

DOCUMENT RESUME

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Changes to the Federal Employees Group Life Insurance Program Are Needed. January 31, 1978. 13 pp.

Testimony before the House Committee on Post Office and Civil Service: Compensation and Employee Benefits Subcommittee; by H. L. Krieger, Director, Federal Personnel and Compensation Div.

Contact: Federal Personnel and Compensation Div.

Organization Concerned: Civil Service Commission.

Congressional Relevance: House Committee on Post Office and Civil Service: Compensation and Employee Benefits Subcommittee.

Life insurance and other death benefit programs available to Federal employees and retirees were compared with similar programs provided to both public and private non-Federal personnel. Life insurance programs were found to be superior in the non-Federal sector. In general, however, survivors benefits under the civil service retirement system are superior to benefits in the non-Federal sector from employer retirement programs and social security combined. Considering life insurance and retirement programs together, total death benefits are generally comparable except for young employees and retirees over age 65 where social security puts the non-Federal sector ahead. Federal employees also pay more for their benefits than their non-Federal counterparts. Changes to the Federal Employees Group Life Insurance (FEGLI) program are needed if it is to remain a viable part of the Federal death benefits package. The premiums, two thirds of which are paid by the employees, are much higher than those of non-Federal programs, and the benefits structure is inequitable in many respects. FEGLI must be made more attractive to younger employees and more equitable for all personnel. Changes to the funding concept and different allocation of costs between employees and the Government could reduce employee premiums. Limited savings could result if the law recognized that FEGLI is, in effect, a self-insured program. (RRS)

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STATEMENT OF
H. L. KRIEGER, DIRECTOR
FEDERAL PERSONNEL AND COMPENSATION DIVISION
U.S. GENERAL ACCOUNTING OFFICE

BEFORE THE
SUBCOMMITTEE ON COMPENSATION AND EMPLOYEE BENEFITS
OF THE COMMITTEE ON POST OFFICE AND CIVIL SERVICE
U.S. HOUSE OF REPRESENTATIVES

ON A

GENERAL ACCOUNTING OFFICE REPORT ENTITLED
"CHANGES TO THE FEDERAL EMPLOYEES GROUP LIFE
INSURANCE PROGRAM ARE NEEDED", FPCD-77-19, MAY 6, 1977.

MADAM CHAIR AND MEMBERS OF THE SUBCOMMITTEE:

I AM PLEASED TO BE HERE TO DISCUSS OUR REPORT ON THE
FEDERAL EMPLOYEES GROUP LIFE INSURANCE (FEGLI) PROGRAM AND OTHER
DEATH BENEFIT PROGRAMS FOR FEDERAL PERSONNEL.

THE STUDY WAS REQUESTED BY THE CHAIRMAN OF THE POST OFFICE
AND CIVIL SERVICE COMMITTEE AS A RESULT OF HEARINGS BY THIS
SUBCOMMITTEE WHICH SHOWED THAT A REEVALUATION OF THE FEGLI
PROGRAM WAS NEEDED. THE SUBCOMMITTEE WAS CONCERNED THAT
YOUNGER EMPLOYEES WERE DECLINING TO PARTICIPATE IN THE PROGRAM
BECAUSE OF ITS COST, WHILE, AT THE SAME TIME, THE REDUCED
LEVEL OF COVERAGE TO RETIREES MIGHT NOT BE ADEQUATE OR
COMPARABLE WITH COVERAGE PROVIDED TO RETIREES UNDER OTHER
EMPLOYERS' LIFE INSURANCE PROGRAMS.

THE CHAIRMAN'S REQUEST ASKED US TO PERFORM A COMPREHENSIVE
ANALYSIS OF LIFE INSURANCE AND OTHER DEATH BENEFIT PROGRAMS

AVAILABLE TO FEDERAL EMPLOYEES AND RETIREES WITH SIMILAR PROGRAMS PROVIDED TO NON-FEDERAL PERSONNEL, BOTH PUBLIC AND PRIVATE. IN SPECIFIC REGARD TO FEGLI, WE WERE REQUESTED TO IDENTIFY POSSIBLE ALTERNATIVE METHODS IN WHICH THE PROGRAM COULD BE RESTRUCTURED TO PROVIDE BETTER AND MORE ACCEPTABLE COVERAGE FOR THE PREMIUMS BEING PAID AS WELL AS THE SAVINGS AND IMPROVEMENTS THAT COULD BE ACCOMPLISHED IF THE GOVERNMENT WERE TO ASSUME RESPONSIBILITY FOR THE PROGRAM AS A SELF-INSURER.

