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INCREASE IN GOVERNMENT'S CONTRIBUTION UNDER FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM

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HEARING

BEFORE THE

SUBCOMMITTEE ON

MENT AND EMPLOYEE BENEFITS

OF THE

COMMITTEE ON

OFFICE AND CIVIL SERVICE

SE OF REPRESENTATIVES

NINETY-THIRD CONGRESS

FIRST SESSION

ON

H.R. 3025

A BILL TO INCREASE THE CONTRIBUTION OF THE GOVERN-
MENT TO THE COSTS OF HEALTH BENEFITS FOR FEDERAL
EMPLOYEES, AND FOR OTHER PURPOSES

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INCREASE GOVERNMENT'S CONTRIBUTION UNDER FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM

MONDAY, JULY 10, 1973

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

The subcommittee met at 10:05 a.m. in room 210, Cannon House Office Building, Hon. Jerome R. Waldie (chairman of the subcommittee) presiding.

Mr. WALDIE. The subcommittee will come to order.

Today, the subcommittee will consider a proposal to raise the level of Government contribution from the present 40 percent of the premium charges to 75 percent.

The bill, H.R. 3025, would provide for an immediate increase in Government contribution from 40 percent to 55 percent of the average high-option premium charge. Thereafter, the Government's contribution would increase 5 percent annually until its share reached 75 percent. This bill would go a long way toward reducing the financial burden of premium costs for Federal employees.

Two years ago, President Nixon announced that the country was facing a deepening health crisis. He suggested that a goal of 75 percent be set for employer contributions to health benefits programs. This bill would seek to meet the President's goal over a 4-year period. This reasonable effort demands the immediate attention of this subcommittee and of Congress.

The Federal Government has been sadly negligent in sharing the cost of the health program. The Federal employees program simply cannot compare to programs available in the private sector.

The 1966-67 Bureau of Labor Statistics survey covering 85 metropolitan areas indicated that 64 percent of company hospitalization plans were noncontributory, that is, paid entirely by the employer. Sixty-three percent of the surgical plans and 53 percent of the medical plans were also noncontributory.

The 1969 Bureau of Labor Statistics survey of 50 major industries indicated that 50 percent of the employers paid the full cost of their employees' health insurance covering hospital, surgical, medical, and major medical expenses.

The 1972 Bureau of Labor Statistics survey of 136 private health plans found that in 98, or 72 percent, of the plans, employers paid the entire premium charge for their employees.

The 1972 list of industry plans which paid the full premium cost reads as if it were from the Fortune magazine's "500" list. Alcoa,

American Airlines, A.T. & T., Bethlehem Steel, Campbell Soup, Firestone Tire and Rubber, Ford Motor Co., General Motors Corp., IBM, Kennecott Copper, Minnesota Mining, and Manufacturing, and PPG Industries all pay 100 percent of the premium costs. Certainly, such leading industrial employers can be fairly compared to the Federal Government.

The best of these industry plans provide for comprehensive coverage while continuing to pay the full premium costs. For example, the Ford Motor Co. plan provides full hospital, surgical, medical, and major medical coverage for all employees, retirees, and dependents without maximum benefit levels, coinsurance, or deductibles.

PPG Industries provides equally comprehensive coverage without coinsurance or deductibles.

IBM provides similar comprehensive coverage and eligibility although some cost-sharing is included.

In many industries, companies are even paying the employee's medicare premiums. The question now is no longer one of simply obtaining parity for the Federal employees. We must act to prevent the Federal employee program from falling further behind the private sector.

It is within this context that we today ask for an increase in the Government contribution from 40 percent to 75 percent of the premium charges. Medical costs continue to place an enormous burden on the Federal employee. The pensioner and the lower grade employee are, of course, the ones who are hurt the most. It is clearly time that the Government accept the responsibility of adequately financing its employee health benefits plan.

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

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

Mr. RUDDOCK. Thank you Mr. Chairman and members of the subcommittee. I appreciate this opportunity to appear before your subcommittee to give the Commission's views of H.R. 3025, a bill to increase the Government contribution to the costs of health benefits for Federal employees, and for other purposes.

These views also apply to a number of other bills with the same or similar provisions, including H.R. 436, H.R. 2473, H.R. 6464, H.R. 6802, H.R. 7041, H.R. 7042, H.R. 7045, H.R. 7481, H.R. 8126, and H.R. 8505.

We will be formally reporting on H.R. 3025 shortly. I would like to suggest, Mr. Chairman, that the official letter be inserted in the record of these hearings when it is received.

Mr. WALDIE. That will be done.

Mr. RUDDOCK. Although our official report will comment on H.R. 3025 and similar bills, I would like to highlight our reasons for opposing their enactment.

Briefly, H.R. 3025 would amend the Federal Employees Health Benefits law to make these changes:

1. It would increase the Federal Government contribution from 40 to 55 percent, with an additional increase of 5 percent per year until the Government contribution reaches 75 percent of the average high option premium of the six largest plans participating in the Federal Employees Health Benefits program.

2. It would allow pre-1960 retirees now in the Retired Federal Employees Health Benefits program to change to the Federal Employees Health Benefits program.

3. It would extend coverage under the Federal Employees Health Benefits program to unmarried children, regardless of age, who are full-time students.

4. It would require a carrier participating in the Federal Employees Health Benefits program to agree to comply with a Commission decision in health benefits claims disputes.

The Commission is strongly opposed to the first three proposals relating to an increase in the Government contribution, pre-1960 retirees, and student-children. It would support the fourth proposal relating to claims disputes if it were in a separate bill.

With respect to the first proposal for an increase in the Government's contribution, the Government now contributes 40 percent of the average high-option premium of the two Government-wide plans, the two largest employee organization plans, and the two largest comprehensive health plans participating in the Federal Employees Health Benefits Program.

H.R. 3025 would increase the Government's contribution to 55 percent of this average beginning in 1973, with an additional increase of 5 percent yearly until the contribution reaches 75 percent in 1977 and thereafter.

This bill would also extend the ceiling on the Government's contribution for any enrollee to 75 percent of the actual subscription charge, in contrast to the 50 percent maximum under present law.

The Commission is strongly opposed to a liberalization in the formula for fixing the Government's contribution toward the cost of health benefits as proposed by H.R. 3025. This view is based primarily on our present comparative position in relation to benefits offered by other major employers, and on the current need to exercise fiscal restraint.

Those in favor of an increased Government contribution frequently cite other employers who pay a larger share of the cost of employee health benefits as evidenced in favor of their position.

We agree that a number of employers—especially in the private sector—contribute a larger share of the cost of health benefits than does the Federal Government. More significant, in our judgment, is a closer consideration of what these same employers offer in the major parts of their fringe benefits package in comparison with what the Government offers its employees.

It should also be noted that by no means do all other major employers pay a larger share of the cost of health benefits for their workers than we do.

In a comparison based on six major benefits programs, for example, we found through a recent study of 11 employers who were paying a larger share of the cost of health benefits, that only one of these employers had a more liberal package of total benefits than does the Federal Government. This one employer was New York State which is encountering grave financial problems in attempting to finance these benefits.

Copies of this study were recently sent to the Committee on Post Office and Civil Service. The study included consideration of retirement, life insurance, health benefits, vacations, sick leave, and holidays. The study showed essentially that while one employer may devote more of his compensation resources to a specific benefit program than another employer, their competitive positions tend to be reversed if you examine a different area of compensation. In short, it is unlikely that a single employer can be most liberal in every element of the total compensation package.

A few specifics may help to illustrate this point. General Motors, for example, pays almost the entire cost of health benefits for its employees. However, it offers notably lesser benefits in respect to retirement—for example, no automatic cost-of-living adjustments—and vacations—for example, 15 years service required to earn 4 weeks vacation rather than the 3 years in Government—than are enjoyed by 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 health benefits than do the other employers studied.

This leads me to a consideration of what the increased contribution proposed in H.R. 3025 would cost.

Mr. WALDIE. May I interrupt?

Mr. RUDDOCK. Yes.

Mr. WALDIE. Are you familiar with the President's message of 2 years ago relative to his request that private employers pay up to 75 percent of health benefits?

Mr. RUDDOCK. Yes, I am.

Mr. WALDIE. Is there any statement in that message that says they should pay 75 percent of health benefits unless their entire benefits package is more liberal than X base?

Mr. RUDDOCK. No.

Mr. WALDIE. He did not qualify on how liberal the other benefits are. He said this need is so important that this means the minimum standards should be met later on.

Mr. RUDDOCK. Yes; that is my understanding on it.

Mr. WALDIE. Why then do we apply a different standard if the President is applying 75 percent?

Mr. RUDDOCK. It is my understanding that that recommendation by the President was made in connection with a proposal for a form of National Health Insurance, and that the health benefits coverage included in that legislative proposal would compare more nearly with low options than it would with our high options.

In other words, it has been my understanding that the 75-percent contribution contemplated by an employer would have required less

dollars perhaps than the Federal Government is currently paying in its 40-percent contribution in the health package benefits.

Mr. WALDIE. Did you think that the President said 75 percent if you are not paying very much? Is that the intimation you got out of that, that 75 percent of health benefits should be paid by the employer if you are not granting much in the way of benefits?

Mr. RUDDOCK. I don't believe it was said quite that way.

Mr. WALDIE. I do not believe it was either. But that would be the assumption as you describe it, would it not, that he said 75 percent if it was not providing very much—

Mr. RUDDOCK. That he was urging health benefits at a basic level, benefit coverage at a basic level.

Mr. WALDIE. Do we pay 75 percent of our basic level?

Mr. RUDDOCK. No; we pay 50 percent because of the limitation on the Government contribution not exceeding 50 percent of the total premium. However, there is no question in my mind but what if legislation is adopted which requires employers in private industry to pay a larger contribution that our program will get right with that—

Mr. WALDIE. Well, I would gather that would be clear in the case. But where I think we are in ill grace is, the President, the head of the Federal Government—the employer—of the executive branch says to the private sector—

Health needs are so important in this country, we have got to take some steps to improve the manner by which they are met and this one step I recommend is that all private employers pay a minimum of 75 percent of the premium of their employees' health insurance.

And, yet, we say—

But that does not apply to us because we are so generous with our employees. other fields, that we should not worry about how their health needs are met.

That seems, to me, not to have been found within the statement.

The position the administration takes, through your representation of them, is—

Well, it is OK for the private sector but, for us, it costs money and we are treating our employees pretty well so we do not have to do it for our employees.

The basic opposition that I really read in the statement is that it is costly and we are really treating our employees better than they are in other fields so we ought not worry about the fact that we are behind in the health insurance field.

Is that essentially a fair statement?

Mr. RUDDOCK. Yes; I think it is. I think perhaps one more bit of perspective: I think we are saying that because of the need to exercise fiscal restraint, that there does not appear to be this urgency of increasing a total compensation package which is currently comparative by taking this step at this time.

Mr. WALDIE. Just one more comment and then Mr. Hillis I think has something he wants to say.

Do you gather in the President's statement 2 years ago that implicit in that statement, or explicit, was a caveat that if the private employer was, in fact, in financial constraints, that his suggestion that they pay 75 percent of premiums need not be followed?

Mr. RUDDOCK. I do not read that into it.

Mr. WALDIE. I do not, either. Mr. Hillis?

Mr. HILLIS. Of course, the President, I think, from time to time, has put a caveat on the private sector about exercising restraints in wage increases and indicated that we need to exercise a similar type of "belt planning" if you want to call it that, but at no time has he suggested that the 75 percent not apply.

Do you understand what I mean?

Mr. RUDDOCK. Yes.

Mr. HILLIS. It seems to me that what you are saying—I do not mean to be facetious—but for the Federal program to be compared with the others, for our employees to be considered equal in the private sector, maybe they had better get sick while on vacation. I mean you are balancing one against the other.

It is like comparing, in some ways to me, apples with oranges.

Mr. RUDDOCK. Mr. Hillis, our benefit level, I think, compares very favorably with the plans adopted by progressive private employers.

It is in the area of the employer contribution toward that cost that we have fallen behind, and we are falling behind more all the time.

Some few years ago, the Government's contribution, compared with that of private employers, would have been considered quite generous.

Then we came through a period where many private employers were paying a larger percentage but of a less generous package of health benefits, so that the actual dollars being paid by the employer did not compare favorably or certainly did not exceed what the Government was putting in as an employer.

Now, we are one step further behind. I recognize some of the employers that Mr. Waldie read, and their health benefit programs provide very liberal coverage. The benefits are excellent and the dollars being paid by the employer considerably exceed the dollars that the Federal Government, as an employer, is paying toward health benefits for Federal employees.

Mr. HILLIS. For example, General Motors is the major employer in my district, and I know they cover the cost of mental health, mental illness. If an employee needs psychiatric help, or where we have regional mental health centers for those needing treatment, this is covered under the health plan.

Would the Government employees' plans cover such?

Mr. RUDDOCK. Yes. Both the Government-wide plans would treat the expenses of mental illness the same as they would the expenses of physical illness.

Mr. HILLIS. I did not know and I wanted to ask.

Mr. RUDDOCK. That was not true 13 years ago when the program first started.

Most of the health insurances in this country, including Blue Cross, Blue Shield, either excluded the treatment of mental illness or put very severe limitations on the dollar amount that would be paid for that purpose.

Mr. HILLIS. Where does the retired Federal employee stand in relation to the current Federal employee?

Mr. RUDDOCK. The Government makes the same dollar contribution for a retired employee—one who retired since this program began in 1960—as it does for an active employee.

In other words, when an employee retires, he continues to be a member of the same group, participating in the same plan, unless he exercises his opportunity to change plans during an open season. But he has exactly the same benefits and receives the same Government contribution as an active employee.

