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CHANGES IN COMPUTATION FORMULA DETERMINING
FEDERAL HEALTH BENEFITS CONTRIBUTION

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DOCUMENTS

HEARING

BEFORE THE

SUBCOMMITTEE ON

MENT AND EMPLOYEE BENEFITS

OF THE

COMMITTEE ON

OFFICE AND CIVIL SERVICE

HOUSE OF REPRESENTATIVES

NINETY-FOURTH CONGRESS

SECOND SESSION

ON

H.R. 12275

A BILL TO AMEND TITLE 5, UNITED STATES CODE, TO PROVIDE THAT THE FEDERAL CONTRIBUTION FOR FEDERAL EMPLOYEE HEALTH BENEFITS COVERAGE SHALL BE DETERMINED ON THE BASIS OF THE AVERAGE OF THE TWO HEALTH BENEFITS PLANS HAVING THE HIGHEST SUBSCRIPTION CHARGES

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CHANGES IN COMPUTATION FORMULA DETERMINING
FEDERAL HEALTH BENEFITS CONTRIBUTION

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CHANGES IN COMPUTATION FORMULA DETERMINING FEDERAL HEALTH BENEFITS CONTRIBUTION

WEDNESDAY, APRIL 14, 1976

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 9 a.m. in room 304, Cannon House Office Building, Hon. John W. Jenrette, Jr. (acting chairman of the subcommittee), presiding.

Mr. JENRETTE. This subcommittee has convened this morning to begin hearings and deliberations on H.R. 12275, a bill introduced by Congressman Richard C. White of Texas.

This bill, if enacted, would amend the contribution formula for the Federal employees health benefit program as outlined in section 8906 of title 5, United States Code, so that Government instead of paying 60 percent of the average of the subscription charges of the six plans in the four categories in section 8906(a) of title 5, United States Code, would pay 60 percent of the average of the two health benefits plans of the six in the four categories in that section which have the highest subscription charge.

This bill is in response to this subcommittee's hearings held last October, November, and December on the FEHB premium rate increases, as well as a GAO study order by this subcommittee entitled "Information on 1976 Health Insurance Premium Rate Increases for Federal Employees Health Benefits Program." This report was issued on November 18, 1975.

Our first witness this morning will be the Honorable Thomas A. Tinsley, Director, Bureau of Retirement, Insurance, and Occupational Health, U.S. Civil Service Commission, who spends about as much time before this committee as he does in his office, I would assume.

Welcome, Mr. Tinsley. We'd be happy to hear from you.

STATEMENT OF THOMAS A. TINSLEY, DIRECTOR, BUREAU OF RETIREMENT, INSURANCE, AND OCCUPATIONAL HEALTH, U.S. CIVIL SERVICE COMMISSION

Mr. TINSLEY. Thank you, Mr. Chairman.

Mr. Chairman, I have prepared a statement, and I can proceed in whatever way the committee wishes. The prepared statement is not lengthy; however, if you wish, I can ask that it be placed in the record, and then just very briefly hit the high points of the testimony.

Mr. JENRETTE. I have not had the chance to look at your statement. I would assume that you have supported the bill?

Mr. TINSLEY. No, Mr. Chairman; I have no surprises for the committee this morning.

Mr. JENRETTE. That would have been a surprise.

Mr. TINSLEY. The Commission's position here is one of opposition.

The bill before the committee, if I'm interpreting it correctly, does as the chairman stated, that instead of using the average of the premiums of the six plans we now use, we would use the same six plans, but only take the two that have the highest subscription charges and then the average of those two to determine the Government contribution.

Some of the reasons the Commission opposes the bill are as follows: The first, naturally is it will cost more for the Federal Government, and the President's posture is that there is a need to reduce the rate of growth of Federal expenditures, and follow a policy of fiscal restraint.

The other factors that we would like the committee to consider is that during recent years, the Government contributions have been increasing at substantial rates, in substantial amounts. For example, in fiscal year 1970, the Government contributions amounted to \$233 million. In fiscal year 1977, they will reach \$1.76 billion, 7.6 times what they were in 1970. In 1970, employee contributions were \$666 million, and in 1977, \$1.6 billion. Employee contributions during the same period of time increased 1.7 times.

During this entire period the total contributions, total subscription rates, in the program have only increased 3.3 times.

So, the Commission feels that during the past 7 years, the Government has done much to meet its obligations in a fair and equitable manner in terms of Government expenditures for this particular fringe benefit.

Another factor that the committee should consider is whether or not there's really a need for any change in formula at the present time. I believe one of the factors paramount in the mind of many Members of the Congress in considering increasing Government contributions was the fact that the Government was not as the law apparently intended, paying 60 percent of the premium rate.

In other words, there was not a 60/40 sharing. If anything, the employees were picking up a larger share. There are many plans when we review the program in which the Government's share is at least 60 percent of the premium rate.

At the present time, the Government contributions pay the maximum 75 percent of the premium in 16 of the 18 low-option enrollment categories, and over 60 percent in the remaining two. In the high-option plans, the Government contributions pay at least 60 percent of the premium in 78 out of 110 enrollment categories, and 75 percent in 18 of them.

One of the main advantages of the Federal employees health program has been the choice available to employees in selecting a plan that meets their needs both from a standpoint of benefits and costs to them.

Since a range of plans is now available in which employees can participate and receive a generous 60- to 75-percent Government con-

tribution toward their premium, we do not believe it is necessary or desirable to increase the Government's share of the premium payment further. Such an increase would not be warranted and would erode incentives to employees to purchase economical coverage.

In fact, to do so could result in further inflationary pressures in an area of national concern and one where this committee has expressed a deep concern for cost control. The carriers here would have the tendency to press for additional benefits and higher premiums. They, too, would lose an incentive.

This bill, too, by using only the two high-cost plans could result in a situation where one area of the country—that is, a high medical cost area—could determine the Government's contribution as well as the employee's.

For example, the Kaiser plans in California, particularly in southern California, where we have one of the highest areas of cost of medical care in the country.