IN PERFORMING THE STUDY, WE VISITED 21 MAJOR EMPLOYERS (17 PRIVATE COMPANIES AND 4 STATE AND LOCAL GOVERNMENTS) TO OBTAIN AND DISCUSS INFORMATION ON THEIR DEATH BENEFIT PROGRAMS FOR COMPARISON WITH THE FEDERAL PROGRAMS.

WE FOUND THAT FEDERAL DEATH BENEFITS ARE GREATER THAN THE NON-FEDERAL EMPLOYERS PROVIDE IN SOME INSTANCES AND LOWER IN OTHERS. LIFE INSURANCE PROGRAMS ARE SUPERIOR IN THE NON-FEDERAL SECTOR. IN GENERAL, HOWEVER, SURVIVOR BENEFITS UNDER THE CIVIL SERVICE RETIREMENT SYSTEM ARE SUPERIOR TO BENEFITS IN THE NON-FEDERAL SECTOR FROM EMPLOYER RETIREMENT PROGRAMS AND SOCIAL SECURITY COMBINED. CONSIDERING LIFE INSURANCE AND RETIREMENT PROGRAMS TOGETHER, TOTAL DEATH BENEFITS ARE GENERALLY COMPARABLE, EXCEPT FOR YOUNGER EMPLOYEES AND RETIREES OVER AGE 65 WHERE SOCIAL SECURITY PUTS THE NON-FEDERAL SECTOR AHEAD. FEDERAL EMPLOYEES ALSO PAY MORE FOR THEIR BENEFITS THAN THEIR NON-FEDERAL COUNTERPARTS.

GAO HAS LONG MAINTAINED THAT IMPROVEMENTS TO INDIVIDUAL ELEMENTS OF FEDERAL EMPLOYEES' COMPENSATION SHOULD BE CONSIDERED WITHIN THE CONTEXT OF TOTAL COMPENSATION COMPARABILITY WITH THE NON-FEDERAL SECTOR. IN LINE WITH THIS POSITION, WE COULD NOT RECOMMEND THAT CHANGES BE MADE TO A CERTAIN PROGRAM MERELY BECAUSE IT IS LESS GENEROUS THAN SIMILAR NON-FEDERAL PROGRAMS SINCE THERE MAY BE OTHER COMPENSATION ELEMENTS IN WHICH THE FEDERAL PROVISIONS ARE MUCH BETTER. THIS IS SOMEWHAT THE SITUATION WITH DEATH BENEFIT PROGRAMS IN THAT FEDERAL EMPLOYEES ARE BEHIND IN LIFE INSURANCE BUT GENERALLY AHEAD IN RETIREMENT PROGRAM SURVIVOR BENEFITS. -

BASED UPON OUR FINDINGS, HOWEVER, WE BELIEVE THAT CHANGES TO FEGLI ARE NEEDED IF IT IS TO REMAIN A VIABLE PART OF THE FEDERAL DEATH BENEFITS PACKAGE. THE PREMIUMS, TWO-THIRDS OF WHICH ARE PAID BY THE EMPLOYEES, ARE MUCH HIGHER THAN THOSE OF NON-FEDERAL PROGRAMS AND, IN MANY RESPECTS, THE BENEFIT STRUCTURE IS INEQUITABLE TO THE PARTICIPANTS.

ONE FACT THAT IS GENERALLY NOT RECOGNIZED IS THAT FEGLI IS, IN EFFECT, A SELF-INSURED PROGRAM. UNDER FEGLI, THE GOVERNMENT, FOR ALL PRACTICAL PURPOSES, ASSUMES ALL LIABILITIES AND RISKS, ESTABLISHES AND COLLECTS PREMIUMS, AND MANAGES MOST OF THE FUNDS. IN NON-FEDERAL PLANS, THESE FUNCTIONS ARE PRIMARILY THE RESPONSIBILITY OF THE INSURANCE CARRIERS.