The only difference he notices, really, is that his share of the premium, instead of being taken out of his pay, is taken out of his annuity.

Mr. HILLIS. It stays the same?

Mr. RUDDOCK. Yes, sir.

Mr. HILLIS. I did not mean to interrupt your statement. I will get on to some of the questions later, but please proceed. That is all I have.

Mr. WALDIE. Yes. I think maybe just as a comment, it stays the same in the merits; but the need gets higher for medical services and percentage of income is much higher, the amount that that retiree pays.

Mr. RUDDOCK. A part of the premium he must pay would represent a higher portion of his income.

Mr. HILLIS. His premium stays the same.

Mr. RUDDOCK. Same dollar amount.

Mr. HILLIS. But he has less to pay out.

Mr. RUDDOCK. Yes.

Mr. WALDIE. And the portion of the coverage he has to pay, himself, becomes higher as the medical needs become great.

In other words, Blue Cross, Blue Shield, does not pay all medical expenses, does it?

Mr. RUDDOCK. No. There are very few plans that pay all conceivable health care costs.

Mr. WALDIE. So the exposure is greater for the retirees because they are at the age when medical costs are more frequent.

Mr. RUDDOCK. They would normally be, on the average, $2\frac{1}{2}$ to $3\frac{1}{2}$ times than that of a young active employee.

Mr. WALDIE. As a matter of curiosity, in the private sector, do they provide a different plan for their retirees, the more progressive employers?

Mr. RUDDOCK. In the private sector, almost everyone is under the social security system so that when they reach the age of 65, they qualify for medicare. At that point, most of the employer-sponsored health benefits plans are turned into a supplement to medicare, with some employers continuing to pay the cost of the supplement. Others let the employees share in the cost of the supplement, but they normally do not continue as members of the same experience group to which they belong as employees.

Mr. WALDIE. It is not a common practice in the private sector to, somehow or other, reflect the increase in exposure and the decrease in income with the retiree experience?

In other words, the retiree that would retire, before medicare, would not get a broader coverage during that period at a lesser expense than is the case before?

Mr. RUDDOCK. No. Before medicare came along, normally, he was treated less well than an active employee.

With the advent of medicare, which picks up such a substantial part of the costs and—

Mr. WALDIE. If he or she retires before 65, what is the case today? Do they still receive generally less than the active employee?

Mr. RUDDOCK. Yes, because the cost of supplementing the medicare would generally be less than the employer contribution toward health care for active employees. That would be particularly true for an employer who was paying the total cost.

Mr. HILLIS. For purposes of the record here, a retired Federal employee who had a career in the Federal Government—no other government—would not be eligible for medicare, is that right?

Mr. RUDDOCK. Yes.

Mr. HILLIS. And through the social security system; if you are not eligible for social security, you are not eligible for medicare?

Mr. RUDDOCK. Yes; that is right.

Mr. HILLIS. So the Federal employee, more or less, is on his own, the retired Federal employee looking to the benefits here, as his only means of combating or meeting medical expenses.

Mr. RUDDOCK. Yes, unless he acquired medicare coverage by virtue of having some private employment, some employment in which he was covered under the social security system. And that is true of very, very many of our retired employees; 58 percent of our retired employees who are 65 or over have medicare coverage.

Mr. HILLIS. Is that true also of social security coverage, that you must have that?

Mr. RUDDOCK. Yes.

Mr. HILLIS. You have to have social security for medicare?

Mr. RUDDOCK. Yes.

Mr. HILLIS. Thank you. That is all.

Mr. WALDIE. OK, Mr. Ruddock, you may continue.

Mr. RUDDOCK. This leads me to a consideration of what the increased contribution proposed in H.R. 3025 would cost. Exclusive of any costs for postal employees, the added cost to the Government would increase from about \$203 million in fiscal year 1974 to \$341 million in fiscal year 1978.

This assumes no increase in health plan rates or enrollment. If we use a dynamic projection, assuming increases in health plan rates and enrollment similar to those experienced in the past, the additional cost to the Government would increase from about \$231 million in fiscal year 1974 to \$650 million in fiscal year 1978. Both projections include the increased contributions for the full fiscal year 1974.

Mr. WALDIE. Let me stop you there again. You have excluded postal employees, which is consistent with the position that you have taken in the past, or which the Commission has taken in the past. What is the amount of the increase of the package that was negotiated, which is still subject to ratification and provided for postal employees in their health insurance agreement?

Mr. RUDDOCK. Well, as I understand, in the agreement which I do not believe has been signed yet—but it is my understanding of what has been in the newspapers—that the employers' share of the health benefits would go to 55 percent July 20, or 21, 1973, and then would go to 65 percent a year hence.

Mr. WALDIE. Actually, that is a more generous increase than this bill provides, isn't it?

Mr. RUDDOCK. Yes; because they would go to 65 percent in 1 year whereas, this bill would go to 65 percent in 2 years.

Mr. WALDIE. Well, does the fact that most of the corporations negotiated that increase have any bearing on the administration's position of this bill?

Mr. RUDDOCK. It has not yet.

Mr. HILLIS. What was the answer about the amount?

Mr. WALDIE. The amount negotiated was 55 percent increase in 1973, July of this year.

Mr. RUDDOCK. Yes.

Mr. WALDIE. And immediately a 65 percent increase in 1974, so it is a more generous negotiated settlement than our bill provides.

If I were to request that you provide us information as to whether that package, if finally signed and negotiated, will change the administration's view on this bill, is there any way you could find that? Is that a proper question to ask?

When you say they have not, as yet, I presume that perhaps there was some consideration that the negotiated increase would go to their present position on this bill.

Mr. RUDDOCK. I am quite sure, Mr. Waldie, that it would not at this particular time. In the long haul, it seems to me that it very definitely is a factor that has to be taken into consideration.

In discussions on this particular point, one thing was brought out. There would be an assumption, I believe, that in a negotiated agreement where management and labor are going to contract for the coming year, that each one gets something and each one gives something.

I have no idea what, if anything, management obtained in return for increasing the health benefit contribution to a larger amount.

In view of the administration's position being based primarily on the need to exercise fiscal constraint, I cannot see this as resulting in any change in the administration's position this year.

Mr. WALDIE. OK. I might just say in passing, that would be incredible if that is the result and would seem to turn very strongly toward the view that the means by which the postal employees obtained their benefits are far greater than the means left to the rest of the Federal employees.

What I am suggesting is that if that is the position of the administration, that would be a strong signal, I would think, to the rest of the Federal employees that collective bargaining, perhaps striking, is the route to go to obtain benefits.

Without asking for an opinion on that, would you proceed?

Mr. RUDDOCK. In our opinion, these added costs are clearly incompatible with the imperative need to exercise fiscal restraint. This was emphasized in the President's address to the Nation on June 13, 1973, announcing the price freeze, as well as in his 1974 budget message urging the Congress to join in a concerted effort to control Federal spending.

We have concluded, therefore, that an increase in the Government's share of the cost of health benefits is unnecessary from the standpoint

of overall benefits comparability with other employers, and is unwarranted from the standpoint of fiscal responsibility.

I would next like to consider the second proposal which would allow pre-1960 retirees now in the Retired Federal Employees Health Benefits program to change to the Federal Employees Health Benefits program.

There are about 210,000 of these people. Some 80 percent of them are over age 65 and are covered by medicare hospital and medical insurance. They have available adequate coverage supplementary to the basic medicare protection, either through the Government-sponsored uniform plan or through privately sponsored plans supplementary to medicare.

The cost of many private plans supplementary to medicare is reasonable and the Government adds \$3.50 for a self only or \$7 for a family enrollment to the retiree's monthly annuity check to help him pay these premiums.

The same contribution is made to enrollees in the uniform plan, and they pay only an additional 50 cents a month for self only or \$1 for a family for the supplementary protection.

The Commission's experience is that many older people tend to buy as much insurance as they can get and may already be overinsured.

Mr. HILLIS. I am not altogether sure on the point you are making here. Could you explain this in perhaps a bit more detail? I am afraid I have not followed through exactly. What do you mean they would overinsure themselves?

Mr. RUDDOCK. There are, basically, two programs. The Federal employees health benefits program, which went into effect in 1960, applies to all current employees and applies to all employees who retired since 1960. The retired Federal employees health benefits program was set up later, and it was to benefit those people who had retired before 1960.

When medicare came along, many of these people who are under the retired Federal employees health benefits program were entitled to Medicare coverage either because they had wage credits or even without wage credits. They were entitled to both parts A and B of medicare if they were 65 or would reach age 65 by 1968, and that applies to 80 percent of them now.

On the point of overinsurance, we have run into individuals, particularly in the older groups, who have three or four or five different health insurance policies.

Mr. HILLIS. These 210,000—what was their average retirement income before 1960?

Mr. RUDDOCK. I do not have that specifically for this group, but it would be lower than the average for the entire million role because of the time at which they retired.

Mr. HILLIS. But many of them would have been hard pressed to have insurance at all, wouldn't they, if their income was low?

Mr. RUDDOCK. Yes; there is not any question about that. But, always, many of them have more insurance than they need. They have insurance which duplicates benefits, and so when they have an illness, perhaps one plan pays 60 percent of the cost and another plan pays 40 percent, and they have got still two or three other plans.

They are paying more premiums than they need to cover their health care costs and that is what we mean by being overinsured. So far as coverage is concerned, the 80 percent of these people who have medicare have the coverage that is provided by that program, and then the Government makes an additional contribution of \$3.50 a month for one person or \$7 a month for a family which, usually at that age, is just two people, and that is to enable them to have coverage supplementary to the medicare.

Mr. HILLIS. Could you get us a figure for the record of what the average retirement income of these 210,000 people is?

Mr. RUDDOCK. Yes, sir. May I request a favor there? May I have that done when we are running a tabulation of the annuity role for some other purpose so that I can secure this as a byproduct?

Now, I would expect that would be within the next couple of months. The alternative is for us to turn it loose and run the entire annuity role, which is 1,200,000, to extract this particular information.

But I can get it as a byproduct very inexpensively if I have a little time.

Mr. HILLIS. I think that would be fine.

Mr. WALDIE. You may have covered this, Mr. Ruddock, and I may have missed it. We discussed it at some time.

But the 46,000 or more who do not have medicare under your figures, what is their situation?

Mr. RUDDOCK. Their situation is that they have a choice of belonging to the uniform plan, which is one in which the Commission contracts with the insurance industry. If they do that, then their share of the premium is deducted from their annuity, the Government contribution is added, and the Commission pays the premium to the carrier.

The other choice is to belong to any other qualified health insurance plan in which event we add the Government's contribution, \$3.50 a month for one person or \$7 for two, to their annuity, and they pay it to their insurer.

The reason this was set up this way is that when the retired Federal employees health benefits law was considered, it was recognized that most of these people already had health insurance of some kind in which they would prefer to stay rather than to switch over to a Government-sponsored program.

Mr. WALDIE. How does the \$3.50 for self only compare with the retiree not under the medicare who retired subsequent to 1960?

Mr. RUDDOCK. It compares very, very poorly. The Government's contribution for self only under the regular program is \$8.75.

Mr. WALDIE. And for family enrollment, how does it compare to the \$7?

Mr. RUDDOCK. For the active program, it is \$22.03 a month.

Mr. WALDIE. The only reason that I can see for opposition to that proposal in our bill is because these people are, 80 percent of them, already covered adequately by medicare, hospital, and medical insurance.

These people that you and I have been discussing are not so covered, are they?

Mr. RUDDOCK. It would be some 20 percent of them.

Mr. WALDIE. Yes; so your arguments would not apply to them, would they?

Mr. RUDDOCK. No.

Mr. WALDIE. So what can we do for them, or do you think we have any responsibility to do anything for them that are not eligible for medicare and have probably much lower retirement incomes where the need is so great?

Mr. RUDDOCK. Mr. Waldie, this question was considered at length by both the House and the Senate before the Federal Employee Health Benefits law was enacted in 1959.

The decision was made, and a very deliberate decision, that the persons who retired before enactment, or before that law became effective, would not be covered.

Now, that was done again partly on the basis of cost, partly on the question of the extent of the responsibility of the employer for people who had retired before that date.

So it was a deliberate decision that they would not be included.

Mr. WALDIE. Sure. And each year, though, the basis of that decision gets less, the cost, because, fortunately, from this aspect, they died so the Government has no more responsibility, so our great concern of cost in the sixties diminishes each year since all the people die; and, partly, I suspect, because they do not get good medical care.

Mr. RUDDOCK. There are certainly less of them. For the larger part of the group, there has been one significant occurrence in those years, and that was the enactment of medicare and the provision which extended medicare without a requirement for quarters of social security coverage.

The individual who acquired part A, the hospital coverage of medicare, acquired protection considerably more valuable than anything that was contemplated by the Retired Federal Employees Health Benefits law. The taxpayers contribute half of the cost of part B so that for those people who are 65 and are covered by medicare, included in that group of 210,000, they are being treated much, much more generously now than it was contemplated when the Retired Federal Employees Health Benefits law was originally passed.

Mr. WALDIE. May I just ask one final question or request for you to provide the committee with information as to the cost of this provision if it were limited to those not covered by medicare?

Mr. RUDDOCK. All right, sir.

[The information follows:]

The added annual cost to the Government is estimated at \$7.6 million if all eligibles elected to switch to the active employee program.

Mr. WALDIE. Do you have any questions?

Mr. HILLIS. No.

Mr. WALDIE. Please proceed.

Mr. RUDDOCK. If this proposal in H.R. 3025 is enacted, it is our opinion that a significant number of these people would switch to the Federal Employees Health Benefits program in the mistaken belief that they need the additional protection and at considerable more needless cost to themselves, as well as to the Government.

