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**FEDERAL EMPLOYEES' GROUP LIFE
INSURANCE PROGRAM**

GOVERNMENT

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THE
KANSAS STATE



HEARING
BEFORE THE
**COMMITTEE ON RETIREMENT AND
EMPLOYEE BENEFITS**
OF THE
**COMMITTEE ON
POST OFFICE AND CIVIL SERVICE**
HOUSE OF REPRESENTATIVES

NINETY-THIRD CONGRESS

FIRST SESSION

ON

H.R. 9630

**A BILL TO AMEND TITLE 5, UNITED STATES CODE, TO PRO-
VIDE FOR THE PAYMENT BY THE GOVERNMENT OF ALL
COSTS OF THE FEDERAL EMPLOYEES' BASIC GROUP LIFE
AND ACCIDENTAL HEALTH AND DISMEMBERMENT INSURANCE PROGRAM**

NOVEMBER 7, 1973

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FEDERAL EMPLOYEES' GROUP LIFE INSURANCE PROGRAM

WEDNESDAY, NOVEMBER 7, 1973

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

The subcommittee met at 10 a.m., in room 340, Cannon House Office Building, Hon. Jerome R. Waldie [chairman of the subcommittee] presiding.

Mr. WALDIE. The subcommittee will come to order.

Our first witness today will be Mr. Andrew Ruddock, Director of the Bureau of Retirement, Insurance, and Occupational Health of the Civil Service Commission.

The purpose of today's hearing is to begin to examine, in detail, the Federal employee's group life insurance program. This program is known to most Federal employees as FEGLI.

I have been disturbed for some time now about several aspects of the Federal life insurance program, to which I hope the subcommittee will find answers during this hearing.

First, I have been concerned about the cost of the program to the Federal employee, and I have introduced legislation in the House, H.R. 9630, which would provide for payment by the Federal Government of the total cost of the Federal employees' basic group life insurance program. At present, two-thirds of this cost is borne by employees; one-third is borne by the Government. Under H.R. 9630, the entire cost would be paid by the Government as the employer.

The fact is that basic life insurance coverage under programs offered by major private employers with large work forces—such as U.S. Steel, General Motors, and General Electric—is more generous than coverage under FEGLI and is available to the employee at no cost. Other private companies Alcoa Aluminum, A.T. & T., Bethlehem Steel, Campbell Soup, and DuPont, for example—offer life insurance policies, generally equal to the employees' salary, at no cost to the employee. It seems to me that the Federal Government, with almost 2½ million civil service employees covered under FEGLI, could be equally as generous.

Some Federal employees are treated as generously. Under an agreement negotiated this past summer with the U.S. Postal Service, postal workers will have the entire cost of their life insurance paid by the Government beginning next July.

The second point that disturbs me, and one which I would like to explore today even though it is beyond the scope of H.R. 9630, is whether the Government and the employees are really getting the best life insurance buy, regardless of who is paying the premium.

From what I am able to gather, almost any Federal employee under age 50 could save money by purchasing similar coverage from another insurer, such as the American Statistical Association's group life insurance plan underwritten by New York Life, or the Old Life Insurance Co. policy, rather than the FEGLI policy.

In addition, the FEGLI optional insurance program requires premium rates that are quite high, relative to existing alternatives and, for an employee age 55 or over, they are simply beyond the means of most Federal employees. The fact that less than 20 percent of all Federal employees have purchased optional coverage is perhaps indicative of its value.

We have been told that private insurers are now offering life insurance packages to groups of Federal employees. This raises a question as to whether even the insurance industry itself sees a deficiency in the FEGLI program and therefore is seeking to step in and help the employee purchase adequate protection for himself or herself and his or her family.

Finally, the subcommittee will address itself to such questions as whether the Federal Government could offer the same coverage it now does under FEGLI but at much less cost, or more generous protection at the same cost, if it became the prime insurer rather than having private insurance companies underwrite and reinsure the FEGLI program. Even if it were shown that the present arrangement is best for the Federal employee, why should these organizations receive the payments they do for risk charges, and for other expenses?

That has a familiar sound, doesn't it?

Mr. RUDDOCK. That's very familiar.

Mr. WALDIE. A GAO report of June 1972 suggested that the primary insurer and the reinsurer are assuming very little risk under FEGLI and "there is little, if any, justification for payment of risk charges . . . Also, there seems to be little, if any, justification for payment to reinsurers for the amounts for other expenses and providing no services under the policy."

Mr. Ruddock, do you have a statement?

Mr. RUDDOCK. Yes, I have, Mr. Waldie, and with your permission, I would like to read it.

Mr. WALDIE. You may proceed.

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

Mr. RUDDOCK. Mr. Chairman and members of the subcommittee, I appreciate this opportunity to appear before your subcommittee to give the Commission's views on H.R. 9630, a bill to provide for the payment by the Government of all costs of the Federal employees' basic group life and accidental death and dismemberment insurance.

Briefly, H.R. 9630 would amend the Federal employees group life insurance law to provide regular group life insurance and accidental death and dismemberment insurance coverage without contribution by Federal employees by increasing the Government contribution toward the cost of this coverage from 33⅓ percent to 100 percent. Included in this free-coverage group would be employees on leave without pay who are serving with unions.

The Federal employees group life insurance program is a voluntary program available to most Federal employees. There are two types of insurance provided under this program—regular and optional.

Mr. WALDIE. Could I interrupt just a moment?

Mr. RUDDOCK. Yes, sir.

Mr. WALDIE. Are there any employees on leave without pay who are in other capacities than serving with unions?

Mr. RUDDOCK. In a very similar category would be the Federal employees who have—I believe the word used is transferred—to international organizations, where they are not Federal employees during their tenure with the international organization, but they are continued under the contract in a manner similar to the union officials.

Mr. WALDIE. And they, too, would be included within that last sentence.

Mr. RUDDOCK. No, I don't believe so. As it is presently written, this applies to union officials but not to the others.

Mr. WALDIE. Not to the others. And I would presume the others are much larger in number than the union officials.

Mr. RUDDOCK. Yes, they would be.

Mr. WALDIE. All right. Please continue.

Mr. RUDDOCK. Regular life and accidental death and dismemberment insurance is available in a minimum amount of \$10,000 and a maximum amount of \$45,000. Subject to these limits, the amount of coverage provided is related to the employee's salary; the coverage is equal to the employee's salary rounded off to the next thousand dollars, plus \$2,000. The employing agency contributes one-third of the cost of this coverage, and the employee pays two-thirds of the cost. However, the regular insurance is free after an employee retires and premiums paid during employment must be sufficient to pay for this free coverage.

Optional life and accidental death and dismemberment insurance is provided in a flat amount of \$10,000, for which employees pay the entire cost until retirement and attainment of age 65. From and after attainment of age 65, the optional insurance is free for a retired employee.

Employees may choose regular insurance with or without optional insurance, or they may choose neither. Optional insurance is available only to those who choose to take the regular insurance.

From the Government's point of view, a group life insurance program such as this one is an important factor in attracting and retaining qualified employees. Most employees also highly value this protection and the relief it provides from the anxieties concerning the welfare of their families.

A message from President Eisenhower proposing contributory group life insurance for Federal employees was sent to the Congress on May 19, 1954. The message stated that the intent of the proposal was to enable Government workers to supplement their own insurance and that the cost of the plan would be shared by the Government and participating employees. The message proposed that the insurance would be cooperatively underwritten through the facilities of a large group of life insurance companies having experience in employee group insurance benefits. The functions normally performed by the employer in a group-insurance plan would be performed in the Gov-

ernment by the Civil Service Commission. This legislative proposal was eventually approved as Public Law 83-598 on August 17, 1954.

Mr. WALDIE. Now may I interrupt a moment there?

I have not had an opportunity to look at the original law, and I do not even know what the present law is in this regard, but is this a program that is put out for bid? How do you arrive at the prime contractor?

Mr. RUDDOCK. The prime contractor was selected when the law was enacted back in 1954. The Commission consulted with representatives from the largest of the insurance companies. The representatives of those companies agreed among themselves that they would propose the Metropolitan Life Insurance Co. as the primary insurer because it had the greatest amount of group life insurance in force of any company in the United States. It was in a sense sort of academic as to which company would be chosen.

Mr. WALDIE. Why?

Mr. RUDDOCK. Well, because the policy in effect was to be carried through reinsurance ceded to any company doing group life insurance business in the United States. So that all of the companies were going to participate—I will use the word “pool.” That is not quite an accurate description—but it was not something that was going to be carried by Metropolitan, but carried by the insurance industry. In fact, the original law provided that the company receiving the primary contract would set up an administrative office which would use a name other than the name of the company getting the business. And that is the reason for the Office of Federal Employees Group Life Insurance, which is in New York City and which represents the insurance industry.

Mr. WALDIE. Now let me ask a question here you may not be able to answer.

That was obviously a legislative and administrative decision. Was it in essence a political decision, so that all the insurance industry in the country could participate in this new business, or was it in fact an administrative decision that this was the best way to administer the program and the most efficient way, providing the greatest coverage for the least dollars?

Mr. RUDDOCK. Mr. Waldie, that was 19 years ago.

Mr. WALDIE. Has it changed?

Mr. RUDDOCK. My recollection is that the decision was more of a political nature, a deliberate policy decision that the Federal Government would embark on this new program through the established insurance industry, as would any other employer. I think it was that, rather than a detailed exploration as to which would take the least dollars.

Mr. WALDIE. Now let me ask this on that point:

Is that still the case? Are we still by law required to do it the way we are doing it?

Mr. RUDDOCK. Yes, sir. By law, the insurance must be carried through contract between the Civil Service Commission and one or more insurance companies. By law, the reinsurance must be ceded to all of the eligible companies.

Mr. WALDIE. And all the companies in America have agreed that this one is the only one that shall be the prime contractor?

Mr. RUDDOCK. I don't know that they have even had any discussion on that point, Mr. Waldie, since 1954. That was their original advice to the Commission.

Mr. WALDIE. Well, does the Commission seek, when they renew their contract—however, I do not want to get into how often that is done—a better competitive rate? Do you seek better deals from anybody, or is this the only one you ever deal with?

Mr. RUDDOCK. This is the only contract we have. It is not offered on a competitive basis. It is an experience-rated contract. It is a contract in which, regardless of what premium is paid, the company is entitled to retain only the number of dollars it takes to pay claims, taxes—

Mr. WALDIE. I will get into that in a minute. But the point is, as the Civil Service Commission, as a representative of the employer, you do not go shopping for the best deal. You are confronted with this agreement from the insurance company that you deal with, Metropolitan, period.