THE PRINCIPAL FUNCTION OF METROPOLITAN LIFE INSURANCE COMPANY--THE PRIMARY INSURANCE COMPANY INVOLVED IN FEGLI--IS TO SETTLE AND PAY INSURANCE CLAIMS FOR WHICH IT IS REIMBURSED BY THE GOVERNMENT. OVER 360 OTHER INSURANCE COMPANIES ACT AS "REINSURERS" OF FEGLI, BUT, IN FACT, DO NOT PERFORM ANY SERVICES UNDER THE PROGRAM.

SINCE FEGLI IS NOT, BY LAW, A SELF-INSURED PROGRAM, METROPOLITAN IS REQUIRED TO PAY STATE PREMIUM TAXES ON THE CLAIMS IT PAYS. IN 1975, THESE TAXES AMOUNTED TO \$6.4 MILLION. IN ADDITION, THE GOVERNMENT'S POLICY WITH METROPOLITAN PROVIDES FOR RISK CHARGE PAYMENTS TO METROPOLITAN AND THE REINSURERS OF ABOUT \$850,000 A YEAR.

WE BELIEVE THE PRACTICE OF CONTRACTING WITH METROPOLITAN TO PROCESS INSURANCE CLAIMS, INSTEAD OF THE GOVERNMENT'S PERFORMING THIS FUNCTION ITSELF, MAY BE BENEFICIAL SINCE IT USES METROPOLITAN'S EXPERIENCE AND KNOWLEDGE IN THE LIFE INSURANCE FIELD. WE QUESTION, HOWEVER, THE APPROPRIATENESS OF METROPOLITAN'S BEING REQUIRED TO PAY STATE PREMIUM TAXES SINCE FEGLI IS, IN EFFECT, A SELF-INSURED PROGRAM. ALSO WE BELIEVE THE PAYMENT OF RISK CHARGES TO METROPOLITAN AND ITS "REINSURERS" IS HIGHLY QUESTIONABLE SINCE THE GOVERNMENT PAYS ALL THE FEGLI CLAIMS. THUS, OUR REPORT RECOMMENDED THAT THE CONGRESS RESCIND THE REQUIREMENT THAT FEGLI PAY STATE PREMIUM TAXES AND INSURANCE COMPANY RISK CHARGES.

IN 1954, WHEN FEGLI WAS FIRST INSTITUTED, THE ANNUAL PREMIUM WAS SET AT \$9.75 FOR EACH \$1,000 OF COVERAGE. THE PREMIUM RATE WAS EXPECTED TO DECLINE AS THE PROGRAM MATURED. HOWEVER, THIS OBJECTIVE WAS NOT MET, AND PREMIUMS HAVE INCREASED SIGNIFICANTLY OVER THE YEARS. THE LATEST INCREASE, EFFECTIVE IN MARCH 1975, ESTABLISHED THE PREMIUM AT \$13.85--A 42 PERCENT INCREASE OVER THE 1954 RATE.

OF THE 21 NON-FEDERAL EMPLOYERS WE VISITED, 12 FURNISHED SUFFICIENT INFORMATION TO COMPUTE THE AVERAGE PREMIUM RATE FOR EACH \$1,000 OF INSURANCE FOR THE PAST 3 TO 5 YEARS. THE RATES RANGED FROM A LOW OF \$3.62 TO A HIGH OF \$10.29. FEGLI'S AVERAGE RATE DURING THE SAME PERIOD WAS \$11.04, WHICH WAS THE HIGHEST AND SIGNIFICANTLY HIGHER THAN 11 OF THE 12 OTHER PLANS.