Because the large majority of people enrolled in the Retired Federal Employees Health Benefits program already have very good health

insurance protection at very reasonable cost, and because we believe that the option afforded by this proposal to switch to the more costly Federal Employees Health Benefits program would cause many of them to do so contrary to their best interests, the Commission opposes enactment of this proposal.

The third proposal in H.R. 3025 would extend coverage under the Federal Employees Health Benefits program to unmarried children, regardless of age, so long as they are full-time students.

Under the present law, a family health benefits enrollment covers unmarried children until age 22, an age at which most children have completed their schooling.

When the child reaches age 22, there is a 31-day temporary extension of coverage during which the employee has a right to convert the child's coverage, without evidence of insurability, to a nongroup health benefits contract offered by the carrier of his health benefits plan.

Termination of a child's health benefits coverage at age 22 presents no barrier, financial or otherwise, to continuation of his education. The worst that happens is that the parent has to pay the cost of the child's converted health insurance over a limited period. Additionally, nearly all schools offer student insurance coverage at very reasonable group premium rates.

The civil service retirement system pays annuity to student-children to age 22. Unlike the situation in health benefits, however, this annuity is usually a critical factor in whether the child can afford a college education. We know from our experience with the retirement system that the administration of a student-child provision is difficult and costly. We believe also that such a provision is inappropriate to health benefits coverage: for example, the coverage of a child who drops out of school because of prolonged illness would terminate just when he needed it most. It is for these reasons that the health benefits law now covers children to age 22 without regard to their student status.

Enactment of this proposal would result in an uneven sharing of its cost. It would be paid for by a portion of the contributions of all Federal employees, including those at both low- and high-salary levels. Older employees at the higher salary levels would benefit more from this proposal because they would be more likely to have adult children who are postgraduate students. Younger Federal employees at lower salary levels, although they would help pay for the over-age 22 student children, would be less likely to benefit from it.

The Commission believes that students aged 22 and over already have health insurance protection available, that the proposed extension of coverage would financially benefit relatively few people at the expense of many and is therefore unwarranted and should not be enacted.

Mr. WALDIE. My own view is that it is also quite discriminatory to say a family with a youngster who is unable to find employment is not entitled to this benefit, through he is living in the home. A family whose youngster is unemployed—because the economies are miserable—and cannot afford health insurance is still not entitled to coverage for the child under the present law.

Mr. Hillis, what do you think about this provision?

Mr. HILLIS. Well, I am certainly impressed with the points that you made, and I find I am more in agreement with the Commission's position on this than the other.

Mr. RUDDOCK. All right. I think I might add one point which supports the position that you two have taken.

There comes a point, it seems to me, at which you can raise the question of whose responsibility is this child? Does it continue to be a responsibility of the Federal Government and should the cost be shared by all other Federal employees through a very small addition to their health benefits premium or has it now reached the point where the responsibility for this child is either with the child who is no longer a minor or is with the child and his parent?

I would subscribe to the latter view.

It does not seem to me that we can make a case for asking either the employer or other employees to pick up this cost.

Mr. WALDIE. Well, if you make such a case, not based on some artificial status, there is a status of the young person living and being supported essentially by the employee; therefore, it is considered a benefit to the employee. We might have justification, though it would be a strange justification; but to predicate that benefit on the fact that they are attending college does not seem to me to be fair. There are an awful lot of government people who do not attend college, can't find work or are working at such poor wages that they cannot afford medical insurance and that family is entitled to the same protection as the child that is going to college, to cover them all.

It would be my personal conviction we ought to exclude the college attendee.

What kind of cost was that provision?

Mr. RUDDOCK. Well, it was relatively minor. It is quite difficult to estimate because of, obviously, lack of knowledge of how many children over age 22 are in full-time attendance in school.

Roughly estimated, the total cost might approximate \$3 million a year and, of course, under our current financing arrangement, that would be 40 percent picked up by the employer and 60 percent picked up by other employees.

Mr. WALDIE. Please continue with the statement.

Mr. RUDDOCK. The fourth proposal would require that there be inserted in each contract under the Federal employees health benefits program, a provision relating to claims disputes. This provision would require the carrier to pay for or provide health benefits in individual cases where the Commission makes a determination that the covered employee, annuitant, or family member is entitled to the benefit under the terms of the contract.

We are currently experiencing any problems in securing carriers' compliance with Commission decisions on interpretation of contract benefit provisions. However, the Commission has no objection to this proposal and would support its enactment if it were introduced as a separate bill.

In conclusion, for the reasons stated, the Commission strongly opposes enactment of the proposals relating to an increase in the Government's contribution to health benefits, to pre-1960 retirees, and to

"student-children," and strongly urges that favorable action not be taken on the bill.

Mr. WALDIE. Out of five provisions, you support one of ours and we support one of yours and we are in dispute on three.

Mr. RUDDOCK. That is better than my usual record, Mr. Chairman.

Mr. WALDIE. Mr. Hogan?

Mr. HOGAN. I have no questions, Mr. Chairman.

Mr. WALDIE. Mr. Hillis?

Mr. HILLIS. Many of my questions have been brought out, I think. Last year, we had similar legislation. I think it was 12202, if you recall.

Mr. RUDDOCK. Yes.

Mr. HILLIS. And that measure went to conference, and there was no agreement because of the inclusion of the postal employees. I served on the Conference Committee, and as I remember, a compromise was offered between the House and Senate versions of approximately 55 percent across the board.

Would you find the administration position to be objectionable if such a compromise were to occur again?

Mr. RUDDOCK. Yes, sir. I think the position taken by the administration at the present time, with its heavy emphasis on the need for fiscal restraint, would object to any increase.

I should add that an increase to 50 percent would certainly be considered less objectionable than an increase to 55 percent. But that is a matter of degree.

Mr. HILLIS. Now, how long has it been since there was an adjustment? When was the last time there was an adjustment in these rates up to 40 percent?

Mr. RUDDOCK. As I remember, that began at the beginning of 1971, by virtue of legislation enacted in 1970. Let me check that point 1971.

Mr. HILLIS. What was it prior to that?

Mr. RUDDOCK. Prior to that time, the Government contribution was fixed at a dollar amount by act of Congress. That meant that it was not a percentage of an average or a total.

It had, as I remember it, reached the point where it would have been just about 20 percent of the total. When the law was originally passed, the formula, originally, just by coincidence, happened to be about 38 percent of the total premium.

So when the 40-30-percent premium was adopted to be effective in 1971, that was an attempt to restore the original circumstance, but it had deteriorated to something around 20 percent.

Mr. HILLIS. In your comparison I have here that you submitted to the committee, comparison of major employee benefit programs, it says: "Employees of General Motors are receiving health benefits coverage which is similar, in many respects, to that provided in the Federal program (the service benefit plan—high option). There are, however, some important differences. For example, General Motors offers 730 days of coverage for extended care facilities."

What are we offering?

Mr. RUDDOCK. Neither of our high option plans include extended care facilities. You know the extended care facility is—well, it is a highly qualified nursing home. It is intended for convalescent care. It is a place to which a person goes when he has been in the hospital, and

he needs a period of continued care which he cannot get at home but does not need to be at the hospital.

Mr. HILLIS. But less than at the hospital.

Mr. RUDDOCK. Yes, an inbetween stage.

Mr. HILLIS. Now, there is also a separate prescription drug plan which pays 100 percent of the reasonable and customary charges in excess of \$2 prescriptions at participating pharmacies.

What do we do there?

Mr. RUDDOCK. For prescription drugs out of the hospital in the Government-wide plan, which is Blue Cross, Blue Shield, after an individual has met a deductible of \$100 in a calendar year, then the plan would pay 80 percent, and drugs are one of the items that are included in that kind of coverage.

In the indemnity benefit plan, which is the Aetna administered plan, the deductible is \$50 for a wide variety of expenses and with the plan paying 80 percent of expenses in excess of \$50.

Mr. HILLIS. Skipping down. General Motors pays at least 96 percent of the premium, or about \$648 each year, for each enrolled employee.

What does the Government benefit pay, can you tell me, for each enrolled employee, in dollars? We know it is 40 percent but what is the cost per head?

Mr. RUDDOCK. For a single person, \$8.75 a month which is around \$100 a year. For a family, it is \$22.03 which would be \$250, roughly.

Mr. HILLIS. Those are all the questions I have.

Mr. WALDIE. Mr. Hogan.

Mr. HOGAN. No. I have no questions, Mr. Chairman.

I would, however, like to make the comment that I have made at these hearings so many times in the past: I think that the Federal Government should be paying 100 percent. I have, since I have been in Congress, introduced legislation to that effect. But 75 percent certainly seems reasonable, especially since the President outlined that as the goal for private industry. I think the Federal Government can do no less and ought to show the way for industry, rather than always trying to catch up with it.

Mr. WALDIE. Thank you, Mr. Hogan.

Mr. RUDDOCK, we appreciate, as usual, your testimony. We thank you for coming before the committee.

Mr. RUDDOCK. Thank you.

Mr. WALDIE. The next witness will be Mr. Clyde M. Webber, national president of the American Federation of Government Employees. Mr. Webber, we welcome you to the committee.

**STATEMENT OF CLYDE M. WEBBER, NATIONAL PRESIDENT,
AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, ACCOMPANIED BY CARL K. SADLER, LEGISLATIVE REPRESENTATIVE**

Mr. WEBBER. Thank you, Mr. Chairman.

As the largest representative of Federal employees in the country, the American Federation of Government Employees has a continuing interest in improving the Federal employees' health benefit program and the civil service retirement program. We believe that the benefits

available under these two programs should not lag behind those offered to employees in modern, enlightened private enterprises.

I am grateful to you, Congressman Waldie, for this opportunity to appear here today and endorse the bill, H.R. 3025, which you introduced and which forms the substance of these hearings.

The most important feature of H.R. 3025 is its modification of the sharing formula between Federal employer and Federal employee for health insurance premiums. This bill would increase employer health benefit premiums from 40 percent to 55 percent in 1973; to 60 percent commencing in 1974; 65 percent commencing in 1975; 70 percent in 1976, and 75 percent commencing in 1977 and each year thereafter.

This is not even as much as the President himself, in a February 18, 1971, message to Congress advocated for private industry. He proposed that private industry pay a minimum of 65 percent of employee health insurance basic programs starting July 1, 1973, and increase this to 75 percent in 1976. We would hope that the President, as the head of the executive branch, would support the same standard for Federal employees.

It is, of course, also below the formula for the proportionate sharing of health benefit premiums just incorporated in the agreement between the Postal Service and the unions representing Postal Service employees.

Under that agreement, effective in July 1, 1973, the Postal Service will increase to 55 percent its share of health insurance premium payments. This percentage will then rise to 65 percent in July 1974.

In addition, the entire cost of life insurance coverage will shift to the Postal Service in July 1974. This agreement has mooted section 5 of H.R. 3025 and we anticipate its deletion.

We believe that Federal employees should receive treatment equal to that given Postal employees. Therefore, we hope that the committee will amend this bill accordingly—scheduling the commencement of the increase in the employer's share of health benefit premiums to 65 percent in 1974. We urge the committee also to incorporate language which would raise the ultimate employer contribution, in the not too far distant future, to 100 percent.

We would also like to see the committee take action to give Federal employees comparability with Postal employees with regard to a 100-percent employer-paid life insurance program.

Today, as we are all aware, it is not unusual for a serious or extended illness to result in financial catastrophe.

Mr. WALDIE. Pardon me. On page 2 you say: "We would also like to see the committee take action to give Federal employees comparability with Postal employees with regard to a 100-percent employer-paid life insurance program." What do we pay now?

Mr. WEBBER. It is one-third.

Mr. WALDIE. One-third?

Mr. WEBBER. One-third.

Mr. WALDIE. Is this 100 percent the new negotiation?

Mr. WEBBER. That is my understanding.

Mr. SADLER. Beginning in July 1974.

Mr. WEBBER. July 1974.

Mr. WALDIE. OK. Thank you.

Mr. WEBBER. Without substantial health insurance coverage, it is well within the realm of reality that a Federal employee could find himself in severe financial straits even to the point of bankruptcy because of medical bills.

The mental and financial strains can be so great as to affect an employee's morale on the job because of the impact on the individual's total security. I do not think it is at all farfetched to state that health insurance has become one of the necessities of modern civilized life.

As such, it should be made as widely available as possible to Federal employees. So far as plans presently in effect to, the general Federal employee health benefit program seems to us to be the fairest and most practical mechanism readily at hand. However, it is today seriously inadequate.

As to total funding costs of the present method of obtaining this insurance, according to information supplied by the Office of the Actuary, in the Bureau of Retirement, Insurance, and Occupational Health of the Civil Service Commission, the total receipts of the fund in 1971 amounted to approximately \$1.2 billion at an annual rate. Therefore, each 1 percent of payment amounts to \$12 million.

We feel that the Federal Government, as the Nation's largest employer, should be among the forerunners in providing increased accessibility in proportion to increased need. This is not the case.

Already, in the private sector, many employers are paying 75 percent and some even 100 percent of their employees health benefit premiums. Compared to this, the Government's contribution to the FEHB of 40 percent is paltry and offers little in the way of comparability with private industry.

As proof of this situation, I submit as annex I, the provisions of six major private enterprise health benefit plans covering the following companies: Aluminum Co. of America; Detroit Edison Co.; General Motors Corp.; International Business Machines Corp.; Penn Central Co.; and Radio Corp. of America. This excerpt was extracted from Bulletin No. 1929, U.S. Department of Labor, Bureau of Labor Statistics, November, 1969, entitled, "Digest of 50 Health and Insurance Plans for Salaried Employees, early 1969."

[The material referred to was retained in the subcommittee files.]

Mr. WEBBER. I submit also, as annex II to my statement, a selected list of other major American enterprises which provide these benefits at no cost to their employees.