Mr. RUDDOCK. We do not go shopping for another insurer.

Mr. WALDIE. And they told you this is the only insurer you deal with, Metropolitan. The insurance industry in America made that decision 19 years ago.

Mr. RUDDOCK. No, Mr. Waldie, I would not put that in terms of a decision. The decision would have had to be made by the Civil Service Commission. I tried to put that in the context that this was the advice from the representatives of the large insurers, the advice that the Commission contract with Metropolitan.

Mr. WALDIE. Well, none of them offered to contract with the Commission, did they? So you really only had one person offering the contract.

Mr. RUDDOCK. None of them competed for the contract.

Mr. WALDIE. So that was little more than advice, was it not? They presented only one person with whom you could contract, Metropolitan. You may call that advice; I call that—I'm not sure what I call it.

Mr. RUDDOCK. I am not sure, Mr. Waldie, that you are saying it in the right context.

Mr. WALDIE. I tried to describe it as I understood your description. I may have misstated it.

Mr. RUDDOCK. It is awfully difficult, I think, to go back 19 years and see what happened at that particular time. But I think this was the insurance industry saying to the Commission, "We are suggesting to the Commission that you select Metropolitan as the representative of the insurance industry. Select Metropolitan as the representative of all of our companies."

Mr. WALDIE. I don't quite know why in my mind, but that sounds almost like a conspiracy in restraint of trade; that the industry with whom we must deal gets together and says, "Here's the one you deal with." I don't know why, but that offends me. And you are still dealing with Metropolitan.

Mr. RUDDOCK. Metropolitan is still the prime carrier; yes, sir. I hope I have made the point, Mr. Waldie.

Mr. WALDIE. I am not putting words into your mouth. I don't intend that. I am giving my own views of what I think happened 19 years ago, and I was not there, so it is speculative.

Mr. RUDDOCK. Let me make just one point, and that is that what happened after that law was signed in 1954 was exactly what was contemplated by the administration which sent up the legislative proposal and by the Congress which enacted the law.

Mr. WALDIE. I am almost certain that is so, but that does not necessarily change my view. I am almost certain the Administration intended precisely what happened, and I am almost certain that Congress intended precisely what happened. I am equally almost certain that they were both responding to the political realities rather than to the reality of whether or not a good program for the employees was thereby provided. But the political realities demanded, as was the case in the health-insurance program, that the insurance-industry needs first be met, then we would meet the needs of those who followed.

Mr. RUDDOCK. Mr. Waldie, may we put this in the context that what happened in 1954 happened because it was intended to happen?

Mr. WALDIE. Sure.

Mr. RUDDOCK. And that our point for consideration at the moment is what should happen in 1973 and 1974?

Mr. WALDIE. Precisely.

Mr. RUDDOCK. I guess my only point is that I see no value to be derived from deciding that a different course of action should have been taken in 1954.

Mr. WALDIE. Well, except this. If the motivation behind the course of action taken in 1954 was improper and we still maintain that course of action, we perhaps, in the light of 20 years' experience, ought to reexamine the machinery that was set up under a motivation that may not have been proper.

Mr. RUDDOCK. I heartily concur with reexamination. I hesitate to use the word "improper" with respect to something which was presented by the executive branch and approved by the Congress.

Mr. WALDIE. Well, I do not expect you to say those words; I say them. I am a politician; you are an administrator. I think it was improper. It was not illegal, but it was a response to the political strength of the insurance industry of America, in my view, and I am not asking you to respond at all to that.

Mr. RUDDOCK. But we do understand one another.

Mr. WALDIE. Surely.

Mr. RUDDOCK. Thank you.

Mr. WALDIE. I think. I am not sure you understand me.

Mr. RUDDOCK. How often do you negotiate with Metropolitan Life? You represent the employer, and I presume, as with health insurance, you sit down and negotiate reduction of premiums or increase in premiums, extent of coverage.

How often does that occur? And describe the process, if you will.

Mr. RUDDOCK. It does not occur necessarily on any regular time schedule. The contract is a continuing contract. In other words, it continues without change, unless one of the two parties to the contract suggests a change.

Mr. WALDIE. Would you provide the committee with a copy of the contract?

Mr. RUDDOCK. Yes, sir.

Mr. WALDIE. And there have been changes since 1954.

Mr. RUDDOCK. Yes. I cannot remember the number of changes. There are a substantial number of changes in the contract since 1954. Some of them, of course, would be to reflect amendments to either the life insurance law or some other law which impinged on it which required modification of the contract.

Mr. WALDIE. Did we start paying a third in 1954?

Mr. RUDDOCK. The Government as employer? Yes, sir, that was specified in the original law.

Mr. WALDIE. And in 20 years we have not changed that formula.

Mr. RUDDOCK. No. The ratio is still the same. The premium has been changed once. The original premium for the employee was 25 cents per thousand, biweekly, with the employer paying an additional amount equal to half of that, 12½ cents, and then that was changed to 27½ cents per thousand biweekly, with the employer paying an additional amount equal to half of the employee's contribution.

Mr. WALDIE. All right. Before we continue, Mr. Hillis may have some questions.

Mr. HILLIS. No, I have no questions.

Mr. RUDDOCK. Since 1954, there have been about 25 amendments to the Federal employees group life insurance law. In 1967, the Congress provided for optional life insurance, which any employee covered under the regular life insurance program could elect. At the same time, a \$10,000 minimum and a maximum geared to the Federal executive pay level II were established for the regular life insurance. In addition, the financing of the program was improved.

Unlike the regular insurance, which is paid for by the contributions of both enrollees and their agencies, the cost of the optional insurance is paid for entirely by the enrollees. The law provides that this cost shall be determined by age groups, and that the payments shall continue until an employee is both retired and reaches age 65. This differs from the regular insurance where there is one premium rate, regardless of age, which continues until retirement.

Mr. WALDIE. Let me interrupt you there. Why did Congress have to provide for optional life insurance? It does not seem to me we gave the employee anything. The employee is paying the full bill. Why could not the insurance companies simply have offered the employee that extra coverage without the necessity of a congressional act?

Mr. RUDDOCK. That certainly could have been done, Mr. Waldie.

Mr. WALDIE. Did we compel the insurance company to comply with a request that was made by the law? Is that why we were involved in it?

Mr. RUDDOCK. I think the law was changed because of a belief that it would offer something additional to Federal employees.

Now, one view at the time was that practically every employee either belongs to a group through which he may participate in group life insurance or certainly is eligible to join one of the many organizations that do offer insurance of that kind.

Mr. WALDIE. Well, I guess what I am really asking the question for is that I have been told that this is no deal at all for the employee. He can in fact buy that coverage much cheaper than Federal employees group life insurance offers it to him, paying the whole bill, and apparently many of them are aware of that, because so few of them have selected this coverage. If that is so, is that not part of your

responsibility on the Civil Service Commission to insist, on the optional coverage, upon a competitive policy? Do you have any responsibility, in your view, to negotiate the cost of the optional policy?

Mr. RUDDOCK. Mr. Waldie, in effect, the Civil Service Commission determines the cost of the optional insurance to the employees. It is not a matter of competitive bidding by the insurance company.

Mr. WALDIE. How do you determine that?

Mr. RUDDOCK. We determine it on the actual cost as determined by the actual experience of this particular group.

Mr. WALDIE. In other words, you concede what they tell you is their premium figure, or you sign a contract permitting them to charge that premium.

What I am getting at is, the insurance company could not unilaterally determine what the premium would be for optional insurance. They must have your consent.

Mr. RUDDOCK. The rate is fixed by the Civil Service Commission.

Mr. WALDIE. So if the rate is in fact excessive, the fault lies in the Civil Service Commission. Is that a fair statement?

Mr. RUDDOCK. Yes, sir.

Mr. WALDIE. Now, in your view, is the rate competitive?

Mr. RUDDOCK. I don't know of any other similar group insurance policy.

Mr. WALDIE. I am talking about the optional policy.

Mr. RUDDOCK. All right. I do not know of any other group where the circumstances would permit that kind of a comparison.

One of the reactions of Federal employees when the optional insurance was offered was that antiselection was extremely heavy. The death rate under the optional group ran about 175 percent of what would be expected from a group of that age and sex distribution. Now, why was that? It was because when the insurance was offered, it obviously was attractive to those people who, because of health conditions, either could not obtain insurance through other sources or could obtain it only at vastly increased prices, so that the antiselection was extremely heavy.

There was another reason for it. The law was passed December 19, 1967. There were no premiums for optional insurance collected until February 14, 1968; this was a provision of the law. Between December 19 and February 14, the employees were to have the opportunity to decide whether or not they wanted the optional insurance. But the same law that established the optional insurance provided that any Federal employee who had regular insurance—and that at the time was somewhere in the neighborhood of 95 percent of all Federal employees—and who died between December 19, 1967, and February 14, 1968, would be deemed to have the \$10,000 of optional insurance. Before the first dollar of premium was collected from anybody for the optional insurance, a liability of \$20 million had been incurred by deaths of employees who were presumed to be insured during that period.

For the next 2 months, from February until April of 1968, when the death of any Federal employee occurred, if he had elected the optional insurance, it paid off. If he had not elected the optional insurance, he was still deemed to be insured and the \$10,000 was paid, if there was a finding that he had not had a reasonable opportunity to make an election. So that there was an additional liability incurred during that period.

The law also provided that any employee who had the optional insurance at the time of his retirement on immediate annuity would continue his insurance into retirement, with the premium paid to age 65 and free thereafter, provided he had at least 12 years of service, and provided he had the optional insurance either for 12 years or all of the time from his first opportunity to get it.

So beginning in December of 1967, we had employees who retired—December, January, February, March, April, and, as you can see, going on in the future. Let's take the extreme example of the employee retiring at age 65, who had either paid no premium or had paid a premium for 2 weeks or 1 month or 2 months and who had insurance free for the rest of his life. The law provided no Government contribution, no employer contribution, toward the optional insurance.

So all of these costs had to be met from the only source available, which is the premium paid by the employee. The original rates were obviously quite high, because we recognized at the time this initial liability.

Mr. WALDIE. That was 19 years ago.

Mr. RUDDOCK. No. The optional insurance, Mr. Waldie, came into being by an act of December 19, 1967.

