. As a result, the new bill guarantees a death benefit of at least three-fourths of the retiree's final salary.

All of these provisions are in line with recommendations contained in various resolutions adopted by our national conventions and which the NFFE has urged in previous statements and testimony on this highly important matter. While we believe that still further broadening and improvement of the life insurance program is called for, we would be less than frank if we did not emphasize the progressive and constructive approach of this bill and restate our appreciation for the initiative which has brought it to these hearings today.

In the matter of insurance coverage, as in so many others, the Federal Government has not been a leader over the years but rather a laggard follower.

We believe that a fruitful avenue for action by the Federal Government recently has been pointed to by the National Commission on Technology, Automation, and Economic Progress, which took note of a significant void in the Government's employee group insurance programs. The Commission's report pointed out that if a Federal employee leaves the service he loses family survivorship benefits which ordinarily apply as well as the benefits of the lower rates for his group insurance coverage. The Commission concerned itself with this matter because automation and technological changes are having a heavy impact on the Federal service as they are in the private sector. We should point out that, added to this, Federal employees are adversely affected including loss of jobs, by such actions as base closures, agency reorganizations, changes in mission, and others. Thus, a broad new look at the whole Federal group insurance program is urgently needed.

The distinguished chairman of this subcommittee has pointed out, properly, that H.R. 11879 puts into legislative form the first substantial changes in the Group Life Insurance Act since its enactment back in 1954.

Surely there can be no real disagreement on the point that after so many years the act is seriously in need of modernization and especially in view of the fact, as I have pointed out, that the limitations and shortcomings of the original law were widely recognized at the time and accepted only in order to make possible a long-delayed beginning on a vitally needed program.

The time to take a new substantive forward step is obviously overdue. H.R. 11879 represents a practical approach to the problem and one that is well within the realm of the attainable at this session of the Congress.

Mr. Chairman, I urge the subcommittee to bring in a favorable report on H.R. 11879, that it receive early attention in the full Post Office and Civil Service Committee, and that steps be taken to secure action by the House of Representatives, and in the Senate, at the earliest possible date.

On behalf of the National Federation of Federal Employees, I express to the chairman and members of this subcommittee our thanks for the privilege of appearing here today.

Mr. DANIELS. The committee will stand adjourned until 10 a.m. tomorrow morning.

(Whereupon, at 12 noon, the subcommittee was adjourned to reconvene at 10 a.m., Wednesday, February 16, 1966.)

IMPROVED LIFE INSURANCE BENEFITS

WEDNESDAY, FEBRUARY 16, 1966

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON RETIREMENT,
INSURANCE, AND HEALTH BENEFITS OF THE
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
Washington, D.C.

The subcommittee met at 10 a.m., in room 215, Cannon Building, Hon. Dominick V. Daniels (chairman of the subcommittee) presiding.

Mr. DANIELS. Before I call any witness to testify this morning, I would like to state that we have scheduled quite a number of witnesses to appear here today to testify on H.R. 11879 and related bills.

In the interest of expediting these hearings, I would suggest, in view of the fact the bill is very simple, and the objectives are very clear, that the witnesses submit their statement for the record and that they testify orally as to the highlights of their testimony.

I will assure the witnesses that their statements will be given very careful consideration by the Chair and all the members of the committee have assured me that they will be carefully studied. Of course they are free to proceed in any fashion that they desire. The Chair is interested only in expediting these hearings.

A number of the witnesses have indicated to the Chair that they desire to leave town tomorrow and would like to complete their testimony today, if that is at all possible. So, in the interest of cooperating with these witnesses, the Chair makes this statement in the interest of saving time and being cooperative with the various people who have indicated an interest to testify at these proceedings.

Our first witness is Mr. John F. Griner, president of the American Federation of Government Employees, accompanied by Mr. Thomas G. Walters, special assistant to the president for legislation, and Mr. W. J. Voss, director of research.

Mr. Griner, you are free to proceed.

STATEMENT OF JOHN F. GRINER, PRESIDENT, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES; ACCOMPANIED BY THOMAS G. WALTERS, SPECIAL ASSISTANT TO THE PRESIDENT FOR LEGISLATION; AND W. J. VOSS, DIRECTOR OF RESEARCH

Mr. GRINER. Mr. Chairman, thank you.

I want to express the appreciation of the American Federation of Government Employees for the opportunity to testify on this particular piece of legislation and I want to congratulate you for your foresight in introducing such legislation. We endorse this bill wholeheartedly.

I might say that the American Federation of Government Employees at the present time has about 185,000 members who represent some 300,000 Federal employees in other than post office departments throughout the United States and overseas in such areas as the Panama Canal Zone, Okinawa, Guam, Iceland, the Azores, Germany, and Puerto Rico.

I would like to point out that this life insurance program we are talking about has been in effect for some 10 years. There have been no significant changes in those 10 years. In fact, I think there has been only one minor amendment to this life insurance bill in that time.

During those 10 years, the fringe benefit programs in private industry have been improved from time to time. In other words, I would like to emphasize the fact that the life insurance program in the Federal service has not kept pace with the life insurance program in the private industry.

For instance, we have found that 22 of the large companies provided basic life insurance that varies from one-half to three times the employees' annual salary. I am not referring now to the programs which are available to high-paid executives alone, but to life insurance plans that are available to employees who are receiving, in some cases, less than \$3,000 a year.

You will find an appendix after my prepared statement, listing the names of the large companies that provide liberal amounts of insurance.

The second appendix also indicates those firms that pay the full cost of such benefits for active duty or retired employees.

I would like to call your attention to the fact that most of these firms are some of the largest employers in the United States, and yet none of them is as large as the Federal Government.

Gentlemen, your attention is called to the fact, which I am sure that you already realize, that Federal employees are now paying for their insurance at a 2 to 1 ratio. We firmly believe that the Federal Government should pick up at least one-half of the bill. In other words, it should pay for 50 percent of the cost of this insurance.

We believe that ultimately, I don't mean today or tomorrow or maybe next year, the Government should assume the entire cost of the insurance program, but at this time we are not asking for that.

It has been my experience in dealing with these people throughout the world that we don't mind paying additional premiums, provided that we get additional benefits.

I would like to suggest one amendment to your bill, Mr. Chairman, because as the bill is presently written, the changes in the amount of life insurance available would apply only to the employees on active duty. The increases herein provided should, by all means, be made available to employees who are now retired. There might be some question in your mind as to whether the employees who are now working would be willing to pay a proportionate share of the increased cost of such a program.

It is my opinion that they would be. It is my opinion that they would be glad to pay an increased cost if the Government would match such cost in order to provide for better benefits for the person who has already retired.

This bill, of course, provides that the reduction should not be below 50 percent of the face value of the policy at the time an employee

reaches 65 or he retires, whichever is later. This is badly needed. Some say that at that time your responsibilities are less. You don't need so much life insurance.

It is our opinion that we still have responsibilities, and we have found that it costs about as much to die as it does to live these days.

We also believe that a Federal employee should have some right to leave some estate to his survivors, because during the time that he has these responsibilities—viz, when he is bringing up his children, or he is trying to educate them—he does not have the money to buy sufficient life insurance. If this is taken away from him after he retires, then there is only a meager amount left, over and above that amount which is necessary to bury him, and in many a case it is not enough to give him a proper burial, and to leave something to his survivors.

There is another provision that I would like to see added to this bill, and maybe it is from a selfish viewpoint. I would like to suggest that section 6(b) of the Life Insurance Act be amended so as to provide that an employee who is on leave-without-pay status from a position in the competitive civil service be permitted to retain his life insurance during the time he is in such status and serving as an employee or an elective national officer of an employee organization which is qualified as such under Executive Order 10988.

Mr. DANIELS. Mr. Griner, do you have an amendment to propose?

Mr. GRINER. Yes, sir; we have it with us this morning.

While we are at it, I would also like to see the Federal Employees' Health Benefits Act of 1959 amended. Although it is not currently under discussion, I would like to see it amended. In other words, we people who are on leave of absence without pay do not mind paying the total cost of the premium.

Mr. DANIELS. I would like to say, with respect to health benefits, that upon the conclusion of these hearings the committee proposes to go into those issues. We can then contact you and you may wish to appear to present your views.

Mr. GRINER. Be happy to do it, sir.

Mr. Chairman, yesterday the spokesman for the administration came before us with a plea, "Let's not do anything about life insurance at this time. Let's wait." That sounds to me like a broken record. All last year we waited.

As you know, right at the end of the session we were unable to get some legislation through because we waited. We have had 2 months this year. There was supposed to be a report by January 1 on retirement and fringe benefits. We are still waiting on that.

Mr. DANIELS. December 1, 1965.

Mr. GRINER. Yes; 3 months later we are still waiting.

They tell us that they don't have sufficient information at hand to make a comparison of the benefits with private industry. Why don't they? They have the facilities of the whole Federal Government available to them.

I hope that you gentlemen will proceed with this legislation and let's get it before Congress and let's have something done with it. I don't believe that we should wait and wait and wait, and I think it is a deliberate action on the part of the administration to hold up legislation until there is not time to give it proper consideration.

We are going to be faced with the same thing with respect to pay as with retirement. There may be an attempt to send up a bill that

covers all of these different areas. Certainly I hope that each one of the subcommittees will handle their own portion. That is your business, and I am not here to try to tell you your business.

We keep talking about comparability. I think it is time that the Federal employee receive comparability. If we are not going to have comparability, let's tell them we are not going to have it. Let's quit promising them next year will be the year. I hope that you will give that some consideration.

Mr. Chairman, I am going to cut my statement short. There are some other things that I have in it that might be of some interest to the committee members, but in the interest of time I would like to say again that I appreciate the opportunity to appear before you.

Mr. DANIELS. Thank you, Mr. Griner, for your fine presentation. I wish to assure you that this committee does not propose to unduly defer action on the proposed legislation before the committee. We think it no more than fair that we give the Government witnesses an opportunity to present their case.

We would like to hear what the administration desires to say on this legislation and related legislation. I am assured that the President's Cabinet Committee report will be before us on or about March 1. If that report is unduly delayed, should it be delayed for months, this committee does not intend to stand idly by. It is intended to take whatever action this committee desires on this and other bills.

Mr. GRINER. Thank you.

Mr. DANIELS. I just want to ask one question. What are your views with respect to extending the principle of the bill under consideration to Federal employees who have already retired?

Mr. GRINER. We are in favor of it.

Mr. DANIELS. How about the cost? I understand there are about 400,000 employees involved.

Mr. GRINER. That is probably right.

Mr. DANIELS. Now, how about the cost? Do these employees have insurance without any cost to themselves?

If you recall yesterday's administration testimony, one of the two principal objections was on the basis of costs. Costs would be considerably enhanced here.

Now if you bring in the retirees, and there are 400,000 of them who are presently not paying for their insurance, this will also increase the amount of money that would be necessary to carry on the program.

Mr. GRINER. Mr. Chairman, I realize that it will increase the cost, but it is my opinion that if the Government will share equally with the cost of the companies of the whole insurance plan, that those employees who are now working will not hesitate to take upon themselves the burden of increased costs.

Mr. DANIELS. Do you think it would be fair and equitable for the present employees to carry the load for those who are already retired?

Mr. GRINER. We do not in other instances.

Mr. DANIELS. What do you think of the suggestion that the retirees contribute to the cost of the policy?

Mr. GRINER. That would be good. We would be in favor of it.

Mr. DANIELS. To what extent?

I don't know if you have given it any thought. Perhaps you would want to analyze the Chair's suggestion and supplement your statement at a later date.

Mr. GRINER. We would be happy to do that. Frankly, I had not thought of that angle of it. If you give these retired employees the option of having the increased benefits or keep their own, certainly if they accepted the option, they should be able to accept the responsibility of a part of the cost of it. I'm just saying that from the top of my head.

Mr. DANIELS. Thank you.

Mr. Matsunaga, did you have a question?

Mr. MATSUNAGA. No, sir.

Mr. DANIELS. Mr. Cunningham, do you have a question?

Mr. CUNNINGHAM. Mr. Griner, has this Cabinet Committee consulted with you or your organization?

Mr. GRINER. We have had some discussion; yes.

Mr. CUNNINGHAM. Do you think that you and the other employee groups would be more knowledgeable in this field than somebody comparing this report on the Cabinet level? That sounds good, but I know that no Cabinet officer is going to get down into this field. Some employee three or four rungs below him is going to be developing this report, and I was wondering if they asked you for any advice.

Mr. GRINER. Yes; they did. I appeared before the representatives, as you say of the Committee, and gave them the opinion of my organization.

Mr. CUNNINGHAM. Did they invite you or did you have to invite yourself?

Mr. GRINER. No; they invited us.

Mr. CUNNINGHAM. You mentioned that some industries provide the full cost of insurance, and so on. Do you know if it is a widespread practice in industry where they have a life insurance program that the insurance is reduced as it is in the Federal employees' plan?

Mr. GRINER. Let me ask this question of Mr. Voss. He made quite a research on that.

Mr. Voss. Some companies do reduce but there is a considerable number that continue approximately the same amount.

Mr. GRINER. Were there many companies that reduced it to as much as 25 percent?

Mr. Voss. The reduction is, in many cases, only 50 percent.

Mr. CUNNINGHAM. That is all I have.

Mr. MATSUNAGA. Mr. Griner, I wish to commend you for your fine statement. I was especially pleased to note the examples given of private firms whose practices seem to indicate that we are just not keeping up with industry. Thank you again, we certainly appreciate your appearing before the committee.

Mr. GRINER. Thank you.

(The prepared statement of Mr. Griner follows:)

PREPARED STATEMENT OF JOHN F. GRINER, PRESIDENT, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES

The bill, H.R. 11879, amending the Federal Employees' Group Life Insurance Act of 1954 merits the full support of the American Federation of Government Employees because it would provide several long-needed improvements in the Federal employee life insurance plan. These improvements would not only add certain features advantageous to the employees affected but would also have the effect of placing the life insurance system on an actuarially sound basis.

The interest of our organization in this legislation is a very real interest, not only because of the merits of this bill, but also because it would mean a great deal to the Federal employees that we represent. At present, the American Federa-

tion of Government Employees has about 185,000 members but actually represents nearly 300,000 Federal employees by virtue of exclusive recognition. We have memberships throughout the 50 States, including Hawaii and Alaska, and in such other oversea areas as the Panama Canal Zone, Okinawa, Guam, Iceland, the Azores, Germany, and Puerto Rico.

The life insurance program which was made available to Federal employees more than 10 years ago offers one of the important benefits of the Federal civil service. There has been no significant change during these intervening years. It is a program which should be improved from time to time so as to bring it into line with similar programs available to the employees of large firms in private industry.

I believe that the life insurance program should reflect the best practices of private industry and in so doing adhere to the principle of comparability which has been accepted for compensation and may reasonably be applied to every other feature of working conditions in the Federal civil service.

Private industry is providing its salaried employees with various insurance and pension benefits on an increasingly liberal basis. This is particularly true of life insurance and accident, death and dismemberment insurance, and death benefits. Measured in relation to payroll, industry devotes nine-tenths of 1 percent of total payroll to life and accident insurance programs, while the Federal Government spends only three-tenths of 1 percent. The expenditure by private industry thus is proportionately three times greater than that of the Federal Government ("Supplementary Compensation for Nonproduction Workers, 1963," Bureau of Labor Statistics).

The bill, H.R. 11879, would increase the amount of life insurance available to Federal employees to approximately $1\frac{1}{2}$ times annual compensation. The AFGE supports this proposal and I believe that we have enough substantiating evidence to indicate that the Federal Government will only be following what has been done, in some cases, for several years by large corporations that employ many thousands of persons. In the national office we have collected information concerning the basic life insurance programs of some of the large companies, and in addition have had the benefit of information available in the U.S. Department of Labor.

It has been ascertained that 22 of the large companies provide basic life insurance that varies from $1\frac{1}{2}$ to 3 times an employee's annual salary. I am not referring now to programs which are available to highly paid executives alone but to life insurance plans which are available to employees who are receiving, in some cases, less than \$3,000 a year. Following the text of my statement is an appendix listing the names of large companies that provide liberal amounts of insurance. A second appendix also indicates those firms that pay the full cost of such a benefit for active duty or retired employees.

There are four firms that provide insurance approximating $1\frac{1}{2}$ times basic salary. These include such companies as the International Harvester Co., American Airlines, and the Radio Corp. of America. There are 16 other companies, of those concerning which we have information, that provide basic life insurance in an amount equivalent to two times annual salary. These firms include such employers as General Motors, Eastman Kodak Co., United States Lines Corp., General Electric Co., and Liggett & Myers Tobacco Co. Pittsburgh Plate Glass Co. offers insurance in the amount of three times annual salary.

Some firms, such as the International Business Machines Co. and E. I. du Pont de Nemours & Co., place their insurance program on a service basis, which increases the amount of insurance according to years of service. For example, IBM has been providing life insurance in the amount of \$1,000 for less than 1 year of service up to \$20,000 for 10 to 11 years of service. The maximum amount is \$25,000 for 25 years and over. Several firms provide a flat amount of life insurance and increasing amounts of optional life insurance and accidental death and dismemberment insurance, which is the program provided by the Aluminum Co. of America.

The information we have been able to obtain concerning this group of large employers, is, in my opinion, substantial proof that private industry is moving forward with respect to an employee benefit which is in need of substantial improvement in the Federal service.

Another important provision of this bill would increase the present maximum contribution of the employee from 25 to 30 cents biweekly for each \$1,000 of group life insurance. Inasmuch as the increase relates to a maximum figure, I would not object to the proposal in the bill, provided the employee contribution is always maintained at an amount no greater than that paid by the Government.

The bill provides for an increase of the Government contribution from one-half that of the present employee payment to an amount equal to that of the employee. Since employees now pay 25 cents biweekly and the Government pays 12½ cents biweekly, it would make it possible to raise the total combined contribution to an authorized maximum of 60 cents.

We appreciate the fact that providing additional insurance will necessarily increase the cost of the life insurance program, but our first consideration is the existing deficit which has been estimated as requiring an additional 7 cents biweekly per \$1,000 of life insurance. With the employee paying 25 cents biweekly and the Government contributing 12½ cents, the present total biweekly payment per \$1,000 is 37½ cents. If the deficit is covered, as it should be, the total payment would be increased to 44½ cents. Now is the time to cover the existing deficiency, and provision should be made now.