[The items referred to were retained in the files of the subcommittee.]

Mr. WEBBER. The fact that more than 60 major enterprises, covering in some cases entire industries, are included shows that by 1970, it has become the normal practice for major-scale American industry to pay 100 percent of the health benefit insurance contributions of their employees.

H.R. 3025 is a step toward alleviating the inferior position of the Federal employee in respect to health insurance. However, we would like to see, as the ultimate ideal, the Federal Government joining the ranks of the more enlightened employers found in private industry and pay 100 percent of the premiums.

It is not unreasonable either from the standpoint of enlightened Federal personnel policy or from the standpoint of budgetary costs. Even under present methods of funding, these budgetary costs would, in fact, be less than the actual apparent costs when one realizes that good health insurance will reduce absenteeism to illness and result in greater productivity of Federal employees on the job.

As to total funding costs of the present method of obtaining this insurance, according to information supplied by the Office of the Actuary, in the Bureau of Retirement, Insurance, and Occupational Health of the Civil Service Commission, the total receipts of the fund in 1971 amounted to approximately \$1.2 billion at annual rate. Therefore, each 1 percent of payment amounts to \$12 million. Of this amount the Government's share, which is 40 percent, is \$480 million a year, and the employee's share, which is 60 percent, is \$720 million a year.

An increase in the Government's share from 40 to 55 percent would, therefore, cost an additional \$180 million annually to the U.S. Treasury. This would be the additional budgetary appropriation necessary to cover the percentage increase in H.R. 3025.

As further increments were made along the lines of the Postal agreement, the additional cost would be another \$120 million over the preceding year. We believe that this additional cost is not inequitable and improper and that the formula set forth is in step with President Nixon's message to Congress with regard to health insurance coverage for employees.

Mr. WALDIE. May I interrupt you a moment. You heard Mr. Ruddock explaining the President's message not to mean that with regard to our report.

Mr. WEBBER. I hope when the bill gets to his desk, that he remembers some of the things he said, and I feel that it will get there.

Mr. WALDIE. According to Mr. Ruddock, the President meant just the private sector because we are so generous with our employees that it would be improper to increase Federal aid to health benefits.

Mr. WEBBER. We know about the constraints and generosity during the last 3 or 4 years. We attempted deferment of the payment increase some years ago which Congress corrected by giving us 5.5 when the Service had indicated 5.1.

Last year, we had to pay deferment for 3 months from October 1, according to what the law provided, to January 1. We have no assurance that we are going to receive pay increases on October 1, the statutory date this year. So we have been under financial constraints for a long time.

Mr. WALDIE. You sound unpatriotic, Mr. Webber.

Mr. WEBBER. I am just citing the facts of the case, and the blue-collared employees are still receiving 5.5 percent pay increases when the Service indicates they should be receiving from 8½ to 11 percent, and the situation is further deteriorating unless we can get some relief on these matters and, certainly, the money which they would receive in their pockets as a result of an adjustment on this health insurance premium would be welcome.

Mr. WALDIE. We all have to tighten our belts, even though we own three residences that would be supplied by the taxpayers; we have got to tighten our belts and not expend these moneys needlessly.

Mr. HOGAN. Mr. Chairman, there is one segment of Government employees who are more maligned than others, who have not had a raise since 1969. That is Members of Congress.

Mr. WEBBER. Mr. Chairman, I testified in your behalf as recently as 2 weeks ago before the McGee committee which increases the pay for other Federal employees, and, certainly, we feel you are entitled to more than proper pay.

Mr. WALDIE. Let us just put it in the record that \$42,500 a year, without having listed it, is still fair in terms of pay scale in the Federal Government. That is what we have conceded, \$42,500, and we do not have too much to work—

Mr. HOGAN. There's no heavy lifting.

Mr. WALDIE. And what I suggested to you in not being patriotic—so the record would not prove to be cynical—it was suggesting that the President's zeal for patriotism in all citizens in burdens of tribulations, if he would consider some of that sacrifice in sharing the burdens, it might be a little more understandable. With that part in as a comment, I defer to Mr. Hogan to rebut.

Mr. HOGAN. I have become accustomed to the chairman's partisan comments.

Mr. WALDIE. Proceed, Mr. Webber.

Mr. WEBBER. With respect to section 2(a) of H.R. 3025, we note that this would enable annuitants retired prior to 1960 to choose coverage under the Federal employees health benefits program in lieu of coverage under the Retired Federal Employees Health Benefits Act. Pending further statistical analysis, we are not sure of the implications of this provision, because many of these annuitants have become deceased.

Although at first sight it might not appear relevant, we believe it might be of some interest to your subcommittee in this connection to review the interrelationship between Federal employee health premium payments and the payments to the Federal Employee Retirement Fund. The present annual income of the Civil Service Retirement Fund is predicated on contributions of 14 percent of current payroll, half paid by the employer and half by the employee. The Civil Service Commission concedes that there is a gap of 0.9 percent between the annual income of the fund and the future contingent liabilities on behalf of current employees. This means that the fund is receiving annually almost \$340 million in excess payments for which no retirement benefits will be furnished employees. For the purpose of informing the subcommittee of the actual cash receipts and disbursements of the retirement fund, we should like to introduce as appendix III the standing of the fund, as of May 30, 1973.

I believe this table also includes information which you requested from Mr. Ruddock in terms of the 1962 date in this table, which shows the prior to 1962 law. It shows that there were—what—some 274,000 people, and although this information is dated as of June 30, 1972, it might be helpful and relevant to—

Mr. WALDIE. What does it show relevant to the number that did not receive medicare?

Mr. WEBBER. It does not show that. It shows the number of people in each category from under \$50 up through \$1,000 on their monthly retirement.

Mr. WALDIE. The reason I asked that is assuming, just for the purpose of argument that Mr. Ruddock makes a strong case, that those folks who receive medicare are pretty well taken care of, that still leaves at least 40,000, if those figures are anywhere near correct, who must be near destitution. That is \$3.50 a month for a single person and \$7 a month for a family, so the total availability they have from the Federal Government to purchase insurance, and they are not entitled to medicare, which means they have to get insurance elsewhere. What would you think, as an interim position, and just to think about it, maybe you can't respond today, if we could not bring them all in as they should be, bringing those the most in need, which would be those not covered by medicare? Would that be acceptable to your position?

Mr. WEBBER. I would think that all of the people should be brought under the program, all of them.

Mr. WALDIE. Mr. Hogan, you were not here when we were discussing that. That involves pre-1960 retirees and our bill brings them all into the program relevant to health insurance benefits. Mr. Ruddock was against that, saying that 80 percent of those people or some 200,000 of them already have medicare, and with the supplement they get, and medicare, he says they are in great shape, as the administration's position, and if we permit them to come into this other program, it is really more insurance than they need and therefore they would be harmed, which I found difficult to follow, but essentially that is what he argued.

So the suggestion was, what about the 20 percent that have no coverage at all except that old program, which is \$3.50 a month or \$7 a month for a family to buy insurance. And I gather Mr. Webber says the organization believes everybody pre-1960 should be entitled to come into the post-1960 health benefit program for retirement.

Mr. WEBBER. Right; we endorse fully the provisions of section 3 as extending a rational and equitable coverage of health benefits to dependents attending high school, college, and university and of those family members incapable of self-support due to mental or physical disability. It is in the public interest, irrespective of chronological age, that dependents enrolled in full-time education be able to obtain the same kind of health benefits as any other dependent of Federal employees.

Mr. WALDIE. Let me stop you there. Is that a new provision relative to those family members incapable of self-support due to mental or physical disability?

Mr. WEBBER. I checked that during Mr. Ruddock's—the colloquy you had with Mr. Ruddock—and I believe it is section 2, part 2 there, under—

Mr. WALDIE. In other words, that is not in the law now?

Mr. WEBBER. Apparently not. It says in section 3:

As amended, by striking out the phrase beginning "or such an unmarried child," and inserting in lieu thereof "or such an unmarried child regardless of age, who is a student regularly pursuing fulltime course of study, training, residence, . . ." and "is incapable of self-support because of mental or physical disability which existed before the age of 22."

Mr. WALDIE. Now is it your understanding that if that is enacted, there would be no age limitation on the family member who was physically and mentally incapacitated if living in the home?

Mr. WEBBER. This is my understanding.

Mr. WALDIE. Subsequent to the support of the parents. Yes; well, now staff tells me it is now in the law, that that is already in the law. I thought that may be the case. The law says that in describing those who are covered:

or such an unmarried child, regardless of age, who is incapable of self-support because of mental or physical disability which existed before age 22.

Mr. WEBBER. It is included in this bill.

Mr. WALDIE. Well, that is probably the language of the bill, and we were required to repeat it, I guess. Yes; in short, though, that is already in the law. The only new part that the bill provides is the unmarried child attending higher education institute. Before you arrived again, Mr. Hogan, we were talking about that provision.

My own view on that has now changed. You recall Mr. Scott talked essentially of that provision. I think it is an unfair provision. The family whose child is living in the home and can't find a job because there is no job available is not permitted this coverage for that child. A family whose child is underemployed because there is no decent jobs available and cannot therefore buy health insurance is not entitled to this provision, just the family whose child is fortunate enough to be in higher education facility is entitled to assistance in providing health care for that child. That doesn't seem to me to be fair.

Mr. HOGAN. It doesn't seem to be equitable to me either, Mr. Chairman. If I may make a comment—I have to leave for an appointment soon, but I want to say before I go that I was pleased that Mr. Webber indicated that his organization supports the ultimate goal of 100 percent assumption by the Federal Government of health benefits cost, and agrees that we are always lagging behind. And it is interesting to me that the study made by the Civil Service Commission actually corroborates our position that the Federal Government does in fact lag behind, not only private industry employers, but also other public employers on the State and local level. The CSC indicates in the report on page 25 that:

while the numbers of employers who pay all or most of the health plan premiums for employees continues to increase, the Federal Government formula remains unchanged. In addition to lagging behind the private sector, the Federal contribution rate is now exceeded by many public employers at all levels.

So it seems that their own study, which is an attempt to justify the current situation, is more argumentative to our point of view than theirs.

Mr. SADLER. I think they were somewhat disputed by the question Mr. Hillis asked just before he left concerning the cost per person, which a man and his family pay, somewhere in the neighborhood of \$250 a year with the Government as opposed to \$600 a year by private industry on the average, using the General Motors trend from their own figures.

Mr. HOGAN. It is interesting, Mr. Chairman, that not only the big corporations, but some of the governmental employers, other than Federal, are also giving better benefits than the Federal Government.

I apologize, Mr. Webber, for having to leave, but I will read your testimony.

Mr. WALDIE. Thank you, Mr. Hogan. You may continue, Mr. Webber.

Mr. WEBBER. We welcome the inclusion of section 4, the purpose of which is to grant the Civil Service Commission effective authority to overrule the carriers on individual claim denials when the Commission finds that the claim is payable under its interpretation of the contract provisions. Under the present situation, for the two Government-wide plans, which enroll most of the Federal employees, the Commission's power is limited to asking the carrier to conduct the further review, but the Commission does not have the authority to overrule the carrier on borderline cases involving policy interpretation. We believe such a power should reside in a Government authority, that is, the Civil Service Commission, and not be left to the judgment of the carrier which is obviously acting in a matter affecting its own self-interest.

In summary, I should like to endorse H.R. 3025, with special emphasis on the reforms included in the first four sections. As I stated earlier, we hope that the committee will amend the bill to bring it into line with the provisions of the Postal employees' agreement regarding health benefits premiums. We welcome the intent of the bill to extend coverage to annuitants not now entitled to benefits under the program and to dependents of Federal employees, regardless of age, attending schools or educational institutions. We certainly endorse establishing the right of the Civil Service Commission to make the final decision in individual cases of claim denial when the Commission finds that its own interpretation of the contract provisions indicates the claim should be paid.

We appreciate the opportunity to submit our comments and assure your subcommittee that we will cooperate in every way with you to assure passage of this bill.

Mr. WALDIE. Thank you, Mr. Webber for a very carefully prepared statement and well-documented and we appreciate your appearance before the committee. Do you have any further observations to add?

Mr. WEBBER. One thing I would like to say, I understood what you were saying when you were talking to Mr. Ruddock about the way benefits were obtained, and certainly we would appreciate the passage of the collective bargaining legislation which is currently before the committee, so that we could negotiate on some of these matters currently that we are not able to.

Mr. WALDIE. I agree with you and I am inclined to think that if the administration is going to say we can't afford that for all other employees that don't have collective bargaining rights, the way is very clear for the direction in which we ought to go. And that is the decision for the administration to make. I have often argued, as you well know, that that is a foolish way for employees to seek benefits, to come here begging and begging is what you are required to do, and you get repudiated by the administration. And if there is any budget bind, you are the first to be sacrificed, not the Postal employees any longer, for very good reason: They will go on strike.

Mr. WEBBER. I cited the handicaps we have been working under the last 2 years in terms of pay, and certainly on fringes.

Mr. WALDIE. I am only suggesting it would be great if you had an employer who was sufficiently cognizant of your needs that collective bargaining and strike and work stoppages were never even within contemplation. But the further away from that criterion, that ideal you get in terms of your employers, the closer you get to a course

of action to be pretty well dictated and you are going to be a long way from a fair and equitable employer, the way things have been looking the last couple of years.

Thank you, Mr. Webber.

[Attachments III and IV to Mr. Webber's statement follow. Attachments I and II are retained in the subcommittee files.]