FEGLI PREMIUMS ARE HIGHER THAN THOSE IN THE NON-FEDERAL SECTOR PRIMARILY BECAUSE OF THE WAY THE GOVERNMENT HAS CHOSEN TO FUND ANTICIPATED BENEFIT PAYMENTS. AS REQUIRED BY LEGISLATION ENACTED IN 1967, FEGLI PREMIUMS ARE BASED ON A LEVEL-COST PRINCIPLE WHEREBY LIABILITIES FOR BOTH ACTIVE AND RETIRED EMPLOYEES ARE ESTIMATED INTO PERPETUITY AND PREMIUMS ARE ESTABLISHED IN AMOUNTS SUFFICIENT TO COVER THE FUTURE BENEFIT PAYMENTS.

EMPLOYERS FOR 17 GROUP INSURANCE PLANS PROVIDED INFORMATION ON FUNDING PRACTICES. NINE OF THEM ESTABLISHED PREMIUMS

BASICALLY ON A PAY-AS-YOU-GO BASIS WITHOUT FUNDING FOR FUTURE COSTS. EIGHT ESTABLISHED PREMIUMS EXCEEDING ANNUAL COSTS TO PROVIDE FUNDS FOR FUTURE BENEFITS. THE FUNDS WERE TO COVER BENEFITS FOR EMPLOYEES THAT WERE DISABLED, RETIRED, OR BOTH. THE LEVEL-COST CONCEPT USED BY THE GOVERNMENT IN ESTABLISHING FEGLI PREMIUMS WAS NOT USED BY ANY OF THE 17 PLANS.

IN COMPUTING LEVEL COSTS AND PREMIUM AMOUNTS, THE CIVIL SERVICE COMMISSION DOES NOT CONSIDER THE FACT THAT FEDERAL EMPLOYEES' SALARIES--AND THUS, FUTURE BENEFIT PAYMENTS--WILL CONTINUE TO INCREASE. THIS OMISSION HAS CONTRIBUTED TO AN UNFUNDED LIABILITY OF ABOUT \$3.7 BILLION IN FEGLI. INTEREST ON THE UNFUNDED LIABILITY REPRESENT 36 PERCENT OF THE CURRENT PREMIUM. LOWER PREMIUMS WOULD RESULT IF PAY INCREASE ASSUMPTIONS WERE MADE IN THE PREMIUM DETERMINATION. FOR EXAMPLE, AN ASSUMPTION THAT PAY RATES WOULD INCREASE 4 PERCENT ANNUALLY WOULD REDUCE THE CURRENT ANNUAL PREMIUM BY \$1.21 FOR EACH \$1,000 OF COVERAGE.

INTEREST ON FEGLI'S UNFUNDED LIABILITY IS TREATED QUITE DIFFERENTLY FROM INTEREST ON THE UNFUNDED LIABILITY OF THE CIVIL SERVICE RETIREMENT SYSTEM. THE GOVERNMENT IS REQUIRED, BY LAW, TO PAY THE ENTIRE INTEREST COST ON THE RETIREMENT SYSTEM'S UNFUNDED LIABILITY, WHEREAS THE EMPLOYEES PAY TWO-THIRDS OF THE INTEREST COST OF FEGLI AND THE GOVERNMENT PAYS ONE-THIRD.

ALTHOUGH THE GOVERNMENT IS SUPPOSED TO PAY ONE-THIRD OF THE FEGLI PREMIUM, THE EMPLOYEES' SHARE OF PREMIUMS PLUS INTEREST ON THE RESERVE BALANCE HAVE, SINCE THE INCEPTION OF THE PROGRAM, PAID ALL INSURANCE CLAIMS. THUS THE GOVERNMENT HAS MADE LITTLE OR NO CASH OUTLAYS TO THE PROGRAM, AND ITS SHARE OF THE PREMIUM PAYMENTS HAS BEEN ADDED TO THE FEGLI RESERVE FUND IN THE FORM OF FEDERAL DEBT SECURITIES THROUGH BOOKKEEPING ENTRIES. PROJECTIONS OF ESTIMATED INCOME AND EXPENSES INDICATE THAT THIS SITUATION WILL CONTINUE.

