

Y4
. P 84/10

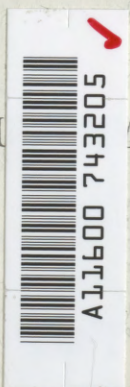
1022

92-26
P84/10
Y4

92-26

GOVERNMENT
Storage

INCREASE GOVERNMENT SHARE OF HEALTH INSURANCE PREMIUMS



HEARING
BEFORE THE
SUBCOMMITTEE ON RETIREMENT, INSURANCE,
AND HEALTH BENEFITS
OF THE
COMMITTEE ON
OFFICE AND CIVIL SERVICE
HOUSE OF REPRESENTATIVES
NINETY-SECOND CONGRESS

FIRST SESSION
ON
H.R. 9620
A BILL TO INCREASE THE CONTRIBUTION OF THE FEDERAL
GOVERNMENT TO THE COSTS OF EMPLOYEES' HEALTH
BENEFITS INSURANCE

SEPTEMBER 28, 1971

Serial No. 92-26

DOCUMENTS

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

NOV 8 1971

THE LIBRARY
KANSAS STATE UNIVERSITY



U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1971

68-185

COMMITTEE ON POST OFFICE AND CIVIL SERVICE

THADDEUS J. DULSKI, New York, *Chairman*

DAVID N. HENDERSON, North Carolina, *Vice Chairman*

MORRIS K. UDALL, Arizona
DOMINICK V. DANIELS, New Jersey
ROBERT N. C. NIX, Pennsylvania
JAMES M. HANLEY, New York
CHARLES H. WILSON, California
JEROME R. WALDIE, California
RICHARD C. WHITE, Texas
WILLIAM D. FORD, Michigan
LEE H. HAMILTON, Indiana
FRANK J. BRASCO, New York
GRAHAM PURCELL, Texas
TOM BEVILL, Alabama
BILL CHAPPELL, Jr., Florida

H. R. GROSS, Iowa
EDWARD J. DERWINSKI, Illinois
ALBERT W. JOHNSON, Pennsylvania
WILLIAM L. SCOTT, Virginia
JAMES A. MCCLURE, Idaho
LAWRENCE J. HOGAN, Maryland
JOHN H. ROUSSELOT, California
ELWOOD HILLIS, Indiana
WALTER E. POWELL, Ohio
C. W. BILL YOUNG, Florida
WILLIAM O. MILLS, Maryland

JOHN H. MARTINY, *Chief Counsel*

VINCENT M. GAUGHAN, *Staff Director and Special Counsel*

B. BENTON BRAY, *Associate Staff Director*

VICTOR C. SMIROLDI, *Counsel*

WILLIAM A. IRVINE, *Assistant Staff Director*

THEODORE J. KAZY, *Senior Staff Assistant*

FRANCIS C. FORTUNE, *Coordinator*

ROBERT E. LOCKHART, *Assistant Counsel*

SUBCOMMITTEE OF RETIREMENT, INSURANCE, AND HEALTH BENEFITS

JEROME R. WALDIE, California, *Chairman*

BILL CHAPPELL, Jr., Florida
DOMINICK V. DANIELS, New Jersey
RICHARD C. WHITE, Texas
FRANK J. BRASCO, New York

ELWOOD HILLIS, Indiana
WILLIAM L. SCOTT, Virginia
LAWRENCE J. HOGAN, Maryland

Ex Officio Voting Members

THADDEUS J. DULSKI, New York

H. R. GROSS, Iowa

TOM FINDLEY, *Staff Assistant*, Room 207, Cannon Building—Ext. 56831

CONTENTS

Testimony of—	Page
Geller, Irving I., general counsel, National Federal of Federal Employees, accompanied by George Margolies, legislative assistant----	83
Griner, John F., national president, American Federation of Government Employees, accompanied by Carl K. Sadler, legislative representative, and James H. Lunch, assistant legislative representative	76
Hill, James D., executive director, National Federation of Professional Organizations, accompanied by George Bradley, executive director, OPEDA -----	52
Hogan, Hon. Lawrence J., Member of Congress from the State of Maryland -----	6
Jaspan, Dan, legislative representative, National Association of Postal Supervisors -----	57
Nilan, Patric J., legislative director, American Postal Workers Union, accompanied by Edward L. Bowley, legislative aide, APWU, Jack Love, director, hospital plan; John R. Dubay and Ben Evans, assistant directors, hospital plan -----	36
Rademacher, James H., president, National Association of Letter Carriers, accompanied by J. Stanly Lewis, vice president; Austin B. Carlson, director of health insurance plan; and John H. Swanson, assistant director -----	61
Ruddock, Andrew E., director, Bureau of Retirement, Insurance and Occupational Health, U.S. Civil Service Commission, accompanied by Solomon Papperman, chief, Legislative and Policy Division, U.S. Civil Service Commission -----	9
Scott, Hon. William Lloyd, Member of Congress from the State of Virginia -----	35
Van Deerlin, Hon. Lionel, Member of Congress, from the State of California -----	4
Walters, Thomas G., president, National Association of Retired Federal Employees, accompanied by Clarence M. Tarr, vice president, and Arthur L. Sparks, director of field operations -----	45
Statement by—	
Broyhill, Hon. Joel T., Member of Congress from the State of Virginia----	88
Daniels, Hon. Dominick V., Member of Congress from the State of New Jersey-----	86
Hanley, Hon. James M., a Member of Congress from the State of New York-----	88
Hicks, Hon. Louise Day, Member of Congress from the State of Massachusetts -----	89
Kaplan, Roger P., general counsel, National Association of Government Employees-----	96
McCart, John A., operations director, Government Employees Council, AFL-CIO-----	91
Nix, Hon. Robert N. C., Member of Congress from the State of Pennsylvania -----	87
Olmstead, Claude E., president, National Rural Letter Carriers' Association -----	93
Scales, Robert, president, National Association of Agriculture Stabilization County Employees -----	95
Additional material—	
H.R. 9620, subject of hearing-----	2
Administrative reports received on H. R. 9620—from:	
Civil Service Commission-----	2
Office of Management and Budget-----	3
Communications received from—	
Ruddock, Andrew E., Director, Bureau of Retirement, Insurance, and Occupational Health, U.S. Civil Service Commission, letter dated September 3, 1971-----	17

INCREASE GOVERNMENT SHARE OF HEALTH INSURANCE PREMIUMS

TUESDAY, SEPTEMBER 28, 1971

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

The subcommittee met at 9:30 a.m., in room 210, Cannon House Office Building, Hon. Jerome R. Waldie (chairman of the subcommittee) presiding.

Mr. WALDIE. The subcommittee will please come to order. Today the subcommittee will continue hearings on the Federal employee's health benefits program. The subject of today's hearing will be a proposal to increase the Government's contribution to health insurance premiums. At present the government contributes 40 percent of the total premium charges.

H.R. 9620, the bill under consideration, would increase this percentage to 55 percent in January 1972, with an additional increase of 5 percent in each succeeding year until the Government's contribution reaches 75 percent.

This bill would bring the Federal insurance program in line with the guidelines set forth by the President in his health message to Congress on February 18 of this year. In that address, the President proposed that by 1976, an employee would contribute no more than 25 percent of the cost for his health insurance premium. H.R. 9620 would allow the Government to take the lead in providing adequate basic coverage to all Americans, in accordance with the President's expressed desire that private employers pay 75 percent of the total benefit premium cost for health insurance.

The President is anxious to have the Federal Government set a pattern for private employers, and this will be the first opportunity that the administration will be accorded that chance.

We of this subcommittee have the responsibility of insuring that the Federal employee health benefits program gives the best possible protection at the lowest possible cost. Maximizing this protection to cost ratio has proven an exceedingly difficult task. Every one in this room is aware of the tremendous increases in the cost of medical care. These enormous increases are passed on to the insurance carriers who respond by asking the Civil Service Commission for a rate increase, and, historically, that rate increase is granted.

I see tremendous upward pressure on rate increases, but I have yet to see any downward pressure. In past hearings, we heard testimony

that rate increases were kept down by competition among carriers. With rumors that the major carrier is planning a 40 percent rate increase—a rumor we will attempt to substantiate during these committee hearings—I am skeptical that the “competition method” is working. Certainly a 40-percent increase would threaten to price a policy out of the market in the upcoming open season, unless every other carrier was planning a large rate increase—inquiry of which we will seek similarly to ascertain in these hearings.

Such increases would have to take into account the 90 day freeze and possible further economic controls during Phase II of the President's economic plan, and it would seem to place an added burden on the Federal employee to subject him to an increase in the cost of health insurance while his wages are frozen. I certainly hope that we are not faced with that as a possibility, and that this administration does not construe that as compliance with whatever controls they seek to impose in the future.

At this point in the record will appear a copy of H.R. 9620 and the administrative reports received.

(The bill and reports follow:)

[H.R. 9620, 92d Cong. First Sess.]

A BILL To increase the contribution of the Federal Government to the costs of employees' health benefits insurance

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 8906(a) of title 5, United States Code, is amended by striking out “40 percent” and inserting in lieu thereof “55 percent and increasing 5 percent per year until reaching 75 percent of the average of the subscription charges.”

The amendments made by this Act shall become effective at the beginning of the first applicable pay period which commences after December 31, 1971.

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., September 20, 1971.

Mr. THADDEUS J. DULSKI,
Chairman, Committee on Post Office and Civil Service, House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: This is in reply to your request for the Commission's views on H.R. 9620, a bill “To increase the contribution of the Federal Government to the costs of employees' health benefits insurance.”

In essence, the present Government contribution to a Federal employee's health benefit insurance is 40 percent of the average high option premium of six representative plans, up to 50 percent of the actual cost. H.R. 9620 is intended to increase the Federal Government's contribution from 40 to 55 percent, with an additional increase of 5 percent per year until the Government contribution reaches 75 percent of this average high option premium; however, the bill does not delete the 50 percent limitation. Unless this limitation is deleted, the effect would be to increase the Federal Government's contribution to only 50 percent.

The Commission appreciates that various members of Congress, including members of your Committee, believe that benefits for Federal employees should be significantly improved and that the Government should contribute a greater percentage of the premium so as to put improved benefits within the financial reach of employees. However, at this point in time when the Administration is trying to exercise fiscal restraint, and which is only about eight months since the Government's contribution was about doubled to approximately 40 percent of premium, the Commission does not favor any further increase in the Government's contribution.

The Commission is of the opinion that the present 40 percent contribution, with provision for maintaining it at 40 percent in future years as premiums increase, represents an equitable sharing of the cost of health benefits with employees, especially when considered in the light of the Government's total expenditure for fringe benefits. Federal expenditures for employee benefits compare favorably with those of private employers, although the components of the Federal and private benefits packages vary. For instance, the Government provides more paid leave than private industry, while industry spends more for retirement, insurance, unemployment benefits, bonuses and thrift plans.

Government contributions to fringe benefits, as a percentage of basic payroll, will continue to rise as a result of commitments made over the past few years. For example, the added paid holiday and the requirements of the retirement financing law will contribute to an increase in the percentage of Federal payroll expenditures attributable to employee benefits. Also, the requirement that the Government's share of the health benefits premium be maintained at approximately 40 percent will increase the percentage of payroll expenditures for benefits because health costs will probably rise faster than payroll. Moreover, Federal salary rates have been raised significantly as a result of adoption of the comparability principle. There are no Federal employees whose purchasing power has not been substantially increased despite inflation. Therefore, Federal employees are better able to afford their share of health insurance premiums and any out-of-pocket medical expense than they were in 1965.

Thus, it does not appear that additional Federal expenditures for health benefits can be justified on the basis of comparability or of equity.

Additionally, for the next few years, under the budget situation confronting the Government, additional expenditures for employee benefits could be made only by diverting funds from other programs. In view of the critical nature of a number of high priority programs which must be financed, the Administration does not believe that diversion of funds to employee benefits can be justified.

The Office of Management and Budget advises that enactment of new or liberalized Federal employee health benefits would not be in accord with the program of the President.

By direction of the Commission :

Sincerely yours,

ROBERT HAMPTON, *Chairman.*

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF MANAGEMENT AND BUDGET,
Washington, D.C., September 28, 1971.

HON. THADDEUS J. DULSKI,
*Chairman, Committee on Post Office and Civil Service, House of Representatives,
House Office Building, Washington, D.C.*

DEAR MR. CHAIRMAN: This is in reply to the Committee's request for the views of this Office on H.R. 9620, "To increase the contribution of the Federal Government to the costs of employees' health benefits insurance."

H.R. 9620 would provide for a gradual increase in the Government's contributions under the Federal employee health benefits program to a maximum of 75 percent in 1976.

In its report to your Committee on this bill, the Civil Service Commission sets out its reasons for recommending against its enactment.

We concur in the views expressed by the Civil Service Commission and, for the reasons stated in its report, strongly recommend against favorable consideration of H.R. 9620. Enactment of H.R. 9620 would not be in accord with the program of the President.

Sincerely,

WILFRED H. ROMMEL,
Assistant Director for Legislative Reference.

Mr. WALDIE. The first witness that we have before us today is a colleague of mine from California, Hon. Lionel Van Deerlin from San Diego. Congressman Van Deerlin.

STATEMENT OF HON. LIONEL VAN DEERLIN, MEMBER OF CONGRESS FROM THE STATE OF CALIFORNIA

Mr. VAN DEERLIN. Mr. Chairman, members of the subcommittee, I would like to add my support for H.R. 9620, introduced last July 7, by Mr. Waldie along with Messrs. Hillis, Scott, and Hogan. This legislation would increase the Government share of the cost of the Federal employees' health insurance programs from 40 percent to 55 percent next January 1, and then by 5 percent a year thereafter until 75 percent Federal support was achieved on January 1, 1976.

The soaring cost of health insurance in recent years has assumed nearly scandalous proportions. A growing number of private employers recognize this, and in many cases these companies are paying not three-quarters but the entire price of these programs for their workers.

I know you gentlemen are aware of the rumors that underwriters for the Government programs—Aetna, Blue Cross, and so on—may be on the verge of imposing huge boosts in their premiums—perhaps as much as 40 percent. The employee who now pays upward of \$400 a year for his high-option Aetna coverage would then have to pay well over \$600—certainly an onerous burden—unless we can give him the kind of relief that would be provided by H.R. 9620.

I am also acutely concerned about the financial distress of civil service annuitants confronted by the mounting expenses of maintaining their health insurance policies. Many of these people live at or near subsistence level, and must forgo necessities in order to keep their costly policies. Let us help them as well as the active employees through the enactment of H.R. 9620, or similar legislation.

Eventually, the Federal Government will have to assume responsibility for the entire expense of its employees' health policies, either through 100-percent subsidization of private underwriters or, alternatively, through implementation of a national health care system. Health care costs are simply becoming too steep for the individual to handle. But until that happy day when the burden of these programs is lifted entirely from the employee, the reforms proposed by H.R. 9620 will serve admirably.

With all the very competent witnesses to be heard this morning, I will not indulge you overlong.

I am glad to note that H.R. 9620 has bipartisan support in this subcommittee. This means we are going to get out a bill. I think it's awfully important at this time that action be taken.

We all know that the cost of medical care is, as you just noted, going out of sight, in almost scandalous proportions. Private companies, corporations, and businesses are in many cases now underwriting the full cost of medical and health insurance for their employees.

I think also that at a time when all Government workers have been subjected to a freeze on their income which could last longer and run deeper than the freeze that is imposed on the rest of American working people—

Mr. WALDIE. Which as a matter of fact the administration has asked to last longer and run deeper.

Mr. VAN DEERLIN. I know that the gentleman is well aware of that, because he is sponsoring legislation to make sure that all Americans are treated alike in this matter of sacrifice.

But I wonder sometimes if the people that are out there, the people who are nearing retirement, the people who are in retirement, sometimes get the idea that nobody up here in Washington knows what is really going on.

This suspicion was confirmed in me anew the other day when a constituent in Chula Vista—a postal carrier, apparently past 55, as indicated by my subsequent inquiry—sent me a copy of a book with retirement hints which the Postal Service is distributing to all employees, 55 or over, with 25 years of service.

It purports to give them helpful hints on the problems that they will face with retirement. When I picked up the book, I frankly thought that this was going to be something that would help them around some of the hurdles that face so many of us in a time of onrushing price rises and the problems that go with retirement—mainly financial.

But I think that if I just share two or three of the book's sentences with you, you will see with me what kind of thinking goes on down there at the new Postal Corporation, and especially what kind of opinion they must hold of the people that are working for them.

For example, we find that "If your feet hurt or if you are bothered by your hearing or sight, you are not likely to get around as much as before." Calvin Coolidge might have authored that statement.

But now we come down to more specifics. "Do not let your toenails grow to excessive length, as this will increase the danger of infection. Trim the nails about once a week; great care should be exercised to avoid cutting the skin."

"An earache is generally a signal that all is not well."

But here's something that I think, Mr. Chairman, might have proved helpful to you last week when you were laid up with bronchitis.

"When you have a cold and blow your nose, blow gently and don't pinch your nostrils closed. Even better, sniff the mucus into the throat and spit it out into a paper tissue that can be destroyed . . ."

My constituent who sent me this expressed the view that this wasn't going to solve all his problems as he neared retirement.

I inquired of the Postal Corporation, and found out they have invested more than \$90,000 in these booklets, purchased from something called Retirement Advisers, Inc., up in New York. Four of these are being sent to every employee over 55, at a cost to the Government of \$1.40 per person.

Now I know this is not within the purview of this committee or this legislation, but I think it illustrates some of the fatuous approaches to problems of the retired and the aging that we have got to do something about.

And your subcommittee has an excellent beginning in this legislation. I want you to know that many of your colleagues are prepared to support you fullscale when it comes to the floor.

Thank you, Mr. Chairman.

Mr. WALDIE. Thank you, Mr. Van Deerlin. That's a fascinating publication by the new Postal Corporation. I appreciate your bringing it to the committee's attention.

Any questions by any member?

Mr. HOGAN. I wonder if we could have a copy of that for the record, Mr. Chairman?

Mr. WALDIE. I really would like a copy of that.

Mr. VAN DEERLIN. I thought it would appeal to you, Mr. Chairman, with the problems you were having last week.

Mr. WALDIE. My mucous membranes are still not in good shape. Thank you, Mr. Van Deerlin.

Mr. Hogan is the next witness, a Member of the Congress, a distinguished member of this committee, from Maryland.

**STATEMENT OF HON. LAWRENCE J. HOGAN, MEMBER OF CONGRESS
FROM THE STATE OF MARYLAND**

Mr. HOGAN. Thank you, Mr. Chairman. In coming to testify before this subcommittee, on which I am privileged to serve, in support of the legislation to increase the Federal Government's contribution to health benefits' coverage, I feel almost as though I am bringing coals to Newcastle. I note that four members of the subcommittee, including our chairman, are cosponsors of both H.R. 7807 and H.R. 9620, which we are considering today.

In addition, during the hearing of this subcommittee on June 23, 1971, I was pleased to note that several of the other members of the subcommittee, while not sponsors of the legislation themselves, do indeed support it.

I feel, Mr. Chairman, and fellow members, as though I've been down this route before. This is undoubtedly due to the fact that very early in my first term in Congress I introduced H.R. 10593 to authorize the Federal Government to pay 100 percent of the cost of certain minimum benefits which would be provided for all employees, annuitants, and their families. I reintroduced this legislation on January 29 of this year, and it is now before us as H.R. 2586.

I think I have come to realize, Mr. Chairman, in the nearly 3 years that I have served in the Congress, that my 100 percent bill is a goal for which to strive, but the steps toward that goal must be taken gradually.

For this reason, I also cosponsored during the 91st Congress, H.R. 16968 which would have authorized a 50 percent contribution, allowing the Federal Government and the Federal employee to share the health benefits burden equally.

We are all aware, Mr. Chairman, what happened to that bill. Although the House of Representatives passed a 50 percent bill, the conference committee diminished the contribution from an equal 50-50 share to a 40-60 share with the employee assuming the larger burden. For this reason, on April 27 of this year, just 2 years after introducing my first 100 percent bill, I cosponsored H.R. 7807 to try once again this year to increase the benefits to the 50-50 level which the House approved last year.

Through this brief resumé of legislative activity, I have stated the recent history of health benefits legislation. If we go back into the earlier history of this program, we find that when the Federal employees' health benefits program was being set up in 1960, it was thought that the Federal Government would pay approximately one-half of the cost of the premium. The assumption was that the majority of employees would opt for the low—rather than for the high—benefit plan. However, the great majority—85 percent, I understand—of employees choose the high-benefit option, and the Federal Government's

share of the cost was about 36 percent when the program became effective in 1960.

Except for some low-option plans and certain self-only enrollments, the contribution by the Federal Government has never equaled the proposed 50 percent of the total cost. In fact, it has never exceeded 38 percent for the overwhelming majority of employees until Public Law 91-418 authorizing the 40-percent contribution became effective on January 1 of this year.

I stated earlier that the House of Representatives last year originally passed the 50-percent bill but that the conference committee, pressured with the threat of a Presidential veto, reverted to a 40-percent contribution. I share your view, Mr. Chairman, that perhaps the administration's view has changed somewhat during the past year with regard to the need for this increase.

On February 18 of this year, President Nixon called on private employers to provide 65 percent of the cost of basic health insurance coverage for employees as of July 1, 1973, and 75 percent of the total cost 3 years later, as the chairman has pointed out this morning.

In view of this statement, I was pleased to join the chairman in introducing H.R. 9620, which we are also considering today. H.R. 9620 would increase the Federal Government's contribution from 40 percent to 45 percent upon enactment, and thereafter increase the contribution by 5 percent each year until reaching 75 percent of the average of the subscription charges.

This bill, in my view, is a foresighted, gradualistic approach to the need for updating the health benefits program to keep step with the rising cost of living, and the rising cost of medical expenses and insurance premiums.

The Congress has been committed for some years to the concept of Federal employee pay comparability with private industry pay. In fact, last year through this committee, we were successful in seeing the enactment of Public Law 91-656, the so-called Federal Pay Comparability Act of 1970.

In my view, this comparability concept necessarily should include Federal employee fringe benefits as compared with those in private industry. In many companies in the private sector, management pays the entire amount of medical insurance premiums.

I might say parenthetically, my own company, which I ran before I was elected to Congress, paid 100 percent of medical insurance premiums.

The Federal Government is lagging in this area, where it should lead.

Mr. Chairman, I would obviously prefer to see H.R. 2586—my 100 percent bill—become law. However, looking at our present economic and legislative situations realistically, it is more likely that H.R. 9620, which would authorize a gradual increase to 75 percent, would receive favorable action. In the event that neither of these alternatives is acted on, I believe the least we can settle for is H.R. 7807, increasing the contribution to the 50-percent level which, as I said earlier, was already approved by the House of Representatives on July 9, 1970.

Thank you, Mr. Chairman, for the opportunity to present my views.

Mr. WALDIE. Thank you, Mr. Hogan. Any questions from the committee?

Mr. WHITE. Mr. Chairman.

Mr. WALDIE. Mr. White.

Mr. WHITE. Mr. Chairman, I have a great respect for the gentleman who is now testifying before the committee. I know he is a very conscientious person. I was just trying to develop the philosophy of Government as you were speaking, and I certainly agree that Government ought to be at least a 50-50 partner in the payment of these benefits.

But the thing that bothers me a little bit, and I'd like to talk to you about it if I may—this country was founded on private enterprise, the small manufacturer, the small businessman with maybe five employees, maybe two or 10 employees—what really worries me is that this country is trending toward a bigness, big corporate enterprise, big Government.

Now I also know that there is a factor of trying to attract able-bodied and able-minded people to Government, rather than having them diverted into private enterprise. Now how can we reconcile this question?

If we place the benefits much higher than the small private enterprise can meet, and the corporate benefits and Government benefits are so high, then what you are doing is actually discouraging and almost making it impossible for the small private enterprise to attract able-bodied and able-minded people to their work.

How do we reconcile this? How far should we go in discouraging the American public from going into business for themselves or hiring people to help them in the business.

Mr. HOGAN. Well, I share the gentleman's concern about the erosion of small business, and I think that this is an evolution in this country that we are really ill-equipped to do anything about.

It is not only small business. I am sure the gentleman knows it is also small farms. It is no longer economic for a small farmer to in any way operate a farm economically. So what happens is, the big corporate farmers amass a great deal of land so they can spread the cost of their equipment, which is very expensive, and labor, which is very expensive, across more acreage than the small farmer can possibly afford.

So this is symptomatic of the industrialization and the evolution of this country, and the difficulties of small business are part of the same pattern.

But now I don't read into the legislation before us today the same danger that the gentleman from Texas apparently does. I alluded earlier to my own small company, before I was elected to Congress, and at our highest peak, we had nine employees, and we paid a hundred percent of employee costs.

Now in the marketplace, you are competing with other companies, and to me, providing fringe benefits to employees is just as important as providing adequate pay for them. In fact, in many instances—I don't really go along with the paternalistic idea of the employer, but when you are hiring young people in their early twenties, just going into the job market, they couldn't care less about retirement or hospitalization or any of these things, because they live under the illusion that they are never going to become ill or old.

But I think the employer has to make some of these decisions for them by creating a retirement program and health benefits, so they will not face the calamity—be ill-equipped to cope with the calamity when it does come.

So I don't think that this is going to have the result the gentleman fears. All I am saying is that private industry now is providing a higher percentage of health benefit premiums than the Federal government is, and I would like to see us come to the time where the Federal Government is not always playing catchup football with private industry, that we are out in the forefront, and private industry is playing catchup football with the Federal Government. And that way, we can attract the best possible personnel and keep them longer and do a better service to the American people in Government service.

Mr. WHITE. Perhaps the answer might be that Congress should give more attention to the small businessman. Maybe we are not creating a sufficient climate where he can maintain and hold a long-time employee. I'm not just speaking of the young person now, but the man who looks at the Government or a corporation and says, that's for me, because of the benefits.

Mr. HOGAN. That is a role that I would be happy to help the gentleman pursue, because I think if we can create a mechanism for the American small businessman to provide these kinds of benefits to his employees, to compete in the holding of good employees, we'd be doing the country, as well as the individual, a great service.

But I don't see in the legislation before us today this inherent danger to small business which the gentleman apparently does.

Mr. WHITE. I certainly agree with the matching portion. The other part I will have to think about. Thank you very much.

Mr. WALDIE. Any further questions? If not, thank you very much, Mr. Hogan. We appreciate your contribution.

The next witness will be Mr. Andrew E. Ruddock, Director of the Bureau of Retirement, Insurance and Occupational Health of the U.S. Civil Service Commission.

STATEMENT OF ANDREW E. RUDDOCK, DIRECTOR, BUREAU OF RETIREMENT, INSURANCE AND OCCUPATIONAL HEALTH, U.S. CIVIL SERVICE COMMISSION

Mr. RUDDOCK. Mr. Chairman, I am accompanied by Mr. Solomon Papperman, Chief of the Legislative and Policy Division of the Civil Service Commission.

Mr. WALDIE. We are delighted to have you with us. Your statement will appear as though read in full.

Mr. RUDDOCK. Mr. Chairman and members of the subcommittee, I appreciate this opportunity to appear before your subcommittee to give you the Commission's views on H.R. 9620. We formally reported on this bill in our letter of September 20, 1971. I would like to suggest that this letter be inserted in the record.

Although our official report comments on the bill, I would like to discuss in more detail our reasons for opposing enactment of H.R. 9620.

H.R. 9620 would very substantially increase the Government's contribution to Federal employees' health benefits premiums. Under Pub-

lic Law 91-418, which was passed just a year ago, the Government's standard contribution to the total premium cost for an employee's health benefits plan is set at an amount equal to 40 percent of the average high-option premium of six large representative plans. Under another provision of the health benefits law, however, the Government contribution is limited to 50 percent of the actual total cost of the employee's particular plan.

H.R. 9620 is clearly intended to increase the statutory 40 percent contribution to 55 percent beginning in January 1972, with an additional increase of 5 percent each year until and including 1976, when the Government contribution would reach 75 percent of this average high-option premium. As a technical matter, I would note that the bill, as currently drafted, does not change the 50 percent limitation on the Government's contribution. Unless this limitation is deleted, the effect of H.R. 9620 would be to increase the Government's contribution to only 50 percent.

If in 1971 the Government has contributed 55 percent of the premium cost, the Government's share would have been increased by \$178 million—from \$479 to \$657 million. For each 5 percent of additional increase in the Government's contribution the Government's share would have been increased by \$59 million. The total Government contribution for 75 percent of the premium cost would have been \$890 million, almost double the \$479 million actual contribution.

The Commission believes that an increase in the Government's contribution cannot be justified at this time. Under Public Law 91-418, which I previously mentioned, the Government's contribution was nearly doubled only about 8 months ago. Today, under the budget situation confronting the Government, additional expenditures for employee benefits could be made only by diverting funds from other essential Federal programs. In view of the critical nature of a number of these high priority programs which must be financed, the administration does not believe that the diversion of funds to employee benefits can now be justified.

Even though H.R. 9620 is not enacted, Government contributions to fringe benefits, as a percentage of basic payroll, will continue to rise as a result of commitments made over the past few years. For example, the added paid holiday—Columbus Day—beginning next month and the provision for automatic financing of retirement legislation enacted in 1969 will contribute to an increase in the percentage of Federal payroll expenditures attributable to employee benefits. And, of course, the requirement that the Government's share of the health benefits premiums be maintained at the 40 percent high-option level will also automatically increase the percentage of payroll expenditures each year so long as premiums continue to rise faster than payroll.

We recognize that there is a trend toward noncontributory financing of employee health benefits by major employers. However, it is inherently misleading to compare employer practices in only a single area of fringe benefits, such as health insurance.

The Commission believes that a valid comparison can only be made by considering the total compensation package. Such a comparison (updated to reflect the recent increase in the Government's contribution to health benefits and to retirement benefits) shows that, as a percent of pay, the Federal Government spends about the same as the

private sector for employee fringe benefits. With the chairman's permission, I suggest that this comparison be included in the record.

In brief, the Commission does not favor additional increases in the Government's contribution to health benefits so soon after the last increase; it opposes, in principle, costly improvements in isolated areas of fringe benefits without consideration of the impact on total compensation; and it is of the opinion that the changes proposed by H.R. 9620 are most inappropriate under current economic and fiscal circumstances. For these reasons the Commission strongly urges that favorable action not be taken on the bill.

(Attachment: Comparison of private and Federal fringe benefits, follows:)

COMPARISON OF EMPLOYER EXPENDITURES FOR SUPPLEMENTARY COMPENSATION IN PRIVATE INDUSTRIES¹
AND THE FEDERAL GOVERNMENT

Item	Expenditures as a percent of basic salaries				
	Private industries (calendar 1968)			Federal Government	
	Office workers	Nonoffice workers	Combined	Fiscal year 1969	Adjusted
Total.....	24.8	25.3	25.1	24.3	25.6
Pay for leave time (except sick leave).....	8.3	8.5	8.4	11.7	11.7
Vacations and holidays.....	8.0	8.2	8.1	11.2	11.2
Payments to funds.....	0	(2)	.1	(3)	(3)
Payments to workers.....	8.0	8.2	8.0	11.2	11.2
Vacations.....	4.8	5.1	5.0	8.2	8.2
Holidays.....	3.2	2.9	3.0	3.0	3.0
Civic and personal leave.....	.3	.2	.3	.5	.5
Health benefit programs.....	4.5	6.0	5.3	5.4	6.5
Legally required work-connected disability programs.....	.3	1.0	.7	.4	.4
Other legally required programs.....	(2)	(2)	(2)	(3)	(3)
Sick leave.....	1.4	.7	1.0	3.4	3.4
Life, accident, and health insurance.....	2.7	4.3	3.6	1.6	2.7
Retirement programs.....	8.8	9.0	8.9	6.8	7.3
Legally required programs.....	3.5	4.7	4.2	.2	.2
Private pension and retirement plans.....	5.2	4.3	4.7	6.6	7.1
Unemployment programs.....	.8	1.3	1.1	.3	.3
Legally required programs.....	.7	1.1	.9	.2	.2
Payments to employees.....	.1	.1	.1	.1	.1
Payments to funds.....	0	.2	.1	(3)	(3)
Nonproduction bonuses (including awards).....	1.8	.4	1.1	.1	.1
Savings and thrift plans.....	.6	.1	.3	(3)	(3)

¹ Industry coverage same as BLS national survey of professional, administrative, technical, and clerical pay; relates to nonoffice workers as well as office and related workers in both industry and Government.

² Less than 0.05 percent.

³ No such program in Federal Government.

* CSC estimate reflecting changes in Government contributions to the retirement and health benefits programs since 1969. All other items are for fiscal year 1969.

NOTES

(1) Because of rounding, sums of individual items may not equal totals.

(2) More recent data for the private sector are not yet available. It can be expected, however, that increases in expenditures for individual items have taken place since 1968. Wages and salaries have also increased. On balance, the totals can be expected to be somewhat higher than shown here.

Source: Based upon report submitted by BLS in its memorandum of Apr. 1, 1970, to the Salary Survey Liaison Committee

MR. WALDIE. Let us get to the essence of one of the things that is troubling me, and perhaps other members of the committee.

Have you agreed in terms of your negotiation with Blue Cross and Blue Shield for a premium increase?

Mr. RUDDOCK. Mr. Chairman, the question of premium increases for all of our carriers for 1972 is presently in a very uncertain state. As we all know, we are in the 90-day wage and price freeze. January 1, 1972, which would normally be the effective date of any increases in premium or changes in benefits under our plans, is beyond that 90-day period.

But I think it is quite apparent at this point that there will be a phase II, which will involve certain controls. What they are—certain guidelines at least—we don't know at this time.

And so the Commission does not at this point know, nor is it ready to disclose what any of the premiums will be for the plans for 1972.

Mr. WALDIE. That wasn't precisely my question. That will be my ultimate question. My question is, have you arrived at a negotiated agreement with Blue Cross-Blue Shield as to a premium increase?

Mr. RUDDOCK. We have reached certain tentative agreements; yes, sir. Agreements which are subject to developments in connection with the economic controls.