RETIREMENT AND DISABILITY PROGRAM STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS—
U.S. CIVIL SERVICE COMMISSION

	Cumulative fiscal year		
	May 1973	May 31, 1973	May 31, 1972
Receipts:			
Withholdings and contributions:			
Employees	\$178,030,708	\$1,926,747,948	\$1,850,658,479
Agencies, Federal	178,062,515	1,926,716,291	1,850,862,025
Agencies, non-Federal	4,924,017	37,757,884	35,523,491
Appropriations:			
New and increased annuities	0	546,570,000	436,152,000
Increase on unfunded cost, and military service annuities	0	0	0
Service credit deposits; redeposits	3,558,874	32,085,749	28,745,234
Voluntary contributions	86,800	612,887	758,035
Interest, etc., on investments	29,229,919	851,466,154	812,338,475
Total receipts	393,892,835	5,321,956,915	5,015,037,741
Disbursements authorized:			
Annuities:			
Retired employees	326,267,489	3,382,853,254	2,759,507,952
Survivors	52,513,575	547,097,080	481,642,852
Refunds:			
Separated employees	17,051,881	183,077,319	177,134,680
Deceased employees	990,071	9,444,368	9,553,669
Deceased annuitants	700,438	8,542,750	9,553,669
Voluntary contributions	3,459	210,514	277,585
Administrative expense:			
Due and paid	0	6,636,881	6,153,545
Advanced	0	2,700,000	2,049,000
Reimbursed	0	(1,376,304)	(1,422,864)
Other expense	0	422,107	(1,585,423)
Total disbursements	397,526,916	4,139,607,971	3,442,864,668
Net receipts	(3,634,080)	1,182,348,943	1,572,173,073
Analysis of balance in fund:			
Cash in CSC	30,689,802	30,689,802	17,657,124
Cash in treasury	(6,158,130)	(6,158,130)	308,991,786
Total cash	24,531,671	24,531,671	326,648,911
U.S. securities (par)	29,148,029,000	29,148,029,000	26,278,947,000
Unamortized discount, premium	10,990,045	10,990,045	10,889,554
Total assets	29,161,570,626	29,161,570,626	26,594,706,356
Number of checks:			
Annuities:			
Retired employees	842,892		758,251
Survivors	284,488		269,370
Refunds:			
Separated employees ¹	14,106	149,006	127,724
Deceased employees	336	3,450	4,234
Deceased annuitants	1,713	20,512	19,824
Totals	1,143,535	172,968	151,782

¹ Includes voluntary contribution refunds.

TABLE B-10.—NUMBER OF EMPLOYEE ANNUITANTS AND SURVIVOR ANNUITANTS ON THE RETIREMENT ROLL AS OF JUNE 30, 1972, BY MONTHLY RATES OF ANNUITY

Monthly rates of annuity	Employee annuitants			Survivor annuitants			Children
	Total	Prior to 1962 law	1962 law and after	Total	Prior to 1956 law ¹	1956 law and after	
Under \$10	77	74	3	127	23	51	53
\$10 to \$19	1,978	1,870	108	3,704	2,201	926	577
\$20 to \$29	8,867	8,470	397	9,664	4,437	4,208	1,019
\$30 to \$39	10,362	9,416	946	11,820	4,989	4,874	1,957
\$40 to \$49	8,893	7,331	1,562	12,048	4,196	5,403	2,449
Subtotal, under \$50	30,177	27,161	3,016	37,363	15,846	15,462	6,055
\$50 to \$59	9,338	7,498	1,840	14,448	4,831	5,460	4,157
\$60 to \$69	12,445	9,644	2,801	20,737	6,079	7,587	7,071
\$70 to \$79	11,158	7,768	3,390	16,160	6,883	8,123	1,154
\$80 to \$89	7,613	4,723	2,890	58,772	4,115	5,031	49,626
\$90 to \$99	13,608	8,921	4,687	20,271	9,880	10,329	62
Subtotal, under \$100	84,339	65,715	18,624	167,751	47,634	51,992	68,125
\$100 to \$109	7,751	4,498	3,253	14,201	3,597	5,651	4,953
\$110 to \$119	12,735	7,681	5,054	10,888	3,338	7,550	-----
\$120 to \$129	10,445	6,122	4,323	9,117	2,413	6,704	-----
\$130 to \$139	14,319	7,927	6,392	11,520	3,181	8,339	-----
\$140 to \$149	13,095	6,950	6,145	9,519	2,408	7,111	-----
Subtotal, under \$150	142,684	98,893	43,791	222,996	62,571	87,347	73,078
\$150 to \$159	12,575	6,357	6,218	13,546	2,278	11,268	-----
\$160 to \$169	14,937	7,843	7,094	9,844	2,999	6,845	-----
\$170 to \$179	11,864	5,780	6,084	6,160	1,730	4,430	-----
\$180 to \$189	15,656	7,298	8,358	8,553	2,408	6,145	-----
\$190 to \$199	14,810	6,598	8,212	7,189	1,758	5,431	-----
Subtotal, under \$200	212,526	132,769	79,757	268,288	73,744	121,466	73,078
\$200 to \$249	86,940	30,486	56,454	27,586	5,680	21,906	-----
\$250 to \$299	91,341	28,848	62,493	15,609	2,211	13,398	-----
\$300 to \$349	74,517	23,843	50,674	8,604	897	7,707	-----
\$350 to \$399	65,164	19,705	45,459	4,891	472	4,419	-----
\$400 to \$449	52,572	13,380	39,192	2,985	235	2,750	-----
\$450 to \$499	38,785	8,811	29,974	1,822	123	1,699	-----
Subtotal, under \$500	621,845	257,842	364,003	329,785	83,362	173,345	73,078
\$500 to \$599	54,340	8,654	45,686	2,092	68	2,024	-----
\$600 to \$699	29,081	3,963	25,118	843	12	831	-----
\$700 to \$799	17,832	2,044	15,788	355	4	351	-----
\$800 to \$899	11,752	1,160	10,592	170	3	167	-----
\$900 to \$999	8,122	643	7,479	117	2	115	-----
Subtotal, under \$1,000	742,972	274,306	468,666	333,362	83,451	176,833	73,078
\$1,000 to \$1,099	5,555	315	5,240	-----	-----	-----	-----
\$1,100 to \$1,199	3,638	171	3,467	-----	-----	-----	-----
\$1,200 to \$1,299	2,393	83	2,310	-----	-----	-----	-----
\$1,300 to \$1,399	1,480	26	1,454	-----	-----	-----	-----
\$1,400 to \$1,499	982	26	956	-----	-----	-----	-----
Subtotal, under \$1,500	757,020	274,927	482,093	333,362	83,451	176,833	73,078
\$1,500 and over	1,449	22	1,427	-----	-----	-----	-----
Grand total	758,469	274,949	483,520	333,362	83,451	176,833	73,078

¹ Includes Public Law 85-465 widows.

Mr. WALDIE. Our next witness is Mr. George E. Bradley on behalf of the National Federation of Professional Organizations. Mr. Bradley, your statement will be included in the record in its entirety, and you may proceed as you desire.

**STATEMENT OF GEORGE E. BRADLEY, EXECUTIVE DIRECTOR,
ORGANIZATION OF PROFESSIONAL EMPLOYEES, DEPARTMENT
OF AGRICULTURE, ACCOMPANIED BY ROY W. OLSON, PRESIDENT,
NATIONAL FEDERATION OF PROFESSIONAL ORGANIZATIONS**

Mr. BRADLEY. Thank you, Mr. Chairman. As you know, I am George Bradley, executive director for the Organization of Professional Employees of the Department of Agriculture, and I am here pinch-hitting for Mr. Hill, who is executive director for NFPO. He could not be with us.

I have with me Mr. Roy Olson, who is president of the NFPO.

And with that, I would like to proceed with the statement that we have. This statement is presented on behalf of the National Federation of Professional Organizations, composed of 14 professional societies, as follows: National Labor Relations Board Professional Association; Air Traffic Control Association, Inc.; Airways Engineering Society; Association of Senior Engineers of the Naval Ship Systems Command; Federal Plant Quarantine Inspectors' National Association; National Association of Federal-State Employees; National Association of Federal Veterinarians; National Association of Government Engineers; National Society of Professional Engineers; Naval Civilian Administrators Association; Navy Field Safety Association; Organization of Professional Employees of the U.S. Department of Agriculture; Patent Office Professional Association; and U.S. Navy Fire Protection Association.

We wish to congratulate the committee for its sustained attention to the important problem of the health insurance costs of Federal employees. We are pleased to note the goal of this legislation had bipartisan support in the 92d Congress, and hope this is the case in the 93d.

We have had considerable complaint from members during the last several years concerning the steadily increasing health insurance premiums. In the last 6 years the premiums have approximately doubled. The premium increases imposed by the carriers have far exceeded the increase in the Consumer Price Index. For example, the monthly cost of the low option Self and Family Indemnity Benefit Plan, since 1967 has been: 1967, \$13.52; 1968, \$15.16; 1969, \$19.70; 1970, \$23.70; 1971, \$27.74; and 1972, \$27.74.

And I might add, Mr. Chairman, due to the work of your committee, the rate for the first time since health insurance was started by the Federal Government, was reduced in 1973, reduced to \$26.39, due to the work of your committee.

While it is true that the Federal portion of the payment was increased, pursuant to Public Law 91-418 from an average of 24 percent to an average of 40 percent, the insurance carriers increased their premium rate at about the same time, so that the effect of the law was lost to the employee—he saw little of it. For example, the low option coverage under the indemnity benefit plan required the employee to pay \$14.82 of the premium in 1970, and \$13.87 of the premium in 1971. The 1970 law which sought to increase the Government portion of the premium payment did little except to relieve the employee of some of the carrier's rate increases.

In 1962 the Congress enacted the Federal Salary Reform Act, providing that the salary of Federal employees shall be comparable with

those in private industry. This was followed by Public Law 91-656, the Federal Pay Comparability Act of 1970. Both legislative enactments highlighted the principle of comparability. As a member of this subcommittee stated in his 1971 testimony, and I quote, " * * * this comparability concept necessarily should include Federal employee fringe benefits as compared with those in private industry." It seems too obvious to require proof that fringe benefits are a part of total compensation. They are an integral part of the total compensation package.

Following the enactment of the Federal Salary Reform Act of 1962, the Bureau of Labor Statistics commenced to collect data not only on the comparable basic wage rates in private industry, but also with respect to comparable fringe benefits in private industry, on the basis that this was required by, and included in, the Federal Salary Reform Act. The Bureau's first survey was made in 1963, and in the preface to its report the Bureau said:

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

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

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

In its 1963 report the Bureau found that private industry was devoting an amount equivalent to 1.6 percent of basic wages to hospital, surgical, and medical plans, while the Federal Government was devoting only 1 percent of basic salary for this benefit; that industries with noncontributory plans (paid wholly by management) paid 1.9 percent of basic salary, and that industries with contributory plans paid 1.4 percent of basic salary and the employees paid 9 percent. The Bureau said, "About two-thirds of the employers with contributory arrangements paid over half the cost of hospitalization, surgical and medical plans."

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

Another survey of the Bureau of Labor Statistics, a study of employee compensation in private industry for 1966, found that for that year management paid an amount equivalent to 2.5 percent of basic wages for life, accident, and health insurance, but in the Federal Government the Government paid only an amount equivalent to 1.4 percent of basic wages for this purpose. The same survey showed the extent to which employers now pay the entire premium; 85 percent

of office workers were covered by insurance plans of which 44 percent were contributed to by the employee, and 41 percent were noncontributory; as to nonoffice workers 76 percent had insurance plans, of which 31 percent were contributory and 45 percent were noncontributory.

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

A 1969 survey by the Bureau of Labor Statistics of health and insurance plans in 50 large companies disclosed that 26 paid the entire cost of health insurance premiums, 22 were contributory by employees, and in 2 some classes of employees contributed and others did not.

To summarize, health insurance is a fringe benefit of the Federal employee which the Congress intended to be comparable with that of employees in private industry. But the Federal Government has increasingly lagged behind. The initial government intention of a 50 percent participation, which was not realized, lagged behind the then existing median for private industry, as of that time more than two-thirds of the private employers paid more than one-half of the premium cost. The present 40-percent payment provided by Public Law 91-418 increases the lag, for today the private sector median is total employer financing. And in those plans in which the employee contributes, the employer pays more than half. Thus, it is plain that the present arrangement, in which the Government pays about 40 percent of the cost, is not "comparability," and fails to keep the promise to employees contained in the Salary Reform Act of 1962 and the Act of 1970.

We understand that the Civil Service Commission's objection to increased Federal financing is simply one of cost. In 1970, the Commission objected to a proposal for 100 percent employer financing on the ground that it would cost an additional \$768 million per year, or a total of approximately \$1 billion. We have no reason to doubt the accuracy of this statistic, but we suggest that it is irrelevant, so long as Federal law requires comparability. Moreover, I'm sure this subcommittee and the Congress is fully aware that President Nixon on February 18, 1971, called on private employers to provide 65 percent of the cost of health insurance coverage for their employees by July 1, 1973, and 75 percent of the total cost by 1976. H.R. 3025 would bring the Federal program in approximate line with this administration's guidelines set forth in the President's Health Message to Congress.

We are now experiencing an era of inflation. Federal pay comparability will undoubtedly continue to cost additional moneys annually. This fact is probably involved in most congressional legislation, as it requires the expenditure of money, but the Congress cannot abdicate its responsibility to legislate because of it. The Government must pay the price of inflation just as each individual employee must do so. We might point out that inflation also adds to Government income tax revenues, not just to Government expenditures.

We would like to invite the committee's attention to one additional change which we feel should be made in the law. At present, an employee may elect coverage for himself only, or for himself and family.

We suggest the addition of an intermediate classification of "employee and spouse," which would entail a larger premium than employee only, but less than employee and family. This intermediate classification would be more fair and equitable to childless families and older or retired employees, whose children have grown and gone. We commend this amendment to the committee's consideration.

