

**FEDERAL EMPLOYEES GROUP LIFE INSURANCE
PROGRAM: COULD WE DO BETTER?**

HEARING
BEFORE THE
SUBCOMMITTEE ON THE CIVIL SERVICE
OF THE
COMMITTEE ON
GOVERNMENT REFORM
AND OVERSIGHT
HOUSE OF REPRESENTATIVES
ONE HUNDRED FIFTH CONGRESS
FIRST SESSION

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FEDERAL EMPLOYEES GROUP LIFE INSURANCE PROGRAM: COULD WE DO BETTER?

WEDNESDAY, APRIL 30, 1997

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON THE CIVIL SERVICE,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 2247, Rayburn House Office Building, Hon. John L. Mica (chairman of the subcommittee) presiding.

Present: Representatives Mica, Pappas, Morella, Sessions, Cummings, Norton, and Ford.

Staff present: George Nesterzuk, staff director; Charli E. Coon, professional staff member; Caroline Fiel, clerk; and Cedric Hendricks, minority professional staff member.

Mr. MICA. Good morning. I would like to call to order this meeting of the House Civil Service Subcommittee. This morning we are going to be talking about Federal employees group life insurance. This is an investigations and oversight subcommittee of Government Reform and Oversight and we have a responsibility to look at various programs that affect our Federal employees.

Today, I will start with an opening statement and then yield to the other side and then we will hear our witnesses. We have two panels with us today.

I am going to reverse the order of the panels, just for notification.

Today, we will examine the Federal Employees Group Life Insurance Program, more commonly referred to as FEGLI. The purpose of this hearing is to ensure that Federal employees are receiving adequate coverage at reasonable cost. We will also explore whether new options and alternative offerings now available in the life insurance marketplace and in the private sector may, in fact, be suitable for the benefit of our Federal employees.

FEGLI provides basic and optional life insurance for 2.5 million Federal employees and 1.5 million Federal retirees. Employees pay two-thirds of the basic insurance costs, and the agencies pay one-third. The cost of optional insurance coverage is borne entirely by the employees who elect such additional coverage. Approximately 90 percent of eligible Federal employees elect to participate in this program, so it is subscribed to pretty widely.

The coverage consists of a term policy with a benefit which extends into retirement. After age 65, a reduced benefit is continued at no cost to the annuitants. The FEGLI program is administered by the Office of Personnel Management, which we will hear from

in just a few minutes, and OPM sets and collects premiums, establishes the reserves and manages most of the funds.

Metropolitan Life Insurance Co. serves as the primary insurer of FEGLI and has done so since the inception of the program in 1954. Metropolitan Life processes all life insurance claims filed and is reimbursed by the Federal Government for all claims paid. Under this arrangement, the Federal Government assumes all of the risks and essentially acts as a self-insurer. This is a pertinent fact in considering any additional offerings or alternatives to the existing program.

To help us in a program review, we will hear from witnesses representing OPM and MetLife, and we have also invited experts in the field of employee benefits to inform us about additional insurance options provided by large private sector employers.

Again, this is one of our important oversight responsibilities in this subcommittee. Our intent is to review what has taken place and to provide some insights into what options are available to our employees so that we can give them the very best options that exist for life insurance or for other benefits. That's the intent of the hearing today.

With those opening comments, I would like to yield now to our distinguished ranking member, Mr. Cummings, from Maryland.

Mr. CUMMINGS. Thank you very much, Mr. Chairman. I very much appreciate your convening this oversight hearing on the Federal Employees Health Benefits Program. It has been 2 years since such a hearing was held. So it is certainly an appropriate time for this subcommittee to review its operations again.

The hearing record from 1994 indicates that there were no significant problems with FEGLI at that time. I am not aware of any complaints about the program and no one has, as yet, approached me with any recommendations for any reform.

Mr. Chairman, I understand that one of your objectives today is to explore whether the creation of new benefit options would be appropriate. I note that OPM's testimony will indicate that it does not believe any are needed. I expect that the benefit experts on the first panel will have a different view.

I look forward to the testimony of all of today's witnesses and the information you will provide about this very important employee benefit program. Thank you, Mr. Chairman.

Mr. MICA. Thank you, Mr. Cummings.

We actually did not hold a full hearing on the FEGLI. It came up incidental to discussions on the Federal Employee Health Benefits Programs. So this is the first one that I know of, at least since I have been Chair, and for some time on the program.

I would like to yield to the gentlelady from the District, Ms. Norton.

Ms. NORTON. Thank you, Mr. Chairman. I want to thank Chairman John Mica for calling this hearing today on the Federal Employees Group Life Insurance Program. I have a particular interest in this program because I conducted the last oversight hearing on FEGLI in 1994, when I was Chair of the Subcommittee on Compensation and Employee Benefits of the Committee on Post Office and Civil Service.

Frankly, it is one of the most popular Federal Employee Benefit Programs in which all Federal employees are eligible to participate. Currently, almost 2.5 million active Federal employees, as well as approximately 1.6 million retired Federal employees, are covered under the program.

FEGLI is popular in part because it offers life insurance at very reasonable prices and without medical precertification. The tragic airplane crash involving the late Secretary of Commerce, Ron Brown, and 15 other Federal employees, offers testament to the importance of FEGLI.

Many of the Federal employees were young. FEGLI was all some of them had for burial and other expenses, without which the grief and trauma to their relatives would have been even greater. Tragically, some did not even have FEGLI because they had opted out.

Employees automatically get FEGLI unless they opt out. The tragic accident in Croatia points up the importance of this automatic coverage. The average Federal employee earns \$35,000 a year. FEGLI means that an amount about equal to this salary amount will be covered, an amount that will likely prove indispensable considering average employee salary levels.

Although FEGLI is physically sound, I welcome this opportunity to examine the program to ensure that Federal employees are receiving adequate coverage at a reasonable price. I also welcome the opportunity to explore whether or not the range of optional benefits available under FEGLI should be expanded. I look forward to the testimony of today's witnesses. Thank you, Mr. Chairman.

Mr. MICA. I thank the gentlelady. And there being no further Members present or opening statements, I would like to call the second panel up first today: Mr. William E. Flynn, Associate Director for Retirement and Insurance of the Office of Personnel Management. He is no stranger to this panel.

Mr. Flynn, as is customary, we do swear in our witnesses—are you the only one testifying?

Mr. FLYNN. Yes, I am, Mr. Chairman.

Mr. MICA. We will swear you in.

[Witness sworn.]

Mr. MICA. The witness answered in the affirmative.

Mr. Flynn, also as is customary, if you would like to summarize, you may. We don't have a timer today so you can take your time.

The main thing we would like to hear is a report on the status of this program, your evaluation of its effectiveness, and its affordability for our Federal employees. Also, you have heard my comments about looking at some possible options, so we would welcome your commentary on that and other questions that we pose to you. Welcome back and you are recognized.

**STATEMENT OF WILLIAM E. FLYNN III, ASSOCIATE DIRECTOR
FOR RETIREMENT AND INSURANCE, OFFICE OF PERSONNEL
MANAGEMENT**

Mr. FLYNN. Thank you very much, Mr. Chairman and members of the subcommittee. I am pleased to be back today to discuss with you the Federal Employees' Group Life Insurance Program. Several of you have mentioned a number of the features of the program so

I might very well shorten even further my remarks from the prepared statement that I know will be submitted for the record.

This particular program has provided low cost life insurance to Federal employees and retirees since 1954. In the beginning, the program reflected essentially a one-size-fits-all approach which accorded each eligible employee who did not waive participation automatic life insurance and accidental death and dismemberment protection essentially equal to 1 year's salary. Today, the program offers an array of options to address individual circumstances. Enrollees have a choice of basic life insurance, six levels of additional life insurance, family insurance, three options for post-retirement basic coverage, and accelerated payment options for the terminally ill.

Since the basic features of the program were addressed earlier, Mr. Chairman, I might just initially go on and talk about some things that we have done in the program more recently and address some of the matters you have raised regarding continued evolution of the program.

Ms. Norton pointed out that this program provides important protection, particularly for new employees, and the tragic situation that occurs when new employees, for whatever reason, choose to waive that coverage. Employees can enroll in the program after they are initially hired by furnishing evidence of insurability or by making application during an open enrollment period.

Only six such open enrollment periods have occurred in the history of the program, and two of those have been held since 1993, which I might touch upon briefly. In 1993, OPM reduced the cost of basic and optional insurance. Premiums for basic life insurance decreased almost 11 percent and many enrollees over the age of 40 benefited from premium reductions for optional insurance.

We reduced premiums because of low mortality and more favorable interest rates earned by the life insurance trust fund. During this particular open enrollment period, the percentage of employees electing basic coverage increased about 1.5 percent from 88.4 to 89.9 percent, and more employees elected optional insurance. For example, enrollment in option B, which provides additional insurance in multiples of the employee's salary, rose from about 36 percent to about 46.5 percent.

Now, the most recent open enrollment period was limited to basic insurance and occurred in 1995. It coincided with the Living Benefits Act of 1994. That particular law allows payment of basic life insurance proceeds to an insured individual who is terminally ill and who has a life expectancy no longer than 9 months.

Since the inception of that program, 1,703 living benefit claims have been received; 1,301 have been approved; 904 of them were approved for annuitants and 397 for employees.

Another option which has become recently available is the insured's right to irrevocably assign all insurance ownership to someone else. This option can be useful as a financial planning tool and it may also be used by terminally ill employees or retirees to transfer ownership of both basic and optional insurance in exchange for cash, representing a percentage of the anticipated insurance proceeds.

In your invitation, Mr. Chairman, you asked several questions about the program and I might turn our attention to those just for a moment. When the program was established, OPM's predecessor agency, the Civil Service Commission, was given full discretion to purchase a life insurance policy from one or more insurers who met certain requirements. The law further required any primary insurer to reinsure portions of the total insurance with other companies in the group insurance market.

After consultation with all eligible primary carriers, and with their concurrence, the Civil Service Commission contracted with Metropolitan Life Insurance Co. Metropolitan has been the program's prime insurer since then. The company processes all claims filed under the program, arranges participation of reinsurers, and provides conversion information when group eligibility terminates. Metropolitan's service to program beneficiaries, as well as to the Government, has been excellent.

You also asked, Mr. Chairman, that we address the topic of risk. When the program first began in 1954, it immediately covered the lives of almost 2 million employees and had no reserves whatsoever. Because of that, a definite risk existed for Metropolitan Life and its reinsurers. By law, Metropolitan and the reinsurers were compensated for this underwriting service by payment of a risk charge. That charge has been renegotiated over the years, as the program accumulated reserves to cover claims, and in 1990 OPM and Metropolitan agreed to waive the risk charge indefinitely.

This is similar to the way in which other large group insurance plans operate. Insurers set premiums for a group at a level to maintain a break-even point after claims and expenses, using assumptions relating to mortality, investment income, and the like. If assumptions for the group go awry and the insurer is unable to make necessary adjustments in premium, the insurer is nonetheless responsible for paying benefits.

Today, the FEGLI fund has accumulated a balance that will likely cover most claims. Nonetheless, major adverse changes in mortality due to an epidemic or other calamity could occur so there always will be an irreducible minimum of risk in the program.

And finally, Mr. Chairman, your letter of invitation asked if we considered providing alternative insurance options for employees. You mentioned a near 90 percent participation rate, and I would point out the current evolution of the program makes 10 options or benefit levels currently available. In light of this, we don't see any particular need for a basic restructuring of the program.

We believe that the life insurance program has proven to be and is responsive to the changing needs of the Federal workforce. Nonetheless we look forward to working with you and other members of the subcommittee to ensure that this continues.

And finally, Mr. Chairman, I have attached to my brief overview a chart which gives a snapshot of the current financial status of the program. You will note that there is just under \$500 billion of insurance-in-force covering, as you mentioned earlier, about 4 million insured individuals and that the fund balance at the end of 1996 was a little over \$17 billion.

That concludes my statement, Mr. Chairman. I would be happy to answer any questions you or other members of the subcommittee may have.

[The prepared statement of Mr. Flynn follows:]

STATEMENT OF
WILLIAM E. FLYNN, III
ASSOCIATE DIRECTOR FOR RETIREMENT AND INSURANCE
U.S. OFFICE OF PERSONNEL MANAGEMENT

at an oversight hearing before the

SUBCOMMITTEE ON CIVIL SERVICE
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT
U.S. HOUSE OF REPRESENTATIVES

on

THE FEDERAL EMPLOYEES' GROUP LIFE INSURANCE PROGRAM

APRIL 30, 1997

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

GOOD MORNING. I AM PLEASED TO BE HERE TODAY TO DISCUSS THE
FEDERAL EMPLOYEES' GROUP LIFE INSURANCE (FEGLI) PROGRAM WHICH HAS
PROVIDED LOW-COST LIFE INSURANCE TO FEDERAL EMPLOYEES AND
RETIREES SINCE AUGUST 29, 1954.

THE EARLY PROGRAM REFLECTED A ONE-SIZE-FITS-ALL APPROACH WHICH
ACCORDED EACH ELIGIBLE EMPLOYEE WHO DID NOT WAIVE PARTICIPATION
AUTOMATIC LIFE INSURANCE AND ACCIDENTAL DEATH AND DISMEMBERMENT
PROTECTION (AD&D) ESSENTIALLY EQUAL TO 1 YEAR'S SALARY. TODAY, THE
FEGLI PROGRAM OFFERS A CONSIDERABLE ARRAY OF OPTIONS TO ADDRESS
EACH ENROLLEE'S INDIVIDUAL CIRCUMSTANCES. ENROLLEES HAVE A CHOICE
OF: BASIC LIFE INSURANCE, SIX LEVELS OF ADDITIONAL LIFE INSURANCE,
FAMILY INSURANCE, AND THREE OPTIONS WITH RESPECT TO

POSTRETIREMENT BASIC INSURANCE, PLUS ACCELERATED PAYMENT OPTIONS FOR THE TERMINALLY ILL.

THE FACT THAT CLOSE TO 90 PERCENT OF THE ELIGIBLE FEDERAL WORK FORCE HAS CONSISTENTLY PARTICIPATED IN THE FEGLI PROGRAM TESTIFIES TO THE PROGRAM'S POPULARITY. EMPLOYEES APPRECIATE THE HIGH DEGREE OF PROTECTION AVAILABLE TO THEM AT LOW GROUP RATES AND THE CONVENIENCE OF MAKING PREMIUM PAYMENTS THROUGH PAYROLL DEDUCTION, AS WELL AS THE AVAILABILITY OF POSTRETIREMENT COVERAGE.

TODAY, AS IN THE BEGINNING, NEWLY-HIRED EMPLOYEES WHO ARE NOT EXCLUDED BY FEGLI LAW OR REGULATIONS AND DO NOT COMPLETE A WRITTEN WAIVER AUTOMATICALLY ACQUIRE BASIC LIFE INSURANCE AND AD&D COVERAGE, REGARDLESS OF HEALTH STATUS. THIS PROVIDES A CRITICAL BENEFIT TO THOSE EMPLOYEES WHO BECAUSE OF CHRONIC MEDICAL CONDITIONS WOULD OTHERWISE BE UNINSURABLE. BASIC COVERAGE IS PROVIDED CONSISTENT WITH A "BASIC INSURANCE AMOUNT" WHICH IN MOST CASES EQUALS THE EMPLOYEE'S ANNUAL BASIC PAY RATE ROUNDED TO THE NEXT HIGHER \$1,000, PLUS \$2,000. EMPLOYEES UNDER AGE 45 ARE INSURED FOR A HIGHER AMOUNT OF BASIC LIFE INSURANCE, RANGING FROM TWICE THE BASIC INSURANCE AMOUNT FOR THOSE AGE 35 OR YOUNGER TO 1.1 TIMES THE BASIC INSURANCE AMOUNT AT AGE 44, AT

NO EXTRA COST. THE FEDERAL GOVERNMENT CONTRIBUTES ONE-THIRD OF THE LEVEL COST PER \$1,000 OF THE BASIC INSURANCE AMOUNT (\$0.0825, BIWEEKLY) AND THE INSURED EMPLOYEE PAYS TWO-THIRDS (\$0.165, BIWEEKLY).

EMPLOYEES WHO ACCEPT BASIC INSURANCE AT FIRST OPPORTUNITY MAY CHOOSE AMONG THREE OPTIONAL PLANS WITHOUT MEDICAL EVIDENCE OF INSURABILITY. THESE INCLUDE: OPTION A (STANDARD) WHICH PROVIDES \$10,000 OF LIFE INSURANCE AND AD&D COVERAGE; OPTION B (ADDITIONAL) WHICH PROVIDES ADDITIONAL LIFE INSURANCE IN MULTIPLES OF 1 TO 5 TIMES ANNUAL BASE PAY; AND OPTION C (LIFE INSURANCE ON FAMILY MEMBERS) WHICH PAYS THE INSURED INDIVIDUAL \$5,000 ON DEATH OF A SPOUSE AND \$2,500 ON DEATH OF A DEPENDENT CHILD. EMPLOYEES ELECTING OPTIONAL INSURANCE BEAR THE ENTIRE COST AND PAY AGE-ADJUSTED PREMIUMS.

RETIRING EMPLOYEES MAY ELECT TO CONTINUE LIFE INSURANCE COVERAGES WHICH ARE IN FORCE FOR AT LEAST 5 YEARS IMMEDIATELY PRECEDING RETIREMENT IF THEY AGREE TO PAY THE USUAL EMPLOYEE CONTRIBUTIONS TO AGE 65. PREMIUM CONTRIBUTIONS CEASE AT AGE 65 OR RETIREMENT WHICHEVER IS LATER, AND INSURANCE BEGINS REDUCING BY 2 PERCENT OF THE FACE VALUE PER MONTH UNTIL BASIC AND STANDARD OPTIONAL

COVERAGE REACH 25 PERCENT OF THE FACE VALUE AT TIME OF RETIREMENT AND ADDITIONAL OPTIONAL AND FAMILY OPTIONAL COVERAGE TERMINATE ENTIRELY. ALTERNATELY, RETIRING EMPLOYEES WHO ELECT TO CONTINUE BASIC INSURANCE MAY ELECT AT TIME OF RETIREMENT TO PAY ADDITIONAL LIFETIME CONTRIBUTIONS TO BE ELIGIBLE FOR A 50 PERCENT REDUCTION, OR NO REDUCTION, IN POSTRETIREMENT BASIC LIFE INSURANCE.

EMPLOYEES WHO DECLINE INSURANCE AT TIME OF HIRING MUST GENERALLY WAIT 1 YEAR AND FURNISH EVIDENCE OF INSURABILITY BEFORE THEY CAN LATER ENROLL OR INCREASE INSURANCE, UNLESS OPM AUTHORIZES A RARE FEGLI OPEN ENROLLMENT PERIOD. ONLY SIX SUCH OPPORTUNITIES HAVE OCCURRED IN THE HISTORY OF FEGLI IN RESPONSE TO SIGNIFICANT PROGRAM DEVELOPMENTS, AND TWO HAVE BEEN HELD SINCE 1993.

IN JANUARY 1993, OPM WAS ABLE TO REDUCE THE COST OF PREMIUMS FOR BASIC AND OPTIONAL INSURANCE. THE EMPLOYEE SHARE OF PREMIUMS FOR BASIC LIFE INSURANCE DECREASED ALMOST 11 PERCENT TO THE CURRENT RATE OF 16 AND A HALF CENTS BIWEEKLY FOR EACH \$1,000 OF THE BASIC INSURANCE AMOUNT -- TWO CENTS LOWER THAN THE PREVIOUS RATE. MANY ENROLLEES OVER AGE 40 ALSO BENEFITED FROM SUBSTANTIAL PREMIUM REDUCTIONS FOR VARIOUS AGE BRACKETS UNDER THE THREE OPTIONAL INSURANCE PLANS. WE WERE ABLE TO REDUCE PREMIUMS

BECAUSE OF A COMBINATION OF LOWERED MORTALITY TRENDS AND THE ACCUMULATION OF RESERVES DUE TO FAVORABLE INTEREST RATES EARNED BY THE LIFE INSURANCE TRUST FUND.