Mr. WALDIE. And will you tell me what those agreements are?

Mr. RUDDOCK. I am not authorized to do that.

Mr. WALDIE. Why are you not authorized to do that?

Mr. RUDDOCK. The Commission, for its 11 years of administration of this health benefits program, has in the spring of the year asked each carrier to submit proposals for any changes in the contract; first, any changes in benefits and later any changes in premium.

We have done so with a consistent policy, and what amounts to a pledge to all of the carriers, that the Commission will not make any disclosure of carriers' proposals or of the contract negotiations until it is prepared to make public the results of the negotiations with all of the carriers. And we are not at that point.

Mr. WALDIE. Why are you not at that point?

Mr. RUDDOCK. Primarily because of the economic controls, the wage-price freeze. The fact that guidelines for phase II are not yet available.

Mr. WALDIE. When will you be at the point at which time the Federal employee will have any idea what his increase in premium rates will be? When can he expect to know?

Mr. RUDDOCK. I am not sure that I can give a definite answer to that question.

Mr. WALDIE. Give me as close an answer as you can.

Mr. RUDDOCK. We are hopeful that by the middle of October, we will have sufficient guidance as to phase II of the economic controls that we will be able to proceed with final negotiation and to make the disclosures.

Now as you recognize, this gives us a very complex problem. We have an open season scheduled for the last 2 weeks in November. In an ordinary year, if we were going to have such an open season, we would be in a position to make available very early in October all of the changes scheduled to take place in the coming January. This year we are not in that position.

We are still hopeful that we will be able to reach conclusions and that we will be able to get the information to employees in time to have that open season as scheduled. But I would have to say in all candor that it is by no means certain at this point that we will be able

to get the necessary information to employees in time to exercise an informed choice.

Mr. WALDIE. I don't understand your failure to negotiate these agreements within the normal standards that you have exercised in the past.

Whatever the administration proposes in phase II will control whatever decisions you make during this period of time. Why do you hesitate to make the decisions during this period of time?

Mr. RUDDOCK. Sir, any decisions we make at this time by the very nature of things must be tentative.

Mr. WALDIE. Well, what are the tentative decisions you have made at this period of time?

Mr. RUDDOCK. In view of the Commission's policy of not disclosing contract negotiations until we are in a position to make final disclosure on all of the negotiations, with all of the carriers, I am not authorized to provide that information.

Mr. WALDIE. Have you told your advisory council what the negotiations have consisted of so far? Your employee advisory council?

Mr. RUDDOCK. No, sir.

Mr. WALDIE. Have you convened them?

Mr. RUDDOCK. We have had a meeting within the past 2 months.

Mr. WALDIE. Were they apprised of what the status of negotiations were at that meeting?

Mr. RUDDOCK. No, sir; that meeting was before the wage-price freeze.

Mr. WALDIE. Do you intend to convene them and apprise them of the status of the negotiations?

Mr. RUDDOCK. No decision has been made on that point.

Mr. WALDIE. Have you considered it?

Mr. RUDDOCK. Yes, sir.

Mr. WALDIE. Is a decision under contemplation in that area?

Mr. RUDDOCK. As to whether we will discuss it with the committee?

Mr. WALDIE. Yes.

Mr. RUDDOCK. Certainly there will be a discussion with the committee.

Mr. WALDIE. What is the purpose of the Advisory Committee if it is not to give you the employees' views upon proposals that you are considering?

Mr. RUDDOCK. We have never considered——

Mr. WALDIE. You have never used the Advisory Committee?

Mr. RUDDOCK. Not in that capacity.

Mr. WALDIE. You have never used it in any capacity, according to the record before us. You convened it once for 2 hours, isn't that right?

Mr. RUDDOCK. The meeting we had this summer was a no agenda meeting in which we asked them for any advice of any type they cared to offer. We have never made the Advisory Committee a party to the specific contract negotiations.

Mr. WALDIE. What do you suppose the Advisory Committee was conceived of by the Congress for? Wasn't it to advise the Civil Service Commission as to the employees' position on these health benefits policies?

Mr. RUDDOCK. We have always considered its function to be one of advising in the broad policy areas, not on the specifics of any one individual plan.

Mr. WALDIE. Don't you suppose a premium increase is a broad policy question?

Mr. RUDDOCK. I do not consider a specific premium increase for a specific plan as being a broad policy issue.

Mr. WALDIE. If the Advisory Committee were to request of the Civil Service Commission to be convened for purposes of discussing the status of present negotiations, would the Civil Service Commission convene them for that purpose?

Mr. RUDDOCK. Yes, sir; I will call a meeting of the Advisory Committee at the request of any member.

Mr. WALDIE. And discuss with them the rate increases that have thus far been tentatively agreed upon?

Mr. RUDDOCK. I'd have to get some advice from my superiors on that, sir.

Mr. WALDIE. What kind of advice do you need from your superiors on that?

Mr. RUDDOCK. As to whether—

Mr. WALDIE. That possibly suggests that such advice, such information would not be pertinent to the function of that committee. Can you conceive that that information would not be pertinent to the function of that committee?

Mr. RUDDOCK. Sir, I repeat; we have never considered specific negotiations with a specific carrier as being within the function of the advice of that committee.

Mr. WALDIE. I'm not talking about a specific carrier. I have before me a letter of September 23, from Thomas Tinsley, Acting Director of the Bureau. This is to each carrier participating in the Federal employees' health benefits program, "to let you know that although we have reached agreement on benefit changes and premium rates for 1972 * * *"—doesn't say tentative—"* * *" these agreements will most likely have to be changed because of the effect of the President's economic policy * * *"

The question this committee is asking you through its chairman is, what is the agreement that you have reached on benefit changes and premium rates for 1972?

Mr. RUDDOCK. Sir, I am not authorized—

Mr. WALDIE. Why are you not authorized to give the committee that information?

Mr. RUDDOCK. Because until we have guidelines for phase II of the economic controls, none of us know what the premiums will be for any of the carriers for 1972.

Mr. SCOTT. Mr. Chairman, would you yield on that point?

Mr. WALDIE. In a moment I will, but I still have some more questions I want to go through.

Has the Cost of Living Council already ruled that experience-rated insurance plans are not subject to the freeze?

Mr. RUDDOCK. My understanding of that ruling, sir, is that an experience-rated insurance carrier may have an increase in premium which will recognize experience to date, and which will recognize changes in what amounts to the factor at risk, but may not take into account any prospective inflation.

In other words, he may not make any assumptions that prices will continue to increase.

Mr. WALDIE. So the experience-rated insurance plans—which are Blue Cross and Blue Shield and Aetna, right?

Mr. RUDDOCK. Yes, sir.

Mr. WALDIE. Are not subject to the freeze in terms of an increase in their premium rates, except where that increase attempts to project inflationary costs in the future?

Mr. RUDDOCK. It is my understanding, sir, that that is a ruling which applies during the 90-day freeze, but that there has not yet been a guideline established for phase II of the economic controls.

Mr. WALDIE. And you anticipate that guideline will be established by the end of October?

Mr. RUDDOCK. Sir, we are hopeful that we will have some guidance by the middle of October.

Mr. WALDIE. And from where would you get that guidance?

Mr. RUDDOCK. From the Cost of Living Council.

Mr. WALDIE. Will the phase II program be announced by then?

Mr. RUDDOCK. I certainly do not expect it to be announced in its entirety, but I think there are some indications that we will have some parts of it. It is my understanding that the Cost of Living Council can only make recommendations as to the guidelines for phase II, that it will be the President who will approve those guidelines.

Mr. WALDIE. Now I am going to turn it over to the other members in a moment. I want to ask another question, and I have many more that I want to ask also.

In a letter written to me, which I will put in the record—I don't happen to have it before me—but you said that there was a \$75 million deficit, if I recall correctly, that Blue Cross-Blue Shield were going to be required to pick up in a premium increase this coming year, and that that deficit reflected a 1970 deficit as well as an anticipated 1971 deficit.

Mr. RUDDOCK. Yes, sir: it is my understanding that that information had first been given to you by Blue Cross-Blue Shield. As I remember the figures, the loss position at the end of 1970 was approximately \$12 million, and the loss position by the end of 1971 is projected to be about \$75 million.

I cited that as one of the factors which creates the pressure necessitating premium increases.

Mr. WALDIE. All right. So there is going to be a premium increase; is that a fair statement?

Mr. RUDDOCK. Let me answer that slightly indirectly, sir. They cannot continue to operate indefinitely with the premium being inadequate to cover the benefits, because in that direction lies bankruptcy.

Mr. WALDIE. Now that you have answered it indirectly, will you answer it directly? Will there then, to avoid bankruptcy, be a premium increase?

Mr. RUDDOCK. I would certainly expect there will be if it is permitted by whatever guidelines are issued for phase II of the economic controls.

Mr. WALDIE. And if it is not permitted, will bankruptcy ensue?

Mr. RUDDOCK. Eventually; yes, sir.

Mr. WALDIE. If you are not prohibited by the guidelines, will you grant a premium increase?

Mr. RUDDOCK. Yes, sir.

Mr. WALDIE. If you are not prohibited by the guidelines, what will be the amount of that premium increase that you have negotiated?

Mr. RUDDOCK. I do not know.

Mr. WALDIE. Well, what is the amount?

Mr. RUDDOCK. I'm sorry, sir—

Mr. SCOTT. Are we under the 5-minute rule, or is the Chair going to consume all of the time?

I would call the attention of the Chair to rule 8, which indicates that in the interrogation of witnesses we follow the 5-minute rule until each member has an opportunity to interrogate the witness. I would ask that the Chair observe the rules of the House.

Mr. WALDIE. The Chair will call your attention to the fact that this committee convened at 9:30 and you arrived after 10.

Mr. SCOTT. The Chair is incorrect about my arriving after 10. I was here after 9:30.

But the Chair is harassing this witness unnecessarily, and I don't like to see this committee harass someone that comes here from the Civil Service Commission.

Mr. WALDIE. The gentleman will have every opportunity to protect the witness when it will be his opportunity to question him, which shortly will follow.

Mr. SCOTT. Well, I think the gentleman has a right to 5 minutes, but I think the Chair is usurping his power. I would ask that we follow the rules.

Mr. WALDIE. We will follow the rules. Now, would you respond to the question, Mr. Ruddock?

Mr. RUDDOCK. May I correct my answer, sir? You asked a question in terms of what premium increase had been negotiated, and my answer was I do not know. My answer should have been I am not authorized to discuss the current negotiations. The answer would be, correctly, I do not know, if your question were what will be the increase, because I do not know what the increases will be.

Mr. WALDIE. That is not my question. The question is, assuming the guidelines do not prevent the granting of an increase, will the negotiated increase that is presently in existence, but tentative, be the one granted?

Mr. RUDDOCK. No, sir; I would think there would be some modification in that, because to the extent that the economic controls either stop the inflationary spiral in health care costs or slow it down, we would certainly have another look at the picture as it then exists, before we would make final decisions and make an announcement of any premium increase for any of the carriers.

Mr. WALDIE. Will there be an open season this year?

Mr. RUDDOCK. The Commission still has plans for an open season, although, as I have indicated, with time going by, it is becoming more and more difficult to meet the printing schedules, to get the necessary information to employees in time.

In other words, we are quite flexible at the moment. We are ready to proceed with the open season, or make whatever adjustments may be required by the situation as it exists.

Mr. WALDIE. I want to include for the record—

Mr. SCOTT. Again I call for following the rules.

Mr. WALDIE (continuing). A letter of September 3, 1971, from the U.S. Civil Service Commission, signed by Mr. Ruddock—

Mr. SCOTT. I insist that the Chair quit usurping his authority.

Mr. WALDIE (continuing). And that letter will be entered in the record. That is the letter in which you replied to me with a statement that it is your understanding that Blue Cross-Blue Shield is in line for a substantial premium increase; is that correct? That sentence is in quotes.

The entire content of that letter will be included in the record.
(The letter follows:)

U.S. CIVIL SERVICE COMMISSION,
BUREAU OF RETIREMENT, INSURANCE, AND OCCUPATIONAL HEALTH,
Washington, D.C., September 3, 1971.

HON. JEROME R. WALDIE,
*Chairman, Subcommittee on Retirement, Insurance, and Health Benefits of the
Committee on Post Office and Civil Service, House of Representatives*

DEAR MR. WALDIE: This letter is in reply to yours of August 31, 1971 concerning several interrelated health benefits matters.

In explaining the wage-price freeze the day after the President announced it, Secretary Connally indicated that negotiations that were in progress should be continued to a conclusion, with an understanding that any increase would go into effect after the freeze. He was probably referring primarily to labor-management wage negotiations but I believe his statement is applicable to other types of negotiations, including our negotiations with carriers for 1972 benefits and premiums which on August 15 were already in progress.

When the wage-price freeze announcement came, we decided to carry our negotiations through to a conclusion. We contemplated even then that the freeze might be continued beyond the 90th day and decided that if it became necessary to do so benefit and/or premium adjustments which normally would take effect in January 1972 could and would be suspended until the freeze was cancelled.

I agree with you that it now looks like a freeze in some form will continue beyond the 90 days. If it does, I think that the President's Cost of Living Council or the Office of Emergency Preparedness will have to consider granting exceptions in some areas, including possibly experience-rated health insurance plans which have to raise premiums not only because the premium is currently inadequate to support current costs but also because the cost of health care keeps escalating and utilization of health care services keeps increasing. Increased utilization forces health insurance premiums up and these increases will not be stopped or slowed by the wage-price freeze.

In any case—whether the freeze, if it continues beyond the 90 days, applies to our benefits and/or premiums or applies only partially or not at all—we anticipate no difficulty in timely communicating to employees through their agencies (and to retirees directly) what effect, if any, continuance of the wage-price freeze will have on the benefit and/or premium changes shown in the new 1972 brochures.

The Commission did consider postponing the open season until the wage-price freeze was lifted or until November 1972 but decided not to do so for a number of reasons. These included the following:

There was no open season in 1970. This generated pressures and a real need on the part of many employees for an open season in 1971 and we have made many commitments that there will be one this year.

Many employees and retirees want to change their plans or options within the same plan not because of premium considerations but because they find that another plan or option better suits their needs. For example, an employee who is now in a low option may want to change to the high option of his plan because his health status or that of a family member has changed and he can anticipate heavy medical expenses in 1972, or because he wants better protection now and he and his wife are older and more prone to illness, or simply because he has received pay increases and can now afford the added protection of a high option.

There are thousands of employees who came to work for the Government since the last open season, who for one reason or another, elected not to

enroll in a plan. Because of changed family or other circumstances they have been waiting for an open season to enroll in a Federal-employee plan. Over 80,000 employees who were not enrolled joined a plan during the last open season in 1969.

I regret that in our brief conversation Bob Neuman received the impression (stated in your letter) that the Commission "discarded [postponing the open season] in view of some difficulty regarding deductions figured on the Calendar Year." This point was only one among those considered. This point involves the fact that all the many plans that have deductibles base them on a calendar year, i.e., they pay benefits for certain expenses after a calendar-year deductible has been met.

The main reason open season changes become effective in January is to avoid requiring an employee who changes plans to meet two deductibles in one year. If we had an open season in June for instance, an employee enrolled in Aetna who had already met his \$50 deductible and then changed to Blue Cross/Shield would have to meet, in the same year, the \$100 deductible for the latter plan before he could be reimbursed for expenses subject to the deductible. This is one of the strongest deterrents I know of to an employee changing plans. I should add that in 1965, because of circumstances then existing, we held an open season in February, with changes becoming effective in March. The experience was most unsatisfactory to employees, to the Commission, and to the carriers. We received numerous complaints from employees who were inhibited from changing plans because they would have had to meet two deductibles and from employees who did change and later became ill and had to meet two deductibles.

There really are no good alternatives to the calendar year deductible. During the history of the health benefits program various plans have had "membership year" deductibles, "floating deductible periods" and deductible periods of one year beginning on the date the first covered expense was incurred. These plans have all gradually changed to a calendar-year deductible partly because keeping track of the deductible period was very difficult for them administratively and partly at our insistence that employees did not understand the deductible requirement and were being shortchanged.

We have not yet concluded negotiations for 1972 with Blue Cross/Shield and contract amendments for 1972 have not yet been signed. Formal contract amendments are usually signed several months after negotiations are concluded and agreement (in writing) is reached because of need, which is time consuming, to put the agreements into contract language acceptable to Blue Cross, Blue Shield and the Commission, and to type and reproduce copies of the amended contract.

I do not believe the date on which we actually sign our 1972 contracts is critical or even material in determining whether Executive Order 11615 is applicable to 1972 premiums. I think it is more probable that what may be determinative is whether an increase will contribute to inflation. In my view, at least that portion of the increases in premiums attributable to anticipated increases in utilization of health care and to making up deficits incurred in 1971 and previous years would not be inflationary.

Your understanding that Blue Cross/Shield is in line for a substantial premium increase is correct. The main justification for it is that the present premium has proved inadequate to meet the liabilities incurred by the plan. They are experiencing substantial losses and will wind up at the end of 1971 with a cumulative deficit of \$75 million, about 90 percent of which will have been incurred this year, with the remainder having been incurred in the previous year. A big part of the needed increase in premium is intended to permit Blue Cross/Shield to recover their losses (but not build up any surplus). Other components of the increase are intended to cover increases in utilization, and in the cost, of health care services in 1971 and 1972. Hopefully, increases in cost will be slowed by the wage-price freeze but at this point in time it is uncertain as to what effect the freeze will have on 1972 health care prices.

With respect to an educational program, we do as a matter of very deliberate Commission policy avoid showing favoritism to any type of plan or any one plan. However, based on my experience I believe that most Federal employees are aware of the advantages (e.g. preventive care) and disadvantages (e.g., skimpy benefits when out of the plan's service area, limited choice of doctors and hospitals) of group-practice plans; that in areas where group-practice plans are offered large numbers of employees have made a deliberate choice not to enroll in them.

There are drawbacks also to employee meetings at which plan representatives could explain their plans. Such meetings were held in 1960, when the health benefits program started. They were not what I would call successful and our experience was such as not to lead us in the direction of fostering such meetings. To illustrate, if the meetings are held outside of working hours, attendance is extremely poor; if meetings are held "on the clock" they are well attended but the cost in lost time to the Government runs into literally millions of dollars. Plan representatives tend naturally to puff the advantages of their own plan and derogate competing plans; they make statements with respect to their own plans which employees misconstrue and promises on which they rely but which the plan later cannot live up to.

Only a small percentage of employees change plans during an open season. Most of those who change do so for reasons that developed after enrolling in the old plan. Nevertheless, if despite our experience you feel strongly that an employee meeting would contribute significantly to an even greater percentage of employees choosing a plan which would prove to be satisfactory in filling their needs and expectations, I would be glad, with your help, to arrange such a meeting for Congressional employees. I would also be willing to seek Commission approval to set up a demonstration meeting in one or two places like Boston or Denver which have Federal complexes consisting of many employees in different agencies. Such meetings could enable us to gauge employee interest and reaction, cost, and objectivity of carrier presentations and could be useful in planning for the 1972 open season.

We could set up such meetings administratively but the carriers would have to bear the expense of having their representatives address the meetings and, if these were held on the clock, the agencies would have to bear the expense of the lost time involved. We could not legally pay these expenses out of the 1 percent set-aside for administrative expenses. This set-aside (within a dollar limitation fixed annually by Act of Congress) is for use in paying the Civil Service Commission's expenses in administering the health benefits law rather than those of carriers and agencies and this set-aside, with the following exception, has been exclusively so used. Over the years through 1970, the total 1 percent set aside for administrative expenses (plus interest earned) has amounted to \$52,763,888; of this sum the Commission has used \$12,093,324 and paid \$36,614,070 to the contingency reserves of the carriers. At the end of 1970, there was a balance in the fund set aside of \$4,056,494.

Sincerely yours,

ANDREW E. RUDDOCK, *Director.*

Mr. WALDIE. Mr. Brasco, do you have any questions?

Mr. BRASCO. Thank you, Mr. Chairman.

Mr. Ruddock, it is not my purpose to harass anyone, but you have been here before, and some of these things, like other members of our committee, I have some very strong feelings about.

Getting back to your testimony on the official position of the Civil Service Commission in connection with these bills, obviously—I don't think I misread the statement—you are opposed to the enactment of this legislation?

Mr. RUDDOCK. Yes, sir; the administration does not believe that change should be made at this time.

Mr. BRASCO. Let me say this—and this is something that disturbs me—we went through a dialog between yourself and the chairman of our committee concerning the fact that there would have to be premium increases in order for this plan and the respective companies involved to retain financial stability and to prevent in effect what you called the plan going bankrupt.

Now this whole reason of the President coming in and stepping, supposedly, on the ugly head of inflation is to protect the people that we are talking about, who are recipients of the health care given under this plan.

And what we are trying to do is to increase the Government's contribution to alleviate their plight somewhat. Now why is it so difficult to understand that people are on the verge of bankruptcy, too, that they can't make ends meet? We seem to understand it all the time in terms of these companies, in terms of—well, I don't want to demagogue it and belabor it—big business. But why can't we understand that we ought to be able, as a matter of equity to increase these benefits from the 40 percent to ultimately 75 percent. Isn't this fighting inflation also?

Personally, I believe that the Federal Government should pay the whole tab in connection with health benefits, and I am wondering if you have any comments on that? Don't you see an analogy between those situations?

Mr. RUDDOCK. Yes; I certainly do, Mr. Brasco. The attachment to my formal statement is taken from information compiled by the Bureau of Labor Statistics, which indicates that on an overall basis, the Government's expenditure for fringe benefits is pretty much on a par with that of private industry.

The information for the study actually was gathered for private industry in calendar year 1968, and for the Federal Government in fiscal year 1969, so we start off with the two not being exactly comparable in point of time, but the study indicated that the total expenditure in private industry among the companies studied was 25.1 percent of basic salary and that for the Federal Government it was 24.3 percent.

As you will note, private industry was ahead by eight-tenths of 1 percent at that point.

Since that time, Congress, with this committee taking a very active leading part in it, has increased the Government's contribution for health benefits so that it is now 40 percent of the average high option premium of the six selected plans, and also, again with a leadership role from this committee, the Government has vastly increased its expenditure in the contribution it makes toward the retirement system of Federal employees.

We have added another column to reflect those two changes. That shows that the Government's expenditure for fringe benefits as a percentage of basic salary is 25.6.

Now it is not completely valid to compare that with the 25.1 for private industry in 1968, because we would all recognize that at the same time Government has been making changes, private industry has also been making changes, and I have no basis for updating the private industry column.

Mr. BRASCO. It is your contention then that there is comparability in the health plans formulated by private industry when measured with the Federal health plan? Is that what you are saying?

Mr. RUDDOCK. Not specifically in that item, sir. I am saying in the overall total of fringe benefits—

Mr. BRASCO. But not with health?

Mr. RUDDOCK. No, sir.

Mr. BRASCO. Would you say the Government is behind in the health plan area?

Mr. RUDDOCK. Yes, this would show that in 1969, the percentages of basic salary which private industry was putting into life, accident, and health insurance was 3.6, and for the Federal Government, it was 1.6.

Mr. BRASCO. Would you say the Federal Government is behind with respect to wages paid also, when you make a comparability study with private industry?

Mr. RUDDOCK. Sir, I would have to express my belief that the salaries now are fairly comparable.

Mr. BRASCO. Well, fairly comparable. Does that mean ahead, behind, even, or what?

What I am trying to do—I am not trying, Mr. Ruddock, to push you or to be overly argumentative. But it is always my distinct feeling from all of the witnesses we have had in this area that the Federal Government was distinctly behind in wages, and behind in most of the areas of fringe benefits.

It would seem to me that one of the problems that one of the ways we were able to solve this lag, from the point of view of the committee, is to try to do something about fringe benefits.

It is still behind, as far as I can determine, in the area of wages, and I think one of the ways to alleviate the plight of the Federal employee in the critical area of health care is to enact one of the bills before us.

But be that as it may, we probably could talk for the rest of the afternoon about this and disagree.

One last question. Is my time up yet?

Mr. WALDIE. No.

Mr. BRASCO. In your dialog with Mr. Waldie, there is something that interested me about this question of these negotiations with the company being for some reason or another secret, which I wasn't, to be candid with you, aware of.

There are no bids that come in in connection with these plans; are there? In other words, is there competitive bidding? Or are they negotiated contracts?

Mr. RUDDOCK. You are right, it is negotiated contracts.

Mr. BRASCO. So from that point—I'm just trying to get to where there might be a reason to keep this secret. From that point of view, it wouldn't make any difference. We wouldn't be disclosing privileged information between bidding companies. So that's out; is that correct?

Mr. RUDDOCK. Only—and this was more true certainly earlier in the program when there was a very, very keen competition, particularly among the employee organization plans, for subscribers, for customers—in the sense that is that the proposals of the carriers would be influenced by what they thought the competition was doing or by any knowledge of what the competition was doing.

And so the Commission's policy of getting all of the proposals from all of the carriers negotiated separately with each of the carriers trying to do it on the basis of what is needed and what is best for each plan and for the employees of that plan. But there is no disclosure while that is in process, and then it is all announced at one time.

Mr. BRASCO. But that wouldn't affect that negotiation. It seems to me a matter of practice, more than a matter of there being any legitimate or concrete reason to keep it secret.

What I am concerned about, Mr. Ruddock, in connection again with what Mr. Waldie said, I hate to put us in a position where this might be a secret negotiation, if the reasoning went like this, that if this is not included in the freeze, the argument would be that the premiums must go up because the plan will go bankrupt—or the companies—but if it is included in the freeze and there is no increase in premiums and the companies or the plans don't go bankrupt, then someone has egg on their face.

That's the only thing I am concerned about. I am not so much concerned about who has the egg on their face, but about the increased premium the Federal employees are going to have to pay when it is not needed. That is why I am wondering, might that be a reason for this being secret?

Mr. RUDDOCK. No, sir; there is no intent whatsoever of withholding disclosures until everything is completed because of any possible embarrassment to the Commission.

The very best thing that could happen to our program, which means benefits for Federal employees, would be if the cost of health care would stop escalating and if we could go along year after year without having any premium increases. That is the very best thing that could happen.

Mr. BRASCO. Thank you.

Mr. RUDDOCK. Our job will be much, much easier, to the extent the wage-price freeze and phase II of the economic controls are effective in accomplishing their objective.

Mr. WALDIE. Mr. Scott?

Mr. SCOTT. Thank you, Mr. Chairman. I haven't seen the Tinsley letter, so of course I will not interrogate you with regard to it.

Mr. Chairman, let me say for the record that my name was put on H.R. 9620 without my advice and contrary to my request.

But I did join in cosponsoring a measure, H.R. 7807, that would divide equally the contribution between the Government and the employee.

As I recall, Mr. Ruddock, this is what the House of Representatives approved during the 91st Congress. Then the Senate wanted a smaller amount and there was the suggestion that the measure might be vetoed and so now we are back to decide whether or not the contribution should be increased.

Is it the position of the administration that there should be no increase of any kind in the ratio of contributions by the Government?

Mr. RUDDOCK. Yes, sir; that is the position of the administration. We are informed by the Office of Management and Budget that any money which would be required to increase this percentage of the Government's contribution would have to be diverted from money which is needed for other items of higher priority.

Mr. SCOTT. Foreign aid, I suppose, as well as welfare programs, and programs such as that?

Mr. RUDDOCK. The national priorities as stated in the President's state of the Union address on January 22 of this year included such things as welfare reform, restoring the natural environment—

Mr. SCOTT. I asked that that be delayed so maybe we could get this in during that year. Would that be feasible?

Mr. RUDDOCK. We have not been so informed. Another priority was restoring and enhancing the national environment, and improved health care.

Mr. SCOTT. I won't belabor this. I realize you are bound by decisions that are made at other levels. But it is the administration's position that they would not favorably recommend any increase at all?

Mr. RUDDOCK. Yes, sir; that the Government's contribution was substantially increased, in fact, practically doubled, as of January 1 of this year, 1971, and it is the position of the administration——

Mr. SCOTT. Well, for the record, can we not agree that it was the original intent of the legislation passed in 1960 that there would be an equal contribution? Isn't it your understanding that this was the original intent of the Congress, and prices went up and the percentage the Government contributed went down? Is that a fair statement as you understand it?

Mr. RUDDOCK. It is my understanding from what transpired at the time and from the legislative history as reflected in the reports of the hearings, and in the reports of the committee, that the original intent was that the Government would contribute approximately 50 percent, but of what—as has been stated by Congressman Hogan already, I believe—what was intended to be a package of basic health insurance.

In other words, insurance roughly comparable to our present low options. In the final phase of that pending legislation, it was decided by the Congress that there would also be a second option, a high option, which would offer benefits going way beyond a basic package, but with the Government's making the same contribution toward that more liberal package that it made toward the basic coverage, and with the employee who wanted the higher coverage paying the balance of the cost of the plan he chose.

So as already indicated, it was contemplated at that time that most employees would take the basic package. But as it turned out, we have consistently had more than 80 percent of all employees selecting the more liberal package of benefits.

Mr. SCOTT. Mr. Ruddock, let me ask you a further question regarding H.R. 8173. This is the measure that would permit a dependent being supported by the parents and in college, to be included as a dependent on the family policy, regardless of his age.

And I believe now, after he reaches age 22, he can no longer be included in the family coverage.

What is the administration's position regarding this?

Mr. RUDDOCK. Sir, I don't believe the Commission or the administration has submitted a policy position on that.

Mr. SCOTT. What would your thought be? Are you familiar with the bill?

Mr. RUDDOCK. I am familiar with the proposal. Not that specific bill by number.

Mr. SCOTT. Well, Mr. Chairman, let me say——

Mr. RUDDOCK. I think there is considerable merit to including in the family coverage someone who still is a member of the family while he is still going to school.

The attendance at school provision is a very, very difficult one to police. We have that in connection with paying survivor annuities to the children of Federal employees who have died. Basically, the annuity stops at age 18, but it may continue to the end of the school year in which the 22d birthday occurs if the child is in full-time attendance at school.

Mr. SCOTT. Other than the question of policing, this would not be a measure that would be very costly; would it?

Mr. RUDDOCK. No, sir; because at that age, that is not an expensive age for health benefits. That is the age of good health.

Mr. SCOTT. Thank you, Mr. Chairman.

Mr. WALDIE. Mr. Ruddock, I want to go back again to some further questions on your letter to me of September 3, 1971, which we have included in the record.

And I want to go back to this theme of the letter—

Your understanding that Blue Cross/Shield is in line for a substantial premium increase is correct. The main justification for it is that the present premium has proved inadequate to meet the liabilities incurred by the plan. They are experiencing substantial losses and will wind up at the end of 1971 with a cumulative deficit of \$75 million, about 90 percent of which will have been incurred this year, with the remainder having been incurred in the previous year. A big part of the needed increase in premium is intended to permit Blue Cross/Shield to recover their losses (but not build up any surplus). Other components of the increase are intended to cover increases in utilization, and in the cost, of health care services in 1971 and 1972. Hopefully, increases in cost will be slowed by the wage-price freeze but at this point in time it is uncertain as to what effect the freeze will have on 1972 health care prices.

Now, I'd like to know, in January of 1971, was the present premium then established?

Mr. RUDDOCK. I am not sure I understand the question. The present premium has been in effect since January 1971.

Mr. WALDIE. And at the time that premium was established did your Commission grant that premium?

Mr. RUDDOCK. Yes, sir.

Mr. WALDIE. Was it anticipated at that time that that premium would be sufficient to meet the expenses of the operation of the plan through the year 1971?

Mr. RUDDOCK. Yes, sir.

Mr. WALDIE. And that was way, way off, was it not?

Mr. RUDDOCK. It proved to be an inadequate premium.

Mr. WALDIE. By about \$75 million?

Mr. RUDDOCK. Yes, sir.

Mr. WALDIE. Now I want to go into decisionmaking process back in January 1971. Did Blue Cross-Blue Shield ask for more than you granted them, or did you grant what they requested?

In other words, did they anticipate the \$75 million deficit and ask for more premium, but were denied it by the Civil Service Commission?

Mr. RUDDOCK. They asked, as I remember it, for a larger premium increase than was granted. But not because of any basic disagreement as to the anticipated experience.

My recollection is that they asked for a larger premium increase in order to build up by the end of 1971 a special reserve. In other words, a reserve over and above the amount needed to cover the existing obligation.

Mr. WALDIE. What was that increase granted in January 1971, percentage-wise?

Mr. RUDDOCK. Sir, let me give you an answer from memory, and if it is wrong, I will correct it for the record. My recollection is it was 17 percent.

(Note: a check of the records shows that the increase granted was 25 percent.)

Mr. WALDIE. And that was what they requested? In other words, you did not reduce the amount they requested?

Mr. RUDDOCK. No, it's my recollection they asked for a larger premium increase.

Mr. WALDIE. They did?

Mr. RUDDOCK. Yes.

Mr. WALDIE. What did they request?

Mr. RUDDOCK. That I don't remember.

Mr. WALDIE. Will you provide that for the record?

Mr. RUDDOCK. I will.

Mr. WALDIE. And also provide me with this information—had you granted the percentage of premium increase that they requested, what would have been the amount, if any, of the deficit with which they would be confronted this year.

Mr. RUDDOCK. All right, sir.

(The following was furnished:)

Blue Cross-Blue Shield originally proposed a 29.5 percent increase in premium rates for the 1971 contract year, which was calculated to pay for agreed-upon benefit improvements, to meet projected increases in benefit costs, to make up their estimated deficit for 1971, and to put the special reserve in a positive (rather than a negative) position at the end of 1971. After some extensive negotiations between the Commission and the carrier to keep the premium increase at the absolute minimum necessary for the Plan to remain in a sound financial position through 1971, it was agreed that a 25 percent increase in premium rates (which included a 2½ percent margin for actuarial error in projecting incurred claims expense) would keep the Plan financially sound for the contract year beginning January 1, 1971.