Mr. WALDIE. 1967. I am sorry; yes.

Mr. RUDDOCK. After some years of experience, we found that the experience was improving. At the beginning those people who were on their deathbed obviously chose it, but as time went on, the anti-selection was less. We reduced the premium rates, and then, through further experience, found that the death rates on current experience are now down to only 120 percent of expected. There is still anti-selection involved.

Mr. WALDIE. Well, if a person under the Federal employees life insurance program does not take optional, he in fact, though, bears the cost of optional, if I understand it.

Mr. RUDDOCK. No, sir, the optional is separately—

Mr. WALDIE. Well, it would not be given, he could not take out optional, unless he is a member of the basic plan, could he?

Mr. RUDDOCK. That is right.

Mr. WALDIE. Why is that, if there is no relation to the two?

Mr. RUDDOCK. The law set the optional insurance up as an additional amount that was available—

Mr. WALDIE. The insurance companies insisted, did they not, that he be a member of the basic plan before he is permitted to take out the optional?

Mr. RUDDOCK. I do not remember any expression of that view by an insurance company, Mr. Waldie.

Mr. WALDIE. Let me ask you this: Would you support an amendment that would permit a person to take out optional although he is not a member of the basic.

Mr. RUDDOCK. I think that would require considerable study.

Mr. WALDIE. Why, if they have no relationship?

Mr. RUDDOCK. Well, when I say they have no relationship, they have no relationship in the sense of there is none of the premium paid by an employee for regular insurance which goes to support the optional insurance. The optional insurance is separately rated.

Mr. WALDIE. Well, if there is no relationship in terms of premium, I see no reason to require a person seeking optional to belong to the basic.

Mr. RUDDOCK. Let me just throw out one point for consideration. The law provides for one-level cost for the regular insurance, which means that the premium is the same regardless of age. It also means that that premium is one which is supposed to be sufficient to support the program in perpetuity.

Mr. WALDIE. I understand that.

Mr. RUDDOCK. The optional insurance is one in which the law says that the premium will be rated by age.

Mr. WALDIE. I understand that.

Mr. RUDDOCK. As you can see from the optional insurance rates, those rates are lower, as they should be, at the lower ages.

Mr. WALDIE. I understand that.

Mr. RUDDOCK. In fact, they are lower than the level cost of the regular insurance.

Mr. WALDIE. I understand that.

Mr. RUDDOCK. It seems to me that by making optional insurance available without participation in the regular, we could make it attractive for new employees coming onboard to take the optional but not the regular.

Mr. WALDIE. I understand that. And that is roughly where I came out in the beginning. Didn't I say they were related? That is why the insurance company would not permit you to take out optional alone. And you are suggesting they are not related. But are they not precisely related for just the reasons you have set forth?

Mr. RUDDOCK. In a program sense, they are certainly related. And I would predict that if you go that way, you will totally destroy the Federal employees' life insurance program.

Mr. WALDIE. Well, what you are doing at the present time, then, if you don't go that way, you are in effect, by your present program, subsidizing the optional insurance coverage.

Mr. RUDDOCK. There is no dollar subsidy, Mr. Waldie. The optional insurance is paid for entirely by the premiums paid for optional insurance by those employees who elect to participate in the optional insurance.

Now in the sense of their being two related parts of the same program, you are certainly absolutely correct.

Mr. WALDIE. Why should you destroy the program if you permitted those who are healthy and young and at the lowest salary levels to pay the last for insurance.

Mr. RUDDOCK. Because if you insure only those employees who are nearing retirement, if you will—if they are the only ones who choose to participate in a group policy in which you are charging a level-cost premium, obviously that level cost is going to be considerably higher. This is an oversimplification but the cost is going to be higher if the average age of the insured group is higher.

Mr. WALDIE. If we were to eliminate the optional coverage entirely, what would be the consequences to the program.

Mr. RUDDOCK. Mr. Waldie, let me express a personal opinion, which certainly does not represent a considered policy decision by the administration. I personally think we had a better program before we had the optional insurance. We now have, though, 400,000 Federal employees who have decided that they want to participate in this optional insurance, and while it was one kind of a decision that had to be made back in 1967 as to whether or not to include this in the

program, it seems to me the decision as to whether to leave it in or whether it would be better to take it out is a much more difficult decision in 1973.

Mr. WALDIE. Well, we will certainly explore that. I have these reservations, and I just do not know the answers to them. I think, in the first place, that the folks covered under the optional could get that coverage more cheaply in the general market. If that is so, we will be pointing a finger at the Civil Service Commission.

Mr. RUDDOCK. To do what?

Mr. WALDIE. To negotiate a reduction of premium.

Mr. RUDDOCK. Mr. Waldie, this is not a matter of premium negotiated with the insurance company; this is a matter of the cost of the insurance.

Mr. WALDIE. Well, if the cost of the insurance that Metropolitan is offering is higher than the cost of the insurance that another reputable firm is offering on the market, that would seem to me to be a matter of concern on the part of the employer. We compel them to offer that policy, and I would assume incumbent within that is our ability to compel them to reduce the premium if it is excessive. If their experience is worse than another company's, we ought to check the other company, should we not?

Mr. RUDDOCK. Mr. Waldie, they are getting only enough premiums to pay the claims for those people who die, to pay taxes, to pay the necessary administrative expenses, and to pay what in the insurance business is a very nominal risk charge for insurance of this kind.

My point is that you cannot negotiate with any company to pay more in benefits than the dollars that have to be paid out in benefits.

Mr. WALDIE. Well, then, if that is correct, no company could be offering this coverage for a lesser premium. Right?

Mr. RUDDOCK. No company is offering comparable insurance to a comparable group for less premium.

Mr. WALDIE. No company could be offering this insurance for those individuals for less premium, whether it is a group or not. Right?

Mr. RUDDOCK. Right.

Mr. WALDIE. OK. If that is the case, we will not in fact point the finger at you. But if in fact it is the case, we will. I gather from what you say there is no negotiating role involved. You simply look over the figures, and if their figures total out, that is the premium you charge. Is that correct?

Mr. RUDDOCK. At the present time we are paying Metropolitan Life Insurance Co. a premium amounting to \$27 million a month. We are doing that on the basis of their and our best estimate of what it is actually going to cost to cover the claims, the taxes, and the expenses in this particular year.

Now it is quite another matter as to the cost of this insurance. The cost of this insurance is more than what is being paid out in claims in this particular year. Now if some other company indicates that they can offer this cheaper, they should be sure to consider a policy with accidental death and dismemberment insurance, with no medical qualifications for participation, with insurance continuing after retirement, and with its being free after 65, and—

Mr. WALDIE. Is that optional you are describing?

Mr. RUDDOCK. Yes, sir. And with the premium being enough to pay the claims of those already retired and who have free insurance at such time as they eventually die. There is not any question but what the dollars required in a given year, such as 1973, to make the actual disbursements which are required in 1973 is not as big an amount as the premium being charged.

Mr. WALDIE. All I am suggesting to you is if we find that there are insurance companies that will offer our Federal employees the same optional coverage as they are presently getting at a lower premium, we ought to give them the business. Do you agree?

Mr. RUDDOCK. If they will guarantee that—

Mr. WALDIE. Under the same guarantee that you get on your optional contract now with Metropolitan. That is all they have to meet. If they meet that requirement so the employee gets exactly the same coverage that Metropolitan will give them on an optional at a cheaper price, we ought to be dealing with that insurance company, should we not?

It seems so patently simple that that is correct.

Mr. RUDDOCK. Mr. Waldie, I am sorry. I am afraid my attitude is because I do not believe you understand the problem.

Mr. WALDIE. Well, I may not.

Mr. RUDDOCK. So may I reserve judgment until I see the offering?

Mr. WALDIE. OK. Because your response indicates that it is much more complex than I suggested, and it may be. It seems to me that, in a competitive society, that I suppose the insurance companies insist that we have, we ought to be soliciting bids for programs such as these rather than accepting their view that Metropolitan can do it all for us. I just have kind of felt uncomfortable with the insurance industry, in both health and life. It looks to me like they had a lot to say about the enabling legislation, and then it looks to me like they had an enormous amount to say about the contracts which were ultimately executed.

I don't see any competition out there. I see them all getting together and telling the Civil Service Commission, "We decided that you should deal with Metropolitan Life; they are the best." And so you do not get any competitive bids that are submitted to you, and that smacks terribly of restraint of trade.

But, again, I may not understand it. It may be much more complex. I just want you to be aware of my misgivings.

Mr. Hillis, do you have anything you want to ask?

Mr. HILLIS. This is my initial impression of the proposed legislation.

I notice in your statement you have some cost figures of what this would mean to the taxpayer.

Mr. RUDDOCK. Yes.

Mr. HILLIS. As I understand the legislation, the Government would pick up the full amount of the basic \$10,000 insurance. Is that correct?

Mr. RUDDOCK. It would pick up the full amount of the insurance, which is a minimum currently of \$10,000 and a maximum of \$45,000 for any given individual. It depends on the salary of the individual. But whereas the employee is now paying two-thirds of the premium and the employer is paying one-third, under this bill, the employer would pay the total premium.

Mr. HILLIS. All right, I am trying to look here through this committee print which you refer to. About, in your opinion, where does the Federal Government compare with basic industry? I notice in your statement it is below General Motors, but I see in here you are ahead of IBM, you are ahead of Pacific Gas & Electric.

Mr. RUDDOCK. Probably somewhere near the middle. Obviously, there are many employers who are paying the total premium for the life insurance for the employees of their company.

Mr. HILLIS. Is that a similar package to this?

Mr. RUDDOCK. Some of them are quite similar; yes. Where I think we are up with most of the best is in the total fringe benefit package rather than in a comparison of one program like life insurance with the life-insurance programs of other employers.

Mr. HILLIS. I remember your testimony in regard to health benefits along that line. In that legislation, for example, as you recall we did not propose an immediate step up to 75 percent but we went by graduated degrees, 5 percent a year, and so forth.

Would it be more accountable to the Civil Service Commission if we approached this program this way rather than 100 percent immediately?

You are paying one-third now. What I am suggesting is 40 percent next year, 45 percent, something like that.

Mr. RUDDOCK. Well, the position of the administration with respect to this bill is one of recommending strongly against its enactment.

Mr. HILLIS. Well, that is based pretty much on cost, is it not?