Actually, the present formula, while it might not be perfect, by averaging the charges of all of the six plans specified in the law, results in an amount which we believe is representative of the program-wide increases in premium costs.

If this bill were enacted, a sharp increase in charges by only one or two of the six plans would result in an increase in the Government contribution which would be disproportionate to the overall increases. As I mentioned earlier, this bill would definitely increase Government costs.

We're unable to estimate with any high degree of accuracy exactly what the cost would be because it would be dependent on a number of factors. However, if we were to use this year as an example, the two highest premium rates are 10 percent higher than the average of the six rates.

And, if we were to assume this relationship, the annual cost to the Government would increase \$175 million. As I pointed out, this increase could vary from year to year, depending on how exactly those premiums turned out in terms of cost of medical care.

However, I don't think there is any doubt in anyone's mind that they would do anything but increase each year in view of our experience with health care cost, and even considering the most conservative estimate for the future escalation of medical care costs.

Another factor that I think is becoming more important today that the committee should consider is one that I believe I mentioned at other hearings, is that the Government's payment towards health benefits or for that matter, any other individual fringe benefit, should not be considered in isolation, separately from the cost of the other benefits and pay.

They should be considered in conjunction with the cost and value of all the items and factors that go into making up the total compensation of the Federal employee. As in the private sector, the amount of payment for this benefit should be viewed, considered and acted on keeping in mind that it is only one part of the total pay and fringe benefit package and cost.

The items that should be considered among others are: Salary, retirement, life insurance, vacations, sick leave, and some of the other benefit programs that are available to Federal employees.

Taking piecemeal action in one of these areas without considering the effect or the result in others could produce a situation where we'd find an imbalance, particularly in these days when the Government is moving towards a concept of total compensation and comparability with the private sector.

Doing so now could result in an imbalance that when considered with some of these other benefits in the future, including pay, could prove difficult to adjust in order to meet both the needs of the Government and particularly employees, while at the same time satisfying the principle of total comparability compensation, as we move along in maintaining our capability for attracting and retaining the best qualified people in the Federal service.

In conclusion, Mr. Chairman, I believe the Commission's position could be summarized by pointing out that it's opposed to the bill primarily because of cost, and the fact that over the past few years, Government contributions have increased by an appreciable extent. There is now available to Federal employees a considerable number of plans in which they can participate and receive 60- to 75-percent Government contribution.

The benefit structures of these plans are, if not excellent, good. They're adequate, and at a time when the President, the Congress, and the public seems to feel strongly concerning Federal expenditures and fiscal responsibility, we just do not believe that the present situation should be changed at additional cost to the Government, to the taxpayers.

Thank you, Mr. Chairman. If you or other members of the committee have any questions, I will be pleased to answer them.

Mr. JENRETTE. Ten percent is an exceptionally high increase. What has it been running for the past 2 or 3 years?

Mr. TINSLEY. This would be an additional 10 percent, Mr. Chairman; 10 percent over and above whatever the normal increase in cost was.

As the committee is well aware, the increase in premiums which precipitated this series of hearings was the highest, I believe, in the history of the program. Premium increases, particularly in the two governmentwide plans were in excess of 35 percent.

Unfortunately, the way the existing formula worked this year and with the distribution of cost through the other four plans, and the relatively high cost of these two, the result was that the employee seemed to pick up a bigger share of the increase than the Government did.

Mr. JENRETTE. You don't anticipate a reduction in cost in the near future, do you?

Mr. TINSLEY. I certainly don't, Mr. Chairman; and I don't know of anyone else in the country that expects that medical care costs are going to go down at any time in the very near future.

If anything, most of the material published, and most of the knowledgeable people in this area talk more in terms of reducing the rate of increase as opposed to reducing and eliminating any increases.

Mr. JENRETTE. Do you have figures with you or a rough estimate as to the number of employees or percentage of employees that are covered by the 75 percent benefits and 60 percent under the high option?

Mr. TINSLEY. I may have them with me, Mr. Chairman. If not, it can be provided.

However, the situation here that has to be kept in mind is that although we have these 110 categories and although we have the 55 different carriers, over 60 percent of the employees are in Blue Cross, Blue Shield.

Why? I'm not quite certain. I think we could probably triple the rates of Blue Cross/Blue Shield and employees would still flock to them.

I don't know whether this is similar to a religious belief in an organization, or what, I just can't understand it, but you have 1.7 million out of 1.9 million high option enrollees in the Blue Cross/Blue Shield program.

Now, we know that the Blue Cross/Blue Shield covered employees are not getting a 60 percent contribution to the premium. They're getting less.

So, actually, the numbers that are getting the 60 percent are relatively small by comparison, because of the fact that most employees are in Blue Cross/Blue Shield.

Mr. JENRETTE. What is the percentage at Aetna?

Mr. TINSLEY. The Aetna high-option family gives the employee 60 percent. I think it's slightly higher than 60 percent.

So there is a governmentwide plan available, high option that would pay 60 percent. In fact, the employee pays 39.9 percent of the high-option premium.

Mr. JENRETTE. That's surprising. I thought—

Mr. TINSLEY. It surprised me, Mr. Chairman, because I didn't think it did, but if my figures are correct, Aetna high option is \$38.46 of which the Government pays \$23.13, 60.1 percent.

Mr. JENRETTE. I might want to change my plan.

Mr. TINSLEY. You may be a little late, Mr. Jenrette.

Mr. JENRETTE. Let's go into the Kaiser situation in California. The staff worked with Kaiser people on this bill, and nothing ever came up, to my knowledge, about it. Would you elaborate on that a little more?

Mr. TINSLEY. The Kaiser plan in northern California costs much less than the Kaiser plan in southern California, in fact, even the Kaiser plan in southern California is not the highest in the program.

The Kaiser southern California plan has a high option biweekly family premium rate of \$42.29. It ranks ninth if we were to look at costs of each plan in the program.

However, if we were to take the six that we now use in the current formula, the Kaiser plan ranks second behind Blue Cross/Blue Shield, and Blue Cross/Blue Shield's high option family premium biweekly is \$43.14, and Kaiser, 42.29. Kaiser of southern California only has one option; in fact, most of the group-type plans only have one option.