I do not have available the actuarial data which indicate the total cost of the additional life insurance provided in H. R. 11879 and the elimination of the present deficit, but if it requires the employee's payment to be increased in a small amount, I would not object.

I have found that Federal employees do not mind paying for additional benefits, provided the Government pays an equal share. We wish to go on record, therefore, as favoring the maintenance of the Federal employee life insurance program on a sound financial basis. We certainly do not wish to sit idly by and witness the life insurance program deteriorating into the same unsound financial condition as that of the civil service retirement system.

I believe that our ultimate objective should be for the Government to pay the full cost of life insurance for its employees. It would by no means be an innovation but would merely reflect the practices of some of the largest firms in private industry.

Following this statement is an appendix listing firms that pay the full cost of life insurance for its active-duty employees and those that pay the full cost of life insurance for its retired employees.

There is another important feature of this bill which we heartily support. It is the provision in section 1(d) which would change the present ultimate reduction of the value of a policy to 25 percent after age 65. This would be changed to not less than 50 percent of the insurance originally in force. I say that we support this change as an improvement of the present system, but I must qualify that statement by saying that we believe this subsection should be amended so as to restore to 50 percent the original value of all policies now covering retired employees which have been reduced below 50 percent. I do not believe this is asking too much in view of the fact that we are here dealing with a contributory insurance plan.

As the bill is presently written, the changes in the amount of life insurance available would apply only to employees on active duty. The increases herein provided should by all means be made available to employees now retired.

The provisions relating to contributions of employees and Government would be effective early in July of this year. This would be satisfactory, and it is hoped that this legislation can be moved along rapidly enough to make this possible.

There is another amendment to the Life Insurance Act which I wish to commend to the attention of this subcommittee. I suggest that section 6(b) of the Life Insurance Act be amended to provide that an employee who is in a leave without pay status from a position in the competitive civil service be permitted to retain his life insurance during the time he is in such a status and serving as an employee or as an elective national officer of an employee organization which has qualified as such under Executive Order 10988.

While the Federal Employees' Health Benefits Act of 1959, as amended, is not currently under discussion, I still would like to suggest that consideration be given to amending, in a similar manner, that law so that a Federal employee in a leave without pay status and serving an employee organization be permitted to retain his eligibility for coverage in a health benefit program. The suggested amendments should, in both instances in my opinion, provide that the employing organization would, during this leave without pay period, make the payments which otherwise would be made by the Federal Government had the employee remained in an active duty civil service status.

Again I wish to emphasize the need for enacting the provisions in H. R. 11879 so that the Federal Government life insurance program will be brought a step closer to comparability with a large segment of the major employers in private industry. Mr. Chairman and gentlemen of the committee, I wish to express my appreciation for this opportunity to discuss this important legislative proposal.

APPENDIX A.—AMOUNT OF BASIC LIFE INSURANCE PROVIDED

Approximately 1½ times annual salary.—American Airlines, the Borden Co., International Harvester Co., and Radio Corp. of America.

One and one-half to two times annual salary.—Safeway Stores.

Two times annual salary.—American Can Co., Eastman Kodak Co., General Electric Co., General Motors Corp., S. S. Kresge Co., Liggett & Myers Tobacco Co., North American Aviation, Pennsylvania Railroad Co., Pacific Gas & Electric Co., Charles Pfizer & Co., Inc., Prudential Insurance Co., Sinclair Oil Co., Sperry Gyroscope Co., J. P. Stevens & Co., Union Carbide Corp., and U.S. Lines.

Three times annual salary.—Pittsburgh Plate Glass Co.

Based on service.—E. I. du Pont de Nemours & Co. and International Business Machines Corp.

APPENDIX B.—BASIC LIFE INSURANCE

COMPANY PAYS FULL COST FOR—

Active duty employees:

Aluminum Corp. of America, the Chase Manhattan Bank, Detroit Edison Co., E. I. du Pont de Nemours & Co., General Motors Corp., Goodyear Tire & Rubber Co., International Business Machines Corp., International Paper Co., Pennsylvania Railroad, Radio Corp. of America, Sperry Gyroscope Co., U.S. Lines Corp., United States Steel Corp., Weyerhaeuser Co., Bethlehem Steel Corp., Cluett Peabody & Co., Inc., Consolidated Foods Corp., Crown Zellerbach Corp., Douglas Aircraft Co., Inc., Gimbel Brothers, Inc., McCrory Corp. (McCrory-McLellan-Green Stores Division), Research Institute of America, Inc., and Time, Inc.

Retired employees:

Aluminum Corp. of America, the Chase Manhattan Bank, Detroit Edison Co., E. I. du Pont de Nemours & Co., General Motors Corp., Goodyear Tire & Rubber Co., International Business Machines Corp., International Paper Co., Pennsylvania Railroad, Radio Corp. of America, Sperry Gyroscope Co., U.S. Lines Corp., United States Steel Corp., Weyerhaeuser Co., American Telephone & Telegraph Co., the Borden Co., Eastman Kodak Co., General Electric Co., Kroehler Manufacturing Co., Pacific Gas & Electric Co., Pittsburgh Plate Glass Co., and Safeway Stores, Inc.

Mr. DANIELS. Our next witness is Mr. John C. Brady, chairman of the National Association of Internal Revenue Employees.

STATEMENT OF JOHN C. BRADY, LEGISLATION CHAIRMAN, NATIONAL ASSOCIATION OF INTERNAL REVENUE EMPLOYEES

Mr. BRADY. Mr. Chairman and members of the subcommittee, our association of over 27,000 members adopted the following resolution at the 27th Annual Convention of National Association of Internal Revenue Employees held on August 23–28, 1965, in Washington, D.C.:

RESOLUTION TO AMEND THE FEDERAL EMPLOYEES' GROUP LIFE INSURANCE ACT OF 1954, AS AMENDED, SO AS TO PROVIDE ADDITIONAL LIFE INSURANCE

Whereas this convention to support bills which will strengthen our group life insurance, and to further place a limit on decline in face value of insurance policies from 25 to 50 percent and to reduce from 2 to 1 percent a month rate of decline after age 65 or retirement: Be it

Resolved, That this convention further instruct the legislation committee to petition Congress to make available to our employees \$10,000 additional coverage regardless of annual earnings.

Our association is glad to respond to and recommend Congressman Dominick V. Daniels' bill, H.R. 11879, which provides a 50-percent increase in life insurance coverage for Federal employees.

The employees would be insured for 150 percent of their annual salaries, to the next higher \$1,000. Thus, a Federal employee in the \$9,000–\$10,000 bracket, who now has \$10,000 in life insurance, would,

under the new Daniels bill, have \$15,000 in life insurance, plus an equal amount of accidental death and dismemberment insurance.

Further, the bill modifies the reduction of life insurance coverage after retirement from a monthly depreciation of 2 percent of face value to a minimum 50 percent of face value. This feature guarantees a death benefit of at least three-fourths of a retiree's final salary.

Mr. Daniels' bill also will require the agencies, which now contribute one-third of the premium costs, to contribute one-half of total premiums, also by increasing the ratio of the Government's contribution, the additional life insurance would cost the employee biweekly payments of only 30 cents per \$1,000.

We think H.R. 11879 is very wholesome legislation. The Federal life insurance program is a godsend to all Federal employees, and this additional protection will afford a certain comfort for the families.

I wish to express my appreciation, Mr. Chairman, for the opportunity to make these comments on this legislation.

Mr. DANIELS. Our next witness is Mr. Patrick J. Nilan, the legislative director of the United Federation of Postal Clerks, accompanied by Mr. Joseph F. Thomas, director of organization.

Mr. Nilan, you may proceed.

**STATEMENT OF PATRICK J. NILAN, LEGISLATIVE DIRECTOR,
UNITED FEDERATION OF POSTAL CLERKS, ACCOMPANIED BY
JOSEPH F. THOMAS, DIRECTOR OF ORGANIZATION**

Mr. NILAN. Good morning Mr. Chairman and members of the committee.

On behalf of our exclusive representation of the Nation's 245,000 postal clerks we are very happy to appear this morning in support of H.R. 11879. I might add we are also happy to cooperate with the committee, and instead of reading our statement into the record, if I may, we would like to refer to two or three parts of the statement and then briefly comment on the pending legislation.

Mr. DANIELS. We will appreciate it.

Mr. NILAN. We do believe that the bill offers an excellent solution on both how to stabilize and strengthen the financial position of the employees' fund, and also contribute substantially to the solution of problems presently in existence.

I would like to respond to the question Congressman Cunningham asked the previous speaker, and I might add that in view of his question, we have become somewhat confused on the question of the mission of the President's Cabinet Committee.

Originally when the Cabinet Committee was appointed to study the Federal retirement systems we understood that they were going into fringe benefit programs also. However, when Mr. Hallbeck and myself appeared before the Committee last June or early July, we were advised in advance by a letter from the Committee staff that we were to concern ourselves only with retirement benefits and we were not to be concerned with other fringe benefit areas.

We were quite surprised with the advice given at that time because we originally understood that we would have the opportunity to discuss some of these other programs such as life insurance, health benefits and so on in appearing before the President's Committee.

As a result, our testimony last June was specifically directed only

to the area of retirement and we were not given any opportunity to go into any other programs.

Now I do understand there have been some formal discussions with Mr. Macy and other members of the administration, on fringe benefits other than retirement but I suggest these have been very informal and we as an employee union, have had no opportunity to present our position to the Committee staff. That, Mr. Chairman, is why we are not in sympathy with the suggestions by Mr. Macy and the other administration witnesses that this committee should hold up consideration of the pending legislation until such time as the Committee staff does report.

It is true they may concern themselves with life insurance or other benefits, but again we are here today in support of the legislation H.R. 11879 and we did not have a similar opportunity to present such testimony before the President's Staff Committee.

Mr. DANIELS. Mr. Nilan, my colleague, Mr. Cunningham, would like to ask a question.

Mr. CUNNINGHAM. On that subject, sir, who were the people that you actually sat down with?

Mr. NILAN. You are talking now on the retirement staff—

Mr. CUNNINGHAM. I was talking about this so-called Cabinet Committee.

Mr. NILAN. We have never sat down and discussed any fringe benefit legislation, except retirement, with any of them.

Mr. CUNNINGHAM. What I was just trying to get at is just who these people are and whether they are at all familiar with the problems of your organization. I just wonder if they are knowledgeable in this field or not.

Mr. NILAN. Well, the original Committee that we appeared before back in June had Mr. Macy, Mr. Ruddock, Mr. Murphy, Assistant Postmaster General, the Post Office Department, Bureau of Personnel, and a number of other people from different agencies who were serving on the Cabinet Committee.

Mr. CUNNINGHAM. Thank you.

Mr. NILAN. We would like to suggest that this committee, particularly in reviewing our statement, consider the situation in the State of Michigan which recently negotiated an agreement to pay two-thirds of the cost of the employees of Michigan, State employees, on their life insurance coverage.

We would also like to suggest, Mr. Chairman, that our union is basically on record in support of, we hope, the ultimate objective of the Congress, which is complete payment of life insurance premium by the Government on behalf of our people.

We are also concerned that the Civil Service Commission stated last year before the House Post Office and Civil Service Committee—I believe Mr. Macy stated that the Commission, even if they had discretionary authority would not raise the premium contribution by the Government unless and if the President's Cabinet Committee so recommended. We again suggest that this is a proper area for congressional consideration, and we support the chairman's intention to move into this area of legislative endeavor in the near future even if the Cabinet Committee does not make an early report.

We would also like to suggest, Mr. Chairman, that as an employee rank-and-file organization, most of our people have salaries, as you

all well know, limited to around \$6,000, \$6,500, even though ultimately they may have a \$7,000 salary before they retire. We are particularly in support of this bill because our people get less as far as comparative insurance benefits because of the lower salaries. They don't have the large salaries which presently would give them additional insurance coverage, and we certainly applaud the intent and the language in the legislation pending before this committee which would substantially increase insurance coverage particularly in the lower salary levels.

I would like also to join with John Griner in recommending an amendment be considered by this committee to permit Government employees, regardless of their position or stature who are on approved leave without pay from the Government to continue the Government's insurance program with such employees paying the entire premium themselves until such time as they may return to active Government employment.

With that, Mr. Chairman, I want to thank you and the members of the committee, both for myself and Mr. Thomas as well as our organization, for the opportunity to appear before you this morning. We cannot urge you too strongly for early consideration of the pending legislation.

Thank you very much, Mr. Chairman.

Mr. DANIELS. We are happy to have you here, Mr. Nilan.

Mr. Matsunaga, any questions?

Mr. MATSUNAGA. No questions.

Mr. DANIELS. Mr. Cunningham, any further questions?

Mr. CUNNINGHAM. No questions.

Mr. GREEN. No questions.

Mr. NILAN. Thank you.

(The prepared statement of Patrick J. Nilan follows:)

PREPARED STATEMENT OF PATRICK J. NILAN, LEGISLATIVE DIRECTOR, UNITED
FEDERATION OF POSTAL CLERKS

Mr. Chairman and members of the committee, for the record, I am Patrick J. Nilan, national legislative director of the United Federation of Postal Clerks, AFL-CIO, with headquarters at 817 14th Street NW., Washington, D.C. I am accompanied today by Joseph F. Thomas, director of organization of our union.

Speaking in behalf of the Nation's 245,000 postal clerks, for whom we are the exclusive national representative under the Federal labor-management program, I wish to express appreciation for the opportunity to appear again before this committee. It was just about a year ago that I appeared before this committee in support of H.R. 6434, a bill proposed in March 1965 by the distinguished chairman of this subcommittee to correct a situation reported by the Civil Service Commission in which it was found that the level of premiums paid into the Government employees' life insurance fund was insufficient to meet future liabilities. This committee moved with commendable haste to meet a distressing shortfall in the funds required to protect the integrity of the life insurance fund.

However, now a year later, this startling deficiency has not been corrected and despite approval of H.R. 6434 by the U.S. House of Representatives, no increase in premium levels has taken place since the Senate has taken no final action.

The United Federation of Postal Clerks commends this subcommittee and its chairman for their diligence and determination in seeking to prevent this problem from becoming a chronic one. We would all rest easier if similar concern had been shown for the condition of the civil service retirement fund which now has a reported deficit of approximately \$40 billion.

We believe that H.R. 11879 offers not only an excellent solution to the problem of how to stabilize and strengthen the financial condition of the employees' fund, but also contributes substantially to a solution of the problems caused by inadequate coverage and protection for our members and Government employees

generally under the Federal Employees' Group Life Insurance Act as to benefits that accrue to participating employees.

Under the provisions of this act, the Civil Service Commission has set biweekly premium payments at the maximum allowable rate of 25 cents per \$1,000 of insurance for employees and 12½ cents for the Government, a ratio of 2 to 1 in favor of the Government. The actuarial valuation prepared by the Civil Service Commission last year shows that this level of premium payments is 7 cents short of the level necessary to finance the insurance fund on a permanent basis.

Previous efforts by this subcommittee to solve this problem by legislation that would increase the allowable level of the Government's contribution to an amount equal to that of the employees'; i.e., 25 cents each, were opposed by spokesmen for the administration. The argument was advanced that the shortfall of 7 cents should be made up, in large part, from increases in employee contributions despite the fact that the Government's contribution was already lower than the level generally accepted in private industry.

These opponents also pointed out that the amount and proportion of the Government's contribution to the group life insurance premiums must be viewed as only a part of the Government's overall retirement and fringe benefit policies. Also, since a Cabinet Committee had been appointed by the President to review these policies it was deemed inappropriate for the administration to take a position relative to its contribution to the shortfall until the Cabinet Committee had made its recommendations. These were expected some 9 months later, in December 1965, but have not been made public as of this date in February 1966.

Since the administration's budget for the coming fiscal year contains very little opportunity for increases in salaries and fringe benefits to employees, it may be reasonably expected that the Cabinet Committee's findings will not refer to other than possible retirement benefits and the Government will not change its stand with respect to itself contributing to the 7-cent deficit. The shortfall continues, after nearly a year of legislative effort, and the administration continues to maintain that if it is to be corrected, it must be made up in large part by the employees.

In fact, Mr. John W. Macy, Jr., Chairman of the Civil Service Commission indicated, in opposing passage of H.R. 6434 which was designed to eliminate this deficit by increasing the Government's contribution, that he would prefer to see the deficit continue rather than make it up at Government expense.

If I may use the words of the distinguished chairman of the Subcommittee on Postal Facilities and Modernization, Mr. Arnold Olsen, of Montana (who appeared previously before this subcommittee), "Mr. Chairman, I would like to recommend to the committee that the Congress do something about determining policy here and not just rely on the executive branch to make policy. It seems to me that the Congress is perfectly capable of making a comparison between insurance systems of private enterprise and Government and along with our policy of comparability, and that we have an enlightened system for employees comparable with the best of private enterprise."

The United Federation of Postal Clerks has always maintained that the Federal Government should set the pace, in relation to private industry, particularly with respect to middle and lower level salaries and with respect to fringe benefits. During the administration of President John F. Kennedy the Government and the Congress committed itself to a policy of across-the-board comparability with industry and major legislation has been passed trying to bring the emoluments of Federal employees more closely into line with those of private industry. Consistent with this policy, we believe that the Congress has no honorable alternative but to increase the Government's contribution to the life insurance fund to a level that at least approaches standard practice in private industry. At present, the Government contributes only one-third of the total premium, or one-half of the amount paid by the employees.

In contrast, according to the Bureau of Labor Statistics study, "Wages and Related Benefits for 1963 and 1964," more than one-half of private industry pays all premiums on the life insurance policies carried by these firms for their employees. Broken down by industry, these figures are more interesting—60 percent of the manufacturing industry, 60 percent of the services industry, 69 percent of the transportation, communications, and public utilities industry, 47 percent of the retail trades, and 53 percent of the wholesale trades carry life insurance on their employees at no cost to the employees. More than one-half of all life insurance plans covering organized and nonorganized workers are covered in the above statistics. The 1965 survey is not yet completed but is expected to show even higher averages.

Incidentally, the Civil Service Commission of the State of Michigan approved, on December 7, 1965, a pay hike for about 33,000 State classified employees effective July 1, 1966. The commission also approved a policy which allows each employee to increase his life insurance to the next highest \$1,000 of annual salary. The State will continue to pay 24 cents and the worker 12 cents for each \$1,000 coverage.