SO THAT ALL EMPLOYEES COULD TAKE ADVANTAGE OF THE REDUCED PREMIUMS, AND BECAUSE THERE HAD BEEN NO OPEN SEASON FOR 7 YEARS, WE HELD AN OPEN ENROLLMENT PERIOD DURING THE MONTH OF APRIL 1993. DURING THIS PERIOD, EMPLOYEES WHO HAD DECLINED FEGLI COVERAGE IN THE PAST COULD ELECT TO ENROLL IN THE PROGRAM, AND EMPLOYEES ALREADY IN THE PROGRAM COULD INCREASE THEIR COVERAGE, WITHOUT PROVIDING MEDICAL EVIDENCE OF INSURABILITY. THE PERCENTAGE OF ELIGIBLE EMPLOYEES ELECTING BASIC FEGLI COVERAGE INCREASED FROM 88.4 PERCENT BEFORE THE OPEN SEASON TO 89.9 PERCENT AFTERWARDS. MORE EMPLOYEES ELECTED OPTIONAL INSURANCE AS WELL. FOR EXAMPLE, ENROLLMENT IN OPTION B, WHICH PROVIDES ADDITIONAL LIFE INSURANCE IN MULTIPLES OF THE EMPLOYEE'S SALARY, ROSE FROM 36.1 PERCENT TO 46.5 PERCENT OF ELIGIBLE EMPLOYEES.

THE MOST RECENT OPEN ENROLLMENT PERIOD WAS LIMITED TO BASIC INSURANCE COVERAGE AND RAN FROM MAY 22 THROUGH JULY 21, 1995. IT COINCIDED WITH THE IMPLEMENTATION OF THE FEGLI LIVING BENEFITS ACT OF 1994. THIS LAW ALLOWS PAYMENT OF BASIC LIFE INSURANCE PROCEEDS

TO AN INSURED INDIVIDUAL WHO IS TERMINALLY ILL AND HAS A LIFE EXPECTANCY NO LONGER THAN 9 MONTHS. EMPLOYEES MAY ELECT LIVING BENEFITS EITHER AS A LUMP SUM PAYMENT OF THE TOTAL AMOUNT OF BASIC INSURANCE OR AS A PARTIAL PAYMENT IN A MULTIPLE OF \$1,000. ELIGIBLE ANNUITANTS MAY ONLY ELECT TO RECEIVE A LUMP SUM PAYMENT OF ALL BASIC INSURANCE. OPM IS REQUIRED TO REDUCE THE BENEFIT PAYMENT TO ENSURE THAT THE ACTUARIAL VALUE OF THE BENEFIT IS NOT INCREASED BECAUSE OF EARLY PAYMENT AND LOST INTEREST ON FEGLI FUNDS; THE REDUCTION IS NOMINAL.

FEGLI LIVING BENEFITS BECAME AVAILABLE ON JULY 25, 1995. AS OF THE BEGINNING OF THIS MONTH, THE OFFICE OF FEDERAL EMPLOYEES' GROUP LIFE INSURANCE HAS RECEIVED A TOTAL OF 1,703 BENEFIT CLAIMS. OF THE 1,301 CLAIMS APPROVED, 904 WERE PAID TO ANNUITANTS AND 397 WERE PAID TO EMPLOYEES. WITH RESPECT TO APPROVED EMPLOYEE CLAIMS, ONLY 21 WERE PARTIAL LIVING BENEFITS CASES.

ANOTHER FEGLI OPTION WHICH CAN BE USED BY EMPLOYEES AND RETIREES IS THE INSURED'S RIGHT TO IRREVOCABLY ASSIGN ALL INCIDENTS OF FEGLI OWNERSHIP TO SOMEONE ELSE. PRIOR TO AMENDMENT OF APPLICABLE LAW ON OCTOBER 3, 1994, ONLY INSURED FEDERAL JUDGES COULD IRREVOCABLY ASSIGN OWNERSHIP OF THEIR INSURANCE COVERAGE TO A

PERSON, FIRM, OR TRUST. NOW ALL FEGLI PARTICIPANTS HAVE THIS RIGHT. THIS OPTION IS USEFUL AS A FINANCIAL PLANNING TOOL, AND IT ALSO MAY BE USED BY TERMINALLY-ILL EMPLOYEES OR RETIREES TO TRANSFER OWNERSHIP OF BASIC AND OPTIONAL FEGLI TO A VIATICAL SETTLEMENT FIRM IN EXCHANGE FOR CASH REPRESENTING A PERCENTAGE OF ANTICIPATED INSURANCE PROCEEDS.

THE FEGLI ACT OF 1954 GAVE OPM'S PREDECESSOR AGENCY, THE CIVIL SERVICE COMMISSION, FULL DISCRETION TO PURCHASE A LIFE INSURANCE POLICY OR POLICIES FOR THE BENEFIT OF FEDERAL EMPLOYEES FROM ONE OR MORE INSURERS WHO MET CERTAIN REQUIREMENTS. THE LAW FURTHER REQUIRED ANY PRIMARY INSURER TO REINSURE PORTIONS OF THE TOTAL INSURANCE WITH OTHER COMPANIES IN THE GROUP INSURANCE MARKET WHO ELECTED TO PARTICIPATE. AFTER CONSULTATION WITH ALL ELIGIBLE PRIMARY CARRIERS, AND WITH THEIR CONCURRENCE, THE CIVIL SERVICE COMMISSION OPTED FOR A SINGLE ADMINISTERING COMPANY AND CONTRACTED WITH METROPOLITAN.

METROPOLITAN LIFE INSURANCE COMPANY HAS BEEN THE FEGLI PROGRAM'S PRIME INSURER SINCE 1954. AS SUCH, THE COMPANY PROCESSES ALL CLAIMS FILED UNDER THE PROGRAM, ARRANGES PARTICIPATION OF REINSURERS, AND PROVIDES CONVERSION INFORMATION WHEN GROUP

ELIGIBILITY TERMINATES. METROPOLITAN'S SERVICE TO PROGRAM BENEFICIARIES AS WELL AS TO THE GOVERNMENT HAS BEEN EXCELLENT OVER THE YEARS. THE COMPANY PROCESSES OVER 73,000 CLAIMS ANNUALLY AND OPM SEES ALMOST NO COMPLAINTS. NEVERTHELESS, LIFE INSURANCE PROCUREMENT REGULATIONS OPM ISSUED IN 1993 PROVIDE FOR SELECTING A NEW CARRIER(S) SHOULD THIS EVER BECOME DESIRABLE.

WHEN THE PROGRAM COMMENCED OPERATIONS IN 1954, IT IMMEDIATELY COVERED THE LIVES OF TWO MILLION EMPLOYEES AND HAD ABSOLUTELY NO RESERVES. BECAUSE OF THAT, A DEFINITE RISK EXISTED FOR METROPOLITAN AND ITS REINSURERS. PREMIUMS WERE ESTABLISHED TO COVER CURRENT CLAIMS AND GENERATE RESERVES. METROPOLITAN AND THE REINSURERS WERE AT RISK FOR UNANTICIPATED CLAIMS EXPENSE AND BY LAW WERE COMPENSATED FOR THIS UNDERWRITING SERVICE BY PAYMENT OF A RISK CHARGE. THE CHARGE WAS RENEGOTIATED OVER THE YEARS AS THE PROGRAM ACCUMULATED RESERVES TO COVER MOST CLAIMS. IN 1990, OPM AND METROPOLITAN AGREED TO WAIVE THE RISK CHARGE INDEFINITELY.

THIS IS NO DIFFERENT FROM THE WAY OTHER LARGE GROUP INSURANCE PLANS OPERATE. INSURERS SET PREMIUMS FOR A GROUP AT A LEVEL TO MAINTAIN A BREAK-EVEN POINT AFTER CLAIMS AND EXPENSES USING

CERTAIN ASSUMPTIONS, SUCH AS MORTALITY TRENDS AND INVESTMENT INCOME. IF ASSUMPTIONS FOR THE GROUP GO AWRY AND THE INSURER IS UNABLE TO MAKE NECESSARY ADJUSTMENTS IN PREMIUM, THE INSURER IS RESPONSIBLE FOR UNFUNDED LIABILITIES.

TODAY, THE FEGLI FUND HAS ACCUMULATED A LARGE BALANCE THAT WILL LIKELY COVER MOST CLAIMS. BUT MAJOR, ADVERSE CHANGES IN MORTALITY DUE TO AN EPIDEMIC OR OTHER CALAMITY COULD OCCUR, SO THERE ALWAYS WILL BE AN IRREDUCIBLE MINIMUM OF RISK IN THE PROGRAM. ALSO, OPM NEGOTIATES AN ANNUAL PREMIUM PAYMENT TO METROPOLITAN FROM THE FEGLI TRUST FUND WHICH IN ANY ONE YEAR MAY LEAVE THE INSURER WITH A NEGATIVE CASH FLOW IN THAT YEAR.

YOUR LETTER OF INVITATION ASKED IF WE HAVE CONSIDERED PROVIDING ANY ALTERNATIVE INSURANCE OPTIONS FOR CIVIL SERVICE EMPLOYEES. GIVEN A NEAR 90 PERCENT RATE OF PARTICIPATION AND THE TEN OPTIONS OR BENEFIT LEVELS CURRENTLY AVAILABLE, WE DO NOT SEE A NEED FOR ANY BASIC RESTRUCTURING OF THE PROGRAM.

FINALLY, I HAVE ATTACHED A CHART TO MY STATEMENT WHICH GIVES A SNAPSHOT OF THE PROGRAM'S CURRENT FINANCIAL STATUS.

THIS CONCLUDES MY OVERVIEW OF THE FEGLI PROGRAM. WE BELIEVE IT HAS PROVEN TO BE VERY RESPONSIVE TO CHANGING NEEDS OF THE FEDERAL WORK FORCE AND WE WANT TO WORK WITH THE SUBCOMMITTEE TO ENSURE THIS CONTINUES. I WILL BE GLAD TO RESPOND TO ANY QUESTIONS YOU HAVE AT THIS TIME.

FEGLI Financial Highlights

As of 9/30/96

● Insurance-in-Force	\$481.1 billion
● FY 1996 Income	\$2.7 billion
● FY 1996 Expenses	\$1.6 billion
● Net FY 1996 Income	\$1.1 billion
● Fund Balance	\$17.4 billion
● FY 1996 Return on Investment	7.04%
● Note- The 9/30/96 fund balance is sufficient to cover expenses for 10.9 years at the current level.	

Mr. MICA. Thank you, Mr. Flynn.

I have a couple of questions to lead off. First of all, can you explain the negotiation process that you undertake with MetLife as it relates to service charges, administrative expenses and related costs? What kind of negotiation process goes on?

Mr. FLYNN. Well, we work with Metropolitan Life under an insurance contract that annually renews itself. Our negotiations cover a range of issues relating to performance, customer service, administrative expenses, and the like.

Those negotiations have gone on every year. This year we have just concluded negotiations on administrative expenses where, for the first time in the program's history, we have agreed to a limitation on administrative expenses and a further limitation on the amount of indirect charges charged to the contract.

So there is a negotiation that goes on back and forth that's related to the experience of the program, what we are trying to provide in terms of performance related to our customers, and what we think is reasonable and otherwise allowable under this particular contract.

Mr. MICA. Well, I raise that question and I look back at some of the recent administrative expenses. MetLife's administrative expense in 1994 was \$6.6 million and in 1 year in 1995 it jumped to \$9.2 million, and that's a pretty significant increase.

If I was in the private sector operating a business and I had an increase like that, it would certainly catch my attention.

I found actually going out and looking at insurance availability and premiums that there has been more competition and you can get term insurance at much more competitive rates. What justified that huge increase in that period of time?

Mr. FLYNN. Mr. Chairman, if I might make perhaps three quick points with respect to that. First of all, these are the administrative expenses reported to us by Metropolitan. Our Inspector General has recently completed an audit of Metropolitan Life Insurance Co.'s FEGLI operations. That draft audit report has not yet been released, so these are reported administrative expenses and do not at this time reflect accepted administrative expenses.

The second point that I would make is that, in 1995, as I mentioned earlier we did conduct an open enrollment period for the program and so there is an increase in costs for that year attributable to that.

And I guess the final point that I would make is that the administrative expenses incurred in this program occur in two places: One, by the Metropolitan Life Insurance Co. and a small amount by OPM. Together, those administrative expenses amount to less than six-tenths of 1 percent of the total cost of the program including benefits and are not at all determining in terms of the premiums that are charged under the program.

Mr. MICA. Well, it may be a small percentage of the total amount, but that's a pretty significant increase. I would be interested to see what that audit shows, because it did jump from \$6.6 million to \$9.2 million in 1 year.

Then we get into operating expenses which went from \$8 million to \$10.8 million for the same period. Any justification there or is that also under audit or review?

Mr. FLYNN. Well, the increase in operating expenses from \$8 million to \$10 million is primarily reflected in the increase in Metropolitan's administrative expenses. The only other additional amounts in there deal with administrative costs and taxes for the Shenandoah plan, which covers people who were insured under beneficial plans prior to 1954, and some State tax payments. So the only real difference is about another \$150,000 between those two numbers.

But your point is well taken, Mr. Chairman. We want to make sure that we are getting full value for the administrative expenses. We will also look carefully at the report of the Inspector General as we continue our oversight of this program.

Mr. MICA. Well, I think in the previous hearing that was held on FEGLI that the question came up about MetLife and reinsurers and really how much at risk they were, and it is my understanding that MetLife is reimbursed for claims expenses and in the event that claims exceed revenues, MetLife would be compensated for any losses through an increase in premiums the following year.

Does that still hold true?

Mr. FLYNN. It is true, Mr. Chairman, that we negotiate premiums from the Government to MetLife each year based on the prior year's experience. And as I indicated in my statement, that is not at all dissimilar to the way in which large group plans operate. Again, not—

Mr. MICA. But are—

Mr. FLYNN. Excuse me.

Mr. MICA. I was just going to say, are they then really at risk? They are being reimbursed for their losses. Is there a true situation of risk here?

Mr. FLYNN. I would say, Mr. Chairman, that there is this irreducible minimum that I mentioned in my opening statement. It is also true, and I would acknowledge to you and to anyone who asks, that, absent some aberrant or unusual experience, and with the reserves available in the program and the anticipated premium income over the long-term, actuarial analyses of the program indicate that the premium income will be sufficient to cover the benefit expenses of the program.

Mr. MICA. It sounds like a pretty good deal. You get all of your operating expenses, all of your administrative expenses. You say you have a risk, but you really don't have a risk. I am just wondering what kind of real exposure these folks have and why we don't have more competition.

Mr. FLYNN. Mr. Chairman—

Mr. MICA. Is there any instance in which MetLife has incurred a loss since 1954?

Mr. FLYNN. Not that I am aware of, Mr. Chairman, but we could certainly provide that for the record. The one point that I might make about risk is that, at the inception of the program, as I mentioned, there was considerable risk to Metropolitan and its reinsurers and the compensation in recognition of that risk was in the form of a risk charge that up until the late 1980's was about \$850,000 a year.

When the reserve levels in the program got to such a point where the risk was minimized, we and Metropolitan Life negotiated and

agreed to waive the risk charge indefinitely from that point forward.

Mr. MICA. Was there reimbursement or something that took place where they had charged it and we got some of that back? There is no longer a risk charge and we got everything back that was due?

Mr. FLYNN. There is no longer a risk charge, that is true, Mr. Chairman.

Mr. MICA. A final question here. I want to give the other panelists time to ask questions. Where is the \$17.4 billion in the fund balance invested?

Mr. FLYNN. The overwhelming majority of that is invested in the U.S. Treasury in nonmarketable U.S. securities, Mr. Chairman.

Mr. MICA. What percentage; 90 percent, 95 percent?

Mr. FLYNN. Even higher than that. I would say, with the exception of, oh, probably about \$50 million, the entire balance is invested in the Treasury.

Mr. MICA. Except for \$50 million. And there has never been any thought of putting this in any other funds? Or this is also being used in deficit reduction or—

Mr. FLYNN. I believe that the statute that created the program, Mr. Chairman, directs the manner of investment in this program in Treasury.

Mr. MICA. So is that originally in place?

Mr. FLYNN. I believe that's the case since the program was established.

Mr. MICA. And there has never been any other consideration—

Mr. FLYNN. Not that I am aware of, Mr. Chairman.

Mr. MICA. If we will put a little bit of that into our thrift savings plan and get a 20, 30 percent return, we have \$17 billion. I tell you we would have some cash to deal with, wouldn't we? Maybe not all of it.

You will have to excuse me. I come from the private sector so most of what you all do doesn't make sense to me. I just have to think it out in terms of how I would be handling either my money or my company's money.

With those comments, I yield to our ranking member, Mr. Cummings. Thank you.

Mr. CUMMINGS. I am just curious. If another insurance company wanted to do this, how would they do it? In other words, if another insurance company wanted to be the insurer—

Mr. FLYNN. Uh-huh.

Mr. CUMMINGS [continuing]. How would they do it? And I guess, having run a law firm for 20 years and to be the managing partner and having to look at insurance and whatever, I am just curious as to how that would happen.

Mr. FLYNN. Let me try to answer how it would happen, and then perhaps comment on the implications of it happening, if I might.

First, the law that established the program gave to OPM, or the Civil Service Commission, its predecessor agency, sole discretion to procure this insurance contract setting aside normal competitive procedures.

Nonetheless, since then and in accordance with the terms of the statute that set up the program, we have developed what we call

life insurance acquisition regulations that provide a mechanism for us to put this life insurance contract out for competition if we believe it is in the interest of the program to do so.

Were that to be done, we would solicit proposals from insurance offerors. Those proposals would have to provide a benefit structure that is consistent with the benefit structure that is provided in law. The benefits that are available to Federal employees under this program aren't negotiated. They are, in fact, provided for in statute so an offeror would have to respond to the benefit levels that are set out in the statute and then we would begin a process of negotiation, resulting in an award. So it could easily be done that way.

The question for us, as the employer, is whether or not there would be any particular benefit accruing to the Government as employer or to Federal employees resulting from doing so. Because the benefits are set out in law, and because OPM sets rates for the program based on the experience of the program, it doesn't appear likely that there would be any particular benefit in the employer/employee relationship from moving to a recompetition of the contract.

But that opportunity is available and if the program should be changed substantially, where that might be something that would seem appropriate for us to do, it certainly would be something we would want to give serious consideration to.

Mr. CUMMINGS. So basically what we have here is a situation, based upon what you just said, that probably for the next 100 years it is quite possible that no matter what insurance company came along and said that we could do better, that they would probably be locked out unless you could find something—some kind of benefit to the employees or the employer; is that correct? I mean, based on—I mean, we have already gone 50—

Mr. FLYNN. Forty-three years.

Mr. CUMMINGS. Whatever.

Mr. FLYNN. Right.

Mr. CUMMINGS. Forty some years and I am just wondering. I mean, that's a long time. And the other question is: Have there been others—have there been—first of all, has it ever been put up for competition?

Mr. FLYNN. No, sir, it has not.

Mr. CUMMINGS. And second, when—have other companies expressed an interest or ever said that we can do better?

Mr. FLYNN. I believe there have been expressions of interest from time to time. But the question of doing better, sir, is one that I would sort of come at with preservation.

Better in the context of this program can only mean we can operate more efficiently administratively. We already know, from our work with Metropolitan, that they get excellent reviews from the beneficiaries, employees, and retirees that they serve. Further, their administrative expenses, while we will always want to make sure that they are appropriate and allowable, represent a very minimal amount in terms of the overall cost of the program, and don't affect premiums.

So "better" is a relative issue. Certainly, if someone were to come to us and say, substantively we believe this can be done better, we

would certainly want to seriously look at that, but I don't think anybody has approached us that way.

People have approached us from the standpoint of we think we have a better benefit design or things of that nature. But because these are set out in law—

Mr. CUMMINGS. Right.

Mr. FLYNN [continuing]. Those are not issues appropriate for our consideration in the context of a solicitation.

We are very interested in better benefit designs, designs that meet the needs of the Government as employer and meet the needs of the individual employees and retirees in terms of their own financial circumstances.

In fact, we have an effort underway to look at the evolution of benefit design, not just in life insurance, but in health care and other areas, to make sure that the Government stays competitive as an employer and recognizes the evolution and advances that have occurred in benefit design over the years. And we will certainly look at that in this particular program as well.

Mr. CUMMINGS. When you—when you say “benefit design,” what does that mean?

Mr. FLYNN. Well, for example, one of the things that we have been asked to consider is a benefit called various things, but sometimes referred to as universal life or variable universal life which provides, in addition to life insurance protection, a cash value at a certain point, a cash value that can be used as a lump sum, or can be converted to purchase an annuity and things of that nature. That's what I mean in terms of benefit design.