We thank the committee for the opportunity to express our views on this important subject.

Mr. WALDIE. Thank you, Mr. Bradley. That was a well-done statement. Do you have any further comments you wish to make?

Mr. OLSON. Mr. Chairman, I would like to make one or two observations.

Mr. WALDIE. Would you identify yourself for the record, please?

Mr. OLSON. Mr. Roy W. Olson, president of the NFPO. I am bewildered by Mr. Ruddock's testimony. Listening to his testimony this morning and similar testimony to other phases of the Federal employee programs, it seems as though the Commission's justification varied considerably. If it is a subject dealing with leave, then reference is made to other phases of the total package, such as pay or other elements. If the bill of consideration deals, as it does this morning, with the health benefits, then the Commission refers to other elements of the total benefits package. It reminds me of what a friend of mine told me once. He had been assistant to the State Supreme Court Judge in Illinois and he made this statement. He said, "If you are in a case and the evidence is against you talk about the law. If the law is against you, talk about the evidence."

And that is the reaction I get from much of the Civil Service Commission's testimony. If the staff will check me in another observation, if you recall Chairman Hampton and his staff appeared before the full Post Office and Civil Service Committee in March 1971. They gave much reference material. If you refer to that portion dealing with the health benefits program, I think you will find that the general tenor, the general complexion is that the health benefit program for Federal employees is not adequate. They mentioned the word "deterioration." That was in March of 1971, after the public law that attempted to broaden benefits.

So I find it somewhat bewildering with regard to Mr. Ruddock's reference to fiscal constraints. Naturally I think generalities apply, but when you consider the other millions of outlays that are made by the administration's decision that run into hundreds of millions of dollars, and I don't mean to try to be spectacular, but when you refer to the press over the last day or two regarding the wheat deal, they raise some very serious questions on the basis of whose priorities shall apply. It seems to me that the element of priority is reflected pretty much in the progressive amendments and legislation handled by this committee. Those are general and I appreciate it, Mr. Chairman, but I felt it worthy on the part of consideration of H.R. 3025.

Mr. BRADLEY. If I could make one comment with respect to item 3 of the bill, which provides coverage for students.

Mr. Waldie. Yes.

Mr. BRADLEY. I have a member who contacted me with reference to this coverage. Apparently she is a widow, has a son, I believe, who is 27

years old. When he was 21, as a student in college, he was in an accident and has been physically disabled since that time at tremendous hospital costs, health costs. The law you are referring to, I believe, provides that this student is only covered up to age 18, since he was 21. He is not covered by health insurance.

Mr. WALDIE. That is not my understanding.

Mr. BRADLEY. I noticed you reading that and I would prefer the opportunity—I checked with the Civil Service Commission at the time and I was pleased to see this provision in the new bill, because that extends coverage to those that are totally disabled while in college.

Mr. WALDIE. Let me read this to you, because it seems abundantly clear in here. Paragraph 5 reads:

Member of Family for Coverage: . . . or such unmarried child, regardless of age, who is incapable of self-support because of mental or physical disability, which existed before age 22.

In the case you presuppose, the injury occurred at age 21. The disability was such that he was incapable of self-support and coverage would have existed for that person until such time as they are capable of self-support.

Mr. BRADLEY. OK. I am glad to get that. I checked with the Commission at the time that I had the request, and it was ruled that this boy was not eligible because he was past the age of 18. And that has been 6 years ago.

Mr. WALDIE. Check that out.

Mr. BRADLEY. I will, and I will be in touch.

Mr. WALDIE. Counsel advises us that there has been an amendment. Perhaps that was what we are dealing with. Perhaps this amendment may have predated that.

Mr. BRADLEY. I think, perhaps. Well, thank you very much.

Mr. WALDIE. We will check that, because if that is not the case, it surely should be the case.

Mr. BRADLEY. I thought that was the case, and that is the reason I was very pleased to see this statement in this legislation.

Mr. WALDIE. If I understand it, and counsel tells us that that is so, that that is the existing law.

Mr. BRADLEY. I will follow through and be in touch.

Mr. WALDIE. Mr. Irving I. Geller, General Counsel, National Federation of Federal Employees, is our next witness.

**STATEMENT OF IRVING I. GELLER, GENERAL COUNSEL, NATIONAL
FEDERATION OF FEDERAL EMPLOYEES, ACCOMPANIED BY
MICHAEL FORSCY, LEGISLATIVE COUNSEL**

Mr. GELLER. Thank you, Mr. Chairman. To my right is Mike Forscey, legislative counsel for the National Federation of Federal Employees.

Mr. WALDIE. Surely.

Mr. GELLER. Mr. Chairman and members of the subcommittee, my name is Irving I. Geller. I am general counsel of the National Federation of Federal Employees.

I appear before you today to testify on behalf of enactment of H.R. 3025, introduced by Chairman Waldie, a bill which would increase the Federal Government's contributions to the costs of the Federal Employees' Health Insurance Program.

The original intent of Congress in establishing for Federal employees a contributory health benefits program was to provide a system comparable to that available to employees of major industrial corporations in the private sector. That goal has not been met. Today many private sector employers are paying 75 percent and still others 100 percent of their employees' health benefit premiums. The trend, in fact, seems to be in the direction of 100-percent contribution by private sector concerns. In light of this, we believe that the enactment of H.R. 3025 is an essential first step in providing Federal employees with the kind of health insurance program they deserve. The bill will do this by moving the Government in the direction of maintaining a fair formula for the sharing of premiums. If enacted in its present form, H.R. 3025 will increase the Government's contribution to 55 percent beginning in 1973; gradually escalating that contribution to 60 percent in 1974; 65 percent in 1975; 70 percent in 1976 and 75 percent beginning in 1977. The cost to the Government, if the legislation is enacted, is projected at \$1 billion in 1977.

Without minimizing the cost, we believe this can be considered expensive only if viewed in straight dollars and cents terms. But if we remember that a health benefits program is enacted to provide protection for the livelihood of employees, we realize that in human terms the price is a fair one. In this connection we must remember that under the present system, costs to employees increase each time premiums are increased. These increases are often difficult for employees to bear. Since premiums are the same regardless of salary, the increased cost drains vitally needed income from those who need the funds to purchase the basic necessities of life. In addition, while it is widely believed that a health care plan obviates the problem of medical expenses, in fact, the patient invariably has a balance he must pay after insurance reimbursement. Under present economic conditions, these circumstances are creating a situation in which many Federal employees may be forced to forgo participation in a health care program sometime in the future, because the premium payments are needed for everyday necessities. While it is no elixir, H.R. 3025 will partially alleviate this problem by increasing the Government's contributions and commensurately reducing the individual employee's monthly premium.

Mr. WALDIE. Mr. Geller, let me interrupt you for a moment on the taxation issue. They are taxed on their contribution. Are they taxed on the Federal Government's contribution?

Mr. GELLER. No, only on their own. In other words, when a person receives his check, he has a deduction made from—

Mr. WALDIE. He is taxed on the gross.

Mr. GELLER. Based on the gross and part of the gross includes that portion which is withheld.

Mr. WALDIE. Even though 40 percent that the Government pays is in a sense compensation.

Mr. GELLER. That is correct.

Mr. WALDIE. But he is taxed on that compensation?

Mr. GELLER. He is taxed on that compensation.

Mr. WALDIE. That is not deducted? It is his percentage, perhaps I misunderstood you. The portion the Government pays is not deducted.

Mr. GELLER. That is correct. His contribution by itself is the taxable one.

Mr. WALDIE. He pays no tax on the fringe benefit which represents the portion the Government pays, even though really that is his income?

Mr. GELLER. That is right. But in those situations where there is a 100 percent, or in the noncontributory plans of course, the employee pays no income tax. In other words, if he is making a 40 percent or \$250 a year premium contribution for the plan, I guess it would be fair to say that approximately he is paying an additional \$50 in terms of income tax, using an average.

Mr. WALDIE. It has nothing to do with this bill, but I was curious as to this income tax consequence. Where the total premium is \$100 and the Government pays \$60 of that, he pays no income tax on that. But on the \$40 he pays income tax.

Mr. GELLER. That is correct.

Mr. WALDIE. If the Government turned over \$100 to him costing out the fringe benefits and said, "You buy the insurance," he would pay the tax on the \$100, right?

Mr. GELLER. Correct.

Mr. WALDIE. Are all fringe benefits non-taxable as income? The Government's share to retirement fund, is that taxable?

Mr. WALDIE. The Government's share of life insurance premium is not taxable?

Mr. GELLER. That is right. It would be similar for three or four major fringe benefits.

Mr. WALDIE. OK. I was just curious.

Mr. GELLER. But while the NFFE supports H.R. 3025 for this reason, we are frankly less than satisfied with the role the Federal Government is playing in the health insurance field. In previous appearances before this committee, we have noted that the Federal Government is lagging far behind the trend in the private sector in this field. This is true even though, as we have stated, the intent of Congress in enacting the Federal employee's health benefit system was to provide to Federal employees a program comparable to that available in the private sector. We now believe the trend toward noncontributory plans among major private sector concerns is so clear that the Federal Government should commit itself to assume the total cost of the health benefit plans.

But we would be less than candid if we left the committee with the impression that the adoption of this suggestion would remedy what can only be called the crisis in health care delivery today in this country.

This committee has documented the component parts of this crisis: Burgeoning surpluses for insurance carriers; inaccurate ratemaking procedures; inadequate services to subscribers and a general lack of accountability by anyone in the system. The public has been led to believe that this crisis, like so many others we face today, results from

increased costs or lack of trained personnel, and that therefore no one is really to blame. We reject this contention. While we realize increased costs are tied in with the general inflationary trend, medical costs have led the way by a wide margin for more than a decade. The evidence produced by this committee indicates to us that the blame lies with the system itself; and that the evidence is now clear enough to warrant remedial action. We therefore propose that in addition to initiating a noncontributory health benefits program, the Government should become the insurer of that program. We believe that such an approach would not only remedy the outrageous state of the present Federal program, but could also serve as a pilot for some kind of national health insurance program for all of our Nation's citizens.

The basic problem with the present system is the passive role taken by the Federal Government. The Federal employee is confronted with a bewildering number of insurance plans. The Government permits private firms to compete with one another and supposedly their activities. But the competition engendered does not benefit the employee in any way, but rather confuses him and obfuscates the nature of the program. The point here is that a program like this cannot be run with carriers pursuing their own interests which are, almost by definition, different from those of the employees. And while it may have been a novel notion 10 years ago, it is now generally accepted that a regulatory agency invariably serves the interests of the industry it is supposed to manage. In making this statement we assume no evil intent in the past of the parties involved, we merely state a fact. The individual employee is silent and anonymous while the carriers are familiar and omnipresent. This relationship creates a commonality of outlook and perspective on the part of regulator and the regulated, which benefits the employees only on rare occasions.

Mr. WALDIE. Let me interrupt you. We have given thought to that, as you know. Where is that comparable operation in existence for health insurance?

Mr. GELLER. In the surety bond insurance concept. The Federal Government has become a self-insurer. But not in health insurance.

Mr. WALDIE. Is there a private company that purchases medical care for its employees?

Mr. GELLER. I am not aware that it exists, not in the health field as such, but the Government not too long ago stopped purchasing surety bonds for its employees and assumed a self-insured role and it strikes me that there is a comparable concern and what we believe is a—some evil-built ingredient of this program.

Mr. WALDIE. As you see it then, the Government, under this process would contract directly with the purveyors of medical care. We would have an agency that would act as the carrier?

Mr. GELLER. In a general sense, however, we feel that as we speak to the question later on, that the Social Security Administration could be that instrumentality to provide the reimbursement, to Federal employees.

Mr. WALDIE. As it is doing for medicare?

Mr. GELLER. That is correct.

Mr. WALDIE. So that the social security system would simply go out and buy medical care for other employees?

Mr. GELLER. That is correct, or some comparable Government agency.

Mr. WALDIE. Do you find for example, under the medicare system, that there is that great an improvement in the delivery of medical care, that costs are more efficiently arrived at, that accountability is more present, are the evils that you correctly cite under the present system not present in the social security system?

Mr. GELLER. Well, no; to the extent that the social security, I am sure, is not concerned about making a profit or reaping a risk factor on the basis of accelerated premiums. Its interests and its concerns we feel are with the people it serves.

Mr. WALDIE. OK. That being so, and I accept it for the purposes of my questions here, is then the quality of care higher than is obtained through that system and is it more efficiently obtained through that system than through the system under which we are working?

Mr. GELLER. I think it is more efficient. I cannot really say that it is a better or higher level of health care. But I think the experience, if we go into such a system, might provide the vehicle for improved health care.

Mr. WALDIE. The only thing is, we have been under that system that has all the desirable qualities you are seeking for acquiring medicare and medicaid, and I don't see the accountability that we seek and neither do I see the commensurate benefits that we desire that there be higher quality medicine and more efficient delivery.

Mr. GELLER. Actually we don't feel that the medicaid was an efficient or as economical as medicare. The systems simply didn't produce the efficiency and the economy that medicare does. The Social Security Administration—medicare has been widely accepted and veterans, for example, are very envious of its capacity to move so promptly on social security claims. It is an efficient system.

Mr. WALDIE. Is the cost of the medical service under that system less than under the private carrier?

Mr. GELLER. I cannot candidly say that it is. There is no basic difference. But I believe that should this program be adopted it will permit the Federal Government, perhaps, to have a better base and span of age than medicare, since the average age of the Federal employee is much lower than the medicare patient. And through that large piece of statistics they can make this research effort to achieve this.