While we do not have statistics on the number of industries that pay one-half or more, but less than 100 percent, of the life insurance premiums of their employees, we are satisfied that a substantial majority of private employees in the United States that participate in group life insurance programs pay less than one-half of the required premiums. The U.S. Government has not yet adopted as enlightened a policy. The present administration has undertaken firmly to oppose payment of more than one-third, even against congressional initiatives proposing to correct this imbalance.

The United Federation of Postal Clerks gives its wholehearted endorsement to H.R. 11879 and to the concept that the Government, at this time, should certainly pay at least 50 percent of the total premium costs. Our union is on record urging the Government to pay 100 percent of life insurance premiums and we urge consideration of this goal by Members of the Congress. We particularly endorse the language of section (c) of this bill that would withdraw from the Civil Service Commission its discretionary power to set the Government's contribution up to the authorized maximum. We make this observation in the light of the statement by Mr. Macy last year that even if the Civil Service Commission is authorized, by new legislation, to increase the Government's premium payments, "the Commission would not do so until or unless recommended by the Cabinet Committee now studying fringe benefits."

In other words, as long as the Commission holds discretionary authority to raise the Government's contribution, it will not do so (despite the deficient level of premium payments) unless it proves convenient in the light of the administration's fiscal planning. We are gratified that the committee's bill would make the Government's contribution mandatory.

We would like to emphasize, however, that equal sharing between Government and its employees of the group life insurance premiums leaves the U.S. Government still behind the more enlightened practice in private industry in which the employer pays the entire cost. In the belief that the Government should be a pace setter in the field of employee benefits, the United Federation of Postal Clerks believes that the proposed 50-50 formula should be viewed as only an interim measure pending early adoption of legislation that would require the Government to assume all insurance costs for its employees.

In the absence of reliable statistics it would be difficult to compare the life insurance provisions and benefits provided by the Federal Government and private industry. However, we are gratified that H.R. 11879 undertakes to correct some of the inequities and deficiencies of the original act, as amended, and combines many of the features of bills proposed by this committee on previous occasions.

We believe that the proposal to reduce the rate of decrease in available coverage after age 65 from 2 to 1 percent per month and to raise the minimum amount that may be retained by retired employees from 25 to 50 percent is a major step toward elimination of this injustice. Under the present legislation, a retiree at age 65 can leave to his family, insurance benefits equal to 1 year's salary rounded off to the next highest \$1,000. At age 68, however, his family can only benefit from a maximum of 3 months' salary.

In view of the high cost of "dying," we believe that this pittance is inadequate in most cases for the widow and family of the deceased to meet burial costs and other financial burdens of adjustment to the new level of income provided by survivor annuities. To help survivors meet this trying period, the United Federation of Postal Clerks believes that there should be no reduction of life insurance benefits after retirement.

We realize, however, that the provisions of H.R. 11879 to increase employee insurance policies to 150 percent of their annual salary goes a long way in the right direction. If an employee is insured for 150 percent of his annual salary, the new minimum (one-half of 150 percent) under the proposed legislation would mean insurance benefits to the survivors equal to 75 percent of his annual salary at the time of retirement. Nevertheless, we believe that any reduction of an employee's insurance after retirement deprives him of his self-respect and his survivors of adequate protection. In most cases it robs him of any hope of passing on to his survivors a contribution, however modest, to the future of his loved ones.

We believe, too, that Government employees should be allowed to purchase additional units of insurance over and above the provisions of H.R. 11879 up to the allowable maximum. Under present legislation, those employees who make the largest salaries are in the best position to provide for their families when they die. Yet, only these employees are entitled to purchase the largest amount of insurance. Those who earn the least and can provide the least for their survivors, can purchase only a relatively small amount of insurance. We believe that this inequity should be corrected by permitting employees, with financial assistance from the Government, to purchase additional units of insurance. We believe, further, that the Government's contribution to the cost of such optional insurance should be at least 50 percent.

Thank you, Mr. Chairman, and members of the committee for this opportunity to express our support of your efforts on behalf of the Federal employees' life insurance fund, and on behalf of the employees and their survivors.

Mr. DANIELS. Our next witness is Mr. Harold McAvoy, president of the National Association of Post Office Mail Handlers.

**STATEMENT OF HAROLD McAVOY, NATIONAL PRESIDENT,
NATIONAL ASSOCIATION OF POST OFFICE MAIL HANDLERS**

Mr. McAvoy. Mr. Chairman and members of the subcommittee, for the record my name is Harold McAvoy. I am national president of the Post Office Mail Handlers, Watchmen, Messengers, and Group Leaders.

Our national association is part of the American Federation of Labor, Congress of Industrial Organizations, and the Government Employees' Council. Our national offices are located in the Warner Building, 13th and E Streets NW., Washington, D.C.

At this time, I would like to express our gratitude to Congressman Dominick Daniels, for introducing H.R. 11879, a bill that if enacted into law, would strengthen the financial condition of the life insurance fund.

In his budget message, President Johnson allocated very little money for the requests that would liberalize postal employee benefits. However, it is my sincere opinion that both the House of Representatives and the Senate feel that this worthy piece of legislation should be enacted into law. The administration, I am informed, has decided to oppose this bill, before the committee.

This bill would provide postal employees with life insurance policies equal to 150 percent of their salaries, and ease the decline in policy values after age 65, from the Government's contribution to the cost of the premium.

In conclusion Mr. Chairman, and members of this committee, I urge you to give speedy and favorable consideration to H.R. 11879.

Thank you, gentlemen, for the privilege of appearing before you and stating the position and thinking of our national organization.

Mr. DANIELS. Our next witness is Mr. Sidney Goodman, president of the National Postal Union.

**STATEMENT OF SIDNEY A. GOODMAN, PRESIDENT, NATIONAL
POSTAL UNION, ACCOMPANIED BY DAVID SILVERGLEID,
SECRETARY-TREASURER**

Mr. GOODMAN. Mr. Chairman and members of the subcommittee, my name is Sidney A. Goodman, and I am privileged to serve as president of National Postal Union, located at 509 14th Street NW., Washington, D.C.

I am accompanied here by our secretary-treasurer, David Silvergleid. We represent over 55,000 postal employees, organized in excess of 500 local affiliates in 50 States, including Alaska, Hawaii, Puerto Rico, and the District of Columbia.

We are grateful, Mr. Chairman and members of this subcommittee, for these hearings on H.R. 11879, a bill to liberalize life insurance benefits for postal and Federal employees. We support the principles of this legislation, and are appreciative of the opportunity to express our views before your subcommittee.

National Postal Union is mandated to seek legislation providing a group life insurance policy for all postal employees, in the minimum amount of \$10,000, except for those employees whose salaries exceed that figure. For such employees, we advocate a policy equal to 150 percent of their annual salaries, to the next higher \$1,000.

We also feel there should be no decrease in the face value of the policy after retirement, and that the Government should defray the full premium cost.

Life insurance is vitally important to persons in all walks of life, and particularly so to salaried workers in the lower income brackets. Too frequently, it is the only means by which they may provide a small estate at the time of their death, or even provide the wherewithal to absorb the expenses of a funeral.

The U.S. Civil Service Commission has frequently stated that Government group life insurance is intended to supplement private insurance and not replace it. The fact is that the vast majority of postal employees cannot afford the cost of adequate life insurance.

Providing life insurance coverage for the protection of workers' families is now an accepted practice in private industry. It is one of the most important fringe benefits a worker can receive. Since the passage of the Federal Employees' Group Life Insurance Act of 1954, it has become more and more a common practice in private industry for employers to assume the entire cost of group life insurance programs for their employees.

We believe, and have long advocated, that the Federal Government should set the pace for private industry in labor-management relationships, pay standards, and fringe benefits. Regrettably, the Federal Government is still trailing in numerous areas, particularly in the assumption of full costs for group life and health insurance.

We recognize the cost element that would be involved in full payment of life insurance premiums by the Government. We appreciate the chairman's efforts to apportion premium costs on a more equitable and reasonable basis.

By current statute, employees' and Government contributions are fixed at a maximum of 25 cents and 12½ cents per employee per \$1,000 biweekly, respectively. In testifying on this subject June 16, 1965, the distinguished Chairman of the U.S. Civil Service Commission stated that the 37½ cents per \$1,000 insurance was 7 cents below long-range actuarial requirements. According to his testimony yesterday that amount has been upped to 44.8 cents per \$1,000.

He opposed a proposal to increase Government contributions from one-half to an amount equal to the employee's biweekly contribution and suggested costs to employees be increased from the present 25 cents to "some such figure as 35 cents per thousand, biweekly." This would increase the cost to employees without any increase in benefits.

We oppose this approach. Even if an additional 7 cents biweekly was needed, "on a long-range basis," there is a more equitable solution. The statutory maximum for the Government's contribution should be increased from one-half to an amount equal to the employee's biweekly premium.

Then if 44.8 cents biweekly were needed, the cost could be shared equally by the employee and the Government, and even at worst, the employee's contribution could be reduced from its present 25 to 22½ cents per \$1,000 biweekly.

Mr. Chairman, I would like to comment on the testimony of the Chairman of the Civil Service Commission yesterday. More and more, it is the universally accepted practice for the employee to pay the entire cost of life insurance premiums. This law has been in effect since 1954. In all probability the face value of the policies is now worth 75 percent or less in terms of goods and services as purchased on the current market in terms of what the recipients of that insurance would utilize it for.

Now on page 4 of the testimony by the Chairman of the U.S. Civil Service Commission, he makes reference to opposing piecemeal legislation. I would remind the distinguished chairman and members of this committee that it is not the employees' organizations nor the Congress which appointed the Cabinet Committee on Retirement, and in that respect I think that this administration has an obligation to take cognizance of the needs of employees.

Also, the Chairman in his testimony on page 4 states:

New commitments for Federal fringe benefits must be carefully assessed to assure that total compensation of Federal and non-Federal employees remain substantially comparable. Studies in this area reported in mid-1965 indicated an approximate overall equality in Government and private enterprise expenditures for white-collar workers, with fringe benefits for the group amounting to nearly 25 percent of payroll.

I don't comment on nonpostal Federal employees, but I ask, is the Chairman contending that the postal employee is a white-collar worker? Are the mail handlers who perform arduous physical labor around the clock on all kinds of jobs, are they white-collar workers?

Are clerks, who work nights as well as Saturdays, Sundays, and holidays, and study schemes on their own time, are they white-collar workers? Similarly, with maintenance and motor vehicle employees?

Presently the Government's contribution for retirement is nominal more than actual, in view of the discussion that has been taking place in recent years on the deficit of almost \$40 billion in the retirement fund. Aside from this, however, a 6½-percent contribution by the Government to each employee, using a median step 7, level 4, as a guide, would amount to barely under \$200 a year.

The Government contributes \$3.12 biweekly under the Health Benefits Act, regardless of operation, regardless of carrier, which amounts to \$75 a year. In addition, the Government contributes 75 cents per thousand, which amounts to approximately \$18 a year. The sum total is \$300 a year. If we take the figure used by the gentleman from the Civil Service Commission, using a median of \$5,600 to \$5,800 per year, 25 percent would be in excess of \$1,400 a year.

I submit, Mr. Chairman, that the Government's total contribution would be \$300 per year or \$1,100 short of the figure cited by the Chairman of the U.S. Civil Service Commission. I request that

the Chairman of the U.S. Civil Service Commission be requested to support his view in greater detail since it does not conform with our view of the facts.

The Chairman also makes reference on page 5, in referring to any attempt to increase the face value after age 65 or retirement, that:

Most importantly, it would be contrary to the basic purpose of the program which is intended to provide its maximum insurance protection at ages when the family obligations and needs are the greatest.

I submit that the comments have considerable merit from a social point of view. However, I call attention to the fact that the Chairman strongly supports an increase in maximum insurance of \$30,000 a year. We do not oppose this, Mr. Chairman, but we point up one fact. The families of lower paid employees have the least opportunity to build up any fiscal defense against the vicissitudes of life. We also point out that insurance benefits do not go to the employee but to his family. Leaving aside for the moment the question of whether survivors of higher level employees should be given six times as much, we deal now with the question of survivors and dependents of the employees, not the employees themselves.

Well, in this approach he would invest the survivors and dependents of higher level employees with six times the need and right of lower level employees, Mr. Chairman. We suggest that the \$30,000 figure is correct, but we also suggest that lower level employees are entitled to a minimum of \$10,000 insurance, because there should be no such aristocracy in death.

Mr. DANIELS. Are you recommending a straight across-the-board \$10,000 insurance for all Federal employees?

Mr. GOODMAN. No; a minimum of \$10,000.

Mr. DANIELS. The bill under consideration proposes 150 percent of the personal salary. So if the person earns \$30,000 in his Federal employ he would be insured for \$45,000. Any objection?

Mr. GOODMAN. No objection. The chairman refers to this as supplementary insurance; \$45,000 insurance is quite supplementary but we do not object. But we point out that a low level employee, should he die, particularly if he is relatively youthful, that his children would be much more in want than the high level employee.

Mr. DANIELS. Your point is well taken.

Mr. GOODMAN. Mr. Chairman, we thank you for the opportunity of commenting.

Mr. MATSUNAGA. If we were to set a minimum of \$10,000 Mr. Goodman, what would the assessment be upon the employee who makes much less than you would calculate on a one and a half times?

Mr. GOODMAN. Well, it would depend. A level 1, who might average about \$5,000, would only be entitled to \$7,500 under the chairman's suggested legislation. Under our suggestion he would be entitled to \$10,000 and presumably we would have to project the figure given by the Chairman of the U.S. Civil Service Commission; namely, 44.8. If it were shared equally as we recommend, we suggest that the cost in terms of dollars would not be an amount that would concern the Congress and in terms of what it would do for morale it would be well worth it.

Mr. MATSUNAGA. Do you believe the employee would be willing to pay the difference?

Mr. GOODMAN. We think that the amount is minor. We think that the Government should and can assume the entire cost. But if I were asked frankly, I believe that the employee would not be unwilling to assume the amount if necessary, although I suggest that it is not necessary.

Mr. MATASUNAGA. Would you suggest that the minimum be made mandatory or optional?

Mr. GOODMAN. I would suggest that it be optional, although I cannot conceive of an employee not wanting to avail himself of this.

Mr. CUNNINGHAM. I was discussing this very matter with the counsel prior to your starting your testimony. I can't help but agree with you on that matter of \$10,000 at least. Say a supergrade employee has six children, he can buy this large amount of insurance and he can supplement it on the outside because his salary would be adequate to do so. The postal worker who also has six children is the one that can't supplement it. I don't know what the philosophy is back of this discrimination. I understand that it was based on the proposition that an employee, should he pass away, leaves life insurance in the amount of 1 year's salary, but lower paid employees—a postman—needs it more than the supergrade, by far. I think that is a very important point. I surely go along with you.

Mr. GOODMAN. Thank you, Mr. Cunningham.

Mr. SILVERGLEID. May I make one observation. You have been referring to the President's Cabinet Committee on Retirement, and you mentioned this morning that you anticipated, or you had been informed, a report would be available some time around March 1; but, nevertheless, you intended to keep moving on this legislation. I would like to clarify that in one respect.

I heard the Civil Service Chairman, Mr. Macy, yesterday request not only deferment of action on the report itself but on recommendations from the Executive. Now, conceivably the Executive could get the report by March 1 and sit on it until 1968. I am sure the chairman has that in mind.

Mr. DANIELS. Mr. Silvergleid, if you will recall, last year the Chair introduced a bill with respect to retirement legislation. And Mr. Macy, on behalf of the administration, requested that this committee defer all action on that bill until the Cabinet Committee's report was to be filed, December 1, 1965. The committee did not stand still and proceeded to act on the bill and you know what happened. The bill was enacted into law, in fact, finally approved by the administration before it reached the House floor. The benefits of that bill are being paid today. If we had awaited the Cabinet Committee's report, this legislation would not have been enacted; so I think in all fairness to the administration we should give them a reasonable opportunity to present their views. We would like to hear what the administration has to say—what comments the President has to make on the legislation—but we are by no means bound by what they recommend or what they have to say on it.

This committee proposes to act as legislators, and we are going to recommend what we feel is good and proper under the circumstances.

Mr. SILVERGLEID. Thank you.

Mr. GOODMAN. Mr. Chairman, we do indeed remember what happened last session, and we do commend the members of the committee and the chairman, and we have every confidence that the chairman and the members of the committee will proceed forthrightly.

Mr. DANIELS. Thank you, gentlemen.

Our next witness is Mr. Daniel Jaspán, legislative representative, National Association of Postal Supervisors.

**STATEMENT OF DANIEL JASPÁN, LEGISLATIVE REPRESENTATIVE,
NATIONAL ASSOCIATION OF POSTAL SUPERVISORS**

Mr. JASPÁN. Mr. Chairman, my name is Daniel Jaspán. I am the legislative representative of the National Association of Postal Supervisors, composed of more than 28,000 supervisors in the postal field service in all 50 States, Puerto Rico, and the Virgin Islands. Our membership also includes supervisors in the motor vehicle and maintenance services.

We are deeply grateful to Congressman Daniels for introducing H.R. 11879, a bill which is definitely a step in the right direction. We are also happy that the chairman of the subcommittee has scheduled hearings so early in this session so some action can be taken on this vital legislation before the Congress adjourns.

Section (a) of the bill providing for an additional 50 percent of group accidental death and dismemberment insurance, as well as an additional 50 percent of life insurance is extremely important to us. This type of insurance program is necessary since very few postal employees can afford adequate insurance coverage at the rates of commercial life insurance. This is especially true of postal supervisors who, as a group, are probably the oldest employees in the postal service.

As you realize, the inadequate pay of postal employees, as shown by the reports of the Bureau of Labor Statistics, is below comparable salaries in private industry. This inadequate pay does not allow our members to build up any estate other than life insurance. Although commercial prices for the older age groups are practically prohibitive, our members would be able to afford the additional life insurance provided by H.R. 11879 at the lower rates.

Our association has had resolutions passed at every national convention since the Life Insurance Act was enacted, requesting that the life insurance coverage be double the salary. The request for double the insurance is not based on fantasy but on the fact that this is becoming more and more prevalent in industry.

According to the "Digest of 100 Selected Health and Insurance Plans Under Collective Bargaining, Winter 1961-62," which is the copy of Bulletin No. 1330, compiled by the Bureau of Labor Statistics and released by the U.S. Department of Labor, many industries provided double insurance 5 years ago, and I am sure that many more have been added since then.

Some of the companies which provide approximately double the life insurance are Liggett & Myers Tobacco Co. and General Foods.