And because we are an employer in the market, looking for talent, it is important for us to stay competitive vis-a-vis benefit design and with what other employers are doing, if that's helpful, sir.

Mr. CUMMINGS. Yes, that's very helpful.

If you have a situation—I know the law lays out what the benefits ought to be. If a company came along and said, we can provide more benefits, that—I mean, does the law say you have to stay below a certain level, even if someone, a company came out and said, look, for the same amount of money we can throw in some extra benefits above the law, is that a ceiling that must be met?

Mr. FLYNN. It is a ceiling and a floor. The law specifies precisely what the benefit levels are, and additions to or subtractions from those levels would not be authorized under the framework of Federal Employees Group Life Insurance.

Mr. CUMMINGS. So the design, when you say design, that's something that fits within the floor and ceiling. It's just the way you do it; is that right?

Mr. FLYNN. Yes, sir, it's the way it is administered; that's correct.

Mr. CUMMINGS. Right. In other words, it is not above, it is not below, it is not more benefits, it is within—it is how you do it within the floor and ceiling?

Mr. FLYNN. To the precise specifications of the statute, yes, sir.

Mr. CUMMINGS. All right. You said a little bit earlier that the beneficiaries were satisfied. Is that right?

Mr. FLYNN. That's correct, sir; yes, sir.

Mr. CUMMINGS. And certainly we are very concerned about beneficiaries being satisfied.

How did you come to that conclusion? Is there some kind of a survey that you all take over the years?

Mr. FLYNN. I would point to three things. The first thing that I would point to is the very large participation rate we have amongst employees and retirees.

Second, the Metropolitan Life Insurance Co. has conducted surveys of beneficiaries and has seen satisfaction rates in the upper 90 percent ranges, 98, 99 percent. We also have our own independent survey underway this year and I expect that the results that we have seen in the past will be replicated in that survey as well.

Mr. CUMMINGS. To your knowledge, is this the first time that you have—that OPM has done such a survey?

Mr. FLYNN. It is the first time that we have gone out with our own independent survey of the Federal Employees Group Life Insurance Program.

Mr. CUMMINGS. Why is that? Why is this the first time? You are talking about 40-some years. It just seems to me that you would want to have known that and you wouldn't just rely on MetLife; you would want something independent. That's not to take away anything from MetLife. It just seems to me that, I mean, we have all kinds of audits in the Federal Government and everywhere I have been. It just seems to me that such a significant contract you would have done it before 40-some years.

Mr. FLYNN. I wouldn't disagree with you, sir. We have for the past 6 years now conducted surveys of our retirement program beneficiaries, and for the past 3 years our health benefit program enrollees. This will be the first year that we have done an independent survey of the Group Life Insurance Program. I would prefer, myself, that ones had been done previously.

Another indicator, however, of the performance is the fact that we get virtually no complaints whatsoever about this program. We do look at the administrative performance of MetLife as a contractor to make sure that they are paying claims promptly and accurately and things like that. And those other indicators serve as a surrogate, but certainly not a complete substitute for the type of survey that you mentioned.

Mr. CUMMINGS. I have a number of questions, but I am just going to end right here and I will ask you the others a little bit later.

When you—when you—tell us what kind of issues are raised when you do a survey. I mean, what kind of things are you looking for? What kind of complaints do you—would give you—you know, set off the alarm bells? I am just curious.

Mr. FLYNN. Well, I think any complaint from any individual sets off an alarm bell. Surveys tell us whether or not those alarm bells arise from a systemic cause or from some program policy systemic issue. So we want to know what's going on with individual enrollees and their individual complaints, and we do. But we also want to understand—and surveys help us understand—whether or not we have a broader issue to deal with and how it ought to be dealt with.

Mr. CUMMINGS. All right. Thank you.

Mr. MICA. I would like to yield now to Ms. Norton. Thank you.

Ms. NORTON. Thank you, Mr. Chairman. I should begin by disclosing that immediately before coming to Congress, I was on the board of the Metropolitan Life Insurance Co.

Even recognizing that we all adhere to the if-it-ain't-broke-don't-fix-it school of government, I think this hearing is important to hear about this program and about any improvements that might, in fact, be appropriate.

There have only been six open enrollment periods apparently, according to your testimony, and two of those have been since 1993 alone. Why have there only been six and why have a third of those come only in the most recent period of the relationship?

Mr. FLYNN. Let me try and answer that by talking about our approach to open enrollment periods generally and then comment on the last two that we have had, one in 1993 and one in 1995.

We consciously only have open enrollment periods when there is a significant event or a significant evolution of things that produces an event in the program that cause us to say, it is time to make this program offering available to everyone on either a restricted or unrestricted basis.

One of the reasons we approach open enrollment periods that way is because our experience has been, particularly with open unrestricted enrollment periods, that you tend to get what is known as adverse selection surrounding that period. That is to say, people who have not participated in the program, who now find themselves with a fatal illness and with a shortened life expectancy, can come into the program when there is an open enrollment period and will increase the cost of the program in an unusual way until such time as that adverse selection works its way out of the program. So we try to avoid doing that for that reason.

Ms. NORTON. Wait a minute. Wait a minute. Let me understand this. Because some people who had opted, which is a very small group, people who had opted not to come into the program before—

Mr. FLYNN. That's right.

Ms. NORTON [continuing]. Will tend to want to come in because of an event in their own lives?

Mr. FLYNN. Because they have found themselves with, for whatever reason, a shortened life expectancy, which will increase the expense of the program because that's an unusually unhealthy group of people who opt into the program.

I might just mention that in the unrestricted enrollment period that occurred in 1993, we believe we had adverse selection in the program at that time that cost the program about \$50 million.

Beyond that, as I mentioned, individual—

Ms. NORTON. That's an interesting point you make, because of the cost, on the one hand, to the program. And it would be a more compelling point to me if, in fact, the Government didn't start out with the presumption that everybody should be in the program anyway.

Since you start out with the presumption that everybody ought to be covered, then the logic of that presumption is that even if they decide, you know, at a time which does not benefit the Government, that was the rule and now they are playing by the rule.

Mr. FLYNN. Well, I might make one other point that perhaps would give a partial answer to that. And that is, if someone initially waives participation in the program and then later makes a determination that they would like to participate after a waiting period, and if they can furnish a certificate of insurability, they are entitled to enroll in the program at that point.

In addition, there are a number of qualifying life events, birth of a child, marriage, divorce, things of that nature, that enable people to come in or actually leave the program as well, which you can do at any time.

But I understand the point you make, but it—when we do have open enrollment periods, that's the phenomena that we experience and it does increase the cost of the program in an unusual way at that point.

The two most recent enrollment periods we had, as I mentioned, one was in 1993 and it was open and unrestricted because there was a broad reduction in premium rates for both basic insurance and optional insurance that seemed to us to make it appropriate to have an unrestricted open enrollment period.

The open enrollment period in 1995 was restricted to basic insurance only and, as I mentioned, was designed to coincide with the implementation of the Living Benefits Act, which only applied to basic insurance. So it seemed appropriate to restrict it to basic.

Ms. NORTON. Yes. In the crash of—in Croatia, the Federal employees were disproportionately young and some had, as young people do, apparently regarded themselves as immortal. At least they were not ready until the next open enrollment period perhaps. They were not in—they did not have insurance. It was a terrible—it was a terrible thing for their families.

Anybody who looks closely at this program in the beginning and understands its full benefits and perhaps a little more about life insurance, it seems to me, is almost compelled to make a decision to join, I mean, given even the cost.

It seems to me there would be two groups of people who might not, "get it". One would be young people, younger people in the Government, and the other would be poorly educated people in the Government. What does the program do to make up for the fact that these may be disproportionately the people who don't get it or need further explanation?

Mr. FLYNN. Well, Ms. Norton, I couldn't agree with you more. Some of the Federal employees who were on Secretary Brown's airplane—and others that we never hear about—tragically did not have insurance and so their families were not able to have life insurance benefits available to pay necessary funeral and other kinds of expenses.

In part, to compensate for that, as you may know, the death gratuity benefit law was passed that provides some mitigation of that issue.

One of the things that I think—

Ms. NORTON. Which might also have triggered at OPM the thought that to avoid that in the future something more needs to be done, since it is such a small number of people anyway who don't come into the program. So that's why I want to know what

you all are going to do to avoid the Government having to come up with amounts.

Mr. FLYNN. I would mention a couple of things. First of all, there is automatic inclusion upon initial appointment, unless a specific waiver is executed by the newly hired employee.

Ms. NORTON. That's already there.

Mr. FLYNN. Yes, ma'am, it is.

Ms. NORTON. And nevertheless, there are people who are not covered.

Mr. FLYNN. There are people.

Ms. NORTON. What are you going to do beyond that?

Mr. FLYNN. Well, we do provide a Federal Employee Group Life Insurance booklet. We do provide employees with information during their orientation period when they are newly hired. There are benefits officers available at agencies. These, Ms. Norton, are all things that are in place.

I haven't given any specific consideration to additional things that we might do, but we will certainly keep that in mind.

Ms. NORTON. I mean, this is not a big problem. It is just one that I would encourage you, particularly given the Ron Brown crash, to investigate whether or not—

Mr. FLYNN. Absolutely.

Ms. NORTON [continuing]. Poorly educated people or young people might need some extra counseling.

People who retire can keep this insurance, I believe, until age 65, is that right, if they—continuing to pay their same employee shares and you continuing to pay your share?

Mr. FLYNN. Yes. There are a series of choices that are available to retirees, from the point in time they retire to age 65 and then after age 65.

Ms. NORTON. Do most retiring employees above the age of 65—below the age of 65 tend to keep this benefit?

Mr. FLYNN. I think that can be answered in two ways. First, there is a very substantial number of retirees who take their life insurance into retirement.

We do see, however, the participation in optional insurance in multiples of salary begin to decrease substantially as retirees' financial circumstances change and the need for that type of insurance declines, and given the fact that the premiums are age-based and so they become more expensive in 5-year increments. We see a fairly substantially drop-off with that.

Ms. NORTON. Was this benefit provided as well to people who took buy-outs?

Mr. FLYNN. Yes. To the degree that they met the requirements for carrying their life insurance into retirement, which for most people would mean having had insurance for the 5 years immediately preceding retirement, they would have been able to take that into retirement even with a buy-out.

Ms. NORTON. With the employer continuing to pay the employee's share?

Mr. FLYNN. For the basic insurance portion, yes.

Ms. NORTON. Yes.

Mr. FLYNN. Because for all optional insurance, of course, it is all employee paid.

Ms. NORTON. You say on page 4—you indicate on page 4 of your testimony that in 1993 you were able to reduce the employee's share of premiums almost 11 percent.

Mr. FLYNN. For basic insurance, that's correct.

Ms. NORTON. For basic, et cetera. And you gave some fairly impressive rates, even giving the low cost of the insurance, for the reduction.

Is that the first time there has ever been an employee reduction?

Mr. FLYNN. No, ma'am. In fact, there have been a series of rate changes in the program since the program's inception.

Ms. NORTON. What triggers a reduction in premium cost to employees?

Mr. FLYNN. Well, it is essentially the experience of the program, and the claims that it pays out. There is also a trend that we have seen over the history of this program of decreased mortality for the group of people who are insured, and so that contributes to that.

If I have it correctly—I don't see it right in front of me, but there have been at least a dozen or so premium changes in the program over the 43-year history of the program. The first—

Ms. NORTON. Improvements, changes downward?

Mr. FLYNN. The first two involved premium increases and ever since then they have been premium decreases.

Ms. NORTON. How many reinsurers are there?

Mr. FLYNN. There are currently 47 reinsurers participating in the program.

Ms. NORTON. Has that been the number all along?

Mr. FLYNN. No. They have been much higher. As recently as the late 1980's, I believe, there were 130 or so.

Ms. NORTON. No beneficiary need be named apparently, here, and according to the MetLife testimony that increases the costs, the administrative costs of the program.

There must be a reason why that's there. It's very unusual.

Mr. FLYNN. You raise a very good point that I will relate back to a point you made earlier about educating people about the importance of this program and their responsibilities under it.

No beneficiary need be named but, of course, we encourage very strongly that people review their designations of beneficiary, not only for the life insurance program, but for the retirement program as well, periodically, to make sure that those designations reflect their intent.

When a designation is not made by an individual, there is, under Federal law, a standard order of precedence which begins to come in.

Ms. NORTON. What—let's say you were a private company. Would you have to name a beneficiary? Do all private companies make you name a beneficiary?

Mr. FLYNN. I don't know whether all private companies make you name a beneficiary. I think our position, as the employer, would be the same as any private company, and that is, we want people to designate a beneficiary. But I think even in private companies, there are occasionally problems with those designations that may cause order of precedence to take over.

Ms. NORTON. See, when you did the open enrollment and people who only come in when they have an adverse event and that in-

creases the cost of the program, you don't want to do that and you try to keep that from happening.

Now, not writing on a piece of paper who your beneficiary is increases the cost of the program. It is absolutely painless. And since this is mandatory and since everybody wants in, I cannot understand why we won't increase it 1 cent because somebody hadn't written down somebody's name somehow. I mean, there must be a policy reason for it. If there is a policy reason for it, then I can accept it. But if it is the cost of the program, simply because there is always a legal procession, a legal way to find a beneficiary, then I wouldn't understand that.

Mr. FLYNN. Ms. Norton, you raise absolutely a good point. If there is a way for us to get to that point, and it offers us the potential that we see in terms of reducing the administrative costs of the program, I would agree with you, we should be there and we ought to look for ways to get there.

Ms. NORTON. I wonder if you would provide for the record whether—or how much the cost of the program might be reduced administratively if people were only asked to put somebody's name down, their dog's name down, anybody's name down, and if you would give that information to the chairman of the committee. And perhaps if you find that there is a significant reduction in cost, would you consider passing that cost on?

Mr. FLYNN. Absolutely.

[Note.—The requested information has not been made available to the subcommittee.]

Ms. NORTON. Reduction on. I am sorry.

Mr. MICA. I thank the gentlelady and yield now to the early arrival on our side of the aisle, the distinguished gentlelady from Maryland, Mrs. Morella.

[The prepared statement of Hon. Constance A. Morella follows:]



**Statement of the Honorable Constance A. Morella
Civil Service Subcommittee Hearing
Federal Employees Group Insurance Program
April 30, 1997**

I would like to thank Chairman Mica for holding this morning's oversight hearing to discuss the Federal Employees' Group Life Insurance program. Although FEGLI is clearly a popular program, it is always wise to periodically re-evaluate our employee and retiree benefits, particularly when they serve such a large and important population -- our federal employees and retirees!

The Federal Employees' Group Life Insurance Act of 1954 established the Federal Employees' Group Life Insurance Program (FEGLI), and Metropolitan Life Insurance Co. has served as the prime insurer of the program ever since. It provides basic and optional life insurance coverage for almost 2.5 million federal employees and 1.6 million retirees.

Metropolitan Life Insurance Co. is the largest group life insurance carrier in the United States. Unlike other life insurance, the benefits are determined by law. It serves an incredibly broad population, including employees and retirees in hundreds of locations in many different agencies. Federal agencies pay one-third of the basic insurance cost, and employees pay the remaining two-thirds.

Today's witnesses will discuss FEGLI's basic life insurance, optional and additional optional insurance, contribution rates, funding, and administration. I look forward to hearing more about this important program, and evaluating its costs and benefits to our federal workforce. I hope that today's oversight hearing helps us to determine whether we are indeed getting a good deal for our federal workforce.

Mrs. MORELLA. Thank you. Thanks, Mr. Chairman.

I am not going to really pose any significant questions now. I am going to wait for the next panel. But I do think it's very appropriate that you called this hearing. I knew FEGLI is a very popular program, but it is very appropriate that we periodically look at it and see how it is working and whether or not any changes are necessary and ask the appropriate questions.

I wanted to thank you, Mr. Flynn, for meeting with me a bit ago with regard to a constituent, Mr. Godinsky, that had to do with legislation that I introduced to allow retirees with dependents with severe disabilities to retain their additional optional life insurance, and under the current system it is phased out.

I remember that you said that at that time that it would be more appropriate to do it across the board rather than, you know, case-by-case, as it was appropriate.

I wonder—your comments about why it would be, would it be less expensive or any comments you may have on that? Because I am going to ask the same question of MetLife.

Mr. FLYNN. Sure. Well, Mrs. Morella, in fact, when we met on this particular matter, it had to do with enabling individuals to continue their optional life insurance after the age of 65. And as we indicated in our meeting, we had no substantive objection to that inasmuch as the cost of all optional insurance is borne by the individual policyholder.

It struck us, however, that inclusion in that proposal of some of the features associated with eligibility would require additional administrative cost on our part to make sure that only eligible people were electing to extend this optional insurance without any particular benefit for those costs of administration.

So, we felt that perhaps the individual issue that you were interested in could best be handled by a broader and less administratively expensive provision that would enable the continuation of that optional insurance past the age of 65.

Mrs. MORELLA. Again, thank you for your advice on that and for the meeting.

Is there anything that you—I don't know whether you mentioned it before, any changes you would like us to look at, I mean, beyond what Delegate Norton has just mentioned? Are there things we should be looking at?

Mr. FLYNN. Well, there are a number of things that we have had discussions with others on. I know that you have a particular interest, and Ms. Norton had mentioned earlier, about designations of beneficiary and the need to keep them current. I know that you have a particular interest in those matters when it comes to marital divorce, separations and things like that—

Mrs. MORELLA. Right. Right.

Mr. FLYNN. And looking for an easy way to administer court-ordered divisions of property. I think that's an area where we probably would benefit from some additional discussions.

Further, we do have some dissimilarities between, for example, the life insurance program and the health insurance program in terms of the definition of dependent children who are eligible for coverage. Some further discussion about clarifying and perhaps synchronizing those definitions would help as well.

Also, I note from some of the testimony that has been prepared in advance by others that when you look at family insurance policies, and we do have a family insurance option in the life insurance program, generally speaking a \$10,000 benefit for spouses and a \$5,000 benefit for dependent children seem to be sort of the norm. The Federal program benefits are about half that.

Inasmuch as these benefits are primarily used to cover the cost of funeral and associated expenses, it might be worthwhile to look at whether or not the limits in the Federal program are adequate reflections of the cost of those items. But those are the kinds of things that I think are important.

I mentioned before you arrived that we are also undertaking a large study of benefit practices across a broad range of programs and the evolution in those benefit practices among private employers to make sure that the Federal program stays competitive. And, of course, we will look at life insurance and life insurance variants as part of that as well.

Mrs. MORELLA. Thank you very much. That was an excellent synopsis of those points. Thank you. Thank you, Mr. Chairman.

Mr. MICA. Thank you. I yield now to our vice chairman, Mr. Pappas.

Mr. PAPPAS. The late arrival.

Thank you, Mr. Chairman.

I am pleased to be here today to talk about an issue that I think is important to so many of our Federal employees and their families. And I guess I just have one or maybe two questions. But one is: Could you give me and the rest of the members of the committee an idea of the level of complaints that are received with the present system?

Mr. FLYNN. I would characterize the level of complaints received with the current system as virtually nonexistent. I think there are a number of reasons for that. We have very high accuracy rates. We have very responsive service levels and things of that nature.

The complaints that I have seen more often than not, and they are literally the types of things over the past 3 years that you can count on your fingers and toes, have to do with issues in disagreement about who the appropriate beneficiary was and whether or not benefits were paid properly, that sort of thing. But, there are very, very small in number and generally things that can be worked out where needed.

Mr. PAPPAS. Would it be safe to say, because I know that some have said that some of the younger people who could participate in this may not be, and going elsewhere because of the cost, could you provide your understanding as to why that may be taking place?

Mr. FLYNN. Sure, I will try and do that. If I could just, for a second, divide the program into the basic life insurance component and the optional life insurance component.

If a young person looks at this program and tries to compare it to group term insurance that he or she might be able to purchase outside of Government, they are likely to see some differences. One of the reasons they are likely to see some differences is because, on the basic insurance side of the program, premiums are not age-based; it is a level premium regardless of your age. And so the

older you are, the more you benefit from that, and the younger you are, the less you do.

But part of the group insurance principle for basic insurance is that we provide that insurance to everybody, irrespective of their age, at the same rate.

There are also some features of the Federal Employees Group Life Insurance Program basic component that are unlike features that you would find, say, from an insurance agent who is selling term life insurance. For example, we have already talked about underwriting and insurability, things of that nature.

In addition, part of the cost of the premium for basic insurance goes to, in effect, pre-fund a post retirement insurance benefit after age 65 for which no premiums are collected once the individual reaches the age of 65. So young people will see that differential.