Mr. RUDDOCK. Well, the cost, but I think of equal importance is the recognition of the fact that in the total fringe-benefit package the Federal Government is not lagging behind, that the Federal Government is right up there with the best, which means that the administration has not found justification for agreeing to additional cost to further improve the total fringe-benefit package.

Mr. HILLIS. Tell me, what happens to the retired Federal employee under the present plan?

Mr. RUDDOCK. Under the present plan, the law as it now stands, the insurance continues after the employee retires, and he pays no further premium. That is for the regular insurance.

Mr. HILLIS. Paid-up insurance?

Mr. RUDDOCK. Yes, in effect, it is paid up. It continues in the full face amount until he is 65 and retired, and at that point it then goes down by 2 percent a month, until at age 68 and 3 months the value of the insurance is 25 percent of its face value at the time of retirement.

This bill would not change, really, the status of the retired employee, because his insurance is now without premium cost to him, and it would be also under this legislation.

Mr. HILLIS. He would be relatively unaffected.

Mr. RUDDOCK. Relatively unaffected.

Mr. HILLIS. Certainly, the situation would not be worse.

Mr. RUDDOCK. Neither better nor worse.

Mr. HILLIS. But you feel the administration would still object to some sort of a graduated increase, even though that would substantially lower the cost.

Mr. RUDDOCK. I have no reason to anticipate that the administration would agree to increasing the employer contribution on a graduated scale.

Mr. HILLIS. OK. Thank you.

Mr. WALDIE. Would you continue with your statement, Mr. Ruddock?

Mr. RUDDOCK. Yes, sir.

As of June 30, 1973, the families of more than 3.1 million employees and annuitants had protection under the regular life insurance program, and more than 544,000 of these people were also insured under the optional program. More than \$309 million was paid out in benefits on regular insurance claims in fiscal year 1973. With so many people and so much money involved, the Commission regards its responsibilities for administering this program among its most important. We believe that this insurance has been a valuable element in the total benefit package available to Federal employees and that it has well served its intended purpose.

In 1972 we studied benefit packages offered by 25 major employers—12 private and 13 public employers. Our report was published by the House Committee on Post Office and Civil Service as Committee Print No. 93-8 on September 3, 1973. The comparisons of life-insurance programs are summarized on pages 16 to 18 of this committee print.

We have since reviewed the 1973 benefit packages of these same 25 employers and find no significant changes in life-insurance programs over the past year.

Mr. WALDIE. May I interrupt again?

Mr. RUDDOCK. Yes, sir.

Mr. WALDIE. Just so our record will read smoothly, not included in your 1972 report was the U.S. Postal Service because it was not in existence, I presume.

Mr. RUDDOCK. It certainly was not included.

Mr. WALDIE. And, therefore, the fact that that major public employer, which is the largest public employer outside the Federal Government, now pays 100 percent of its life-insurance policy ought to be reflected in that study, I would assume.

Mr. RUDDOCK. Well, your point is certainly valid. There is a large employer who has agreed, through the negotiations with the unions representing the employees, that the employer will pay the total life-insurance premium.

Mr. WALDIE. That is the largest public employer outside the Federal Government, is it not?

Mr. RUDDOCK. The largest one I know of.

Mr. WALDIE. As a matter of fact, other than the public employees, almost all of these agreements are reached by bargaining, I would assume, are they not?

Mr. RUDDOCK. Very many of them are, yes; particularly with the private employers. I do not think that is so true with the public employers.

Mr. WALDIE. All right, continue, please.

Mr. RUDDOCK. As compared with the Federal employees' program, the level of coverage offered by many private employers appears higher; 7 out of 12 offer coverage amounting to 2 years' pay or more. However, few employers have a specified minimum amount of coverage, and the few companies specifying a minimum typically set the amounts below the \$10,000 minimum provided by the Federal employees' program. The result is that lower-salaried workers in these companies often receive less coverage than is offered Federal employees. While 10 of the 12 employers provide for continuation of

regular insurance after retirement, usually without premium contributions by the employee, the coverage provided is typically more limited than under the Federal employee program. These features, in combination, mean that these private employers are often paying a larger share of the cost of a smaller benefit, as compared to the Government as employer.

In comparison with the 13 public employers studied, the Federal program provides more coverage than all but one, the State of Virginia. About one-third of these employers, including the States of California, New York, and Maryland, have no employee life insurance programs. Of those public employers which do have programs, only three pay the entire cost, and employees share the cost of the others. Only four of these employers provide continued coverage after retirement, and only one of these in an amount which would exceed the regular and optional coverage available to employees under the Federal program. In combination, these features mean that the Federal employees' program generally offers better coverage, on a comparable cost-sharing basis, than these public employers.

Mr. WALDIE. Mr. Ruddock, in your survey, were you able to ascertain, or do you know, whether any of these public, as well as private, employers are self-insured with respect to life insurance?

Mr. RUDDOCK. I do not know.

Mr. WALDIE. Would you examine what information the Commission has and let me know, let the committee know, if, in fact, any of these contained within your survey are self-insured?

Mr. RUDDOCK. Yes, sir.

Mr. WALDIE. And it would be helpful, though do not devote much time to it—we will find out—if there are any large employers who are self-insured in this regard, which is obviously an option confronting us, with enormous amounts of money being expended on this program. [The following was furnished:]

A question was asked concerning whether any of the employers listed in the Commission's 1972 survey on comparability of fringe benefits were self-insured with respect to life insurance. Two of these 25 employers namely the State of Georgia and the Prudential Insurance Co. of America have self-insured life insurance programs for their employees. We have no definite information regarding other large employers.

Mr. RUDDOCK. For fiscal year 1973, the premium contributions for regular insurance totaled over \$378 million—over \$252 million withheld from employee salaries and over \$126 million contributed by the Government. During the same year, the program paid over \$309 million in benefits. I would like to note again that under the law life insurance premiums have to be sufficient to pay the level cost of the insurance. That means that premiums need to be adequate to pay for the protection on into the future, including the protection for the increasing number of employees who do not pay premiums after retirement.

Mr. WALDIE. That reference is simply to the amount of reserves that you set up, is it not?

Mr. RUDDOCK. That would indicate the amount by which the reserve increased in 1973, yes, sir.

More detailed financing and statistical information concerning the regular life insurance program over the last 5 years is attached. Also

attached is a summary of the number insured and the number of claims paid under the optional life insurance program during the same period of time.

The Commission is strongly opposed to the Government's paying the entire cost of life insurance as proposed by H.R. 9630. This view is based primarily on our present favorable comparative position in relation to benefits offered by other major employers.

Those in favor of an increased Government contribution frequently support their positions by citing other employers who pay a larger share of the cost of life insurance. We recognize that a number of employers, especially in the private sector, contribute a larger share of the cost of life insurance for their workers than does the Government, but often those that do are paying a larger share of the cost of a smaller benefit.

More significant than a comparison of any single part of a fringe-benefit package is a comparison of the total benefit package. We found through another recent study of 11 large employers, this one published as House Committee Print No. 93-6, that only one of these employers had a more liberal package of total benefits than does the Federal Government.

Mr. WALDIE. May I interrupt you just briefly there?

When you talk about a package of total benefits, do you include the supplemental option as a total benefit?

Mr. RUDDOCK. Yes, sir.

Mr. WALDIE. Do you have any comparison of what our basic package is compared with these other employers?

Mr. RUDDOCK. I cannot give it to you in—

Mr. WALDIE. Does your report, I mean, discuss that?

Mr. RUDDOCK. Yes; the report, in the tables which show these employers and give the individual features, will show whether or not they have optional insurance, and if so, how much.

Mr. WALDIE. If you excluded optional insurance, would our package compare as favorably as you have suggested it does?

Mr. RUDDOCK. The amount of insurance available to the Federal employee would compare less favorably with the amount of insurance offered by other employers.

Mr. WALDIE. So it is the optional insurance that makes us look so good, the availability of option.

Mr. RUDDOCK. Well, I think we score well on the continuance of insurance on a free basis after retirement, the amount of insurance that is continued. Let me say that the optional is of importance only with respect to the amount of insurance. Certainly, it does not make us look any better with respect to the employer contribution.

Mr. WALDIE. I think that would make us look much worse.

Mr. RUDDOCK. The employer pays nothing toward the optional insurance.

Mr. WALDIE. And it does not make us look too good in terms of those who select option. What percentage of the total select option?

Mr. RUDDOCK. We have about 400,000 out of roughly 2½ million, which is somewhere around 16, 17, 18 percent. It is less than 20, as you indicated in your opening statement.

Mr. WALDIE. OK. Please continue.

Mr. RUDDOCK. This one employer was New York State, which, incidentally, is among those employers with no insurance program for their employees and is encountering financial problems in financing the benefits they do provide.

The study showed essentially that, while one employer may devote more of his compensation resources to a specific benefit program than another employer, their positions tend to be reversed if you examine a different area of compensation. Stated differently, it is unlikely that a single employer can be most generous in every element of the total compensation package.

However, it offers less retirement benefits—for example, no automatic cost-of-living adjustments—and less vacation benefits—for example, 15 years' service required to earn 4 weeks' vacation rather than the 3 years for Federal employees.

Conversely, while the Government offers vacation benefits which are more liberal than those of most other employers studied, it provides less compensation in the form of a contribution toward life insurance than do some of the other employers studied.

The effect of H.R. 9630 would be to shift that part of the cost of the life insurance program now borne by Federal employees to all American taxpayers. The added annual cost to the taxpayer would be \$137 million in fiscal 1974, assuming a January 1, 1974, date of enactment.

Under a realistic dynamic projection, including an assumed 5.5-percent increase in pay each year, the additional cost to the Government would increase from \$273 million in fiscal year 1975 to \$338 million in fiscal year 1979. This projection assumes 100-percent employee participation in the life-insurance program, because the insurance would be without cost to employees and very few, if any, would decline to be insured.

In the Commission's opinion, these added costs are clearly incompatible with the imperative need to control Government spending in the current battle against inflation. This was again emphasized in the President's September 1973 message on the state of the Union urging the Congress to exercise budgetary discipline. We have concluded, therefore, that increasing the Government's share of the cost of life insurance to 100 percent is not warranted from the standpoint of equity in overall-benefit comparability with other employers and is incompatible with the exercise of fiscal responsibility.

Accordingly, the Commission most strongly recommends against favorable action on H.R. 9630.

I will be glad to try to answer any questions the subcommittee might care to ask.