Mr. DANIELS. Are these companies listed in your statement?

Mr. JASPÁN. Yes, sir; on page 2 I have listed eight of them.

In addition to providing insurance equal to double the salary, practically all of these companies also pay the full premium for life insurance benefits.

In recent years, this committee has heard more and more discussion on the subject of comparability. Salary comparability is not the only item in which we have fallen behind private industry. The same is true in fringe benefits, as pointed out only too clearly in the above-

mentioned publication. A considerable number of companies listed in Bulletin 1330 not only assume the full cost of life insurance for the active workers, but continue the payments after the employees have retired.

These statistics, taken from a Government publication, certainly demonstrate more clearly than any words we can add that the Government has fallen behind industry not only in providing additional coverage but also in paying the premiums.

Just about 8 months ago, Mr. Ewan Clague, who was Director, Bureau of Labor Statistics, appeared before a House subcommittee and stated that about 25 percent of businesses in private industry pay the total cost of health and life insurance, and that 75 percent pay at least 50 percent of the total cost.

Section (b) of H.R. 11879, which increases the cost to the employee from 25 cents to 30 cents, is contrary to the trend in private industry, as mentioned above. Since the tendency in industry is to assume more and more of the cost of life insurance, with an increasing number assuming the total cost, we do not believe that the premium rate to the employee should be increased. We hope that eventually this payment will be eliminated completely.

Regarding section (c) of H.R. 11879, the fact that the Government would pay half the cost of the life insurance is definitely a step in the right direction and we hope that ultimately the Government will assume the full cost as is being done in private industry. The assumption by the Government of at least one-half the cost should definitely be made mandatory, especially since, as Mr. Clague pointed out, 75 percent of the private firms pay at least 50 percent of the cost.

Fringe benefits vary, but we find that the fringe benefits in industry are usually more than the same benefits under civil service—despite statements by administration witnesses—outside of leave where the Government service is a little bit ahead. But even on that subject I just cut a clipping out of the paper today, showing a union settlement with Bendix Corp. of Kansas City, Mo., where they not only have a wage increase but vacation time is increased to 3 weeks after 10 years and to 4 weeks after 20 years with additional pay of 5½ percent of their straight time during that vacation period, after they have 10 years of service. Then 6 percent additional if they have 15 years of service, and 6½ percent after 20 years of service. They increased their vacation to 4 weeks after 20 years of service, which we get now at 15 years.

Mr. DANIELS This additional pay is paid to the employee during his vacation period?

Mr. JASPAN. Yes, sir. In addition to that, they established two more paid holidays, Christmas Eve and the day after Thanksgiving, giving them a total of nine holidays compared with our seven.

They have also gone ahead in other fringe benefits. They have increased their pensions by \$3 a month for each year of credited service for present and future retirement.

These are just a few of the things they are giving them as additional fringe benefits. When they bring their figures up to date you will find that the Government is not paying more or giving considerably more than private industry, if as much.

Mr. DANIELS. Do you have any idea how many employees are involved in the companies you mentioned that would pay the full cost of the insurance?

Mr. JASPAN. No. The pamphlet, Bulletin 1330, doesn't give the number, but these are all fairly large companies. Of course, in every one of these cases they are national industries, so there would be a considerable number of employees in each of them that do pay the full cost.

We are very pleased to endorse section (d) of H.R. 11879 to provide for the reduction in life insurance by 1 percent a month to 50 percent of face value instead of the present 2 percent per month and 25 percent of face value. The importance of this change cannot be overemphasized. We have heard of many cases where an employee wanted to retire when he reached age 65 or at an earlier age, but when he realized that his estate would shrink 75 percent in a little over 3 years, he hesitated to take advantage of retiring. We endorse section (d) fully.

There is another section of the Group Life Insurance Act, the dismemberment section, that has not been reviewed since its inception in 1954. We suggest that the subcommittee review some of the provisions and include insurance for certain items not now covered. We recommend that the plan be changed to provide for the payment of 5 percent of the face value for loss of each finger, toe, or thumb, but not to exceed 50 percent of the employee's salary. We also propose that an 80-percent loss of sight shall be considered as a total permanent loss.

We appreciate the opportunity of appearing before this subcommittee to present the views of our association, and hope that early action will be taken by the subcommittee, the full committee, and the U.S. Congress, in order to bring our life insurance plan near comparability with private industry.

We were cheered by your words that you plan to go ahead anyway if the Cabinet-level committee does not report in a reasonable amount of time.

Mr. DANIELS. Mr. Jaspan, it is always a pleasure to have you here.

Mr. MATSUNAGA. Mr. Jaspan, you heard the suggestion made by the previous speaker, Mr. Goodman, relative to setting a minimum of \$10,000 of insurance for any employee regardless of salary. Have you entertained any views on that?

Mr. JASPAN. We would be in favor of that, Mr. Matsunaga. We believe that to be fair minimum insurance.

Mr. MATSUNAGA. If given a choice of increasing the maximum of \$30,000 to \$45,000, or raising the minimum to \$10,000, which would be preferable?

Mr. JASPAN. That is sort of putting me on a spot, but I really believe that the minimum is more important, although we are in favor of the other also.

Incidentally, this bill would raise the minimum to very close to \$10,000 for the great majority.

Thank you, Mr. Chairman, we appreciate the opportunity of appearing before this subcommittee to present the views of our association.

Mr. DANIELS. Any further questions? No questions, Mr. Jaspan. Thank you very much.

Our next witness is Mr. John McCart.

STATEMENT OF JOHN McCART, OPERATIONS DIRECTOR, GOVERNMENT EMPLOYEES' COUNCIL, AFL-CIO

Mr. McCART. With your permission, Mr. Chairman, I would like to have our statement filed for the record and to proceed extemporaneously to summarize the principal points that we present.

Mr. DANIELS. Mr. McCart, thank you for your help and cooperation. You may testify and your written statement will follow your oral testimony.

Mr. McCART. Thank you, Mr. Chairman.

I think that it is regrettable that we now find ourselves involved in a controversy about the basis of comparability. We had the impression that this matter was disposed of in 1962 with the enactment of the Salary Reform Act and with subsequent statements by the representatives of the executive branch with respect to the desire of the Federal Government to provide benefits generally comparable with those prevailing in the private sector. Now we find that the basis of comparability has apparently changed, because the officials of the executive branch propose that comparability be based on total Government payroll expenditure for pay and fringe benefits.

We do not believe, Mr. Chairman, that this was the intent of Congress, and we think it is inequitable to the employees affected.

Let me express the thanks of the council to you for your introduction of H.R. 11879, and to Congressman Matsunaga and Congressman Hanley for their sponsorship of similar bills, and to you and your colleagues for arranging these hearings on a very important aspect of personnel policy.

The original enactment of this life insurance legislation occurred in the 83d Congress, Public Law 763. At that time Congress adopted a rather conservative approach, because this was the largest undertaking of its kind in our country. They wanted to make certain that it would remain financially stable and that the employees would be able to receive all the benefits guaranteed under the program. Otherwise the employees could suffer catastrophic consequences, if the program failed. Also it might deter progress in this field in the private sector as well. Now more than 10 years have elapsed.

We believe, in the council, Mr. Chairman, that a searching review of the life insurance program with a view toward improving the benefits is in order.

One of the features of the bills before you would increase the coverage for employees to 150 percent of their salaries. Let me simply remind you that in the 10 years that elapsed since the enactment of Public Law 763, the cost of higher education, the cost of real estate, the cost of food and the cost of clothing have all increased very substantially. Some of the costs have really skyrocketed. Federal employees must depend upon insurance coverage to defray these necessary expenses once they pass on. For that reason alone, this feature of the bill is wholly justified.

We have no objection to the employees assisting in defraying the cost of this benefit, particularly since the cost involved in the bill, 5 cents per \$1,000, is quite reasonable.

I want to add just a comment with respect to private industry practice. The contribution I will make will be only in terms of our figures being the most recent that we know of. I refer to another

Bureau of Labor Statistics bulletin, No. 1430-83, dated October 1965. This involves a study of wages and related benefits in 80 metropolitan areas. It is summarized on page 3 of our formal statement.

Let me boil it down further, Mr. Chairman, by alerting the subcommittee to the fact that the averages of these figures that you find listed on page 3 reveal that 61 percent of the companies defray the entire cost of life insurance coverage for plantworkers.

For office employees in those same areas, 55 percent of the companies defray the entire cost of life insurance coverage.

So that viewed in this light, this provision in H.R. 11879 is quite modest.

I think that it relates also to the comment that I made earlier with respect to comparable benefits, rather than thinking only of payroll cost for pay and benefits.

One of the other desirable features of the bill would liberalize the current reduction in the face value of life insurance policies, which declines down to 25 percent, would liberalize that at 50 percent. Let's consider for just a moment the pay ranges of three typical kinds of workers, the level 4 postal employee, GS-5 classified employee, and the mechanic or craftsman in the Washington, D.C., area. These figures appear on pages 3 and 4, also.

Let me advise you that the life insurance available to these employees after the current law has run its course ranges from \$1,295 to \$1,752. I don't think it is necessary, Mr. Chairman, for me to underscore the inadequacy of these sums in terms of today's final expenses, much less leaving any kind of estate for survivors.

Finally, Mr. Chairman, we endorse an amendment with respect to those who are already retired so this feature of the bill will be retroactive, rather than prospective. I feel sure that the annuitants would not object to defraying some of the costs involved.

I would suggest to the committee, if this course is adopted by the committee, that the portion to be borne by the annuitant be minimal because they have difficulty now in making their way economically. And in any case, I think that we should follow the principle that the Federal Government share at least half of the cost of all of these benefits.

Mr. Chairman, we appreciate your courtesy in accepting our testimony and if I can be of any help with questions I would be happy.

Mr. DANIELS. Mr. McCart, I take it from your testimony that you agree wholeheartedly with the provisions of the bills under consideration?

Mr. McCART. That is correct, Mr. Chairman.

Mr. MATSUNAGA. Mr. McCart, what are your views on setting a minimum of \$10,000 coverage?

Mr. McCART. I feel that is desirable, Mr. Matsunaga.

Mr. MATSUNAGA. It is agreeable?

Mr. McCART. Yes.

Mr. DANIELS. Mr. Cunningham?

Mr. CUNNINGHAM. In your study of insurance plans in private industry, what do you find so far as the escalation of the coverage is concerned?

Mr. McCART. Agreements in private industry usually provide for a decline in the value of the policy upon attainment of age 65. This

is quite common policy, especially group insurance which is basically term life insurance.

I think we are confronted here with the rate of decline in the Federal policies, and the inadequacy of the benefit when the decline has been fully implemented.

Mr. CUNNINGHAM. Do you feel that in the Government program the rate of decline is much greater than in private industry?

Mr. McCART. Yes; there are many instances in the private sector where there is no decline in the face value of the policies. Where that occurs, the decline is certainly much less than now is the case with the Federal program.

Mr. CUNNINGHAM. Thank you.

Mr. DANIELS. Mr. Green?

Mr. GREEN. No questions.

Mr. DANIELS. Mr. Hanley?

Mr. HANLEY. No questions.

Mr. DANIELS. Thank you, Mr. McCart.

(Mr. McCart's prepared statement, presented for the Government Employees' Council, AFL-CIO, follows:)

PREPARED STATEMENT OF THE GOVERNMENT EMPLOYEES' COUNCIL, AFL-CIO,
PRESENTED BY JOHN A. MCCART

Mr. Chairman and members of the subcommittee, the Government Employees' Council and its 31 AFL-CIO unions, representing Federal wage board, postal, and classified workers, expresses its sincere appreciation for your introduction of H.R. 11879 and to you and your colleagues for arranging this hearing on an important aspect of the Federal personnel program. We extend thanks also to numerous members of the full committee and the House who have sponsored bills in the 89th Congress to improve the operation of the Federal Employees' Group Life Insurance Act.

That statute was enacted more than 10 years ago. It marked a significant step in the Government's efforts to provide for its employees fringe benefits similar to those in private industry. However, when it became law in 1954, its congressional proponents felt the need for a conservative approach with respect to benefits and contributions because the Federal Government as an employer was embarking on the largest undertaking of its kind in the country. They were anxious to insure the ability of the program to fully meet its obligations to the employees because failure to do so could prove catastrophic to these workers and could seriously impair the development of employer-employee insurance plans in other sectors of our economy. We have now reached the point where a searching review of benefits and financing is fully justified.

Advances in our economic and social outlook, during the past decade alone, indicate the desirability of the amendments included in H.R. 11879.

The first proposal in the bill increases the amount of group life, accidental death and dismemberment insurance to 150 percent of an employee's annual salary computed to the next higher \$1,000.

Coverage provided under the 1954 act is the sole source of insurance for many Federal workers and a primary source of financial protection for many more.

During the past 10 years, the cost of higher education has skyrocketed and real estate, food, and clothing costs have increased substantially. It is these basic expenses that the families of deceased Federal employees must meet from the proceeds of insurance policies issued under the Federal program. Thus, the need for additional protection has increased significantly since the original law was enacted in 1954.

Examination of the Life Insurance Fact Book for 1965, published by the Institute of Life Insurance, discloses that during the period 1955-64 the average size of group life insurance policies increased by \$1,430. At the same time, ordinary coverage rose by \$1,680.

From our knowledge of the desire of Federal employees, it is apparent that they also are deeply interested in acquiring additional insurance protection under the Federal system.

The additional cost to the employee would be 5 cents for each \$1,000 of coverage or a total of 30 cents. This is equitable for the benefit involved.

Another feature of the measure increases from one-third to one-half the Government's contribution to the total premium cost of the program.

Such a change is modest when we consider similar practices in private industry.

A recent study by the Bureau of Labor Statistics, "Wages and Related Benefits in 80 Metropolitan Areas" (Bulletin No. 1430-83, October 1965), reveals that a substantial number of private firms in all sections of the country defray the entire cost of group life insurance plans for employees.

This is a summary of their findings on a regional basis.

Area	Percent of private companies contributing entire cost of employee life insurance	
	Plant workers	Office workers
Northeast.....	70	62
South.....	44	43
North central.....	65	56
West.....	65	53

Thus, the proposal in H.R. 11879 to have the Federal Government share the cost of life insurance equally with its employees is quite reasonable.

A third provision in the bill revises the present unrealistic decline in the face value of life insurance policies when an employee retires or attains age 65, whichever is later. This reduction proceeds now at the rate of 2 percent each month until the policy is worth 25 percent of its original value, which remains constant.

H.R. 11879 reduces this depreciation to a rate of 1 percent a month, with a termination of the decline at 50 percent of the value prior to retirement or age 65.

To make this desirable aspect of the bill more practical, we can consider the salary ranges of a few typical postal, classified, and wage board grades. The pay range for postal level 4 and GS-5 is \$5,181 to \$6,720. For a wage board craftsman in the Washington, D.C., locality, the hourly rate range converted to an annual figure is \$6,468 to \$7,009. With the full reduction now in effect the policies of postal and classified workers in these grades are worth only \$1,295 to \$1,680 and \$1,617 to \$1,752 for the wage board employee. In terms of today's funeral and other final costs, an individual's family is left with a negligible sum to meet the necessary expenses when the employee dies. The bill would increase these amounts so that the covered employee or annuitant would be able to bequeath his survivors a modest, but much more realistic, amount.

We heartily recommend this portion of the pending bill.

In one respect, this portion of H.R. 11879 can be improved. The effective date of the provision on reduced face value is prospective. If enacted in its present form, there will be no relief for those already retired. The council believes that it should apply equally to those now on the annuity rolls or beyond age 65, because their survivors are the ones who have or will experience serious economic hardships.

In summary, H.R. 11879 represents necessary changes in the Federal life insurance program, if those it is designed to protect are to receive the full value of the system as originally conceived. We urge that the subcommittee reach a favorable decision on this legislation at an early date.

Mr. DANIELS. Our next witness is Mr. John J. Murphy, president of the National Customs Service Association.

STATEMENT OF JOHN J. MURPHY, NATIONAL PRESIDENT, NATIONAL CUSTOMS SERVICE ASSOCIATION

Mr. MURPHY. Mr. Chairman and members of the subcommittee, the National Customs Service Association, of which I am the president, is an organization representing the employees of the U.S. Customs Service, and, as such, is vitally interested in all matters affecting Federal Government employees.

The committee has before it a bill, H.R. 11879, which would expand the insurance benefits accruing to Federal Government employees through the Federal Employees' Group Life Insurance Act of 1954.

The National Customs Service Association is fully sympathetic with the intent of this bill, but recognizes that it does not contain a certain provision which the membership of this association feels should be incorporated in the law.

As it now stands, the face value of life insurance held by civil employees of the Federal Government under the provisions of that act reduces, after the insured retires or reaches the age of 65, whichever is later, at the rate of 2 percent per month, until it reaches 25 percent of its original face value.

This bill provides for a maximum reduction of 50 percent, at the rate of 1 percent per month, but makes no provision for continuation of the insurance at full face value after the insured retires.

In recognition of this need, the National Customs Service Association, at its 1964 national convention, adopted a resolution designed to seek legislation to provide for a maximum 50 percent reduction in the face value of Federal group life insurance, and in addition, to provide for continuation of the policies at the full face value effective at the time the insured reaches age 65, should he so elect, in which case, he, and not the Government, would pay the full pro rata premium over and above the free minimum Government contribution now or hereafter provided.

It is, of course, recognized that loss experience after age 65 can be reasonably expected to be greater than the loss experience occurring prior to that age, but actuarial adjustment of the premium rate for policies continued at full value after age 65 would still be much more favorable on a wide group spread than are the rates for insurance purchased on an individual basis.

While the National Customs Service Association strongly feels that Federal civil employees are justly entitled to benefits comparable to those enjoyed by employees of private industry, it does not ask that the Government provide benefits in excess thereof.

The general practice throughout industry appears to be that the employee and the employer share equally the cost of insurance under established group life insurance plans. This is a fair and equitable arrangement to which we subscribe.

Private group life insurance plans also generally provide for paid-up insurance for their employees who retire, without any drastic reduction in coverage, but with full relief from any further premium payments.

As stated before, we are entirely in sympathy with the objectives of H.R. 11879, but recognize that it does not provide for an elective continuation of the full face value after age 65, which the National Customs Service Association feels is of major importance to Federal employees.

In view of prevailing conditions and in view of the facts as outlined in this statement, we respectfully ask that the objectives of the remedial legislation proposed by the association relative to the Federal Employees' Group Life Insurance Act of 1954 receive favorable consideration by this committee.