I believe only one at the present time still follows the policy of two options, Group Health Association, here in Washington. In Kaiser, southern California, self-only high-option premium is \$16.30 biweekly.

The Government contribution comes out to about 57.8 percent of that particular premium, and there are 13,000 people in that option.

The family high option for Kaiser of southern California is—the Government share there comes out to 54.7 percent. They have close to 27,000 people in that option.

So, the Kaiser southern California group certainly does not receive 60 percent of their premium; however, they do receive the maximum Government contribution at the present.

The Blue Cross/Blue Shield rates are higher, and the Government share amounts to about 51.8 percent of the premium for high, self only; and the family comes out to about a 53.6 premium in terms of the Government sharing contributions.

Of the people in the high options, if I were to consider those in self high, the Blues make up 64 percent of that group; the family high of Blues make up 62.2 of the 70 percent.

It appears that—and I'm not saying this being critical of the Blue Cross/Blue Shield program or employees who select that program, but many times I do get concerned that we all have a tendency to start worrying about this program and changing this program only because of the problems that we have found with the Blue Cross/Blue Shield premium.

I don't know, it might not be a bad thing for the program if a number of people moved out of Blue Cross/Blue Shield over into some of these other programs where the benefits are not all that bad, rather than everybody trying to change the whole program to accommodate Blue Cross/Blue Shield.

Mr. JENRETTE. Wouldn't enactment of this do exactly what you're saying? Wouldn't it move him out of the Blues?

Mr. TINSLEY. No; because this bill would pay a higher Government contribution for this large group that's in Blue Cross/Blue Shield, would increase their contribution to 59.4 percent of the family high-option rate.

Frankly, from the standpoint of principle, I see nothing wrong in a program where individuals are getting in excess of 60 percent or close to 75 percent of their premium paid as to why that should be 75 percent rather than 65 percent.

In my judgment, this would have a tendency only to benefit, or would have the greatest benefit to those plans that are now falling below that 60-percent figure.

Mr. JENRETTE. That's solely because those plans don't have benefits and options, is it not, Mr. Tinsley?

Mr. TINSLEY. I don't know. You take some of the plans, and if you review the benefit structure, it's adequate and good coverage.

In fact, you read some of them; the coverage is as broad as Blue Cross/Blue Shield in most areas. There might be a few areas that it is not.

Mr. JENRETTE. Just reading them is a problem.

Counsel has a question.

Mr. McCLUSKEY. Mr. Tinsley, if you don't mind, I'm kind of unclear about your statement that passage of this would encourage people not to go to other plans.

We're not changing the 75-percent factor; and if the Government picks up 60 percent of the two plans, that would be the highest subscription charge, it would seem to me that more of the other plans thereby would be receiving over 60 percent if we're taking the two plans that cost the most. Obviously, they cost more than the other plans; thereby, the other plans would be paid, or 65, 75 percent.

It would seem to me that when employees are going through these benefit structures, if they're somewhat similar as you say, and can look at the drastic difference in cost, they would be encouraged to go to these other plans.

Mr. TINSLEY. I think to some extent, you have a point; however, in the low option, where now just about everyone is getting 75 percent—

Mr. McCLUSKEY. OK; but taking the high option now.

Mr. TINSLEY. In the high-option area, those plans that now do not have the 75 percent or the 60 percent, I don't think you would have that kind of situation, despite the fact that you would be improving the percentage.

Mr. McCLUSKEY. That is a possibility, is it not?

Mr. TINSLEY. But I think one thing we have seen this year that began to cause people to take a harder look at the premium rate was the situation that they found themselves in with Blue Cross/Blue Shield; and we have evidence of some dramatic shifts out of Blue Cross/Blue Shield into some other plans.

Now, if you improve the Blue Cross/Blue Shield premium posture by increasing the amount of money that you're going to give them, that's what you're going to be doing here, despite the fact that it's going to be given to others, you're lessening the gap that is going to exist—I'm not saying that it wouldn't be there.

Mr. McCLUSKEY. Right; so it is possible the incentive will be there?

Mr. TINSLEY. It's possible.

Mr. McCLUSKEY. I agree with you, the employees are quite concerned about the cost of the plans.

In fact, for the record, the staff has sent the Civil Service Commission 300 signatures—a grassroots group that I believe is in New Jersey—asking that benefits be cut, benefits be kept the same; people are becoming more aware and concerned with cost and benefit structure.

I think this committee has established in previous hearings that the majority of employees and even Members feel that the Government's paying 60 percent of their plan, and the fact of the matter is the Government's not paying 60 percent of the majority of the employees' plans, considering the fact that the majority of the employees are in the two high-option plans of Blue Cross/Blue Shield, and Aetna.

Mr. TINSLEY. I think you've got a point here. There's no doubt in my mind that cost is suddenly beginning to hit home to everyone. Some of the conversations I've had recently with some of the benefit managers in the private sector indicate they have got the same kind of a problem that we have.

I think some of you may have seen some of the stories that have begun to appear concerning the upcoming automobile union workers contract negotiations with the auto industry involving reductions in health benefits.

The thing I think that if placed before the American public that would come as a real shock is that right now, General Motors is paying Blue Cross/Blue Shield more for hospital insurance for their employees than they're paying United States Steel for the steel that they use in manufacturing all their automobiles. And that is actually the fact, if I can believe the benefit managers of General Motors.

Mr. McCLUSKEY. Well, if health care costs are going up that high, and if indeed, we're going to bring in top knowledgeable people into the Government, and we're going to continue to put a 5-percent limitation on their pay, it seems to me beneficial that we at least up some of their benefits.

Mr. TINSLEY. From that standpoint, you're quite correct.

However, to caution the committee, not that I endorse this position, but the continual increase in cost in this program for the Government of health insurance is going to result in nothing more than the same kind of approach to the health insurance that you now have with pay, and that is placing a limit on it. That means nothing more than reducing benefits.

Mr. JENRETTE. Your headaches would be over if we came out with some national health insurance program that was paid by the Treasury or something of that nature, would it not?