The difference of 4.5 percent between the agreed-upon 25 percent premium increase and the proposed 29.5 percent increase would have generated an additional \$26 million in premiums. If the Blue Cross-Blue Shield deficit at the end of 1971 amounts to \$75 million, it would be \$26 million less (or \$49 million) had the 29.5 percent increase originally proposed been granted.

Mr. WALDIE. I am trying to determine whether the error—and the error substantially is \$75 million—is their error or the Civil Service Commission's error or somebody else's error.

Perhaps you can help me on that. How is it that they ended up with a \$75 million deficit in 1 year when they had just been granted a 17 percent rate increase?

Mr. RUDDOCK. Because the payments they had to make to cover the hospitalization, medical bills, drug bills, and all of the other elements of health care, have exceeded their expectations.

Mr. WALDIE. I know that. But the question I am asking is, why were their expectations so imprecise? Do you have any idea?

Mr. RUDDOCK. I don't believe I can answer that, sir. Of course, there are factors of utilization, and also the factors of the increasing cost of individual items of health care.

Mr. WALDIE. Was the 17 percent increase granted in January 1971 designed to pick up a deficit incurred in January 1970? Or in the year 1970, preceding?

Mr. RUDDOCK. Yes, sir; it was intended to. The deficit at the end of 1970 was, as I remember it, about \$12 million, and the 1971 premium was intended to produce a zero balance by the end of 1971.

Mr. WALDIE. So the 17 percent was designed to pick up a \$12 million deficit?

Mr. RUDDOCK. Yes, sir.

Mr. WALDIE. And we are now confronted with a \$75 million deficit?

Mr. RUDDOCK. Yes, sir.

Mr. WALDIE. It is a fair assumption, is it not, that if we are permitted to grant them a rate increase to pick up the deficit, it will be considerably more than 17 percent which was granted last year.

Mr. RUDDOCK. I think that is a fair assumption.

Mr. WALDIE. Part of the problem, I think, that I have trouble with in this matter, is that if these plans are competitive—and they are supposed to be, are they not?

Mr. RUDDOCK. There is an element of competition, yes, sir.

Mr. WALDIE. That is the purpose of 40 plans, as the testimony in previous hearings has said.

Mr. RUDDOCK. That is one of the purposes. I think another purpose for the authorization for so many plans was a recognition of vested interests that existed at that time.

Mr. WALDIE. I recall testimony at previous hearings where it was suggested that the necessity of monitoring the costs of these programs by the carriers is not terribly strong, because of the fact that if a Federal employee is dissatisfied with the cost that he has to pay, he can switch to another company. That is part of the reason, is it not, for having all these plans?

Mr. RUDDOCK. I am not sure I can separate cause and effect. Certainly that opportunity is available to the employee.

Mr. WALDIE. The open season is to give him that opportunity?

Mr. RUDDOCK. Yes, sir.

Mr. WALDIE. Now with the open season, when the open season arrives this year, will all the employees be able to tell, of the plans available to them, the amount of increase granted each plan percentage-wise?

Mr. RUDDOCK. May I ask for some help from my colleague?

Mr. PAPPERMAN. Congressman Waldie, we have customarily furnished each employee information as to the increase in the total premium, the amount of increase in the Government's contribution, if any, and the amount of increase in the withholding from his pay—all three.

Mr. WALDIE. Do you inform him that if he is dissatisfied with this increase, that he has an opportunity to shop elsewhere?

Mr. PAPPERMAN. Yes.

Mr. WALDIE. How is he informed of that decision?

Mr. PAPPERMAN. This is the purpose for the open season.

Mr. WALDIE. I know that is the purpose, but how is the employee informed?

Mr. PAPPERMAN. Each employee is informed in a pamphlet entitled "Open Season Instructions," that he may change plans, options within plans, and that he may change from a self-only enrollment to a family.

Mr. WALDIE. Is he given in the pamphlet the cost comparisons between the plans available?

Mr. RUDDOCK. That will not be in the pamphlet; no, sir.

Mr. WALDIE. Was it in past years?

Mr. RUDDOCK. The information about the changes in all of the plans has been included in that pamphlet at some times.

Mr. PAPPERMAN. At the open season, the employee can get the breakdown of the costs on each plan by comparing the brochure for each plan.

Mr. WALDIE. But in the brochure given to him explaining the open season, he is not given a description of the plans available?

Mr. RUDDOCK. He is given the name and address of each plan and the rules as to eligibility for joining that particular plan. He is given a brochure for the plan in which he is currently enrolled, and he is informed how he may obtain directly from his agency the brochure of any other plan in which he is interested.

Mr. WALDIE. Now is that pamphlet printed up this year?

Mr. RUDDOCK. I do not believe there are any off the press.

Mr. PAPPERMAN. They are not off the press yet.

Mr. WALDIE. It has gone to press?

Mr. RUDDOCK. It has gone to the printer; yes.

Mr. WALDIE. May we have a copy of that for the committee?

Mr. RUDDOCK. Yes, sir; just as soon as it is available.

Mr. WALDIE. And does it state in that pamphlet when the open season will be?

Mr. RUDDOCK. Yes, sir.

Mr. WALDIE. And what date will that be.

Mr. RUDDOCK. Open season is currently scheduled for November 15 through November 30, 1971.

Mr. WALDIE. By that time, will we have these various decisions made as to premium costs?

Mr. RUDDOCK. If we do not, in my opinion, we cannot at that time have the open season, because for an employee to exercise a choice of this type in which one factor is the premium charged, it seems to me he must be given that information before he can exercise a choice.

Mr. WALDIE. I would think that might be the most essential information he has to receive.

Mr. PAPPERMAN. Mr. Chairman, on that, our regulations have always provided that if for cause beyond his control an employee cannot timely make a change during the open season, his employing office may permit him to make a change after the open season.

Mr. WALDIE. Mr. Scott, any further questions?

Mr. SCOTT. Mr. Chairman, I was interested in this last line of questioning regarding the pamphlet to be given out.

As I understood the witness, the suggestion was made that there was a tentative agreement made as to the cost of the different types of cov-

erage for next year. Then, as I understood the chairman's reading the letter signed by Mr. Tinsley, these decisions had been made.

Do these pamphlets assume the decisions have been made?

I don't understand. It's already gone to the printer?

Mr. RUDDOCK. The pamphlet that has gone to the printer is the open season instructions. This is the one that tells the employee, you may make changes, and gives him the names of all of the plans, tells him the time of the open season.

Mr. SCOTT. But you don't have the cost of the plan?

Mr. RUDDOCK. No; it doesn't. There will be a brochure for each of the plans, and of course the cost for each plan, the premium, is included in that brochure. They cannot be printed until we are final on what premium increases are going to be. This is part of our hang up at the moment. We can't move forward until we get some guidelines concerning phase II.

Mr. SCOTT. Assuming the wage-price freeze continues, and there would not be any increase, I don't follow why an employee could not make a change from one plan to another. Could you tell us why?

Mr. RUDDOCK. Well, the Commission could permit that. That could be done with an announcement that there is no change from the 1971 brochures in either benefits or premium; that would also mean in Government contribution.

Mr. SCOTT. How long has it been since they could change? Has it been a year or almost a year?

Mr. RUDDOCK. There was not an open season last year, so it will be 2 years.

Mr. SCOTT. It could seem reasonable that an employee have a chance to change, within a 2-year period, would it not?

Mr. RUDDOCK. Yes, sir; in fact the Commission earlier this year decided that for the foreseeable future, an employee will be given that opportunity once a year.

Mr. SCOTT. I may have misunderstood you. I thought you were considering not having an open season this year in the event the rates could not be adjusted.

Mr. RUDDOCK. I think we'd have to recognize that possibility. Let me mention one other possibility, without giving you a conclusion. We are loose at the moment. It might be, for example, necessary to change the timing of the open season to, say, the first two weeks in December, in order to meet printing schedules. It might be necessary to move it forward to January or February or March.

It seems to me we need answers as to what premiums are going to be before we have the open season.

Mr. SCOTT. Would you say it seems reasonable to you, on reflection, that there ought to be an open season sometime between now and next spring?

Mr. RUDDOCK. Having announced one for the last 2 weeks of November, I think there should be one either during that period, or as soon thereafter as it can be done.

Mr. SCOTT. Regardless of the wage-price freeze?

Mr. RUDDOCK. Yes, sir.

Mr. SCOTT. Thank you, sir.

Mr. WALDIE. Mr. Brasco?

Mr. BRASCO. Yes, Mr. Chairman. Mr. Ruddock, a few moments ago, when I asked some questions concerning the health plan—the Federal

health plan—and contributions made by the Government, and you answered that the Government was sort of caught up in the area of health plans in connection with what private industry is doing.

Mr. RUDDOCK. That was not my intention. I think the Government is fairly comparable on the overall fringe benefits.

Mr. BRASCO. But getting back specifically to the bills before this committee—the Waldie bill and the other bill Mr. Scott mentioned—the difference in the one Mr. Scott mentioned is the Government would contribute up to 50 percent and Mr. Waldie's bill, that a number of us are in favor of including myself, 55 percent and then it increases by 5 percent each year until it reaches 75 percent.

You are in opposition to the two bills. In any event, I have before me a bill—H.R. 7741—which is a bill to amend the Social Security Act with respect to a basic health plan for private industry which I understand is sponsored by the administration and is presently before the House Ways and Means Committee.

Now with that in mind, on page 6 of this bill, and I will read it specifically—subdivision 4, line 11—

For the purposes of this subsection, the employer's share of premiums means 65 percent thereof for any period beginning after June 30, 1973, and ending before January 1, 1976, and 75 percent for any period thereafter.

Now I just don't understand the inconsistency here. This is an administration bill which is an answer to a great cry among the American people for a national health care plan, and the administration talks about employers contributing 75 percent by 1976—private employers—and yet we have a big discussion here and a great disagreement over this bill that is sponsored by members of this committee that says that the Federal Government should do the same for its employees.

We have the same kind of inconsistency where the Federal Government mandates that all private citizens—I mean privately employed people—get the benefits of social security, but, lo and behold, the Federal Government, the largest single employer of people, says no, not for Federal employees.

We have got the same thing in retirement benefits, where the Federal Government is way behind.

How can you really—I don't want my good friend, Mr. Scott, saying I am trying to harass you—but how can you come before us today and tell us this when this administration has this plan?

Mr. RUDDOCK. Mr. Brasco, if I may express a personal opinion, I believe very firmly that the administration will meet on the same time schedule whatever requirements it imposes on private employers with respect to health benefits premiums.

Mr. BRASCO. Then, in the words of my colleague, Mr. Hogan, why do we have to play catchup football? Why doesn't the administration put blessings on one of these bills and let's be first for a change with the Federal employees.

Mr. RUDDOCK. One other point, Mr. Brasco. I believe the package of benefits which is required in that particular legislation would be a less-expensive package of benefits, so that the dollars required from the private employer to meet his contribution would not exceed those which the Federal Government is currently paying with respect to its employees.

Mr. BRASCO. Are you saying that 75 percent—or let's talk about 65 percent—that 65 percent in dollars is going to be equivalent to 40 percent that the Federal Government is putting in now?

Mr. RUDDOCK. For the package of benefits that is specified, required by that legislation, I believe that is a fair statement.

Mr. BRASCO. I don't understand that. I am no economic expert, but maybe that kind of figuring is why we have so many economic problems in this country. I can't figure that one out.

Mr. RUDDOCK. I don't believe the insurance package which is contemplated by that bill would provide as comprehensive coverage as is provided by our Government-wide plans or our union plans or our comprehensive plan.

Mr. BRASCO. I just don't know all of the ramifications in the bill, but I kind of suspect, when you get into the private area, that before too long there is not going to be any lag in the benefits applied. These plans that we are talking about in terms of national health care are pretty well all-encompassing, and if you take a look at the other plan that Senator Kennedy has in the Senate, his national plan, that leaves very little out.

And the thought is very simply that with all the great medical advancements we have today, when you ought to be able to provide them to all people, and again, no matter how we want to try to justify it in our minds, it is a very simple thing. What you are saying is that whatever the budgetary limitations that you are talking about the people that take it on the chin are the Federal employees, notwithstanding the fact that in all other areas we are going forward.

And to be candid with you, I can't accept that as an answer.

Mr. RUDDOCK. I'd like again to express a personal belief. The Government contribution presently is \$18.72 a month, and I'd like to express a personal belief that at such time as the Federal Government requires private employers to pay more than \$18.72 for health benefits, the Government itself will be paying more than \$18.72 for its employees.

Mr. BRASCO. But you are saying then that basically you don't disagree with the bills before this committee but you disagree with the timetable, is that a fair assumption?

Mr. RUDDOCK. I'd like to state it in terms of the administration does not believe this legislation should be enacted at this time.

Mr. BRASCO. Not for the principle, but for the timetable?

Mr. RUDDOCK. I think there is some question also on the principle, because of the administration's belief that the overall picture for the Federal employee is comparable with that of private industry.

Mr. BRASCO. Well, when you look at their retirement and the fact that they don't have the social security, I can't agree with that either.

Thank you very much.

Mr. WALDIE. In the event there are no guidelines that will prohibit a granting of the rate increase, Mr. Ruddock, that rate increase will go into effect in January of 1972; is that correct?

Mr. RUDDOCK. If the phase II of the economic controls does not require any change, then yes, a premium increase would go into effect in January.

Mr. WALDIE. And without any reference to the description in your previously alluded to letter as to increase in cost of health care service in 1972, we are still confronted with the necessity in Blue Cross-Blue Shield of picking up a \$75 million deficit, and by law they are entitled to a rate increase to compensate them for that deficit; is that correct?

Mr. RUDDOCK. I don't believe that the law specifically entitles them to a rate increase to recoup that loss. For example, if the contract were terminated at this point—

Mr. WALDIE. Absent a termination of the contract.

Mr. RUDDOCK. Then I do not believe that the law itself requires that they be given premium increase which will recoup the loss.

Mr. WALDIE. I see.

Mr. RUDDOCK. I don't believe that is specifically a requirement of the law.

Mr. WALDIE. Perhaps not. It has been the practice in the past?

Mr. RUDDOCK. Yes.

Mr. WALDIE. That whenever a deficit has occurred, in the succeeding year a rate increase was granted to recoup that deficit?

Mr. RUDDOCK. Right. This has been a part of the operation of the experience rated contracts. For example, in the first few years of the health benefits program, costs remained fairly stable. As a result, the carriers accumulated reserves over and above what they needed to meet their existing obligations. They were not entitled to keep that. They had to specifically earmark it, invest it, and set it aside to meet future obligations under the contract.

By the same token, in this business of trying to fix premiums as nearly as you can to the actual costs, if you have a year in which the costs exceed your expectations and there is a loss, it seems to us, in fairness, that you similarly adjust in future years.

Mr. WALDIE. Do you recall our discussion of the risk charge? The 1 percent risk charge which we finally determined was in fact a profit? Is that a fair description of our final determination?

Mr. RUDDOCK. I have never considered it anything else.

Mr. WALDIE. Profit to nonprofit organizations?

Mr. RUDDOCK. To an organization organized not for profit.

Mr. WALDIE. And you suggested to the committee, in this round of negotiation, you would suggest to the companies that they give up the 1-percent risk charge because not all of the carriers had been granted that little gratuity. And I presume during these negotiations with Blue Cross-Blue Shield, as well as Aetna, you did advance the position that they give up the 1-percent risk charge. Am I correct in that assumption?

Mr. RUDDOCK. After the hearing in which this was discussed, as I had promised the committee, I wrote to each of the Government-wide carriers. I asked the question, if it were to be decided that we were going to operate these plans without risk charge profit—without any overlay over and above actual costs—would they be interested in continuing to be the carrier of that plan.

I will be furnishing a letter to the committee very shortly on the point. Very briefly, Aetna, which underwrites on behalf of the insur-

ance industry, which is the primary insurer of the Government-wide indemnity benefit plan, said that to underwrite a contract involving risk without any overlay over and above cost would not be consistent with their method of doing business. In other words, they would not be interested in being a carrier and assuming a risk, on a strictly non-profit basis.

The answer from Blue Cross-Blue Shield—I am not sure I can paraphrase it quite as simply, but it amounted to the fact that they will not agree to continue as a carrier in which they assume a risk without some kind of overlay. They did not say they will withdraw. They said, they would have to know the specific terms, the exact conditions then existing.

In other words, it was a little less definite and final than that of Aetna. But basically, the answer from each is that neither will willingly relinquish all profit.

Mr. WALDIE. That wasn't a surprising response; was it?

Mr. RUDDOCK. Not to me.

Mr. WALDIE. I don't think to any member of the committee either.

Was the 1-percent risk charge that Blue Cross-Blue Shield collected for 1971 applied to the deficit of \$75 million?

Mr. RUDDOCK. No, sir.

Mr. WALDIE. To arrive at that figure?

Mr. RUDDOCK. No, sir.

Mr. WALDIE. The risk which was measured in 1971 being \$75 million—that was the risk, that is how much they had to pay out over and above that which they received—the risk was in no way reduced by the \$6 million that they were given as a 1-percent risk charge?

Mr. RUDDOCK. The amount allowable as a risk charge was not applied against the deficit.

Mr. WALDIE. And if the increase in premium they might receive restores to them the entire \$75 million, that they incurred in terms of loss, will the \$6 million be restored to the Government, since we picked up the risk by the premium increase?

Mr. RUDDOCK. No, sir.

Mr. WALDIE. So that \$6 million risk charge is just gone; is it not?

Mr. RUDDOCK. It is a payment made by the Government for profit, services rendered, service charge—call it what you will.

Mr. WALDIE. Do I take it that is the end of the negotiation in terms of the 1-percent risk charge—that exchange of correspondence between you and the companies?

Mr. RUDDOCK. No, sir; as long as I continue in my position, I will continue to attempt to negotiate reductions in the risk charge of the large carriers.

Mr. WALDIE. Do you think they are too high?

Mr. RUDDOCK. They are higher than I would like to see them. They are not, in my judgment, excessive in terms of what is allowed over and above actual expenses in contracts given to these and similar carriers by other large employers.

In other words, if the Government is going to operate a health benefits program, primarily through private industry and through existing facilities, and is going to do so in a manner similar to that of other large employers, these profits are not excessive in my judgment.

Mr. WALDIE. One final question, Mr. Ruddock. On the other charge, the administrative expense, the 1-percent—I gather from your letter, over the years through 1970, on Blue Cross and Blue Shield's contract the total 1 percent set aside for administrative expenses plus interest earned has amounted to \$52 million—rounding it off.

Of this sum, the Commission has used \$12 and paid \$36 million in contingency reserves to the carriers.

Mr. RUDDOCK. That is the entire program.

Mr. WALDIE. At the end of 1970, there was a balance in the fund set aside of \$4 million. Now, would the Commission be able, had they so determined, to have retained that entire \$52 million?

Mr. RUDDOCK. No, the law says of the health benefits fund, which is the trust fund held in Treasury, that the administrative expenses of the Commission be paid out of this fund, but in an amount not to exceed one percent of the premium. And there is another limitation. It is within limitations as fixed annually by the Congress.

For the past few years, we have not had a specific limitation fixed by the Congress on health benefits, but rather, in recognition of the fact that we administer a number of trust funds, we have had one overall limitation on the amount we may take from all these trust funds for 1971.

For example, the total limitation from all of the trust funds, the total amount used was \$9,870,753. Of that amount, \$1,493,052 was taken from the employees' health benefits fund. So there is a 1-percent limitation.

But then the Commission estimates its needs and the Congress approves an overall limitation on trust funds in recognition of the Commission's estimates.

Mr. WALDIE. Mr. Ruddock, if there is a grant in premium increase to make up for the \$75 million deficit, that will automatically increase the amount of profit each of those companies, or that company, will receive; would it not?

Mr. RUDDOCK. If the risk charge were to remain at 1 percent of premium, then the profit would automatically be larger because of an increase in premium.

Mr. WALDIE. So even though the deficit—the larger the deficit, the greater the profit; is the way this works?

Mr. RUDDOCK. I can't quite agree with that, sir. For example, if the premium for 1971 had been larger, large enough that there would not have been the \$75 million deficit, then the risk charge would have been paid in 1971.

Mr. WALDIE. A higher risk charge would have been paid?

Mr. RUDDOCK. More dollars.

Mr. WALDIE. There was less risk, but a higher risk charge would have been paid.

Mr. RUDDOCK. More profit would have been paid.

Mr. WALDIE. Yes. Well, OK. Are there other questions from the committee?

Mr. BRASCO. I just wanted to have Mr. Ruddock answer a question for the record, in connection with the administration-backed bill. I understand the Ways and Means Committee is hearing in terms of a national health care plan, you indicated there would be a difference

in the coverage between that plan and what the Federal plans would be, and that the 40 percent that is contributed by the Government toward the Federal plan would be equivalent to the 65 and then 75 percent by virtue of the distinction in coverage.

Could you give us for the record the distinction in the coverage between that plan and the Federal plan?

Mr. RUDDOCK. Yes, sir.

Mr. BRASCO. I am wondering whether or not that plan before the Ways and Means Committee is just a juggling, as you might be seeming to indicate.

Mr. RUDDOCK. By no means, sir.

Mr. BRASCO. By making the people think they are going to get 75 percent contribution, but the coverage is so reduced that in effect they are getting nothing?

Mr. RUDDOCK. All of the low options in our program, for example, are very good health insurance. But they are by no means as comprehensive or expensive as our high options.

Mr. BRASCO. Could you supply those distinctions you are talking about for the record, so we can have a chance to evaluate them?

Mr. RUDDOCK. Yes, sir.

(The following was furnished:)

COMPARISON OF MAIN BENEFITS PROVIDED BY THE HIGH OPTIONS OF THE 2 GOVERNMENTWIDE FEDERAL EMPLOYEES HEALTH BENEFIT PLANS WITH THOSE CONTAINED IN H.R. 7741

Type of benefit	Governmentwide service benefit plan	Governmentwide indemnity benefit plan	H.R. 7741
Hospital room and board.	365 days per confinement in a member hospital. Plan pays in full.	1st \$1,000 each year, plus 80 percent of balance.	30 days per year, subject to a 1- to 2-day deductible, depending on income.
Other covered hospital services.	do-----	80 percent of allowable charges in excess of \$50 deductible. ¹	30 days per year, subject to deductible of up to \$100 ¹ and coinsurance of up to 25 percent, depending on income.
Extended care and home health services.	No extended care benefits, but most home health services are covered.	No extended care benefits, but most home health services are covered.	30 days per year in lieu of hospital room and board (3 days in extended care facility and 7 days of home health service equal 1 day of inpatient hospital service). Room and board, subject to a 2- to 4-day deductible. Other services, subject to the deductible ¹ and coinsurance.
Doctors' services-----	Surgery, in hospital medical care, diagnostic, X-ray, laboratory services and emergency treatment—100 percent of usual and customary charges. Office and home visits, etc., see other services and supplies.	80 percent of reasonable and customary charges in excess of the deductible. ¹	In hospital, extended care facility or when receiving home health services—no limit, but subject to deductible ¹ and coinsurance. Out patient, house or office—8 visits a year subject to the deductible ¹ and coinsurance.
Maternity-----	Benefits for hospital and doctors' services, as above (well-baby care not covered).	Benefits for hospital and doctors' services, as above (well-baby care not covered).	No limit (including family planning and well-baby care).
Drugs (outpatient)-----	80 percent of charges in excess of the deductible. ¹	80 percent of charges in excess of the deductible. ¹	No provision.
Other services ² and supplies.	80 percent of usual, customary and reasonable charges in excess of the deductible. ¹	80 percent of charges in excess of the deductible. ¹	Subject to the deductible ¹ and coinsurance.
Dollar limits on benefits--	No maximum on basic benefits, \$50,000 maximum per person on supplemental benefits. \$2,000 a year thereafter (noncumulative).	\$50,000 maximum per person, plus annual restoration of \$2,000.	\$50,000 lifetime maximum per person, plus \$2,000 annual restoration.

¹ There is only 1 deductible per calendar year. All expenses subject to the deductible may be combined.

Mr. WALDIE. Mr. Scott?

Mr. SCOTT. No further questions.

Mr. WALDIE. Is there any further testimony you would like to give, Mr. Ruddock?

Mr. RUDDOCK. No; I believe the position of the administration is clear.

Mr. WALDIE. Well, thank you very much, Mr. Ruddock.

Mr. RUDDOCK. Thank you.

Mr. WALDIE. The next witness will be Patrick J. Nilan, legislative director of the American Postal Workers Union.

Mr. SCOTT. Mr. Chairman, before Mr. Nilan testifies, I would like unanimous consent to present my own remarks in support of the two bills I have introduced, H.R. 7807 and H.R. 8173.

Mr. WALDIE. Without objection, so ordered.

STATEMENT OF HON. WILLIAM LLOYD SCOTT, MEMBER OF CONGRESS FROM THE STATE OF VIRGINIA

Mr. SCOTT. Mr. Chairman, thank you for inviting me to testify in support of H.R. 7807 and H.R. 8173, and other related legislation designed to amend and improve the Federal Employees' Health Benefits Act.

When the Federal health benefits program became effective in 1960 it was the intent of the Congress that this new fringe benefit be financed on a 50-50 sharing basis through employee and agency contributions. However, after the initial shakedown period it developed that because of the distribution of enrollments between self-only and family coverage, between high and low options, and among the various 30-odd plans, that the Government's contribution was only 38 percent of total premiums with the employees contributing 62 percent.

This unequal sharing of cost continued with slight variations until in 1970 the Government was actually contributing only 24 percent with the employee picking up the remaining 76 percent.

Recognizing the unfairness of this situation which violated the intent and spirit of the originating legislation, the Congress enacted Public Law 91-418. It pegged the Government contribution to 40 percent of the high option benefit level. This, in effect, meant that no matter the premium increase, the Government's share would not be less than 40 percent.

Mr. Chairman, it appears that the Congress in 1960 intended costs of Government health benefits should be equally shared on a 50-50 basis. Today, in 1971, we still have not accomplished that basic purpose. I hope we will now by enactment of this legislation.

Mr. Chairman, H.R. 8173, seeks to correct an inequity which presently exists in the Federal health benefits program. My bill will extend coverage under the program to unmarried children of employees or annuitants regardless of age who are dependent, full-time students.

Under the existing provisions of law, a child of an employee or annuitant is covered provided he is unmarried and under 22 years of age. There is no requirement for dependency or for a student relationship.

My bill would not change this provision but would extend coverage to unmarried children 22 years of age or over—actually regardless

of age—provided they are full-time students and receive more than half their support from the employee or annuitant.

Mr. Chairman, as we all know, it is not unusual today for a child beyond the age of 21 years to be still living at home or attending college and completely dependent upon the parents. Yet, under existing law, the moment that the child becomes age 22, he ceases to be included under the Federal employees' health benefits program, despite the fact that the parent is still under heavy financial strain not only in supporting the child but in also paying for educational expenses.

It certainly seems incongruous that an unmarried child under age 22 who might not be dependent can be included under the parents health benefits program, while a child 22 years or older who is completely dependent and for whom the parent is under some considerable financial strain in sending to school, is not included. My bill will correct this inequity.

Mr. Chairman, there is precedent for this action. I am told that both Travelers and Prudential Insurance Cos. offer similar coverage under their group health benefits program. Travelers Insurance Co. describes a dependent as an employee's wife and husband and unmarried child 14 days to 19 years. (Up to age 25 if a qualified student residing in the United States or Canada.)

I might also point out, Mr. Chairman, that it is not anticipated that the enactment of my bill would have any significant impact upon premium charges. This is true because children at this age are considered to be premium risks with a relatively low incidence of illness or hospitalization. They are excellent insurance risks.

Mr. WALDIE. Mr. Nilan is accompanied by Mr. Edward L. Bowley, legislative aide, APWU, Mr. Jack Love, director of the hospital plan, and Mr. John R. Dubay and Mr. Ben Evans, assistant directors of the hospital plan.

STATEMENT OF PATRICK J. NILAN, LEGISLATIVE DIRECTOR, AMERICAN POSTAL WORKERS UNION

Mr. NILAN. Mr. Chairman and members of the committee, for the record, I am Patrick J. Nilan, national legislative director of the American Postal Workers Union (AFL-CIO) with offices at 817 14th Street NW., Washington, D.C. I am very pleased to appear before the committee this morning with our national legislative aide, Edward L. Bowley, Jack Love, health plan director, John Dubay and Ben Evans, assistant directors of our union's hospital plan as we present our testimony concerning H.R. 9620 and the absolute need for the Government to pay more toward the cost of the Federal employees' health benefits program.

We speak in behalf of more than 400,000 postal employees for whom we are the exclusive national representative for labor-management relations and collective bargaining with the U.S. Postal Service. Our membership is employed in post offices in all 50 States, the District of Columbia, Puerto Rico, Virgin Islands, and Guam.

The American Postal Workers Union (AFL-CIO) our newly merged organization of five former national postal unions, which consists of the following:

National Association of Post Office & General Service Maintenance Employees.

National Federation of Post Office Motor Vehicle Employees.

National Association of Special Delivery Messengers.

National Postal Union.

United Federation of Postal Clerks.

We wish to take this opportunity to commend you Mr. Chairman, and members of your subcommittee for scheduling hearings on a matter which is of considerable importance to all Federal employees.

Mr. Chairman, our members and their families are certainly deeply indebted to you for your sponsorship of H.R. 9620 which proposes to increase the Federal share from the present 40 percent to 55 percent as of January 1, 1972, and would provide for yearly 5 percent increases until the Federal share reaches 75 percent on January 1, 1976.

We appear before you today, Mr. Chairman and members of this committee, to advocate passage of H.R. 9620 to appropriately amend the Federal Employees' Health Benefits Act.

We also recognize that the Health Benefits Act is a monumental achievement to the everlasting credit of distinguished members of the House and Senate Post Office and Civil Service Committees who originally formulated the program.

We are pleased to cite that numerous Members of Congress have introduced bills relating to the same subject, and that in the Senate, the Honorable Gale W. McGee, chairman of the Senate Post Office and Civil Service Committee, has also introduced S. 1424. Senator McGee's bill also would increase the Government's contribution to the cost of health insurance carried by an employee to 75 percent of the average cost of high-option insurance, and the cost of the McGee plan would be included in determining the average cost of high option plans. The 75 percent figure would be reached over a 3-year adjustment cycle ending January 1, 1974.

Key features of Senator McGee's bill are that only a very few medical services would be excluded from coverage and employees would not be required to meet any deductible expenses or go through any redtape in determining whether expenses incurred for health care are covered by their insurance. Another vitally important aspect of Senator McGee's plan is that the Civil Service Commission will have broad powers to establish standard fee schedules for all health services and will be able to insure compliance with the schedules from anyone receiving payment under any health insurance plan authorized by the Federal Employees Health Benefits Act. The subject of the Government's contribution to health insurance premiums is so important to our membership that it is placed at the top with our major legislative goals.

President Nixon has called for a national health insurance plan requiring private sector employers to contribute 65 percent of insurance costs.

Mr. Chairman, the continual rise in cost of hospital and medical care in this country has become a national scandal, so much so that it prompted the previous President of the United States to appoint a committee to review the ever-rising costs to determine the reasons therefor and recommend solutions. Unfortunately, however, the aforesaid committee did not come up with the answers to the immediate problem; that is, to halt the spiraling cost and/or to reverse the trend.

Our statement this morning will present what we think is a convincing argument for the Congress to substantially increase the Federal Government's financing of its employees' insurance against the burdens of accident, illness, and hospitalization.

Mr. Chairman, from the beginning, Federal employees in great preponderance chose the high option plan; therefore, the Government's original intent to cover half the premium cost has never been fulfilled. We believe the Federal Government should follow the lead of large employers in private enterprise and pay the entire cost.

It appears that the original sponsors of the Health Benefits Act were conscious of the costs and the limited incomes of Federal employees. As a result, a less costly "low option" benefit level plan could be subscribed to under the act, with the Government's contribution covering half the premium cost. Apparently, as we mentioned, this resulted from almost unanimous testimony before the committee at that time, which suggested that nearly all employees would select the low-option plan. A high-option benefit level plan was also made available to Federal employees who were willing to pay the additional cost.

Whether the employee selects Aetna, Blue Cross/Blue Shield, or one of the employee organization or comprehensive medical plans, we think he is paying entirely too much out of his own pocket. We also believe and hope you do also, that he is carrying an extremely disproportionate and unfair share of the cost. This conclusion is particularly significant in the terms of the Congress declared intention to have the employee not pay more than half of the premium cost for medical care insurance coverage—coverage to which he, as an individual, and the traditional and normal American family are entitled.

We think some changes should be made, Mr. Chairman and members of the committee, and the time is now. We believe this distinguished Committee on Retirement, Insurance, and Health Benefits, and the eminent House Post Office and Civil Service Committee, as a whole, should play their traditional leadership roles by guiding through the U.S. House of Representatives, early passage of this long overdue legislation which would progressively increase the Government's share.

Mr. Chairman, rises in hospital costs are presently averaging about 15 percent per year, and as a result, every single carrier has been compelled to increase premiums for essentially the same benefits over the past few years. The net practical effect has been pay cuts for postal and Federal employees forced to pay substantial increases in premiums in order to maintain essential coverage.

All of the increases are compounded on the gross increases of previous years, of course, imposing a severe hardship on employees for whom adequate health insurance is a must.

Medical care costs, including the cost of hospitalization, surgery, physician, and dentist fees, have risen rapidly in recent years and continue to accelerate faster than other prices in any other commodities or services. We believe there are two good reasons for which increasing medical care costs are very relevant to postal employees and other Federal employees.

First, as medical care costs rise, the portion of them not covered by insurance constitutes a much greater burden, especially for Government employees, particularly our postal employees, in the lower pay grades and levels.

Second, as medical costs rise, the premium rate of insurance to cover these costs must necessarily rise, increasing the financial burden upon employees who must pay the balance of a larger premium, even if it is only a larger one-half.

In large metropolitan areas, hospital rates now exceed \$100 a day. We projected such costs when we testified in recent years. This pattern is repeated all across the Nation. It adds up to a staggering increase in medical costs that far exceeds rises in other living costs.