Mr. WALDIE. I am very open on this issue. I just—and I don't mean to press it. I think your accusation here that the public has been led to believe that this crisis, like so many others we face today, results from increased costs, or lack of trained personnel and that there no one is really to blame and you reject that contention. I am willing to accept that rejection, but I don't see what you propose, except that we move the middleman out of the system, because of his desire for profit, which is contrary to the patient's needs or the Federal employee's. It is the profit that is objectionable. If that is so—wait a moment—and so we are going to eliminate that profit motive, by making the Government the insurer, how does the Government get rid of the profit motive for the doctor, the hospital, the nurses, druggists and so on?

Mr. GELLER. I must make some remark that it does eliminate the large profit—what we believe and I think the committee has found—administrative overhead.

Mr. WALDIE. That was objectionable and bothered me, but it is like a loophole in the tax system. So you cut the administrative surcharge out. The dollars you have really saved are miniscule. It is objectionable because it is unfair. It is like the loophole in the tax system that doesn't generate revenue. It is just unfair and ought to be closed, but it is basically, the basic system that has to be gotten at, isn't it, to improve the care and efficiency?

Mr. GELLER. We agree and we feel that larger entry into the public system will provide the Government with better research upon which to make some adjustments.

Mr. WALDIE. If I may, Mr. Forsey you were straining at the bit.

Mr. FORSEY. I am sorry, Mr. Chairman. I wanted to say that one of the benefits of this change might be that the Government as a self-insurer would be in a position to put leverage on the hospitals and the entire system, anybody that they deal with in terms of contracting for services, somewhat along the lines of the ideas you were pursuing in here earlier this year. And I believe the difficulty right now seems to me is the fragmentation of the way the Government is dealing with carriers, and the carriers do not seem to be putting any pressure on hospitals whatsoever. And from my understanding of the hearings, it also appeared that even in Massachusetts, as a middleman, there was some limitation on what the State could do.

Mr. WALDIE. Oh, yes, I don't think in Massachusetts experiment proves anything except that they had an accidental windfall from the State that gave them a little leverage but I didn't see much desire for them to get much more leverage and I also had the impression there was a great deal of political activity going on without a hell of a lot of results; that affected anybody's pocketbook. I don't know, maybe that is the route to go. I am just leery of the great benefits that are alleged for those changes, because I can't see those benefits that have accrued when we moved in Massachusetts and I can't think of a more massive movement than medicaid or medicare and I look at those programs and rather than see a tightening of medical care and more efficient delivery system, I see a larger complex, cumbersome system which jacked costs up tremendously to those who aren't under those programs. Is that a fair conclusion? The 10 years you are talking about in your statement of skyrocketing cost coincide directly with the expansion of entitlement to the very programs you ascribe to be the direction to which you should go.

Mr. GELLER. Except we speak in terms of medicare, rather than medicaid.

Mr. WALDIE. Well, let's use medicare. I think the statistics I have seen lead me to believe that all the medical costs have escalated much higher and all other costs in your economy have coincided with the increased entitlements of medicare. And is there a relationship?

Mr. GELLER. I think there is some complications in that medicare recipients, of course, are in an older age group. Medicaid is, as I understand it, across the board, was primarily for either welfare recipients or people in low-income economic status, and that is one of the reasons

for the suggestion that the experience of the medicare would be enlarged by a better cross section of age groups and children, maternity benefits, and health areas that are not normally encountered, not the long-term illnesses.

Mr. WALDIE. I am not fairly convinced either, and my natural inclination is to be convinced to the contrary, that you would find Social Security Administration more efficiently motivated than you would a profit organization such as Blue Cross-Blue Shield, that was carefully and scrupulously supervised. I think there has been the error. But I am inclined to believe that profit motivation is not to be denied in terms of efficiency. It assumes that if you remove the profit motivation and put it in the hands of the Government, you per se get more efficiency and so on in the administration of it. And that could be. But I am not sure that is true. But that is the assumption behind all these recommendations, isn't it?

Mr. GELLER. Correct. And of course, the inequities that your committee so capably revealed, and it isn't the ordinary profit motive, it is a motive—

Mr. WALDIE. But you see the big inequity we saw was because of the lack of nonprofit supervised agencies of the Civil Service Commission to supervise. If they had done their job, the nonprofit motive force was the one that really let this thing get out of hand, not the profit. So that leads me to believe that if the Social Security Administration had full control, they would be any more motivated dealing with hospitals and doctors than was the Civil Service Commission dealing with the carriers.

Mr. GELLER. Well, I think the track record of the Social Security in terms of administration is absolutely scintillating when you compare with what the Commission did or what it didn't do.

Mr. WALDIE. I am sure almost anything would be scintillating when you compare it with what the Commission did in terms of monitoring the health program, but I would like to do sometime an exhaustive survey into how selflessly these administrative decisions are made in terms of Social Security dealing with the doctors, dealing with the hospitals. I haven't seen any decisions that led me to believe the AMA doesn't damn well get its way.

Mr. GELLER. I must concede that that hasn't been done. But I think this would give the backdrop a better opportunity, especially as we consider a kind of national health insurance approach.

Mr. WALDIE. OK. I deviated and we probably are going to get ourselves under a roll call here, so we better continue.

Mr. GELLER. As an illustration, we refer the committee to a discussion of legislation similar to the bill under consideration today. In that hearing in 1971, Mr. Ruddock, under questioning by the chairman, described a catch-22 situation which clearly demonstrated that the major beneficiary of the present system is the carrier. We learned that Blue Cross was guaranteed a rate increase to offset a \$75 million deficit. So far as we can tell no effort was made to determine the reason for the deficit. We think it could have been shown that Blue Cross was inefficient, failed to provide proper claims service, and spent far too much money investigating claims. Even if this were all true, we were led to believe, Blue Cross would still be granted a rate increase to

make ends meet. We further learned that Blue Cross demanded a 1-percent risk charge—in other words, a profit—and that this charge, about \$6 million, was not used to calculate a reduced deficit. Thus, no matter how badly run the business is, a profit is guaranteed and losses are recouped in the next fiscal year. Can anyone imagine a more pleasant working situation?

It was further pointed out by Mr. Ruddock that Blue Cross had threatened to discontinue its service as a carrier if it could not be guaranteed the 1-percent profit. The National Federation of Federal Employees believes that a system which rewards incompetence by forcing the Government and the consumer to pay higher premiums, and is then threatened with discontinued service by the carrier who reaped those benefits, is not a good system and should be scrapped.

The machinery is available. We believe the Social Security Administration, as efficient an agency as there is in the Government, has the facilities and experience to administer a health insurance program for Federal employees with a modicum of fairness and a minimum of redtape.

We hope the committee will give careful consideration to our proposal and I thank you for permitting the NFFE to present its views to you today.

Mr. WALDIE. Just as a matter of curiosity, maybe you can't answer this, but we have a system in the Federal similar to workman's compensation in the private sector, with which I have some familiarity. What is that called?

Mr. GELLER. Used to be called Bureau of Employees Compensation. And it is now called the Office of Federal Employees Compensation. It is comparable to—

Mr. WALDIE. If a person is injured on the job, they are entitled to medical treatment for that injury. Are we self-insured under that?

Mr. GELLER. Yes.

Mr. WALDIE. Do we go out and buy the medical care for the person injured on the job?

Mr. GELLER. Right.

Mr. WALDIE. If you are injured and you drop a typewriter on your foot, say a secretary drops a typewriter on her foot, that would come under this provision. You wouldn't use your Blue Cross-Blue Shield?

Mr. GELLER. No. This is the same relationship where a person might go to a VA hospital as against the community hospital.

Mr. WALDIE. But that is self-insured there?

Mr. GELLER. Yes. And incidentally it has a very able administrator.

Mr. WALDIE. I think that system might give some direction as to the possibility, at least, of looking at a self-insurance program. A lot of the private employers have self-insurance for workman's compensation. The law in California is the only one I am familiar with and it requires that every employer carry workman's compensation insurance, but they may under certain circumstances, be self-insured at which instance they provide the medical care themselves. They go out and purchase it, et cetera.

Mr. GELLER. And there are some private companies who are self-insured in terms of personal injury, property damage.

Mr. WALDIE. In terms of health insurance?

Mr. GELLER. I am not really familiar with that, frankly. And of course, our organization doesn't perhaps suffer from the constraint of participating in a Government-sponsored health insurance program, and we are not interested in going into that area.

Mr. WALDIE. Why?

Mr. GELLER. Beg your pardon?

Mr. WALDIE. Why are you not interested?

Mr. GELLER. Because we feel that there may be a conflict of interest there.

Mr. WALDIE. What you are saying is you do not offer a policy to your organization?

Mr. GELLER. Correct.

Mr. WALDIE. But letter carriers and other groups do.

Mr. GELLER. That is correct.

Mr. WALDIE. What would be the conflict of interest? You would be seeking to keep the cost as low as possible.

Mr. GELLER. Of course, some of those plans are identified with the carriers, private carriers, so as I understand it, some are operated by the organization themselves. But I would assume they would like the opportunity of the risk factor and the administrative overhead.

Mr. WALDIE. They would, but they don't get it. They haven't been aware that it was being given.

Mr. GELLER. Well, I am sure they are reimbursed for their administrative operations.

Mr. WALDIE. Yes, but the risk charge was not granted to those people.

Mr. GELLER. I am aware of that.

Mr. WALDIE. Have you anything further to add?

Mr. GELLER. No, we appreciate the opportunity of appearing.

Mr. WALDIE. I appreciate your statement and also the colloquy that you permitted me to engage in with you. I am not sure either of us were a great deal enlightened by it, but perhaps neither of us were further confused by it either. In today's world, that may be progress. Any further comments?

Mr. GELLER. We did not speak in our testimony on the other provisions of the bill, except the section 1, and we are in agreement with the bill. And the question the Chairman raised in regard to students, although we don't like to see people excluded. If there is some way of rewording it so that the underemployed or the nonemployed can gain the benefit of that protection we would like to widen it, rather than restrict it.

Mr. WALDIE. That would be the best way, but if we cannot do that and have to select, it would seem to me to be very frankly the students who would be the least deserving of that priority.

Thank you very much. I guess we have no more witnesses so the committee is in adjournment.

[Whereupon the hearing was adjourned at 12:20 p.m.]

[A copy of H.R. 3025, along with administration reports from the Civil Service Commission and the U.S. Postal Service follow:]

93^d CONGRESS
1st SESSION

H. R. 3025

IN THE HOUSE OF REPRESENTATIVES

JANUARY 26, 1973

Mr. WALDIE introduced the following bill; which was referred to the Committee on Post Office and Civil Service

A BILL

To increase the contribution of the Government to the costs of health benefits for Federal employees, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That (a) subsections (a) and (b) of section 8906 of title
4 5, United States Code, are amended to read as follows:

5 “(a) The Commission shall determine the average of
6 the subscription charges in effect on the beginning date of
7 each contract year with respect to self alone or self and
8 family enrollments under this chapter; as applicable, for the
9 highest level of benefits offered by—

10 “(1) the service benefit plan;

11 “(2) the indemnity benefit plan;

I

1 “(3) the two employee organization plans with the
2 largest number of enrollments, as determined by the
3 Commission; and

4 “(4) the two comprehensive medical plans with
5 the largest number of enrollments, as determined by
6 the Commission.

7 “(b) (1) Except as provided by paragraph (2) of this
8 subsection, the biweekly Government contribution for health
9 benefits for an employee or annuitant enrolled in a health
10 benefits plan under this chapter shall be adjusted, beginning
11 on the first day of the first pay period of each year, to an
12 amount equal to the following percentage, as applicable, of
13 the average subscription charge determined under subsection
14 (a) of this section: 55 percent commencing in 1973; 60
15 percent commencing in 1974; 65 percent commencing in
16 1975; 70 percent commencing in 1976; and 75 percent
17 commencing in 1977 and each year thereafter.

18 “(2) The biweekly Government contribution for an em-
19 ployee or annuitant enrolled in a plan under this chapter shall
20 not exceed 75 percent of the subscription charge.

21 (b) Section 8906 (c) of title 5, United States Code, is
22 amended by striking out “subsections (a) and (b)” and
23 inserting “subsection (b)” in lieu thereof.

24 (c) Section 8906 (g) of title 5, United States Code, is
25 amended by striking out “subsection (a) -of”.

1 SEC. 2. (a) Notwithstanding any other provision of law,
2 an annuitant, as defined under section 8901 (3) of title 5,
3 United States Code, who is participating or who is eligible to
4 participate in the health benefits program offered under the
5 Retired Federal Employees Health Benefits Act (74 Stat.
6 849; Public Law 86-724), may elect, in accordance with
7 regulations prescribed by the United States Civil Service
8 Commission, to be covered under the provisions of chapter 89
9 of title 5, United States Code, in lieu of coverage under such
10 Act.

11 (b) An annuitant who elects to be covered under the
12 provisions of chapter 89 of title 5, United States Code, in
13 accordance with subsection (a) of this section, shall be en-
14 titled to the benefits under such chapter 89.

15 SEC. 3. Section 8901 (5) of title 5, United States Code,
16 is amended by striking out the phrase beginning "or such
17 an unmarried child" and inserting in lieu thereof the follow-
18 ing: "or such an unmarried child regardless of age, who—

19 "(i) is a student regularly pursuing a full-time
20 course of study or training in residence in a high school,
21 trade school, technical or vocational institute, junior col-
22 lege, collégé, university or comparable recognized edu-
23 cational institution; or

24 "(ii) is incapable of self-support because of mental

1 or physical disability which existed before age twenty-
2 two;”.

3 SEC. 4. Section 8902 of title 5, United States Code, is
4 amended by adding at the end thereof the following new sub-
5 section:

6 “(j) Each contract under this chapter shall require
7 the carrier to agree to pay for or provide a health service or
8 supply in an individual case if the Commission finds that the
9 employee, annuitant, or family member is entitled thereto
10 under the terms of the contract.”.