And, in part, to respond to that, for people who are enrolled in the group life insurance program under the age of 45, we provide additional insurance, starting at two times the basic insurance amount until age 35 and then gradually decreasing the extra coverage until someone reaches the age of 45, as an inducement to participate in this program, even though the premiums might be a bit more than what they would pay outside.

And then just finally, on the optional insurance side of the program, those premiums are age-based in 5-year increments and, in fact, for what they are, they are quite competitive with things that you would find outside Government.

Mr. PAPPAS. Thank you. Thank you, Mr. Chairman.

Mr. MICA. Thank you.

Mr. Flynn, just a couple of questions. One of the things that has interested me is not only competition, but some other options in providing life insurance coverage for our employees at as reasonable a rate as could be available on the open market, or certainly we could put together a sizable group that would be fairly attractive.

Do you think that FEGLI could compete with any other parallel program?

Mr. FLYNN. I think, Mr. Chairman, the answer to that is if you look at a comparable level of benefits, the premiums charged in this program for the benefits are extraordinarily competitive.

Mr. MICA. OK. One of our responsibilities as an oversight committee is to look at any changes that we might recommend in the law. You said that you work under the constraint of law. I noticed the 1980 FEGLI law established the original optional insurance known as standard life and provides for, say, a \$10,000 life insurance, an equal amount of accidental and dismemberment coverage. I am reading some of the provisions here under the OPM description of the program. But, again, the parameters, the benefits and some of this is set by law.

I know we have made some changes and modifications. Do you have any other recommendations or could OPM look at this as something we should pay attention to in changing some of the benefits investments?

We now have all the investments in one limited pot, as you described today. Can you look at that—or do you have any recommendations you might give us today?

Mr. FLYNN. Well, absolutely, Mr. Chairman. I mentioned to Mrs. Morella a few minutes ago several areas where I think some further discussion might be useful in this program, and also the study that we have underway looking at the evolution of benefit design practices by private employers. That may very well lead to some legislative proposals that we would be more than happy to discuss with the committee.

Mr. MICA. Another thing, our panel looks at the whole picture of civil service and employment. At some recent hearings we saw how many part time, temporary employees and other employee activities that we haven't seen in the past, but we are going to see more of in the future. And many of these folks, I understand, don't have access to some of this coverage. Is that correct?

Mr. FLYNN. I believe this is correct, Mr. Chairman. Currently, virtually any Federal employee, except those who come in under temporary or intermittent appointments, are eligible to participate in the life insurance program. The nature of temporary appointments—temporary employment, if it is done properly—or the nature of intermittent employment, is such that one might argue against providing that coverage. But this is an area that I think does bear looking at.

Mr. MICA. We have had instances.

Mr. FLYNN. Yes.

Mr. MICA. I think Ms. Norton had an individual that was part time or temporary for years and years, and didn't we pass some special legislation?

Ms. NORTON. Yes, special legislation.

Mr. MICA. Yes. But, there is a change in the private workforce. There is a change in the Federal public workforce. And we should be setting an example, not reacting to disaster.

So I would like to have you all—

Ms. NORTON. Would the chairman yield?

Mr. MICA. Yes.

Ms. NORTON. Has the law been changed so that we cannot, in fact, keep temporary employees on for—past a certain temporary period?

Mr. FLYNN. That's true, Mrs. Norton.

Ms. NORTON. What is that period?

Mr. FLYNN. I believe temporary appointments cannot exceed 1 year. And if they do, there are certain provisions that go into effect so as to avoid the kind of situation that occurred with the gentleman that worked for the National Park Service.

Mr. MICA. Well, we need to look at this whole area since we have new categories, and ascertain if there are areas that can be improved; also the possibility of opening up other options or even discussion of privatization investment of these funds, options to get a better return. Maybe we could reduce premiums, or increase benefits. I think we need to have some additional discussions with you in that direction.

Are there additional questions? Mr. Cummings.

Mr. CUMMINGS. I want to followup on the question that Ms. Norton just asked. You said that we have these restrictions now with regard to what defining "temporary" is. Is that right?

Mr. FLYNN. That's correct, sir.

Mr. CUMMINGS. And you also said that the new—the provisions of this law—I take it that this is a law—would protect against certain situations from occurring; is that right?

Mr. FLYNN. That's correct, sir.

Mr. CUMMINGS. Now, I just want to go on that for just a moment. Do we have—say, for example, if that employee is there for more than a year, I want to know does he then become—does his title become something else other than temporary? And then how does the insurance—this whole life insurance situation work into that, if at all?

Because I think that's what the chairman was sort of getting to, too. If you have an employee who has been there for a long period of time—

Mr. FLYNN. Right.

Mr. CUMMINGS [continuing]. And temporary is abused—

Mr. FLYNN. Right.

Mr. CUMMINGS [continuing]. And the person is there without benefits, just talk about that for a little while so I can understand it.

Mr. FLYNN. And if you don't mind, sir, what I would like to suggest, because appointments per se, whether they are full-time or part-time or what have you, are not currently my particular area of expertise—

Mr. CUMMINGS. I understand that.

Mr. FLYNN. What I would like to do is coordinate with the office that deals with appointments and the benefit issues that are associated with that.

Mr. CUMMINGS. Sure.

Mr. FLYNN. And perhaps provide that for the record, if that's agreeable.

Mr. CUMMINGS. That would be good because, see, that goes to the very issue that the chairman was just talking about. I mean, if we have got people who are on longer and they, for all intents and purposes, become a permanent employee—

Mr. FLYNN. Right.

Mr. CUMMINGS [continuing]. I would like to see how the benefit structure works into that, if at all.

And you will get back to us with that?

Mr. FLYNN. Yes, sir, we will.

[Note.—The requested information has not been made available to the subcommittee.]

Mr. CUMMINGS. All right. One other thing, can you just tell us the role that State Street Bank plays in the payment of benefits?

Mr. FLYNN. My understanding, sir, is that the State Street Bank is the agent that the Metropolitan Life Insurance Co. uses following the disbursement of life insurance proceeds from the group life insurance program to the beneficiary.

This program was established a couple of years ago. Essentially, if the proceeds to a beneficiary are over \$7,500, those proceeds, with the beneficiary's agreement, are deposited into a money market account, immediately made available to the beneficiary, and I believe the State Street Bank administers that program for Metropolitan Life.

Mr. CUMMINGS. And so that relationship is one between Metropolitan Life and State Street and not OPM and State Street; is that right?

Mr. FLYNN. You are absolutely correct. That is a private relationship following the disbursement of the proceeds of the life insurance policy.

Mr. CUMMINGS. So you all—when you all talk about—you said that you all negotiate with MetLife. Does that issue—does that come up at all? Is that just like a part of the process, almost like it is their procedures and that you don't even get into that? Do you ever ask—

Mr. FLYNN. The establishment of this particular mechanism for paying beneficiaries—

Mr. CUMMINGS. Yes.

Mr. FLYNN [continuing]. Is something that came up between us and Metropolitan Life and is something that we agreed to. And the reason we did, quite honestly, was because it offered us a way to reduce the administrative expenses of the program. In addition, it offered to the beneficiaries more security than they had getting a check in the mail, and also gave them time to decide how best to use those proceeds and, while they were deciding, to earn some interest.

Mr. CUMMINGS. I noticed on one of our panels we have a representative from State—from MetLife coming on and maybe this is a better question to ask them, but is there any kind of competitive bidding, to your knowledge, with regard to that service that State Street performs? Because I am sure there are a lot of companies that would love to have that opportunity.

Mr. FLYNN. Not to my knowledge. That particular arrangement is a subcontracted arrangement. It wouldn't normally be something that we would have oversight of.

Mr. CUMMINGS. Can you tell us how many State Street earns by doing this? Do you have that information?

Mr. FLYNN. I do not, sir.

Mr. CUMMINGS. Will you get that to us, please?

Mr. FLYNN. I will.

Mr. CUMMINGS. All right. Thank you.

Mr. MICA. Thank you. Mr. Pappas.

Mr. PAPPAS. Mr. Chairman, I just have one other final question before we let you go. What is the beneficial plan and Shenandoah Life's role in it?

Mr. FLYNN. I am going to reach back into history, and if you don't mind, if my answer on reflection turns out not to be full enough I might augment that for the record.

Mr. PAPPAS. OK.

Mr. FLYNN. But in 1954, when this program was established, Group Life Insurance, as an employer-sponsored benefit, was around in the country but was not anywhere near—didn't have anywhere near the degree of acceptance and universality that it does today. And because there was not a group life—employer-sponsored group life insurance program available for Federal employees, there was—there were created a series of what we now characterize as beneficial associations; essentially, people paying in to a fund and that fund—the purpose of that fund would be to pay

benefits, defray funeral expenses, what have you, for Federal employees who passed away, and their families.

When this program was created, in addition to creating a single program to meet the life insurance needs of Federal employees, the obligations of these beneficial association programs sort of all got gathered into one and the Shenandoah Life Insurance Co. administered it in a closed system pay-it-out kind of basis.

That increasingly is a smaller and smaller part of the program and for all practical purposes is financially immaterial in terms of the effort that we have underway for life—for the Federal Employee Group Life Insurance Program.

Mr. PAPPAS. Thank you.

Mr. MICA. Ms. Norton has no further questions.

Mrs. Morella.

Mrs. MORELLA. No, Mr. Chairman.

Mr. MICA. No further questions.

Well, we want to thank you for being with us today. We have a number of questions from the panel that we would like a response from you and OPM, and also convey to Mr. King that this is an area we would like to further discuss with him as Director.

Our goal here is just to ensure that we, you know, give the best possible premium both to the taxpayer and the best benefit to the employee and also responsibly oversee the program. So we thank you for being with us. You are excused.

[The information referred to follows:]

SUBCOMMITTEE ON CIVIL SERVICE
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT
U.S. HOUSE OF REPRESENTATIVES

OVERSIGHT HEARING APRIL 30, 1997, ON
THE FEDERAL EMPLOYEES' GROUP LIFE INSURANCE PROGRAM

QUESTIONS FOR THE RECORD FOR

MR. WILLIAM E. FLYNN, III
ASSOCIATE DIRECTOR FOR RETIREMENT AND INSURANCE
U.S. OFFICE OF PERSONNEL MANAGEMENT

1. **Question:** In your testimony, you dismissed providing alternative life insurance options for civil service employees and stated that OPM does not see a need for any basic restructuring of the program. Yet, other witnesses at the hearing testified that large employers in the private sector provide options not now available to federal employees. After listening to this testimony, have you changed your mind that additional options should be considered for employees? Why or why not? If yes, what options should be considered?

Answer: My testimony should not be interpreted as an outright dismissal of alternative life insurance options. The point I was making was that a near 90 percent rate of participation strongly indicates that current Federal Employees' Group Life Insurance (FEGLI) options are well-matched to most Federal employees' life insurance priorities. Although we see no immediate need for changes in the Program's fundamental benefit structure, we have assisted several members of the Subcommittee with proposals for lesser Program improvements. And clearly, if the Federal Government is to compete successfully for the best employees, we also have to stay aware of employee benefit trends among other large employers. Even in the absence of any difficulties with recruitment and retention in the Federal civil service, if OPM finds convincing evidence that a particular Federal employee benefit component lacks competitive structure, we are open to considering improvements on an employee-pay-all basis.

During the hearing, an often-cited benefit alternative was group universal life insurance. We note that the 1996 Hay/Huggins Benefits Report, summarizing prevalent benefit practices among more than 1000 medium and large employer survey respondents, reflected that just 15 percent of the companies offer such coverage and, in doing so, a substantial number replaced or reduced other life insurance. This suggests limited interest in this type of benefit and may reflect a more limited benefits package overall which relies on life insurance for more than just a death benefit. As I said at the hearing, this year OPM will conduct a satisfaction survey among FEGLI beneficiaries. In addition, OPM has contracted for a research report on emerging benefits practices employers anticipate adopting to attract and retain employees over the next 10 years. This research report will provide background for a meeting with

Federal executives planned for later this year to generate consensus on future directions for Federal employee benefits. These initiatives should provide important information regarding the desirability of additional options under the FEGLI Program.

2. **Question:** As you know, basic insurance is available for full time permanent and part time permanent federal employees. Full time temporary, part time temporary, and intermittent employees are not eligible for this coverage. If a temporary employee's employment exceeds one year, what is the status of such person's benefit structure? Should we consider opening-up FEGLI to other employees? Why or why not?

Answer: As explained in material I previously submitted for the hearing record, OPM regulations prescribe uses of temporary appointment authority. New regulations which took effect in October 1994 were designed to avoid employment of individuals for substantial periods without entitlement to employee benefits. Currently, use of "temporary limited appointments," under which employees receive no employee benefits, is essentially limited to short-term hiring needs expected to last no more than 1 year, with permissible extension for 1 additional year only. Further, an agency may not fill a position by temporary limited appointment if that position has previously been filled by temporary appointment(s) for an aggregate of 2 years, or 24 months, within the preceding 3-year period.

The general 24-month limit on temporary limited appointments may be waived for positions involving intermittent or seasonal work. However, the appointments must be made in increments of 1 year or less and employment in the same or a successor position must total less than 6 months (1040 hours), excluding overtime, in a year. [See: 5 CFR §316.401.] As part of OPM's periodic oversight visits, we review each agency's hiring practices for appropriateness and compliance with applicable laws and regulations.

Temporary employees are eligible for Federal Employees Health Benefits coverage after completing 1 year of current continuous employment (excluding any breaks in service of 5 days or less), however, the employee must pay the full cost of enrollment. There is no similar provision for temporary appointees to acquire FEGLI coverage.

When health insurance for temporary employees was authorized by legislation in 1988, agencies had discretion to extend appointments limited to 1 year or less for a period of up to 4 years and acquiring health insurance on an individual basis was often difficult and prohibitively expensive. Life insurance did not raise similar concerns.

Temporary employees tend to be younger on average than permanent employees (37.8 versus 44.4 years of age, in 1996) and generally can obtain term life insurance elsewhere at low rates. A further consideration with respect to broadening FEGLI eligibility is that each insured employee has, upon every separation from service, the privilege of converting all or any part of group coverage to a private life insurance policy at standard commercial rates but without medical proof of insurability. Each conversion results in a cost to the FEGLI trust

fund to compensate the insurance industry for the higher mortality experience typical of conversion policies. In 1996, FEGLI conversion costs were \$210 per \$1,000 of regular insurance and \$330 per \$1,000 of optional insurance converted. It is also worth noting that section 651 of Public Law 104-208 gives heads of Federal agencies discretion to pay a death gratuity of up to \$10,000 in the case of employees whose death results from injury sustained in the line of duty on or after August 2, 1990.

We presently see no reason to consider expanding FEGLI eligibility in view of the more restricted use of temporary limited appointments today and the fact that reasonable alternatives to FEGLI are available and extending FEGLI eligibility to short-term employees could result in significant conversion costs for the Program.

3. Question: What legislative changes concerning FEGLI, if any, would you recommend the subcommittee to consider?

Answer: During the hearing, we discussed several suggestions from Subcommittee members for improving the Program in areas such as designating beneficiaries, postretirement insurance, enforcement of domestic relations court orders and investment of funds. And, prepared statements of other hearing witnesses indicated that family life insurance available to Federal employees is about half the norm for employer group plans. These areas are worth exploring further and we look forward to working with the Subcommittee on them, as well as others which may evolve from the study of emerging benefit practices.

Mr. MICA. And I will call our second panel.

Mr. FLYNN. Thank you, sir.

Mr. MICA. I would like to welcome Margery Brittain, vice president of the Group National Life Accounts at MetLife; G. Scott Cahill, CLU, chief executive officer of the James B. Greene & Associates; and Barnett Chepenik, president of the Lincoln Financial Group. If all of the witnesses could come up.

As I explained to our previous panel member, this is an investigations and oversight committee, so if you will remain standing and raise your right hand.

[Witnesses sworn.]

Mr. MICA. The record will reflect that the witnesses answered in the affirmative.

I would like to welcome all our panelists today and witnesses. We try to have our panel members and witnesses summarize their statements. If you have a lengthy statement that you would like to have entered into the record, we would be glad to do that.

We have two small panels today so we won't hold you to the 5-minute rule, but we appreciate your summarizing.

And we are pleased to hear, first, from Ms. Brittain with Group National Accounts at MetLife. You are most welcome and you are recognized.

STATEMENTS OF MARGERY BRITTAİN, VICE-PRESIDENT, GROUP NATIONAL ACCOUNTS, METLIFE; G. SCOTT CAHILL, CLU, CHIEF EXECUTIVE OFFICER, JAMES B. GREENE & ASSOCIATES, INC.; AND BARNETT I. CHEPENIK, PRESIDENT, LINCOLN FINANCIAL GROUP, INC., CHEPENIK & ASSOCIATES, INC.

Ms. BRITTAİN. Thank you, Mr. Chairman. I am very pleased to be here today to address the subcommittee's request for information, and as the chairman has indicated—

Mr. MICA. Could you excuse me. Pull the mic up a little bit closer. Thank you.

Ms. BRITTAİN. Is that better?

Mr. MICA. Yes.

Ms. BRITTAİN. I am very pleased to be here today so thank you, Mr. Chairman, for the warm welcome. As you have indicated in your introduction of me, I am part of MetLife's Group National Accounts Organization and I was recently made responsible for the contract which we have with OPM relative to the FEGLI program.

I know you have requested information from us in the following three areas: MetLife's role in the program; a comparison of the Federal plan to group life plans offered by other large employers in the private and public sectors and information about alternative insurance options which are available in today's large group life insurance marketplace. And I would like to very briefly address each of these topics.

First, MetLife's role in the FEGLI program. At the inception of the program in 1954, MetLife was chosen as the primary carrier because it was at the time the largest group life insurance carrier in the United States. MetLife has retained this leadership position over the years and today we have \$1 trillion of group life insurance-in-force.

The FEGLI program is administratively unique in four key respects: The program is unique in how the benefit plan is designed. The benefits are determined by law.

The program is unique in terms of its size. MetLife pays approximately 85,000 FEGLI claims per year.

The program is also unique because the customer comprises millions of individuals in hundreds of locations literally throughout the United States and around the world who are affiliated with multiple Government agencies.

And also the program is unique because, and this was touched upon earlier, it does not require a beneficiary designation and this does significantly increase the complexity of FEGLI claim administration.

For almost 43 years, MetLife has proven its commitment to providing outstanding service to FEGLI participants and their beneficiaries. We believe that continuing this relationship provides significant advantages to the program and to the Federal Government.

MetLife's expertise has proven particularly valuable in handling the types of disasters that Ms. Norton mentioned in terms of the Department of Commerce airplane crash in Europe. We are also quite aware these days of the recent Oklahoma City bombing and, of course, we can all generate our own examples of other unfortunate events.

Through its employees, MetLife provides the institutional memory that is especially critical for the effective operation of such a unique and complex group life insurance program.

In consideration of the claim cost and the administrative tasks that we perform, MetLife is paid a monthly premium from the FEGLI fund. This premium is set annually by agreement of OPM and MetLife and it is intended to cover the estimated claims expense for the program, MetLife's allowable administrative expenses, the service charge to which MetLife is entitled, a small investment management fee and applicable Federal income taxes.

To put the payments to MetLife in perspective, it is important to recognize that claims paid under the FEGLI program currently amount to approximately \$1.6 billion per year. In fiscal year 1996, MetLife's administrative expenses amounted to approximately 0.6 percent, or six-tenths of 1 percent of paid claims.

I would like to focus now on the subcommittee's request for information about life insurance programs provided by other large employers. For purposes of responding to this request, we reviewed a sample of our large group business and active prospect files for group life insurance programs.

My written statement does summarize the results of our review in the following areas: Types of coverage and contributions; dependent life benefits, funding arrangements, program administration and the cost of the program.

At this point, I would like to highlight three selected findings. First, in our review of the types of coverages and contributions, we found that the design of the FEGLI program is generally consistent with that of other large public sector employers. But it differs in some respects from the large private sector plans we have reviewed. Specifically, in the private sector, the vast majority of em-

employers pay 100 percent of the cost for basic term life coverage equal to an employee's annual salary or earnings.

Supplemental life benefits offered in the private sector are typically employee pay all, as is the current FEGLI plan and many public sector plans, but in the private sector supplemental life benefits often include group universal life coverage.