Because the higher costs are reflected in higher medical insurance premiums and higher taxes to cover expenses for such Government-sponsored programs as medicare, they will be felt by practically all Americans, whether or not they utilize hospital and/or medical services themselves. We believe the problem is so acute it demands the immediate attention and action of Congress. Vigorous and determined action by our National Government is needed to control the skyrocketing cost if the consumer is not to be priced right out of the medical marketplace. But hospital costs are not increasing alone. Medical costs are also increasing rapidly. American people buy more health services today, and prices of such are much higher.

The American Medical Association has pointed out that one of the reasons is that the demands for service is much greater than the supply, and that long period of training for health professionals is one of the reasons the demands cannot be met. Other factors of increasing medical costs are cited as being higher incomes, greater purchasing power, older population, and utilization of services. Our experience has been that doctors charge more when they know an individual has a health plan, that six office visits are required when four would suffice, that extra days are added to hospital stays because the individual has health insurance.

We welcome the high quality of complex technology though we note oftentimes there is a duplication of services because of the desire of many physicians to specialize in a certain field. Even though they are quite capable of caring for an individual, it is our experience that doctors will refer patients to still another specialist. As a result, specialists' fees come much higher.

As a labor union, we believe that workers' incomes—including physicians'—need to be commensurate with their high level of training, skill, and responsibility, but it is obvious that many doctors have carried this too far. The general practitioner is nearly extinct, and the doctor who will get out of bed in the middle of the night and come to your house is a thing of the past.

We believe something can be done in this area if the administration and the Congress will find the time and make the effort to investigate reasons contributory to skyrocketing hospital and medical increases. But the immediate relief needed is an increase in the Government's contribution toward health insurance premiums, and the ultimate answer is that the full cost of such premium be borne by the Government.

We believe, Mr. Chairman and members of this distinguished committee, that we have made it abundantly clear that medical care costs and the related cost of health benefits insurance have been and will continue to be a tremendous burden for Federal Government employees—and unless appropriate and timely action is taken by this Congress to relieve our postal employees of at least a substantial part of this extremely heavy premium burden by reducing their share of the cost of health benefits insurance, this great and substantial financial burden for postal and other Federal employees will continue to accelerate.

The need for adequate medical cost insurance to pay health benefits when illness or injury strikes has been clearly indicated. Every employee should have the opportunity to participate in a program which offers insurance to ease his burden in time of need. We believe and sincerely hope this committee will concur in our belief that the Federal Government in this great country of ours should take the lead and set an exemplary pattern of how an employer should cooperatively participate with employees in such health benefits programs—as a matter of fact, unfortunately and as the record clearly indicates, this has not been the case to date. The Federal Government has lagged considerably behind the employers in private industry and regretfully has not been providing leadership or an exemplary pattern in this area of health benefits for its employees.

The trend in private industry has definitely been toward the employer assuming the full cost of the employees' health insurance premium. Large employers generally pay the full cost. Smaller employers pay at least half of the cost of their employees' health benefit premiums.

As reported in Bulletin No. 1530-87 published by the Department of Labor's Bureau of Labor Statistics, 64 percent of plantworkers and 49 percent of officeworkers were employed in establishments which paid the full cost of their health insurance premium. And this particular survey among private employers was concerned with late 1966 to early 1967. Since that time, this continuing and progressive trend has further and substantially increased these figures.

A 1969 Bureau of Labor Statistics Digest of 50 Health and Insurance Plans, published by the Department of Labor in November as Bulletin No. 1629, reports on the health insurance plans for salaried personnel working for large employers in each of 50 major industries. According to the study, 50 percent of these employers paid the full cost of the employees' health insurance, covering hospital, surgical, medical, and major medical expenses. These major employers can honestly and consistently be compared with the Federal Government. Some of these employers setting an example for the Federal Government to follow by paying the full cost of employees' health and hospital insurance are listed below:

Aluminum Corp. of America	Kresge
American Airlines	Lerner Shops
Burlington Industries	Penn Central
Campbell Soup Co.	Pittsburgh Plate Glass
Caterpillar Tractor Co.	Radio Corp. of America
Dupont	Swift & Co.
Greyhound	Union Carbide
International Business Machine	U.S. Steel
International Harvester	Weyerhaeuser Co.
International Paper	

These employers, each of whom represents a major industry, reflect a fair and reasonable cross section of the U.S. industrial scene. We sincerely believe the Federal Government should follow the lead of major industry employers, and, in some cases, even comparatively minor employers in the private sector, and move rapidly toward full payment of the premium cost of employees' health benefits insurance for Federal and postal employees.

The time is now, we believe; and we hope this distinguished committee concurs—the U.S. Government, if it cannot or will not be a leader in this most important area of health benefits protection and premium payments for its employees that at least at this time, in the year 1971, will follow the lead of major employers by moving quickly and responsibly toward ultimate full payment of health benefit premiums for postal and other Federal employees.

In times of domestic crisis and administrative inaction, such as the ever-increasing financial burden for Federal employees under the Health Benefits Act, the Congress of the United States must once again display its traditional leadership role if the unrealistic and ever-increasing burden of health benefit premium costs which continue to plague the Federal employee are to be finally and, we hope, permanently resolved in equitable, satisfactory resolution of this issue.

Mr. Chairman, our union is mandated by its membership to seek full payment by the Government of health plan premiums immediately. We recognize that when there are 36 governmentwide plans, all offering a different level of benefits and premiums, the Congress will have a difficult task in determining a method whereby all Federal employees would be treated equally. However, we ask this committee to consider the approach taken by the Honorable Larry Hogan, Republican of Maryland, a distinguished member of the House Post Office and Civil Service Committee and a member of this subcommittee, who introduced H.R. 2586, a bill that will provide a level of benefits that would apply equally to all Federal employees for which the Government would underwrite the full cost. All carriers could then remain competitive by offering a different level of benefits that could include major medical coverage and optical or dental plans at a cost that would be borne entirely by the individual.

As we have cited in previous testimony, Mr. Chairman, the turnover in the Federal Government and in the Postal Service in particular, in our opinion, costs this Government as much or more than the benefits we are seeking. This is attributable a great deal to the vast difference in salaries and fringe benefits offered in the private sector.

Mr. Chairman, there is another section of the law which we feel should be amended. It deals with the distribution of brochures.

Under the law, only the two governmentwide plans are distributed to all employees. We feel that this is not in keeping with the law's intent of providing all eligibles with an "informed choice." We respectfully request that employees be given all brochures of plans for which they may qualify.

In conclusion, Mr. Chairman and distinguished members of this committee, we have indicated our enthusiastic support and endorsement for the legislation, H.R. 9620, pending before this committee. We hope ultimately for 100 percent payment of Federal employee health benefit premiums. It is our hope that this statement which we have presented to you this morning will convince you of the merit of our presentation in support of this badly needed legislation.

SUMMARIZATION BY MR. NILAN

Mr. NILAN. We are very pleased to appear before the committee in support of the legislation, H.R. 9620, which is cosponsored by the

chairman, several other members of the committee, and we are indebted to Mr. Brasco and Mr. Scott and other members of the subcommittee for their interest in such legislation.

We believe the legislation is particularly significant at this time, and we are very gratified that similar legislation has been introduced in the U.S. Senate by the chairman of the Senate Post Office and Civil Service Committees, Senator Gale McGee.

It is somewhat different in its proposed benefits, but would basically increase to 75 percent the Government's contribution. In this regard it is similar, if not identical with the legislation pending before this committee.

The legislation which has been sponsored is of prime importance to our membership, and as a matter of fact, it is among our top major legislative goals for the 92d Congress.

As has been mentioned by members of the committee, particularly Mr. Brasco, we are very gratified that President Nixon has proposed increasing the contributions by private sector employers to 65 percent of employee health insurance costs, and we are very hopeful that this committee will report the pending legislation which would ultimately increase the Government's cost to 75 percent.

We believe our statement this morning will provide convincing argument in support of the legislation. As also previously mentioned, the original intent of Congress some 10 years ago was to require the Government to pay a minimum of 50 percent of costs, and we would hope at this time the Congress and the Federal Government would provide leadership in the area of improved Government costs for the health benefits program.

There is no question, of course, that medical care costs, particularly hospitalization and surgery, physicians' fees, and other costs, have increased considerably during the recent years. And as these costs go up, of course, it takes a larger share out of the postal worker and Federal workers' pay checks.

Again, it's very important that the Congress should report legislation which would increase the Government's contribution and relieve the individual postal worker and Federal worker of this increasing and expensive burden.

Mr. Chairman, on page 8 we suggest to the committee a situation we have mentioned in past appearances. We believe that something can be done in this high area of cost, insofar as hospitalization and medical care is concerned. And we would again like to encourage the committee and the staff to conduct some field investigations of the costs of the hospital and medical benefits throughout the country in selected areas, and also its relationship to hospital and health plan premiums under the Federal employees' health benefits program.

We believe, and hope that the committee will concur in our belief, that the Federal Government should take the lead and also provide an exemplary pattern to the private sector in the area of health benefits coverage, as well as premium contribution.

And realistically, the trend in private industry has definitely been toward the employer assuming the full cost of employees' health insurance premiums. Larger employers generally pay the full cost, and certainly the U.S. Government and the Postal Service, as two of the

country's largest employers, if not the largest, should provide similar benefits for their employees.

We also would like to indicate our support of the approach taken by Congressman Larry Hogan who was here earlier, and his bill, H.R. 2586, a bill that would provide a level of benefits that would apply equally to all Federal employees, for which the Government would underwrite the entire full cost.

Mr. Chairman, before we conclude, we would like to point out also that existing law does not require the Civil Service Commission to make available to all employees that may be eligible for a certain Federal or postal employee plan, the respective brochure of the plans that are available to him or her, as the case may be.

The brochures of Blue Cross-Blue Shield and Aetna are always made available to all employees in the Federal service, but unfortunately, for example, our organization, which is the largest postal employee union, has not had this opportunity for similar presentation of our brochures to the employees who are qualified for our program.

So we would like to suggest in this area that the committee may desire to consider making this mandatory, that the employees eligible for an employee plan all receive the brochure from the agency or Postal Service in addition to the Blue Cross-Blue Shield and Aetna brochures.

Mr. Chairman, in conclusion, we would like to reiterate that it is our hope that any legislation which may be reported and hopefully acted on by the Congress will specifically provide that postal workers in the U.S. Postal Service are included under the proposed act. We say this on the assumption that we normally would expect to be included, but with some of the interpretations being given today by the Postal Service to the Postal Reorganization Act, we could foresee the possibility where the Postal Service may decide we are not included under the benefits or increased Government premium contributions and we would suggest that appropriate language be included in the act to make sure the Postmaster General, Mr. Blount, and the Postal Service recognize that Congress intends postal workers to be included.

Mr. WALDIE. Thank you, Mr. Nilan. Are these organizations now a part of the American Postal Workers Union—

Mr. NILAN. We list them on page 2, Mr. Chairman.

Mr. WALDIE. No; I am looking at the Federal Health Insurance Advisory Committee to the Civil Service Commission. I presume there are at least three on that committee that belong to your organization: Mr. Monroe C. Crable?

Mr. NILAN. That's correct.

Mr. WALDIE. Mr. David Silvergleid?

Mr. NILAN. That's correct.

Mr. WALDIE. And Lester Miller?

Mr. NILAN. No, sir.

Mr. WALDIE. The National Rural Letter Carriers' Association—that's separate?

Mr. NILAN. Yes, sir.

Mr. WALDIE. May I suggest that at least as to those two members of your organization that belong to that Insurance Advisory Committee, that one of them follow the suggestion that Mr. Ruddock

implied would be proper and ask for a convening of that committee, at which time the status of the negotiations concerning health benefits premium increases be described and clarified for the employee organizations?

And may I also suggest that if you get any understanding of it, that you convey that understanding to the committee?

Mr. NILAN. Mr. Chairman, we will be very happy to do so, and very gratified with your questions this morning, because my colleagues learned many things they did not know before about the way the Commission operates on the health benefits program.

Mr. WALDIE. Well, I think there is a great deal to be learned between now and open season, particularly when men and women now in the Federal service will have an opportunity to determine whether they want to switch, and my guess is that if the information that is available is made available to them, that decision will be more readily made, which might meet some of the problems with which you have been confronted in not having an equal chance to compete.

And I would hope that you will ask either one of your representatives to convene this committee, as they have a right by law to do.

And please keep this committee informed as to the response the Civil Service Commission gives to that request, on the negotiations. I have been under the impression from testimony and questioning of the Civil Service Commission that they don't give much attention to the employees' advisory committees. That it was a sham, and they had no intention of letting you people intrude in their sensitive dealings with the carriers, upon which your members' premium rates are dependent.

Do you have questions, Mr. Brasco?

Mr. BRASCO. Thank you, Mr. Chairman. I want to thank Mr. Nilan and his group for appearing here this morning, and other than just to observe that all of the organizations that now make up the American Postal Workers Union have been in the forefront of the fight for better benefits for the postal employees and Federal employees, as we know from past history, and other than that, it is a pleasure to have some witnesses that agree with you. I have no questions.

Mr. NILAN. Thank you very much. If I may, Mr. Chairman, we are very hopeful that present negotiations that are going on between the American Postal Workers Union and the National Association of Letter Carriers will result in a real merger, into one great big postal employee union, along with our brothers in the National Rural Letter Carriers Association and the mail handlers organization.

And we hope some day in the not too distant future to appear representing all 650,000 postal workers.

Mr. BRASCO. I think that is fine. I must say, when I was first elected to Congress, and selected to serve on this committee, one of the things that always struck me was the fact that there were so many unions. And while they were effective in working toward the same goals, sometimes the in-fighting was more of a problem than working toward the goals, and I think the merger is a fine thing, and I certainly join with you in hoping that at one time we will have one union representing all the employees.

I think it certainly makes for easier internal working, and keeping an eye fixed on the ultimate goal.

Mr. NILAN. I only wish we could have been merged a couple of years ago; the last session would have been easier.

Mr. WALDIE. Thank you very much.

Mr. NILAN. Thank you, Mr. Chairman.

Mr. WALDIE. The next witness will be Thomas G. Walters, president of the National Association of Retired Federal Employees. Will you introduce those gentlemen who accompany you?

Mr. WALTERS. I am accompanied by Vice President Clarence Tarr and director of field operations, Arthur L. Sparks. I am Thomas G. Walters. With your permission, I would ask to file my statement, and then to brief some of the high spots—what we consider the high spots of this statement.

Mr. WALDIE. Without objection, your statement will appear as though read in full.

STATEMENT OF THOMAS G. WALTERS, PRESIDENT, NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES

Mr. WALTERS. Mr. Chairman and members of the subcommittee, I am Thomas G. Walters, President of the National Association of Retired Federal Employees (NARFE). I am accompanied this morning by Mr. Clarence M. Tarr, vice president, and Mr. Arthur L. Sparks, director of field operations of NARFE. We are a 50-year-old, nonprofit incorporated association, with a membership of 150,389 as of September 23, 1971, composed exclusively of retirees of the Federal Government and their survivors residing throughout the world. We have membership and chapters in all 50 States, Puerto Rico, the Canal Zone, and the Philippines, with more than 1,100 chapters.

Mr. Chairman and members of the subcommittee, at the outset we express our appreciation and thanks to you and the members of the committee for scheduling and holding these hearings, and we are especially appreciative to you and your cosponsors, Mr. Hillis, Mr. Scott, and Mr. Hogan, for cosponsoring this much needed and important legislation. We also express our thanks and appreciation to other members of this committee and to the House of Representatives in sponsoring related bills; but we are directing our attention at this time to H.R. 9620 introduced by you, Mr. Chairman, and your cosponsors, Mr. Hillis and Mr. Hogan.

Your bill, H.R. 9620, has for its main purpose to increase the Government's contribution under the Federal health benefit program from approximately 40 percent of the total premium charges to approximately 75 percent of the total premiums in several steps. Your bill provides for an additional increase of 5 percent in succeeding years to be paid by the Government until the Government's contribution reaches approximately 75 percent of the total premiums. We admit frankly and honestly that this is a step in the right direction, but we would strongly recommend that H.R. 9620 be amended; that the Government's contribution be increased from an average of 40 percent of the total premium to 75 percent of the average total premiums January 1, 1972, with an additional increase of 5 percent in each succeeding year until the Government's contribution reaches approximately 100 percent of the total premiums.

I am sure that you and members of your subcommittee, the members of the full committee, and the Members of the House of Representatives are fully aware that the trend in private industry is towards the goal of paying 100 percent of the premiums for health benefits and hospitalization care, and I know of no good reason why the Federal Government should not be placed in the category of eventually paying approximately 100 percent of the total cost of premiums for hospitalization and all other medical care, and we trust that this committee will seriously consider, and I know you will. NARFE's recommendations for the Government to eventually pay the total cost of hospitalization and health benefits care.

HEALTH BENEFITS

In 1959, after several years' consideration, Congress enacted the Federal Employees Health Benefits Act, Public Law 86-382. This hospitalization and medical program provided coverage in numerous plans for active employees and those retiring after July 1, 1960. The coverage provided under these plans at that time gave decent coverage for protection during illnesses. Then, 1 year later in 1960, Congress enacted the Retired Federal Employees Health Benefits Act, Public Law 86-724, to provide health insurance coverage for those former employees who retired prior to July 1, 1960, and were therefore not eligible to participate in the more liberal Federal employees health benefits plans. At the time of enactment, retirees were given the option to enroll under the Government's uniform plan, which included basic and/or major medical coverage, administered by Aetna; or to enroll in one of a number of other insurance plans designated as "qualified carriers" by the Civil Service Commission, receiving a \$3 monthly premium contribution from the Government per individual.

Since the inception of the retired program, the Government contribution has been increased to \$3.50 per individual and just last year, part B, the medical portion of medicare was made a "qualified carrier," but the coverage available under the retired Federal employees health benefits program has never been as adequate as that under the Federal employees health benefits program. The best coverage ever available was through the uniform plan's combined basic and major medical coverage. However, shortly after 1961, the major medical part of the uniform plan was closed, and is no longer available to enrollees.

Under the law, by a stroke of the pen, the Civil Service Commission could increase the monthly contribution from the present \$3.50 to \$4.00 per month, and I urge this subcommittee to strongly recommend a much larger contribution for these older retirees, and insist that the major medical portion of the uniform plan be reopened for enrollment. According to Civil Service Commission reports, the uniform plan has had good financial ratings, and I see no reason why the major medical portion could not again be made available. It is argued that annuitants under the retired Federal employees health benefits program are also eligible for medicare coverage, but this is true only if they attained age 65 before January 1, 1968, along with retiring before July 1, 1960. Like everyone else, even if eligible for both portions, they must pay the current rate for the medical portion (part B) which is everincreasing in cost.

Mr. Chairman and members of the subcommittee, we are of the opinion that a reevaluation and liberalization of the so-called Federal

employees health benefits program affecting Federal retirees and their survivors is in order and we urge you, Mr. Chairman and members of your subcommittee, to recommend, after the enactment of H.R. 9620, that an indepth study be made of hospital and medical coverage, especially for Federal retirees and their survivors, and that legislation shall come forth especially adapted to the needs of older people.

PROTECTION NOT ADEQUATE

These elderly citizens simply do not have the benefit of adequate health and hospitalization protection, so vital to them in their later years. According to figures released by the Social Security Statistical Department, in fiscal year 1970, the average annual medical bill for a person 65 or older amounted to \$791, six times that for youth, and three times that of individuals in the 19-65 bracket. Compared with fiscal year 1969, the elderly's health bills increased by approximately 14 percent. Despite medicare and medicaid, the average aged person still has to pay \$226 in out-of-pocket expenses for his medical bills. For persons under 65, out-of-pocket expenditures averaged about \$100 per year, only two-fifths that for an aged individual. Older Americans represent about 10 percent of our total population, but account for 27 percent of the personal health care.

In order to obtain the best possible coverage for the civil service annuitants—those who retired before or after July 1, 1960—I should like to strongly urge that this subcommittee recommend that the retired employees health benefits program be abolished, and those presently covered by it be merged into the Federal employees health benefits program, which in turn should be liberalized with extended coverage and greater Government contribution, to more nearly meet today's complex and skyrocketing medical needs.

In 10 years many of the annuitants and survivors have passed to the great beyond and no additional employees or survivors have been added so, Mr. Chairman, this plan is surely being reduced by death each day and these people are 10 years older now than when the plan started so it is next to impossible to furnish this senior citizen group good medical and coverage.

We have been attentive to this subcommittee's recent hearings on the administration and coverage of the Federal employees health benefits program and should like to take this time to express to you our appreciation for your interest in this most important matter. It is NARFE's position that benefits should be extended to provide more care for preventive and maintenance medical services, such as dental care, hearing aids, eyeglasses, and the services of optometrists and chiropractors. We also think that more stress should be placed on coverage for convalescent care, and the services of practical and graduate nurses in the home, in an attempt to combat the spiraling cost of hospital room and board. We strongly advocate that the Government's contribution be increased from the present 40 percent to an eventual 100 percent of the premium cost.

Mr. Chairman, the Federal retiree often encounters another problem with the Federal employees health benefits program, which I should like to bring to your attention. Under the program, practically all enrollees are covered by a high option plan. If the enrollee also has

medicare coverage, but cannot obtain medicare coverage for his spouse because of age or other reasons, he must maintain the self and family high option coverage in order to protect the spouse. However, for his own coverage, medicare is the prime carrier, so in many circumstances the Federal employee plan is saving a great deal of money. This seems to me most unfair, and some conditions should be brought about to equalize this premium cost and the responsibility for paying claims.

We strongly believe that all annuitants and survivors from the Federal Government should be eligible for both parts A and B of medicare.

GREATER MEDICARE BENEFITTED

Our association is also working diligently through the House Ways and Means Committee to have medicare benefits extended to include prescription drugs out-of-hospital, chiropractor's services, eye care and glasses, hearing aids, dental care, et cetera. We are also putting forth our efforts to have the income tax laws amended to restore the provision allowing persons over age 65 to deduct all medical care expense. This one-time provision was deleted from the tax laws in 1967.

Mr. Chairman and members of the subcommittee, on behalf of our entire NARFE membership, our officers and employees at 1909 Que Street NW. express appreciation and thanks for these hearings and for my having the opportunity to appear and testify.

I also want to express our thanks and appreciation to the most courteous and efficient staff it has been our pleasure to work with. Mr. Tarr, Mr. Sparks and I shall be happy to attempt to answer any questions you, Mr. Chairman, or any member of the subcommittee or the staff may desire to ask.

SUMMARIZATION BY MR. WALTERS

Your bill, Mr. Chairman, H.R. 9620, and cosponsored by several of your colleagues, including Mr. Hogan and Mr. Hillis, and also the bill, H.R. 7807, that is before this committee this morning—but I am directing my attention primarily to H.R. 9620, which has for its main purpose the increase in the Government's contribution to the Federal health benefits program from approximately 40 percent of the total premium charges to approximately 75 percent of the total premium charges, in several steps.

Your bill provides for an additional increase of 5 percent in succeeding years to be paid by the Government until the Government's contribution reaches approximately 75 percent of the total premium.

We admit frankly and honestly that this is a step in the right direction, but we would strongly recommend that H.R. 9620 be amended so that the Government's contribution be increased from an average of 40 percent at the present time to 75 percent beginning January 1, 1972, and then increase in steps until it reaches 100 percent of the total premiums.

We strongly believe that under the present-day methods and contracts being signed by private industry, that the Government should assume at least 100 percent of the premiums of the health benefits coverage.

Now I would like to direct my attention primarily, Mr. Chairman, this morning, to the law that was passed that covered people who retired prior to July 1, 1960.

Now the first plan, of course, as you well know, that Congress adopted covered active employees and those retiring since July 1, 1960. But the one that was passed in the next year, Public Law 86-724, provided insurance coverage for those former employees who retired prior to July 1, 1960. Now this plan has never been very good from the standpoint of coverage.

The best plan that was available to these people was known as the basic plus major medical plan, which was handled by Aetna and some other insurance writers.

But shortly after July 1, 1961, they discontinued any enrollment in the major medical plan, even though, from what I can find out, they had very good results from that coverage.

Now we believe, and have insisted from time to time, that the Commission have this plan reopened, so that these people who are now under the basic uniform plan could also take the major medical and have some decent type of coverage.

Since the inception of the retired program, the Government's contribution has been increased to \$3.50 per individual, but by a stroke of the pen, the Civil Service Commission, under the law passed by this Congress, could increase that to \$4 a month. But so far they have refused to increase it to \$4 a month.

So I urge that this committee, if they cannot abolish this plan that covers those who retired prior to July 1, 1960—in fact I think that is what we ought to do, and merge it into this other plan. But through your wisdom, if you don't think you could do so, I do hope and trust that you will use your influence to persuade the Commission to have this major medical reopened and to increase this contribution to at least \$4 a month, which they can under the present law.

We also believe that sometime in the near future, this committee, through its very efficient staff, should make an in-depth study of all these plans, such as you have been endeavoring to do for the past several months. These elderly citizens simply do not have the benefit of adequate health and hospital protection so vital to them in later years.

According to the figures released by social security's statistical department, in fiscal year 1970, the average annual medical bill for persons 65 or older amounted to \$791, six times that for youth and three times that for individuals in the 19 to 65 bracket.

Compared with fiscal year 1969, the elderly health bills increased by approximately 14 percent; despite medicare and medicaid, the average aged person still had to pay \$226 in out-of-pocket expense for medical bills.

For persons under age 65, out-of-pocket expenses averaged about \$100 per year, only two-fifths that for an aged individual. Older Americans represent about 10 percent of our total population, but account for 27 percent of the personal health bills.

In 10 years, Mr. Chairman and members of the committee, many of the annuitants and survivors who were placed under the plan prior to

1960 have passed to the great beyond, and no additional employees or survivors have been added. So, Mr. Chairman and members of the committee, this plan is surely being reduced by death each day, and these people are 10 years older now than when the plan started, so it is next to impossible to furnish this senior citizen group good medical coverage. We hope that this will certainly be given serious consideration.

The Federal retiree often encounters another problem with the health benefits program, which I would like to bring to your attention.

Under the program, practically all enrollees are covered by high option plan. If the enrollee also has medicare coverage, but cannot obtain medicare coverage for his spouse because of age or other reasons, he must maintain the self-and-family high-option coverage in order to protect the spouse. However, for his own coverage, medicare is the prime carrier, so in many circumstances the Federal employee plan is saving a great deal of money.

This seems to me most unfair, and some conditions should be brought about to equalize this premium cost and the responsibility for paying claims.

Now, I have long felt and believed that medicare should be amended to include all annuitants and survivors, and I hope that this will be seriously considered, and if this is not in the jurisdiction of this committee, maybe you can make some recommendations to the House Ways and Means Committee.

Another point that has been previously touched here this morning that aggravates our people, and I think is most unfair, most of the annuitants are not furnished a copy or a synopsis of all the plans that they are eligible to enroll under. They have three plans that everybody can enroll under: Blue Cross-Blue Shield, Aetna, and the plan out of Kansas City, Mo. But for some reason or other, they never send the brochure of this plan from Kansas City to our people.

And, of course, if any of our retirees continue their membership in an employee organization like those that have plans, they would be eligible for their plans. But the only brochures that these people ever get to see are the Blue Cross-Blue Shield and Aetna plans.

So we think that is not fair to the retiree and not fair to the active employee either, in my opinion, as to that matter. And they have the same trouble.

When I was over at the Civil Service Commission, we got more complaints from all over the country of not being able to get any brochures except the two, than any other one thing, around open season.

So I hope you will use your good powers to nudge the Commission to make all this information available, not only to the active employees but to the retirees as well.

Mr. Chairman, since my complete statement has been made a part of the record, we will be happy to answer—try to answer any questions. We appreciate the privilege and opportunity of appearing before the committee, and congratulate you and your staff and members of your committee on what you are trying to do.

And I assure you that it will be our privilege and pleasure to cooperate as fully as we know how. Thank you, Mr. Chairman.

Mr. WALDIE. Thank you, Mr. Walters. Mr. Brasco?

Mr. BRASCO. I want to thank you for appearing this morning, Mr. Walters. Like the other group, you have been in the forefront in fighting for these benefits for Federal employees and retired employees, and as you know, the legislative process very often—fortunately or unfortunately, as the case may be—is one of a process of chipping away. We've got up to 40 percent. Hopefully, with this bill we will advance to 55 percent and then ultimately to 75 percent.

But interestingly enough, in connection with your statement about the 100 percent, there are some Labor Bureau statistics that indicate that many of the major industries—I think there were some 50 major industries surveyed, and this is by the Bureau of Labor Statistics—50 percent of them are giving to their employees in the private sector 100 percent toward the health plans that they are involved in, and I suspect the other 50 percent are doing a lot better than 40 percent that the Federal Government is now contributing.

But again, the legislative process being what it is, we certainly agree with that, and obviously are working toward that goal.

And with that, again I want to thank you for appearing here this morning. I don't have any questions. Mr. Chairman.

Mr. WALTERS. Mr. Brasco, in answer to your comments, I realize that, and I know it takes a long time. It took 10 years to pass any kind of health benefits law. And it was on the agenda every year, and most of the employee groups worked very diligently. But it's just one of those long processes, as you mentioned, even getting the basic plan passed.

And I might say for the record that one reason why we have two plans, for several months we, the employee representatives, held out to hold all the retirees under the main plan, but due to the cost and due to the Budget Bureau, we finally had to compromise. And I might add, Congress kept their word 100 percent. They said, we will go ahead and pass the bill this year for the active and those retiring from here on out, and next year we will pass a bill for the retirees.

They did that, but unfortunately, the bill that passed the next year didn't have as much "chicken in the pie" as the one that passed the year before.

And these poor old people are the people that I feel very sorry for. It's unbelievable to talk to them, and lots of these people are in their high 80's and low 90's and some up to a hundred. And they are under this plan that was for those who retired before 1960. So something surely ought to be done for these people. If not, it may be too late.

Mr. WALDIE. Thank you, Mr. Walters. Gentlemen, did you have some contribution you desired to make?

Mr. TARR. Just wanted to thank you, Mr. Chairman, for your very deep interest in the members of our organization and retirees, and to tell you we are glad to be here and to cooperate with the committee.

Mr. WALDIE. Have you all been identified for the record?

Mr. WALTERS. Yes. Mr. Sparks, before he came to Washington, was very active in the health benefits work locally, and he can tell you from actual experience something about these brochures, if you will give him about a minute.

Mr. WALDIE. Can you do it in about a minute, Mr. Sparks?

Mr. SPARKS. Yes, sir. I heard Mr. Ruddock's statement about the brochure being printed with the information on it. I would like to call to your special attention that you look at it very carefully and see how much notification is given in that brochure to employees that they can change plans.

Mr. WALDIE. I suspect very little.

Mr. SPARKS. Very little.

Mr. WALDIE. I appreciate that. Thank you.

Mr. WALTERS. Thank you.

Mr. WALDIE. The next witness is Mr. James D. Hill, executive director of the National Federation of Professional Organizations.

**STATEMENT OF JAMES D. HILL, EXECUTIVE DIRECTOR,
NATIONAL FEDERATION OF PROFESSIONAL ORGANIZATIONS**

Mr. HILL. George Bradley, executive director of OPEDA, is accompanying me.

Mr. Chairman, this testimony is presented on behalf of the National Federation of Professional Organizations, composed of the following Federal professional societies:

Air Traffic Control Association, Inc.

Airways Engineering Society

Association of Senior Engineers of the Naval Ship Systems Command

Federal Plan Quarantine Inspectors' National Association

National Association of Federal-State Employees

National Association of Federal Veterinarians

National Association of Government Engineers

National Society of Professional Engineers

Naval Civilian Administrators Association

Navy Field Safety Association

Organization of Professional Employees of the U.S. Department of Agriculture

Patent Office Professional Association

Society of Real Estate Appraisers

We wish to congratulate the committee for its attention to the important problem of the health insurance costs of Federal employees.

We have had considerable complaint from members during the last several years concerning the steadily increasing health insurance premiums. In the last 5 years the premiums have approximately doubled. The premium increases imposed by the carriers have far exceeded the increase in the Consumer Price Index. To take an example, the monthly cost of the low option coverage under the indemnity benefit plan, for an employee and family, since 1967 has been: 1967, \$13.52; 1968, \$15.60; 1969, \$19.70; 1970, \$23.70; 1971, \$27.74.

In this example the premium more than doubled in the last 5 years. While it is true that the Federal portion of the payment was increased, pursuant to Public Law 91-418, from an average of 24 percent to an average of 40 percent, the insurance carriers increased their premium rate at about the same time, so that the effect of the law was lost on the employee—he saw little or none of it. For example, the low option coverage under the indemnity benefit plan required the em-

ployee to pay \$14.82 of the premium in 1970, and \$13.87 of the premium in 1971. Mainly, the 1970 law which increased the Government portion of the premium payment did little except to relieve the employee of his share of the carrier's rate increase for the year 1970.

In 1962 the Congress enacted the Federal Salary Reform Act, providing that the salary of Federal employees shall be comparable with those in private industry. Obviously, the concept of comparability necessarily includes fringe benefits, as well as basic pay. It seems too obvious to require proof that fringe benefits are a part of total compensation. They are an integral part of the total compensation package. With respect to pay comparability of Federal employees, it has clearly been regarded from the beginning that comparability included not only basic pay, but fringe benefits as well. Following the enactment of the Federal Salary Reform Act of 1962 the Bureau of Labor Statistics commenced to collect data not only on the comparable basic wage rates in private industry, but also with respect to comparable fringe benefits in private industry, on the assumption that this was required by, and included in, the Federal Salary Reform Act. The Bureau's first survey was made in 1963, and in the preface to its report the Bureau said:

As the Nation's largest employer, the Federal Government has an obligation to develop and maintain a sound program for compensating its employees—a program which is equitable both to the employees and to the country's taxpayers. Moreover, policies adopted by the Federal Government may have a substantial impact on employment and compensation practices in private industry.