Mr. TINSLEY. I don't know that my headaches would be over unless into that national health insurance program was absorbed this entire program and I was no longer responsible for administering it. Certainly the only headaches then would be with other programs that I'm responsible for that also have some concern to employees and the committee.

I have no present posture on national health insurance as to what form it takes; however, I will say this.

There is no doubt in my mind that given the situation that has existed particularly over the past 10 years, in the health care field with cost, and the failure on the part of the people—the only people that control cost, the providers of health care, hospitals, doctors, laboratories, and others that the only place that health care is going to be financially viable is at Government cost. Government cost despite what anybody wants to say is going to mean Government control.

It reached the point where the individual, even with average income or above average income could not individually afford the cost of medical care. It is now rapidly reaching the point where an individual can't even afford the insurance premium for health care.

There is only one other place I know of that money is available in that kind of form, and that is the Government. That seems to always be the case. Under those circumstances, continual increases in costs is going to result in the Government taking over the health care system of this country at the insistence of the public.

Mr. JENRETTE. I couldn't agree with you more. I don't know that I subscribe to it—

Mr. TINSLEY. I indicated I do not subscribe to that kind of posture.

Mr. JENRETTE. It might be a time for all Members of Congress to begin looking at where we're going in health care for Americans with a good part of them being Government employees.

If you come across any solution, I'll be happy to chat with you sometime about it.

Mr. TINSLEY. If I had a solution, Mr. Jenrette, I would be up here advancing it.

Mr. JENRETTE. Thank you, Mr. Tinsley.

[The prepared statement submitted by Mr. Tinsley follows:]

PREPARED STATEMENT BY THOMAS A. TINSLEY, DIRECTOR, BUREAU OF RETIREMENT, INSURANCE, AND OCCUPATIONAL HEALTH, U.S. CIVIL SERVICE COMMISSION

Mr. Chairman and members of the subcommittee, I appreciate this opportunity to appear before your Subcommittee to give the Commission's views on H.R. 12275.

Under the present law, the Government contribution to Federal Employee Health Benefits coverage is based on the average high option charges of the two Government-wide plans, the two largest employee organization plans, and the two largest comprehensive plans.

H.R. 12275 provides, if I am interpreting it correctly, that the same six plans would be considered but that only the two plans having the highest subscription charges would be averaged in order to determine the amount of the Government contribution.

The Commission is opposed to enactment of this legislation for a number of reasons. The first is that this bill would increase the cost to the Government at a time when there is a need to reduce the rate of growth of Federal expenditures and follow a policy of fiscal restraint. The Government's total cost and share of the overall total cost of the Health Benefits Program has increased at a rapid rate over the past few years and we see no compelling reason or need to further increase this cost in today's economic climate.

Prior to 1971 the Government's contribution was set by law as a flat dollar amount. In 1971 Public Law 91-418 increased the Government's contribution to 40 percent of the average premiums charged for high option coverage by six of the largest plans, but not to exceed 50 percent of premium in any case. Public Law 93-246 further increased the Government's contribution to 50 percent of the average premium in January 1974 and to 60 percent in January 1975, but not to exceed 75 percent of premium.

In fiscal year 1970 Government contributions amounted to \$233 million. In fiscal year 1977 they will reach \$1.76 billion, 7.6 times what they were in 1970. Employee contributions in 1970 were \$666 million and in 1977 will be \$1.16 billion, 1.7 times what they were in 1970. Total contributions will be 3.3 times what they were in 1970.

We also question the need for a change in the formula for determining the Government's contribution toward health benefits premiums and the sharing of the cost at the present time. There are already available to employees and annuitants plans providing adequate, if not excellent health insurance protection, where the Government contribution is at least 60 percent of the premium.

At the present time, the Government contribution pays the maximum, 75 percent of premium, in 16 of the 18 low option enrollment categories and over 60 percent in the remaining 2. In regard to the high option, the Government contribution pays at least 60 percent of premium in 78 out of the 110 enrollment categories and 75 percent in 18 of them. One of the main advantages of the Federal employees health benefits program has been the choice available to employees in selecting a plan that meets their needs both from a standpoint of benefits and costs to them. Since a range of plans is now available in which employees can participate and receive a generous 60- to 75-percent Government contribution toward their premium, we do not believe it is necessary or desirable to increase the Government's share of the premium payment further. Such an increase would not be warranted and would erode incentives to employees to purchase economical coverage. In fact, to do so could result in further inflationary pressures in an area of national concern and one where this committee has expressed a deep concern for cost control.

It could also result in a situation where the high cost of benefits in one State or locality would determine the Government's contribution; for example, the Kaiser plans in northern and southern California. It would also produce a situation where any incentive for carriers to hold down premium costs would be reduced or eliminated, and if anything they would move in the direction of increasing them, at least to the extent that there might be some advantage to reaching the 75-percent level of Government contribution.

The present formula, averaging the charges for all of the six plans specified in the law, in our view results in an amount representative of program-wide increases in premium costs. If H.R. 12275 were enacted, a sharp increase in charges by only one or two of the six plans could result in an increase which would be disproportionate to overall increases.

This bill, if enacted, would further increase Government cost to an appreciable extent each year. For example, this year the two highest rates are 10 percent higher than the average of the six rates. Assuming that this relationship continued, the annual cost to the Government would increase by \$175 million. In any given year of use, the difference might be smaller or greater than 10 percent and the added cost would vary accordingly. However, we do not have any reason to believe that it would do anything but increase cost each year in view of past experience with health care costs and even the most conservative projections for the future.

In addition, the Commission does not believe that the Government's payment towards health benefits should be considered in isolation, separately from the cost of other benefits and pay. The contribution towards the cost of this fringe benefit should be considered in conjunction with the cost or value of all those items that are a part of the total compensation of Federal employees. As in the private sector, the amount of payment for this benefit should be viewed, considered and acted on keeping in mind that it is only one part of the total pay and fringe benefit package and cost. In addition to salary, these include retirement, life insurance, vacation and sick leave, and other benefits provided Federal employees.