Second, in our review of evidence of insurability or medical underwriting requirements among the programs that we looked into, we found that in both public and private sector plans open enrollments are rare. By contrast, the FEGLI program offered open enrollments in 1985, 1993 and 1995.

And third, unlike the practices which prevail in the group health insurance environment, both private sector and public sector employers typically select only one insurance company to administer their group life program. This is primarily because of the absence of the delivery of care component from the group life insurance programs and the specific desire for consistent claim administration and cost efficiency.

Finally, turning to alternatives available in the large group marketplace, my written statement identifies four trends of note.

At this point, I would just like to comment that as the company of choice for 55 out of the Fortune 100 corporations, it is MetLife's perspective that those employers with the most successful employee benefit plans are those which design the plans to address both the individual employer's workforce needs and its business needs.

I appreciate very much the opportunity to present these comments to the subcommittee on behalf of MetLife. Thank you.

[The prepared statement of Ms. Brittain follows:]

**STATEMENT OF MARGERY BRITAIN
VICE PRESIDENT
NATIONAL ACCOUNTS DIVISION
METROPOLITAN LIFE INSURANCE COMPANY**

FOR A HEARING OF THE SUBCOMMITTEE ON CIVIL SERVICE
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

ON

THE FEDERAL EMPLOYEES' GROUP LIFE INSURANCE PROGRAM

APRIL 30, 1997

My name is Margery Brittain, and I am a Vice President in the National Accounts division of the Metropolitan Life Insurance Company (MetLife). I appreciate the opportunity to testify on MetLife's role as the prime insurer and claims administrator of the Federal Employees' Group Life Insurance ("FEGLI") program. In 1954, Congress enacted the FEGLI Act in order to establish a mechanism that would permit employees of the federal government to have access to a group life insurance program similar to those found in the private sector.

The FEGLI program is the largest group life insurance program in the world. It is a very popular program among Federal employees, covering almost 2.5 million active Federal employees as well as approximately 1.6 million retirees.

MetLife has been the largest group life insurance carrier in the United States since prior to the inception of the FEGLI program. It currently has more than \$1.44 trillion of life insurance in-force and assets under its management of \$300 billion. I was recently made responsible for MetLife's contract with OPM for the FEGLI program. I have been employed with MetLife since 1979 and have been in the National Accounts division since 1994.

This Subcommittee has specifically requested information regarding MetLife's role in the program, including the terms of MetLife's agreement with OPM.

The FEGLI Program

MetLife has been the primary insurance carrier for the FEGLI program since its inception. The existing contract was negotiated in 1954 and has continued in effect since then pursuant to the renewal provisions of the contract. The original contract has been modified over seventy times to reflect the evolution of the program and to incorporate changes in the laws and regulations applicable to the program.

The FEGLI program is administratively unique in several key respects. Unlike other group life insurance contracts, the benefits are determined by law. This includes who is entitled to participate in the program, the amount of the benefits and an order of precedence of potential claimants. The complex makeup of this group is also unique in the employee benefits arena: "the customer" comprises millions of individuals in hundreds of locations affiliated with multiple government agencies. The millions of insureds that elect to participate in this program represent dozens of Federal agencies including those with employees in far and remote locations of the world. Finally, it is important to recognize that the size of the program is unique in that MetLife adjudicates approximately 85,000 claims per year pursuant to this contract, significantly more than for any other group contract.

The FEGLI program is also unusual because it does not include a mandatory beneficiary designation which is typical of other group insurance contracts. Consequently, a much greater percentage of FEGLI insureds die without a beneficiary designation on file. When this occurs, MetLife must administer the benefits under the program in accordance with the order of

precedence provision in the Act, 5 U.S.C. § 8705, which establishes the precedence of various potential claimants to the benefits. Lack of a beneficiary designation significantly increases the complexity of FEGLI claim administration compared to other group insurance contracts.

In addition to administering a complex adjudication process, MetLife prepares special reports or studies requested by OPM, prepares program documentation for distribution to potential enrollees, conducts periodic open enrollments, handles assignments of benefits, manages a portion of the assets that support the program, administers the FEGLI reinsurance program and the Conversion Pool, and prepares periodic financial statements on the status of the program.

In performing the contract, MetLife is required to adhere to strict standards of performance for accuracy and timeliness in claim adjudication and responding to customer written and oral inquiries. As demonstrated by the high level of customer satisfaction with this program, MetLife exceeds these standards. OPM has repeatedly indicated that MetLife is a most effective administrator of the program and has consistently given MetLife very high marks for its performance. The House Committee of Government Operations reviewed this program in 1988, and the report indicated in its recommendations that "Metropolitan Life, the prime insurer, appears to be doing an outstanding job processing claims and managing the program. There is no reason to change that arrangement."

We believe that administration by a single carrier continues to be the most efficient and economical approach to administering the program: a single carrier provides consistency of treatment of all claimants based on knowledge of the program and its application of the law. Moreover, the size of the program is most conducive to administration by a dedicated,

knowledgeable claim adjudication unit. Splitting the program among several carriers would cause fragmentation and result in unnecessary expenses for duplicate supervisory positions and redundant systems.

For almost 43 years, MetLife has proven its commitment to providing outstanding service to FEGLI participants and their beneficiaries. Continuing this relationship provides significant advantages to the program and the Federal Government. MetLife's expertise has proven particularly valuable in handling disasters such as the recent Oklahoma City bombing, the Department of Commerce airplane crash in Europe, the Gulf War and certain Postal Services situations. Benefits were provided in a most timely manner. The cooperation and coordination between MetLife and OPM and the various agencies has been extremely effective.

Payment to MetLife

In consideration of the claim cost and administrative tasks performed, MetLife is paid a monthly premium from the Employees' Life Insurance Fund (the Treasury Fund). The premium is set annually by agreement of OPM and MetLife and is intended to cover the estimated claims expense for the program, MetLife's allowable administrative expenses, the service charge to which MetLife is entitled, an investment management fee and applicable federal income taxes. It should also be noted that effective for fiscal year 1997, MetLife and OPM have agreed to a cost ceiling for allowable administrative expenses.

The premium for fiscal year 1997 is \$1.74 billion. At the time the premium was set, benefits for fiscal year 1997 were expected to be approximately \$1.65 billion. Any excess of premium paid to MetLife over the claims and other expenses is paid back to the program as a dividend or used to bring the contingency reserve to an agreed-upon level. Under the terms of

the contract, any monies held in a contingency reserve by MetLife for the FEGLI program are available for the payment of claims or other allowable costs of the program.

Approximately ninety days after the end of each fiscal year, MetLife prepares an Annual Financial Statement for the fiscal year in accordance with OPM's requirements. The Annual Financial Statement summarizes the revenue and expenses of the program for the fiscal year.

To put the payments to MetLife in perspective, it is important to recognize that claims paid under the FEGLI program currently amount to approximately \$1.6 billion per year. During the fiscal year 1996, MetLife's administrative expenses amounted to approximately 0.6% of claims paid, which is significantly lower for FEGLI than for other group customers, despite the increased complexities of this program.

MetLife's contract with OPM for the FEGLI program is a fixed-price with limited cost redetermination type contract. MetLife's ability to recover its claims and related costs for the program is limited by statute to the amount in the Treasury Fund. If the Treasury Fund is low, which was the case in earlier years, MetLife is at significant risk because it is liable to beneficiaries for claims incurred that are in excess of the premiums paid to MetLife. Currently, the Treasury Fund has ample funds, and hence this risk to MetLife currently is not great. As a result, presently MetLife is not receiving a risk charge for the contract; it is only being paid a service charge.

LIFE INSURANCE PROGRAMS PROVIDED BY OTHER LARGE EMPLOYERS

This Subcommittee has requested MetLife's views on how the FEGLI program compares to life insurance programs provided by other larger employers. For purposes of responding to this request, we have reviewed a sample of our large group book of business and active prospect files for group life insurance programs. Following is the result of our review:

Types of Coverage and Contributions by Employers and Employees

Most large private sector employers offer basic life benefits on a multiple of earnings basis. In the private sector, the vast majority of employers pay 100% of the cost of coverage equal to an employee's annual earnings. In the public sector, employees typically contribute to the cost of basic coverage at the same rate per thousand dollars of insurance coverage regardless of age (a flat-rate basis); but in at least one case, no basic coverage is offered.

Most employers offer supplemental life benefits which individuals can elect at their option. In the private sector, supplemental benefits offered include optional term insurance, Group Universal Life (GUL), or Group Variable Universal Life (GVUL), or in some cases, combinations of term and GUL or GVUL. Benefit amounts are typically multiples of earnings (e.g., employee elects additional coverage of up to five times annual earnings). In these private sector plans, employee contributions vary by age, with younger participants contributing at lower rates per thousand dollars of coverage than the rates at which older participants contribute (a step-rate basis). Often these rates are different for smokers and non-smokers.

In the public sector, supplemental life benefits are typically optional term insurance and the employee can elect coverage either as a multiple of earnings (up to five times annual pay) or in incremental amounts (e.g., increments of \$5,000 up to \$50,000). Employees typically pay for

the coverage on either a flat-rate basis or on a step-rated basis. Smoker and non-smoker rates may apply.

The FEGLI program offers basic life benefits equal to the greater of \$10,000 or the insured's actual rate of annual basic pay (rounded) plus \$2,000. In addition, an Extra Benefit equal to basic life insurance benefits is provided until age 35. This decreases at 10% per year until age 45, at which time the Extra Benefit ends. Insureds also have the option to select supplemental coverage. Employees contribute two thirds of the total cost of the basic insurance amount on a flat-rate basis and they must pay the full cost of optional insurance on a step-rated basis. Federal employees can continue their basic life insurance at various levels of benefit reduction. Retirees must contribute for coverage greater than the standard 75% benefit reduction

The contribution rates for individuals (employee cost portion) and agencies (employer cost portion) participating in the FEGLI program are set by OPM's Office of Actuaries and are established to cover the cost of the insurance program. The dominant cost component is the claims benefit amount paid to beneficiaries. In fiscal year 1996, employee and agency contributions totaled \$1.532 billion. Claims paid during fiscal year 1996 totaled \$1.559 billion. Clearly, the contribution rates are consistent with the level of benefits being paid under the program. The contributions collected by OPM from employees and agencies are deposited into the Treasury Fund; withdrawals are made from the Fund on a monthly basis to pay premium to MetLife.

Dependent Life Benefits

Over half of the plans surveyed offer dependent life benefits. While there is a wide variance in benefit levels, most offer either a flat amount for spousal coverage (e.g., \$10,000) and

child coverage (e.g., \$5,000), or a choice for spousal coverage (e.g., one or two times employee annual earnings) and child coverage (e.g., \$5,000 or \$10,000). There is no notable difference between private sector and public sector programs in this area.

The FEGLI program offers dependent life benefits of \$5,000 for a spouse and \$2,500 for each eligible dependent child. Employees pay the full cost of this insurance. The cost depends on the employee's age and these costs increase with each age group.

Evidence of Insurability Requirements

In most large plans, both public and private, there is no or very limited Evidence of Insurability at initial eligibility for up to a stated maximum "guaranteed issue" amount of coverage. Also, in both public and private plans, "open season" or "open enrollments" are rare and late entrants are often required to be medically underwritten before coverage becomes effective.

The FEGLI program offered open enrollments in 1985, 1993 and 1995. The 1995 open enrollment was in conjunction with the introduction of living benefits and coverage was made available to any eligible employee who had not previously elected to participate in the basic coverage.

Funding Arrangements

Almost all of the plans reviewed were "participating contracts" in which, in essence, all claims for benefits paid during the policy period are charged to the plan, and if premium is greater than claims, expenses, and risk charges, the plan earns a dividend. (If claims, expenses and risk charges are greater than premium, the loss is carried forward and recouped from any future surplus.) A very few large private sector group plans, however, have recently switched to

"non-participating contracts" in which any loss is not carried forward nor is there a dividend payable. All public sector plans reviewed were participating contracts.

The financial arrangement which is in place for the FEGLI program is "fully participating." Any excess of premium paid to MetLife over the claims, expenses and service charge is either paid back to the FEGLI program as a dividend or held as a contingency reserve at MetLife. Under the terms of the financial arrangement, any monies held in a contingency reserve at MetLife for the FEGLI program are available for the payment of claims or other allowable costs of the program.

Self Insurance Arrangements

MetLife currently has no self-insured life programs with its customers.

Program Administration

Unlike the practices which prevail in the group health insurance environment, both private sector and public sector employers typically select only one insurance company to administer their group life program. This is primarily because of the absence of the "delivery of care" component from a group life insurance program and the specific desire for consistent claim adjudication and cost efficiency.

MetLife serves as the sole administrator for the FEGLI program. Through its employees, MetLife provides the institutional memory that is especially critical for the effective operation of this unique and complex program.

Cost of the Program

There is a wide range of costs for the group life benefit programs we reviewed in our survey, but no meaningful distinction between the costs for private sector programs and public sector programs was discerned. This is a consequence of the nature of group insurance.

The purpose of group insurance, generally speaking, is to make coverage available to all eligible members of the "group", which is an entity existing for reasons other than the procurement of insurance coverage. The group insurer establishes required premiums by reviewing the risk characteristics of the group as a whole (group underwriting) and assessing the costs that will be incurred to administer the program (typically one policy with multiple insureds, not individual policies for each member of the group). As a result, the group plan coverage extends to healthy/unhealthy, smoker/non-smoker, male/female, and mentally or physically challenged employees at the same rate. The FEGLI program is consistent in this regard. The contribution rates for the FEGLI program are somewhat higher than the rates typically seen on large groups but are consistent with the claim level under the plan.

The FEGLI rates may be higher than some other group rates for two reasons. One, MetLife's experience shows that mortality rates of government entities are generally 10% higher than those of other groups. Additionally, the plan's open enrollments in 1985, 1993 and 1995 allowed individuals who would normally not have been able to satisfy medical evidence of insurability to obtain coverage or increase insurance coverage substantially.

ALTERNATIVE INSURANCE OPTIONS

The Subcommittee has also requested a discussion of any financially feasible alternative insurance options for federal employees.

Employers generally determine employee benefit plan programs in the following context: employee benefit philosophy, workforce needs, and available funds. As each employer is unique, it is the specific employer's decisions and business needs which determine the most appropriate components of their benefit programs. A summary of a few significant trends in today's large group life insurance marketplace may provide the context for consideration of alternative insurance options:

Purpose of Group Life Benefits

Group term insurance is offered to provide financial assistance to beneficiaries in the event of the insured's death. This is often referred to as "death benefit only" life insurance.

A trend which has emerged in the private sector in recent years and which is continuing to accelerate is the introduction of group universal life and most recently, group variable universal life programs. These plans are sometimes referred to as "cash value and death benefits" life insurance because in addition to the death benefits offered in a term insurance arrangement, the insured has the option to make contributions in excess of the level of contribution required to provide the term insurance death benefit. This enables the insured to accumulate a cash value in the policy, which is usually accompanied by loan and withdrawal privileges. Group universal life can provide permanent insurance that is portable upon termination of employment and can be converted to "paid up" insurance that will not reduce or cancel.

Employers offering GUL or GVUL policies generally do so to meet workforce needs for additional savings and investment opportunities. The plans are generally offered on an employee - pay- all basis. It should be noted that GUL/GVUL plans generally require higher cash outlays than group term insurance plans and are also more administratively complex.

Mobility of Workforce

In response to the widely reported statistics reflecting the diminished likelihood that an entry-level employee will have one employer over the course of his entire career, many private sector employers have introduced voluntary product offerings to their employees. These are benefits made available for purchase by an insurance company to employees at the employer worksite. Premiums for these products are paid for entirely by the employee, usually through payroll deductions.

The voluntary products most frequently offered are Group Auto and Homeowners Insurance, Group Long Term Care Insurance and Group Universal Life Insurance. The products are generally priced to reflect group underwriting and expense practices, and are "portable" -- the employee can elect to take the coverage with him when he changes employers.

A newly emerging trend in optional group term insurance is the introduction of a portability feature. This feature allows terminating employees the opportunity to continue term coverage if they leave their place of employment. The portability feature increases the cost of term coverage.

Voluntary Accidental Death and Dismemberment Insurance

Voluntary Accidental Death and Dismemberment Insurance (VAD&D) has enjoyed increasing popularity in recent years. This is reflective of its very low cost and the protection it

offers against one of the leading causes of death today for younger segments of the workforce. Coverage is provided 24 hours a day, 365 days a year. VAD&D is often an addition to an existing AD&D plan but may be provided as the only AD&D benefit.

Many private sector employers who have introduced this benefit also offer coverage for spouses and dependent children. Benefit features accompanying such an offering now typically include provisions for college education benefits, spouse retraining benefits and child care center benefits, among others.

Employee Education Efforts

Many private sector corporations have recently embarked on education campaigns to inform employees about available resources or issues they should consider when addressing such common challenges as planning for retirement or becoming a parent. The premise for these initiatives is that an employer's concern for its employees' personal and financial well-being fosters employee motivation, morale, and dedication which then ensures employer success.

Although these programs are not insurance programs, the trend is noted here because one expected result for employers introducing employee education campaigns is a greater degree of employee understanding and appreciation of the benefits the employer offers.

The costs of these programs are typically funded entirely by the employer, who tailors the nature and extent of the educational material to fit its budget. Employers are more frequently choosing the Internet as the medium for communicating education material to employees.

I appreciate the opportunity to present these comments to the Subcommittee on behalf of MetLife. Thank you.

Mr. MICA. We thank you for your testimony. And we will now hear from Scott Cahill, chief executive officer of the James B. Greene & Associates. You are recognized.

Mr. CAHILL. Thank you, Mr. Chairman. Mr. Chepenik is going to give our testimony.

Mr. MICA. OK. We will hear then from Mr. Chepenik.

Mr. CHEPENIK. Thank you, Mr. Chairman and distinguished members of this subcommittee. Good morning.

For the record, I am president of Chepenik & Associates and affiliated with the Lincoln Financial Group.

We thank you for the opportunity to give testimony to this committee. As I understand it, our charge is twofold: To compare the FEGLI program with life insurance programs offered by large employers in the private sector and to discuss any financially feasible alternative insurance options for civil service employees.

We have prepared a chart titled "Compare the FEGLI Program with the Life Insurance Programs Offered by Large Employers in the Private Sector" to be used as a guide during the portion of this testimony.

Our research in the FEGLI program consists of a fiscal 1993 statistical abstract and a paper entitled, "Federal Employees Group Life Insurance," dated April 1997.

The private sector data comes primarily from three sources: Our data on Fortune 500 companies, group life insurance carriers that cater to those companies and a report from actuaries that we consult with frequently.

Please note that for this discussion that some companies have gone on to full flex comp strategy whereby each employer is awarded flex funds equal to some percentage of their base salary. They are then able to use those funds to purchase benefits that meet their particular personal needs. We have disregarded data from companies who use a full flex approach to benefits.

If you will refer to the chart, we can look at the benefits and options and compare the FEGLI program to the private sector. If I may direct you to the basic life, which is term insurance, you can see that the FEGLI program provides a one-time salary with \$136,000 maximum benefit. Notation one at the bottom refers to the fact that employees under age 45 receive a greater benefit than one-time salary under the basic FEGLI program. This is very uncommon in the private sector.

If you look at the private sector, we see that the basic term life insurance is also typically one-time salary. However, we are able to get the maximum guarantee issue amount up to \$1 million as indicated by notation No. 2 at the bottom.

Through skilled negotiation, we are able to provide the most competitive underwriting concessions, optional benefits and costs to the client companies.

Under the FEGLI program, the basic term benefit is funded 33 percent by the employer and 67 percent by the employee. In the private sector, we typically see the employer paying 100 percent of the basic term cost.

The first optional benefit is optional term life. Typically, it is a multiple of salary on a guaranteed issue basis. This seems to be consistent between the FEGLI and private sector programs and

both are funded similarly. However, in the private sector, we usually negotiate for an annual open enrollment. This allows each participant the opportunity to buy up or down annually on their optional insurance. Under the FEGLI program, this appears to take place periodically.

The Dependent Insurance Program under FEGLI provides \$5,000 for the spouse and \$2,500 for each child regardless of the number of children. This benefit is funded 100 percent by the employee. In the private sector, we have seen benefits vary from no dependent benefit to up to \$200,000 on the spouse. We feel the dependent insurance plan in the FEGLI program is competitive with that found in the private sector. However, there is an opportunity to tailor a program to offer additional competitive life insurance benefits purchased at the work site.