The Federal Salary Reform Act of 1962 is a landmark in the evolution of Federal pay practices. It declares that, as a matter of policy, 'Federal salary rates shall be comparable with private enterprise salary rates for the same levels of work.' To implement this declaration, the statute calls upon the President to have prepared 'annually a report which compares the rates of salary fixed by statute for Federal employees with the rates of salary paid for the same levels of work in private enterprise as determined on the basis of appropriate annual surveys conducted by the Bureau of Labor Statistics, . . .' Furthermore, the President is to report this comparison and his recommendations for revision of Federal practices annually to the Congress.

In keeping with this legislative mandate, the Bureau of Labor Statistics conducts annually a national survey of salary rates for a wide variety of professional, administrative, technical, and clerical jobs. Information is collected from a sample of establishments to provide representative data for much of the private industry sector of the economy.

It is recognized that basic salary normally is only part, although the major part, of total employee compensation. Particularly since World War II, a host of supplementary pay practices (commonly called fringe benefits) have become established as integral parts of the compensation package. Consequently, the Bureau of the Budget and the Civil Service Commission, which share responsibility for analyzing results of the BLS salary survey and for preparing the President's recommendations to the Congress on Federal pay, expressed a need for data on supplementary pay in private industry.

The Bureau of the Budget and the Civil Service Commission, therefore, requested BLS to conduct a study of supplementary compensation in private industry which could be analyzed in conjunction with the BLS salary survey.¹

In its 1963 report the Bureau found that private industry was devoting an amount equivalent to 1.6 percent of basic wages to hospital, surgical, and medical plans, while the Federal Government was devoting only 1 percent of basic salary for this benefit;² that industries

¹ "Supplementary Compensation for Non-Production Workers, 1963," BLS Bulletin No. 1470, December 1965, p. iii.

² *Ibid.* p. 91.

with noncontributory plans (paid wholly by management) paid 1.9 percent of basic salary, and that industries with contributory plans paid 1.4 percent of basic salary and the employee paid 0.9 percent.³ The Bureau said, ". . . about two-thirds of the employers with contributory arrangements paid over half the cost of hospitalization, surgical and medical plans. . . ." ⁴

A later BLS survey of industries in 85 metropolitan areas for 1966-67 showed that 94 percent of companies had hospitalization plans of which 64 percent were noncontributory; i.e., paid wholly by the employer, 93 percent had surgical plans, of which 63 percent were noncontributory, and that 78 percent had medical plans, of which 53 percent were noncontributory.⁵

Another survey of the Bureau of Labor Statistics, a study of employee compensation in private industry for 1966, found that for that year management paid an amount equivalent to 2.5 percent of basic wages for life, accident, and health insurance, but in the Federal Government the Government paid only an amount equivalent to 1.4 percent of basic wages for this purpose.⁶ The same survey showed the extent to which employers now pay the entire premium; 85 percent of office workers were covered by insurance plans of which 44 percent were contributed to by the employee, and 41 percent were noncontributory; as to nonoffice workers 76 percent had insurance plans, of which 31 percent were contributory and 45 percent were noncontributory.⁷

A later study by the Bureau of Labor Statistics, of benefits provided by private employers in 85 metropolitan areas for 1967-68 showed that 95 percent of employees were covered by hospitalization and surgical plans, and 54 percent by plans which were noncontributory, that is, paid wholly by the employer.⁸

A 1969 survey by the Bureau of Labor Statistics of health and insurance plans in 50 large companies disclosed that 26 paid the entire cost of health insurance premiums, 22 were contributory by employees, and in two some classes of employees contributed and other did not.⁹

Also, a 1966 survey of the Bureau of Labor Statistics of 100 of the larger private industry health insurance plans showed that in only 19 did the employee contribute a part of the premium for his own health insurance—in a slightly larger number, the employee paid for a portion of the premium for dependents.¹⁰

To summarize, health insurance is a fringe benefit of the Federal employee which the Congress intended to be comparable with that of employees in private industry. But the Federal Government has increasingly lagged behind. The initial governmental intention of a 50-percent participation, which was not realized, lagged behind the then existing median for private industry, as of that time more than two-

³ Ibid. pp. 27-28.

⁴ "Supplementary Compensation for Non-Production Workers, 1963," BLS Bulletin No. 1470, December 1965, p. iii.

⁵ "Wages and Related Benefits, 1966-67," BLS Bulletin 1530-87, p. 100.

⁶ "Employee Compensation in the Private Non-Farm Economy, 1966," BLS Bulletin No. 1627, June 1969, p. 42.

⁷ Ibid. p. 35.

⁸ "Wages and Related Benefits in 85 Metropolitan Areas, 1967-68," BLS Bulletin No. 1575-87, pp. 66-68.

⁹ "Digest of 50 Health and Insurance Plans for Salaried Employees, 1969," BLS Bulletin No. 1629 (1969).

¹⁰ "100 Selected Health and Insurance Plans Under Collective Bargaining, Early 1966," BLS Bulletin No. 1502.

thirds of private employers paid more than one-half of the premium cost. The present 40-percent payment provided by Public Law 91-418 increases the lag, for today the private sector median is total employer financing. And in those plans in which the employee contributes, the employer pays more than half. Thus, it is plain that the present arrangement, in which the Government pays 40 percent of the cost, is not "comparability," and fails to keep the promise to employees contained in the Salary Reform Act.

We understand that the Civil Service Commission's objection to increased Federal financing is simply one of cost. A year ago, the Commission objected to a proposal for 100 percent employer financing on the ground that it would cost an additional \$768 million per year, or a total of approximately \$1 billion. We have no reason to doubt the accuracy of this statistic, but we suggest that it is irrelevant, so long as Federal law requires comparability. We are experiencing an era of inflation. Federal pay comparability will undoubtedly continue to cost additional moneys annually. This fact is probably involved in most congressional legislation, as it requires the expenditure of money, but the Congress cannot abdicate its responsibility to legislate because of it. The Government must pay the price of inflation just as each individual employee must do so. We might point out that inflation also adds to Government income tax revenues, not just to Government expenditures.

We would like to invite the committee's attention to one additional change which we feel should be made in the law. At present, an employee may elect coverage for himself only, or for himself and family. Some of our members have suggested the addition of an intermediate classification of "employee and spouse," which would entail a larger premium than employee only, but less than employee and family. This classification would be more fair and equitable to older employees, whose children have grown and gone, than the classification of employee and family. We commend this amendment to the committee's consideration.

SUMMARIZATION

I think that what I have to say is what every other witness has to say, and what the subcommittee knows anyway, which is, first, that the Salary Reform Act of 1962 was intended to provide comparability to Federal employees.

Second, that pay supplements or fringe benefits are a part of total compensation.

Third, that the Congress intended that comparability extend to fringe benefits, as well as basic straight time pay.

And fourth, that Federal employees haven't received it, especially as to the fringe benefit of health insurance premiums.

Several pages of my prepared statement are devoted to showing, from statistical research, how far the Federal Government lags behind the practice in private industry. But that really isn't necessary now, as the statistical appendix to Mr. Ruddock's statement concedes this. As a matter of fact, if you examine that page, you will see that the one single fringe benefit as to which the Federal practice lags

farthest behind the practice in private industry is the fringe benefit of employer contribution to health and life insurance premiums.

Excluding the last column in the exhibit attached to Mr. Ruddock's statement, which is an attempt to compare industry practice in 1968 with the Federal practice in 1971, and if you take the two comparable columns for 1968, you see that the Federal Government share of premium payment was less than half of the private sector average.

Now as I understand it, even back in 1962—or 1959—when the Federal Government intended to contribute 50 percent—and it only turned out to be 38 percent—that wasn't comparability even then, because even at that time, according to the Bureau of Labor Statistics, two-thirds of private employers' paid more than 50 percent.

Today, when the Government is paying 40 percent, we are lagging even farther behind, because today the median in private industry is for the employer to pay all of it; the plan is noncontributory by the employee.

Now, I don't claim that the Federal Government ought to take the lead and be the first as to any fringe benefit, but neither should it be permitted to be the last. The Government not be permitted to take the position that it will not adopt a fringe benefit until 100 percent of all private employers have done so. At least, I think the Federal Government should match the median, and the median practice in health insurance, in the private sector today, is for total employer financing.

So, Mr. Chairman, your bill which proposes a 75 percent eventual contribution is, I think modest indeed. Even that would not achieve comparability.

We are very indebted to you for sponsoring these measures, and these hearings, and personally I am very indebted to you for that very illuminating conversation with Mr. Ruddock. I learned a lot I didn't know before, and I think many people in the room did.

Thank you very much.

Mr. WALDIE. I want to make another comment on the administration's position with relationship to the premium increases. The administration acted forthrightly and courageously from their point of view in denying the cost-of-living increase to Federal employees which was due in January 1972.

They had an equal right and obligation, it seems to me, to act with equal forthrightness and courage to deny the premium increase sought by the insurance carriers.

If they were not going to give a cost-of-living increase to the employees, it does not seem to me they should have even considered increasing the cost to the employee for the fringe benefits that he has been receiving.

And, yet, it's quite apparent they are not only considering it, but they are in fact going to grant a substantial, if not enormous, increase, the amount of which is unknown, but it is clearly going to be more than 17 percent, which was granted last year to cover a \$12 million deficit, when they are confronted by a \$75 million deficit this year.

It will be startling to me if it is less than 40 percent in the amount of the increase in the premium. And it does seem to me, if our Federal employee is going to be confronted with a 40-percent increase in his

contribution to health benefits, he ought to at least have a cost-of-living increase in terms of a January 1972 wage increase.

This is a great inconsistency that has never been explained by the administration.

Mr. HILL. This was not brought out in the wage increase hearings last week, was it? It just came out today?

Mr. WALDIE. What was not?

Mr. HILL. That the Government intended to exempt the insurance carriers, so to speak, from the freeze, and grant them a premium increase.

Mr. WALDIE. No; it was not. It was brought to my attention only this morning.

Mr. HILL. Very significant.

Mr. WALDIE. It's a great inconsistency, that the Government is going to move very firmly and bravely against the Falcons for increasing the season tickets, but they are going to permit the health insurance industry of America to continue increasing their premiums.

Mr. HILL. Yes, sir; and also recoup last year's losses in addition.

Mr. WALDIE. Yes, last year's losses were only 10 percent of the \$75 million—only 10 percent of the \$75 million is represented by last year. Ninety percent is represented by this year.

Mr. HILL. Well, I say again, it was a very illuminating discussion.

Mr. WALDIE. Mr. Brasco?

Mr. BRASCO. No questions, other than to thank the gentlemen for appearing this morning.

Mr. WALDIE. Thank you very much.

Mr. HILL. Thank you, Mr. Chairman.

Mr. WALDIE. Our next witness is Mr. Dan Jaspan, legislative representative, National Association of Postal Supervisors.

STATEMENT OF DAN JASPAN, LEGISLATIVE REPRESENTATIVE, NATIONAL ASSOCIATION OF POSTAL SUPERVISORS

Mr. JASPAN. Mr. Chairman and members of the Subcommittee on Retirement, Insurance, and Health Benefits, my name is Daniel Jaspan. I am the legislative representative of the National Association of Postal Supervisors, composed of more than 35,000 postal supervisors, with members in all 50 States and in post offices, branches, stations, motor vehicle facilities, maintenance units, air mail facilities, and mobile units.

We appreciate the opportunity of appearing before this committee to present our views on H.R. 9620. Although this bill is a major step in the right direction, its enactment would leave postal and other Federal employees far behind their counterparts in industry. When we testified on bills to provide a health benefit program for Government employees in 1959, we quoted figures released by the U.S. Chamber of Commerce which even then showed that the Government was behind private industry in providing fringe benefits. Banks, finance and trust companies spent 31.7 percent of their payroll for fringe benefits; petroleum industry 27.3 percent; insurance companies 26.7 percent; miscellaneous non-manufacturing (including coal mining, warehousing, and laundries) 25.5 percent; chemicals and allied prod-

ucts 24 percent; public utilities 23.5 percent. Undoubtedly, most, if not all of these contributions have increased in the intervening years.

More and more industries have been paying the full cost of health insurance, with the employees contributing nothing, either for themselves or for their dependents.

The cost of medical care and hospitalization is increasing much more rapidly than salaries and the general cost of living. There are indications that there will be additional increases in the premiums for health insurance next January.

When the health benefits program was being considered, there seemed to be a general consensus that the cost should be spread 50-50 between the employees and the Government. However, upon enactment the law provided that the equal sharing would apply only to low-option insurance. The great majority of employees opted for high option in order to be certain of enough coverage in case of major expenses. The original plan for 50-50 sharing was immediately changed to approximately 62-38 with the Government paying the minor share. Premiums increased rapidly from the very beginning and since the law provided a dollar ceiling instead of a percentage amount, the Government percentage rapidly decreased.

The enactment of the law providing that the Government assume 40 percent of the cost was most helpful. However, more help is needed by the employee because of the rapidly rising costs of health insurance. H.R. 9620 would eventually increase the Government's share to slightly more than was felt necessary 12 years ago. We hope that this bill will be enacted this year and that the Government's share will continue to increase until eventually the Government assumes 100 percent of the cost as is happening in more and more industries each year.

We would like to see this committee pursue further the possibility of better bargaining with the insurance carriers in order to keep down the costs. This was well explored by the committee earlier this year, and we hope that it will be possible to put the brakes on the ever-rising costs.

One avenue to be explored is the addition of dental care without increasing the premium. A dental care program covering most basic dental services, negotiated between the Northwest International Association of Machinists Benefit Trust and the National Association of Dental Service Plans, is now in its third year. IAM members and their dependents are covered up to \$750 per year per individual. There was a time when dental coverage was prohibitive but, since more and more such plans are being negotiated, we believe that with more than 2 million Federal employees covered, contracts could be negotiated at low cost if applied to all plans.

We also believe that the committee should explore the possibility of better coordination between medicare and our health benefits plan. Retirees must continue to pay the full premium beyond the age when employees in private industry are given free medical hospital coverage under social security. This is a rather severe penalty on Federal employees who have paid premiums on life insurance for many years and must continue to pay the increasingly higher premiums each year when their income is at its lowest. We suggest that the committee consider one of the two plans: either provide free medicare "A" for all Federal employees who reach 65, or permit continued coverage under

the health insurance plan carried by the employee without any further costs after retirement.

With the tremendous increases facing us—in addition to the many increases already made in health insurance premiums—it is of the utmost importance that legislation be enacted as quickly as possible to grant Federal employees and retirees immediate relief. It is becoming more and more difficult for Federal employees and retirees to continue this important coverage.

We would also like to see the committee explore another angle—eliminating the many competing plans and having just two nationwide plans: (1) service type, and (2) indemnity type insurance. We believe that this will lead to better coverage at a lower cost. Resolutions have been passed at many of our conventions with this objective in mind.

We mentioned earlier that we would like to have legislation providing for free medicare "A" for Federal employees who reach age 65, or the elimination of health insurance premiums for Federal employees who retire. Until this is accomplished, we respectfully request that this subcommittee take some action to reduce the cost immediately of health benefits insurance for those Federal employees who are entitled to medicare. Even though the charges are prorated and only the supplemental charged are paid by the health insurance plans, the employee still must pay the full premium for health benefits. We can see no reason for this and believe that the Congress should take immediate action to have the various carriers reduce the premium for those employees thus adversely affected.

This subcommittee has always lent a collective sympathetic ear to our pleas for relief and we hope that it and the full committee will act quickly so that this most-needed legislation can be enacted this year.

SUMMARIZATION

We appreciate your interest and continued interest of the committee in fringe benefits for all Federal employees. We know that you have our interest at heart and will do as much as possible for us.

We testified on the health insurance program back in 1959. At that time we had figures released by the U.S. Chamber of Commerce showing that banks and finance and trust companies spent 30.7 percent of their payroll in fringe benefits; petroleum industry, 27.3 percent; insurance companies 28.7 percent, and so forth.

So many companies in 1959 were way above the fringe benefits area of the Government today.

The chart Mr. Ruddock presented on fringe benefits in Government is interesting, Mr. Chairman. In the chart presented by Mr. Ruddock, under pay and leave time, they have an item, "civic and personal leave, five tenths of a percent." I have been in the Postal Service for more than 40 years, and never have seen anybody who had civic and personal leave. All the leave we get is charged up to annual or sick leave.

So I wonder whether they needed an extra five-tenths of 1 percent and added it to the chart to bring it up to a better total than private industry. That can be done.

One of the things that we are interested in, Mr. Chairman, is trying to have dental care added to health benefit programs. The Association of Machinists has a contract, in its third year now, for their members

and dependents, which covers them up to \$750 per year per individual for dental care.

We believe this should be explored further. And also, we would like to see the committee look into some kind of better coordination between medicare and our own health plan. Retirees must continue to pay the full premium beyond the age when employees in private industry are given free medical coverage under social security. This is a severe penalty on Federal employees who have paid premiums on life insurance for many years and must continue to pay the increasingly higher premiums each year when their income is at its lowest.

We suggest the committee consider one of two plans: either provide free medicare "A" for all Federal employees who reach 65, or permit continued coverage under the health insurance plan carried by the employee without any further costs after retirement.

I think this is a good time also, Mr. Chairman, since the nationwide plan is running such a big deficit, to explore the possibility we have suggested every time we appear before the committee, based on our convention resolutions, that there be one Government-sponsored nationwide plan, similar to the life insurance plan.

Under that plan, the life insurance costs are kept way down, and we firmly believe the health benefits plan could be reduced by one nationwide Government plan.

As you know, employee organization plans were used to get membership for many of the organizations, and now with the amalgamation, maybe they wouldn't be as much opposed to it, since they don't need it as a membership gimmick.

Another thing, earlier in the testimony we mentioned we would like to have legislation providing for free medicare "A" for Federal employees who reached age 65, or the elimination of health insurance premiums for Federal employees who retire.

Until this is accomplished, we respectfully request that this subcommittee take some action to reduce the cost immediately of health benefits insurance for those Federal employees who are entitled to medicare. Even though the charges are prorated and only the supplemental charges are paid by the health insurance plans, the employee still must pay the full premium for health benefits.

We can see no reason for this, and believe that the Congress should take immediate action to have the various carriers reduce the premium for those employees thus adversely affected.

One more item, as Mr. Nilan pointed out, Mr. Chairman, we would like to see some provision in any legislation passed that it would apply to Postal Service employees. As we are now, it would not be automatic unless it is spelled out, although we believe it would be applied, but the only way to be sure is to have it spelled out.

I appreciate the opportunity of appearing before the committee and presenting our views on this important legislation.

Mr. WALDIE. Thank you, Mr. Jaspan. Mr. Brasco?

Mr. BRASCO. I just want to thank Mr. Jaspan for appearing here this morning. I have no questions.

Mr. WALDIE. Thank you very much.

Our next witness will be Mr. James H. Rademacher, president of the National Association of Letter Carriers.

Mr. RADEMACHER. With me is Mr. Austin B. Carlson, director of our health insurance plan, John H. Swanson, assistant director of the plan, and J. Stanly Lewis, vice president.

**STATEMENT OF JAMES H. RADEMACHER, PRESIDENT,
NATIONAL ASSOCIATION OF LETTER CARRIERS**

Mr. RADEMACHER. At the outset, Mr. Chairman, we are very pleased to see you back in the saddle again.

Mr. WALDIE. I am glad to be back.

Mr. RADEMACHER. Mr. Chairman and members of the subcommittee, my name is James H. Rademacher. I am president of the National Association of Letter Carriers, with offices at 100 Indiana Avenue NW., Washington, D.C. 20001.

With me today is Austin B. Carlson, director of our health insurance plan. Joining us is John H. Swanson, assistant director of the plan.

Our organization welcomes this opportunity to discuss the operation of Public Law 86-382—Federal Employees' Health Benefits Act of 1959—and, specifically, the participation of the NALC as an underwriter under the program.

Our organization has been in the insurance field for 80 years. Shortly after our founding in 1889, we were chartered as a fraternal life insurance underwriter by the State of Tennessee. In 1905, we established a loss of pay insurance feature, since letter carriers in those days received neither sick leave nor vacation pay. In 1950, we established our own hospitalization and surgical plan, because many of our members, particularly those located in smaller offices, could not muster sufficient numbers to qualify for group enrollment in a commercial program.

With the enactment in 1959 of Public Law 86-382, we became a charter underwriter when the program became effective on July 1, 1960.

Our current enrollment is slightly in excess of 140,000 employees and annuitants. Including their dependents, we estimate our total covered population at about 550,000 persons.

For at least a decade prior to the passage of Public Law 86-382 in 1959, our organization was part of a team effort to bring about a Federal health insurance program for Government workers. In that joint effort were members of the Congress, the executive branch and representatives of the insurance industry and labor. This speaker has always had a personal interest in the program, because it was my privilege to have served on our NALC hospitalization committee which labored long and hard to bring about the program as we know it today.

I well recall the enthusiasm with which the NALC hailed the passage of Public Law 86-382. We described it as "a milestone in the history of intelligent human engineering in the Federal establishment." Our membership ranked its enactment on equal terms with the 1916 compensation for injury law, and the basic retirement law that came 4 years later.

But I must confess that some of the bloom of that initial enthusiasm has faded over the years with respect to one particular aspect of the

overall program. We continue to regard the program as an excellent fringe benefit. We think it is extremely well-managed and that without it the average Federal worker simply could not cope with current high medical costs. Our disenchantment is almost exclusively with the failure of the Government to maintain a fair formula for sharing of premiums.

Prior to the September 25, 1970, amendment that established the current 40/60 percent division of total cost—effective January 1, 1971—only once in the previous decade was the formula adjusted. That was in 1966.

The lop-sided apportionment of costs that has prevailed since 1960 is not what the 86th Congress had in mind in approving the act. The printed report accompanying the bill at enactment included the following:

The Committee recognized that the maximum amounts indicated could not remain unchanged over a long period of years, any more than the cost-of-living has remained frozen. Medical care costs will undoubtedly fluctuate at least as widely as other items of living costs. The Committee believes that the Congress will continue to be responsible to the needs of the employees and will appropriately act to keep the proposed program in consonance with future developments.

That report was correct in one respect, but far amiss on a second point.

Medical care costs most certainly have gone up during the past 10 years. They have not only matched the increases in all other items; they have outrun them by a great margin.

From 1960 through 1969, the Bureau of Labor Statistics reports that the Consumer Price Index for all items in the index budget increased slightly less than 25 percent. During that same period, the cost of all medical care items increased by 52 percent. Contributing factors to that startling figure include a 55-percent increase in physicians' fees and a 155 percent rise in hospital daily charges. Only charges for prescription drugs remained relatively stable during the same period.

If the 86th Congress correctly predicted an increase in medical care costs as time went on, it almost drew a blank with the suggestion that subsequent Congresses would "keep the proposed program in consonance with future developments."

As indicated earlier, Government's share has been adjusted just twice in the past 11 years—once in 1966 and again in 1971. For our own family plan, high option—in which about 85 percent of our members are enrolled—the Government now pays 44.6 percent of the total premium; the subscriber pays the remaining 55.4 percent. In 1960, the letter carrier paid 64.3 percent of the total cost, which means that during the past 11 years the Government's share has increased only 9 percent. During the same period, the total premium has gone from \$8.74 biweekly to \$19.38, which represents an increase of 121.7 percent.

This not only suggests that the employee over the years has paid almost 100 percent for rises in medical cost but has also paid for every new or improved benefit in his plan. It also means he will continue to do so unless his employer faces up to its responsibility.

Spokesmen for the executive branch tell us that Government, like private employers, should consider the cost of health insurance in conjunction with pay and with its contributions to other fringe benefits, such as sick leave and vacation leave, life insurance, and retirement.

We have no disagreement with that philosophy. But the inference is that Government is now paying substantially more for so-called fringe benefits than private industry. Those are not the facts of the matter. The fact of the matter is that Government is currently paying just about the same as private industry—in the neighborhood of 24 to 25 percent of payroll. We see nothing wrong with the Government being a leader in this particular area. It can be if it tries harder.

Nor does it seem as if the end of increasing costs is in sight.

A few months ago, the Civil Service Commission released a very disturbing report. It was prepared by one of the nation's top actuarial consulting firms, Milliman & Robertson, Inc., of Seattle, Wash. It was submitted to the Commission January 24, 1969, but was not made generally public until recently.

The report predicts Federal employees' health insurance premiums will increase between 10 percent and 35 percent every 2 years between now and 1976, probably averaging between 20 percent and 25 percent.

These predictions are based largely on anticipated higher payments for doctors' services, higher hospital charges, the use of more expensive equipment and greater administrative costs.

Using Blue Cross-Blue Shield as an example, the report estimated that by 1975 annual premiums will climb to over \$800 from the present \$460, even with no improvements in benefits.

This projection is based on increases—from the \$423 premium in 1969 when the study was made—of 28.1 percent in the 2 years through 1971, another 21.1 percent in the next 2 years, and another 21.2 percent in the following 2 years.

Should there be a mere 5-percent improvement in benefits in 1971, 1973 and 1975, the annual premium would increase to over \$900.

Unless the Government's contribution toward premium is substantially increased, I wonder how many of the present 2 million plus employees insured under Public Law 86-382—plus their 6 million dependents—will be able to afford health insurance 2, 3, or 5 years hence.

Frankly, I think most plans operating under Public Law 86-382 offer the insured reasonably adequate benefits for the premium dollar asked. By that, I also mean to say that a fair return in benefits is made for the premium charged. I would not say that our plan is richer in benefits than the average commercial plan. Nor can I testify that our benefit schedule fails to measure up to the average commercial plan, except perhaps in one or two areas. These would include preventive medicine, that is, regular physical checkups and, possibly, better dental care. We would like to add these refinements to our benefit schedule, as we would also like to enlarge some of the benefits now payable—mental care, for example. However, I see no way to reach out for those goals, much less attain them, unless the Government does at least its fair share.

The point one must constantly keep in mind in talking about insurance benefits is that the patient almost invariably has a balance he must personally meet after insurance reimbursement. Many people have the idea that a health insurance plan "pretty much takes care of" the problem of medical expenses.

Perhaps there is available a cradle-to-grave type of coverage that pays all expenses at 100 percent of the incurred cost. However, I am

reasonably certain that, if such coverage does exist, the average letter carrier could not possibly buy it on his present postal wages.

Actually, the proportion of costs covered by health insurance has increased very slowly over the past 10 years. A recent Department of HEW statistic indicates only a 8.7 percent increase in consumer health expenditures being met by health insurance in 1968 over 1958.

During practically the same period, the average citizen paid nearly twice as much for his uninsured health care expenses—\$128 in 1960 compared with \$238 in 1968.

This says, in effect, that premium costs have increased between 1960 and 1968 without any significant increase in benefits; and the indication is also that people were additionally required to almost double the amount of out-of-pocket cash they spent on medical care not reimbursed by insurance. I think these national figures apply with equal validity to employees insured by Federal Government plans.

In 1967, the Health Insurance Association of America conducted a study of the relationship between the charges incurred by insured persons for health care expenses and the benefits provided to such persons by their group health insurance policies. The survey included 58 insurance companies which write 70 percent of all group policies. The sampling amounted to more than 40,000 claims.

The results of this study were recently published in the "1969 Source Book of Health Insurance Data."

The study revealed that group medical care insurance reimburses 80 percent of all expenses covered by insurance. Basic coverage only paid 79 percent of covered expenses reimbursed. For comprehensive major medical plans, the proportion was also 79 percent. It was 83 percent for persons covered by a combination of basic plan with supplementary major medical.

Covered hospital expenses were reimbursed 86 percent, including 83 percent of room-and-board charges and 89 percent of ancillary hospital expenses.

These figures reflect almost precisely our own claims experience. For example, we are paying 83 percent of room-and-board costs, plus 88 percent of hospital miscellaneous charges. Total covered hospital expenses are reimbursed at 86 percent.

Overall, we are paying a fraction under 82 percent of all covered expenses—surgery, X-ray, and so forth.

This means, of course, a personal responsibility by our insured of about 18 percent over and above insurance benefits for covered expenses, plus 100-percent personal expenses for charges not covered by insurance.

Perhaps a second valid question would ask how efficiently plans are operated under Public Law 86-382. Obviously, I can speak only for our own plan.

I have no hesitancy in saying that, in my opinion, we operate our plan conservatively with respect to overhead, and liberally with respect to the amount of each premium dollar we return in the form of benefits. Our administrative overhead is about 4 percent of earned premium income. Slightly more than 1 percent is placed in reserve. Better than 94 percent of every premium dollar is returned to the subscriber in the form of benefits. I hasten to add one further comment with respect to the last statistic. It does not mean we pay 94 percent

of every claim considered by the plan; I wish we could. I wish we could pay 100 percent of every incurred expense. The 94 percent represents the amount of the premium dollar paid to us that is sent back to the insured in reimbursement of his expenses. As stated a moment ago, the ratio between charges incurred and insurance reimbursement is 82 percent versus 18 percent.

On the basis of our own experience, I do not see any likelihood of belt tightening in the day-to-day underwriting of our plan. If we are going to move along with the advances in medical care, with each improvement adding higher premium costs, the answer must come from a more equitable sharing of premiums on the part of Government.

MEDICARE FOR RETIREES

Mr. Chairman, I should like to comment very briefly on one other concern we have with the present Federal employees' health plan.

Unless steps are taken to determine who is going to insure the retired Federal employee, and how his insurance is going to be financed, it is a reasonable prediction that (1) Federal annuitants are soon going to be priced out of the health insurance market, or (2) Public Law 86-382, as we know it, will cease to exist.

As you are aware, Mr. Chairman, retirees pay the same premium and receive precisely the same benefits as active employees. There are two things wrong with that kind of setup. In the first place, the Federal retiree can ill afford a monthly premium ranging from \$23 to \$35 and up for practically the same insurance protection the average citizen at age 65 gets under medicare for \$5.60 per month.

Second, if plans under Public Law 86-382 are to continue to pay the same benefits to the elderly population within the Federal family for the same premium charged younger men in the active work force, you are figuratively banging your head against an actuarial wall. It simply cannot be done over a long period of time, without bankrupting the plan. The only alternatives are to establish an actuarially sound premium for older subscribers, or establish a separate benefit schedule. To do the first, I fear, will simply price the average annuitant out of the insurance market. The second is manifestly unfair. We are opposed to both alternatives.

As an example of what all plans are faced with, the average hospital confinement of an older person is about three times the duration of the younger person—2.7 percent longer to be exact. The premium is the same for both. This is not surprising, since we all require more medical care as we advance in years.

As a matter of fact, back in 1965, the actuarial consulting firm previously referred to in my testimony—Milliman & Robertson, Inc.—was engaged by the Civil Service Commission to conduct a study of the experience and rates of six selected plans under Public Law 86-382. Our plan was one of those selected for study.

One of the findings was concerned with the future financial stability of the entire program if it continued to insure annuitants and their dependents for the same premium rates as charged active employees.

The study found that in 1964 annuitants represented 7.5 percent of the combined number of employees and annuitants insured under the act. It was estimated that by 1970 this figure would increase to 16.7

percent. Insofar as our own enrollment figures are concerned, this 1964 estimate has proved to be reasonably accurate. As of December 31, 1969, annuitants represented 13 percent of our total enrollment of 134,500 employees and annuitants.

The 1964 survey also reported:

Claim frequencies are distinctly higher for annuitants than for employees, and apparently the same is true for dependents of annuitants when compared to dependents of employees.

It was also suggested that claim frequencies for annuitants and dependents were increasing at a faster rate than the corresponding claim frequencies for employees and their dependents.

It was estimated that by June 30, 1970, the proportion of total benefits paid to annuitants and their dependents would be 26 percent. That estimate has proved to be somewhat higher than our actual experience. About 15 percent of our total benefits are being paid to annuitants and their dependents.

However, I believe that the 1964 estimate has been influenced by the subsequent enactment in 1966 of medicare. Under present regulations, a patient insured by both medicare and a Public Law 86-382 plan has his covered expenses reimbursed first by medicare; the Public Law 86-382 plan then computes and pays its benefits. We estimate that, in the absence of medicare benefits, our percentage of total benefits paid to annuitants and dependents would probably be 4 percent to 5 percent greater than the 15 percent figure cited above.

We suggest as a possible solution that transfer of Federal annuitants, at age 65, to protection under part A of medicare. Perhaps some type of supplementary insurance policy would be required to take up the slack between present coverage and medicare coverage, but that should present no great obstacle. I would, of course, include spouses under this suggestion.

Federal annuitants (and spouses) at age 65 are now eligible to apply for and receive the benefits of part B of medicare. Thus, all we are treating with in this suggestion is part A of medicare.

When medicare was enacted in 1965, a special provision allowed Federal employees who had retired prior to July 1, 1960, to be blanketed in under part A of medicare, even though their Federal employment excluded them from social security coverage and benefits thereof. But the estimated 200,000 persons retiring subsequent to July 1, 1960, had no eligibility for part A, at age 65, unless they also had social security credits. What I am referring to, then, is this post-1960 group of Federal annuitants without social security credits.

This is the annuitant and spouse group that is paying from \$23 to \$35 and more per month for practically the same coverage a man and wife under medicare is getting for \$11.20 per month—\$5.60 being the per person monthly cost of part B; part A is without premium cost to the beneficiary.

This is not a new or original idea. As a matter of fact, two agencies of Government have explored the idea—the Civil Service Commission being one and the Department of Health, Education, and Welfare the other. The last agency included the results of a study reported on January 19, 1969, to the House Ways and Means Committee and to the Senate Committee on Finance. Insofar as I know, no action by either committee has occurred beyond receiving the HEW report.

It might be helpful to everyone seriously concerned about the future of Federal annuitants, as well as Public Law 86-382, if the committee would request the appropriate agency or agencies in Government to comment on the long-range effect of continuing the present program as it is. I am firmly convinced that our retired people cannot much longer hope to pay the premium that will be required of them. By the same reasoning, I have no trouble in seeing all plans under Public Law 86-382 in serious financial trouble in the not too distant future, if the present benefit and premium structure applies to all subscribers, regardless of age.

Mr. WALDIE. Does the National Association of Letter Carriers have a plan for its members?

Mr. RADEMACHER. We do.