Piecemeal action in one area without considering the others could result in an imbalance that when considered from this overall standpoint could be extremely difficult to adjust in the future in order to meet the needs of both the Government and the employees while at the same time satisfying the comparability principle and maintaining the capability for attracting and retaining the best qualified employees for Federal service.

In conclusion I will briefly summarize the Commission's position. In view of the fact that Government's share of the contributions has increased to such an appreciable extent over the past few years, that there is now available to Federal employees a considerable number of plans in which they can participate and receive 60 to 75 percent Government contribution toward their premiums, for reasons of fiscal responsibility and because we view the present contribution arrangement as a fair and liberal one, the Commission is strongly opposed to enactment of H.R. 12275.

Mr. JENRETTE. I now call Mr. John McClelland, president of the National Association of Retired Federal Employees, a the next witness.

Mr. McClelland, more and more Federal employees are moving into the district that I represent, and I'm trying to get a bill passed to help them. So, I'd like to chat with you a little bit as to where I'm falling down and how I can get the message across.

STATEMENT OF JOHN F. McCLELLAND, PRESIDENT OF THE NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES, ACCOMPANIED BY JUDITH E. PARK AND CHARLES L. MERIN, LEGISLATIVE REPRESENTATIVES

Mr. McCLELLAND. Thank you, Mr. Chairman. I am John F. McClelland, president of the National Association of Retired Federal Employees, known as NARFE. Our association's 250,000 members are all former employees of the Federal Government, their spouses, or survivors.

To all Americans, but especially to older Americans whose health expenditures are approximately two-thirds more per year than those of the younger population of the country, a foremost consumer concern is adequate health care coverage at reasonable cost.

As retired Federal employees, the majority of our members are eligible for, and enjoy, participation in the Federal employees health benefits program. The plans participating in this program do offer comprehensive benefit coverage, but the cost of this coverage is becoming a matter of concern to the enrollees, especially in view of the unprecedented percentage increase in premiums which was instituted by some of the plans the first of this year.

While NARFE would like to see the Government, as employer, contribute at least 75 percent of premium costs, we welcome any legislation which would provide some dollar savings to employees and annuitants in meeting their health insurance needs. We, therefore, welcome the opportunity to support H.R. 12275, by changing the formula now used for determining the 60 percent of premium cost which the Government currently assumes.

The current formula for computing the Government's share of premium costs, averages the premiums of the six largest insurance plans under the FEHB program, than has the Government assume 60 percent of this average premium as its contribution.

Our association, on numerous occasions, has publicized this method of determining the 60-percent employer contribution, yet many of our NAFE members, other annuitants and employees remain under the impression that the Government is supposed to pay 60 percent of the premium of each plan.

Under the present method of determining employer contribution, the thousands of Federal workers and annuitants enrolled in the highest cost plans, find that instead of paying the 40 percent of premium they believe they are charged with assuming, that their own premium share is as much as 48 percent. It is in the self-only, high-option enrollments of the highest cost plan that the enrollee is faced with the highest percentage of premium share.

At present, the two highest cost plans are the two governmentwide plans. Blue Cross/Blue Shield's service benefit plan and Aetna's indemnity benefit plan. Actuarial figures show that approximately 81 percent of annuitants are enrolled under these two plans. While we do not have the exact figures available to us, we do know that a large percentage of these annuitants have high-option, self-only enrollment.

Self-only enrollment is high among retirees as many in this older age bracket are now widowed, along with those who have always been single persons.

High-option coverage is a necessity for thousands of these annuitants to maintain adequate health coverage, as they do not have medicare as a supplement insurance plan and their age bracket itself brings the need for more constant medical care. Thus, we find that in many cases, it is the older retiree or survivor who is bearing the greatest percentage share of premium cost.

Enactment of H.R. 12275 would change the method of computing the employer share of premiums, by averaging the high-option cost of the two most expensive plans, and determining 60 percent of this average as the Government's contribution. A new formula such as this would bring the 60-40 premium sharing concept into a more realistic practice. It would, concurrently, provide dollar savings to the majority of those participating in the FEHB program.

While NARFE recognizes that enactment of H.R. 12275 would be additional cost to the Government, we believe that the area of health benefits coverage is one which needs all the attention and assistance which can be assumed. As I stated earlier, we would ultimately like to see the Government assume a larger percentage of premium cost than is currently purported.

At the same time, we realize the budget restrictions with which Congress is faced for the coming fiscal year. In this regard, however, we do believe that Congress can act to bring into practice a more actual Government assumption of 60 percent of premium cost, as proposed in H.R. 12275.

Mr. Chairman, on behalf of the members of the National Association of Retired Federal Employees, I voice full support of H.R. 12275, at the same time extending the association's appreciation to Chairman White for seeking ways to reduce premiums under the FEHB program through this legislation and other initiative steps he has taken. I appreciate this opportunity to appear before you this morning.

Mr. JENRETTE. Thank you. Most of the mail I get from NARFE participants in South Carolina is concerned not with health care, but that we're wildly spending money up here and not balancing the budget. Every Federal employee group from my district writes me talking about that. What is your opinion on the balanced budget?

Mr. McCLELLAND. Certainly we are concerned with the fiscal standard in this country and where we are today, but we also feel that we have a responsibility to look after some of the older people.

It is disturbing our people, also, that we can see big appropriations sent overseas and cuts in programs for the elderly back home.

Mr. JENRETTE. Would you support the shifting of the 1 percent kicker on the annuity of the cost of living over to payment of the health benefit?

Mr. McCLELLAND. This is a rather tricky spot, you know that, Mr. Chairman. I might tell you that we feel that the 1 percent was added for a particular reason. We think it's a promise that's been made and one that should be filled.

We point to the President's own state of the Union message when he said: "In all we do, we must be more honest with the American people, and must not promise more than we give, we must give all we promise." I feel that the retirees today have been promised this, and it should not be taken away from them.

Mr. JENRETTE. Why are your people on the high option plan when they're also entitled to the medicare?

Mr. McCLELLAND. A number of our people are not entitled to medicare, Mr. Chairman. I think the Civil Service Commission pointed out that their guess was 40 percent of the Federal retirees, possibly were covered under social security, therefore, could receive medicare.