Mr. WALDIE. On the back of your statement, where you compare regular life insurance and optional life insurance, it seems to me that percentagewise the claims from 1969 through 1973 have increased at a lesser rate compared to the number insured than in the regular life insurance statistics. I have not worked it out mathematically.

Mr. RUDDOCK. That would be attributable primarily to the fact that, from December 19, 1967, until February 14, 1968, all employees participating in the regular programs—and that would have been 2½ million—were deemed to be insured, and any regularly insured employee who died during that period would be counted here as an employee for whom the benefit was paid under the optional-insurance program.

Mr. WALDIE. I understand.

Mr. RUDDOCK. And so there is that factor. There is also the factor that the original election of those who elected to participate and began paying premiums in February 1968 included practically every Federal employee who was on his deathbed. Obviously, it was a very reasonable election for him to make, so that the initial death rates were quite high. We are past that element now.

Mr. WALDIE. We are now apparently in a stable position in terms of optional insurance.

Mr. RUDDOCK. Yes, sir. There is still some antiselection in the group, but it is lessening.

Mr. WALDIE. The rate of increase in the number insured pretty well reflects the rate of increase in the number of insured in the regular life.

Mr. RUDDOCK. Well, we had an open enrollment period a couple of years ago when we reduced the premium rates, and I think the coverage increased by something like 50 or 60 percent during that enrollment period.

Mr. WALDIE. Yes, but since then.

Now the other figure that I do not understand—and I haven't percentagewise worked it out—the number of claims paid versus the the number of insured would seem to me to be, in the 1971, 1972, 1973 years, roughly equal to the number of claims paid versus the number of insured in the regular life insurance. Am I reading those figures completely wrong?

And if that is so, it would seem to me that we are not dealing with adverse selection. If the number of claims, the percentage to the number of insured, is parallel in optional to the number of claims relative to the number insured, it would seem we are dealing with almost the same risk factor, or selection factor, or whatever.

Mr. RUDDOCK. I am not sure I can address your question directly.

The regular life insurance program, as of June 30, 1973, includes 763,000 annuitants. The death rates among annuitants, of course, are much higher than the death rates among active employees. Under the optional insurance program, it includes only people who have retired since the law was passed in 1967.

Mr. WALDIE. But under the optional insurance, it I understood your analysis, more people should die versus the number covered than under regular life insurance.

Mr. RUDDOCK. True.

Mr. WALDIE. And if that is not in fact happening—

Mr. RUDDOCK. It is happening.

Mr. WALDIE. I do not note it in those statistics. Do I read them wrong?

Mr. RUDDOCK. I am not sure I understand how you are interpreting the statistics.

Mr. WALDIE. Well, I just roughed it out on 544,000 insured, 2,871 claims paid. Is that not roughly equivalent to 3,188,000 insured, 35,475 claim paid?

Mr. RUDDOCK. Well, again, the mix is quite different because of the relative proportion of the annuitants and employees.

Mr. WALDIE. But you should have a lot higher number of claims paid under the optional insurance than you do under the regular, should you not?

Mr. RUDDOCK. Among active employees that is certainly true.

Mr. WALDIE. Under the number insured, should not the number of claims paid compared to the number insured be much more under the optional insurance than the number of claims paid compared to the number insured under life insurance?

Mr. RUDDOCK. No, not when you consider under the regular life insurance that the number insured, 3,188,000, includes 763,000 annuitants. The death rate among annuitants is higher than among active employees. And in the optional program, of the 544,000 insured, 5,000 are active employees. So that, if you compared those death rates, the death rate among active employees is much higher under the optional program.

Mr. WALDIE. Now will you explain to me, Mr. Ruddock, the risk-charge situation again? Why do we pay those companies a risk charge? You are familiar with the General Accounting Office report on this subject, are you not?

Mr. RUDDOCK. Yes, sir.

Mr. WALDIE. And I presume you agree with that report.

Mr. RUDDOCK. Not in its entirety.

Mr. WALDIE. Well, do you agree with their criticism of the risk charge?

Mr. RUDDOCK. Let me indicate first of all that a risk charge is paid because it is provided by the law. It was contemplated in the original law enacted in 1954 and there are two references in the life insurance law to the risk charge.

Mr. WALDIE. Do I read you correctly, therefore, that you believe it was a political decision and not warranted as an insurance practice in this instance?

Mr. RUDDOCK. Let me say that we have been through essentially the same ground on health benefits. "Risk charge" is used in its very broadest sense of being the profit element for the insurance industry.

As to its being a payment which is specifically related to the amount of risk involved, I would not attempt to support that position, because obviously the risk of catastrophic losses in any given year is minimal. We have reserves which are certainly adequate to protect against an unforeseen death rate in a given year.

Mr. WALDIE. So the only profit in this business is the risk charge.

Mr. RUDDOCK. At the present time, yes sir.

Mr. WALDIE. And if that were eliminated, these people would be working for nothing.

Mr. RUDDOCK. They would be compensated for their actual expenses.

Mr. WALDIE. I mean the stockholders would receive no dividends from this business because there would be no profit.

Mr. RUDDOCK. That is right. Metropolitan, as you know, is a mutual company, which does not pay dividends to stockholders. Many of the other participating companies are stock companies which do pay dividends to stockholders. But either way you think of it, in terms of profit, the amount received over and above the cost of doing business, that is all in the risk charge.

Mr. WALDIE. Why do we persist in calling it a risk charge?

Mr. RUDDOCK. Well, in this particular program, Mr. Waldie, I think if we were going to change it—and I am not sure we accomplished

anything by changing the term in the health-benefits program—but, as I have mentioned, the term “risk charge” is specifically used in the law in two different places—in the life insurance law.

Mr. WALDIE. How is it treated taxwise, do you know? Is it taxable income?

Mr. RUDDOCK. Well, the risk charge is divided among Metropolitan and all of the reinsuring companies, and then—I am certainly not an expert on the taxation of the life insurance companies, but I understand there are basically two methods of doing it. But they must take this into account in the income tax reports of each individual company.

Mr. WALDIE. Well, I guess we can ask the companies that.

Mr. RUDDOCK. And I am sure you would get different answers, two different methods, of insurance companies paying Federal income taxes. So I am sure you will get two perfectly legitimate answers to your question.

Mr. WALDIE. Maybe we ought to ask the Internal Revenue Service how they treat the risk charge and what two different ways exist for treating it. If in fact it is profit, it ought to be income. Right?

Mr. RUDDOCK. That would be my view, but again I am not speaking as a tax expert.

Mr. WALDIE. But you are speaking as the one who negotiates the contract and who considers that is what we have to pay them to administer the contract. So you consider this as an expense of income to the companies.

Mr. RUDDOCK. Yes, sir, income over and above the cost of doing business.

Mr. WALDIE. The cost of doing business is income to them also.

Mr. RUDDOCK. Yes; against which they can apply certain expenses. Yes, sir, it would be gross income.

Mr. WALDIE. And I guess they can deduct from profits, too.

Mr. RUDDOCK. It would be useful, but it should all be reported as income. I assume that is the case.

Mr. WALDIE. Have we had any change in that risk charge since the inception of this?

Mr. RUDDOCK. Yes.

Mr. WALDIE. And what has been the history of that?

Mr. RUDDOCK. The risk in the initial contract was six-tenths of 1 percent of premium. That was for the first year. In 1956 it was reduced to five-tenths of 1 percent. In 1968 it was reduced so that it was four-tenths of 1 percent of the first \$190 million of premium, and two-tenths of 1 percent of premium over \$190 million.

Mr. WALDIE. What date was that?

Mr. RUDDOCK. 1968. The most recent change—that would be beginning July 1, 1972—is four-tenths of 1 percent of the first \$125 million of premium and two-tenths of 1 percent for any premium in excess of \$125 million, but with an outside limit of \$850,000.

Mr. WALDIE. An outside limit of what?

Mr. RUDDOCK. \$850,000.

Mr. WALDIE. What does that mean?

Mr. RUDDOCK. Well, you do the computation of four-tenths of 1 percent of the first \$125 million, and two-tenths of 1 percent over \$125 million, and then the risk charge is either that amount or \$850,000, whichever is less.

Mr. WALDIE. You mean for each individual company? Because it could never be \$850,000, could it?

Mr. RUDDOCK. That is for the whole insurance industry.

Mr. WALDIE. The risk charge for 1972, according to this GAO report was \$9,902,000.

Mr. RUDDOCK. They are talking about the cumulative risk charge, I believe, from the time the program began in 1954.

Mr. WALDIE. I see.

Mr. RUDDOCK. That is just the figure for 1 year.

Mr. WALDIE. So the maximum is \$850,000 for 1 year.

Mr. RUDDOCK. That is right, to be divided among Metropolitan and roughly 300 reinsurers that participate.

Mr. WALDIE. So this figure that I am reading is almost \$10 million since the beginning of the program, through 1972.

Mr. RUDDOCK. I would assume that, Mr. Waldie. I do not remember that, but a figure of that magnitude has to be more than the risk charge for 1 year.

Mr. WALDIE. When they compute a premium rate for life insurance, do they include a profit figure in that premium rate? If it is a profit company, it would seem elementary that they do.

Mr. RUDDOCK. On any rate quotations, that would include the profit for a company, yes, sir.

Mr. WALDIE. But in this program, so that I can get this risk charge straight, they quote a figure absent a profit, and then the profit is found in the risk charge.

Mr. RUDDOCK. Well, the law provided that the going-in rates—this would be for the first year, beginning in August of 1954—would have to be comparable to the lowest schedule of rates in effect for any other large group policy.

It also provided that, if the determination of a rate on that kind of a basis, where you would get into age-and-sex distribution—that if that determination would be excessively burdensome, since this was to be an experience-rated contract, you could estimate the premium. And so in the beginning the premium to be charged employees was 25 cents per \$1,000 biweekly, 12½ cents on the part of the agency, and in lieu of calculating the actual premium, the Commission agreed to send to Metropolitan originally 98½ percent of the amounts that we collected. That resulted in accumulating a reserve, and then the Civil Service Commission exercised the discretion given to it by the law to fix the maximum amount of the reserves that can be held by an insurance company at \$100 million. That has been changed several times since then, but we have never paid a premium on the basis of book rates applied to an age-and-sex distribution. We have paid premiums originally on the basis of a percentage of what we were collecting, recognizing that we would get back the amount not needed for claims, taxes, expenses, and so on. We are now paying on an estimated-premium basis, which is, as I say, our best estimate of the dollars that are actually needed for disbursement in a given year, hopefully ending up with no dollars left over.