Mr. WALDIE. One of the largest of all the carriers involved. Are you in a position to tell me whether you incurred a deficit in the operation of your plan last year?

Mr. RADEMACHER. The Director, Mr. Carlson, will answer.

Mr. CARLSON. Mr. Chairman, we experienced an underwriting loss of approximately \$5 million last year.

Mr. WALDIE. \$5 million?

Mr. CARLSON. That's correct, sir.

Mr. WALDIE. Can you tell me, have you requested an increase in your premium rate this year?

Mr. CARLSON. Very definitely. We did request an increase in our premium rate this year, for 1972, just as we asked for a substantial increase a year ago for 1971.

Mr. WALDIE. Tell me first what the percentage you requested this year was.

Mr. CARLSON. I am fully aware of the answers that were given to you this morning, by Mr. Ruddock, but I have no hesitancy in telling you that I asked for a 30-percent increase in our 1972 premium.

A year ago I asked for a 40-percent increase, and only received 32. The reason being that for 3 years there were no increase in our premium. We could see there would be another underwriting loss, so this year we asked for 30 percent. We didn't get it. I think it's going to be somewhere in the vicinity of 22 percent, based on the fact that we did have an underwriting loss in 1970. But we don't know what they will allow.

Mr. WALDIE. I deeply appreciate your frankness. Do you have a risk charge?

Mr. CARLSON. No, sir; we do not have a risk charge. We are a non-profit, self-underwritten employee organization. We have no stockholders; therefore, no necessity for dividends.

Mr. WALDIE. Why don't you ask for a risk charge? Apparently they grant them very handily around here. It's a profit.

Mr. CARLSON. It would require an increase in the premium, and they haven't granted us the increase we have asked for.

Mr. WALDIE. I understand the Civil Service Commission will pay 40 percent of the premium anyway. You never asked for the 1 percent?

Mr. CARLSON. No, sir.

Mr. WALDIE. You don't think you need it to operate?

Mr. CARLSON. If we had sufficient premium, there would be no need for any other revenue.

Mr. WALDIE. What's the difference between your operation and Blue Cross-Blue Shield in terms of their need for a profit?

Mr. CARLSON. Well, as I stated earlier, we are self-insured, as a nonprofit employee organization.

Mr. WALDIE. What are they?

Mr. CARLSON. Well, they do have a risk charge. Perhaps because they discount hospital bills, they feel a risk charge is necessary for their operation.

SUMMARIZATION

Mr. RADEMACHER. I would like to emphasize a couple of points here. One is the place our organization on the record in favor of everything that is progressive. We have a number of bills that have been introduced on the subject of health insurance. We are not opposed to any. We support any proposals that are going to improve the conditions of our people.

But being consistent with our position in postal negotiations, we are trying to secure a 100-percent contribution by our employer. And we feel that the fact that a hundred percent payment is being made today by many employers is justification for our demand, not just the fact that we happen to be postal workers.

And I want to quote, if I might, from the most recent publication of the department of industrial relations in California, which says, on August 2, 1971, that the average monthly employer payments to California's union-management health and welfare funds rose to an estimated \$46.05 per employee the latter half of 1970. This was higher by 50 percent than the comparable average in the spring of 1968.

I would also like to read one paragraph. These statistics were compiled from collective bargaining agreements on file with the California Division of Labor Statistics and Research. I want to emphasize and underscore this statement, that 98 percent of the million and a half persons working under 1,688 union contracts have health care plans, and for 88 percent of the workers covered by these plans, the employer paid the full cost of coverage for the employee and his dependents, or for the employee alone.

Ten percent of the employees had to contribute to the cost of their own coverage. For the remaining 2 percent of the workers, the financing arrangement was not specified.

Now Representative Brasco, a long time supporter of the Federal and postal employee, asked a question concerning coverage nationwide, and I would like for the record to briefly state that, according to the BLS statistics of November 1969, the most recent statistics, 20 of the 50 plans examined pay a hundred percent of the cost; eight pay a hundred percent of basic coverage and a percentage of major medical; and six pay a hundred percent of all coverage on employees and a percentage only on dependents; and 16 pay a percentage of both basic and major medical for both employee and dependents.

I cite those statistics as evidence of what is happening in the private sector, and what we would like to have happen to us.

And certainly we are very much in favor of the legislation before this subcommittee, H.R. 9620, and of course we are supporting Congressman Hogan's bill, H.R. 2586.

The lopsided apportionment of cost that has prevailed since 1960 is not what the 86th Congress had in mind in approving the act. The printed record accompanying the bill enacted included the following passage:

The Committee recognized that the maximum in amounts indicated could not remain unchanged over a long period of years, any more than the cost of living has remained frozen. Medical care costs will undoubtedly fluctuate at least as widely as other items of living costs. The Committee believes the Congress will continue to be responsible to the needs of the employees and will appropriately act to keep the proposed program in consonance with future developments.

We elaborate on our feelings about that statement in our testimony here today.

There is one other matter that does concern our organization, and that is a matter which relates to our retired members, and all retired Federal employees. On page 9 of our testimony, I refer to the problem, and then do suggest a solution on page 11.

If I might, we suggest as a possible solution to this plight of the annuitant the transfer of Federal annuitants at age 65, to protection under part A of medicare. Perhaps some type of supplemental insurance policy would be required to take up the slack between present coverage and medicare coverage, but that should present no great obstacle. I would, of course, include spouses under this suggestion.

Federal annuitants and spouses at age 65 are now eligible to apply for and receive the benefits of part B of medicare. Thus, all we are treating with in this suggestion is part A of medicare.

We have outlined what we think is a fair solution to a growing problem, which, as we have emphasized in our testimony, could eventually cause Federal annuitants to be priced out of the health insurance market, or Public Law 86-382, as we know it, to cease to exist.

One other comment made this morning by representatives of the Civil Service Commission concerning the makeup of the health benefits Advisory Committee—I was privileged to—I might quote that—privileged—to serve on that committee, and I found that it did take my time but did not produce results.

I would suggest this subcommittee seriously consider recommending a change in the structure of the Advisory Committee. I am not for a moment attempting to be critical of the makeup of the committee. They are my colleagues in the trade union business. But I would suggest that a representative of all the carriers be participants on such a committee.

In this way, the Civil Service Commission could become more knowledgeable and there could be clearer discussions as to the needs and the problems that exist and perhaps we could have premiums more resemble each other.

Mr. WALDIE. You don't mean the letter carriers?

Mr. RADEMACHER. The insurance carriers. So in our attempts to be brief, that summarizes what we have said, Mr. Chairman.

Mr. WALDIE. I suspect, without any more information than I have, that that gap is taken care of, because it seems to me the Civil Service Commission is quite representative of the carriers. I think that is the case.

Mr. RADEMACHER. I wouldn't want the record, as far as we are concerned, to indicate that the representatives at the Commission, especially Mr. Ruddock, haven't done a most commendable job. It's been

a very trying experience through the past 11 years, and we have found him most cooperative.

We haven't found him always as reasonable as we would like him to be, as has been indicated by Mr. Carlson's remark. It is just ridiculous and unbelievable that our rates would be kept so low as to cause us to report to you a \$5 million loss last year. It's certainly not the fault of our organization, because the records indicate, and in our audits, that we have one of the most efficient operations in all the insurance business.

Mr. WALDIE. If they do not grant you the right under the phase II plan to increase premiums, what then occurs?

Mr. RADEMACHER. Mr. Carlson?

Mr. CARLSON. We have to continue the payment of the claims as they come in, Mr. Chairman. We could only request funds from our contingency reserve.

As you understand, actually the premiums paid by the employee and Government is 104 percent of what the plan gets. The Commission keeps off the top 3 percent for our reserve and 1 percent for the administration of the Civil Service Commission.

Irrespective of the premium they will allow for next year, we have to continue paying the increased benefits already in effect this year, and our claims experience thus far in 1971 is such that it is going to increase and we will need the premium increase requested.

Now basically what will happen is that we will have to have a greater amount of money from our contingency reserve in the Commission.

So if we don't get adequate premium, we will experience another underwriting loss.

Mr. WALDIE. You are sure you won't go bankrupt?

Mr. CARLSON. Eventually, yes, we will go bankrupt.

Mr. RADEMACHER. May I ask that the committee seriously consider having incorporated in this hearing record a document prepared by (Millman and Robertson) of Seattle, Wash., which was submitted to the Commission January 24, 1969, and made public only recently. I make that request because the report reflects that the Federal employees' health insurance premium will increase between 10 and 35 percent every 2 years between now and 1976, and we are going to find ourselves facing up to a premium of \$900 a year unless something is done.

And what that something is, is just what this subcommittee can do. I would respectfully request consideration of including in this record that very important document.

Mr. WALDIE. Without objection, so ordered. Mr. Brasco?

Mr. BRASCO. I certainly want to join with the distinguished chairman in welcoming Mr. Rademacher and Mr. Lewis and Mr. Carlson and Mr. Swanson here this morning.

I can say from my own experience, and agree without hesitation, that Mr. Rademacher has been for everything that is progressive.

I certainly agree with your statement that the overwhelming trend from all of these statistics is that the private industry, in the area of medical care, is at the point where it's going 100 percent, and most of them, from the statistics, indicate that they are nearly there.

And I can assure you that is what this committee is trying to do, putting the emphasis on having the Federal Government get to the point where it is contributing 100 percent also.

I might say from my own experience, if I heard the Civil Service Commission come up here on time and agree with one of the bills we sponsored, I would fall off my chair.

I was amazed at the analogies in terms of statistics on retirement and health costs. I just can't believe—well, how accurate they are, because it's been my experience, and I am sure yours, that in all of the areas of pay and retirement and health care that the Federal Government is so far behind it's unbelievable, and I can assure you this committee will go forward until we get true comparability in all areas.

I thank you again. I have no questions.

Mr. RADEMACHER. It must have been slightly embarrassing for the distinguished chairman of this subcommittee to introduce legislation compatible to the demands of this administration. But also, after he had done so, to hear the representative of the administration come before the subcommittee and say that the legislation was not supported.

Mr. WALDIE. As a matter of fact it really wasn't embarrassing. The bill was drafted in accordance with the President's great rhetoric of February 18, where the President said:

* * * a ceiling on how much employees could be asked to contribute would be set at thirty-five percent during the first two years of operation, and twenty-five percent thereafter. * * * July 1973.

This is the program prescribed. This is the National health insurance partnership designed to correct the inadequacies of national health, not by destroying our present insurance system, but by improving it.

At the time the President delivered this message—and I was impressed with it—but at the time he delivered it, I wondered if the rhetoric did not exceed his intentions, and I thought this bill would be a fine way to test it.

I won't say the test has been concluded, but the first step of the test was concluded this morning. It's an interesting dilemma the administration finds themselves in.

The private sector has the obligation to pay 75 percent of the premiums for its employees, but the Federal Government, the greatest employer in the country, does not have a similar obligation, because we can't afford it.

Do you have any other comments, gentlemen?

Mr. RADEMACHER. Mr. Chairman, just a conclusion. Irrespective of what happens to this legislation, I want the record to indicate that we deeply appreciate your own personal attitude about trying to improve the welfare and conditions of postal employment and we also want to mention that we are grateful for the sincerity and the support that we received from the distinguished representative from Brooklyn, Frank Brasco, who has always, not only as a member of this committee, but has actively participated to try to be helpful.

Mr. WALDIE. Thank you. May I compliment your organization and Mr. Carlson for your frankness with this committee relative to the negotiations. I simply don't understand the Commission's reluctance

to discuss what you have so willingly discussed. Thank you very much.
(The response to interrogatories follows:)

NATIONAL ASSOCIATION OF LETTER CARRIERS
HEALTH BENEFITS PLAN

RESPONSE TO INTERROGATORY

Question 1. How many Federal employees and retirees are covered by you?

Answer. The total number of employees and annuitants as reported to the U.S. Civil Service Commission as of December 31, 1970 was as follows:

	Total	High option	Low option
(a) Self only:			
Employees.....	12,858	11,696	1,162
Employee annuitants.....	2,752	2,490	262
Survivor annuitants.....	2,542	2,091	451
(b) Families:			
Employees.....	107,208	90,264	16,944
Employee annuitants.....	13,505	10,653	2,852
Survivor annuitants.....	1,335	1,047	288
Total covered.....	140,200	118,241	21,959

Question 2. Would you supply the Subcommittee with a list of the initial demands made by you to the Civil Service Commission at each year's negotiating sessions and a list of the subsequently-agreed-upon settlement of demands?

Answer. The following reflects the major changes in our contract, effective for the term indicated:

1961

- (a) Services of a podiatrist covered for certain conditions of the foot.
- (b) Establishment of a \$200.00 surgical corridor after payment of customary and reasonable allowance.
- (c) Establishment of a non-duplication of benefit provision.

1962

- (a) Broaden definition of "a hospital" to include institutions without facilities for major surgery.
- (b) Increase the number of procedures under oral surgery.

1963

- (a) Increase benefit when private room is used to pay average daily semi-private rate.
- (b) Increase the surgical fee schedule on 20 of the more common procedures.

1964 AND 1965 (CONTRACTS WENT ON CALENDAR YEAR BASIS)

- (a) Increase hospital room and board benefits from \$2,500 plus 80 percent of remaining charges to \$3,000 plus 80 percent of remaining charges.
- (b) Increase maternity benefits from \$150 to \$200 (from \$250 to \$300 for multiple births).
- (c) Eliminate separate \$50 deductible for TB, mental and nervous disorders.
- (d) Pay maximum maternity benefit for hospital charges for each admission for false labor or threatened abortion, rather than single benefit, regardless of the number of admissions.
- (e) Increase biweekly premium cost on high option only by 29 cents on Self Only and 87 cents on Family Plan.

1966

- (a) Cover cost of eyeglasses if specifically ordered by a physician in connection with a diagnosis of cataracts or glaucoma.
- (b) Eliminate coverage of chiropractic services.
- (c) Extend from 12 months to 24 months for coverage of dental treatment incurred as the result of an accidental injury.

(d) Increase biweekly premium costs as follows:

High Option:	
Self only	\$0.17
Family plan	0.49
Low Option:	
Self only	\$0.06
Family plan	0.33

1967

(a) Pay maternity benefits the same as for any illness.

(b) Increase hospital miscellaneous expenses from \$800 to \$1,000 plus 80 percent of remaining charges.

(c) Recognize services of licensed practical nurses under certain conditions.

(d) Pay for in-hospital diagnostic x-ray and laboratory examinations as hospital expenses, rather than under \$50 deductible.

(e) Pay expenses of mental and nervous illness at 80 percent of first \$500 charges and 50 percent thereafter, rather than 50 percent of all charges.

(f) Increase biweekly premium deductions as follows:

High Option:	
Self only	\$0.59
Family plan	1.98
Low Option:	
Self only	\$0.20
Family plan	0.57

1968

(a) No major changes.

1969

(a) Extended benefits for accidental injury to include in maximum expenses for x-rays, removal of stitches, etc. even though incurred beyond 72 hours of accident.

(b) Broaden coverage for podiatrist services to include specified diseases of the foot.

(c) Provide that hospital room charges under high option beyond 365 days be payable under Other Medical Benefits (coinsurance and deductible feature).

1970

(a) Revise entire surgical fee schedule to increase all procedures by approximately 40 percent.

(b) Cover cost of eyeglasses if required to correct an impairment directly caused by accidental injury or intraocular surgery.

(c) Reduce from 12 months to 9 months the interval between new periods of treatment for mental and nervous illnesses.

(a) Increase under high option hospital room expenses from \$1,000 plus 80 percent of remaining charges to \$1,200 plus 80 percent of remaining charges.

(c) Increase physicians fee in maternity cases from \$100 to \$140.

(f) Increase biweekly premium deductions as follows:

High Option:	
Self only	\$0.79
Family plan	2.59
Low Option:	
Self only	\$0.23
Family plan	1.32

1971

(a) Reduce from 9 months to 8 months the interval between hospital confinements for a new period of treatment in mental and nervous illnesses.

(b) Increase biweekly premium deductions as follows:

High Option:	
Self only	\$0.07
Family plan	0.17
Low Option:	
Self only	\$0.52
Family plan	0.91

We should like to make one observation in connection with this particular inquiry.

Plans under P.L. 86-382 "bargain" somewhat differently than do unions and management as we know it in private industry.

Collective bargaining on health insurance in the private sector generally means the union presents a benefit package which it asks *management to pay for*. Our position is quite different.

We submit proposed new benefits and improvements in existing benefits on the basis of what we believe *our members can afford to pay for*, because the Government's contribution remained constant in all but 2 instances during the life of the present law.

For example, one big industrial union recently and successfully negotiated dental coverage in their contract. Since management pays the entire cost of the insurance, the inclusion of dental care simply means that they agreed to add the costs of dental care to operating expenses.

At about the same time, our organization concluded a two-year survey to determine how much improvement, if any, we could make in our dental coverage.

When the results of the survey demonstrated that we could only add extensive dental care at a substantial boost in our premium cost—as high as \$22.00 per month for family coverage—we abandoned the idea. Why? Because any increase in premium for dental care would necessarily come 100% from the insured employee, because the Government's share of total cost would remain static.

Question 3. What were your total premium receipts from Federal employee's/retiree's coverage in the last calendar year or fiscal year—whichever you use?

Answer. Total premium income as reported to U.S. Civil Service Commission for the calendar year 1970 was as follows:

	Total	High option	Low option
(a) Premium earned for calendar year 1970.....	\$43,820,461.46	\$38,952,355.73	\$4,868,105.73
(b) Premium received from CSC contingency reserve for NALC plan.....	2,034,593.00	1,709,058.00	325,535.00
Total.....	45,855,054.46	40,661,413.73	5,193,407.73

Question 4. What were your total expenses in administering your Federal coverage? Please break down in category.

Answer. Total expenses incurred in administering the Federal Employees' Health Benefits Program for the calendar year 1970 as reported to U.S. Civil Service Commission as follows:

ACTUAL INCURRED ADMINISTRATIVE CHARGES

Salaries.....	\$1,077,602.66
Payroll taxes.....	48,659.93
Employees' insurance:	
Annuity trust.....	69,487.10
Health.....	11,667.67
Life—annuity at retirement.....	7,696.67
Life—term.....	5,231.66
Other.....	1,571.14
Lunchroom supplies and expense.....	2,034.91
Data processing supplies.....	12,288.79
Depreciation.....	70,905.54
Equipment installation, maintenance, and rental.....	34,891.62
Medical records.....	327.50
Office supplies and expense.....	19,625.69
Personal property tax.....	7,540.93
Postage.....	44,345.94
Printing.....	80,213.90
Professional services.....	13,682.91
Rent.....	96,030.71
Telephone and telegraph.....	12,664.55
Travel.....	14,083.14
Provision for reimbursement of branch representatives' expenses.....	38,494.16
National fraternal congress dues.....	3,987.97
Audit—State of Tennessee Insurance Commission.....	1,793.25
Miscellaneous.....	381.49
Total.....	\$1,675,209.83

¹ This total was allocated as follows: (See next page.)

	Amount	Percentage of income
(a) High option.....	\$1,465,306.04	3.20
(b) Low option.....	209,903.79	.45
Total.....	1,675,209.83	3.65

Question 5. What was your total cost of benefits paid out?

Answer. Total incurred health benefits for the calendar year 1970 as reported to U.S. Civil Service Commission are as follows:

	Amount	Percentage of income
(a) High option.....	\$44,817,171.04	97.7
(b) Low option.....	4,830,311.60	10.6
Total.....	49,647,482.64	108.3

18.3 percent claims underwriting deficit.

Question 6. How many employee disputes as to coverage or service were handled by you last year? How many were settled by you without reference to the Civil Service Commission? How many were resolved in favor of the employee?

Answer. Frankly, we feel that a precise definition of an "employee dispute" would be helpful in furnishing a response to this question.

By the very nature of health insurance, the average claimant feels he has a right to question almost every claim, particularly with respect to the amount he thinks his claim is worth as opposed to the benefit payable under the contract, if that payment is less than the bill.

For example, a surgeon bills a patient for \$300.00 for a particular procedure. The contract specifically provides a maximum benefit of \$250.00. It is almost an even bet that the member will ask why we did not pay the full amount of the bill, because "the physician is tops in his field" or "it was a very unusual operation" or, simply, "I cannot afford the \$50.00 difference".

As a union, our members have ready access to their local and national officers to air any complaint they have against our Plan.

Moreover, our meetings at every level—local, district, state and national—entertain resolutions pertaining to P.L. 86-382 in general, and our Plan in particular. Thus, generally speaking, changes in our Plan have resulted from specific mandates of our members in attendance at our biennial national conventions.

We have absolutely no objection to a member questioning any aspect of our insurance operation. But as to the actual number of bona fide disputes involving a violation of our contract; I am advised by those responsible for the day-to-day operation of our Plan that you could count them on a couple fingers. I am further informed that in every case the Plan was sustained.

Above and beyond correspondence directly related to claims payment, the overwhelming number of letters we receive involve requests for interpretation of existing regulations, assistance in correcting honest errors in the employee's eligibility records, both with the Plan and his employing office, and requests for coverage of expenses specifically limited or excluded in the contract. If these are "disputes" then we admit to a great number of disputes year in and year out.

To conclude this particular inquiry, we can only say that no centralized record has been maintained on these items.

Question 7. How would you improve the administration of the Federal Employees' Health Benefits program by the Civil Service Commission to control costs; to provide broader coverage; to ease apparent administrative problems regarding enrollment changes, etc.?

Answer. In our formal statement we have included a suggestion for dealing with a potentially major problem—namely, continued coverage for annuitants.

We have also included our suggestion for broadening coverage—namely, increase the Government's contribution to the total cost of premium.

As for our opinion of the manner in which the Civil Service Commission operates the program, we can honestly say that we think the Bureau of Retirement, Insurance and Occupational Health is one of the best run agencies in Government.

The Bureau, together with the Bureau of Employees' Compensation of the Department of Labor, have year in and year out demonstrated to us that they are among the best friends the average employee has in Government.

One of the major employee complaints has been met with the recent decision of the Commission to conduct annual open enrollment seasons. We think that is a fair and wise move.

By and large, we do not have any complaint about Commission policies and procedures involving enrollment changes, etc. As problems have developed over the years, the Commission has always consulted with the various carriers in a mutual attempt to meet such problems. As indicated a moment ago, we think the Bureau is doing an excellent job for Government, its employees, as well as the 40 plans under the Act.

One thing we do hope for is close attention by the Congress with respect to the inclusion of Federal employees in any National Health Insurance legislation that might come before the Congress in the days and months ahead.

It is our understanding, for example, that Federal workers are to be specifically excluded from the National program supposedly having the endorsement of President Nixon.

If there is going to be any kind of National program, we submit that Federal workers should be given the same opportunity to participate as their counterparts in private industry. Generally speaking, we were allowed only limited participation in Medicare, particularly under Part A.

Question 8. Is the present system of "risk charge" and contingency and special reserves meeting your needs?

Answer. Our organization wholly underwrites our Plan. We have no provision for a "risk charge".

With respect to present policy whereby 3 percent of premium is credited to the Contingency Reserve, earmarked for each Plan, and held by the Commission, we feel that the funds should be held by the Plan.

If these funds were held by the Plan, a better investment yield would accrue by reason of the investments being made on the open market. For example, in the past couple years, the yield to Government would probably be a 4 to 4.5 percent range. At the same time, the yield on the open market was in a range of 7 to 8 percent.

Question 9. Would you define the "risk" you are assuming in order to get the one percent "risk" charge?

Answer. This question is not applicable to our operation.

Mr. WALDIE. The next witness is a gentleman that was late in arriving. He was scheduled for first on the agenda, Mr. John Griner, national president, American Federation of Government Employees. He is accompanied by Carl Sadler, legislative representative, and James H. Lynch, assistant legislative representative.

If you will be seated, we will hear from you, and your statement will be incorporated in the record in full.

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

Mr. GRINER. First I would like to apologize for not being here at the appointed time. I had a meeting of the Pay Committee, which was of the utmost importance, that I felt I should be there.

Mr. WALDIE. What happened?

Mr. GRINER. They are still going through this resolution, and we wanted equal and fair treatment, and we didn't think we should be used as an example. So we are going ahead through with the com-

mittee, trying to arrive at some comparable rates, as we were supposed to have done some time ago. Very interesting.

Mr. WALDIE. Please continue.

Mr. GRINER. As the largest representative of Federal employees in the country, the American Federation of Government Employees has a continuing interest in developing a Federal employees' health benefit program at least comparable to those now applying in general among the larger private employers in the United States. Our organization has consistently urged that pay, health, hospitalization, life insurance, and retirement benefits should not lag behind those available to employees in modern, enlightened private enterprises.

We are grateful to you, Congressman Waldie, for this opportunity to appear here today and speak on the bills sponsored by you and being considered by this subcommittee regarding the Government's share of employee health insurance premiums. We are also grateful to Mr. Hechler, Mr. Podell, Mr. Hogan, Mr. Gude, Mr. Broyhill, Mr. Scott, Mr. Tiernan, and Mr. St Germain for cosponsoring H.R. 7807 which provides for increasing the Government's contribution to Federal employee health benefit premiums from 40 to 50 percent in 1972. For H.R. 9620 which would increase this contribution to 55 percent in 1972 followed by annual increases of 5 percent until 75 percent is reached, we thank Mr. Hillis, Mr. Scott, and Mr. Hogan for their cosponsorship.

I should like to recall the legislative history behind Public Law 86-362 which established the Federal employees' health benefit system.

This history shows clearly that the primary, original intent of the committee drafting this legislation, and of the Congress enacting it, was to provide to Federal employees a contributory health benefits system comparable to that available at that time to employee of large-scale private industry. The Senate Report is explicit in this respect, stating (on page 3) that "as an employer concerned with attracting and retaining the services of competent personnel, the Federal government should offer employee-benefit programs comparable to those of other large employers."

One would have hoped, from these clear expressions of congressional intent, that Federal employees would be provided a health benefits program equal to that available to employees of large-scale private enterprise at equal rates. However, this is not the case. So far as health and hospitalization programs go, the Federal employee is being treated as an employee of an unenlightened employer—he is being treated far worse than the citizens working in the private sector.

This year the President himself, in a February 18 message to Congress, advocated that private industry pay a minimum of 65 percent of employee health insurance basic programs starting July 1, 1973, and increasing to 75 percent by July 1, 1976. We would have hoped that the President, as the head of the executive branch, would be supporting the same standard for Federal employees.

Today many private enterprise employers are already paying 75 percent and some even 100 percent of their employees' health benefit premiums. Compared to this, the Government's contribution to the Federal employee's health benefits programs of 40 percent is indeed paltry and offers little in the way of comparability. As proof of this

situation, I request your permission, Mr. Chairman, to insert into the record, as annex I, the provisions of six major private enterprise health benefit plans covering the following companies: Aluminum Co. of America; Detroit Edison Co.; General Motors Corp.; International Business Machines Corp.; Penn Central Co.; and Radio Corp. of America. This excerpt was extracted from Bulletin No. 1929, U.S. Department of Labor, Bureau of Labor Statistics, November 1969, entitled "Digest of 50 Health and Insurance Plans for Salaried Employees, Early 1969."

I request your further indulgence to permit me to insert into the record, as annex II to my statement, a selected list of other major American enterprises which provide these benefits at no cost to their employees. The fact that more than sixty major enterprises, covering in some cases entire industries, are included shows that by 1970 it has become the normal practice for major-scale American industry to pay 100 percent of the health benefit insurance contributions of their employees.

H.R. 7807 and H.R. 9620 are steps toward alleviating the inferior position of the Federal employee in respect to health insurance. Of these two bills we feel that H.R. 9620 is the more equitable in that it grants Federal employees treatment closer to that being proposed by the President for their private industry counterparts.

We would even like to see the Federal Government join the ranks of the more enlightened employers found in private industry and pay an even greater percentage than that advocated in H.R. 9620.

Today, as we are all aware, it is not unusual for a serious or extended illness to result in financial catastrophe. Without substantial health insurance coverage it is well within the realm of reality that a Federal employee could find himself in severe financial straits even to the point of bankruptcy because of medical bills. The mental and financial strains can be so great as to affect an employee's morale on the job because of the impact on the individual's total security. I don't think it is at all farfetched to state that health insurance has become one of the necessities of modern civilized life.

As such it should be made as widely available as possible to Federal employees. So far as plans presently in effect go, the general Federal employee health benefit program seems to us to be the fairest and most practical mechanism readily at hand. However, it is today seriously inadequate.

We feel that the Federal Government, as the Nation's largest employer, should be among the forerunners in providing increased accessibility in proportion to increased need. In light of this and the aforementioned fact that such is already practiced by many in the private sector, increasing the Federal Government's contribution to the Federal employee health benefit program to better than 75 percent and ultimately to 100 percent is not an unreasonable request.

It is not unreasonable either from the standpoint of enlightened Federal personnel policy or from the standpoint of budgetary costs. These budgetary costs, of course, would, in fact, be less than the actual apparent costs when one realizes that good health insurance will reduce absenteeism due to illness and result in greater productivity of Federal employees on the job.

As to total funding costs, according to information supplied by the Office of the Actuary, in the Bureau of Retirement, Insurance, and Occupational Health of the Civil Service Commission, the total receipts of the fund in 1971 amounted to approximately \$1.2 billion at an annual rate. Therefore, each 1 percent of payment amounts to \$12 million. Of this amount, the Government's share, which is 40 percent, is \$480 million a year and the employee's share, which is 60 percent, is \$720 million.

An increase in the Government's share from 40 to 55 percent would therefore cost an additional \$180 million annually to the U.S. Treasury. This would be the additional budgetary appropriation necessary to cover the percentage increase in H.R. 9620. In subsequent years, the additional cost increment of the Government's larger share would be \$60 million annually.

We believe that this additional cost, graduated over several years, resulting from the passage of H.R. 9620 is not inequitable and improper and that the formula set forth in H.R. 9620 is in step with President Nixon's message to Congress with regard to health insurance coverage for employees.

I should like to comment on what now may become a reality in January.

It is already a certainty that health benefit premiums will go up in January. As you know, the President, as part of his new economic program, has also advocated delaying the scheduled January 1972 comparability pay increase until July of 1972. For the many reasons we have stated elsewhere, we hope, of course, that the Congress will not concur in the President's proposed 6-month freeze. But, whatever happens in the matter of the proposed Federal pay freeze, we do know that as of January 1, 1972, the Federal employee's paycheck will be smaller because of the increased cost of his health insurance.

Moreover, we know that his Federal employer will be making a smaller percentage contribution toward the employee's health insurance premium than employers in equivalent private enterprise. Therefore, unless action such as that advocated in H.R. 9620 is taken now, the Federal employee will be falling even further behind in efforts to achieve comparability with the private sector. An already inferior citizenship will become even more depreciated.

As in the matter of the wage-price freeze, we are asking for no more than equitable treatment for Federal employees with regard to the Federal employee's health benefit program. In the name of equal treatment, we urge you to act favorably on H.R. 9620 as we feel that it meets the tests of justice and equity.

(Annex I was retained in subcommittee files. Annex II follows:)

ANNEX II.—HOSPITALIZATION PLUS HEALTH BENEFIT PLANS FINANCED IN FULL BY PRIVATE EMPLOYERS

(NOTE: The listing shows the company and the labor union establishing the agreement by contract.)

The American Sugar Refining Co. (Brooklyn, N.Y.)—Longshoremen's Association.

Swift and Co.—Meat Cutters; Packinghouse Workers (UPWA); Packinghouse Workers (NBPW).

Armour and Co.—Meat Cutters; Packinghouse Workers (UPWA).

American Millinery Manufacturers Association (New York, N.Y.)—Hatters, Cap and Millinery Workers.

Campbell Soup Co. (Camden, N.J.)—Packinghouse Workers (UPWA).

Lumber industry, various employers (Southern California)—Carpenters.

Furniture Manufacturers in Southern California, Industrial Relations, Council of—Carpenters.

Brewers Board of Trade (New York, N.Y.)—Teamsters.

Clothing Industry, men's and boys', various employers—Clothing Workers. National Plan.

Furniture industry, various employers—Furniture Workers. National Plan.

Philip Morris, Inc.—Tobacco Workers.

Bigelow-Sanford Carpet Co., Inc.—Textile Workers (TWUA).

Continental Can Co., Inc., Robert Gair Paper Products Group—Papermakers and Paperworkers.

Printing industry, Chicago Lithographers Association, and other employers—Lithographers, Local 4.

The B. F. Goodrich Co.—Rubber Workers.

Bethlehem Steel Co.—Steelworkers.

Luggage and leather goods industry, various employers—Leather Goods, Plastic and Novelty Workers, National Plan.

Publishers' Association of New York City—Typographers, Local 6.

Continental Can Co., Inc.—Steelworkers.

United States Rubber Co.—Rubber Workers.

The Firestone Tire and Rubber Co.—Rubber Workers.

Aluminum Company of America—Aluminum Workers; Steelworkers.

Chase Brass and Copper Co., Inc.—Automobile Workers.

United States Steel Corp.—Steelworkers.

Weirton Steel Co.—Independent Steelworkers Union.

Massachusetts Leather Manufacturers' Association—Leather Workers; Meat Cutters.

Minnesota Mining and Manufacturing Co.—Oil Chemical and Atomic Workers.

California Metal Trades Association—Various unions.

Radio Corporation of America—Electrical (IUE); Electrical (IBEW).

American Can Co.—Steelworkers.

Caterpillar Tractor Co.—Automobile Workers.

North American Aviation, Inc.—Automobile Workers.

Ford Motor Co.—Automobile Workers.

Pullman Inc. (Pullman-Standard Div.)—Steelworkers.

General Motors Corp.—Automobile Workers.

Johnson and Johnson (New Brunswick, N.J.)—Textile Workers (TWUA).

Construction industry, Associated General Contractors of America, and other employers (Northern California)—Carpenters.

Jewelry industry, Associated Jewelers, Inc., Jewelry Crafts Association, and other employers (New York, N.Y.)—Jewelry Workers, Local 1.

Doll and toy industry, National Association of Doll Manufacturers, and other employers (New York, N.Y.)—Toy and Novelty Workers, Local 223.