The next item is post-retirement benefits. The FEGLI program has three options: 25 percent of final pay, 50 percent of final pay and 100 percent of final pay. The FEGLI program appears to be competitive with the private sector. The trend in the private sector has been to move away from providing post-retirement life insurance benefits.

Since there is a tremendous, if not increasing, need and demand for post-retirement insurance benefits, the private sector has been addressing this with very competitive permanent type life insurance policies referred to as group universal and variable life insurance policies.

The next item is optional permanent life insurance. The FEGLI program, to the best of our knowledge, does not offer a permanent product. This is defined as one that would have cash value.

The group universal and variable life products are shown under the private sector. These are 100 percent funded by the employee and can be tailored to the employee's need. We often see these policies fully funded during the employee's working life so the employee would retire with a cash value policy that would potentially require no future premium deposits. These policies also have a feature to annuitize should the retiree decide to receive an income stream from the policy as opposed to providing a death benefit for his or her heirs.

The next benefit is accelerated benefits. Under the FEGLI program, this appears to only apply to the basic life and is funded in the same proportion. The private sector typically provides accelerated benefits for both basic and optional benefits.

The basic is 100 percent employer-funded and the optional is 100 percent employee-funded. There are still a few insurers that do not offer the accelerated benefits, but overall the competitive group carriers are offering this option.

The last item is the conversion. The conversion option is available under both programs and is funded by the employee in both situations. Group conversion policies are typically the least competitive that we see. This is due to the fact that they are almost exclusively adverse selected; i.e., if someone is—if someone can purchase a policy elsewhere, they will because it will be less costly. Therefore, only the uninsurable or the highly rated individuals seek group conversions.

The group universal and group variable products are automatically convertible at the same group discounted rates and avoid the need for the conversion feature. From this discussion, I think we have learned that an optional group permanent life insurance policy would be financially feasible since it would be funded by employee contributions.

As we look to the private sector, we see significant participation rates and good retention shown with the low lapse rates, indicating that the private is well received by the participants.

With this data and discussion before you, Scott Cahill and myself would be pleased to entertain questions and enjoy an open discussion on this information.

[The prepared statement of Mr. Chepenik follows:]

TO: Representative John L. Mica
Chairman, Civil Service Subcommittee

FROM: G. Scott Cahill
Barnett I. Chepenik
Stuart H. Farb
E. Hardy Vaughn

RE: Written Testimony

DATE: April 30, 1997

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Please note before this discussion that some companies have gone to a full "flex comp" strategy whereby each employee is awarded "flex" funds equal to some percentage of their base salary. They are then able to use those funds to purchase benefits that meet their particular personal needs. We have disregarded data from companies that use a full "flex comp" approach to benefits.

If you will refer to the chart, we can look at the benefits and options and compare the FEGLI Program to the private sector. If I may direct you to the Basic Life, which is term insurance, you can see that the FEGLI Program provides 1x salary with a \$136,000 maximum benefit. Notation "1" refers to the fact that employees under age 45 receive a greater benefit than 1x salary under the basic FEGLI Program. This is uncommon in the private sector.

If we look at the private sector, we see that the basic term life insurance is also typically 1x salary. However, we are able to get the maximum guarantee issue amount up to \$1,000,000 as indicated by notation "2." Through skilled negotiation we are able to provide the most competitive underwriting concessions, optional benefits, and cost to the client companies.

Under the FEGLI Program the basic term benefit is funded 33% employer, 67% employee. In the private sector we typically see the employer paying 100% of the basic term cost.

The first optional benefit is Optional Term Life. Typically, it is a multiple of salary on a guarantee issue basis. This seems to be consistent between the FEGLI and private sector programs and both are funded similarly. However, in the private sector we usually negotiate for an annual open enrollment. This allows each participant the opportunity to "buy up or down" annually on their optional insurance. Under the FEGLI Program this appears to take place periodically.

The Dependent Insurance Program under FEGLI provides \$5,000 for the spouse and \$2,500 for each child, regardless of the number of children. This benefit is funded 100% by the employee. In the private sector we have seen benefits vary from no dependent benefit up to \$200,000 on the spouse. We feel the dependent insurance plan in the FEGLI Program is competitive with that found in the private sector. However, there is an opportunity to tailor a program to offer additional competitive life insurance benefits purchased at the work site.

The next item is Post-Retirement Benefits. The FEGLI Program has 3 options; 25% of final pay, 50% of final pay

and 100% of final pay. The FEGLI Program appears to be competitive with the private sector. The trend in the private sector has been to move away from providing post-retirement life insurance benefits. Since there is a tremendous, if not increasing, need and demand for post-retirement insurance benefits, the private sector has been addressing this with very competitive permanent type life insurance policy referred to as group universal and variable life insurance policies.

The next item is Optional Permanent Life Insurance. The FEGLI Program, to the best of our knowledge, does not offer a permanent product. This is defined as one that would have cash value.

The group universal and variable life products are shown under the private sector. These are 100% funded by the employee and can be tailored to the employee's need. We often see these policies fully funded during the employee's working life so that the employee would retire with a cash value policy that would potentially require no future premium deposits. These policies also have a feature to annuitize should the retiree decide to receive an income stream from the policy as opposed to provide a death benefit for his or her heirs.

The next benefit is Accelerated Benefits. Under the FEGLI Program this appears to only apply to the basic life and is funded in the same proportion. The private sector typically provides accelerated benefits for both basic and optional benefits. The basic is 100% employer funded and the optional is 100% employee funded. There are still a few insurers that do not offer the accelerated benefits, but overall the competitive group carriers are offering this option.

The last item is the Conversion. The conversion option is available under both programs and is funded by the employee in both situations. Group conversion policies are typically the least competitive that we see. This is due to the fact that they are almost exclusively adversely selected; e.g., if someone can purchase a policy elsewhere, they will, because it will be less costly. Therefore only the uninsurable or the highly rated individuals seek group

conversions.

The group universal and group variable products are automatically convertible at the same group discounted rates and avoid the need for the conversion feature.

From this discussion, I think we have learned that an optional group permanent life insurance policy would be financially feasible since it would be funded by employee contributions. As we look to the private sector, we see significant participation rates and good retention (low lapse rates) indicating that the product is well received by the participants.

With this data and discussion before you, we would be pleased to entertain questions and enjoy an open discussion of this information.

**"COMPARE THE FEGLI PROGRAM
WITH THE LIFE INSURANCE PROGRAMS
OFFERED BY LARGE EMPLOYERS IN THE PRIVATE SECTOR"**

Basic Life (Term) Funded by:	1x Salary (\$136,000 max) ⁽¹⁾ 33% Employer (ER)/ 67% Employee (EE)	1x Salary (\$1,000,000 max) ⁽²⁾ 100% ER
Optional Term Life Insurance Funded by:	Up to 5x's Salary 100% EE	Up to 5x's salary 100% EE
Dependent Funded by:	\$5,000 Spouse / \$2,500 Child(ren) 100% EE	Varies greatly ⁽²⁾ 100% EE
Post-Retirement Funded by: Post-Retirement Funded by: Post-Retirement Funded by:	25% of Final Pay 100% ER 50% of Final Pay Split Funded 100% of Final Pay Split Funded	Trend is away from Post- Retirement Benefit; Minimal benefit (\$5,000) when offered; Private Sector has addressed this coverage with Optional Permanent Life Insurance.
Optional Permanent Life Insurance Funded by:	Not Offered N/A	Group Universal & Variable Life Insurance Products 100% EE
Accelerated Benefits Funded by:	Basic Only 33% ER / 67% EE	Basic & Optional Basic 100% ER / Optional 100% EE
Conversion Funded by:	Available 100% EE	Available 100% EE

(1) ER's under age 45 receive a greater benefit than 1x salary under the Basic Plan. This is uncommon in the private sector.

(2) Negotiation is a key part of the process. It forces the competitive aspect of the plans and brings new options / benefits to the table for discussion; e.g., accelerated benefits, absolute assignment, beneficiary accounts, higher guaranteed issue limits, etc.

Mr. MICA. Thank you for your testimony and also for your work in preparing this comparison for us.

I would like to ask a couple of questions first of Ms. Brittain. Can you summarize for us the major differences between the management of FEGLI and the life insurance programs that you manage for large employers in the private sector such as General Motors? What is the difference?

Ms. BRITAIN. Sure. I would be happy to do that. I think one of the earlier questions in part of the interchange and the testimony of Mr. Flynn discussed the issue of benefit plan design. I think one of the greatest differences here is that the benefit programs, the actual amounts payable to individuals who choose to participate in a program, are defined by law. That's very unique. We have no equivalent, that I am at all aware of, in the private sector.

So contrary to a normal interchange, with some of our largest clients, where there are regular discussions about new benefit offerings or benefit redesign, we find that this particular customer has some constraints, by definition of the program, that really make that not an agency-only type of decision.

So that is very different in terms of our interaction as an insurance carrier, with our customer, as well as in terms of the program management. There are not a lot of benefit revisions that we are regularly placing.

However, having said that, we have heard the testimony this morning about the evolution of the program and that is very typical compared to the private sector, where for large groups some number of years ago, the one-size-fits-all concept was very typical in benefit plan design, and we do see the evolution toward more employee choice. And certainly that is something that has occurred with the benefits provided to Federal employees.

However, as we just heard, in the private sector, that employee choice component now includes more permanent type insurance, cash value type insurance kinds of benefits.

Mr. MICA. Does OPM seek your professional advice regarding additional options and alternatives they may want to consider for Federal employees?

Ms. BRITAIN. Yes, they do, on a regular basis. We are also aware that they are conducting the survey not just for the life insurance program, but for all benefits, and that's often helpful for us to hear about if there might be a change in health benefit offerings or so forth, if that triggers an idea of how we could gain some consistencies and clarifications for Federal employees eligible for multiple programs.

Mr. MICA. And you also suggest to OPM certain options that are being offered by private employers?

Ms. BRITAIN. We do and on a regular basis we are actively looking at that.

Mr. MICA. Do they have enough flexibility within the confines of the law to adequately pursue some of those options, or do you find limitations?

Ms. BRITAIN. Well, the law is very specific, and I understand it governs the program.

Mr. MICA. I know. But should we have more flexibility given the range of new options and the evolution of insurance coverage and

benefits? Are we dealing with antiquated restraints? Could we do a better job if we went back and modified some of these provisions?

Ms. BRITTAIN. The private sector does have more flexibility and we have seen the trends that large employers, such as the Federal Government, have implemented. So I think that would be something that this committee could look at.

Mr. MICA. So you think we could go back and look at how the law is written and the constraints that we have—

Ms. BRITTAIN. Yes.

Mr. MICA [continuing]. That we make you operate under?

Now, you mentioned some of your expenses in your testimony. You said you have an investment management fee on page 4. I heard you quote that was one of the expenses you charge off. What is that for?

Ms. BRITTAIN. Yes. We manage a very small portion of the funds that support or back the FEGLI program and we receive a fee which really just covers our expenses for managing that program. It is 2½ basis points and it is roughly in the neighborhood of \$100,000.

Mr. MICA. Also, I think you heard my question to Mr. Flynn, about the increase in the administrative costs from 1994 to 1995, which he said, is currently under review. Is there any reason why there should be a 30 percent increase? Was there something exceptional that occurred in that period?

And also in operating expenses, you also had a significant increase, from \$8 million to \$10.8 million. Any light you could shed on that for the subcommittee?

Ms. BRITTAIN. Sure. I can comment on the differential between the \$6.6 million that was referenced in 1994 and the \$9.2 million referenced for 1995. The larger totals relative to operating expenses go beyond the MetLife expenses, and I think Mr. Flynn could perhaps best shed further light on that. But the MetLife expenses did increase significantly, as reported to OPM, in 1995 as compared to 1994. And there are two reasons for that.

One, significantly more work was done in 1995 because of the open enrollment and, two, there was a bookkeeping timing issue so that some of the charges that otherwise would have been applied in 1994 did not get applied to the program until 1995.

Regardless of that, though, I would like to also comment about the area of administrative expenses. It is certainly, in the business that I conduct in the private sector, a focal point for all of my clients, and we give that serious attention. We have, as the committee has been informed this morning, instituted an administrative expense ceiling for the current fiscal year for the FEGLI program. And we are also, as a company, and I think this has been widely made public, aggressively re-engineering our business and restructuring our support staff so that we can reduce our administrative costs.

Mr. MICA. I have sort of an open-ended question for Mr. Cahill and Mr. Chepenik. You have had an opportunity to look at the FEGLI program, so what one or two things would you recommend that we change that would improve the program, just general observations you might convey to the subcommittee? Mr. Cahill, anything?

Mr. CAHILL. Yes, sir, Mr. Chairman. After speaking with three actuaries, several benefits departments and our own knowledge in working in the private sector, large group life carrier cases, we have come to the conclusion that I think you would like to consider or may need to consider some group permanent type of life insurance policy that will allow the employees to dial up or dial down their death benefits for themselves and then also some portable features for their spouses and children.

That would solve some of the problems that Mrs. Morella alluded to earlier as far as conversion after age 65, the optional piece. So that's the biggest piece.

A lot of other things I didn't understand as far as the pricing structure. It seems that the current pricing structure could allow for adverse selection, the fact that it overcharges the young and undercharges the older. But I don't understand enough to make that charge.

Mr. MICA. Thank you. Mr. Chepenik, did you have anything you wanted to add?

Mr. CHEPENIK. No. I think I will go with the comments that Mr. Cahill has made.

Mr. MICA. Thank you. I will yield now to the ranking member, Mr. Cummings.

Mr. CUMMINGS. Yes.

Mr. Cahill and Mr. Chepenik, talk about open enrollment and how significant that is. I mean, in—you briefly talked about it in your statement. But talk about the private sector and do you have any concerns with regard—what are your concerns, if any, with regard to the open enrollment situation with regard to this program?

Mr. CHEPENIK. I will go first, and I think Mr. Cahill probably will add to this.

We typically, in handling a large group, annually from a competitive standpoint, negotiate with that incumbent carrier in getting an open enrollment. If we don't have success with the incumbent carrier, if necessary, as a last resort, we always have the option to change to a new carrier, which automatically gives us an open enrollment. And it is usually not—most large cases do not change on a yearly basis. They often go long-term. So it gives us the ability to negotiate.

One of the advantages you do have, I guess, in the private sector is that you—as evidenced from both testimonies, that most of the employers in the private sector do pay 100 percent of the at least basic life costs, rather than the two-thirds/one-third. So that you have got a nucleus to start with. Even if you don't have 100 percent paid for, you always have the attention of the insurance companies and they are willing to negotiate.

So it is price-driven and the ability to reopen the door to add those few people, or whatever percentage, typically less than 25 percent that might have declined the coverage.

Mr. CUMMINGS. So I take it that you all—you consider that having flexibility with open enrollment to be of some significance; is that right?

Mr. CHEPENIK. Very, very significant.

Mr. CUMMINGS. Did you have something, Mr. Cahill?

Mr. CAHILL. No. I agree with those comments.

Mr. CUMMINGS. Do you think—you have heard the testimony with regard to the program with regard to open enrollment. I mean, do you think that this is too restrictive?

Mr. CHEPENIK. I would—the three of us, one person behind us who is not testifying today, and Mr. Cahill and myself spent 8 hours yesterday talking about the program. We would—we wish they had the opportunity to make recommendations on changing. We didn't realize the Government really sets down the basic guidelines, because we would probably bring some ideas to the negotiation table to redesign and make some more modern items, modern techniques, provided in a new design program.

Mr. CUMMINGS. So am I hearing you right that at this moment, there are some—there are things that you would recommend; you are not necessarily prepared to make the recommendations right at this moment? Is that—am I hearing you right? Would you be kind enough to get those recommendations to us when you can?

Mr. CHEPENIK. Gladly.

Mr. CUMMINGS. We would appreciate that.

Let me go to you, Ms. Brittain. Following up on something that the chairman was talking about, he asked you about possible recommendations for benefits and he talked about—he questioned you about the constraints of the law. And I am just wondering, are there things that we could do in changing the law to loosen the constraints and at the same time increase benefits without increasing premiums?

Ms. BRITTAIN. I would be happy to comment on that. Thank you for the question.

I think that some of the things that might be considered if you were looking to increase benefits without increasing premiums, the one point that was mentioned was the relatively low maximum amount of term insurance that's currently provided under this program, as compared to the size of the program. That is something where the size of the program, I think, could support a much higher maximum benefit with no significant increase in cost.

That would certainly get to those individuals who are looking to protect earnings, for example, in the event of their demise and need family members to pay off mortgages or pay education costs or things of that nature if the benefit itself doesn't cover their total earnings or the appropriate ratio that they are looking for or could find elsewhere. That's an important matter.

Similarly, there was testimony provided about dependent life benefits. That is something that would need to be priced out specifically, but a lot of discussion was given about family members, the changing workforce, the two-career earners that we have now. That is something that while there may or may not be a cost, if there is a cost, it would certainly be very insignificant compared to the costs that are currently borne by the program. And that is something where the benefit level is not, for the most part, although as reported, and a MetLife survey agrees with this, there is a wide variety of family coverage out there. There are many private sector plans that have more significant benefits for family members.

A third thing that I would like to comment on, in terms of costs overall, certainly if employees of the Federal Government are in

need of permanent insurance or are in need of savings vehicles, investment vehicles, greater flexibility of options, a program such as a group universal life program sounds ideal.

It is, I think, important to note, however, when we are talking about costs, that in addition to claim costs we also have administrative costs, and there are two features about group universal life programs that do generate some additional costs.

One is that education piece that I know Ms. Norton is particularly interested in, and that is that the program is significantly different and more complex than what has currently been in place. There is also a lot of flexibility, by definition, with that type of arrangement. But the mechanics to support it, particularly thinking about things like payroll deduction, if you have multiple payrolls, if those payroll systems are not able to easily extract premium funds and so forth, especially variable premium funds, and get the insured the coverage that he or she thinks they are purchasing when they sign up for the benefits, that will dampen or, in fact, perhaps if the administrative issues are significant enough, negatively impact the success of that type of a program.

I am not saying that those should be limiting factors, but I would just like to, while we are focused on costs, bring up the point, because I think it is something that should be reviewed in conjunction with any other aspect of that particular program.

Mr. CUMMINGS. Let me ask you this: Are there any—I am sure each program is unique, but are there situations with MetLife where people are paying about the same amount of premiums, but getting greater benefits, say with the private sector?

Ms. BRITAIN. Yes, there are, but I would like to comment as to why that might be the case. As we discussed a little earlier today, in the concept of group insurance, particularly in the large group insurance environment, the mortality of the group, the actual claims and the amount of those claims—as a function of the individuals that are insured and access those benefits—really determines the largest portion of the cost of the program. It virtually is the cost of the program.

So many large employers who have restructured and might have entered new industries, such as telecommunications or entertainment industries or so forth, whose workforce is very young, very healthy, as a predominant factor, often who have individuals who are very young and very healthy in high level positions and so with the highest level of benefits, those types of programs offer more insurance for the price that might be similar to the Federal Government Group Life Insurance Program.

Mr. CUMMINGS. Well, let me ask you a little different way. With a similar situation that we have with FEGLI, do we have anything comparable at MetLife, I mean, that where people are getting more benefits for the dollar?

Ms. BRITAIN. In our private sector business, we do see many times basic life insurance being entirely paid for by the employer. And that could have a positive impact on the cost. The reason for this being that everyone would then automatically be covered in the program and that would include generally those younger, healthier employees that it was mentioned earlier are the ones that either through a lack of understanding of the importance of these

benefits or for whatever other reasons they might choose, in the case of the current program, actually opt out of that program.

Having said that, I think it is important to note that the 90 percent participation, while in no way taking away the attention that we must pay to those individuals who opt out and do not participate, is a very high participation rate for a program where the employee bears two-thirds of the costs.

Mr. CUMMINGS. Just one last question. You said that the no—and I may have missed this during the discussion.

Ms. BRITTAIN. OK.

Mr. CUMMINGS. You said that the no beneficiary designation increases your costs. Is that right?

Ms. BRITTAIN. I said it makes the program more difficult to pay claims for, and I think by definition that would increase our costs, yes.

Mr. CUMMINGS. Can you talk about—I mean, do most people designate a beneficiary or is it—I mean, would you know what percentage that might be?

Ms. BRITTAIN. I wouldn't know the percentage, but I can find that out and provide that to you. But certainly, if a beneficiary is designated and if the beneficiary designation is properly completed, because there is some need for review to make sure that it is an effective and appropriate designation, then the payment of claims process is much more simple.