Mr. WALDIE. How do you determine the necessity of reducing the risk-charge amount?

Mr. RUDDOCK. I don't quite know how to answer that. It has not been something that was required by a change in the law, or whatever.

I can remember specifically why we changed the risk charge in 1968. It was because the law was amended December 19, 1967, to provide a minimum amount of \$10,000 for regular insurance and to make the maximum insurance—which up to that point had been \$20,000—to tie that to the salary of Executive Level II.

So recognizing that there was going to be a tremendous increase in the amount of insurance in force, and that there was also going to be a comparable increase in the amount of the premium, we reduced the formula for calculating the risk charge so that it would not result in a huge added profit to the insurance industry. That was the reason for the 1968 change.

Mr. WALDIE. What was the reason for other changes?

Mr. RUDDOCK. I guess I can remember another one.

I believe the original contract provided that the risk charge would be 6 tenths of 1 percent during the first year and 5 tenths of 1 percent in later years, which was, I guess, a recognition of the added risk and the added problems of starting a new program. I do not know what else.

Now the change in 1973, where we both reduced the formula and also put the limit of \$850,000 on it, is partly a reflection of our times. As you know, we had reduced the risk charge and the service charge and the profit item, whatever it happened to be called, in some of our major health-benefits contracts.

One of the things we had particularly in mind here by using the \$850,000, if that was less than the actual computation, was to get away from the situation where an increase in pay which resulted in an increased amount of insurance would also result in an increased risk charge.

Mr. WALDIE. So that was really the direction of the decision to change the risk charge in medical policies.

Mr. RUDDOCK. Part of the same thing, yes, sir.

Mr. WALDIE. Are the optional premiums included in the computation for risk charges?

Mr. RUDDOCK. Yes, sir.

Mr. WALDIE. Why is that, since the Government pays none of that? The employee pays all of that. Why do we pay them a profit on the optional? Then they are not compelled to do that at all.

Mr. RUDDOCK. I beg your pardon. Who is not compelled?

Mr. WALDIE. All the premium on the basic includes all those people that subscribe to optional, too, because they have to have basic to begin with.

Mr. RUDDOCK. Yes, sir.

Mr. WALDIE. And then, if they desire to take optional, we will pay the company a profit on that business, too, computed by a risk charge.

Mr. RUDDOCK. Well, it is not an additional amount, because with this \$850,000—

Mr. WALDIE. Well, it is an additional amount if they have not reached that.

Mr. RUDDOCK. They have reached it. The \$850,000 resulted in a lesser risk charge than would be derived from the formula computation. This means, in effect, if the number of people who chose optional would be doubled, no additional risk charge would be paid to the insurance industry.

Mr. WALDIE. How much less than what they would have gotten under the former formula is that \$850,000?

Mr. RUDDOCK. Well, may I supply that for the record?

Mr. WALDIE. Yes, sir.

[The following information was furnished:]

A question was asked concerning the difference between the current maximum risk charge of \$850,000 and the risk charge computed as a percentage of premium. The total insurance premiums for fiscal year 1973 were \$378 million. The risk charge computed at the rate of 0.4 of 1 percent of the first \$125 million and 0.2 of 1 percent of the remaining \$253 million is \$1,006,000. The \$850,000 maximum therefore, is \$156,000 less than the risk charge would have been if computed as a percentage of premium.

Mr. RUDDOCK. I don't have it in my head. The risk charge in 1973 was, as I remember, about a half million dollars less than for 1972, so it did result in a substantial reduction in the profit to be distributed within the insurance industry.

Mr. WALDIE. Did that result in a reduction in premium?

Mr. RUDDOCK. The charge to the employee?

Mr. WALDIE. Yes.

Mr. RUDDOCK. No.

Mr. WALDIE. How was that absorbed?

Mr. RUDDOCK. Well, as you remember from the actuarial evaluation which we sent to the committee and you had printed as a committee print, the actuarial evaluation states that at the present time the premium is not adequate on the level-cost basis to support the program in perpetuity.

Now it would be a long, long time before an item of this size in a program of this size would be the direct result of either increasing or decreasing premiums. It is just one of many factors.

Mr. WALDIE. The half million had a little impact upon the premiums.

Mr. RUDDOCK. Eventually, yes, sir.

Mr. WALDIE. But not in the year—

Mr. RUDDOCK. It has an effect on level cost. Now the Commission, as you know, has not changed the premium to be charged the employee on the basis of this most recent evaluation, and that is because we are consulting with agencies and unions, and so on, on some questions of whether it might be desirable to make some changes in the program. And let me make perfectly clear that the administration has not made a decision to either present or support this proposal, but when the \$10,000 minimum was fixed in 1967, it was large enough to include a majority of federal employees whose salaries were less than that amount. And that is no longer true. On today's pay scales, a comparable figure would be, say, \$13,000.

And so one of the items which is being discussed is the question of whether we should recommend a change in the law to increase the minimum amount of insurance to \$13,000 and to peg it to something so that it would automatically change in the future to reflect changes in the overall pay levels.

Now that would have an effect on the amount of the premium required to support the program into perpetuity.

Mr. WALDIE. One final question.

There was a reduction in the reserve requirement recently, was there not, within the last couple of years?

Mr. RUDDOCK. Yes. I don't remember just exactly what year that was. Not in the reserve requirement. There was a change in the maximum amount of the reserve which can be held by Metropolitan. That at one time had been \$300 million, and it was reduced by the Commission to \$200 million.

Mr. WALDIE. That is what I am talking about.

Mr. RUDDOCK. Yes, sir.

Mr. WALDIE. Where is that amount set forth by statute or by negotiation?

Mr. RUDDOCK. The amount to be held by Metropolitan?

Mr. WALDIE. Yes.

Mr. RUDDOCK. That is strictly a matter for determination by the Civil Service Commission, and, of course, it has to be reflected in the contractual agreement with Metropolitan; but it is a Commission determination. The law gives the Commission the right to determine what the contingency-reserve level should be.

Now understand, of course, that that determination has no bearing whatsoever on what reserves there should be to support the program. That determination is only how much of it will be held by Metropolitan and how much of it will be held in the Treasury Department.

Mr. WALDIE. Why should any of it be held by Metropolitan?

Mr. RUDDOCK. I would say originally that was set up because that was the usual way for the insurance industry to contract with other large employers. There was some talk about its being a protection against adverse experience in a given period.

At the present time, it is more a practical matter, I think, than anything else.

Mr. WALDIE. Do you think it is a practical matter?

Mr. RUDDOCK. I would say it is entirely practical.

Mr. WALDIE. What is the practical matter?

Mr. RUDDOCK. The practical matter is that the life insurance fund receives an income from the investment of that reserve held by Metropolitan.

Mr. WALDIE. If it were held in the Treasury, what would be the case?

Mr. RUDDOCK. The fund would receive income if it were invested by the Treasury.

Mr. WALDIE. What is the difference?

Mr. RUDDOCK. Well, over the years, the interest paid by Metropolitan has been consistently higher than on amounts invested by the Treasury in securities of the United States.

Mr. WALDIE. Then why do we permit the Treasury to hold any?

Mr. RUDDOCK. That is a part of the management of fiscal policy.

Mr. WALDIE. But who makes the decision, the Civil Service Commission or the statute?

Mr. RUDDOCK. Well, the statute does not specify the amount.

Mr. WALDIE. So the Civil Service Commission makes the decision.

Mr. RUDDOCK. Yes.

Mr. WALDIE. Why did you reduce the amount, then, that was held by Metropolitan in reserve if it was such a good deal for us and we lost money when we restored it to the Treasury?

Mr. RUDDOCK. I think this point is indicated in the General Accounting report which you just referred to, and that is, a reduction in the reserve held by Metropolitan and a return of any part of that

money to the life insurance fund which is in the Treasury affects the budget in the sense of being—I will use the term “negative outlay.”

When you get down to the final line of the budget, where you add up all amounts paid to the public and all amounts received from the public, the return of part of that reserve from the Metropolitan Life to the insurance fund is an amount received from the public. And so it has a budgetary effect.

Mr. WALDIE. Well, is it a positive budgetary effect for the people or a negative one? If we lose a return by making that bookkeeping entry on our investment, do we do the people a service or a detriment?

Mr. RUDDOCK. Well here there would have to be consideration of that by people better informed than I, but I think you would be measuring, in effect, the difference in income against the advantage of reducing budgetary expenditure for a given year. There is some value to that, but I do not know how to put a dollar sign to it.

Mr. WALDIE. Well, I would like to get a better answer to that. I would appreciate your providing that in writing to the committee.

It seems to be that if there is a value to putting the money in the Treasury, it all ought to be there. If it is put into the Treasury at an expense to this program because it does not invest its money as wisely as Metropolitan, then it ought to all be left in Metropolitan.

Mr. RUDDOCK. The amount has to be invested in interest-bearing securities of the United States.

Mr. WALDIE. I understand, but your contention is that Metropolitan provided us a greater return when they had custody of the money than does the Treasury. Having said that, you said that a year or so ago you decided to take money out of Metropolitan and restore it to the Treasury. There seems to be an inconsistency. I would hope you are not implying that it was a political decision.

Mr. RUDDOCK. I do not know in what sense you are using “political.” The effect of doing that and the purpose of doing that is—

Mr. WALDIE. To show less expenditure that year.

Mr. RUDDOCK. To show less expenditure for a given year.

Mr. WALDIE. And to show that we sacrificed income from this fund when it was held by Metropolitan. Right?

Mr. RUDDOCK. Yes. The word “sacrifice” is yours.

Mr. WALDIE. Well, we lost income, then, did we not?

Mr. RUDDOCK. Yes, sir.

Mr. WALDIE. But I would like to understand why the Civil Service Commission made that decision. And it was solely the Civil Service Commission's decision, so the reasons are solely within the Civil Service Commission and not speculative. Right?

Mr. RUDDOCK. And I will supply something for the record.

[The information follows:]

A question was asked regarding the Commission's December 1968 policy decision which resulted in a reduction in the amount of the carrier-held contingency reserve from \$300 million to \$200 million beginning with policy year 1969.

There are a number of elements which must be considered in connection with any reduction of special contingency reserves (Federal funds) held outside of the Treasury.

Whether the reserves are held by the carrier or by the Government, the level of financial protection would be unaffected.

