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Federal Employees Group Life Insurance Program

Statement of
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Subcommittee on Employment and Housing
Committee on Government Operations
House of Representatives

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the federal employees group life insurance (FEGLI) program. As you requested, we will address the need for the government to continue paying premiums to insurance companies to act as reinsurers of the program. In addition, we will discuss some other areas of the FEGLI program which we believe need attention.

The FEGLI program was established in 1954 and provides basic and optional life insurance coverage for federal employees and retirees. It is administered by the Office of Personnel Management (OPM). Except for the Postal Service, which pays the full cost of FEGLI basic insurance for its employees, federal agencies pay one-third of the basic insurance cost, and their employees pay the other two-thirds. The cost of optional insurance is borne fully by the employees electing such coverage.

The program has been very popular among federal employees with over 2.3 million or 90 percent of those eligible, participating. Also, the families of about 1 million employees are now covered by optional insurance. The FEGLI insurance fund has grown to $8.4 billion and is increasing by more than $700 million annually. Revenues in 1987 were about $1.7 billion while payments of claims totalled $1 billion.

During the past decade, we have issued three reports on various aspects of the FEGLI program. Those reports are listed in an attachment to our testimony.

The FEGLI Act of 1954 (P.L. 83-598) required the use of reinsurers. Today, about 200 insurance companies participate as reinsurers along with the prime insurer in sharing the insurance risk under the program for which the government annually pays them a total of $850,000 in risk charges. The prime insurer is separately paid to process claims against the program. The major function of reinsurers is to share the risk of catastrophic loss with the prime insurance carrier so that no company is unduly burdened by such a loss. However, the relationship between the government and the insurance companies in the FEGLI program differs considerably from the relationships between other employers and insurance companies under their group life plans. Under FEGLI, the government assumes all risks, establishes and collects premiums, establishes reserves, and manages most of the funds. In non-federal plans, these functions are primarily the responsibility of the prime insurance carriers.

The government, in effect, is a self-insurer of FEGLI but does not reap all the advantages that could accrue from such a relationship. Since the government is contractually obligated to reimburse the prime insurer for all FEGLI claims paid in good faith, no insurance risk is being assumed by anyone except the government. But, because of the legal requirement, OPM's policy with the prime insurer continues to provide for the payment of risk charges. We believe these payments are unwarranted and the legal requirement for them should be repealed.

There are three other areas of the FEGLI program where we believe changes are needed to make the program more equitable. These areas are: (1) correction of an oversight to require the government to pay its share of basic insurance cost for employees retiring after December 1989, (2) elimination of the charge for FEGLI's unfunded liability in setting employee premiums, and (3) reconsideration of the appropriateness of FEGLI's economic assumptions.

GOVERNMENT'S SHARE OF RETIREES INSURANCE COST

The FEGLI Act of 1980 (P.L. 96-427) added a requirement that all employees retiring after December 1989 must continue to pay their two-thirds share of the premiums for basic insurance coverage until they reach age 65. Employees retiring before that date are not required to pay premiums on basic coverage after retirement. The 1980 Act contained no companion provision for the government to pay its one-third share. We believe this to be an oversight in drafting the 1980 Act which should be corrected.

FEGLI's UNFUNDED LIABILITY

The unfunded liability for the basic FEGLI program has been decreasing over the years, due in part to interest earnings, and now stands at about $1.3 billion. This liability was created by the government when it granted full benefits to employees who retired shortly after the program's inception and charged premiums in the early years which did not cover accruing benefit costs. Since 1982, the government has been charging higher premiums (about 4 percent higher) to amortize the remaining liability over 100 years. As we concluded in our 1986 report on FEGLI, the government should assume the responsibility for the liability that it created and reduce employees' premiums accordingly.

ECONOMIC ASSUMPTIONS

In determining FEGLI premiums, OPM makes assumptions about the future behavior of certain economic factors that influence the cost of insurance benefits. OPM uses a salary growth assumption to reflect periodic increases in pay for federal employees and an interest assumption to reflect the average long-term return on FEGLI investments. Salary growth increases the cost of benefits, while interest income reduces those costs.

In our April 1986 report, we recommended that OPM recalculate program costs using economic assumptions consistent with those used in the civil service retirement system because both programs cover the same universe of federal employees and invest in government securities. Later that year, OPM adopted our recommendation. However, in 1987, OPM lowered the salary growth assumption by 0.5 percent when it recalculated the cost of civil service retirement benefits because pay increases had been less than previously assumed but it has not changed FEGLI's assumptions. We believe that OPM should continue to use consistent economic assumptions in determining the cost of these programs and, thus, should recalculate costs for both programs whenever the economic assumptions change.

That concludes my prepared statement, Mr. Chairman. I would be pleased to answer any questions you may have.

GAO Reports on the Federal Employees Group Life Insurance Program

Changes to the Federal Employees Group Life Insurance Program Are Needed, FPCD-77-19, May 6, 1977

Federal Life Insurance Changes Would Improve Benefits and Decrease Costs, FPCD-81-47, August 21, 1981

Assessment of Federal Employees Group Life Insurance Program, GGD-86-28, April 7, 1986