I greatly appreciate the opportunity to present the views of our organization on this important subject and wish to thank you,

Mr. Chairman, and members of the subcommittee, for your courtesy and patience. Thank you very much.

Mr. DANIELS. Our next witness is Mr. James O'Toole, president of the National Association of Postmasters, and he is accompanied by Mr. Lem Houston and Mr. John P. Snyder.

STATEMENT OF JAMES O'TOOLE, PRESIDENT, NATIONAL ASSOCIATION OF POSTMASTERS, ACCOMPANIED BY LEM HOUSTON, LEGISLATIVE CHAIRMAN, AND JOHN P. SNYDER, EXECUTIVE DIRECTOR

Mr. O'TOOLE. Mr. Chairman, I welcome the opportunity to appear before you and your distinguished group here this morning. I am Jim O'Toole, the president of the National Association of Postmasters, representing approximately 90 percent of the postmasters in the United States. I have with me John P. Snyder, executive director of the association here in Washington and postmaster at Oconomowoc, Wis. I am also accompanied by Lem Houston, postmaster at Fredericksburg, Va., and chairman of our legislative committee.

I would like to state that in the past eight annual meetings of our group we have had resolutions requesting that the individual postmasters, Federal employees, and so on, be given an opportunity to retain at least 50 percent of their insurance upon retirement. So this is quite in line with what our thinking has been, and certainly we appreciate it.

I have a brief statement here about the Federal Employees' Group Life Insurance Act of 1954.

I would like to state briefly that we feel that there has been no expansion in the basic structure of the Federal employee plan since 1954. We continue to contribute approximately two-thirds of the cost of the insurance and we feel that your figure of 50 percent is far more realistic.

We wholeheartedly support the schedule contained in H.R. 11879. It maintains the established principle that an employee's annual compensation is the only fair and equitable basis for determining the amount of group life insurance for which he is eligible.

We have a little morbid approach and point out that we have approximately 9,000 members who would retain—would go out on retirement with approximately \$6,000 worth of life insurance which would diminish over a period down to \$1,500.

In today's cost, \$1,500 would hardly give these individuals a decent burial. At least they won't have anything to pay beyond that for their last illness.

We would like to have that as a matter of consideration. I think we can summarize what we have stated here by going to page 3. We believe, gentlemen, that H.R. 11879 will bring the Federal Employees' Group Life Insurance Act of 1954 more in accord with the requirements of 1966; that it will readjust insurance figures to reflect today's costs. We are certain that its enactment will bring a greater degree of security and peace of mind to Federal employees and retirees.

That is a brief summary, Mr. Chairman. Do you have any questions?

Mr. DANIELS. Thank you, Mr. O'Toole. Your written statement will appear immediately following your oral testimony.

Mr. O'TOOLE. Thank you.

Mr. DANIELS. In substance you do approve of the bill under consideration?

Mr. O'TOOLE. We wholeheartedly approve the bill under consideration.

Mr. DANIELS. You say the actual amount of insurance carried by the postmasters—

Mr. O'TOOLE. I am making reference to the postmasters in fourth-class offices.

Mr. DANIELS. Diminished to 25 percent.

Mr. O'TOOLE. Right, down to \$2,500.

Mr. DANIELS. That amount would hardly pay the expenses of a funeral. Do you agree with that, Mr. Hanley?

Mr. HANLEY. I concur.

Mr. DANIELS. Mr. Cunningham, do you have any questions?

Mr. CUNNINGHAM. No questions.

Mr. DANIELS. Mr. Green?

Mr. GREEN. No questions.

Mr. O'TOOLE. We thank you for the privilege.

(Mr. O'Toole's prepared statement is as follows:)

PREPARED STATEMENT OF JAMES L. O'TOOLE, POSTMASTER, AND PRESIDENT OF THE NATIONAL ASSOCIATION OF POSTMASTERS

Mr. Chairman and members of the committee, I welcome the privilege to appear before your distinguished group this morning.

My name is James L. O'Toole. I am postmaster at Sharon, Pa., and also president of the National Association of Postmasters of the United States. In the latter capacity I am the elected representative of 32,000 postmasters, active and retired, among whom are approximately 90 percent of all active postmasters.

I am accompanied by John P. Snyder, postmaster at Oconomowoc, Wis., and executive director of the National Association of Postmasters, and Lemuel W. Houston, postmaster at Fredericksburg, Va., who also serves as chairman of our National Committee on Legislation.

We appear before you in support of H. R. 11879, introduced by the distinguished chairman of this committee to provide improved benefits under the Federal Employees' Group Life Insurance Act of 1954, and to strengthen the financial condition of the fund created by this act.

In recent years, national conventions of the association I represent have repeatedly adopted resolutions requesting a 50-percent increase in our group life insurance benefits, with the right to retain without further contributions at least 50 percent of the life insurance in force upon the attainment of age 65 or at retirement. We are pleased and grateful that these provisions are contained in H. R. 11879 and are happy to note the inclusion in this bill of accidental death and dismemberment benefits.

The enactment of the Federal Employees' Group Life Insurance Act of 1954 was hailed as an important, progressive step long sought after by Government employees. It made available to Federal employees for the first time an auxiliary benefit comparable in some respects to one of the so-called fringe benefits accruing to those employed in private industry. This comparability no longer exists. For more than a generation the cost of living and the cost of dying have risen sharply. Private industry during the past 12 years has recognized this by affording its employees and their dependents increased economic protection through more liberal group life insurance programs, and in many cases by paying all or a substantial part of the costs.

There has been no expansion of the basic structure of the Federal employee's life insurance plan since its inception in 1954. We continue to contribute in an amount equal to approximately two-thirds of the cost of the plan. H. R. 11879 would reduce employee contributions to 50 percent of the costs. This we endorse.

We wholeheartedly support the schedule contained in H. R. 11879. It maintains the established principle that an employee's annual compensation is the only fair and equitable basis for determining the amount of group life insurance for which he is eligible.

The 1965 Annual Report of the Postmaster General states that in 1964 a total of 566,704 postal employees contributed \$23,111,789 under the Federal employees' group life insurance plan. This averages out to a contribution of \$1.57 per pay period for each employee, indicating an average coverage of approximately \$6,000 in life insurance for postal employees. Under the existing act this \$6,000 would shrink to \$1,500 for retirees. That amount, gentlemen, isn't enough to pay for a decent burial.

We respectfully submit that the existing schedule of group life insurance benefits is totally inadequate. We feel that our employees and our members are entitled to group insurance protection which will cover the expenses incident to our final illness, pay our funeral costs and outstanding obligations, and provide at least a measure of dependency income to help care for our families.

The requirements of our retirees are normally less than those of our employees and our members but we submit that they, too, are deserving of insurance protection that will give them a debt-free burial and some provision for their survivors.

Many of us have been dismayed to find that the savings and supplementary insurance programs instituted within the past 12 years in an effort to finance a higher education for our children—programs which were considered to be reasonably ample at the time—are now barely sufficient to assure them of 1 year of college.

In this connection it should also be noted that the cost of raising a child to age 18 for an average, middle-class city family is now estimated to be \$35,000, exclusive of college.

The vast majority of Federal employees, including postmasters, are people of modest means. Most of us enjoy our work and we take pride in it, but certainly we have no expectation of growing wealthy in the Federal service. We desperately need to know that adequate provision has been made for the economic welfare of our loved ones.

We believe, gentlemen, that H.R. 11879 will bring the Federal Employees' Group Life Insurance Act of 1954 more in accord with the requirements of 1966; that it will readjust insurance figures to reflect today's costs. We are certain that its enactment will bring a greater degree of security and peace of mind to Federal employees and retirees.

Mr. Chairman and members of the committee, on behalf of the officers and members of the National Association of Postmasters, my sincere thanks for this opportunity to appear before you today.

Mr. DANIELS. Our next witness is Mr. Floyd Huffman, the president of the National Rural Letter Carriers' Association.

STATEMENT OF FLOYD HUFFMAN, PRESIDENT, NATIONAL RURAL LETTER CARRIERS' ASSOCIATION; ACCOMPANIED BY CAREY W. HILLIARD, VICE PRESIDENT; AND JOHN W. EMEIGH, SECRETARY

Mr. DANIELS. Do you desire to follow the suggestion made by the Chair that you submit your statement for the record and summarize your views in the interest of expediting these hearings, because we have about five more witnesses and I would like to hear all of them this morning before the House meets.

Mr. HUFFMAN. I would be glad to do so, Mr. Chairman.

I wish to point out, Mr. Chairman, that our organization, which has membership in excess of 16,000 post offices, in the last five national conventions has passed resolutions pertaining to our life insurance provided by the Federal Government.

Our convention in 1965 passed a resolution of three parts. Part 1 was that it provide a minimum policy of \$10,000.

Part 2 that the reduction instead of being 75 percent in 3 years and 3 months, be limited to 50 percent in 4 years and 2 months.

Part 3, that our membership was willing to share the cost with the Government, 50 percent of whatever that cost might be.

We wholeheartedly endorse your bill, Mr. Chairman, and the companion bills by Congressman Matsunaga and Congressman Hanley

as most nearly meeting the needs at the present time of Federal employees in this very important benefit. We cannot quite agree with the administration's position as enunciated yesterday that the life insurance program meets the needs of younger employees with greater amount of coverage and that the 75-percent reduction for retired employees is proper because of lesser insurance needs.

We find that the insurance provides an estate responsibility or estate planning for the head of the household. This need, rightly so, is greater for the younger employee. This program cannot fully provide that need. The younger employee provides that need by term insurance, with lesser cost because of age and needed amount of coverage possible to secure.

In fact, I know from personal knowledge, many employees who have not retired after they have earned retirement with many years of service, until they were forced to retire at age 70, because they did not want to enter into this loss of life insurance with the rapid reduction, so they remained in service to keep that protection.

The young employee, by buying the term insurance can take care of his estate responsibility. The older employee cannot do that. And with the present reduction to 25 percent, quite often he does not have enough estate protection to even pay for terminal illness or costs by his death. So we feel that this reduction being limited to 50 percent is very important.

We think it is time for a change. We cannot agree with the administration that the present Federal employees' life insurance is serving the principle on which it was established and there is no need for any basic change.

We commend your holding of hearings at the present time, and also your introduction of this bill which we fully support.

Thank you for the opportunity of appearing before you.

Mr. DANIELS. Just one question, Mr. Huffman. What are your thoughts with respect to the Government making a greater contribution than one-third of the costs, as provided by law today?

Mr. HUFFMAN. We think that the Government has a responsibility in line with what is being done in private industry.

I have in my testimony what the Commissioner of Labor Statistics in his testimony of June 10, 1965, stated:

One-fourth of the companies reporting data paid all the costs of health, accident, and life insurance plans. Three-fourths of those with contributory plans paid more than half the cost.

Mr. DANIELS. Thank you.

Mr. Cunningham?

Mr. CUNNINGHAM. Mr. Huffman, were you invited to appear before the President's Cabinet Committee?

Mr. HUFFMAN. We were invited and we submitted a statement that is in line with my statement here.

Mr. CUNNINGHAM. Do you recall how many Cabinet officers were there?

Mr. HUFFMAN. No; we did not attend personally. We only submitted the statement.

Mr. DANIELS. Mr. Green, any questions?

Mr. GREEN. No questions.

Mr. DANIELS. Mr. Hanley?

Mr. HANLEY. No questions.

(The prepared statement of Mr. Huffman is as follows:)

PREPARED STATEMENT OF FLOYD E. HUFFMAN, PRESIDENT, NATIONAL RURAL LETTER CARRIERS' ASSOCIATION

Mr. Chairman and members of this subcommittee, my name is Floyd E. Huffman. I am president of the National Rural Letter Carriers' Association, an organization which exclusively represents regular, substitute, and retired rural carriers. Our membership currently exceeds 42,000 and includes more than 90 percent of all regular rural carriers. I am accompanied by Carey W. Hilliard, vice president, and John W. Emeigh, secretary of our association.

We appreciate the opportunity to appear before this committee and urge continued consideration of legislation to improve the Federal employees' group life insurance program. We commend Dominick V. Daniels, chairman of this subcommittee, for the introduction of H.R. 11879. We also appreciate the introduction of H.R. 12045 and H.R. 12129 by Congressmen Matsunaga and Hanley, respectively, that would provide needed changes in this important area of life insurance benefits for Federal employees. Mr. Chairman, we also appreciate the prompt scheduling of hearings in this second session. This demonstrates legislative leadership and evidences the desire of yourself and your committee to consider legislation which will liberalize the act to accomplish some changes which are greatly desired by Federal employees, and which we strongly believe should be made to bring this important fringe benefit into line with what is generally provided throughout industry.

The Federal employees' life insurance program, enacted in 1954, has made available a valuable and needed life insurance protection to low-income Government employees which they could not otherwise secure. It provides life insurance in an amount rounded off to the nearest upper \$1,000 of the annual salary. The premium rate is now fixed at 37.5 cents per \$1,000 per biweekly pay period, with 25 cents paid by the employees and 12.5 cents contributed by the Government.

Presently, the amount of insurance is reduced 2 percent per month after retirement or age 65, whichever is later, until it is reduced to 25 percent of the amount in effect at time of retirement. This rapid reduction decreases the value of the insurance protection 75 percent in 3 years and 3 months. This is the major weakness of this valuable Government employment benefit. Such reduction not only precludes any estate protection but all too frequently fails to cover terminal expenses. I have personally known of individual cases where employees, who earned retirement after long periods of service, chose not to retire prior to the mandatory age of 70 in order to retain the maximum life insurance protection for their widow. In our opinion, this serves to highlight the need to liberalize the act and provide a higher level of permanent insurance protection.

The desire for this added insurance protection is evidenced further by the following resolution adopted by our association meeting in national convention, August 1965:

Resolved, That we support and urge passage of legislation which will change provisions of the Federal life insurance program so that it will provide for a minimum policy of \$10,000; and be it further

Resolved, That the maximum reduction shall not exceed 50 percent at the rate of 1 percent per month starting at age 65 or retirement, whichever comes later; and be it further

Resolved, That we advocate that the Government contribution be increased to 50 percent of the cost.

H.R. 11879 and companion bills would practically accomplish the legislative objectives of our association in this area. For this reason, we wholeheartedly endorse H.R. 11879, which would increase the amount of Federal group life insurance by 50 percent, set the reduction after retirement or age 65 at 1 percent per month instead of 2 percent as at present, set the maximum reduction to a floor of 50 percent of value at time of retirement, and which would increase the contribution of the Government to 50 percent of the cost.

H.R. 11879 would also increase the employee's contribution from 25 cents per \$1,000 to 30 cents per \$1,000. We support an increase in employee contributions in this amount, or in whatever amount is deemed necessary in order to provide the benefits we seek, under a funding arrangement which will assure actuarial soundness of the life insurance fund. It is important, however, that any new funding schedule include an increased contribution by the Government.

With the increasing need for a higher level of life insurance protection, we believe the recommendations for changes in the act are both timely and merited.

The present life insurance program has proved itself as a most important fringe benefit of employment with the U.S. Government. There is no question, however, but that it falls short of providing a desirable level of insurance protection, particularly with its sharply decreasing value following retirement.

The U.S. Government should be a model employer. The establishment of the life insurance program 12 years ago was a progressive step forward in keeping the Government in that role as an employer. The passage of time now dictates improvements in the program, however, if this fringe benefit area is to keep pace with the private sector of employment. We ask improvements within the structure of the program in order to upgrade the value of protection afforded and, as we have previously noted, we are not asking for a gift; rather we are asking for reasonable improvements and subscribe to a proper sharing of the costs to make it feasible to provide them.

A change in the funding formula is long past due. The Commissioner of Labor Statistics, U.S. Department of Labor, in testifying before this committee on June 10, 1965, stated: "One-fourth of the companies reporting data, paid all the costs of health, accident, and life insurance plans. Three-fourths of those with contributory plans paid more than half the cost."

This is statistical data, developed by the Government itself, which clearly substantiates that Federal employees are bearing an undue burden of cost in their life insurance program. That formula should be updated to conform to the widespread practice of private industry; and it should be done at the earliest possible date.

Testimony presented before this committee by administration officials indicated that the liberalizations proposed by the bills before this committee would be contrary to the principle under which the program was established. It was pointed out that lowering of the after age 65 reduction would be contrary to the basic purpose of the program which "is intended to provide maximum insurance protection at ages when family obligations, and needs in cases of death, are greatest."

We find ourselves in disagreement with thought that any "principle" or "basic purpose" should be inviolate if the changes are merited improvements, and especially when those improvements are being sought on a costing basis which fairly and reasonably divides the costs between employer and employee. An improved life insurance program would be in keeping with the growing need of greater protection in this field, and it would be but a progressive step forward in an effort to catch up with private industry. There is certainly nothing contrary to the principle under which this program was fostered in liberalizing its provisions. It is time for a change, a change for basic improvement, and we urge this committee to favorably report H.R. 11879 or a similar bill to provide constructive improvements in the Federal group life insurance program.

Mr. DANIELS. The next witness is Mr. Dillard Lasseter, legislative counsel, Organization of Professional Employees, Department of Agriculture.

STATEMENT OF DILLARD LASSETER, LEGISLATIVE COUNSEL, ORGANIZATION OF PROFESSIONAL EMPLOYEES, DEPARTMENT OF AGRICULTURE

Mr. LASSETER. I am Dillard Lasseter, legislative counsel for the Organization of Professional Employees of the Department of Agriculture.

In the interest of time I have a very brief statement which I will submit with your permission and answer any questions, but we support the bill in toto. I will leave it, and thank you very much for allowing me to come up here.

Mr. DANIELS. Without objection, your statement will be submitted. Thank you.

(The prepared statement of Mr. Lasseter, for the Organization of Professional Employees, follows:)

PREPARED STATEMENT OF DILLARD LASSETER, LEGISLATIVE COUNSEL, ORGANIZATION OF PROFESSIONAL EMPLOYEES, DEPARTMENT OF AGRICULTURE

This organization, representing 7,200 professional employees of the U.S. Department of Agriculture wishes to give full support to H.R. 11879. This bill provides improved benefits under the Federal Employees' Group Life Insurance Act of 1954 which are in line with trends in the practices of organizations employing professional people. This will place Federal agencies in a better competitive position when employing professional personnel. There is an increasing tendency for the thoughtful professional employee with family obligations to want to give his family greater financial protection. The older worker also needs to give greater financial protection to his survivors than that which is provided by a paid-up policy of one-fourth of the original face value of the policy.