The FEGLI program does not have as its purpose the generation of maximum interest by investment in private companies. The legislative history of the FEGLI Act suggests that the purpose of the carrier-held contingency reserve was to provide protection against adverse fluctuations rather than provide investment returns greater than those available from U.S. Government securities. Testimony

during consideration of the bill in 1954 also indicates it was expected that uncertainties would diminish as the size of enrollment and trust funds grew. Moreover, Metropolitan has never had to draw on the contingency reserve during the 19 years it has underwritten this program. There are now more than 2.5 million active participants and over \$1 billion in Federally held trust fund reserves.

The difference in interest earnings on investment of the carrier and Treasury security held in the trust fund is relatively small. Furthermore, the loss of funds by the Treasury necessitates borrowing at a rate higher than that paid by the carrier.

1969 end-of-year mean rates of interest paid:	Percent
If Funds were held by Treasury-----	4.891
If funds were held by carrier-----	6.240
Difference between carrier held and Treasury securities-----	1.35
Cost to Treasury for borrowing to replace funds moved to carrier----	7.5
Difference between cost of borrowing to Treasury and interest paid by carrier on reserves-----	1.26

Whereas the difference in interest rates produces a somewhat smaller return to the fund from Treasury securities, the overall borrowing requirements to the Treasury are still reduced if the reserve amount is held in the Treasury. For example, while the \$100 million returned in 1969 reduced fund income for the year by about \$1.35 million, the Treasurer was able to reduce borrowing by \$100 million, thus saving \$7.5 million in interest paid by Government. Consequently, this return directly benefited the general taxpayer.

The Government's general financial management policy is to minimize the amount of Federal funds held outside of the Government and not needed for immediate disbursement. In many cases, this objective is achieved by use of letter-of-credit or other similar arrangements which assure adequate Federal financial backing while, at the same time, minimizing the outflow of cash from the Treasury. In this way, Federal borrowing requirements are diminished. Whenever any special contingency reserves or other funds are returned to the Treasury, our borrowing requirements are reduced; and, even if such returns represent only one-time transactions, they still have a positive budgetary and fiscal impact. Consequently, it would be inaccurate to characterize this and other similar actions as bookkeeping enterprise.

The timing of any particular reserve reduction must also consider potential liquidation problems faced by the carrier which might result from a sudden return of Federal funds. This is a matter which, of course, must be negotiated with the carrier.

We believe that the action effected in 1969 is consistent with the Federal Government's financial management policy and protects the financial providence of the employees life insurance program.

Mr. WALDIE. Thank you, Mr. Ruddock. As usual, you are an enormously knowledgeable person to these programs.

Mr. RUDDOCK. If I can say just one further thing—the original intention of the life insurance program was not that it would be the sole insurance program of Federal employees. It was offered by the administration and approved by the Congress as a program which in effect would supplement employees' normal, ordinary insurance programs, and would provide an added measure of protection, and so it was never intended to be a substitute for the insurance employees then had or the insurance that employees today may find it desirable to have from other sources. It has never been intended as something which would compete with other offerings of insurance.

Mr. WALDIE. I can understand that. All right. I appreciate that, Mr. Ruddock.

I noticed in the health insurance program there was a certain amount of premium available for the Civil Service Commission to draw from to administer that program. Is there a similar arrangement with the life-insurance program?

Mr. RUDDOCK. Yes, sir, there is.

Mr. WALDIE. And what is the maximum amount, percent of premium, that is available?

Mr. RUDDOCK. Let me review that and be sure that the record is correct, but my recollection is that originally it was limited to 1 percent of premium, and it is now, I believe, limited only to the extent that Congress fixes a limitation on the amount the Commission can use from retirement, life insurance and health insurance funds for administration of those programs.

Mr. WALDIE. I see. In other words, the moneys from the health insurance premiums go to administering this program, also.

Mr. RUDDOCK. Yes, sir.

[The following information was received:]

A question was asked concerning the limitation on the administrative expenses of the Civil Service Commission for its various programs.

The Employees' Life Insurance Fund is available without fiscal year limitation for expenses incurred by the Civil Service Commission in the administration of 5 U.S.C., chapter 87, within the limitations that may be specified annually by appropriation acts.

The portion of the Employees Health Benefits Fund which is available for administration of the health benefits program is also subject to the limitations specified annually by Congress. This limitation, however, cannot exceed 1 percent of the total contributions to the fund by employees, annuitants and the Government.

The administrative expenses charged against the Civil Service Retirement and Disability Fund are subject only to annual limitation by Congress.

Mr. WALDIE. All right. I would like to know then, in a response from you, as to what portion of the money from the health insurance program is utilized to administer the life insurance program, and if there are any charges assessed against the life insurance program premiums for the administration of the program.

Mr. RUDDOCK. There are.

Mr. WALDIE. Why do you use any health insurance premiums to administer the life insurance program?

Mr. RUDDOCK. I misunderstood your question. The charges for the administration of the life insurance program are against the life insurance program, and the charges for the administration of the health benefits program are against the health benefits program.

For budgetary convenience on the part of the executive branch and the appropriations committees of the Congress, instead of having separate items with separate limitations, the retirement, life insurance and health benefits are lumped together, and one limitation is fixed, but then the charges for the three are against the appropriate program.

[The following information was furnished:]

Information was requested regarding the limitations for administration of the retirement, life-insurance and health benefits programs as well as the funds available and the figures presently assessed against each program.

For budgetary convenience all three programs—retirement, life insurance, and health benefits—are lumped together and Congress fixes one annual limitation. The charges for each of the three programs, however, are against the appropriate fund.

For Fiscal Year 1973, the single limitation which the Congress established for administrative expenses of all programs was \$12,244,500. Expenditures within this limitation totalled \$12,191,096. In addition, \$760,474 was incurred for admin-

istrative expenses in connection with cost-of-living increases which, under 5 U.S.C. 8348(a)(1)(B), are not subject to the limitation. Total expenditures were charged to the respective funds as follows:

Retirement.....	¹ \$9, 613, 146
Life insurance.....	443, 383
Employee health benefits.....	2, 687, 849
Retired health benefits.....	207, 192
Total 1973.....	¹ 12, 951, 570

¹ Includes \$760,474 for cost-of-living increases.

Mr. WALDIE. OK, if you would just explain that for us and give us the figures then that are presently assessed against each of the programs for the administration of the programs, plus the figures that are available in the event you need to increase expenditures, that type of thing. In other words, I presume there is a present figure you are using, but there is a ceiling.

Mr. RUDDOCK. It is fixed annually by the Congress.

Mr. WALDIE. In this program?

Mr. RUDDOCK. Yes, sir.

Mr. WALDIE. But in the health insurance I understand it is still 1 percent of premium.

Mr. RUDDOCK. But it is still fixed annually by the Congress.

Mr. WALDIE. Oh, it is?

Mr. RUDDOCK. Yes.

Mr. WALDIE. Fixed annually by the Congress, in that you must make a request?

Mr. RUDDOCK. Yes.

Mr. WALDIE. And you cannot request more than 1 percent of the total premium?

Mr. RUDDOCK. I believe that limitation is still in the law. I will have to check that.

Mr. WALDIE. What I am interested in is, have you ever been turned down on any of your requests? And I guess the answer is "No." And, second, I am interested in how much you are requesting. Have you ever been turned down?

Mr. RUDDOCK. On life insurance?

Mr. WALDIE. Yes; in the administration of the program.

Mr. RUDDOCK. Yes.

Mr. WALDIE. Have you?

Mr. RUDDOCK. At the time the program went into effect, there were some 25 or 30 so-called beneficial associations, or whatever they happened to call them in different agencies—which were offering group life insurance to employees. It was recognized that all of them were headed for bankruptcy because they were charging premiums which were inadequate to support them. When they had reached a point where they had to increase the premiums, that discouraged new employees from enrolling, so they were headed toward trouble.

The law provided that, under certain circumstances, the life insurance fund could take over those programs, both assets and liabilities, and continue to collect premiums, and that they would pay out in accordance with the terms of the contracts they had with the individuals.

I do not remember—it was 2 or 3 years in a row we asked for authority to use the money that would be necessary to do the administrative work taking over the beneficial associations, and it was denied. Ultimately, it was approved.

Mr. WALDIE. I see. All right, thank you, Mr. Ruddock.

Our next witness will be Mr. Thomas Barrett, president of Mass Benefits Administrators, Life Insurance Co. of North America.

I have your statement, Mr. Barrett. You may read it if you wish, and it will be included in its entirety in the record.

Mr. BARRETT. If you don't mind, I will read the statement, which is very brief.

Mr. WALDIE. Please go ahead.

STATEMENT OF THOMAS F. BARRETT, JR., PRESIDENT, MASS BENEFITS ADMINISTRATORS, LIFE INSURANCE CO. OF NORTH AMERICA

Mr. BARRETT. Mass Benefits Administrators is an organization whose sole purpose is the sale and administration of voluntary group insurance programs for associations.

Administration, as used in connection with this organization, means that we perform all of the day-to-day service functions in connection with these group plans, such as billing, certificate issue, record maintenance, accounting, et cetera. The insurance company receives the premiums and, in most cases, pays the claims.

One program administered by us is the Government employees voluntary benefit program. This program is offered to all employees of the Federal Government and consists of the following coverages: Life insurance, long-term disability, accidental death and dismemberment, hospital income.

Coverages are purely voluntary and are not intended to replace any group coverages offered through the Government. At the present time, we administer plans for approximately 20,000 Government employees, including employees of the Postal Service. These are all available on a nationwide basis.

We believe there are several reasons for Government employees' participation in our programs. While no survey exists to support these beliefs, our opinion is that the program participation is for the following reasons:

First, in many cases, we feel there is a void. For instance, our long-term disability income program makes available to Government employees income protection which they cannot obtain through their employer. As you know, there is no disability income payable under the Civil Service System for the first 5 years of employment. Thereafter, the amount available is inadequate for quite a few years. This is a basic need for all employees. Many employees may come from private industry where they have had this coverage and most prudent people would regard it as a necessity for their insurance programs, since it gives them protection against the hazard of loss of income, which is vital to their economic survival.

Second, the programs are used as a supplement to those offered through the employer. The present FEGLI benefits, which include accidental death and dismemberment, at one times salary, do not provide adequate life insurance and accidental death and dismemberment benefits. Government employees need additional life insurance. This is true even after taking into consideration the survivor benefits provided under the Civil Service retirement system. It is particularly true for younger employees with growing families. Our hospital income plan provides for income for every time an employee is hospitalized

and, while the medical and health-care benefits provided under the Civil Service system are excellent, they do not cover all costs and this plan fills this gap.