WE BELIEVE THAT THE CONGRESS SHOULD REEVALUATE THE FEGLI FUNDING REQUIREMENTS. IT SHOULD CONSIDER PREFUNDING ONLY THOSE LIABILITIES ARISING FROM BENEFITS PAYABLE TO RETIRED EMPLOYEES. SUCH A CHANGE WOULD BE MORE CONSISTENT WITH WHAT IS BEING DONE IN THE NON-FEDERAL SECTOR AND COULD MATERIALLY REDUCE PREMIUMS.

IF THE PRESENT FUNDING METHOD IS RETAINED, THE CONGRESS SHOULD CONSIDER REVISING THE FEGLI LEGISLATION TO PROVIDE THAT THE GOVERNMENT PAY THE INTEREST ON THE PROGRAM'S UNFUNDED LIABILITY. THE UNFUNDED LIABILITY EXISTS BECAUSE OF PAST FUNDING INSUFFICIENCIES AND IS UNRELATED TO THE COST OF PROVIDING FEGLI TO NEW EMPLOYEES. MOREOVER, THE CIVIL SERVICE COMMISSION SHOULD REVISE ITS POLICY AND RECOGNIZE ANTICIPATED PAY INCREASES IN DETERMINING FEGLI PREMIUMS.

IN MOST CASES, FEGLI BENEFITS ARE NOT AS GENEROUS AS THOSE PROVIDED BY THE 21 OTHER EMPLOYERS. TO ILLUSTRATE,

- FEGLI PROVIDES BASIC COVERAGE EQUAL TO ANNUAL SALARY ROUNDED TO THE NEXT HIGHER \$1,000, PLUS \$2,000. MOST OF THE NON-FEDERAL EMPLOYERS PROVIDED ONE TO TWO TIMES ANNUAL SALARY, AND SOME PROVIDED ADDITIONAL AMOUNTS TO MARRIED EMPLOYEES AND TO THOSE WITH CHILDREN.
- FEGLI IS CONTINUED WITHOUT REDUCTION AFTER RETIREMENT UNTIL AGE 65. BEGINNING AT 65, THE AMOUNT OF INSURANCE IS REDUCED BY 2 PERCENT MONTHLY UNTIL 25 PERCENT OF THE ORIGINAL COVERAGE IS REACHED. THE OTHER EMPLOYERS GENERALLY REDUCE RETIREES' COVERAGE BY 50 PERCENT OR LESS. SOME PLANS MAKE THE FULL REDUCTION IMMEDIATELY UPON RETIREMENT WHILE OTHERS REDUCE BY MONTHLY INCREMENTS UNTIL THE ESTABLISHED LEVEL IS REACHED. STILL OTHERS DEFER THE REDUCTION UNTIL AGE 65 FOR THOSE WHO RETIRE BEFORE THEN.
- THE COST-SHARING RATIO FOR FEGLI IS TWO-THIRDS FOR THE EMPLOYEE AND ONE-THIRD FOR THE GOVERNMENT. CONTRIBUTIONS CEASE UPON RETIREMENT. PARTICIPANTS UNDER 15 OF THE NON-FEDERAL PLANS RECEIVED FREE COVERAGE. THE OTHER PLANS REQUIRED EMPLOYEE CONTRIBUTIONS BUT, IN EACH CASE, THEY WERE LESS THAN THOSE REQUIRED UNDER FEGLI.

--FEGLI PROVIDES OPTIONAL INSURANCE COVERAGE OF \$10,000 WHICH, LIKE THE BASIC PROGRAM, CONTINUES UPON RETIREMENT WITH REDUCTIONS DOWN TO 25 PERCENT OF THE ORIGINAL \$10,000 AFTER AGE 65. ONLY 15 OF THE NON-FEDERAL EMPLOYERS PROVIDED OPTIONAL INSURANCE, BUT 10 OF THESE PROVIDED A MAXIMUM OF ONE TO TWO TIMES SALARY. MOST NON-FEDERAL PLANS TERMINATE THE OPTIONAL COVERAGE UPON RETIREMENT.