The increase in the maximum amounts of insurance allowed to coincide with the increase in salaries is a constructive approach to meeting the needs of those Federal employees in the higher grades.

The 5-cent increase per \$1,000 per pay period is probably justified. However, it should be pointed out that the trend in industry is to be more liberal than the Federal Government in the proportion of the premiums paid by the employer.

Mr. DANIELS. The next witness is Mr. Henry J. Stoffer, president of the National League of Postmasters.

STATEMENT OF HENRY J. STOFFER, PRESIDENT, NATIONAL LEAGUE OF POSTMASTERS

Mr. STOFFER. I am president of the National League of Postmasters. We appreciate the opportunity to be heard on this very important piece of legislation.

At the outset, I would like to go on record that our organization favors it entirely, and that resolutions pertaining to it have been passed by our organization many times.

I think the importance of fringe benefits should never be overlooked and I appreciate the chairman's willingness to get this bill on the way.

Another feature is that recognizing the need and the desire of more insurance, life insurance, our organization put out a group life insurance plan in 1963. During a 60-day open enrollment period, over 10 percent of our members participated, and since then we have continued to enroll more people. So there is this need and we do have a very low group cost price.

One more thing, despite the many excellent features of this proposed legislation we sincerely hope a provision can be included to extend these benefits to those who are already retired. If the retiree has to go out on May 31, 1966, depending on if this legislation were effective July 1 and he had \$6,000 in coverage, in 37½ months it would be reduced to \$1,500. Now the retiree who would go out mandatorily at age 70, in August 1966, his \$6,000 could or would increase to \$9,000, and in 37½ months his would be \$5,700-and-some-odd.

I don't have the mechanics worked out, but I think that this difference is worthy of some consideration.

Mr. DANIELS. Those views have been expressed by various witnesses this morning.

Mr. STOFFER. We go along with the suggestion by Mr. Sidney Goodman.

Mr. DANIELS. How many postmasters does your organization represent?

Mr. STOFFER. 18,000.

Mr. DANIELS. Are they first, second class or—

Mr. STOFFER. All classes.

Mr. CUNNINGHAM. What if a postmaster serves 10, 15 years, and wishes to leave the Government service, and he has this insurance, as I understand it, he can convert to private term insurance without a physical examination?

Mr. STOFFER. There is a conversion, if he retires on 12 or more years' service, he will continue as is with the conversion.

Mr. CUNNINGHAM. If we were to set a minimum of 10 or 15 years' service, and the Government employee left the service then he could continue this program by paying the full premium.

Mr. STOFFER. I would think that would be a very sound plan.

Mr. CUNNINGHAM. Because the only thing he could convert to, without tremendous expense, would be ordinary life insurance, and that, too, is expensive.

Mr. STOFFER. It is, as you get older.

Mr. CUNNINGHAM. The thought occurred to me that if a Federal employee serves 15 years, for example, he ought to be able to continue this Government insurance program by simply paying what he has been paying plus what the Government pays. That would make it easy for him to afford this.

Mr. STOFFER. We have several instances of those who have never earned more than \$2,000 per year. It eventually reduces to \$500, so there is virtually nothing left.

Mr. CUNNINGHAM. Thank you.

Mr. DANIELS. Mr. Hanley?

Mr. HANLEY. No questions.

Mr. DANIELS. Thank you very much.

Mr. STOFFER. Thank you very much.

Mr. DANIELS. Our next witness is Mr. Ross Messer, legislative representative of the National Association of Post Office and General Services Maintenance Employees.

**STATEMENT OF ROSS A. MESSER, LEGISLATIVE REPRESENTATIVE,
NATIONAL ASSOCIATION OF POST OFFICE AND GENERAL
SERVICES MAINTENANCE EMPLOYEES**

Mr. MESSER. Thank you, Mr. Chairman. With your permission, I will leave my statement for the record, and just say a few words.

Mr. DANIELS. Without objection, your statement will follow your oral testimony.

Mr. MESSER. We want to thank you and the other members of this committee for the introduction of these bills for life insurance and also to provide proper financing.

We feel that the insurance program needs liberalization, but, at the same time, we realize that there must be proper financing. If there is no proper financing we will be in trouble.

We testified last year to increase the premiums in order to get proper financing, and we hope that you will this year both liberalize and increase the financing.

We also believe that the Government should pay not less than 50 percent of the cost.

We further believe that an amendment should be made to the bill to include those now retired, because for most of them, their insurance

is already reduced to the maximum of 25 percent. We think that they should be included in the cutoff at 50 percent.

I would also like to touch on the \$10,000 minimum which was suggested. We strongly endorse this proposal.

As of the present time employees entering the postal service—this is full-time, not part-time employees, in level I—have \$4,000 life insurance. Under our proposal it would be raised to \$6,000. Most of these people are young people and need the protection, and we would like to endorse the suggested amendment to increase it to \$10,000.

Mr. DANIELS. On an elective basis?

Mr. MESSER. Yes, sir.

Mr. DANIELS. Does that complete your testimony?

Mr. MESSER. Yes.

Mr. DANIELS. You made reference to the fact that the insurance program should be properly financed. Just exactly what do you mean by that statement? Am I correct in assuming that you mean that the premiums should pay the cost of the program?

Mr. MESSER. That is right, sir. We also believe that the Government should pay 50 percent of the premiums—not the employee pay two-thirds and the Government one-third.

Mr. DANIELS. Now with respect to another view expressed by you that this program be extended to present retirees, do you have any ideas on how the bill should be amended in that regard?

Mr. MESSER. Well, under the section where the effective date is, I think that section could be amended to apply to those now retired.

Mr. DANIELS. What are your thoughts then with respect to financing the program with respect to present retirees?

Mr. MESSER. If necessary, I think another cent or two could be added from both the current employees and the Government in order to offset the differential that would be required to pay the difference between the 25- and 50-percent reduction in face value.

Mr. DANIELS. You wouldn't want these retirees to pay any part of it?

Mr. MESSER. That is right.

Mr. DANIELS. Whatever costs there are should be paid by the present employees and the Federal Government?

Mr. MESSER. That is right.

Mr. DANIELS. Thank you, Mr. Messer.

(Mr. Messer's prepared statement follows:)

PREPARED STATEMENT OF ROSS A. MESSER, LEGISLATIVE REPRESENTATIVE OF
THE NATIONAL ASSOCIATION OF POST OFFICE AND GENERAL SERVICES MAINTENANCE EMPLOYEES

Thank you, Mr. Chairman, and members of the committee, for the opportunity to appear before you today. I am Ross A. Messer, legislative representative of the National Association of Post Office and General Services Maintenance Employees, with headquarters at 724 Ninth Street NW., Washington, D.C.

We are the national exclusive representative with the Post Office Department for the 17,000 postal field service maintenance employees, under the terms of our national agreement with the Post Office Department.

This association also has formal recognition with General Services Administration for the maintenance employees in the Public Buildings Services of General Services Administration.

This association has locals in the 50 States, Puerto Rico, Virgin Islands, and the District of Columbia.

We wish to take this opportunity to thank you, Mr. Chairman, and members of your committee, for your interest in strengthening the financial condition of

the group life insurance program and for your interest in liberalizing this program to provide more protection for the employees and their families. Particularly, we wish to thank you, Mr. Chairman, Mr. Matsunaga, and Mr. Hanley, for the introduction of H.R. 11879, H.R. 12045, and H.R. 12129.

The Federal Employees' Group Life Insurance Act of 1954 provided basic coverage to the next \$1,000 for Federal employees at a cost not to exceed 25 cents per pay period per \$1,000 for the employees, with the Government contributing one-half of this amount, or 12½ cents per pay period per \$1,000.

The cost of living has increased steadily since 1954. Not only has the cost of living increased, but the cost of education has also advanced. In order to provide family protection and probably provide for additional education of children of deceased employees, it is highly desirable that the amount of life insurance under the Federal Employees' Group Life Insurance Act of 1954 be increased.

This association strongly endorses the benefits set forth in H.R. 11879, and the companion bills, to provide for the purchase of an additional 50 percent insurance coverage by Federal employees.

This association also strongly endorses the provisions of H.R. 11879, providing for the Government to pay an equal amount, or 50 percent, of the cost of the life insurance program.

It is our belief that the Government should set an example for private industry and pay the entire cost of the life insurance program. However, we realize that most legislation is a matter of compromise and we believe that in this respect, the Government's portion of the premium should be increased from one-third to one-half.

Administration witnesses have testified that, in their opinion, the 2 to 1 ratio, or the Government paying one-third of the premium, should continue.

I would like to point out that in testimony before this committee on June 10, 1965, by Mr. Ewan Clague, Commissioner, Bureau of Labor Statistics, U.S. Department of Labor, Mr. Clague stated that in a survey conducted by the Bureau, "one-fourth of the companies reporting data paid all of the cost of health, accident, and life insurance premiums. Three-fourths of those with contributory plans paid more than one-half the cost. The Federal Government's contribution is less than one-half."

While administration witnesses testifying before this committee have insisted that the Government continue to pay only one-third of the premium, as they do not have full facts on private industry practices, an official of another Government agency testified before this committee in June 1965, giving definite proof that, of all of the companies with contributory plans, three-fourths paid more than half the cost.

Mr. Chairman, this association strongly endorses the provisions of H.R. 11879 which would reduce the amount of the depreciation of the life insurance from 2 percent per month to 1 percent per month, with the depletion stopping at 50 percent of the face value, instead of the present 25 percent. In our opinion, this is a revision or liberalization which has long been needed.

In addition to stopping the reduction to 50 percent for those who retire in the future, it is our belief that the committee should give careful consideration to amending the act retroactively to apply it to those now on the retirement rolls.

Mr. Chairman, the administration's witnesses have suggested that the committee should consider the overall picture of salary, retirement, health insurance, etc. If the Federal employees were on a par with private industry today, an overall review of salary and all related benefits would be in order. Most Federal salaries are not comparable with private industry. We are still running from 2 to 3 years behind.

In 1965, it was testified before the committee that of the companies surveyed by the Bureau of Labor Statistics, U.S. Department of Labor, three-fourths of the companies paid more than half the costs of health, accident, and life insurance programs, with one-fourth of the companies reporting paying all the cost. While the Federal employees are so far behind private industry, it is rather difficult for us to understand the administration's proposal to consider salary and all related benefits at the same time.

It is our sincere hope that this committee will take favorable action on H.R. 11879, to improve the benefits under the Federal Employee's Group Life Insurance Act of 1954 and to strengthen the financial condition of the fund created by such act.

We further request that the committee give consideration to extending the benefits of this act to those now retired.

I wish to again thank you, Mr. Chairman, and the members of the committee, for the opportunity to appear before you today.

Mr. DANIELS. Our next and last witness is Mr. Clarence Tarr.

STATEMENT OF CLARENCE M. TARR, PRESIDENT, NATIONAL ASSOCIATION OF RETIRED CIVIL EMPLOYEES, ACCOMPANIED BY JOHN OVERHOLT, LEGISLATIVE COUNSEL

Mr. TARR. I would like to introduce Mr. John Overholt, our legislative counsel.

Mr. DANIELS. Gentlemen, welcome.

Mr. TARR. I ask that my statement be printed in the record, and I will just talk briefly on a few highlights of our program.

Mr. DANIELS. Without objection, so ordered.

Mr. TARR. We are wholeheartedly in favor of H.R. 11879. I would like to congratulate you, Mr. Chairman, and the other members of your committee, not only for introducing this bill and other bills, but for the work that you did in the last session of Congress in bringing to our people this well-earned and deserved annuity increase that you got for us.

Now, in the beginning, when the Federal Employees' Life Insurance Act was enacted in 1954, the original theory was that a man's obligation to his family became lighter as his children grew up and became independent, that this occurred at about age 65, and that thereafter he needed only about one-fourth of his original insurance.

However, increasing funeral costs and the rapidly mounting cost of educating children and grandchildren have made it desirable to continue in effect at least one-half of the original insurance.

For these reasons our association, for the past 7 or 8 years, has sought an amendment in the Federal Employees' Group Life Insurance Act to modify the reduction after age 65 to 1 percent per month, and to halt the reduction when it reaches 50 percent.

Now, H.R. 11879 proposes much-needed improvements in the program for those who have not yet retired. It would, as has been brought out here, increase the amount of insurance for each employee by 50 percent, and permit him to keep half of the increased total until the date of his death.

This means that the present employee, when he retires and reaches age 70, will have more than three times the insurance of the present retiree at age 70. His insurance will be preserved in the amount of at least 75 percent of his salary at retirement while the retiree's insurance will be only 25 percent of his salary at retirement.

We must remember that the average salary of the present retiree at the time of retirement was much lower than that of the present employee now holding the same job.

Now, our primary goal for retirees—I just cannot understand how one group of retirees can have one benefit and another group another benefit—we want to establish a way whereby all retirees' benefits are equal with regard to length of service.

A person who retired from service 10 years ago should receive an annuity equal to the person who succeeded him in that job and retired yesterday. If they had equal service, each should be able to provide the same survivor annuity. Each should be entitled to equal health benefits, and each should be entitled to equal life insurance benefits.

This, of course, is an ideal goal and can be obtained, we know, only one step at a time.

We are not asking for parity insurance benefits today, but we are asking for an adjustment that would give us about half of what H.R. 11879 provides for those present employees who will retire in the future.

We respectfully request that H.R. 11879 be amended to provide for present retirees the same reduction formula for those who will retire in the future, only 1 percent a month, and halting the reduction at 50 percent, and to restore to 50 percent the insurance which has been reduced to less than 50 percent. This is a minimum request.

Mr. DANIELS. At that point, how would you finance the cost of the program?

Mr. TARR. We have not given much thought to that. We realize that it will be a terrific amount of money.

Mr. DANIELS. I would appreciate it if you would make available to the Chair and the members of this committee your thoughts as to the cost, because that will be a very, very important consideration.

I know of your great interest in the area of retirement legislation. I realize also that you, as president of the National Association of Retired Civil Employees, will give this point much thought, much study, and let us have your views.

Now, when we adjourn today, we shall adjourn to some future date subject to call of the Chair. So you will have ample time to give it careful study and consideration.

Mr. TARR. I will do that.

While we are at this point, I will just say that we have studied some of this cost. We have been told that the Civil Service Commission estimates that the cost of extending the benefits of this bill to persons who have retired, as we request, would be about \$275 million.

This cost would be spread, as you know, over a period of at least 25 years, as these people passed on, which would bring the average annual cost to about \$11 million.

We understood from the testimony yesterday that the cost of the bill without our amendment would be about \$140 million per year. This amendment, of course, would be about \$11 million per year, because it is scattered out over a 25-year period.

So, on the basis of these figures, the adoption of the amendment which we propose, to extend the benefits of the bill to retirees, would add less than 8 percent of the cost of the bill.

Well, Mr. Chairman, I will conclude by saying that this is the age of the Great Society, when we are trying to help those who need help so desperately, and to help them share in the many good things of life.

Certainly what we are proposing today will not come near to matching up with what is being proposed for the present employees, because this bill would multiply threefold the life insurance benefits for those who are working today and who will enter into retirement in the future with the cost borne by the Government. So we ought to be able, surely, to double the more meager life insurance benefits available for present retirees with the cost borne by the Government.

I think we should remember that these present retirees are the men and women who built this country. For the most part they were born in another century and lived through the tremendous events of

the 20th century, and lived and worked through two world wars and a massive depression, and now are in financial difficulties.

They have worked and lived at a time when salaries were low and they could not maintain their families and also purchase life insurance at the same time.

Mr. Chairman, I want to thank you very much for the opportunity of appearing before you and giving our statement, and again thank you for the very fine work that you did for us a year ago and also for considering our amendment.

I have an amendment here if you wish for me to hand it in.

Mr. DANIELS. Hand it in to our staff director.

Mr. Tarr, on behalf of the committee, I wish to thank you for your fine testimony here today. I just want to clarify one point here. You state that you feel that there should be no disparity between the benefits paid to a retiree who retired 10 years ago and one who might retire today occupying the same job, even though there might have been a wage disparity. Is that correct?

Mr. TARR. Yes.

Mr. DANIELS. Now you are not suggesting, however, that it apply to those retirees who have already died?

Mr. TARR. No, sir; we are realistic enough to know that cannot be done.

Mr. DANIELS. That would raise all kinds of problems.

Mr. TARR. No; just those who have insurance today.

Mr. HANLEY. Mr. Tarr, just one question. Can you tell us about how many people fall under the category we are discussing here?

Mr. TARR. There have been approximately 400,000 retirees since 1954, when this Federal employees' group life insurance came into effect, and probably 90 percent of them are insured. So from my statement it would be a considerable amount of money, but it would be over this 25-year period, and comparing what the Government is spending for other such things, it isn't so much, considering that we are dealing with people that, as I say, helped build this country and need help now.

Mr. DANIELS. Mr. Tarr, do you propose to file a supplementary statement as to cost?

Mr. TARR. Yes, I will.

Mr. DANIELS. Or do you want to stand on the basis of the testimony?

Mr. TARR. I am willing to stand on this, but if you want anything else, we will be most happy to stand on it.

Mr. DANIELS. I would like to thank you, Mr. Tarr, and all the witnesses who appeared here this morning for their assistance and cooperation in expediting this hearing. The Chair certainly appreciates your assistance and your help.

Mr. TARR. Thank you.

(The aforementioned prepared statement of Mr. Tarr is inserted at this point in the record as follows:)

PREPARED STATEMENT OF CLARENCE M. TARR

Mr. Chairman and members of the subcommittee, my name is Clarence M. Tarr, president and legislative director of the National Association of Retired Civil Employees. Our association has more than 118,000 members, principally retired civilian employees of the United States, but including some of their

dependents and survivors and widows of employees who died in the service. We have over 900 chapters throughout the United States. We appear today to speak for approximately 400,000 retired Federal employees who now have life insurance under the Federal Employees' Group Life Insurance Act of 1954. We are in favor of H.R. 11879 with an amendment to include retired Federal employees in some of the improved benefits proposed.

In the civilized society in which we live, men have not only a strong obligation but also an impelling desire to provide for their dependents and survivors. Although self-preservation may have been the first law of nature, we know that it was only to fulfill the second law—to provide children to perpetuate the human race. This does not mean merely physical reproduction of children to swell the population statistics but to provide the continuation of a society of educated people dedicated to the principle of improving the world in which they live. Better and better education is becoming more and more necessary, and at the same time much more expensive, so that the burden of providing the future with better trained people is falling more and more heavily on parents and grandparents.