Various Employers, St. Louis, Mo., area—Machinist, District 9.

Association of Master Painters and Decorators of the City of New York, Inc.—Painters, District Council 9.

Construction industry various employers (Western Pennsylvania)—Various unions.

Trucking industry, local cartage and over-the-road freight, various associations, and individual employers, Central States, Southeast and Southwest areas—Teamsters.

Distributors Association—Longshoremen's and Warehousemen's Union, Locals 6 and 17.

Truck Owners Association of California—Teamsters.

Deere and Co.—Automobile Workers.

Coal industry (bituminous), various employers—United Mine Workers.

Railroad industry, various employers—Various nonoperating railway unions.

National Automobile Transporters Association—Teamsters, National Truck-away and Driveway Conference.

Retail, Wholesale, and warehouse industries, various employers (New York, N.Y.)—Retail, Wholesale and Department Store Union, District 65 (65 Security Plan).

New York Shipping Association, Inc. (Port of New York)—Longshoremen's Association.

Maritime industry, various employers, Atlantic and Gulf Coasts—Maritime Union.

Maritime industry, various employers, Atlantic and Gulf Coasts—Marine Engineers.

Hotel Association of New York City, Inc.—New York Hotel and Motels Trades Council.

Restaurant industry, various employers (New York, N.Y.)—Hotel and Restaurant Employees, Local 89.

Realty Advisory Board on Labor Relations, Inc. (New York, N.Y.)—Building Service Employees.

Retail Drug industry, various associations and employers, (New York, N.Y.)—Retail, Wholesale and Department Store Union, Local 1199.

Retail trade industry, various employers (New York, N.Y.)—Retail Clerks.

Laundry industry, various employers (New York, N.Y.)—Clothing Workers.

Maritime industry, various employers, Atlantic and Gulf Coasts—Seafarers.

Construction industry, various employers (New York, N.Y.)—Carpenters.

SUMMARIZATION

MR. GRINER. For some reason, some people have the idea that comparability, as mentioned in the Comparability Pay Act, refers only to pay. I don't look at it that way. I look at it as comparability across the board, whether it be pay, fringe benefits, premium pay, or what it might be.

I think the Federal Government should at least keep up with private industry. And of course we sponsor a health insurance program. Unlike the postal organization, our program is underwritten by an insurance company. And of course as long as these rates are held down, as Mr. Rademacher has just stated, it has caused a dip into that reserve fund which we helped to build. And to the best of my knowledge, we have not had to dip into that fund yet.

Understand, I am not kicking on that. I am proud of the fact that we have been able to keep our head above water. There have been years of some loss, but the insurance company had to assume that loss.

And as I can recall the legislative history behind Public Law 86-362, which established the Federal employees' health benefits system, it clearly shows that the primary, original intent of the committee drafting this legislation, and the Congress enacting it, was to provide to Federal employees a contributory health benefits system comparable to that available at that time to employees of large-scale private industry. The Senate report is explicit in this respect, stating—on page 3—that “as an employer concerned with attracting and retaining the service of competent personnel, the Federal Government should offer employee-benefit programs comparable to those of other large employers.”

One would have hoped, from these clear expressions of congressional intent, that Federal employees would be provided a health benefits program equal to that available to employees of large-scale private enterprise at equal rates.

However, this is not the case. So far as health and hospitalization programs go, the Federal employee is being treated as an employee of an unenlightened employer—he is being treated far worse than the citizens working in the private sector.

This year the President himself, in a February 18 message to Congress, advocated that private industry pay a minimum of 65 percent

of employee health insurance basic programs starting July 1, 1973, and increasing to 75 percent by July 1, 1976. We would have hoped that the President, as head of the executive branch, would be supporting this legislation, rather than opposing it.

We find that today there are many employers in private industry—and I am talking about major employers—paying 100 percent, and I might say that I have an attachment to my statement showing a number of such employers, and the union contract, and the union who has contracts with those employers, where they are paying 100 percent of the cost of health insurance. Many more are paying 75 percent or more.

I thank you, Mr. Chairman, for your indulgence.

Mr. WALDIE. Thank you, Mr. Griner. Any questions, Mr. Brasco?

Mr. BRASCO. I would just like to say thanks to Mr. Griner, and Mr. Sadler, and Mr. Lynch for coming.

Mr. WALDIE. In your absence, another matter came up that I hope Mr. Sadler and Mr. Lynch will be able to convey to you, that was the suggestion that your representative, Mr. Clyde Webber, on the Federal Health Insurance Advisory Committee of the Civil Service Commission, join in the request that that committee be called into session to review what Civil Service Commission negotiations have taken place relative to increases in premiums for health insurance costs, and find out where you people stand relative to other carriers.

Mr. GRINER. We will be happy to do it. I might say that I myself served on that committee for several years and I think there is a lot of improvement that can be made in the committee. I shall be happy to ask Clyde to write a letter requesting a meeting.

Mr. WALDIE. I would hope you would. I agree with you, there is a great deal that committee could do if it were activated. The Civil Service Commission does not seem to me to have relied much on the committee. The Congress created the committee for the purpose of advice to the Civil Service Commission on the subject of health insurance, and the Commission has not sought the advice, nor has the committee professed any.

Mr. GRINER. I found the Commission makes up its mind about what it wants to do, and then tells the committee. In other words, it makes a report to the committee, of what the Commission intends to do. And while I was on the committee, on a number of occasions, I said, wait a minute, let's discuss this, and so on. And I am sure Mr. Webber is doing the same thing. Of course, he and I have had some talks about this.

But we will get that letter off no later than tomorrow I can assure you.

Mr. WALDIE. We appreciate that very much. Thank you, Mr. Griner, Mr. Sadler, Mr. Lynch.

Mr. GRINER. Thank you.

Mr. WALDIE. We appreciate your cooperating with the committee in terms of time.

Our next witness is Irving I. Geller, general counsel, National Federation of Federal Employees. I apologize to you and thank you for your patience. We appreciate your consideration of the exigencies of the quorum call.

**STATEMENT OF IRVING I. GELLER, GENERAL COUNSEL, NATIONAL
FEDERATION OF FEDERAL EMPLOYEES**

Mr. GELLER. We want to compliment this committee, including the chairman and Mr. Brasco, for an exceptionally revealing session. We learned a lot, frankly.

Mr. WALDIE. Without objection, your statement will appear at this point as though presented in full and you may offer any summary you wish.

Mr. GELLER. Mr. Chairman and members of the subcommittee, the NFFE has many locals and members in virtually all Federal departments and agencies. For over 53 years our organization has been promoting the welfare of Federal employees and the public interest.

The subcommittee is addressing itself to the Federal employees' health benefits program. We strongly support H.R. 9620, a bill to increase the contribution of the Federal Government to the costs of employees' health benefits insurance, which you introduced, Mr. Chairman, together with Mr. Hillis, Mr. Scott, and Mr. Hogan of this committee. H.R. 9620 would raise the Government's contribution from 40 percent to 55 percent with "5-percent increase per year until reaching 75 percent of the average of the subscription charges." This bill would become effective in 1972, that is, at the beginning of the first applicable pay period which commences after December 31, 1971. Mr. Chairman, we are grateful to you and the members of the committee for the interest manifested on this subject. H.R. 9620 is in line with the trend in private industry toward the employer paying the total costs of health plans. I am attaching an exhibit to my statement showing this trend. The exhibit is in the form of a factually and statistically detailed article on health insurance plans published in the February 1970 issue of the U.S. Department of Labor's Monthly Labor Review. Your particular attention is invited to the noticeable increase in plans paid for entirely by the employer. A further increase occurred between 1968 and this date. (See p. 97 for exhibit referred to.)

We are glad that the subcommittee has been hearing testimony from representatives of group health plans serving Federal employees. In previous sessions of Congress, the NFFE has invited attention to the trend toward ever-increasing costs for medical services and hospital care. We realize that these increased costs are tied in with the general economic inflation picture, but these particular costs have sky-rocketed in recent years. We therefore feel that this matter warrants intensive study and remedial action. The subcommittee is apparently giving close scrutiny to the costs for medical services and hospital care and the costs of administration of the health plans of the insurers of the Federal employees' health benefits program.

The increases in premiums of health insurance to annuitants have been hard for many of them to bear, that is, those who live on less than subsistence levels. By increasing the Government contribution, which in turn, would reduce the annuitant's contribution, retiree and survivor annuitants would be able to purchase more of the necessities of life that many cannot now afford to buy on their small incomes. I know

that the subcommittee will remember the profoundly serious problems of this group in considering H.R. 9620. This subcommittee is especially aware of the difficulty many in this group have to supply themselves with the necessities of life and the adverse affect of increases in health insurance cost upon their standard of living. If H.R. 9620 is enacted into law it will assist the Federal annuitants as well as the employees.

Mr. Chairman, based on our many years of interest in this subject and the hundreds of resolutions passed at our national conventions, we feel obligated to introduce elements that affect the issues being discussed.

The NFFE feels that there should be greater care coverage in nursing homes. More and more patients are using the facilities of modern nursing homes. And, the costs of care in a nursing home are less than in a hospital. There is greater demand for modern nursing home care and there have been new construction projects of nursing homes throughout the country. Because nursing homes provide the special care required for long-term illnesses or geriatric conditions, which care cannot be supplied economically or otherwise by hospitals generally, it is essential for the Federal employees' health benefits program to provide for increased coverage in modern nursing homes. All considerations point unmistakably in the direction of more demand for modern nursing home care in the future.

Perhaps greater attention to healthful working conditions and illness preventive measures would reduce some of the need for medical services and hospital care. Still, I noticed a statement in a newspaper recently to the effect that it costs the hospital two-thirds of the cost of an occupied bed for a vacant bed. This is hard to believe. Yet we understand that higher payments for medical services and higher hospital costs can be expected in the future.

In our contacts with our members we find a very deep interest and concern in the agency contribution versus the contribution of the employee or annuitant. A heavy proportion of inquiries relate to this matter and the costs of medical care together with the unusually high costs of illnesses when the illnesses are in any way protracted. These factors are of profound concern to Federal employees because of the impact upon the employee and his family. The NFFE urges that the health insurance coverage be extended to the fullest extent feasible. The Federal Government should assume a leadership role in health insurance and show the way to the private sector. That is not the case now but the legislation here under consideration is a very useful step in the right direction. It is our hope that favorable action on health benefits legislation can be achieved in this session of Congress. The need grows more urgent with each passing day.

Mr. Chairman, I express again my thanks to you and to the members of the subcommittee for your interests in and action on this subject.

SUMMARIZATION

Mr. GELLER. There were two comments we do want to make. Frankly, we believe that the trend toward noncontributory plans is so compelling that the Federal Government should undertake to assume the total cost of the health plans, and in that connection, and being mindful of the economics of the matter, we recommend that the bill be

amended to raise the Government's initial increase in contributions from 40 to 60 percent, with a 10-percent increase per year until reaching the 100 percent of the health cost.

Second, the National Federation of Federal Employees and the committee have been concerned regarding the basic deficiencies of the insurance program. The difficulty an employee has in determining which is the appropriate plan. And in this connection, I might say we endeavored to make an analysis and the Commission denied us the permission to make such an analysis.

And, of course, whether the current insuring arrangement contributes to an economic medical care program. We believe that the Social Security Administration has made a fine record in the administration of its medicare program. We believe it would be useful to at least study the cost of the administration of a health program for Federal employees under the aegis of the Social Security Administration, and compare such costs with the present insurance programs.

And we do note with very keen interest the negotiations charade that was alluded to earlier in the session. We believe that the institution of the federally administered health plan together with the assumption of 100 percent of the health costs would eliminate large numbers of book keeping transactions, transfers of funds, et cetera.

And more importantly, provide the Congress and the President with the ability to examine medical cost issues based on the younger age group than there now exists under the medicare program.

In this connection, we note that Senator McGee has introduced S. 2523, a bill which provides that the Federal Government shall assume the risk of fidelity losses. The Federal Government now obtains surety bonds for its employees and military personnel in connection with the performance of their official duties. It is found that the premiums on such bonds are not offset by the money recovered; that is, the claims do not bear a proper relationship to the premiums paid.

We understand that the Secretary of the Treasury and the administration are in support of this bill, on the theory that the Government could effect substantial economies by serving as a self insurer. We believe there is a parallel between S. 2523 and the recommendation we make to have the Federal Government as a self-insurer, providing health benefits to Federal employees. It would appear to be comparable.

While the elimination of surety bonds is not completely analogous to the health benefits premiums, there is a similarity of concept which should be the subject of careful scrutiny.

We wish to express our sincere appreciation for your indulgence, Mr. Chairman, and compliment the chairman and the committee and Congressman Brasco.

Mr. WALDIE. Well, you have been most accommodating. Mr. Brasco?

Mr. BRASCO. Under the circumstances, I just want to thank you, Mr. Geller, and Mr. Margolies, for being here. I have no questions.

Mr. WALDIE. And your suggestion is not as extreme as it may appear. There is within the hearings of this committee a statement, actually by Mr. Ruddock, that there are two other options open to the Government if the carriers are not sufficiently sympathetic with the problems of the employees, and one of the options that is suggested is precisely what you have described.

And I think there is an increasing interest in that proposal, if we are confronted with \$900 a year in increased medical costs for premiums, as Mr. Rademacher suggested in his report.

Mr. GELLER. We appreciate it, and we do want to, without being unduly critical, state that the Commission has not acted as an honest broker in this arrangement, and I think Congressman Brasco's observation concerning their concern for bankruptcy of the carriers was entirely appropriate.

Mr. WALDIE. Well, I agree with you. In defense of the Commission, I think when the Congress set up the law, it was a patchwork of compromises with the insurance industry and the employee organizations, and all vested interests represented by both of those groups were well taken care of in terms of the enabling legislation under which the Commission operates.

And I think the Commission has been overly generous in following out the spirit of the initial enactment.

Thank you very much, Mr. Geller and Mr. Margolies.

At this point in the proceedings, without objection, the Chair will have several statements placed in the hearing record from interested Members of Congress and various organizations desiring to be heard this morning. Without objection, the statements will appear as though read in full.

STATEMENT OF HON. DOMINICK V. DANIELS, A MEMBER OF CONGRESS FROM THE STATE OF NEW JERSEY

Mr. DANIELS. Mr. Chairman, I am most appreciative of the opportunity accorded me to testify this morning in support of my bill, H.R. 3955, and commend the subcommittee's action in scheduling hearings on the various bills designed to relieve Federal employees and annuitants from continuing to bear a disproportionately large share of the costs of their health insurance.

The Federal employees health benefits program has, especially over the past half-dozen years, experienced at least two of the problems which are common to the entire Nation. These are, first, the skyrocketing costs of health care and, second, the means whereby such costs are financed. The first is a national problem about which neither this subcommittee nor the agency charged with the administration of the program—the Civil Service Commission—has been able to do very little. The other problem, that of financing the costs of this particular program, has not been satisfactorily resolved for the present nor the future.

In dealing with both of these problems, it must be recognized that premiums must be sufficient to pay for the benefits provided, and rate increases must be periodically approved in order to maintain the financial soundness of the plans participating in this program. It must be equally recognized that as health care costs rise, the portion of them not covered by insurance constitutes a greater burden for Government employees and annuitants; and, as premium charges rise to cover such costs, an additional financial burden is imposed upon them. Given these factors, participants are faced with an increasingly difficult problem of paying for benefits.

It may be well to review this subcommittee's action on a proposal that I sponsored in the 91st Congress, which would have increased the

Government contributions to premium charges in three steps: 50 percent the first year, 75 percent the following year, and the entire cost in all subsequent years. The testimony developed by this subcommittee during extensive hearings supported, I believe, the contention that the Federal Government, as a major employer, lags far behind major employers in the private sector in this important area of employee benefit programs. Evidence, confirmed by official Government statistics and analyses, showed—as it undoubtedly will again during the course of these deliberations—that major industrial employers are paying most, if not all, of the costs of comparable health benefits protection for their workers.

While budgetary considerations precluded the adoption of the three steps proposed in my bill, it was the consensus of the subcommittee, the full committee, and the House that the Government's maximum contribution be increased to a level at which it would share equally with most of the enrollees the premium charges for coverage, and that such cost-sharing ratio be subsequently maintained. Unfortunately, Mr. Chairman, the Senate amended the House-passed measure by substituting a 40 percent Government contribution. In order to preclude enrollees from having to pick up 80 percent or more of the charges in subsequent years, the House reluctantly concurred in the Senate amendment. That temporary relief was enacted as Public Law 91-418 on September 25, 1970, and became effective this past January.

Ironically, however, between enactment of Public Law 91-418 and its January 1971 effective date, the program's premiums rose by an average of 17 percent. The net effect on the employee and retiree was that instead of his take-home pay being noticeably increased, the larger Government contribution was absorbed by the increased premiums. This result prompted my immediate introduction of a bill in the 92d Congress, H.R. 3955, which was modeled after my proposal of the 91st Congress, and which would increase the present 40 percent Government contribution to 60 percent in January 1972, to 80 percent in January 1973, and to 100 percent in 1974 and thereafter. These percentage rates would apply, respectively, to both high and low option enrollments.

Mr. Chairman, although I am cognizant of the fact that H.R. 3955 proposes greater percentage increases within a shorter span of time than does your bill, H.R. 9620, it is my strong belief that to do less than that proposed by either bill will perpetuate the unfair practice of requiring retirees and employees to bear the "lion's share" of incessantly rising health care costs.

STATEMENT OF HON. ROBERT N. C. NIX, MEMBER OF CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. Nix. Thank you very much for the opportunity to testify before your subcommittee on the support of my bill, H.R. 5987.

I will not be able to attend your hearings, but I certainly want to add my support to the proposal that the Federal Government should increase its percentage paid to the health benefit annuity fund for Government employees.

My bill will increase the Government's contribution to 66 $\frac{2}{3}$ percent of the subscription charges.

I believe that this increase is reasonable because only the Federal Government, by vigorous negotiations, can keep health insurance charges at a reasonable level.

I think a greater percentage contributed could be that much more incentive to the Government of the United States to protect its interest and the interest of the employees in a reasonable health benefits program.

Your subcommittee has shown that the cost of health insurance programs has been skyrocketing throughout the United States. It is no longer possible for employees to bear the major portion of such costs.

I hope that you will place my letter in the record in order to make my position clear.

Congratulations on your hearings and your interest in the welfare of Government employees.

STATEMENT OF HON. JAMES M. HANLEY, A MEMBER OF CONGRESS FROM THE STATE OF NEW YORK

Mr. HANLEY. Mr. Chairman, I would first like to commend you and your subcommittee for the admirable interest you have taken in the whole question of health care benefits for Federal employees. Your hearings on the quality of these programs will, I hope, lead to significantly increased benefits and a more efficiently run program.

Today, I would like to briefly state my strong support for H.R. 9620. The bill would provide ultimately, in graduated increases, for the Government to pay 75 percent of the cost of most employees' health benefits programs. This is an important step forward in making our health fringe benefit package competitive with that of the more progressive elements in private industry.

If I had any complaint about the bills pending before you today, it would be that they do not go quite far enough. I look forward to the day when we can provide 100 percent for our Federal employees. Nevertheless, H.R. 9620 is a good bill and I strongly urge the subcommittee to approve it. I certainly pledge my wholehearted support when it comes before us in the full committee.

STATEMENT OF HON. JOEL T. BROYHILL, MEMBER OF CONGRESS FROM THE STATE OF VIRGINIA

Mr. BROYHILL. Mr. Chairman, it is a pleasure to appear before your subcommittee today to urge enactment of legislation, of which I am a cosponsor, to increase the Federal Government's contribution to its employee health insurance premiums.

I was privileged to serve on this committee in 1959 when we inaugurated the health insurance program for Federal employees. We determined then that a 50-to-50 participation plan was fair and reasonable. But because it was a new program and the cost to the Government was not yet estimated, we adopted a formula wherein the Government would pay 50 percent of the cost of the least expensive low option family program. By virtue of the type of insurance plan the employees adopted, however, the cost distribution at the time of enactment amounted to a 38 percent cost for the Government and a 62-percent cost for the employee. By the time this committee considered the

matter again last year the formula had been reduced, by increasing medical care costs and subsequent premium increases, to a 24-to-76 ratio. The committee by its action last year restored the program to the 50-to-50 ratio which I believe Congress first intended, and this legislation passed the House only to have the Government contribution again reduced to 40 percent in the House-Senate conference on the legislation.

It is difficult for me to understand how the administration can oppose this legislation for so-called economy reasons when in just a few weeks they will be parading before the Committee on Ways and Means urging passage of legislation for the private sector at astronomical cost to make mandatory contributions of 65 percent by all employers for their employee's medical insurance for 2½ years after enactment and of 75 percent thereafter. One would think that if they realize that skyrocketing medical costs make some form of health insurance an urgent national need they would also realize that this legislation would set the Government up as an excellent example to follow without force.

Mr. Chairman, we know our employee health benefit premiums will be increased in January. If we are not successful in obtaining more equitable treatment for Federal employees in the wage freeze field, they will receive smaller paychecks beginning in January as a result. I therefore urge that the committee not only report favorably legislation such as that under consideration today, but that we even go a step further and meet the even more liberal contribution now being urged for all employers. By doing this it would seem to me that we can keep Uncle Sam from lagging still further behind private industry in providing employee benefits. This seems an excellent opportunity for the Government to lead as the Nation's largest employer, and I urge the committee to insure that it does so.

STATEMENT OF HON. LOUISE DAY HICKS, MEMBER OF CONGRESS FROM THE STATE OF MASSACHUSETTS

Mrs. HICKS. When the Federal employees health benefits program was established in 1960, it immediately became the largest employer-sponsored voluntary health plan of its kind, not only in the nation, but in the world. During the first decade of its existence, the number of employees, annuitants, and dependents covered under the program has grown from 5 million in 1960 to a present level of roughly 8.2 million people. From the start, Federal employees signified their approval of the program by the fact that approximately 90 percent of those eligible for the program enrolled or were covered through their spouse's or parent's enrollment.

In the opinion of many experts in the health insurance field, the FEHB program has proved itself to be an excellent model for large-scale group insurance plans. Employees are provided with a uniquely wide range of choice among 40 different types of plans—service benefit, indemnity benefits, group-practice prepayment, and individual practice prepayment—along with a choice between low or high options, or levels of protection.

The benefits offered by the 40 participating plans are comprehensive, both in an absolute sense and in comparison with benefits offered by leading employers in private industry. At the present time,

the program is paying for benefits currently valued at more than \$1 billion annually. About one-third of the 8 million people protected under the program receive covered medical care and benefits each year.

Recently, however, one aspect of the program has met with an increasing amount of criticism. Evidence has been presented before the House Committee on Post Office and Civil Service indicating that the Federal Government, as a major employer, is lagging far behind major employers in the private sector in assuming its fair share of the costs for employee's health insurance premiums.

In contrast, to major industrial employers who pay most, if not all, of the costs of comparable health benefits protection for their workers, the Federal Government is presently paying less than half of the total cost of the FEHB program.

A year ago, Congress enacted Public Law 91-418, which removed the totally unrealistic dollar limitations previously imposed upon the Government's contribution to premium charges. Under Public Law 91-418, the new rate of Government contribution was set at 40 percent with the Federal employee paying the remaining 60 percent of total premium cost. This increase in the percentage of Government participation in costs made it possible for many employees to continue coverage under the program.

Had the legislation not been enacted, the 17 percent average increase in premium rates which went into effect last January would have made the cost of coverage under the program prohibitive for many employees and would have caused them to cancel, or reduce the level of, their protection.

Just this month, however, it has been reported that premiums for the Federal health benefits program may very likely jump once again by as much as 20 percent, effective January 1, 1972. Although the Government would bear 40 percent of this proposed increase, the Federal employee would have to make up the difference, and out of a salary already hard-pressed by the administration-proposed freeze on the 6 percent cost-of-living adjustments previously scheduled to go into effect next January.

It seems to me patently unfair to continue to expect Government employees to bear a substantial burden of the ever-increasing costs of health insurance protection, especially at a time when their wages and salaries may well be subjected to a Government-imposed freeze. A number of proposals have been recommended to change this situation. Some of these bills call for the Government to pick up anywhere from 75 to 100 percent of the cost of employees' health insurance premiums. I fully support the idea of increasing the Government's share in health insurance costs for Federal employees. However, I also believe that a more moderate approach is called for, an approach which would increase the Government contribution at a rate it can well afford and which would still require employee participation in premium costs.

In view of these considerations, I have introduced a bill, H.R. 7774, which would increase the rate of Government contribution toward premium charges. Under my bill, the Government would pay 66 $\frac{2}{3}$ percent of health insurance subscription charges for Federal employees.

The employee would pay the remainder—33½ percent—or about half the amount he is currently paying.

My proposal would enable the Federal Government, as an employer, to reaffirm its commitment to the health and well-being of its employees.

Adjustment of the rate of Government contribution would assure continuation of adequate health insurance coverage for millions of Federal employees and their dependents.

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

Mr. McCART. Mr. Chairman and members of the subcommittee, the Government Employees Council and its 31 affiliated unions are deeply grateful to you for arranging this hearing on the Federal employees' health benefits program and the extent of the Federal Government's participation in financing the system.

We are conscious and appreciative of your introduction of H.R. 9620 authorizing the Federal Government to defray the entire cost of health benefits coverage for employees and their families. The fact that 25 of your colleagues in the House—eight of whom are members of the Post Office and Civil Service Committee—have sponsored health benefits measures is an indication of the widespread interest in the Federal Government's program, which is the largest of its kind in the world. The council is grateful for their genuine concern about this serious problem.

When the general health plan was enacted in 1959, the principle underlying cost was that the employer and employees would share the expense equally. This assumption is found in Senate Report 468 and House Report 957, 86th Congress. However, the fact that the Federal Government was embarking on an overall program affecting the largest number of employees and dependents in the Nation resulted in language in the law limiting the 50-50 relationship to low-option coverage.

Today, more than 85 percent of Federal employees participate in high-option plans. When the program was inaugurated, the Government's share of premium cost to this kind of coverage was about 38 percent. Last year, Congress enacted Public Law 91-93, pegging the Government's contribution to health benefits cost at 40 percent. We are grateful, indeed, for this action. What it means, however, is that in the 12 years the program has been in existence, the employer's share of premiums has increased about 2 percent. In addition, the goal envisioned when the system was inaugurated has never been achieved.

Contrast these developments to the trend among other employers in financing employee health coverage.

For more than 30 years, unions and management of the Tennessee Valley Authority have agreed to wage and salary levels and fringe benefits for employees through the collective bargaining process.

At present, TVA and its employees have a contributory health benefits program. The ratio of employer and employee contributions for family, high option coverage is approximately 90 percent and 10 percent. For salaried workers, TVA pays approximately 80 percent of the cost and the employee contributes 20 percent.

Table I appended to this statement supplies the actual monthly premium rates for these two groups of employees.

The method of arriving at this formula is of more than passing interest. A survey of some 50 private firms in the area serviced by TVA is undertaken. In addition, the Federal Government's practice is reviewed. The parties bargain on the basis of this study.

The most impressive point is that the private industry data producing the TVA method of financing is acquired in the following States—Tennessee, Kentucky, Mississippi, Alabama, and Georgia. As a matter of fact, introduction of the Federal Government's contribution formula has a depressing effect on the situation in TVA.

Another perspective is given the problem in studies of new health insurance policies written by private insurance companies undertaken by the Health Insurance Institute. The latest figures available reveal that between 1963 and 1968 more than 40 percent of the employees had the total cost of their group health insurance paid for by the employer.

The Department of Labor has studied the trends in health care coverage for workers over several decades. A recent examination by the Bureau of Labor Statistics compares the percentage of plant and office workers whose health care premiums are defrayed solely by employers. It shows clearly that in 1969-70 for both categories of workers a large and growing number of companies are extending free health insurance. A simple illustration of this finding is attached as table II.

A Department of Labor press release dated May 18, 1970, highlights employer expenditures for supplemental benefits in private industry and Federal service. The information discloses that for life, accident, and health insurance, private companies expended 2 percent more of payroll on these items than the Federal Government.

It is clear, then, that other industries have made rapid advances in recent years in assuming the entire cost of employee health coverage. The Federal Government during the same period has increased its share of health benefits payments by only 15 percent to a total of 40 percent.

At its biennial convention in October 1969, the American Federation of Labor-Congress of Industrial Organizations adopted a program for the Federal employees represented by its unions. Included was—

Legislation for the Federal Government to defray the entire cost of health benefits.

Several formulas are included in the bills under consideration by the subcommittee. Some advocate that the Government and its employees share premium costs equally; others propose that the Federal Government's ratio be fixed at three-quarters, two-thirds, or that it defray the entire amount through periodic increases.

We are convinced that there is ample justification for the Government to pay the entire cost of health coverage for its workers and their families, based upon the persuasive evidence offered earlier in this statement. Acceptance of any other legislative proposal will provide only modest, but sorely needed relief from the inequitable financial burden now carried by Federal workers in the area of health insurance.

Mr. Chairman, we believe deeply that simple justice requires that the Government accelerate the rate of its employer contribution to the

Federal program. We urge, therefore, that the subcommittee move promptly to accomplish this objective by approving the pending legislation.

Attachment.

TABLE I.—TENNESSEE VALLEY AUTHORITY EMPLOYER AND EMPLOYEE SHARE OF HEALTH BENEFITS PREMIUMS

	Total premium	TVA pays	Employee pays
Salaried employees:			
Individual.....	\$13.35	\$10.70	\$2.65
Family.....	36.25	28.30	7.95
Trades and labor:			
Individual.....	11.49	9.50	1.99
Family.....	33.48	29.50	3.98

TABLE II.—PROPORTION OF WORKERS IN METROPOLITAN AREAS COVERED BY NONCONTRIBUTORY HEALTH PLANS, 1969-70

	Plant workers	Office workers
Hospital.....	66	53
Surgical.....	66	53
Basic medical.....	59	49
Major medical.....	37	45

STATEMENT OF CLAUDE E. OLMSTEAD, PRESIDENT, NATIONAL RURAL LETTER CARRIERS' ASSOCIATION

Mr. OLMSTEAD. Mr. Chairman, members of the subcommittee, my name is Claude E. Olmstead. I am president of the National Rural Letter Carriers' Association, representing approximately 62,000 regular, retired and substitute rural letter carriers.

Our association is pleased that the subcommittee is holding hearings on the important problem of funding the Federal health benefits program. We appreciate the introduction of H.R. 9620, the bill under consideration, which provides for increasing the Government's contribution to 55 percent in January 1972 and provides further for additional increases of 5 percent annually until the Government's contribution reaches 75 percent. Securing a more equitable division of premium costs between the employer and the employee is a major goal of our association and we thus give our wholehearted endorsement to this legislative proposal.

Our association sponsors the rural carrier benefit plan. This plan has an enrollment of more than 23,000 employees and annuitants and, with the dependent coverage under these enrollments, provides health insurance protection for more than 70,000 individuals. Our health plan, just as all of the health plans in the Federal program, is undoubtedly providing a greatly needed and most worthwhile benefit program. This organization strongly supported the enactment of Public Law 86-382, which effected the Federal health benefits program as of July 1, 1960. Our health plan was established under that act and is now in its 11th year of operation. We know that those insured in the rural carrier benefit plan are most appreciative of the fact that such a health insurance program is available to them through their

employment. Over the years, we have been successful in negotiating contract renewals to keep the benefit structure in line with the increasing costs of health care in this country. During the past 11 years, we have also been successful in upgrading the benefits of the plan and thus today provide many benefits which were not available in the original contract effected in 1960. We know that the rural carrier benefit plan is offering to the rural carriers of this country a very adequate type of health insurance protection. Thus, in our opinion, we believe that the administration of the Federal health benefits program has generally kept pace with both the changes in the field of medical care and in providing a benefit structure to assure reimbursement in line with the constantly increasing costs of securing needed health care. In this respect the intent of Congress in enacting legislation establishing the program has been complied with rather successfully.

The principal flaw in the health program is the fact that the Federal Government, as the employer, has failed to adequately participate in the funding of the health plan. In 1960, the Government contributed a maximum of \$3.12 per pay period for its employees. Public Law 89-504, enacted in 1966, increased this contribution to \$4.10 per pay period. Unfortunately, the Government contribution set in a fixed dollar amount failed to maintain any equity in the division of costs. The rising costs mandated premium increases and the entire amount was then assessed directly against the insureds.

We were very pleased with the action of this subcommittee and the House in the last session of Congress which resulted in approving legislation to increase the Government's contribution. As this legislation finally cleared the Congress, it provided that the Government's share of the premium costs would be set at 40 percent of the average of the high option premiums charged by six of the largest plans. This became Public Law 91-418 and the change was effected in January of this year. It resulted in an increase in the Government's contribution to \$8.64 each pay period.

This was a tremendous improvement. It does not, however, meet what we believe was the original intent of Congress in the enactment of the Federal Health Benefits Act; and that was a Government contribution of at least 50 percent of the cost. The legislation being considered would correct this funding problem.

We are aware of the fact that the administration is opposed to the enactment of H.R. 9620 and/or any other legislation which will increase the Government's contribution. We find it difficult to accept that decision of the administration. The President has recommended to the Congress the enactment of legislation which would establish health insurance programs in the private sector and provide for an employer contribution of 75 percent of the cost. We feel that the U.S. Government should set the pace in the fringe benefit area by providing nothing less for its own employees who are covered under the Federal health program. H.R. 9620 would accomplish that and, in recognition of budgetary considerations, spreads the cost over a period of 6 years. It is a fair, reasonable approach.