Mr. JENRETTE. Do you have statistics on what percentage of that 40 percent still had high option?

Mr. McCLELLAND. No, sir; we do not have that information.

Mr. JENRETTE. You say that you've been over a number of times the formula under the present law, and feel the Government is supposed to pay 60 percent. I assume the way you've advised your membership is through your publication and through advertising.

Mr. McCLELLAND. This is correct.

We have put this information in our official magazine published monthly, "Retirement Life," had this in there many times; but we still get a lot of letters, why we're not getting 60 percent of our premium paid.

We also do point out to these people that retirees that are covered under social security and have medicare, would be better off going to a low option, since they do have medicare that would have adequate coverage combined with low option rather than carrying the high option.

Mr. JENRETTE. Have you met with any success in that, to your knowledge?

Mr. McCLELLAND. I'm sure we don't see it as such, but it is our advise to these people. I'm sure that many of them do change.

Mr. JENRETTE. My sister is chairman of the legislative committee of NARFE in Myrtle Beach, S.C., where I live, and when I visit her I see your magazine in front of me at all times. [Laughter.]

But I finally have gotten her around to the point where she is not writing me about a balanced budget. [Laughter.]

She's more interested in receiving additional benefits.

I have great concern about our senior citizens, Republicans and Democrats. The statistics I cited to Mr. Tinsley, 325,000 each year over 65, the attrition rate, that is a matter that I think we're going to have to give serious consideration to—not just in the Federal sector but throughout our senior citizens' program—to see that they are cared for. I feel that health care, since we're on that subject today, should be Congress' best and strongest concern for our senior citizens, I think more than annuity increases, more than anything else.

Either doctors have written us off or the pharmaceutical companies. The American public has experienced an acceleration in health care expenses more than in any other area.

I have voted for some of the programs that sent money overseas—not many—but I can enthusiastically support a program that would help the senior citizen.

I know Mr. White would like to have been here to have heard your testimony, and I will comment to him about the fine words you had to say. And I'll tell my sister that you were here fighting for them.

Mr. McCLELLAND. Mr. Chairman, in regards to our elderly citizens, I think two areas certainly need a great deal of thought. One in particular which would help to hold the premiums down, would be the home care for the elderly. This is one area which I think is tremendously important, and one that should be explored. Also, this extended care in nursing homes should really be carefully review. This is a pitiful situation.

Mr. JENRETTE. You mean as to the care that they actually receive in nursing homes or—

Mr. McCLELLAND. Well, that and also the problem is you cannot find any insurance that will cover nursing home care, as such.

They will cover a certain period after a person has been in the hospital, as long as he still needs particular medical attention; but strictly for custodial care, which is a real problem, there's no insurance that you can get that will cover it.

Mr. JENRETTE. When I was back in our State legislature and living at Myrtle Beach, I became concerned about the rapid movement to our area of retirees, because they would always vote against school bond issues and things of that nature.

I toyed with the idea in the county that I lived in, of introducing legislation that would require each person that was not a native of the county to move out of the county when they became 65. [Laughter.]

But having been in Congress 15 months, and aged about 20 years in that 15 months, I think probably it was more folly than anything, because I'm going to reach that age in another two terms of Congress, I believe; and would want to see that our senior citizens—of which I would be rapidly approaching—do have an opportunity to live their later years in dignity. That's one of my prime concerns.

I appreciate your testimony, and I know Mr. White would have liked to have been here.

Mr. McCLELLAND. Thank you, Mr. Chairman.

Mr. JENRETTE. Mr. Wolkomir, president of the National Federation of Federal Employees, has submitted a statement which will be placed in the record at this point.

[The complete statement follows:]

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

Mr. Chairman and members of the subcommittee, my name is Nathan T. Wolkomir, president of the National Federation of Federal Employees. The NFFE is the largest independent union in the Federal sector representing both at home and overseas about 150,000 persons throughout the Government.

Mr. Chairman, present law, 5 USCA 8906, provides that the Government shall pay 60 percent of the subscription charge for employee health benefits. The intent of this law has not, however, been fully realized because at present the 60 percent calculation is derived from a formula based on the average cost of the six largest insurers. The effect of this formula is to reduce the actual contribution made by the Government to something less than 60 percent in most cases. For example, it is reported that in the case of Blue Cross, which currently insures more employees than all other carriers combined, the Government's actual contribution is 52 percent of the cost of self-only insurance and 54 percent of the cost of high option family insurance.

The effect of this formula is to compel the individual employee to subsidize a governmental obligation imposed by law. Certainly, there can be no legitimate justification for such a system.

Your bill, Mr. Chairman, H.R. 12275, would correct this inequity by substituting a different and more meaningful formula. Under your bill, the Government's contribution would be based on the average cost of the two carriers having the highest subscription charges. This would have the effect of decreasing the employee's contribution and increasing the Government's share to a more appropriate level. It would not, of course, insure that in every individual case the Government would pay precisely 60 percent, but it would bring about a much closer approximation of the intent of the law.

Essentially, H.R. 12275 implements that provision of the law which requires that the Government pay 60 percent of the costs of health insurance. As such, it is fair and equitable to both the Government and the employee. We are in full support of this bill and urge its passage.

Mr. Chairman, this will conclude our testimony on this bill. We wish to express our appreciation to you for your genuine interest in legislation that affects Federal employees. Your interest, as this bill demonstrates, has been especially important in the area of employee benefits.

H.R. 12275 is an important bill for Federal employees and we are confident it will receive favorable consideration. We believe, however, the Congress should

go one step further. We believe the ultimate solution is a Government health insurance program for Federal employees. We are confident such a program would decrease costs and increase benefits. We therefore recommend that the Subcommittee investigate this matter.

Mr. JENRETTE. There being no further witnesses before the subcommittee, the hearing will now be adjourned.

[Whereupon, the hearing was adjourned at 10 a.m.]

[The letters which follow were received for inclusion in the record:]

NATIONAL TREASURY EMPLOYEES UNION,
Washington, D.C., April 12, 1976.