11 SEC. 5. The rates of Government contribution for health
12 benefits determined under section 8906 of title 5, United
13 States Code, as amended by the first section of this Act,
14 and the inclusion, for health benefit purposes, of certain
15 unmarried children as family members under section 8901
16 (5) of title 5, United States Code, as amended by sec-
17 tion 3 of this Act, shall apply to the United States Postal
18 Service and its officers and employees and to the Postal
19 Rate Commission and its officers and employees.

20 SEC. 6. (a) This section and section 5 of this Act shall
21 take effect on the date of enactment.

22 (b) The first section of this Act shall take effect on the
23 first day of the first applicable pay period which begins on or
24 after the thirtieth day following the date of enactment.

25 (c) Section 2 and section 3 shall take effect on the one

1 hundred and eightieth day following the date of enactment
2 or on such earlier date as the United States Civil Service
3 Commission may prescribe.

4 (d) Section 4 shall become effective with respect to any
5 contract entered into or renewed on or after the date of enact-
6 ment of this Act.

7 (e) The determination of the average of subscription
8 charges and the adjustment of the Government contributions
9 for 1973, under section 8906 of title 5, United States Code,
10 as amended by the first section of this Act, shall take effect on
11 the first day of the first applicable pay period which begins
12 on or after the thirtieth day following the date of enactment
13 of this Act.



CHAIRMAN

UNITED STATES CIVIL SERVICE COMMISSION
WASHINGTON, D.C. 20415

July 11, 1973

Honorable Thaddeus J. Dulski
Chairman, Committee on Post Office
and Civil Service
House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

This is in reply to your request for the Commission's views on H.R. 3025, a bill to increase the contribution of Government to the costs of health benefits for Federal employees, and for other purposes, as well as other bills with the same or similar provisions, including H.R. 436, H.R. 2473, H.R. 6464, H.R. 6802, H.R. 7041, H.R. 7042, H.R. 7045, H.R. 7481, H.R. 8126, and H.R. 8505.

In brief, H.R. 3025 would amend the Federal Employees Health Benefits law (5 U.S.C., ch. 89) to make the following changes:

- Increase the Federal Government's contribution from 40 to 55 percent of the average high option premium of the two Government-wide plans, the two largest employee organization plans and the two largest comprehensive medical plans participating in the Federal Employees Health Benefits Program, with an additional increase of 5 percent per year until the Government contribution reaches 75 percent of the average high option premium of these selected plans; however, the Government contribution would not exceed 75 percent of the employee's or annuitant's actual subscription charge.
- Allow pre-1960 retirees under the Retired Federal Employees Health Benefits Program (RFEHB) to change to the Federal Employees Health Benefits Program (FEHB).
- Extend coverage under the Federal Employees Health Benefits Program to unmarried children, regardless of age, who are full-time students.
- Require a carrier participating in the Federal Employees Health Benefits Program to agree to comply with a Commission decision in a health benefits claims dispute.

Include employees of the Postal Service and the Postal Rate Commission under the "increase in Government contribution" and "student-child" provisions set forth above.

SECTION 1 - INCREASE IN GOVERNMENT CONTRIBUTION

In 1971, the Government's contribution was almost doubled to approximately 40 percent of premium. The Commission cannot favor a further increase in the Government contribution at a time when the Administration is trying to exercise financial restraint.

The Commission's opinion is that under present circumstances the current 40 percent contribution, with provision for maintaining it at that level in future years as premiums increase, represents an equitable sharing of the cost of health benefits with employees, especially when considered in the light of the Government's total expenditure for fringe benefits. Government expenditures for Federal employee benefits compare favorably with those of private employers although the components of the Federal and private benefits packages vary.

Government contributions to fringe benefits, as a percentage of basic payroll, will continue to rise as a result of commitments made over the past few years. For example, the added paid holiday (Columbus Day) will contribute to an increase in the percentage of Federal payroll expenditures attributable to employee benefits. Also, the requirement that the Government's share of the health benefits premium be maintained at approximately 40 percent will increase the percentage of payroll expenditures for health benefits, assuming health costs continue to rise faster than payroll.

Federal salary rates have been raised substantially during recent years as a result of adoption of the comparability principle. As a result, the purchasing power of Federal employees, including their ability to pay higher health benefits premiums, has been maintained despite inflation.

As emphasized by the President in his 1974 budget message, in which Congress was urged to join in a concerted effort to control Federal spending, there is a current urgent need to exercise fiscal restraint. In view of this need, the substantial cost of this proposal, and the reasons discussed above, the Commission strongly opposes enactment of section 1 of this bill.

The following table shows what the additional cost to the Government, excluding the Postal Service, would be if Section 1 of H.R. 3025 were in effect for the five fiscal years beginning July 1, 1973. Costs are shown on a static basis which assumes no increase in premiums or enrollment and on a dynamic basis which assumes increases in premiums and enrollment similar to those experienced in the past.

Estimated Government Health Benefits Contribution (in millions)

<u>Fiscal Year</u>	<u>Static</u>			<u>Dynamic</u>		
	<u>Present Law</u>	<u>H.R. 3025</u>	<u>Increase</u>	<u>Present Law</u>	<u>H.R. 3025</u>	<u>Increase</u>
1974	\$472.1	\$675.1	\$203.0	\$491.2	\$ 722.9	\$231.7
1975	472.1	719.4	247.3	532.3	867.4	335.1
1976	472.1	768.2	296.1	578.1	1032.7	454.6
1977	472.1	802.6	330.5	626.0	1197.2	571.2
1978	472.1	813.7	341.3	677.4	1327.3	649.9

SECTION 2 - RETIREES IN THE RFEHB PROGRAM

There are approximately 210,000 pre-1960 retirees enrolled in the RFEHB Program. Some 80 percent of these retirees are over age 65 and are covered by Medicare hospital and medical insurance. They have available excellent coverage supplementary to the basic Medicare protection, either through the Government-sponsored Uniform Plan or through privately sponsored plans especially designed to supplement Medicare. The cost of many private plans supplementary to Medicare is reasonable and the Government adds \$3.50 (self only) or \$7 (self and family) to the retiree's monthly annuity check to help pay these premiums. The same contribution is made to enrollees in the Uniform Plan, and they pay only an additional \$.50 (self only) or \$1 (family) a month for the supplementary protection.

Our experience is that many older people tend to buy as much insurance as they can get and may already be overinsured. If section 2 is enacted, it is our considered opinion that a significant number of these people would switch to the FEHB Program in the mistaken belief that they needed the additional protection and at considerable more needless cost to themselves, as well as to the Government.

Because the large majority of people enrolled in the RFEHB Program already have excellent health insurance protection at very reasonable cost, and because we believe that the option afforded by section 2 to switch to the more costly FEHB Program would cause many of them to do so contrary to their best interests, the Commission opposes enactment of section 2 of H.R. 3025.

The annual Government cost for section 2 is estimated to be about \$7.6 million, assuming that only enrollees not eligible for Medicare transfer. Because this would entail a substantial additional cost to the enrollee, we further assume that only one-fourth of those not covered by Medicare will transfer, in which case the cost would be \$1.9 million a year.

SECTION 3 - COVERAGE OF FULL-TIME STUDENTS

Under existing law, a family health benefits enrollment covers unmarried children until age 22, an age at which most children have completed their schooling. Cessation of their coverage is subject to a 31-day temporary extension of coverage, during which the enrollee has a right to convert the child's coverage, without evidence of insurability, to a non-group health benefits contract offered by the carrier of his plan.

Termination of the child's health benefits coverage at age 22 presents no real barrier to continuation of his education. The worst that happens is that the parent has to pay the cost of the child's converted health insurance over a limited period. Additionally, practically all schools offer student insurance coverage at very reasonable group premium rates.

We know from experience with the Civil Service Retirement law, which pays annuity to student-children to age 22 to help with college expenses, that the administration of the student-child provision is difficult and costly. We believe, however, that such a provision is inappropriate to health benefits coverage: for example what happens to the coverage of a child who drops out of school because of prolonged illness? It is for these reasons that the health benefits law now covers children to age 22 without regard to their student status.

Enactment of this proposal would result in an uneven sharing of its cost. It would be paid for by a portion of the contributions of all Federal employees including those at both low and high salary levels. However, older employees at the higher salary levels would benefit more from this proposal because they would be more likely to have adult children who are post-graduate students. Younger Federal employees at lower salary levels, although they would help pay for this proposal, would be less likely to benefit from it.

The Commission believes that students aged 22 and over already have health insurance protection available, that the extension as proposed by section 3 would financially benefit relatively few people at the expense of many and is therefore unwarranted and should not be enacted.

The cost of the provision for extending coverage to unmarried students age 22 and over cannot be estimated with precision. According to census figures, the addition of this group to the family members now covered would increase the non-spouse dependent coverage by about one percent. This would result in an estimated increase in contribution cost to the Government at current contribution rates of about \$1.2 million as well as a slight increase in premium to employees and annuitants.

SECTION 4 - HEALTH BENEFITS CLAIMS DISPUTES

We are not currently experiencing any problems in securing carriers' compliance with Commission decisions on interpretation of contract benefit provisions. However, the Commission has no objection to Section 4 and would support its enactment if it were introduced as a separate bill.

SECTION 5 - POSTAL SERVICE EMPLOYEES

Section 5 of H.R. 3025 would include employees of the Postal Service and the Postal Rate Commission under the provisions of sections 1 and 3 of this bill dealing with an increase in the Government's contribution and student-children, respectively. This proposal, as it affects Government contributions, was initially introduced in the last Congress as an amendment to H.R. 12202. The purpose of the amendment was to clarify the issue of whether an increase in the Government contribution would be applicable to employees of the Postal Service and the Postal Rate Commission. In introducing that amendment, Representative Waldie stated in pertinent part (reported in p. H3702, Congressional Record of April 27, 1972) that:

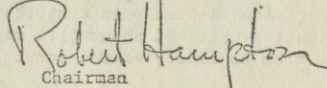
To resolve, however, the dispute once and forever, short of going to the courts, it is my intention to submit the issue to the Congress for resolution so that the Congress could this day make a determination in the House of Representatives at least, as to whether its (postal) employees are to benefit from any increase in health insurance premiums that the Government will make.

In essence, the Postal Service maintained that the increase should be the subject of collective bargaining rather than legislation. On this point and on the point of whether the provision regarding over-age student children applies to Postal Service employees, the Commission defers to the Postal Service which would be primarily concerned with resolution of these issues.

The Office of Management and Budget advises that there is no objection to the submission of this report and that enactment of H.R. 3025 would not be in accord with the program of the President.

By direction of the Commission:

Sincerely yours,,


Chairman



LAW DEPARTMENT

Washington, DC 20260

July 17, 1973

Dear Mr. Chairman:

We understand that your Committee may soon consider H.R. 3025, a bill that would increase the Government's share of the cost of federal employee health benefits insurance. Section 5 of the bill provides, among other things, that the rates of Government contribution for health benefits, as increased under section 1 of the bill, would be applicable to the Postal Service and the Postal Rate Commission.

As you know, the Postal Service believes it is quite clear that under section 1005(f) of title 39, United States Code, any changes in health insurance costs affecting postal employees must be made through collective bargaining or, for non-bargaining unit employees, by administrative action of the Postal Service.^{1/} The Postal Reorganization Act was generally intended to remove the determination of the terms and conditions of postal employment from the legislative arena and to lodge this responsibility with postal management, subject to collective bargaining.

In keeping with this Congressional mandate, the Postal Service and bargaining representatives of the postal unions recently completed negotiations on a proposed national agreement covering the period

^{1/} The position of the Postal Service on the applicability of health benefits legislation enacted after the effective date of 39 U.S.C. 1005(f) is more fully set out in its report on similar bills in the last Congress, H.R. 9620 and H.R. 12202, contained in H.R. Rep. No. 92-841, 92d Cong. 2d Sess. 8-10 (1972); see also Hearing on Postal Amendment to H.R. 12202 before the Subcommittee on Retirement, Insurance, and Health Benefits of the House Committee on Post Office and Civil Service, 92d Cong. 2d Sess. ser. 92-30, at 40-44 (1972).

July 20, 1973 to July 20, 1975. Article XXI of the proposed agreement, entitled "Health Benefits", reads as follows:

"Commencing July 21, 1973 the Employer will increase its contribution to the cost of the health insurance program from 40% to 55% based on the present method of computation. On July 20, 1974, the Employer's contribution will be increased to 65% based on the present method of computation."

There is a substantial question as to whether section 5 of the bill would have its apparently intended effect of overriding the postal labor agreement so as to require the provision of health benefits to postal employees that are different from those agreed to. Section 208 of title 39 provides that no change in title 39 "shall impair the obligation of any contract made by the Postal Service under any power conferred by this title." In our opinion, section 5 would have the effect of amending, pro tanto, the provisions of title 39. If the bill is enacted in its present form, and section 5 is effective in its apparent purpose, health benefits will have been effectively removed as an item of collective bargaining between the Postal Service and its employees.

Nothing is more important to the accomplishment of the purposes of the Postal Reorganization Act than successful collective bargaining. Collective bargaining cannot be successful unless the parties understand that the agreements they reach through the bargaining process will stand. To require postal employees to lose benefits they gained through collective bargaining, or to permit them to gain greater benefits than they won, would be destructive of sound postal labor relations. If section 5 of this legislation is enacted, the collective bargaining process would be severely impaired and the essential basis for successful employee relations in the Postal Service would be undermined.

For the above reasons the Postal Service recommends against enactment of section 5 of this bill.

Sincerely,

Frank G.
General Counsel

Honorable Thaddeus J. Dulski
Chairman, Committee on Post
Office and Civil Service
House of Representatives
Washington, D. C. 20515

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