Third, government employees participate in our programs because the premiums for coverage are attractive. This is made possible through group purchases with lower acquisition costs. Not only are these rates attractive when compared with that which can be purchased on an individual basis, they are, in the case of the life insurance program, attractive to younger Federal Government employees because at the younger ages the rates are lower than those in the FEGLI program. The rate per \$1,000 in our life insurance program is less than the amount withheld for the employee share of FEGLI up to age 45; 72 percent of our participants in the life insurance program are under age 45 and 84 percent of them are under age 50. Therefore, it would appear that our program does attract young government employees as participants. We have no statistics on whether or not these participants in our life insurance program have adopted our program in lieu of FEGLI, or in addition to FEGLI, but it is attractive to younger employees.

The optional life insurance provided by FEGLI does not compare favorably with our program at any age.

Mr. WALDIE. Let me interrupt you there.

You were in the room when I indicated in the colloquy with Mr. Ruddock that I was of the opinion that the supplemental coverage could in fact be provided under the same terms and conditions at a lower premium rate than is being afforded at this moment to the employees.

Could you offer that same coverage at a lower premium?

Mr. BARRETT. I would like to qualify that last statement of mine, because I think the basic problem with both the primary FEGLI and the optional FEGLI is the retired lives. It does provide and ours does not. Ours is a step-rated program.

Mr. WALDIE. Let me ask you the question again.

Mr. BARRETT. No. I have not made any studies, and I would have to. I would assume that their actuaries have established the rates.

Mr. WALDIE. Then that sentence you have just read is not really correct.

Mr. BARRETT. Not correct. But the fact is that when you take into consideration retired lives, which our program—we will cover retired lives, but you must pay for it. And in the optional FEGLI the retired lives are paid for by the younger lives. And this, of course, I believe is entire problem with the rate structure of not only the FEGLI program but with the optional.

Mr. WALDIE. Well, maybe I misunderstand it. Let me ask you this:

The person who has the basic has the right to take the optional and take certain coverage and get thereby certain coverage. Could they come to you instead of Metropolitan and get the identical coverage for a lesser premium?

Mr. BARRETT. Not identical; no, sir.

Mr. WALDIE. Would they have less coverage?

Mr. BARRETT. They would have as much life insurance during their active employment.

Mr. WALDIE. But they would not have the retirement coverage.

Mr. BARRETT. They would not have the free retirement coverage.

Mr. WALDIE. So it is not then clear then you could compete with Metropolitan in that option.

Mr. BARRETT. No, I can't say, and it would take an actuarial evaluation.

Mr. WALDIE. Well, I wonder if you could provide us with that.

Mr. BARRETT. Given the same participation, I probably can.

Mr. WALDIE. What do you mean the same participation?

Mr. BARRETT. Well, they have 544,000 participants. Their program was brought to the attention of 100 percent of the Federal employees. We do not receive that sort of attention.

Mr. WALDIE. Well, if you would offer the same package and we could assure you that it would be brought to the Federal employees' attention with the same dramatic impact that Metropolitan is given, would you be able to offer a package to the Federal employee at a lesser cost than Metropolitan?

Mr. BARRETT. I would have to defer that to the actuarial evaluation.

Mr. WALDIE. Well, that is really the key, is it not, that we are dealing with here?

Mr. BARRETT. Yes, sir.

Mr. WALDIE. And your statement, to be meaningful must mean to me that you can offer the Federal employees a better deal than they are now getting. I am not clear, from what you have told me, if you can do that.

Mr. BARRETT. I am not sure I could, and in fact I probably could not, judging from Mr. Ruddock's testimony and looking at the expense factors involved, and so on, and the reserves for retired lives, and so on. This is a matter for an actuary to evaluate, and I am not an actuary. It would have to be done from that point of view.

Mr. WALDIE. You see, what I am trying to conclude in my own mind is can we provide the employee a better opportunity than he presently has?

Mr. BARRETT. Yes, you can.

Mr. WALDIE. And I want to exclude from my thinking the potential that a cozy relationship has developed between the Commission and Metropolitan and the insurance industry at large, of which I presume you are a part, with relationship to this contract.

I do not mean that as criticism. I just mean that some very sloppy practices have developed in the health-benefits field because of the long relationship that developed into less than arm's-length in my view that I want to eliminate as being a potential in this situation, too.

You heard my criticism of the way this program started. I think the insurance companies got together, wrote the bill, and in effect presented the package for administering the program to the Commission as a fait accompli. They said, "Here it is. Take it under these terms, or we won't deliver it."

How long have you been in existence?

Mr. BARRETT. Thirty years.

Mr. WALDIE. So you were part of the original agreement.

Mr. BARRETT. I think you should understand that I am a broker and an administrator; I am not an employee of any life insurance company. The life insurance company of North America happens to underwrite these programs, and I have a third-party administrative capacity in these.

Mr. WALDIE. And do they also participate in Federal employees group life insurance?

Mr. BARRETT. I am pretty sure that they do. I believe they are one of the participants in the Federal employees group life insurance program, although I am not—I am sure they would be. Nearly every group-writing company in the United States of any consequence is.

Mr. WALDIE. It is pretty hard, if they are all part of the package, for us to break the package open, it is not, with a competitor?

Mr. BARRETT. Yes. To be quite candid, I do not know how you would go about getting an absolutely competitive bid on this program at this point.

Mr. WALDIE. There is no way, is there?

Mr. BARRETT. I do not think so. It is conceivable that there would be someone, but I would not want to be changed with the task of finding someone that would want to give you an independent competitive bid.

I am not saying that in the sense that there is any restraint of trade or anything of that nature.

Mr. WALDIE. I do not expect you to. I am saying it in that regard. I think it is an absolute restraint of trade. I think the insurance companies of the country have latched on to this program, control it lock, stock, and barrel, and there is no way to extract it from them on a competitive basis, because they all have a cut of the pie and that is why they are all in it, so that nobody competes. And if that is not restraint of trade, I do not know what it is. And it is going to be an interesting question to ask as to what the legal liabilities are in this regard.

We cannot go out and get a competitive, independent bid from any segment of the insurance industry on this business because they are all participating in it today and like it. We are in pretty bad shape. And I appreciate your responses.

But suppose I want to recommend that you submit us a bid. I gather that there is just no way you could submit a bid that could compete with these people, because you have got to come back to one of them ultimately to perform your bid.

Mr. BARRETT. Yes, sir. And beyond that, it is beyond someone of my size and stature.

Mr. WALDIE. I understand.

Mr. BARRETT. It is directly written with the companies, and I am of course, a broker and make my living that way. But even to get the company officials and say to them, "We would like you to—we want to separate this out, and we would like a separate bid from each of you," I just question.

There are differences in companies. For instance, this program was competitively bid and in fact has been moved because of the one carrier's high expense factors. And we do that with smaller pieces of business, but with this one I do not see how it could possibly be done. In fact, it is my understanding, although I am not sure of it—it appears that the Civil Service Commission actuaries are largely responsible for determining the rate level. I am not so sure that the companies are doing this.

But the only point of negotiation in fact with the companies would be, "What are your expense factors, and what are your profit factors?" Because, other than that, it is just a question of paying claims.

Somebody is going to have to pay those claims, no matter what company it is. So those are really the only negotiables, plus the reserves and how much you will establish in reserves and what kind of interest you will pay. Those are the only negotiable areas in all of this. It is not really a rating situation; it is that sort of thing you can negotiate with an insurance company. And there are differences in insurance companies when it comes to that. Whether you will find them in this case, I am not sure.

Mr. WALDIE. All right. Would you please continue?

Mr. BARRETT. Yes; and I appreciate your letting me bring that to your attention. I really believe that the retired lives is the big problem with the rate structure in the whole program.

We are not the only organization offering these programs to Government employees. We believe that our programs would have larger participation if we were able to bring them to the attention of all employees. As you know, they are offered through employee association sponsorship, and this method of bringing it to the attention of the employees is relatively ineffective. My best estimate is that nearly every department of the Government, with the major exception of the Department of Defense, has some program of life insurance available to the employees on a voluntary basis through their employee associations; and that if all of the participants of these programs were taken into account there would be probably 75,000 to 100,000 employees insured in this manner.

Mr. WALDIE. Why is the Department of Defense an exception to that?

Mr. BARRETT. These are not sponsored by any agency, as such. They are sponsored through these employee associations, and they just have not done it.

Mr. WALDIE. The employee associations within the Department of Defense?

Mr. BARRETT. Yes, sir. It is so large. The Office of the Secretary of Defense, Welfare and Recreation Association has contemplated it, but that is a very small group, and to get into the Army and Navy, and that sort of thing, is very difficult.

Mr. WALDIE. All right. I very much appreciate your testimony, and you have shed light on my effort to learn more about the program. We may in the future call upon you for additional assistance in understanding it, and you are invited to submit to us any additional information you would like for the record. We will include it.

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

Mr. WALDIE. The committee is in adjournment.

[Whereupon, at 12 noon, the hearing was adjourned.]

[The letter which follows was received for inclusion in the record:]

MASS BENEFITS ADMINISTRATORS,
Washington, D.C., November 9, 1973.

HON. JEROME R. WALDIE,
U.S. House of Representatives, Subcommittee on Retirement and Employee Benefits of
the Committee on Post Office and Civil Service, Washington, D.C.

DEAR MR. WALDIE: In my prepared statement, which I read before your Committee on Wednesday, November 7, 1973, there was a statement, "The optional life insurance provided by FEGLI does not compare favorably with our program at any age".

This statement was in error. It was my intention to state that the *rates* for the optional life insurance provided by FEGLI does not compare favorably with our program at any age. Everyone is well aware that the optional FEGLI provides three things which are not provided under our program. They are:

1. Accidental death and dismemberment, which is provided separately by our plans at the rate of 60¢ per \$1,000 per year.

2. Waiver of Premium Total and Permanent Disability for the duration of the disability, whereas Waiver of Premium in our optional insurance is provided for two years or the length of time the participant has been an insured in the program, whichever is longer.

3. Optional FEGLI provides for continuing insurance at retirement at no cost to the insured, whereas our program requires continuing premium payments.

While my statement was corrected orally in my testimony, I would appreciate your adding this letter to my statement, so that no misunderstanding will occur.

Yours sincerely,

THOMAS F. BARRETT, JR., C.L.U.,
President.

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