Hon. RICHARD C. WHITE,
Chairman, Subcommittee on Retirement and Employee Benefits, Rayburn House
Office Building, Washington, D.C.

DEAR CHAIRMAN WHITE: The National Treasury Employees Union supports H.R. 12275 to provide that the computation base for determining the Government's contribution to employee health benefit costs will be 60 percent of the two high-option plans available to Federal workers. The present law provides the computation to be based on the six high-option plans.

This legislation will provide some relief from the current exorbitant premiums Federal employees must pay for health insurance for themselves and their families.

Although it was clearly the intent of Congress that the Government's share of health benefits be 60 percent, since January of this year the Government's contribution to the plan with the highest enrollment is only 53 percent. The premium costs of the Service Benefit Plan of Blue Cross/Blue Shield have risen 202 percent since 1960. We share your concern that every effort must be made to relieve Federal employees of this burden which is pricing some, especially in the lower grades, out of carrying any kind of health insurance.

As you know, the National Treasury Employees Union has filed suit against the Civil Service Commission because we believe that officials responsible for the Federal health insurance program have violated their statutory duty to provide employees with health care benefits at a "reasonable and equitable" cost. NTEU's suit seeks a 50-percent reduction in the 1976 premium increase for the nearly six million employees and dependents who subscribe to the Blue Cross/Blue Shield program. It now appears that it will be quite some time before the District Court renders a decision in our suit.

In the meantime, legislation such as H.R. 12275 would provide Federal employees with some relief from the ever increasing costs of health insurance.

Sincerely,

VINCENT L. CONNERY,
National President.

NATIONAL ASSOCIATION OF LETTER CARRIERS,
Washington, D.C., April 12, 1976.

Hon. RICHARD C. WHITE,
Chairman, Subcommittee on Retirement and Employee Benefits, Post Office and
Civil Service Committee, U.S. House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: I am writing to express our views on your bill H.R. 12275 "to provide that the Federal contribution for Federal employee health benefits coverage shall be determined on the basis of the average of the two health benefits plans having the highest subscription charges." I request that this letter be included in its entirety as part of the hearings on this measure.

Under existing law (5 USC 8906) the Federal contribution is based on the average of subscription charges (i.e., premiums) of six plans. These six are the two government-wide plans, the two largest employee organization plans (which are our own NALC plan and the APWU plan), and the two largest comprehensive medical plans (which are the Kaiser Foundation Health Plans in the Northern and Southern California regions). H.R. 12275 would base the Federal contribution on the average premium of the two most expensive plans among these six.

To put the above existing formula into perspective, here are some figures on the six plans, the unweighted average of whose premiums determine the Federal contribution:

Plan	1974 enrollment ¹	1976 monthly premium ²
Blue Cross-Blue Shield.....	1,844,309	\$93.47
Aetna.....	475,118	83.33
NALC.....	147,964	79.28
APWU.....	158,194	78.87
Kaiser (Southern California).....	37,729	91.63
Kaiser (Northern California).....	38,832	74.58

¹ Latest available figures; includes self-only enrollments.

² For most numerous family enrollments.

As can be seen from the preceding table, the lower premiums of three plans with a relatively small enrollment (totaling only 344,990) substantially reduce the average for the six plans. This operates to reduce the standard Federal contribution for the very large number of enrollees (totaling 2,358,259) enrolled in the other three plans with the highest premiums. In other words, in determining the Federal contribution, as much weight is given by the present formula to the premiums paid by about 345,000 enrollees as is given to the premiums paid by over 2¼ million enrollees. The NALC, therefore, concludes that the present formula does not recognize the realities of the enrollment figures and short-changes the vastly-larger number of employees and retirees who are enrolled in the plans with higher premiums than are enrolled in the plans with lower premiums. H.R. 12275 would, at the current premium rates, remedy this obvious defect in the existing formula.

The NALC, however, prefers the formula in H.R. 12275 over the present formula for a different and, to us, even more important reason than the size of the Federal contribution: This reason is that the present formula inhibits our ability to improve benefits in the NALC Plan. Improved benefits mean higher premiums and, because the premium for our plan determines, in part, the amount of the Federal contribution, the Civil Service Commission, understandably cannot help but be very reluctant to accept our proposals for benefit improvements that are not of a perfecting nature and that entail more than nominal premium increases.

The NALC Plan exists only to help our active and retired letter carrier members meet the expense of health care. We would like to provide the benefits our members want and are willing to pay for. For example, our last two conventions have mandated that we provide dental benefits for all enrollees and family members. However, because of the additional premium this benefit entails, the Civil Service Commission is not likely to favorably consider such a proposal.

We believe that the NALC plan should be permitted to provide whatever level of benefits is responsive to the expressed desire of our organization's members, without the indirect restraint now imposed on the plan by the effect it's premium might have on the Federal contribution. H.R. 12275 would achieve this result so long as our plan did not have one of the two highest premiums among the six plans mentioned in the formula.

For the above reasons we strongly urge enactment of H.R. 12275 or a similar amendment to the Federal Employees Health Benefits law which would (1) realistically peg the Federal contributions to the premium that applies to most enrollees and (2) remove the size of the Federal contribution as a consideration for the Civil Service Commission approving benefit improvements in employee-organization plans.

Very truly yours,

JAMES H. RADEMACHER,
President.

94TH CONGRESS
2D SESSION

H. R. 12275

IN THE HOUSE OF REPRESENTATIVES

MARCH 3, 1976

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

A BILL

To amend title 5, United States Code, to provide that the Federal contribution for Federal employee health benefits coverage shall be determined on the basis of the average of the two health benefits plans having the highest subscription charges.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

That subsection (a) of section 8906 of title 5, United States Code, relating to contributions for Federal employee health benefits coverage, is amended by striking out "offered by:" and inserting in lieu thereof "offered by whichever two of the following have the highest subscription charges in effect on such date:".