In the event that there is no beneficiary designation, again—and this is prescribed, this procedure is prescribed—there has to be a complex step 1, step 2, step 3 approach to determine who is actually entitled to the benefits. Certainly if that were eliminated, either through increased education or through any other mechanism, I think that that would benefit the program.

Mr. CUMMINGS. Thank you very much.

Mr. MICA. Thank you. I yield to the gentlelady from Maryland, Mrs. Morella.

Mrs. MORELLA. Thank you. Thank you all for testifying. I value it.

I want to ask you, Ms. Brittain, about—tell me more about your money market plan for beneficiaries.

Ms. BRITTAIN. Certainly.

Mrs. MORELLA. And if you can get also into the investment concept that you alluded to earlier. I am curious about it.

Ms. BRITTAIN. OK. Briefly, it has been a tradition in group insurance benefits, which we know were introduced relatively some time ago in the early fifties, to offer beneficiaries what is referred to as settlement options.

And the purpose of this is that a life insurance program typically gives the average beneficiary, at a point of very difficult trauma, grief and so forth, an amount of money that might be greater than any sum that that individual might have ever dealt with at one time. And it does so at a time when the person is probably least equipped to make the best decision as to what to do with those funds.

In the past, in the early fifties and sixties and seventies, basically State laws, and I am simplifying for ease of our discussion, required insurance companies to offer a series of settlement op-

tions, such as an annuity or a limited time payout of those large life insurance proceeds.

We surveyed our book of business during the seventies and early eighties and found that very few beneficiaries were taking advantage of those settlement options. In fact, we found that the vast majority of beneficiaries were leaving checks for a huge amount of money in desk drawers, unattended to, because they couldn't cope with them. Or the reverse, they were making instantaneous investment decisions that were not well thought out, that they regretted and that they could not easily undo.

So we created a settlement option, which has now been replicated and is in fact pretty much the industry standard, where when the claim is paid, when the group program has acquitted its obligations, instead of offering a beneficiary a lump sum check with no interest generated on that check until the time that they positively elect to do something with it and make a decision about what they want to do, we offer a money market option.

And what that does is basically give the beneficiary a checkbook instead of a check. It generates interest at competitive rates until the funds are taken out of that money market option.

If the beneficiary has plans for the funds, maybe there was a long illness and residual medical expenses must be paid, or maybe there is an investment plan, or an estate plan, all they need do is write a check on that money market option for any or all of the funds and negotiate it at any bank or investment company, as they would a check would their own personal checking account. So there is no restriction on their use of the funds.

On the other hand, if they are confronted by a sudden tragedy, such as the Croatian situation that we encountered, or any of the private tragedies that are not always headline news, they have the time that they need to decide what to do with those funds.

Mrs. MORELLA. Is it popular?

Ms. BRITTAIN. Yes, it is very popular. In fact, we specifically surveyed, at OPM's request, the FEGLI beneficiaries and we got a 99 percent satisfaction rate—I believe the distinction was 90 percent were highly satisfied and 99 percent were somewhat or highly satisfied.

Mrs. MORELLA. Excellent. Excellent. That's splendid.

Let me throw in something that may be somewhat controversial. And that is the idea of you know how our Federal Employee Health Benefit Program allows all the options. There are a myriad of possible plans that you can utilize in companies. Would you like to comment? I mean, I know what your answer is but would you give us some reasons why you think that might not be the best idea? And I assume that that is going to be your stance.

Ms. BRITTAIN. I think what would not be the best idea, as I understand health plans—I am not an expert there—but I understand that there is an annual open enrollment period amongst all the plans. And the reason that I would not be in favor of that, and I know there is a differing opinion here—

Mrs. MORELLA. I am going to ask them also to respond to it.

Ms. BRITTAIN. Is basically because of the experience that we have seen and because of the different nature of group life insurance programs as compared to group health insurance programs.

Life insurance programs, as complex as things like the order of precedence ruling for the OPM program in lacking beneficiary designations, as complex as that might be, adjudicating life insurance claims does not impact the ultimate result to the beneficiary as long as it is done accurately and in a timely fashion.

Whereas in the health care arena, the actual method in which care is delivered and in which the benefits are received is very different, for example, in an HMO environment than it may be in an indemnity environment when you get into issues like choice of providers and preventive care and other different reimbursement items.

So in a life insurance environment, basically employee choice is more in terms of what are their personal life insurance needs or savings objectives. And usually that is defined or the amount of choices or the amount of available insurance is defined by the employer, basically saying what do we know about our workforce and what do we know about our administrative capabilities?

So in that context, I very much favor or would recommend to any large employer a life insurance program that does offer choice of benefit levels.

Specifically addressing the issue of whether that choice should be offered annually on an open basis to all potential participants, I would offer the following: We heard testimony this morning about the fact that individuals who opt out of coverage and then specifically select life insurance coverage generally do so when they know about adverse health status. And you see that in the cost of the plan.

We also know that there are provisions in most plans, and the FEGLI program includes this, that for individuals who might not have particular levels of coverage but have life events that would normally require a reassessment of their needs, such as marriage or divorce or birth or adoption of a child, they have the option to at that time, without medical evidence of insurability, change their selection.

To, without medical evidence of insurability, annually invite participants who are not currently in the program to assess their needs really will attract to the program those individuals who feel strongly that their beneficiaries will need their benefits.

That may be a choice, but what we have found is that the cost, both of the enrollment itself, and of the resulting claims, particularly in a program where participation levels are relatively high, is not necessarily sufficient to address the cost to the program.

Mrs. MORELLA. Gentlemen, would you like to comment on that, whether there should be more competition within the system?

Mr. CAHILL. The annual open enrollment is a benefit to the employee and it helps them decide what they need, how much and when. It is done typically on a short period of time before the annual renewal of the contract. I do agree that it would be adverse selection and, as Mr. Flynn stated earlier, there was about a \$50 million hit in the last open enrollment.

Over time, if you have an open enrollment, over time that number will not be as significant at each open enrollment because it becomes commonplace as opposed to people having a pent up demand to get on the plan the next time they have the opportunity. And

in the private sector, if one carrier won't do it, we will find one that will.

Mrs. MORELLA. Very interesting.

Mr. CHEPENIK. I would like to just add to that.

Mrs. MORELLA. Expand on that. Thank you.

Mr. CHEPENIK. Life insurance is a lot less complicated than health insurance. Under an HMO program, a federally qualified HMO, it is required that you have an open enrollment on an annual basis, and somebody having health problems coming in to work for a new employer, having a major problem or pregnancy, 2 months later goes into the HMO, has no pre-existing condition and gets instant coverage. And so probably often where exposure could exist on the HMO side and on the health side than it would on the life. A comment that Mr. Cahill used, over time life insurance should level itself out. So it is a very key tool for negotiation for the consultants, the agents, as we negotiate with the private insurers. It assists and it works.

Ms. BRITTAIN. Can I offer an additional comment on that?

Mrs. MORELLA. Yes, you may.

Ms. BRITTAIN. Some of the experience that we have seen in the private sector from employers who began early on when group universal life was offered, to offer on a regular basis employee-pay-all life insurance annually, with or without multiple carriers, although almost entirely it has been with single carriers, found that a number of those programs got into trouble very quickly.

The mortality assumptions that had been built in did not anticipate the cost of selection against the program. And what this did was put a number of employers very much in a bind because, keep in mind, these are typically employee-pay-all programs.

So here they did a fine job of trying to offer state-of-the-art benefits, communicating extensively because it is a more complex benefit than the traditional group term benefit, and then found themselves having to go back to employees and request premium increases.

What happens in that kind of a situation, and I think we do have some health care parallels there, is that the individuals who are healthiest, who can get a better deal elsewhere, are quickly enticed to do that, which leaves then an even less attractive risk for the program and, again, tends to accelerate the cost increase. To move the program to try to avoid the cost increase, move it by administrator or underwriter or insurance company, may in some instances postpone the inevitable, but I don't believe that it would prevent it.

I think we could provide some case studies or examples if that would be of interest to the subcommittee.

Mrs. MORELLA. I appreciated your response.

Let me just pick up on what I had mentioned to Mr. Flynn, that I had in the last Congress introduced legislation to allow retirees with dependents with severe disabilities to retain their optional life insurance, which they can't do now. And he did say that he thought it should be applied to the entire retiree population without restricting it. And I just wondered from MetLife your response to that?

Ms. BRITTAIN. We would agree with that assessment.

Mrs. MORELLA. You would agree with that?

Ms. BRITTAIN. Yes.

Mrs. MORELLA. You have no problem with having that extended?

Ms. BRITTAIN. No.

Mrs. MORELLA. And I guess just finally, since that was such a fast answer, I will just indicate that I think Mr. Flynn, when he first made his comments, talking about what possible changes might take place, looking at your comparison here, with regard to the amount that dependents get, it says that in the private sector it varies greatly.

My recollection from his testimony was that maybe we need to look at that because we may not be on the Federal level paying as much as we should.

So I just wondered, could you synchronize that for me? You say "varies greatly." You make individual determinations and what do you factor into the determinations? And do you think it should be increased? I mean, if it varies greatly, I don't understand this increase. There must be some range you are talking about. So OK. Explain that.

Mr. CHEPENIK. Varies greatly, there are some employers, large and small, that don't offer any dependent life coverage. And where we said that we have carriers that provide up to \$200,000 of group life coverage for the spouse and, of course, typically at 50 percent value, so if a spouse—if an employee had a one-time salary and a spouse which, in the private industry could equate to \$300,000, \$400,000, \$500,000 in life insurance, if the spouse had \$200,000, the child would have \$100,000. If the spouse had \$50,000, typically it is one half of the coverage.

So often you will see \$10,000 at least for a spouse and \$5,000 for the children; \$25,000 for a spouse, \$10,000 or \$15,000 for the children. So they are typically higher amounts offered in the private sector than you have today. Why we say offers—varies greatly is because there is some companies that don't offer any.

Scott, would you like to respond?

Mr. CAHILL. We couldn't compartmentalize this benefit like we could the one-time salary basic because it is truly all over the board.

Mrs. MORELLA. You said you could not compartmentalize?

Mr. CAHILL. Yes, the spousal benefit and try and put a simple answer for you in this format.

Mrs. MORELLA. OK.

Mr. CAHILL. It would take every company—in a random sampling of probably 6 or 8 large employers on Monday, there were no two that had the same but they all had the same basic.

Mrs. MORELLA. You are saying that you look at what the benefits are going to be for the spouse and the client and make a determination through that, the companies make a determination?

Mr. CHEPENIK. It is typically negotiated with the employer. The Human Resources Department is where we would start and management of the company, where they have set so many dollars aside and have asked for an analysis of the benefits, what could be offered. And we would then propose, we could offer a one-time salary for life insurance and then propose a few different levels of de-

pendent coverage, and it is from a negotiations standpoint that the employer might say, great, we will take the one-time salary.

Can you get us \$500,000 of guaranteed issue? And the answer would be, yes, and we will show them what it would cost to give them \$100,000 of spousal coverage and a lesser amount for their children and what it would cost for \$50,000. And some employers will say, great, let's take the \$50,000 and we will pay for the life insurance and provide this much offered to the employees, and the employees would in turn then select and pay for that spousal coverage. So it really becomes an individually negotiated item with each employer.

Mrs. MORELLA. Sounds like a dice game.

Do you think that—do you think that, therefore, we should keep it the way it is? Or do you think it should be open to some changes?

Mr. CAHILL. I think there is opportunity to evaluate it.

Mrs. MORELLA. Evaluate it?

Mr. CAHILL. I believe that's the same comment Ms. Brittain and Mr. Flynn came to.

Mrs. MORELLA. OK. Great. Good. Well, I want to thank you all. Thank you, Mr. Chairman.

Mr. MICA. Thank you, Mrs. Morella.

I recognize now, Ms. Norton.

Ms. NORTON. Thank you, Mr. Chairman.

To get to the bottom line, the fact is that the Government's program, even given some tradeoffs, is not, from an employee point of view, not as good as private sector programs, the way in which the Government has constrained its costs and options and benefits; is that not the case?

Mr. CHEPENIK. That would be a correct statement.

Ms. NORTON. I just put that on the record because of the notion that somehow Federal employees are robbing the bank, that I was, frankly, a little surprised to look at the chart and to follow your testimony to find that the Government has been—the Government has been at some pains, it would appear, to make sure that it was not a leader in this regard, where it sets the example for the rest of the country, but that it was following the leaders in the private sector.

Considering the size of the employer we are talking about, I think that ought to be noted for the record and for those who claim that Federal employees are somehow robbing the bank.

When you talk about improvements that could be made in the program, I have some confusion as between Ms. Brittain's testimony and the improvements that you two gentlemen speak of. Are you talking—she seems to say that she thinks some things could—improvements could be made without adding to premiums. Are we talking about no-cost improvements in the program? Because obviously we can all think of ways to improve the program.

But are we talking about ways to improve the program with no additional cost to the Government and no additional cost to the employee? I would like each of you to answer that.

Ms. Brittain.

Ms. BRITTAIN. Certainly. As I mentioned, I believe that the size of the program that is currently in place could probably—at virtually no cost—

Ms. NORTON. I am sorry. I cannot hear you.

Ms. BRITTAIN. As I mentioned, I believe that the size of the program as currently in place could support a higher benefit level at virtually no cost to the employer or to employees than is currently in place, and that would certainly satisfy needs if there are individuals who do not feel they get as much income replacement as they believe they need in the event of the death of a primary breadwinner.

Ms. NORTON. Is the reason that that does not occur automatically constraints of law?

Ms. BRITTAIN. That's my understanding.

Ms. NORTON. So if there were certain changes in the law, employees could get enhanced benefits without costing the Government anymore—without accruing anymore costs to the Government?

Ms. BRITTAIN. I believe that's a correct example.

Ms. NORTON. Would you provide to this committee those options?

Ms. BRITTAIN. Sure.

Ms. NORTON. Mr. Cahill, Mr. Chepenik, do you want to respond to that, too? You also are talking about improvements of the kind Ms. Brittain has indicated with no cost to the Government and no additional premium cost to the employee?

Mr. CAHILL. We believe that there are opportunities to change the structure of the benefits and it would take actuarial evaluation. Ms. Brittain has access to that data that we don't, and if she says it could be done with little or no cost, I would go with that.

She did make a good point on the group universal, where there is a cost even if it would be employee-funded, a cost of the payroll deduction and the enrollment, things like that. And that is a discussion on who is going to bear that cost, whether it be the carrier or the employer.

Ms. NORTON. I don't want to get—the reason I am intrigued about what you had to say during your testimony, Ms. Brittain, is because I really do not want to get into a situation where we are talking about more cost to the Government, because that is a non-starter.

But, Mr. Chairman, at a time when Federal employees find year after year that they essentially are, if you will forgive the pejorative, giving back part of the statutory pay raise, the notion that there may be enhanced benefits out there at no cost to the Government and with no premium cost to the employee is, it seems to me, very, very much worth following up, particularly given the next 5 years, the years where the employee is already behind the private sector and obviously deliberately behind the private sector, it would seem to me that we had an obligation to maximize at least this benefit, particularly given the very large employee participation in this benefit.

Mr. MICA. Absolutely. Thank you.

Did you have additional questions?

Ms. NORTON. I have—yes, I have just two more questions.

One, I want to know how the reinsurers are chosen and I want to know how the bank is chosen.

Ms. BRITTAIN. I can address both of those items, Ms. Norton. In terms of the reinsurers, to be a participant reinsurer you have to meet qualifications, again, either by law or by regulation. I can certainly get for the record what those qualifications are. I believe that they consist of things such as being licensed to do business in something like 47 or 48 States and the District; reaching a certain financial solvency level; having a certain number of assets in the program.

Ms. NORTON. You are giving me qualifications. Is there any other—

Ms. BRITTAIN. No.

Ms. NORTON. Whoever comes forward gets to be one, to be qualified?

Ms. BRITTAIN. To my understanding, if they meet the qualifications that are clearly defined, then they are welcome to participate.

Ms. NORTON. So everybody—there is something like 47 or 48, you testified, were reinsurers?

Ms. BRITTAIN. Yes.

Ms. NORTON. So essentially everybody can be an insurer?

Ms. BRITTAIN. If they meet the qualifications, yes.

Ms. NORTON. Yes, all right. How about the bank, how was that chosen?

Ms. BRITTAIN. MetLife, in creating the new settlement option, the money market option that we spoke about earlier, needed to find an agent that would perform the banking functions under that kind of an arrangement that MetLife does not have the capability to do. And so they did a search of the marketplace to canvas for capabilities as well as cost-effectiveness of providing those services.

State Street Bank was chosen at that time, and I don't know the specific time period, but it was probably over 10 years ago. It's my understanding that State Street Bank now provides those services for most of the insurance companies in the industry that offer that type of benefit.

Ms. NORTON. I was astonished, finally, to read on the last page of your testimony, Ms. Brittain, that mortality rates in Government entities are generally 10 percent higher than those of other groups, which translates, I take it, into Government employees die faster or sooner than other employees. I wish you would comment on why that is the case.

Ms. BRITTAIN. Certainly. That is a result of a review of our book of business. And we think that particularly in the book of business that we have, the Government entities that we insure, for most of them, the complexion of the group is older workers, male workers. The experience that we have seen is that there are higher dollar amounts and more frequent claims on those groups than on groups in dissimilar industries.

Ms. NORTON. So Federal employees are older workers?

Ms. BRITTAIN. Government entities in general that we insure, that book of business demonstrates that there are more claims on that book of business that we insure, for any governments that we insure, than the non-Government entities.

Ms. NORTON. It is very interesting because—and, again, I realize we are dealing with a different entity here, different denomination, apples and oranges, but in health insurance, of course, where these same employees are insured, same diversity, more exposure, that apparently is not—or at least the insurance premiums have been going down every year. Is that the case with health insurance? Let me ask you, compared with—where you compare our health insurance with others, where we have, of course, a great deal of competition as we do not here have, within the policies offered.

Ms. BRITAIN. I cannot comment on the experience of health insurance for Government and non-Government employees. MetLife is no longer in the medical insurance business. But I can mention, and I cannot say that this is a direct tie, but as all the panelists here have mentioned, in the private sector typically that basic insurance coverage is fully paid for by the employer. So there is no opting out. And there are typically more younger, healthier individuals in the benefit mix. So I think those two—that fact and the mortality fact, I think, really need to be viewed together.

I think you are seeing in the experience in the life insurance programs another impact of that contribution rate that's being charged to government entities typically, or other public groups.

Ms. NORTON. It is interesting because the implication of what you are saying is that if the Federal Government paid for everybody's health insurance, with no opting out, paid 100 percent, then it would cost the Government less!

Ms. BRITAIN. Potentially, in the long run it could save money.

Ms. NORTON. I want the record to put an exclamation point behind that matter that is now in the record.

Thank you very much, Mr. Chairman.

Mr. SESSIONS [presiding]. Thank you so much. The chairman has stepped out so I will preside in his absence.

It was my turn, anyway, to ask questions so he felt that that was probably pretty appropriate.

Thank you for taking time to be here. I think you have gone through a good number of questions and the one thing that did not—was not readily available to me when the question was asked probably by our chairman or Mrs. Morella, I really don't remember, but when we talked about what private or other non-Government services, products would be available as opposed to the Government, we kind of, in my opinion, didn't specifically ask what are those things that are offered out there to other people that is different than would be available for the Federal Government life insurance?

Can you just let me enumerate with that, either of you, please?

Mr. CHEPENIK. Sure. The group variable universal life or a group-type product which has cash value, would be an item that could be offered. That, to our knowledge, is not being offered currently in any governmental program. It could be offered with multiple options; on a long-term basis would save—an employee could have multiple cash at the end when they decide to retire, 10 years, 20 years, 30 years and make it as flexible as possible and make it as competitive as possible so that the decision made today doesn't mean that you have got to live with that decision 20 years from now.

It needs to be a flexible product. That's one item that is not offered and that we think could be, and it could be done by employee's money.

Mr. SESSIONS. That is something that we, the Congress, or the laws or rules that we have laid in place has put—has made it impossible or is that simply not a part of the product offering that we have decided?

Mr. CHEPENIK. I would give my best guess. I would probably have to ask Ms. Brittain. I don't believe that it is dealt with in the law. I don't know that there is a restriction. I just don't think it has been looked at or offered. I haven't seen the law and can't interpret it, but I would imagine it is probably not restrictive. It has merely told you what you can have. It probably hasn't said that if you offer this benefit to the employees, it could be done.