WE COMPARED FEGLI AND NON-FEDERAL INSURANCE PAYMENTS FOR PERSONS AT FIVE DIFFERENT AGES AND SALARY AND/OR ANNUITY LEVELS. ONLY FOR RETIREES UNDER AGE 65 WERE FEGLI BENEFITS GREATER THAN THE MEDIAN NON-FEDERAL PLAN.

THERE ARE SEVERAL WAYS IN WHICH FEGLI COULD BE RESTRUCTURED TO PROVIDE MORE ATTRACTIVE AND EQUITABLE COVERAGE. OUR REPORT SUGGESTED EIGHT MODIFICATIONS WHICH, INDIVIDUALLY OR IN COMBINATION, SHOULD RESULT IN AN IMPROVED PROGRAM WITH LITTLE OR NO INCREASE IN COSTS. SOME WOULD REDUCE PREMIUMS. THE CHOICES PRESENTED ARE NOT NECESSARILY THE ONLY WAYS IN WHICH FEGLI COULD BE CHANGED; RATHER, THEY ARE THOSE WE BELIEVE WARRANT CONSIDERATION BECAUSE OF THEIR IMPACT ON EQUITY, COMPARABILITY, AND COST.

OUR SUGGESTIONS FALL INTO THREE BASIC CATEGORIES.

REDISTRIBUTE PREMIUMS

FEGLI PREMIUMS ARE PARTICULARLY HIGH FOR YOUNGER EMPLOYEES. UNDER THE CURRENT PREMIUM STRUCTURE, EMPLOYEES YOUNGER THAN AGE 44 CAN GENERALLY OBTAIN TERM INSURANCE IN THE MARKETPLACE AT LOWER PREMIUMS THAN THEIR SHARE OF THE FEGLI PREMIUM. REGULATIONS PERMIT EMPLOYEES TO JOIN THE PROGRAM IN LATER YEARS WHEN FEGLI COSTS BECOME COMPETITIVE AND STILL RECEIVE THE SAME BENEFITS IN RETIREMENT AS EMPLOYEES WHO HAVE PAID PREMIUMS FOR THEIR ENTIRE CAREERS. MOREOVER, THERE ARE SIGNIFICANT DIFFERENCES AMONG THE RETIREMENT AGES OF INDIVIDUAL EMPLOYEES UNDER THE CIVIL SERVICE RETIREMENT SYSTEM AND THE OTHER RETIREMENT SYSTEMS WHOSE COVERED EMPLOYEES ALSO PARTICIPATE IN FEGLI. THIS FURTHER COMPOUNDS THE INEQUITABLE SITUATION WHEREBY PERSONS RECEIVE THE SAME POST RETIREMENT BENEFITS EVEN THOUGH THE PERIODS OF TIME THEY PAID FEGLI PREMIUMS VARIED CONSIDERABLY. TO CORRECT THESE INEQUITIES AND TO ENCOURAGE GREATER PARTICIPATION BY YOUNGER EMPLOYEES, WE SUGGESTED THREE ALTERNATIVES.

- USE THE GOVERNMENT CONTRIBUTION AS PAYMENT IN FULL FOR A PORTION OF THE COVERAGE FOR ALL EMPLOYEES.
- REQUIRE ALL RETIREES AND THE GOVERNMENT TO CONTINUE PREMIUM PAYMENTS TO AGE 65.
- CORRELATE THE AMOUNT OF POST-RETIREMENT COVERAGE WITH THE LENGTH OF TIME A RETIREE WAS COVERED BY THE FEGLI PROGRAM AS AN ACTIVE EMPLOYEE.

INCREASE COVERAGE FOR RETIREES

AS PREVIOUSLY DISCUSSED, MOST OTHER EMPLOYERS WE VISITED REDUCE INSURANCE COVERAGE 1 - 50 PERCENT EITHER AT THE TIME OF RETIREMENT OR WHEN RETIREES REACH AGE 65. FEGLI COVERAGE FOR RETIREES IS REDUCED AFTER AGE 65 BY 2 PERCENT A MONTH UNTIL A REDUCTION OF 75 PERCENT IS REACHED.