SEC. 2. The amendment made by the first section of this Act shall take effect on—

- (1) the date of the enactment of this Act, or
- (2) October 1, 1976,

whichever date is later.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

APR 14 1976

Honorable David N. Henderson
Chairman, Committee on Post Office
and Civil Service
House of Representatives
Cannon House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

This is in reply to the Committee's request for the views of this Office on H.R. 12275, "To amend title 5, United States Code, to provide that the Federal contribution for Federal employee health benefit coverage shall be determined on the basis of the average of the two health benefit plans having the highest subscription charges."

The purpose of this bill is to increase the Government's contribution for health benefits premiums by changing the formula for determining that contribution.

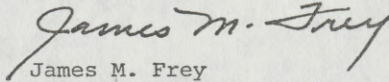
In its report and testimony, the Civil Service Commission states that the Government's total cost and share of the health benefits program has rapidly increased in recent years, and that there is no compelling reason or need to further increase the Government's contribution. Under H.R. 12275, the Commission points out, the Government's contribution could be determined by high-cost situations prevailing in one State or locality, disproportionate to overall, program-wide increases. For example, the two highest rates at present are 10% higher than the average of the six, and if the present relationship continues, the Commission estimates this would increase annual costs by \$175 million.

The Commission also notes that the Government's payment for health benefits should not be considered apart from the cost and value of other elements, such as retirement, life insurance, vacation and sick leave, and other benefits which comprise the total compensation package for Federal employees. For these reasons, and in view of the need to exercise fiscal

restraint and responsibility in considering increases in Federal expenditures, the Commission strongly opposes enactment of this bill.

We concur in the views expressed by the Civil Service Commission and, accordingly, strongly recommend against favorable consideration of this bill. Enactment of H.R. 12275 would not be consistent with the Administration's objectives.

Sincerely,

A handwritten signature in dark ink, reading "James M. Frey". The signature is written in a cursive style with a large, sweeping "J" and a long, horizontal stroke for the "y".

James M. Frey
Assistant Director for
Legislative Reference

UNITED STATES CIVIL SERVICE COMMISSION

WASHINGTON, D.C. 20415

April 13, 1976

Honorable David N. Henderson
Chairman, Committee on Post Office
and Civil Service
House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

This is in further reply to your request for the Commission's views on H.R. 12275, a bill "To amend title 5, United States Code, to provide that the Federal contribution for Federal employee health benefits coverage shall be determined on the basis of the average of the two health benefits plans having the highest subscription charges."

Currently, the Federal contribution is determined on the basis of the average high-option charges of the two Government-wide plans, the two largest employee organization plans, and the two largest comprehensive plans.

Under the provisions of the proposed bill the same six plans would be considered but only the two plans having the highest subscription charges would be averaged.

Under present law, it would be unusual for all six of the largest plans to have substantial increases in the same contract year. Averaging the charges for all six plans, therefore, results in an amount closely representative of program-wide increases in premium costs. If H.R. 12275 were enacted, a sharp increase in charges by only one or two of the six plans could result in an increase in Government contributions which would be disproportionate to overall increases.

Prior to 1971 the Government's contribution was set by law as a flat dollar amount. In 1971 Public Law 91-418 increased the Government's contribution to 40 percent of the average premiums charged for high option coverage by six of the largest plans, but not to exceed 50 percent of premium in any case. Public Law 93-246 further increased the Government's contribution to 50 percent of the average premium in January 1974 and to 60 percent in January 1975, but not to exceed 75 percent of premium.

In Fiscal Year 1970 Government contributions amounted to \$233 million. In Fiscal Year 1977 they will reach \$1.76 billion, 7.6 times what they were in 1970. Employee contributions in 1970 were \$666 million and in 1977 will be \$1.16 billion, 1.7 times what they were in 1970. Total contributions will be 3.3 times what they were in 1970.

At the present time, the Government contribution pays the maximum, 75 percent of premium, in 16 of the 18 low option enrollment categories and over 60 percent in the remaining 2. In regard to the high option, the Government contribution pays at least 60 percent of premium in 78 out of the 110 enrollment categories and 75 percent in 18 of them. One of the main advantages of the Federal Employees Health Benefits Program has been the choice available to employees in selecting a plan that meets their needs both from a standpoint of benefits and costs to them. Since a range of plans is now available in which employees can participate and receive a generous 60 to 75 percent Government contribution towards their premium, we do not believe it is necessary or desirable to increase the Government's share of the premium payment further. Such an increase would not be warranted and would erode incentives to employees to purchase economical coverage.

As shown above, the total Government contribution has increased considerably over the past few years both in terms of the rate of increase, actual dollars and proportion of total cost. While employee contributions have also increased, they have done so to a much lesser extent. The President, in his Budget Message to the Congress, stated that one of his objectives was "to achieve a balance between all the things we would like to do and those things we can realistically afford to do." We consider that the present contribution arrangement is a fair and liberal one which achieves the type of balance the President seeks to achieve.

There is a need at present to reduce the rate of growth in Federal spending and exercise restraint and responsibility in considering increases in Federal expenditures for employee benefits as well as other Government activities. This bill, if enacted, would further increase Government cost to an appreciable extent each year. For example, this year the two highest rates are 10 percent higher than the average of the six rates. Assuming that this relationship continued, the annual cost to the Government would increase by \$175 million. In any given year of use, the difference might be smaller or greater than 10 percent and the added cost would vary accordingly. However, we do not have any reason to believe that it would do anything but increase cost each year in view of past experience with health care costs and even the most conservative projections for the future.

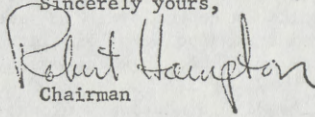
In view of the fact that Government's share of the contributions has increased to such an appreciable extent over the past few years, that there is now available to Federal employees a considerable number of plans in

which they can participate and receive 60 to 75 percent Government contribution toward their premiums, for reasons of fiscal responsibility and because we view the present contribution arrangement as a fair and liberal one, the Commission is strongly opposed to enactment of H.R. 12275.

The Office of Management and Budget advises that there is no objection to the submission of this report and that enactment of H.R. 12275 would not be consistent with the Administration's objectives.

By direction of the Commission:

Sincerely yours,


Chairman

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