Mr. SESSIONS. OK. So the question, which I think you know what it is, is what I am trying to get at is, is to determine, within the contract, within the pricing structure, to where we put no one at risk, are there benefits or is more flexibility—could it be allowed and is there an impediment to that? And what would your suggestion be, please? Did I say that right?

Mr. CHEPENIK. I think you said it very distinguishably.

Mr. SESSIONS. Since I am the chairman, we will say I did. When Mr. Mica comes back, he will have a decision probably on it. Please.

Ms. BRITAIN. Sure. I would be happy to comment on that. My recommendation would be that you separate your question into two issues. One would be, if the Federal Government were created today with the workforce of today and projected for the future, what are the benefits that would be of most value to the workforce and also, keeping in mind the chairman's assignment, the best possible deal also for the taxpayers?

I think if we had the answer to that question, we could certainly go backward in terms of what is currently available and where are the differences. And I believe that from Mr. Flynn's testimony that is underway with the broad review that he has already initiated, and I believe results are expected in the fairly near future there.

Second, I think, on a technical aspect, it is my understanding that the law defines what benefits are available under the FEGLI program, that it can be amended, and I believe it has been amended, to offer changes. But I don't believe that benefits, called a part of the FEGLI program, can be offered without a change in the law.

Mr. SESSIONS. So you believe that in the instance that was given with the cash value that that would be a change of the law as it relates to the product that you are offering via the Federal law?

Ms. BRITAIN. It is my belief that to introduce a cash value or a permanent life feature under the FEGLI program would require a change in the law.

Mr. SESSIONS. Let me ask your opinion, then, as the representative from MetLife. How would you—what would be your evaluation? If we did think about changing the law and offering this, would it substantially alter in any way your ability to either provide that product or unreasonably change your offering that you know today?

Ms. BRITTAIN. MetLife is a leader in the area of group universal life and we also were the first major insurance company to introduce group variable universal life, so we believe we have a product array that could meet any large employer's needs.

Having said that, that is very different from the product that is currently in place and it would require different pricing and an extensive actuarial analysis once the plan design were determined.

Mr. SESSIONS. Would you prefer that my comments be taken as a suggestion that you look at that or would you like for me to write you to ask for that?

Ms. BRITTAIN. I think a suggestion is fine.

Mr. SESSIONS. Because I am interested in when we do come to some consensus about what might be better, that I believe that Federal employees, as well as the taxpayer, be given some evaluation of what we are doing.

So I tell you what I will do. We will followup with a letter asking for this to be done so that you look at and give some evaluation.

Ms. BRITTAIN. Thank you.

Mr. SESSIONS. Good.

Mr. CHEPENIK. A second item that you addressed, as far as what other benefit could be offered within the same dollar amount, I think is broken out in two pieces, and that MetLife indicated that it could be done. And without specific numbers, we couldn't put the exact numbers, but an example, instead of the Government spending any more money, possibly the employee would reduce the employee's cost and end up with the same benefit, if there are apparently some extra dollars that could be placed in from the actuarial study.

Mr. SESSIONS. Good. Thank you. Thank you so much.

I will followup with that letter.

Mr. Chairman, even your counsel admitted to me that I got too comfortable in your chair. So now that you are back, sir, let me be more submissive in my role and thank you for allowing me the opportunity for that time. Thank you, sir.

Mr. MICA [presiding]. Thank you, Mr. Sessions. You are going to do very well on this subcommittee.

Mr. Ford, you are recognized.

Mr. FORD. Thank you, Mr. Chairman. Let me underscore my freshman colleague's point. He looked darn comfortable in your chair in your absence.

Mr. MICA. I feel like I am being eyed from both sides here.

Mr. FORD. Let me thank the panelists and again thank the chairman. I join with Congressman Sessions. I would like to followup with you on that issue as well. I have some questions and concerns, and I think we may be on the same page there.

I apologize for not being here for the majority of the hearing, Mr. Chairman. We had a markup dealing with the Careers Act on the Education Committee, and I do apologize.

Just one very quick question, dealing with portable life insurance and the magnitude of the cost, if any, or the extent of the cost, if any, associated with providing portable life insurance. If one of the panelists might be able to respond?

Mr. CAHILL. The group universal is portable.

Mr. FORD. Oh, it is portable?

Mr. CAHILL. Yes.

Mr. FORD. You answered it very succinctly. I appreciate it.

With regard—one other question. With regard to what Mr. Sessions has talked about in terms of that—you talked about how it would substantially alter the product which is offered now. In terms of cost, could you—I hesitate to ask you to speculate as to what the costs associated with that might be, but could you give us some idea of, when you talk in terms of substantial alterations, what that might constitute?

Ms. BRITTAIN. I don't feel comfortable giving an estimate of new charges versus current charges because there is a wide variety of group universal life plan design programs that could be offered. But to get at the issue, I think there are two components of why the cost structure is different.

One is that the benefit to the participants is not just term insurance. It is term insurance plus cash accumulation. So there is a different nature of what we are insuring. There is also separately a different administrative structure that's required. In the current term insurance environment, it is a very simple payroll deduction type of an arrangement.

With the group universal life product, where there are cash value features, there are typically administrative transactions that don't exist under group term. Some examples of those are changing variable deductions. This month, I want to contribute more; last month, I contributed too much so I want to contribute less. That takes some followup to make sure that that is done appropriately.

Also, there are typically loan or withdrawal provisions, one of the major attractions of that benefit. And usually, depending on how the benefit is designed and what those features are, then the cost is a function of the projection of how many loans, how many withdrawals, how would that work? So that's why the plan design really has to come first before the pricing structure, but that is why there is a differential there in the pricing.

Mr. FORD. Thank you. Mr. Chairman, I would just ask if I could submit my opening statement for the record, if that is permissible?

Mr. MICA. Yes. Without objection, so ordered.

[The prepared statement of Hon. Harold E. Ford, Jr., follows:]

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Congress of the United States
House of Representatives
Washington, DC 20515-4209
Civil Service Subcommittee Hearing

"Federal Employees Life Insurance Program: Could We Do Better?"
April 30, 1997

The partnership between the federal government and METLife to provide life insurance to federal workers has been and from all indications will continue to be a success.

The FEGLI program currently offers 90% of the permanent federal workforce a broad range of coverage options at reasonable rates.

Although there may be ways to improve slightly upon the existing FEGLI system, I believe our energies should be directed toward determining whether this program can be expanded to cover a broader range of federal employees -- for example long-term non-permanent workers -- without jeopardizing its effectiveness or efficiency. In other words, rather than addressing the needs of the 90% of the federal workforce that already receive comprehensive, cost-effective life insurance, I think we should consider addressing the needs of the thousands and thousands of hardworking non-permanent federal employees who cannot qualify for such insurance under existing law.

If FEGLI can be expanded and remain successful, we owe it to those federal workers who are currently ineligible for coverage to provide them with an opportunity to take advantage of the benefits of life insurance.

Mr. FORD. Thank you.

Mr. MICA. Well, I have a couple of concluding questions here. First of all, Ms. Brittain, there is \$17 billion in the trust fund, which has accumulated over the years. It is invested in nonnegotiable certificates of indebtedness or U.S. Treasury, all but a minuscule amount.

Is this reserve adequate, in your estimation?

Ms. BRITTAIN. Well, MetLife plays no role in establishing what the reserve is.

Mr. MICA. Right.

Ms. BRITTAIN. But certainly, as we know, the claims are roughly \$1.6 billion a year, and with a reserve of 17-point-some billion dollars, that more than covers a year's claims. The reserve is also designed to mitigate changes in agency or employee contributions, as well as to take into account that retirees, assuming that they follow through with the current benefit structure and do not elect to enhance that, pay no cost to continue their benefits. And certainly if the retiree population is growing, we might see increased claims.

Mr. MICA. It is now earning a minimum return. I don't know if you would like to comment, but with a trust fund of that size—there may be some investment restrictions now, as far as law, but it seems kind of money, you could at least take a portion of that money and invest it for a higher return than 7, 8 percent, whatever the current one is.

Ms. BRITTAIN. I was struck by your comments earlier, Mr. Chairman, about the private sector and owning your own business and how you might invest your funds. Most of our clients are aggressively monitoring what their funds are and the investment return they have.

Most of our clients are not in the same position as the Federal Government would be with the additional investment and Treasury-related and deficit-related questions, so beyond that I don't believe I can comment.

Mr. MICA. Well, I happen to have a MetLife IRA account and I have them divided up into three different categories. Some are very secure CDs and others, the wild card, and others in blue chips. And I can't recall my exact return for the last 4 or 5 years, but it is pretty phenomenal.

Ms. BRITTAIN. Glad to hear that.

Mr. MICA. It is from the private sector. But just looking at those statements, I have about doubled in about 5 years with MetLife handling my money. And here I see \$17 billion sitting there, which concerns me that our public employees aren't receiving some benefit or the Government isn't receiving a better benefit.

So part of the constriction is set by Congress, and we need to go back and look at that.

You also have 90 percent participation, you said. What percentage of participation do you have in this State Street Bank arrangement? Are they controlling all the funds that go to a beneficiary or into an account?

Ms. BRITTAIN. I would be happy to address that. State Street Bank administers the individual money market accounts. They keep the records. They clear the checks that pass through the money market account. They do not have any funds. MetLife re-

tains the funds on behalf of those beneficiaries that elect to keep the money market option.

Mr. MICA. Is there 100 percent participation of those?

Ms. BRITTAIN. Basically, any claim that is paid under the FEGLI program where the proceeds are \$7,500 or more—that is, with the exception of some retiree claims, virtually every claim that is adjudicated. And once the claim is paid, then the automatic option for the beneficiary is the creation of the money market account.

Mr. MICA. So you say automatic option.

Ms. BRITTAIN. Or the automatic process.

Mr. MICA. Is that 100 percent?

Ms. BRITTAIN. Yes, 100 percent of claims \$7,500 or more, with very strange administrative exceptions, such as if somebody designates multiple beneficiaries in a unique legally sanctioned way, but basically I think it is fair to say that 100 percent of claims of \$7,500 or more.

Mr. MICA. Mr. Cummings asked about the relationship between State Street Bank and MetLife. You don't bid that? Is that put out for any kind of offering? You just negotiated a deal with them to do this?

Ms. BRITTAIN. It is regularly reviewed. I know when we began the program, no one else had it and they were best suited from our search for companies that could do this program, and I assume that that was either a bid or an RFI process. They have become the standard provider of this service in the industry. Nonetheless, MetLife regularly reviews the marketplace capabilities there.

Mr. MICA. Now, does MetLife get anything back in return for their participation?

Ms. BRITTAIN. MetLife pays State Street for the services they provide.

Mr. MICA. They do?

Ms. BRITTAIN. Yes.

Mr. MICA. There is no arrangement where any money goes back to—

Ms. BRITTAIN. No. There is no transfer of dollars. The dollars that the beneficiaries elect to keep with MetLife through their money market option account are managed by MetLife's investment department and part of our general account.

Mr. MICA. And the money that you are paying State Street, is that one of the costs that we are assuming, that you pass on to us?

Ms. BRITTAIN. No. There is no cost for the money market option. That is incorporated in our overall cost of doing business. There is no charge to the programs that participate.

Mr. MICA. So there is no money that changes hands—

Ms. BRITTAIN. No, there is no—

Mr. MICA [continuing]. Between MetLife, State Street or?

Ms. BRITTAIN. No. State Street is paid a fee for the services that they provide.

Mr. MICA. And you don't charge that off?

Ms. BRITTAIN. And we don't charge that off.

Mr. MICA. OK. I think we asked in our questions, and I am not sure if you got it or not, but—now, we talked about private sector and maybe I am trying to compare apples and oranges—I hope not, because I think we need to be headed in that direction—but big

States and big municipalities, do you have any record of experience, what kinds of premiums?

I think we asked this question, and I don't know if you can answer it here, but I would like to see what employees in big municipal or governmental settings are paying, what benefits they are getting, what kind of coverages in comparison. Can you provide us with that?

Ms. BRITTAIN. Yes. I can comment on that now, actually.

Mr. MICA. If you would.

Ms. BRITTAIN. Most of the public sector benefit plans are similar to the FEGLI benefit plans, and I would preface this by saying this is based on our review of our own public sector plans and any active prospect files that we have. And in saying that they are similar, I would focus on two points.

One is in terms of the basic term insurance, most of the public sector plans that we are aware of do not have a fully employer-provided basic term life insurance. The employees do contribute some portion of the cost just as the FEGLI program requires.

Also in the area of supplemental life insurance, to our knowledge most of the large public plans that we are aware of, do offer supplemental benefits which account for employees making elections and paying all of the costs. But those supplemental benefits are typically optional term insurance, just as the FEGLI program is.

We do not see currently any penetration or any significant penetration of the kind of cash value or group universal life coverage that we have just discussed as characteristic in the private sector.

Mr. MICA. The final question. Now, when we started this some 40 some years ago, MetLife was the big big provider, carrier, whatever you call it.

Ms. BRITTAIN. Top dog?

Mr. MICA. Top dog. Are there others that have this capability today? Where do you all rank? Are there others that could compete to provide this service with the same type of asset base?

Ms. BRITTAIN. Well, MetLife and its affiliates have some \$300 billion of assets under management. We also have approximately \$1 trillion of group life insurance-in-force. That certainly makes us far and wide an industry leader.

Having said that, I would like to put that in perspective. Our share of the FEGLI program is approximately \$175 billion of insurance. So the difference between \$1 trillion and \$175 billion clearly shows us that a lot of companies in the marketplace have chosen us.

We were very pleased when the Travelers Insurance Co. decided to exit the group or employer-provided benefits arena; that we had the opportunity to decide if we wanted to purchase that business. We did purchase that business and it is a competitive world so we had to prove our capabilities to those former Travelers' clients and we were able to do that and retained, beyond our highest expectations, those clients.

So we believe that we are uniquely positioned to provide this coverage and also that we are an industry leader.

We also, though, function in a private world. We welcome competition and we are out there every day proving our merit. So for our largest client, which the Federal Government is, we certainly

expect that interviews like this and our ongoing relationships with OPM and the FEGLI participants, who I realize may include many of you and certainly your staffs, will continue to get the good reviews that we have gotten so far.

Mr. MICA. Thank you for your testimony.

Mr. Cahill, are there any folks that can provide the same kind of services today as opposed to 1954, from your experience or knowledge?

Mr. CAHILL. I would certainly believe that there are other carriers that could provide the same service. And after reading the information, I believe that was also available in 1954, but the reason stated was they were chosen because they were the largest at the time.

Mr. MICA. Did either of you have anything else you would like to contribute at this point? Mr. Chepenik.

Mr. CHEPENIK. No. It has been a very informative process for us, as we view this, and this is my first opportunity at something like this. And I guess I would just say that negotiation is probably the key part of any process, and look back at our own block of business, between myself and Mr. Cahill and Mr. Farb, and it is constantly looked at on a yearly basis and negotiated on a regular basis and not just with the existing carrier. That's what keeps it competitive and makes it possible to provide options.

Mr. MICA. I want to thank both of you and Mr. Cahill, Mr. Farb, for coming at your own expense, putting your neck out. I think the life insurance industry is a pretty cozy group, from what I have learned. Sometimes we ask people to step forward and make comments or evaluations and we do that in the light of competition.

As you have learned some things today, the two new panelists, I guess all of—you may also be new, but this is the process. We are only temporarily here on behalf of the taxpayers. And also this subcommittee represents the public employees, of which we just happen to be temporary public, part-time public, employees on a brief, at least the elected folks, on a brief retainer here, a 24-month contract. So we are trying to do the best we can.

I am convinced, after the hearing, that we can do a better job in providing possibly lower premiums, at least better coverage and benefits from what I have heard, and will charge—and Mr. King is going to get a letter from me today or tomorrow asking for what corrections we might or modifications we might make to law; what improvements might be recommended. You are going to get a letter, too, from me, for MetLife, for suggestions that can be volunteered from the private sector.

While we can't always improve the compensation over and above what meager increases Congress can provide, we can look at these benefit programs and see what can be done to provide a little better coverage at lower premiums and costs to our employees, and also to the taxpayer.

So if there is no further comment or business before the subcommittee this morning, this meeting is adjourned. Thank you.

[Whereupon, at 12:30 p.m., the subcommittee was adjourned.]

[Additional information submitted for the hearing record follows:]

James B. Greene
& Associates Inc.

G. Scott Cahill, CLU
Registered Representative

June 24, 1997

Representative John L. Mica
Chairman, Civil Service Subcommittee
Rayburn House Office Building
Washington, DC 20515-6143

Dear Representative Mica:

This is in response to your letter dated May 29, 1997, in which you request additional information to help answer questions that your committee members have regarding the Federal Employees' Group Life Insurance Program (FEGLI). Following are your three questions, along with our answers:

Question #1: Based on the testimony that you heard in committee and your knowledge of FEGLI, what are the two or three most important modifications to the current FEGLI program that you would recommend and why do you make those recommendations?

Answer: Conduct a Competitive Bid Process at certain intervals, such as every three years. The only way businesses in this country can be sure they have competitive rates on group term life insurance is to periodically competitively bid the entire package among competing insurers. The bid process not only deals with economic efficiencies, but also assures competitive benefits. For instance, one carrier may be willing to offer a higher guarantee issue amount, or more frequent open enrollment periods, or different dependent insurance options that would positively affect the employees' perception of the overall plan.

Answer: Limited Annual Open Enrollment. With certain limitations to hedge against adverse selection, it is recommended that you consider having a limited annual open enrollment. This would mean that employees would have the option each year of increasing or decreasing their guarantee issue term coverage up to certain limits. Typically, when a new carrier is selected to provide benefits there is an

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Representative John L. Mica
June 26, 1997
Page Two

unlimited open enrollment. Subsequent years under that carrier would have limited open enrollments to better meet the needs of the employee population.

Answer: Voluntary Dependent Coverage. We would recommend that FEGLI offer larger amounts of insurance for spouse and children. The spousal coverage could be in \$10,000 increments, or a percentage of the participants' selected coverage. For instance, a spouse may have 50% of supplemental coverage selected by the participant. Access to dependent coverage should be increased up to at least \$10,000.

Answer: Reallocate Costs. Typically the private sector offers a five year banded rate structure with smoker and non-smoker distinct rates. The reasons for doing this would be so that the younger participants would not be subsidizing the older participants, and the non-smoking population would not be subsidizing the smoking population. We would also recommend re-evaluation of the rating structure for the cost of the basic insurance.

Question #2: Do you believe that it would be feasible for the federal government to offer employees different life insurance carriers and types of insurance policies from which they could choose? If not, what obstacles stand in the way?

Answer: We believe that one carrier for the group term life insurance would be best for both employer and employee. One carrier could also be defined to include a consortium of insurance carriers dedicated to the FEGLI program. **As to the types of insurance policies, we believe there should be two.** The first is the group term life insurance policy which would include both basic and supplemental optional coverages. This coverage would include the design modifications mentioned in our answer to Question #1 above. The second type of contract should be a group cash value life insurance policy which is discussed in Question #3 below.

Question #3: In your testimony you discussed group universal and variable life products which are frequently available in the private sector, but not under FEGLI. What do you believe the advantages, if any, of offering these products under FEGLI would be?

Representative John L. Mica
June 26, 19967
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Answer: We believe that the federal government should sincerely consider adding a group cash value life insurance policy to the benefit offerings for their employees. A group cash value life insurance policy, which could include both group universal and variable, would add two very important features that were discussed during our testimony. Two key features would be **portability** and **post-retirement death benefits**. Currently an employee terminating employment with the federal government has limited rights to convert coverage at very high rates. A group cash value policy would be fully portable without evidence of insurability or conversion fees. The current FEGLI group term life insurance program reduces dramatically beginning at age 65. Today many of us have a need to continue significant amounts of insurance coverage past age 65. The most efficient method of doing so is through a permanent, cash value type of policy. The addition of a well-designed group cash value life insurance policy to the slate of benefits for the federal employees would be a wise addition to give valuable worksite benefit choices not currently available.

As you can imagine, this response could become quite voluminous. In an effort to be succinct, we have limited our responses. However, every response has been well thought through and we would be pleased to provide significant detail supporting each one.

Thank you for the opportunity to make this presentation.

Sincerely,

G. Scott Cahill, CLU

GSC:pf

Consensus by Committee: Barnett I. Chepenik, RHU
Stuart H. Farb, CLU, ChFC
E. Hardy Vaughn, CLU, ChFC, MSFS