There are numerous statistics available regarding the comparison of total fringe benefit costs for employees of the U.S. Government as compared to fringe benefit costs in private industry. The latest figures from

the Bureau of Labor Statistics, which are based on data collected in calendar year 1968, indicates that the Government expenditure for fringe benefits represents 24.3 percent of basic salaries and private industry costs represent 25.1 percent of basic salaries. There have been tremendous strides made in private industry since the calendar year of 1968; likewise, we acknowledge improvements in the field of Government employment. It is not possible to compile any meaningful statistics to present a more current picture than that developed by the Bureau of Labor Statistics for the calendar year 1968. We do know, however, that the trend in private industry has been strongly directed toward improvement in fringe benefit areas. Many contracts negotiated since 1968 provide health insurance coverage on a noncontributory basis—which simply means that the employer pays for the full cost. When upgraded statistics for 1969 and 1970 are made available by the Bureau of Labor Statistics, we feel quite certain that the ratio of total fringe benefit costs will not disclose that the Government has moved ahead of private industry. Based on the data available, it would certainly appear that a change to improve the funding formula of the Federal health benefits program, particularly to at least 50-to-50 ratio, would not place the Government ahead of private industry in the field of fringe benefits.

Mr. Chairman, members of the subcommittee, we appreciate this opportunity to submit our views on the legislation being considered. We trust that the committee will either approve H.R. 9620 or draft a similar bill to provide nothing less than a 50 percent contribution by the Government toward the cost of the Federal health plans.

STATEMENT OF ROBERT L. SCALES, PRESIDENT, NATIONAL ASSOCIATION OF ASCS COUNTY OFFICE EMPLOYEES

Mr. SCALES. Mr. Chairman and distinguished members of this committee, I am Robert L. Scales, county executive director of the Aurora County, South Dakota ASCS office. I am also president of the National Association of ASCS County Office Employees, better known as NASCOE. We certainly appreciate this opportunity to appear before this distinguished group in support of H.R. 9620.

NASCOE is a voluntary organizations of county office employees who work in the nearly 2,800 county ASC offices in the United States and 98 percent of the employees eligible are members of the association. These employees are responsible for carrying out the administration and assignments of various Federal farm programs assigned to them by the Congress and directed by the Secretary of Agriculture.

Although the employees are technically employed by the County ASC Committee, all of their functions are Federal. The Congress in its wisdom placed us under the Civil Service Retirement Act, the Federal Employees Group Life Insurance Act, and the Federal Employees Health Benefits Act, effective July 10, 1960. For this action we are very grateful indeed.

In support of H.R. 9620, we believe that this bill will serve to bring about more equitable treatment in the amount Federal employees pay for their health insurance premiums and that paid by employees in private industry.

We believe that the provisions of this bill should be a minimum figure in this effort and serious consideration should be given to any amendment that will give Federal employees full equity with employees in private industry in their health insurance program.

Mr. Chairman, again let me say that we appreciate very much the opportunity to appear before this committee and present this testimony and we wish to commend you for your efforts to more equitably share the cost of the Federal health benefits program.

Mr. WALDIE. The committee stands adjourned.

(Whereupon, at 12:31 p.m., the hearing was adjourned.)

(The statement which follows was received by the subcommittee for inclusion in the record:)

STATEMENT OF ROGER P. KAPLAN, GENERAL COUNSEL, NATIONAL ASSOCIATION OF
GOVERNMENT EMPLOYEES

The National Association of Government Employees welcomes the opportunity to comment on H.R. 9620 which would increase the Government's contribution under the Federal Employees Health Benefits Program from 40% to 55% in January, 1972, with an additional increase of 5% in each succeeding year until the Government contributes 75%. We are grateful to you, Mr. Chairman, and Mr. Hillis, Mr. Scott, and Mr. Hogan for their co-sponsorship of this bill.

The legislative history behind Public Law 86-362 which established the Federal Employees' Health Benefit Program indicates that the Federal Government should offer health insurance programs comparable to employers in private industry. As of the present date, the Federal Government is lagging far behind the steps that have been taken by some of our large private employers. Many of our private employers are already paying 75% of health insurance premiums and some of our private employers are paying 100% of these premiums.

If the Federal Government hopes to recruit top talent for government service, it can offer no less than that of private industry. President Nixon in February of this year, suggested that private industry pay a minimum of 65% of health insurance premiums in 1973 with that figure increasing to 75% in 1976. There is no justifiable reason why the Federal Government should not adopt the same standard.

Although we would rather see H.R. 2586 become law, we are realistic enough to see that a 100% payment by the Federal Government of insurance premiums has little or no chance of passage. Passage of H.R. 7807 would be a step in the right direction, but it would not solve the total problem that confronts the government employee. Passage of H.R. 9620 would, once and for all, put the government employees on an equal stature with employees in private industry.

The Civil Service Commission contends that an increase in the Federal Government's share of insurance premiums cannot be justified at the present time. We feel that such an increase cannot be withheld any longer. Medical costs are rising each year. Yet, the burden of these costs has fallen upon the federal employee. If the Federal Government was required to increase its share in the medical costs, it would exert its greatest effort in trying to control the rising medical and hospital costs. At the present time, the Federal Government has little incentive to control these costs. However, it is the Federal Government that possesses the real power in curbing runaway hospital and medical costs.

With the rising costs of health insurance, this organization has strong queries as to how many of our federal employees will be able to afford this insurance in the next 3-5 years. Few, if any, employees can afford not to have health insurance. Yet, unless the Government is required to increase its share of these costs, more and more of our federal employees will not be able to afford the needed health benefits.

The National Association of Government Employees is dedicated to the achievement of a 100% payment by the Federal Government of health benefits. However, the passage of H.R. 9620 is the quickest step in that direction.

We sincerely thank the Committee for its work in this area and for the opportunity to present our views on this important legislation.

(The article which follows was received for inclusion in the record.)

Changes in health and insurance plans for salaried employees

Study of major plans
reveals significant improvements
in protections
during 6-year period

DOROTHY R. KITTNER

MAJOR COMPANIES substantially improved the health and insurance protection of their salaried employees during the past 6 years. Although improvements in both the levels and types of benefits provided salaried workers were almost always unilaterally made by the employer, they often reflected gains achieved by production workers through collective bargaining. Some of the changes, however, reflected the employer's awareness of the necessity of broader and greater coverage to meet changing standards of health care protection and rising living costs, particularly medical costs.

Health and insurance plans for salaried workers generally provided greater income protection and more comprehensive coverage than plans for production workers. In particular, plans for salaried workers included optional life insurance, long-term disability benefits, and major medical benefits more frequently than those for production workers. Also, salaried employees, unlike most production workers, often continued to receive their regular pay while temporarily absent from work because of illness.¹

Some recent improvements in salaried employee benefit plans represent interesting innovations and special benefits supplementing or liberalizing existing private plan benefits, while others involve new ways of supplementing government-provided benefits, such as Medicare and disability pensions. In the income area, a special survivors' benefit, which provided certain survivors a percentage of the deceased employee's salary for at least 12 months, was increasingly superimposed on basic and optional life insurance benefits.² In the health area, liberal benefits for convalescent and nursing home care, psychiatric care, and dental

care are now added to health care packages. Service benefits, covering surgical-medical care for all employees regardless of their incomes, became more frequent as more plans paid all reasonable and customary charges of physicians and surgeons instead of a fixed allowance.³

Although benefits paid for solely by the employer (noncontributory) became more common, many workers still had to pay part of the cost of their health and insurance plans. In 1968, as in the previous 5 years, more than 40 percent of all employees surveyed by the Health Insurance Institute participated in noncontributory programs, and more than half were in contributory ones.⁴ Of course, as implied by the term "optional," all employees with optional life insurance coverage paid at least part of its premium, and those with long-term disability and major medical benefits coverage usually helped finance it. As in the past, the proportion of office workers with noncontributory benefits lagged behind the proportion of plant workers whose benefits were similarly financed. The only major exception to this generalization is in the area of major medical coverage, as shown in the following tabulation, showing the proportion of workers in metropolitan areas during 1967-68 covered by noncontributory benefit plans:

Benefit	Plant workers		Office workers	
	1967-68 period	1967-68 period	1963-64 period	Percent increase since 1963-64
Life insurance.....	66	58	64	7
Accidental death.....	42	33	28	18
Weekly accident and sickness.....	47	26	21	24
Hospital.....	63	50	46	9
Surgical.....	64	49	46	11
Dental medical.....	55	44	36	22
Major medical.....	30	39	28	39

Nevertheless, since 1963, there has been a noticeable increase in the proportion of office workers covered by plans paid for entirely by their employers.⁵

Dorothy R. Kittner is an economist in the Division of General Compensation Structures, Bureau of Labor Statistics.

In 1963 and again in 1969, the Bureau of Labor Statistics compiled a digest of health and insurance plans covering salaried employees of major companies.⁶ These plans, selected to illustrate only those of large manufacturing and nonmanufacturing firms, are not necessarily typical plans, nor are they a representative selection. Improvements in the plans contained in the BLS digest frequently occur earlier than in other plans, and innovations are often made in them which, with appropriate modifications, are later adopted by others, and thus are pattern-setting. The following discussion, limited to these plans, examines changes made between 1963 and 1969.

Prevalence of benefits

While all plans provided for basic life insurance in 1963 and 1969, almost twice as many provided optional life insurance as in 1963 and almost 3 times as many paid special benefits to relatives of deceased employees. Long-term disability benefits were provided by almost half the companies studied—a fivefold increase since 1963 when only approximately 1 in 10 provided such benefits.⁷

Since 1963, there has been a slight decline in the proportion of plans that offer basic hospital and surgical-medical benefits to their active employees and their dependents, but in 1969, as in 1963, those not offering basic benefits offered comprehensive major medical plans, which usually provided broader protection than most basic benefit plans. Between 1963 and 1969, three of the plans substituted comprehensive major medical benefits for basic hospital-surgical-medical benefits. Major medical benefits now are offered by nine-tenths of the plans studied. In 1963, slightly more than four-fifths of them had this benefit.

Psychiatric care and treatment in facilities other than hospitals are now specifically offered in three plans. Previously, no plan had a benefit solely for this type of care. However, the basic hospital benefits of most plans provided coverage for hospital confinement for short periods due to mental and nervous disorders, and the major medical benefit, when available, covered a limited amount of out-of-hospital psychiatric treatment both in 1963 and 1969.

In both years, 4 out of 5 of the companies continued life insurance coverage for their employees after retirement and 2 out of 3 continued health benefit coverage. Upon retirement at age 65,

optional life insurance is usually discontinued, basic life insurance is reduced, and health benefits are modified so as to supplement rather than duplicate Medicare. Since 1963, only three companies, which previously required the retirees to pay the full cost of their health benefits, discontinued health benefits for retirees. Of course, salaried employees of these companies who retire at age 65 are eligible for Medicare protection, as are most employees age 65 and over in private industry.⁸

Plans covering active employees

FINANCING. In early 1969 about 1 out of 6 of the companies paid the full cost of all benefits, except optional (added) life insurance. Basic life insurance was provided without charge to employees of more than 2 out of 5 of the companies studied; in 1963, more than half the plans required employee contributions. Optional life insurance was generally offered on a contributory basis but only two of the plans required employees to pay the full cost of their added insurance.

Long-term disability benefits, generally not provided in 1963, were fully paid for by about 30 percent of the firms that offered them. About 30 percent of the other companies with this benefit required employees to pay the full cost of it. In the remaining cases, company and employees shared the cost.

Roughly half of the companies studied paid the full cost of all health benefits covering their salaried employees. Five of these, however, required their employees to contribute toward or pay the full cost of their dependents' coverage. In addition, seven companies paid the basic health program's full cost but required their employees to contribute toward major medical coverage. Six years earlier, more than two-thirds of the plans required employees to contribute toward their own basic benefits.

The striking change in the financing of health and insurance benefits for salaried workers during the past 6 years became apparent only when the same package of benefits available in 1963 was compared with those available in 1969. By early 1969 one-third of the companies paid the full cost of benefits available to salaried employees and their dependents, compared with one-seventh in 1963.

LIFE INSURANCE. Since 1963 almost half of the companies made one major change or more in the life insurance benefit offered salaried employees. The most typical change being a revision of the benefit schedule or formula to provide almost everyone with greater protection. In a few cases, however, only those workers at the lower or higher salary levels profited by the revisions. Different levels of coverage were eliminated between 1963 and 1969 in those few cases where greater life insurance coverage had been provided men than women. At least for insurance purposes, all of the companies treated men and women employees alike.

The level of life insurance protection for salaried employees is generally geared to salary levels. In early 1969, basic and optional coverage provided by most companies ranged from an amount approximately equal to annual salary to 4 times salary. Six years earlier, maximum coverage provided by several companies was much less than annual salary and only one company had insurance limits which exceeded 3 times salary. A few plans adopted changes between 1963 and 1969 that adversely affected some future participants—generally those to be hired into entry-level jobs—while improving the plan for all others. This type of revision does not adversely affect the benefits of current plan participants, but does occasionally result in lower benefits being offered to future participants at certain entrance-level salaries than prevailed under the superseded plan. One of the ways that this can occur is illustrated by changes in the Douglas Aircraft Co., Inc. plan. In 1969, the Douglas plan provided basic coverage equal to annual salary plus optional coverage in the same amount; 6 years earlier, the plan had offered \$9,000 basic coverage to all employees plus optional coverage based on an earnings schedule. As a result basic coverage for employees currently hired at \$5,000 and \$10,000 is \$5,000 a year less than it was in 1963. Those workers previously employed at these salary levels continued to receive the insurance protection they had previously enjoyed. However, because basic coverage under this plan is now based on annual salary, new employees earning over \$9,000 yearly get more noncontributory insurance coverage than they would have received in 1963.

Some modifications made by companies in the life insurance benefit increased the basic coverage amount provided by the company on a non-

contributory basis without affecting total coverage. This was accomplished in one of the plans by eliminating the contributory optional insurance provided in 1963 and increasing the free basic insurance by a corresponding amount.

INCOME PROTECTION BENEFITS. Income protection was usually provided during temporary disability periods either by an insured weekly accident and sickness benefit, the company's self-insured paid sick leave plan, or both. The "building block" approach used when both these benefits are provided guarantees employees, with few exceptions, full pay for a specified period and part pay for an additional period.⁹ A significant number of companies also provided nonmanagerial employees income protection benefits during long-term disabilities.

ACCIDENT AND SICKNESS BENEFITS. For most employees the accident and sickness benefits offered by the companies were considerably higher than those available 6 years ago. Nevertheless, higher-paid employees frequently were eligible for a smaller fraction of their salary than lower-paid employees. For example, with few exceptions, the size of the benefit in early 1969 for the \$5,000-a-year man ranged between 50 percent of weekly salary and 75 percent, the median plan paying between 60 and 65 percent. By contrast, the size of the benefit for the \$10,000-a-year man ranged from 25 percent to 75 percent with the median plan paying between 40 and 45 percent of weekly salary. The amount of the benefit and the ratio of benefit to average salary rose substantially between 1963 and 1969. For example, the \$5,000-a-year employee's benefit in 1969 averaged \$59 (62 percent of his weekly salary) as compared with \$55 (57 percent of salary) in 1963.

Between 1963 and 1969, only a few plans extended the duration of accident and sickness benefit periods. Three plans made changes with two of them doubling the period to 52 weeks (none had a longer period) from 26 weeks and the other, to 26 weeks from 13 weeks. One out of 5 companies with accident and sickness benefits provided them for 52 weeks in 1969 and 7 out of 10 for 26 weeks. In 1963 about one-eighth of the plans with accident and sickness benefits made payments for 52 weeks and two-thirds for 26 weeks.

LONG-TERM DISABILITY. These benefits are usually

designed to assure totally disabled employees an income until age 65 when normal retirement benefits under private pensions typically become available.¹⁰ Because age and long service are rarely considered in determining the employee's eligibility, these plans are of special importance to young and new employees, who could not qualify for regular disability retirement benefits under their company's retirement plan, and to employees with short service who are entitled only to small inadequate disability retirement benefits. Following the qualification standards developed under Social Security, the plans required employees to be totally disabled for 6 months to become eligible for benefits. While waiting, they usually collect some weekly accident and sickness benefits, sick leave pay, or both.¹¹

Under long-term disability plans, all eligible employees typically are guaranteed a specified monthly income. The benefit paid never equaled full pay, but together with other benefits generally provided at least half pay. The actual amount paid by the plan, however, usually depended on the employee's Workmen's Compensation, Social Security, and private retirement plan benefits. Most of the companies explicitly reduced monthly benefit payments by these other payments. One, however, deducted only half of the employee's Social Security benefit. Of course the few companies paying benefits without a Social Security reduction probably considered Social Security payments in establishing the benefit formula. This type of consideration seemed particularly likely in the case of one plan that established a monthly payment equal to 25 percent of monthly salary plus 35 percent of salary in excess of \$550 monthly (in 1966 and 1967, earnings above this amount were not subject to Social Security taxes).

Most plans provided payment until the employee's disability ended or until he reached age 65, whichever occurs first. However, under one plan, the employee's length of service determined the duration of benefit payments. Those with less than 5 years of service received payments for 5 years; those with 5 but less than 15 years received benefits for a period equal to their length of service, and those with at least 15 years of service, received them until normal retirement.

The monthly payment under long-term disability plans (as shown in table 1) was calculated with four exceptions, by using a "percentage of salary" formula, frequently with an upper limit

on the monthly benefit. The excepted plans either graded the percentage used in the computation according to salary and service, paid a larger proportion of an employee's salary during the first part of his disability than later on, used a combination flat amount and percentage-of-salary formula, or paid a flat amount based on an earnings schedule.

HOSPITAL BENEFITS. Basic hospital benefits are not quite as common in the plans in 1969 as they were in 1963. Two plans that dropped this benefit, as well as one that never had it, helped defray hospital expenses by providing comprehensive major medical benefits. Many of the remaining plans provide hospital benefits that differ in one respect or more from those in effect in 1963. The principal changes involved lengthening the duration of benefit payments, switching from cash benefits to service benefits, and increasing cash allowances for room, board, and ancillary services.

Service hospital benefits, such as those provided by most Blue Cross plans, have a built-in cost adjustment feature. Because they cover the full cost of hospital confinements for specified periods, the monetary value of service benefits increases as hospital charges for room, board, and ancillary services increase and as more services—often requiring expensive new machinery and personnel—are provided owing to technological advances in hospital care and treatment. The value of and protection provided by the plans

Table 1. Distribution of plans by long-term disability benefit formula

Benefit formula for monthly disability payment	Number of plans
All digest plans with long-term disability benefit.....	23
Including Social Security and other statutory benefits, and private disability retirement benefits:	
50 percent of salary.....	14
No maximum payment.....	19
Maximum payment (\$1,000-\$3,125 monthly).....	5
60 percent of salary.....	3
No maximum payment.....	2
Maximum payment (\$2,000 monthly).....	1
66½ percent of salary (maximum, \$2,000 monthly).....	1
80 percent of after-tax salary (maximum, \$3,000 monthly).....	1
25 percent of salary under \$550 monthly; 35 percent of salary over \$550.....	1
Gratuaded amount based on salary.....	1
Gratuaded percent of salary based on salary and service.....	1
\$100 plus 50 percent of salary over \$400 monthly.....	1

¹ Under one plan only employees earning \$5,600 annually or more, are eligible for benefit. One plan provided a minimum benefit of \$265 monthly, another paid two-thirds of salary during first 24 months, and another paid employees with at least 15 years of service, an additional 1 percent of salary for each year of service over 15.

² Under one plan only employees with earnings of \$400 monthly or more are eligible for benefit, and under another, only employees earning \$15,000 annually or more.

³ Only employees with annual earnings of \$7,000 or more were eligible for benefit.

⁴ Applicable to employees with less than 15 years of service; employees with at least 15 years of service received \$100 plus 20 percent of salary over \$400 monthly.

with service benefits increased significantly during the past 6 years.¹² In particular, the protection provided by the six plans that switched from cash to service benefits since 1963 was superior to that provided previously.

Most of the Digest plans provided service-type benefits with only about 1 out of 5 paying cash allowances. These plans have substantially higher room and board allowances than in 1963, the amounts ranging from \$14 to \$40 a day compared with \$12 to \$18 in 1963, and averaged \$28 instead of about \$15. Only one plan paid under \$20 a day but 5 paid at least \$30. As a result, since 1963 the 87-percent increase in the average room and board allowance of the plans with cash hospital benefits surpassed the 66 percent increase in semiprivate room and board charges reported in the Bureau's Consumer Price Index.

Not only have the major companies covered a larger proportion of the hospital charge because of a switch to service benefits for room and board or payment of higher room and board allowances, but about half the companies also increased the maximum number of days for which full benefits were payable. By early 1969, over three-fifths of the plans provided full benefits for 120 days or more of hospital confinement compared with one-half in 1963 and the number of plans providing full coverage for at least 365 days of hospitalization increased from 8 to 11.

Additional improvements were made by plans that shifted from cash to service benefits for room and board. They changed their ancillary service benefit from a cash allowance to the full cost of specified services. In addition, plans that increased the duration of room and board benefits also made identical increases in the period during which the ancillary services were payable. The maximum allowances of plans which paid the full cost of such services up to a specified amount, ranged from \$300 to \$450 with two exceptions. One of the excepted plans paid \$150 and the other, \$800. In 1963 only two plans with cash benefits had an ancillary allowance of \$300 or more.

SURGICAL BENEFITS. Over half of the companies revised their plans' surgical benefits by raising the maximum payable for surgical procedures. In addition, six companies improved their surgical benefit by switching from fee-for-service benefits to full payment of reasonable and customary charges. Under the scheduled benefit plans, al-

lowances for all procedures were not affected to the same extent, the greatest increase generally occurring in those for the most expensive operations.

BASIC MEDICAL BENEFITS. Over half of the companies with basic medical benefits (benefits for nonsurgical treatment by a physician), revised these benefits during the past 6 years. In addition to paying the entire surgeon's fee, four plans also paid a reasonable and customary fee to physicians for in-hospital nonsurgical treatment instead of providing a cash allowance as in 1963. These plans, like most of those with basic medical benefits, did not cover medical treatment in the home or doctor's office. The remaining ones slightly raised the allowance for in-hospital (and if covered, out-of-hospital) visits. As a result, 11 plans (up from 4 in 1963) paid at least \$5 for an in-hospital treatment.¹³

MAJOR MEDICAL BENEFITS. In early 1969, three-fourths of the 44 plans that had a major medical benefit, specified a uniform amount of medical expenses (the deductible) that employees, regardless of their earnings, had to pay before the major medical benefit became operative. In 1963, two-thirds specified a uniform deductible. This difference from 1969 levels reflected a decrease in the proportion of plans with a deductible graded by employee's annual earnings. However, because all plans dropping a deductible tied to earnings retained a minimum deductible of \$100, the change to the uniform amount did not aid lower paid employees. In fact, only two companies reduced the deductible for everyone—one reducing the amount from \$100 to \$75, and the other, from 4 to 3 percent of earnings. Most plans allowed employees to meet the deductible by accumulating all medical expenses for an entire calendar year. This and other types of deductible accumulation periods are summarized in table 2.

Plans modified the coinsurance provision by raising the proportion of charges the plan paid from 75 percent to 80 percent thereby lowering the proportion the employee had to pay from 25 to 20 percent of costs. These modifications and the addition of three plans that did not have a major medical benefit in 1963 raised the proportion of plans with an 80/20 percent coinsurance provision to three-fourths from three-fifths.

The most frequent and often the most significant

Table 2. Major medical benefits: deductible accumulation period, early 1969

Accumulation period	Number of plans
All digest plans with major medical benefits.....	44
Per disability.....	11
3 months.....	1
4 months.....	3
6 months.....	4
12 months.....	3
All disabilities.....	33
6 months.....	3
12 months.....	6
1 calendar year.....	23
2 years ¹	1

¹ With "carry-back" to last 3 months of preceding year.
² Applicable to other than hospital and surgical expenses

change in major medical benefits made since 1963 involved the maximum benefit payment. Several plans removed the restriction on plan payments for a single disability, thus providing greater protection for a catastrophic illness. However, they placed a limit ranging from \$20,000 to \$100,000 on total plan payments to any employee during the employee's lifetime. These lifetime limits were always higher than the maximums "per disability" previously specified. Those plans that retained the limitation on payments for each disability at least doubled the amount the plan paid before coverage ceased.

In 1969 as well as in 1963 the other plans with revised maximum payments had no limit other than a lifetime one. The limit in early 1969 was usually \$20,000—double the \$10,000 maximum in 1963. Maximum payments specified in the 44 plans with major medical benefits in early 1969 and the period to which they apply are shown in table 3.

Plans covering retirees

About two-thirds of all the companies continued to provide health benefits for retirees, three-quarters provided life insurance coverage, and about one-half of them continued to provide both life insurance and health benefits to retirees. In addition, retirees of some companies carried paid-up life insurance policies (fully paid for during their active working years) into retirement and almost all age 65 and over were eligible for Medicare.

All retiree benefits were paid for by about half of the companies providing these benefits. Almost three-fifths of those with health benefits for retirees paid the full cost, and three-fourths of those extending life insurance paid for it. Of the 14 companies that provided both life insurance and health benefits and required retirees to pay some

of the cost, only three required them to contribute toward the cost of both benefits; the remaining companies divided almost evenly between those that required them to contribute only for their life insurance and those that required them to contribute only for their health benefits.

Changes in the financing of health and insurance benefits for retirees during the past 6 years, like those for active employees, were most striking when compared with the package of benefits available in 1963. In 1969, 60 percent of the companies paid the full cost of benefits provided compared with only 35 percent in 1963. This large increase was probably due in part to Medicare's making it possible for five companies with retiree health benefits in 1963 to either assume the full cost of these benefits or to discontinue retiree-financed health benefits.¹⁴

LIFE INSURANCE. The amount of life insurance coverage extended to retirees has increased over the years, primarily because a retiree's life insurance coverage is related to his coverage prior to retirement, and, as pointed out previously, life insurance coverage for active workers has increased since 1963. However, the amount extended was still usually much less than that available prior to retirement. The practice of many companies was, as in the past, to gradually reduce

Table 3. Major medical benefits: maximum payments and basis of payments, early 1969

Basis of payment and maximum amount	Number of plans		
	Total	With disability limit	With benefit period limit
All digest plans with major medical benefits.....	44		
Plans with limits applying only to each disability or benefit period, total.....	13	10	3
\$5,000.....	1	1	
10,000.....	7	5	2
15,000.....	1	1	
20,000.....	2	2	
25,000.....	1		1
100,000.....	1	1	
		Limit for each disability (one-half lifetime maximum)	Limit for each benefit period (one-half lifetime maximum)
Plans with lifetime limits, total.....	31	1	8
\$5,000.....	1		22
10,000.....	9		1
15,000.....	4	1	4
20,000.....	11		2
25,000.....	1		9
30,000.....	1		1
40,000.....	1		1
50,000.....	1		1
100,000.....	1		1
Other.....	1		1

¹ Limit each benefit period is two-third lifetime maximum.

employees' retirement coverage over a period of about 5 years to from 25 to 50 percent of that available before the initial reduction. As in the past, a few companies reduced preretirement coverage to a nominal amount, such as \$1,000, immediately after retirement.

Employees of some companies that did not continue life insurance coverage after retirement had a combination of group-term and paid-up insurance coverage for active employees. Under this arrangement, the employee's contributions bought units of paid-up insurance, which accumulated over the years, and the employers contributions bought term insurance equal to the difference between the amount of paid-up insurance purchased by the employee and the total amount of insurance specified in the plan. Because the paid-up portion of the employee's total insurance coverage was available to him when his employment terminated, long-service employees of these companies, when they retire, had most or all of the coverage possessed immediately prior to retirement.

HEALTH BENEFITS. Like other employees in private industry who are over 65 years old, salaried employees who retired at that age were generally eligible for the hospital and medical benefits of Medicare.¹⁵ Customarily, companies let their employees, who are eligible for Medicare's Part B (medical) insurance be responsible for paying the premium for their coverage and that of their dependents.¹⁶ However, nine companies paid some of the cost and three of them paid the full premium for the retiree and his spouse.

Two companies purchased Part B coverage for both their eligible active and retired employees and their eligible dependents by paying the entire monthly premium of \$4 for each individual. One company paid the original premium of \$3 for all eligible groups except dependents of active employees (the employee paid the balance of his premium and all of the premium for his dependents).¹⁷ Another company paid the full premium only for retirees; the latter had to pay it for their dependents. The following tabulation shows the number of companies paying the

Medicare premium in full or in part for each of the eligible groups:

Eligible group (65 years and over)	Full Medicare premium		Part of Medicare premium	
	Full Medicare premium		Part of Medicare premium	
Active employees.....	6	1		
Dependents of active employees.....	6			
Retired employees.....	4	2		
Dependents of retired employees.....	3	2		

All companies providing benefits for retirees in 1963 (except the three that discontinued coverage since then and those adding this coverage, modified their benefits during the past few years to avoid duplication of Medicare benefits. They did this by using one of the following three methods developed by the insurance industry: Under one method, the "benefit carveout," Medicare benefits are deducted from the same or similar benefits provided workers under age 65; under another, the "building block" method, payment is made for specific services or expenses not covered by Medicare; and under the third, the "major medical" method, partial payment (commonly 80 percent) is made for practically all medical expenses not covered by Medicare in excess of a certain amount.

Over two-fifths of the 43 companies with retiree health benefits used the "benefit carveout" approach. However, the benefits extended frequently differed from those available prior to retirement. For example, basic hospital and medical benefits might be available for a shorter period, the major medical deductible might be larger, or the maximum payment under the major medical benefit might be smaller.

Roughly equal proportions of the remaining companies utilized the "major medical" and "building block" methods. Companies using the former method extended to retired employees the major medical benefits available to active employees under age 65 or a cut-down version of it (a higher deductible lower maximum payment, or both). Those using the last method either paid some or all of the Medicare deductibles and certain charges that the retiree otherwise had to pay, provided benefits for certain major expenses (private duty nursing care and out-of-hospital drugs) that are not covered by Medicare, or both.¹⁸ □

FOOTNOTES

¹ In 1967-68 for example, about 4 out of 5 of the office workers in metropolitan areas as compared with 1 out of 2 of the plant workers had a major medical benefit, and 7 out of 10 of the former group and 3 out of 10 of the latter group had a paid sick leave plan. Separate data on the incidence of optional life insurance and long-term disability benefits for the various groupings of employees are not available. However, all indications are that these benefits are much more prevalent for salaried employees than for production workers. *Wages and Related Benefits, Part II: Metropolitan Areas, United States and Regional Summaries, 1967-68* (BLS Bulletin 1575-87).

² This benefit which provides certain survivors a percentage of the deceased employee's salary for at least 12 months, is also payable in addition to the survivors benefits of a pension plan.

³ See Donald M. Landay, "Trends in Negotiated Health Plans: Broader Coverage, Higher Quality Care," *Monthly Labor Review*, May 1969, pp. 3-10, and J. F. Follman, Jr., "Health Insurance Plan Design Trends—Coverage and Benefits," *Pension and Welfare News*, February 1969, pp. 13-22.

⁴ *New Group Health Insurance: I. Policies Issued in 1968; II. The Five-Year Trend, 1963-1968*, Health Insurance Institute, New York, N.Y. This survey is based on an analysis of the group health insurance policies, providing health care and income replacement benefits, written by insurance companies between January 1 and March 31, 1968, and an analysis of benefits provided employee groups of 25-499, which the Health Insurance Institute stated represents group health insurance trends.

⁵ See BLS Bulletins 1575-87 and 1385-82

⁶ *Digest of 60 Selected Health and Insurance Plans for Salaried Employees, Spring 1963* (BLS Bulletin 1377), and *Digest of 60 Health and Insurance Plans for Salaried Employees, Early 1969* (BLS Bulletin 1629). All, except one plan, were included in both digests. Thirty-six of these plans are in manufacturing industries and 13 in nonmanufacturing industries.

⁷ This protection was rarely available in 1963. However, since the exact incidence of this protection in 1963 is unknown the change in prevalence since then is also unknown.

⁸ Medicare, the Federal health plan for individuals age 65 and over, became effective July 1, 1966. Hospital benefits are available without charge to those qualifying for Social Security old age benefits and the medical benefits are available to those paying the monthly premiums.

⁹ Formal paid sick leave plans which are now provided by about 3 out of 5 of the 50 Digest companies are not

discussed in this article. They are summarized in BLS Bulletin 1629.

¹⁰ Long-term disability benefits are income protection benefits for employees totally disabled for over 6 months. The monthly payments, usually a high percentage of the employee's salary, when combined with Social Security and workmen's compensation benefits, generally continue until age 65 (unless he recovers earlier) when he ordinarily becomes eligible for full regular benefits under his company's private pension plan.

¹¹ Both paid sick leave and weekly accident and sickness benefits have brief waiting period requirements or none at all. Weekly accident and sickness benefits were payable for at least 6 months in all but three of the plans.

¹² According to the Bureau of Labor Statistics Consumer Price Index, hospital semiprivate room charges increased 66 percent in the 5-year period, and operating room charges and certain diagnostic services rose over 41 and 16 percent, respectively.

¹³ For plans that paid a higher allowance for treatment during the first 2 days of hospitalization or a lower allowance after several days of hospitalization, the allowance referred to is the one payable for treatment on the third day.

¹⁴ Medicare provides more comprehensive hospital, medical, and other health care benefits than virtually any private health plan formerly provided for people age 65 and over.

¹⁵ To be eligible for Medicare hospital benefits employees have to be entitled to primary Social Security benefits. For details on the benefits provided under Medicare, see *Your Medicare Handbook: Health Insurance Under Social Security* (U.S. Social Security Administration, 1968). For a discussion of Medicare's effect on private insurance plans and how private plans have adapted to it see Dorothy R. Kittner, "Negotiated Health Benefits and Medicare," *Monthly Labor Review*, September 1968, pp. 29-34.

¹⁶ Part A (hospital insurance) of Medicare is paid for under the Social Security program by active employees under 65 and their employers.

¹⁷ Prior to January 1, 1969, the premium for Part B of Medicare was \$3.

¹⁸ The hospital deductibles are the first \$44 during the first 60 days of confinement, \$11 daily during the 61st to 90th days, and \$20 daily during the 91st to 150th days; the convalescent home deductible is \$5 daily for 80 days; and the medical and other health care deductible is the 1st \$50 of charges (Medicare pays 80 percent of charges in excess of \$50).