As social needs have grown, new social programs have been instituted to meet them. One example is the beginning of the Federal employees' group life insurance program in 1954. Under this program, each employee was permitted to buy group life insurance equal to his annual salary (if not an even \$1,000, rounded out to the next \$1,000) at a cost of 25 cents per \$1,000 per pay period, with the Government paying the balance of the cost. As his salary advanced, the amount of his insurance advanced. If he retired for disability or after at least 12 years' service, the insurance was carried into retirement, and all premiums thereafter were paid by the Government. At age 65, the insurance started to reduce in value at a rate of 2 percent per month, and this reduction continued until the total had shrunk to a fourth of its original value. If the employee continued on the rolls after age 65, his premiums were waived thereafter.

This was a giant step forward, but it soon became apparent that the sharp reduction beginning at age 65 was excessive. The original theory was that a man's obligations to his family became lighter as his children grew up and became independent, that this occurred at about the age of 65, and that thereafter he needed only about a fourth of his original insurance. Increasing funeral costs and the rapidly mounting costs of educating children and grandchildren made it desirable to continue in effect at least one-half of the original insurance. For these reasons our association for the past 7 or 8 years has sought an amendment in the Federal Employees' Group Life Insurance Act to modify the reduction after age 65 to 1 percent per month and to halt the reduction when it reached 50 percent. Bills for this purpose were introduced in the 86th, 87th, 88th, and 89th Congresses without success. In 1959, as the result of hearings on one of our bills, the Federal Employees' Group Life Insurance Act was amended to postpone the reduction in amount of insurance, and the waiver of premiums, for persons who remained in the service past the age of 65, until the date of retirement, but nothing was done for the insurance of those who had already retired.

Now, H.R. 11879 proposes much-needed improvements in the program for those who have not yet retired. It would increase the amount of insurance for each employee by 50 percent and permit him to keep half of the increased total until the date of his death. This means that the present employee, when he retires and reaches age 70 will have more than three times the insurance of the present retiree at age 70. His insurance will be preserved at at least 75 percent of his salary at the time of retirement, while the present retiree's insurance will be only 25 percent of his salary at retirement, and we must remember that the average salary of the present retiree at the time of retirement was much lower than that of the present employee now holding the same job.

Our primary goal for retirees is parity—to establish a condition whereby all annuities and other benefits are equal with regard to kind of work and length of service. The person who retired from a job 10 years ago should receive an annuity equal to the person who succeeded him on that job and retired yesterday, if they had equal service, each should be able to provide the same survivor annuity; each should be entitled to equal health benefits; and each should be entitled to equal life insurance benefits. This, of course, is an ideal goal, and can be attained only one step at a time. We are not asking for parity insurance benefits today, but we are asking for an adjustment that would give us about half of what H.R. 11879 provides for those present employees who will retire in the future. We respectfully request that H.R. 11879 be amended to provide for present retirees the same reduction formula proposed for those who will retire in the future—only

1 percent per month and halting the reduction at 50 percent, and to restore to 50 percent those whose insurance has reduced below 50 percent. This is a minimum request for present retirees in relation to the great benefits proposed for future retirees.

We are not unmindful of the fact that many of the present retirees have received substantial insurance benefits at low cost. This is a natural circumstance with each change in benefit legislation. There will be thousands who stand to receive the much greater benefits under H.R. 11879 at very low cost, but there is no provision in H.R. 11879 to withhold these multiple-increased benefits from those who will retire and enjoy them shortly after they are approved. It is no more proper to withhold benefits from us because of cost considerations than it would be to withhold the proposed new benefits from long-service, present employees on the verge of retirement, for cost considerations.

This is the age of the Great Society, when we are trying to help those who are less privileged to share in more of the good things of life. Certainly, when we are proposing to multiply threefold the life insurance benefits of those who will enter retirement age in the future, with most of the cost borne by the Government, we ought to be able to double the more meager life insurance benefits available for present retirees, with the cost borne by the Government.

Thank you for the opportunity to make this presentation.

Mr. DANIELS. Now we will adjourn, subject to call of the Chair, in view of the statement heretofore made by the Chair that we desire to study and review the President's Cabinet Committee report, which I understand will be filed in the early part of next month.

Thank you so much.

(Whereupon, at 11:50 a.m., the hearing was adjourned, subject to the call of the Chair.)

IMPROVED LIFE INSURANCE BENEFITS

FRIDAY, APRIL 1, 1966

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON RETIREMENT,
INSURANCE, AND HEALTH BENEFITS,
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 346, Cannon House Office Building, Hon. Dominick V. Daniels (chairman of the subcommittee) presiding.

Mr. DANIELS. The Subcommittee on Retirement, Insurance, and Health Benefits will come to order.

The subcommittee is meeting this morning to receive testimony on H.R. 13723, a bill introduced by the Chair to provide improved benefits under the Federal Employees' Group Life Insurance Act of 1954, and to strengthen the financial condition of the fund created by such act.

This legislation proposes substantial changes in the act, which has remained relatively unchanged since its inception in 1954. The life insurance program is one that millions of Federal employees and their families rely heavily upon for the major part of their total insurance program. The number and scope of bills that have been introduced on the subject demonstrate the keen interest of Members of Congress in the progress of the program's 12-year history.

This legislation proposes an answer to the objectives of a progressive life insurance program that is meaningful to both the employee and the Government. The measure proposes to provide:

(1) Coverage for certain reemployed annuitants not now eligible for coverage;

(2) An increase of approximately 33 percent in coverage by increasing the life insurance available from 100 percent of annual salary to 133 percent thereof, plus an equal amount of accidental death and dismemberment insurance;

(3) In addition to the basic insurance protection, \$2,000 of insurance which would not be reduced after retirement;

(4) An increase in the present limitation of \$20,000 of coverage to \$40,000, such limitation applying to salaries that exceed \$29,250; and

(5) A change in the cost-sharing ratio from its present 2 to 1 to a new ratio of 3 to 2, the employee thus paying 60 percent and the Government paying 40 percent of the level cost of the insurance, as determined by the Civil Service Commission.

Our first witness this morning is the Honorable John W. Macy, Jr., Chairman of the U.S. Civil Service Commission, who is accompanied by Mr. Andrew E. Ruddock, Director of the Bureau of Retirement and Insurance. Good morning, gentlemen.

STATEMENT OF HON. JOHN W. MACY, JR., CHAIRMAN, U.S. CIVIL SERVICE COMMISSION; ACCOMPANIED BY ANDREW E. RUDDOCK, DIRECTOR, BUREAU OF RETIREMENT AND INSURANCE

Mr. MACY. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee, I appreciate this opportunity to appear today to present the views of the Civil Service Commission on this legislation to amend the Federal employees' group life insurance program.

H.R. 13723 proposes three changes in the Insurance Act which are identical to the provisions of H.R. 6926 as passed by the Senate in amended form on March 17, 1966, and contains one further feature not included in the Senate-passed bill. Thus, my comments on the major provisions of this legislation will apply equally to H.R. 6926.

My letter of March 31, 1966, to Chairman Murray of the full committee states the Commission's official position on H.R. 13723. If you agree, Mr. Chairman, I suggest that letter be incorporated in the record at this point.

Mr. DANIELS. Without objection, so ordered.

(The letter referred to follows:)

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., March 31, 1966.

Hon. TOM MURRAY,
Chairman, Committee on Post Office and Civil Service,
House of Representatives.

DEAR MR. CHAIRMAN: This refers to your request for Commission report on H.R. 13723, a bill to strengthen the financial condition of the employees' life insurance fund created by the Federal Employees' Group Life Insurance Act of 1954, to provide certain adjustments in amounts of group life and group accidental death and dismemberment insurance under such act, and for other purposes.

The Insurance Act now affords covered employees group life insurance and accidental death and dismemberment insurance each in an amount, not exceeding \$20,000, equal at all times to the annual basic salary rate raised to the next higher \$1,000, or exactly equal to the salary rate if the rate is a multiple of \$1,000.

The Commission determines how much employees pay for the insurance, subject to a statutory maximum of 25 cents biweekly per \$1,000 of life insurance. The Commission also determines the rate of agency contributions, likewise subject to a statutory maximum of one-half the amount paid by the employee. Since the program started in 1954, each of these rates has been set at its maximum; employees have been paying 25 cents, and agencies 12½ cents biweekly for each \$1,000 of insurance.

Under the law, an employee's insurance ceases upon separation from the service, or 12 months after discontinuance of his salary payments, whichever first occurs. The effect of the 12-month provision is to grant up to 1 year of free, full coverage to an employee in nonpay status, during which neither he nor the Government makes any payments.

All insurance contributions cease when an employee separates, but if he retires on an immediate annuity for disability or after at least 12 years' Federal service, his life insurance, without accidental death or dismemberment insurance, may be carried into retirement free. Although coverage after retirement operates without further contribution by the retiree or the Government, a 2-percent monthly reduction is applied against the face amount of life insurance held at retirement starting the second month after retirement date or the second month after the retiree reaches age 55. This reduction stops after a 75-percent reduction has run, leaving in force thereafter 25 percent of the life insurance held at retirement.

H.R. 13723 proposes four changes in the Insurance Act as follows:

1. Section 1 proposes to extend eligibility for insurance coverage to reemployed retirees who retain title to their annuities—usually with annuity payments suspended while reemployed, or with annuity continuing and salary reduced by the annuity amount.

By Commission regulation, reemployed annuitants of this type are excluded from insurance coverage as a class. Most of the class serve either intermittently or for relatively brief periods and are rightly excluded. However, some serve full-time or part-time tours for many years and are proper subjects for insurance coverage as active employees. The problem of covering these has been studied extensively by the Commission, but we find it cannot be solved administratively.

The amendments proposed in section 1 would solve this problem. Effective the first pay period starting after enactment, the amendments would extend active employee insurance coverage to reemployed annuitants of this type, already serving or thereafter hired under appointments for regular nontemporary service. In each case, any free life insurance held by the retiree would be suspended and he would have group life insurance (plus accidental death and dismemberment insurance) in relation to the full salary of his reemployment position, for which he and his agency would pay at regular rates. If, upon separation, this reemployment service formed the basis for increased annuity, he would be considered as again retiring and, if otherwise qualified, could keep the life insurance acquired during reemployment without further cost. In any event, after separation, any free life insurance previously held would be reinstated, so that in case of death, during or after reemployment, the life insurance payable could never be less than the amount which would have been paid had he not been reemployed.

2. Section 2 of the bill would increase the amount of insurance available under the program in two respects:

(a) Effective upon enactment, the amount of regular life insurance would be equal at all times to one and one-third times the annual basic salary rate raised to the next higher \$1,000, or if a multiple of \$1,000, exactly equal to one and one-third times salary. This would produce regular insurance amounts ranging from \$1,000 up to a maximum of \$40,000.

(b) Effective the first day of the first pay period beginning not less than 60 days after enactment, each insured employee would automatically have an additional \$2,000 unit of life insurance.

Both types of increased life insurance would raise the accidental death and dismemberment insurance available during active employment. The regular life insurance based on salary would be subject to the after-age-65 reduction when carried into retirement free. The additional \$2,000 unit would not reduce after retirement.

Both of these increases in available insurance would operate prospectively. The higher insurance based on salary would not apply to anyone who died, retired, or was separated prior to enactment date. The additional unreducing \$2,000 unit would not apply to anyone who died, retired, or was separated prior to the specified effective date—the first day of the first pay period which begins not less than 60 days after enactment.

3. Effective the first day of the first pay period which begins not less than 60 days after enactment, section 3 would require employee payments and agency contributions at rates sufficient to fully finance the insurance program at a ratio of 60 percent employee, and 40 percent Government.

Specifically, from this effective date, employees would be required to pay for their insurance at a rate equal to three-fifths of the level biweekly cost per \$1,000 of insurance provided, as determined by the Commission. Agencies would be required to contribute two-fifths of the level biweekly rate so determined.

4. Section 4, effective upon enactment, would provide a plan under which insured employees granted extended leave without pay to serve as full-time officers of employee organizations or unions could elect to keep insurance coverage through payment of both the employee and agency shares.

At present, such union officers retain insurance coverage free during the first 12 continuous months of nonpay status. Unless before expiration of 12 months after discontinuance of Federal salary the officer returns to pay and duty or paid leave status, group insurance ceases at the end of a years' leave without pay, subject to a 31-day extension of life insurance protection during which he may convert to a nongroup individual policy without medical examination.

Under section 4 of the bill, these provisions would be made. In future cases the full-time union officer granted leave without pay could file an election with his agency, within 60 days from starting date of nonpay status, to continue full group insurance protection by paying the combined employee and agency premium. In the case of one already on leave without pay and still insured as an employee, the union officer could file an election with the agency, 60 days from enactment date, to continue full group insurance protection on the employee-pay-all basis described.

Payments in each instance would be made to the Federal agency involved, which would in turn transfer the payments to the insurance fund. If in either instance the union official does not timely elect continuing coverage under the employee-pay-all plan, his insurance will be subject to the usual rules; insurance will cease after 12 continuous months of nonpay status, with only the right to convert to an individual policy.

As these provisions are written, a union officer's contributions would commence for the pay period in which his election is timely filed with his Federal agency. This seems appropriate for the union official already on leave without pay in an insured status, but would be inappropriate for future cases, in which it is believed that contributions should date from the commencement of leave without pay. To this end, we suggest amending the bill at line 18, page 6, to insert immediately after the word "contributions" the phrase "from the date of entry on leave without pay."

Financing and costs of proposals (at current pay levels)

[Biweekly rates per \$1,000 of life insurance]

	Present program	Proposed program	Increase
	<i>Cents</i>	<i>Cents</i>	<i>Cents</i>
Level cost	44.8	48.7	3.9
Premium income	37.5	49.0	11.5
From employee	25.0	29.0	4.0
From agencies	12.5	20.0	7.5

TOTAL ANNUAL COSTS, IN MILLIONS

	Present program	Proposed program	Increase
Level cost	\$212.2	\$358.6	\$146.4
Premium income	177.6	360.8	183.2
From employee	118.4	213.5	95.1
From agencies	59.2	147.3	88.1

¹ Actuarial valuation of the group life insurance program as of June 30, 1964, showed 44.8 cents to be the total level biweekly premium per \$1,000 of life insurance required to adequately finance the existing program on a permanent basis.

Group life insurance for Federal employees is an important fringe benefit, but it is only one part of a large and expensive package of benefits. The cost of benefits for civilian personnel has become so significant, both in absolute terms and in comparison to similar expenditures in industry, that additional measures require careful scrutiny. The President's Special Panel on Federal Salaries in 1965 called attention to the seriousness of this problem. Consideration of new proposals on a piecemeal basis is no longer adequate. Costs and benefits must be considered in their long-term implications and in relation to total compensation, to assure that the benefits meet employee needs and that costs are reasonable in terms of comparability with compensation in non-Federal employment.

The Commission is unable to concur in H.R. 13723 as presently written. As pointed out in our report of February 14, 1966, on H.R. 11879, a somewhat similar insurance bill, the Government's group life insurance program was planned and created to supplement and not to replace employees' private insurance programs. The Commission believes that insurance approximating 1 year's salary is adequate in this sense, particularly when considered in combination with other existing benefits—survivor annuities under the retirement system and protection afforded by the health benefits program, which tend to fulfill much of the financial burden attendant upon an employee's last illness or death. The Commission also considers as reasonable under the circumstances the statutory provision limiting Government contributions to half the employee rate.

Our position in this regard has since been affirmed by the President in his March 7, 1966, message on the Federal statutory salary systems wherein he urged careful study of the report of the Cabinet Committee on Federal Staff Retirement Systems. On Federal group life insurance, the Committee recommended as follows:

"Maximum salary base for life insurance coverage should be raised from the present \$20,000 to executive salary level II. Subject to maintaining the existing

2-to-1 ratio for sharing of costs, the Civil Service Commission should be given authority to adjust contribution rates as necessary to meet the Commission's estimated level premium cost."

The Commission favors needed justifiable changes in the insurance program. Its financing should be improved without delay, and the outdated \$20,000 maximum on life insurance set 11 years ago should be raised to a level in keeping with today's top Government salaries. We also favor extending insurance coverage to reemployed annuitants and offer no objection to continued life insurance to union officials on the employee-pay-all basis proposed (subject to the modification suggested).

We urge amending the Insurance Act to raise the maximum employee contribution rate to 35 cents per thousand biweekly, so that starting July 1, 1966, the Commission may prescribe 30 cents and 15 cents as the employee and Government contribution rates needed for adequate permanent financing. We also recommend amending the law to set an insurance maximum which would be based upon and adjusted automatically to correspond to the salary rate for level II of the Federal Executive Salary Schedule—currently \$30,000. If these provisions are substituted for those now in sections 2 and 3 of H.R. 13723, the Commission favors its enactment into law. Enactment of this amended version would not alter the existing 44.8 cents level biweekly premium cost of insurance and would result in an added annual cost to the Government of about \$12 million.

Unless so modified, we recommend against the enactment of H.R. 13723.

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

By direction of the Commission:

Sincerely yours,

(Signed) JOHN W. MACY, Jr.,
Chairman.

Mr. MACY. The major features of the bill under consideration today would make these changes in the insurance program for the future:

One, reemployed retirees who retain title to their annuities, now excluded from coverage as a class, would be admitted to full contributory insurance coverage during reemployment on the same basis as other employees. Any free insurance they may have previously carried into retirement would be suspended during active employment and reinstated thereafter. They would be assured that upon death during or after reemployment, the insurance amount payable would never be less than that which would have been paid if not reemployed.

This feature would take effect the first pay period following enactment for present and future reemployed retirees. It is a fair and workable solution to a problem the Commission has been unable to solve administratively, and involves no material cost.

Two, the insurance available under the program—life insurance and accidental death and dismemberment insurance each in an amount approximating annual salary up to a maximum of \$20,000—would be increased by this legislation in two ways:

Regular insurance, as now provided, would be increased to $1\frac{1}{2}$ times salary, raised to the next higher \$1,000, up to a \$40,000 maximum, starting the first pay period after enactment.

Further, each insured employee would be automatically granted an additional \$2,000 unit of life insurance and accidental death and dismemberment insurance starting with the first pay period which begins at least 60 days after enactment.