WE SUGGESTED TWO CHANGES TO INCREASE RETIREE COVERAGE. ONE, WHICH WOULD MERELY CHANGE THE MAXIMUM REDUCTION FROM 75 TO 50 PERCENT, WOULD INCREASE PREMIUMS CONSIDERABLY--FROM THE CURRENT \$13.85 TO \$16.90. THE SECOND ALTERNATIVE, HOWEVER, WHICH WOULD ESTABLISH A 50 PERCENT MAXIMUM REDUCTION BUT BEGIN THE REDUCTIONS AT RETIREMENT RATHER THAN AGE 65, WOULD INCREASE THE PREMIUM BY ONLY \$0.92.

INCREASE COVERAGE FOR EMPLOYEES

FEDERAL EMPLOYEES DO NOT RECIEVE AS MUCH INSURANCE COVERAGE AS THEIR NON-FEDERAL COUNTERPARTS. SOME EMPLOYERS ALSO PROVIDE DEPENDENT COVERAGE AND ADDITIONAL COVERAGE WHILE IN A TRAVEL STATUS WHICH IS NOT AVAILABLE TO FEDERAL EMPLOYEES.

GREATER AMOUNTS OF COVERAGE COULD BE PROVIDED TO FEDERAL EMPLOYEES SIMPLY BY INCREASING THE COVERAGE AVAILABLE UNDER THE OPTIONAL PROGRAM. THE OPTIONAL COVERAGE IS AVAILABLE ONLY TO THOSE WHO PARTICIPATE IN THE REGULAR FEGLI PROGRAM AND IS NOW LIMITED TO \$10,000. OPTIONAL PREMIUMS ARE SET BY AGE GROUPS AND ARE VERY REASONABLE FOR EMPLOYEES UNDER 35 YEARS

OF AGE--\$20.80 ANNUALLY. IF THE LIMIT ON OPTIONAL COVERAGE WERE RAISED, YOUNGER EMPLOYEES WHO NEED MORE INSURANCE COULD OBTAIN IT AT REASONABLE RATES. IT WOULD ALSO CAUSE A CONSIDERABLE REDUCTION IN THE AVERAGE PREMIUM FOR AN EMPLOYEE'S TOTAL INSURANCE PACKAGE WHICH COULD ENCOURAGE MORE YOUNGER EMPLOYEES TO PARTICIPATE IN FEGLI.

FEGLI COULD ALSO PROVIDE FOR GROUP LIFE INSURANCE FOR SPOUSES AND CHILDREN. THE ANNUAL PREMIUM FOR \$1,000 IN COVERAGE FOR A SPOUSE AND \$500 FOR EACH CHILD WOULD BE MINIMAL--\$2.34 A YEAR FOR EMPLOYEES UNDER AGE 35 TO \$22.36 FOR PERSONS AGE 60 AND OVER.

INSURANCE COVERAGE COULD BE PROVIDED FOR ACCIDENTAL DEATH AND DISMEMBERMENT INCURRED WHILE AN EMPLOYEE IS TRAVELING ON OFFICIAL GOVERNMENT BUSINESS. THE COST WOULD BE LESS THAN \$0.40 A YEAR FOR EACH \$1,000 OF COVERAGE.

IN SUMMARY, MADAM CHAIR, FEGLI MUST BE MADE MORE ATTRACTIVE TO YOUNGER EMPLOYEES AND MORE EQUITABLE FOR ALL PERSONNEL. EMPLOYEE CONTRIBUTIONS SHOULD BE REDUCED. SOME OF THE STRUCTURAL CHANGES WE HAVE SUGGESTED WOULD HELP ACHIEVE THIS, AND CHANGES TO THE FUNDING CONCEPT AND DIFFERENT ALLOCATION OF COSTS BETWEEN EMPLOYEES AND THE GOVERNMENT COULD FURTHER REDUCE EMPLOYEE PREMIUMS. LIMITED SAVINGS WOULD ALSO RESULT IF THE LAW RECOGNIZED THAT FEGLI IS, IN EFFECT, A SELF-INSURED PROGRAM.

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THIS CONCLUDES MY STATEMENT, MADAM CHAIR. MY COLLEAGUES
AND I WILL BE PLEASED TO ANSWER QUESTIONS.