The regular insurance provided would still be reduced after age 65 when retained free after retirement—2 percent a month, with a reduction stopping at 75 percent.

The \$2,000 added unit would not reduce when retained free after retirement.

Three, the present financing provisions, under which employees pay 25 cents and agencies 12½ cents per \$1,000 of life insurance biweekly, would be altered to fully finance the program.

Effective the first pay period which begins not less than 60 days after enactment, employees would have to pay three-fifths, or 60 percent, of the level biweekly cost, determined by the Commission, of the insurance provided. From the same point agencies would pay two-fifths or 40 percent of the level biweekly premium cost.

The total level premium required for adequate financing of the existing program is 44.8 cents biweekly per \$1,000 of insurance, and the present total premium income of 27½ cents biweekly is 7.3 cents below the amount needed to pay all insurance benefits in the long-term future.

Under the program amended as proposed, the \$2,000 added unreducing units of insurance would raise the level biweekly premium cost per \$1,000 of insurance from 44.8 cents to 48.7 cents.

Under the bill, therefore, the 60-40 sharing ratio would require employees to pay 29 cents, and the Government 20 cents, biweekly per \$1,000 of insurance.

The resulting annual increase in Government's insurance costs would be \$88,100,000 of which \$12 million would represent improved financing of the present system and \$76,100,000 for added employee benefits.

Four, the final feature of the bill, not in Senate-passed H.R. 6926, would provide a plan under which insured employees presently or in the future granted leave without pay to serve as full-time officials of employee organizations or unions to remain fully insured by paying both the employee and Government premium shares to their Federal agencies.

Mr. DANIELS. May I interrupt you? Wasn't this taken care of in the pay bill the full committee acted on yesterday?

Mr. MACY. Yes, sir. In fact, I can skip this if you wish. This is section 406 of H.R. 14122, the bill that was reported by the full committee yesterday.

Mr. DANIELS. As you know, that bill is scheduled for consideration on the floor Monday.

Mr. MACY. In view of that, I will skip that particular section.

Mr. GROSS. One question, Mr. Chairman, on that point. Does this have the approval of the Civil Service Commission?

Mr. MACY. Yes, sir. I hear murmurs of surprise behind me.

To pick up then, Mr. Chairman, at the top of page 5, the Commission is unable to agree to these proposed changes in the insurance program relating to increased insurance and financing. As I testified on February 15 of this year, on a somewhat similar insurance bill, group life insurance, while important, is only one of a varied and expensive package of benefits provided in addition to pay.

The cost of fringe benefits for Federal personnel has become so significant, both in absolute terms and in comparison to similar expenditures in private industry when viewed in relation to total compensation, that we can no longer afford the luxury of considering new proposals on an isolated basis.

This point was stressed and made especially clear in the President's message of March 7 on the Federal pay systems. He stated that pay, retirement, and other fringe benefits are all parts of an em-

ployee's total compensation, and recognition of this basic fact is crucial in developing a rational and equitable system of compensation.

The President then proposed legislating increases in pay and fringe benefits which would provide an average increase in Federal employees' total compensation totaling 3.2 percent. The allocations within the 3.2 percent guidelines were 2.85 percent for pay increases, with the balance to go for fringe benefits, mainly in the area of retirement and survivor benefits, to aid Government employees in planning for their own economic security.

The administration, Mr. Chairman, had previously committed itself to expending an added \$12 million annually to improve life insurance financing. But no additional expenditure for life insurance was planned—certainly not an amount in the magnitude of \$76.1 million for added employee benefits provided by this legislation.

In his message the President urged careful study of the supporting data he presented, citing in particular the report of the Cabinet Committee on Federal Staff Retirement Systems.

Let me insert here, Mr. Chairman, that when I appeared before you on February 15, and when I appeared before you last year on March 30, I made reference to the Cabinet study that was then underway and stated that such study would include life insurance as well as other benefit systems.

The Committee's report is now in hand and is a part of the record that was presented on March 7. The Committee's report recommended changes in the life insurance program limited to raising the \$20,000 maximum to a realistic level and, subject to the existing 2-to-1 ratio for sharing costs, giving the Commission authority to adjust contribution rates as necessary to meet the estimated level premium cost.

The Committee considered but decided against any further liberalization of life insurance benefits, believing that the money this would require would be better spent on providing greater death benefits through transfer of Federal service credits to the social security system and minimum survivor annuities under the retirement system geared to social security levels.

Under existing circumstances, therefore, the Commission is unable to concur in this legislation in present form. In taking this position, we are not saying there is anything wrong in principle with this or any other legislation designed to provide more low-cost group life insurance for Federal employees. What we are saying is that there simply is no room within the existing total compensation guideposts for the added \$76 million Government cost that enactment of this legislation would entail.

The Commission favors extending insurance coverage to reemployed annuitants, and does not object to continued life insurance for union officials. In addition to these changes, we urge amending the insurance act to raise the maximum employee contribution rate to 35 cents per thousand biweekly, so that starting July 1, 1966, the Commission may prescribe 30 cents and 15 cents as the employee and agency contribution rates needed for adequate permanent financing.

We also recommend amending the law to set an insurance maximum which would be based upon and adjusted automatically to correspond to the salary rate for level II of the Federal Executive Salary Schedule. This level is currently \$30,000.

Enactment of these improvements would not alter the existing 44.8 cents level biweekly premium per \$1,000 of insurance but would increase Government costs \$12 million annually under current pay levels.

If amended to so provide, the Commission recommends that H.R. 13723 be enacted into law.

Mr. Ruddock and I will gladly answer any questions you and your colleagues have, and let me thank you once again for your courtesy in permitting me to present this information on this very important legislation relating to one of the most significant of the fringe benefits provided by the Congress for Federal employees.

Mr. DANIELS. You are welcome.

In examining the letter that you sent to the Chairman of the full committee, Mr. Murray, I note that the proposed program would involve an additional cost of 3.9 percent and in dollars and cents it amounts to \$88,100,000; is that correct?

Mr. MACY. Yes, that is correct.

Mr. DANIELS. Now, I specifically refer to page 4 of that report. Under the proposed bill, which proposes contributions on a 60-40 basis, would it not produce a surplus of \$2,200,000? You estimate the level cost of \$358,600,000 and right below that figure you state the premium income would amount to \$360,800,000.

Mr. MACY. Mr. Chairman, the reason for that seeming discrepancy is that we used 29 cents and 20 cents as rounded figures per thousand, and it produced this slightly higher figure as a result.

We could make it precise if we took a decimal point after the cents. We rounded it out for illustrative purposes.

Mr. DANIELS. I see. Then your principal objection to the bill under consideration is not so much the philosophy behind it, but the fact that it goes beyond the President's guidelines of 3.2 percent resulting in an additional Government costs of \$88 million?

Mr. MACY. That is correct. It is a matter of this representing an additional Government contribution of this magnitude as a part of this year's pay-plus-fringe-benefit legislation.

Mr. DANIELS. If I understand you correctly, you have no objection to increasing the insurance on Federal employees to a maximum of \$30,000 in this session of Congress?

Mr. MACY. That's right.

Mr. DANIELS. That would result in an additional cost of about \$120,000. You have no objection to that?

Mr. MACY. I have no objection to that on the grounds it was an administration program supported last year in the hearings on the bill that was passed by the House May 3. In fact, the provisions in this bill supported by the Commission are, first, the provision for continuing the insurance of reemployed annuitants.

Second, we have no objection to the continuation of insurance for union and employee organization leaders.

Third, we support raising the maximum to \$30,000 on the basis of the increase in salaries that took place in 1964.

Fourth, approval of an increase in the maximum contribution in order to bring the income for this program up to a point where it equals the current cost.

Mr. DANIELS. The President's Cabinet advocates an equal sharing of retirement costs and to increasing the Government's health benefits

contribution from 28 to 38 percent. Why, then, does the Cabinet Committee adhere to this 2-to-1 ratio in the life insurance program?

Mr. MACY. The belief of the Cabinet Committee was that, with the number of survivorship plans available to Federal employees through the retirement system, and other benefits, the contribution of one-third in the life insurance program was an appropriate ratio in contrast to an increased contribution by the Government.

Mr. DANIELS. Mr. Clevenger, any questions?

Mr. CLEVINGER. No.

Mr. DANIELS. Mr. Gross?

Mr. GROSS. What is the status of the insurance fund now? Is it in good shape?

Mr. MACY. The fund is in reasonably good shape at this time, Mr. Gross. The increase in funding that is proposed here is in order to assure that it continues in good shape over the long term.

Mr. GROSS. Somewhat apart from the specifics of this hearing, what about the retirement fund? What is the status of that fund?

Mr. MACY. The retirement fund has an unfunded liability at the present time, in the vicinity of \$40 billion. It is increasing—the unfunded liability is increasing at a rate of about a billion dollars a year without reference to increases in basic compensation. When there are increases in basic compensation, naturally the unfunded liability is increased at the same time.

Mr. GROSS. If the chairman will indulge me another question or two on this subject?

Mr. DANIELS. All right.

Mr. GROSS. What should the Government be contributing annually to begin to absorb, to get this fund on a sound basis?

Mr. MACY. In the Cabinet Committee report there is a proposal for a new financing plan. This plan was a part of the President's recommendations of March 7. It would call, first of all, for a policy determination that the level normal costs of the retirement plan would be equally shared by the Government and the employees, which would mean that in the event of future liberalization the cost would be divided between the two. It had a second feature where it would call for the funding of increased retirement benefits flowing from increased salaries on an amortization table over a period of 30 years, so that the increased past service costs would be an acknowledged part of the Government's obligation to meet the costs of that payroll over a period of time.

Mr. GROSS. Let's forget for a moment any increased benefits under the retirement system and address yourself, please, to the status of the fund now.

What contribution ought the Government to make—and it seems to me immediately—to this fund?

Mr. MACY. Well, the proposal on that count—that is really the third area—is that the Government maintain appropriations to the fund which preserve the equity of the employees' contribution, contributions in the past. This would mean that at some date in the future there would be an obligation on the part of the Government to make a contribution—make an appropriation to assure that that level is maintained.

Mr. GROSS. Ought that to begin now?

Mr. MACY. That should start at the earliest possible time.

I might say, Mr. Gross, that Chairman Daniels has indicated his interest in the financing provisions—and as I understand it, Mr. Chairman, you had planned to have some hearings on this particular issue?

Mr. DANIELS. Yes. I not only announced that fact during the writing up of the recent pay bill, which was approved yesterday, but I have also stated on former occasions that our committee intends to go into this problem in depth, shortly.

Mr. GROSS. I appreciate the Chairman's statement. I didn't mean to take the time of the committee this morning, but I just wanted to be sure I got a little information now, hoping that you would institute hearings in the very near future.

Mr. DANIELS. This is a very important and serious problem. I think the Congress should look into it.

Mr. MACY. Let me assure you and Mr. Gross of the Commission's deep concern on this issue, as the stewards of this fund, and our desire to collaborate with you just as fully as possible in moving ahead with a study and exploration of these proposals.

Mr. GROSS. So you would go to \$30,000, with the increase from \$20,000 to \$30,000, with an increase to a 35-cent contribution maximum on the part of the employee?

Mr. MACY. Yes. This would be an amendment to the limitation in the 1954 act of 25 cents employee contribution per \$1,000, an amendment to make it 35. It would be the Commission's intention, if the Congress so acted, to increase the rate July 1 to 30 cents. In other words, we would not go to the maximum. It is not necessary at this time.

But we would increase the employee's share to 30 cents and the Government's share to 15 cents.

Mr. GROSS. I think that is all.

Mr. DANIELS. However, Mr. Macy, if it were not for the Presidential guideposts, is it fair to say that the Commission might come in and recommend approval of this bill, in view of your language on the top of page 7:

* * * We are not saying there is anything wrong in principle with this or with any other legislation.

Mr. MACY. What I was indicating there was not a specific support of the increases proposed in this bill, but indicating that we would certainly be interested in looking at the whole matter of low-cost, group insurance in relation to other benefits that relate to survivorship.

I would feel that it would be desirable to look at a number of options as well as this one.

Mr. DANIELS. The assumption I was making was that if the Government had the money you wouldn't have any objection to spending it on this program?

Mr. MACY. My point was that if it were not for the guidepost this year, that I would feel that this would be a possibility. But that it ought to be looked at in relation to the other benefits that are presently in the total package.

Mr. DANIELS. Mr. Hanley?

Mr. HANLEY. Mr. Macy, if the legislation as proposed were amended to concur with your suggestion, what would the actual cost reduction be?

Mr. MACY. Well, it would be a reduction from the increase of \$88 million to an increase of \$12 million, so it would reduce the cost to the Government by \$76 million.

Mr. HANLEY. Then we are talking, actually, about a \$76 million expenditure?

Mr. MACY. That's right. The increase of that amount flows from two things: It flows from the \$2,000 unreducing unit of insurance, which would be added, and it would flow from the increased financing ratio, which would increase the Government's contribution from 33 to 40 percent.

Mr. HANLEY. Some of the things that you have agreed to actually are no-cost items insofar as the program is concerned?

Mr. MACY. That is correct. There is virtually a no-cost item involved in the reemployment of annuitants; virtually a no-cost item involved in extending continued coverage to union leaders.

Actually, the increase of the maximum from 20 to 30 is a very small amount. So the increase of \$12 million, which we supported last year and we continue to support, is entirely in the approved financing possibility, which is reflected in the increase in the Government's share from 12.5 cents per thousand biweekly to 15 cents.

Mr. HANLEY. Thank you, Mr. Macy. No further questions.

Mr. GROSS. One other question or two.

Why go to \$30,000, Mr. Macy? Or any other increase?

Mr. MACY. The reason for \$30,000, Mr. Gross, was that we believe that 30 has the same relationship to the top of the pay scale now that 20 did at the time the act was passed in 1954. There has been roughly an increase of \$10,000 at the top and if the Congress pegged this to level II of the executive pay scale, it would not require special legislation to adjust the maximum in the event there was any future change in pay.

Mr. GROSS. Wouldn't the depreciation in the value of a dollar by virtue of inflation have something to do with this?

Mr. MACY. No. This was pegged entirely to the salary levels in the revised pay scale that was enacted in 1964.

Mr. GROSS. Well, haven't salaries gone up to some extent because of the depreciated purchasing value of the dollar?

Mr. MACY. They have been raised to meet the market situation in the country generally, and the market is influenced by a lot of economic forces.

Mr. GROSS. I can't apparently get you to admit there has been inflation.

Mr. MACY. Well, there has been some, but it has not been the major force by any means in influencing the salary level.

Mr. GROSS. Mr. Macy, you wear two hats. This is a blunt question, and probably you would not want to answer it: How dim would the view of the President be if the Daniels' bill were enacted by Congress rather than the legislation that you suggest?

Mr. MACY. I would feel that the President's position on the economic guidepost this year is very clear, and that he could not accept anything that would exceed a 3.2-percent increase in total compensation this year. He has appealed to the private sector to voluntarily abide by that figure. He feels that the Federal Government, in its own actions, should set an example.

Mr. GROSS. And you would think that his position in this matter would be very firm?

Mr. MACY. I believe it would.

Mr. GROSS. Thank you.

Mr. DANIELS. Mr. Macy, if I might ask you a question or two, the bulk of the cost involved in the proposed bill is involved in the \$2,000 nonreducible item which the Senate added to my bill by amendment; is that correct?

Mr. MACY. That is correct.

Mr. DANIELS. That comprises the bulk of the cost and involves most of that \$88 million?

Mr. MACY. That is right. The rest of it is in the increased financing. I can give you the precise distribution between the two.

The improved financing is \$11.8 million and the new benefits, including the \$2,000 unreducible unit, is \$76.3 million.

Mr. DANIELS. Thank you.

Any further questions?

Mr. GROSS. Just one question.

In the bill that you suggest, would the Commission prescribe the rates or would these rates be fixed in law? The premium rates?

Mr. MACY. The Commission, Mr. Gross, would set the rates within the maximum that would be specified in the law, as is permissible now. The 1954 statutes set a maximum employee contribution of 25 cents—25 cents has been the figure from the first day of the program. We now find that we are running several cents behind and we need the increase in order to fund the program over the long term so our proposal would be for you to raise the 25 cents limitation to 35 cents and that the Commission would make an adjustment within that new range.

Mr. GROSS. Based on the \$30,000, the increase to \$30,000?

Mr. MACY. The \$30,000 would not be a factor in determining the rate. That has very little cost impact.

Mr. DANIELS. Do you feel you need this authority at the present time?

Mr. MACY. Yes. We feel we need the authority in order to provide the necessary financing at this point. It is not related to any of the increases. This is based upon the current program.

Mr. GROSS. What I am getting at, are we giving you authority to move the rates up or do you have that presently?

Mr. MACY. We have the authority to move them up only to a maximum of 25 cents. We are at the 25 cents. We are saying, will you raise it to 35 cents? We will then adjust within that to meet the current cost of the program, without any reference to benefits.

Mr. GROSS. So there would be, if we bring out the bill on the basis you suggest, we would still be fixing a ceiling?

Mr. MACY. That is correct. You set a ceiling of 35 cents and, if the cost of the program were to continue to rise, we would have to come back to you once again when we got to the 35 cents in order to go beyond that.

Mr. GROSS. Presently it would be 30 cents and 15 cents, correct?

Mr. MACY. That would be our proposal July 1.

Mr. GROSS. You have elbowroom of 5 cents?

Mr. MACY. That's right. The option to you is to increase it—

Mr. GROSS. How much elbowroom have you now?

Mr. MACY. None. We are at the ceiling and have been from the day the act was——

Mr. GROSS. What did yo have when this program started?

Mr. MACY. 25 cents. We have kept it at 25 cents the entire 11½-year history of the program.

Mr. DANIELS. To clarify that point, the contribution of 25 cents from the employee plus 12.5 cents from the Government makes a total of 37.5 cents but the actual level cost of today's insurance program is 44.8 cents, so you have a deficit of 7.3; is that correct.

Mr. MACY. That is correct. We would propose, by the increase I have described, to 30 and 15, to have a contribution of 45 cents, which is just above 44.8, which is the present cost.

Mr. DANIELS. I just wanted to bring that out for the record.

There are no further witnesses scheduled for today, so we will conclude the hearing on this subject. The Chair proposes to call an executive session in the future.

We will stand adjourned.

(Whereupon, at 10:30 a.m., the subcommittee was adjourned.)



