



Highlights of [GAO-03-236](#), a report to the Subcommittee on International Security, Proliferation, and Federal Services, Committee on Governmental Affairs, U.S. Senate

Why GAO Did This Study

Federal employees' health insurance premiums have increased at double-digit rates for 3 consecutive years. GAO was asked to examine how the Federal Employees Health Benefits Program's (FEHBP) premium trends compared to those of other large purchasers of employer-sponsored health insurance, factors contributing to FEHBP's premium growth, and steps the Office of Personnel Management (OPM) takes to help contain premium increases compared to those of other large purchasers. GAO compared FEHBP to the California Public Employees' Retirement System (CalPERS), General Motors, and a large private-employer purchasing coalition in California as well as data from employee benefit surveys.

FEDERAL EMPLOYEES' HEALTH PLANS

Premium Growth and OPM's Role in Negotiating Benefits

What GAO Found

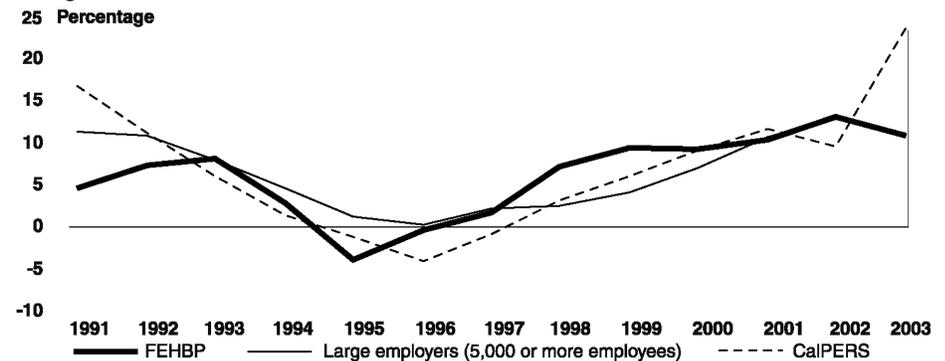
FEHBP's premium trends from 1991 to 2002 were generally in line with other large purchasers—increasing on average about 6 percent annually. OPM announced that average FEHBP premiums would increase about 11 percent in 2003, 2 percentage points less than in 2002 and less than some other large purchasers are expecting. FEHBP enrollees would likely have paid even higher premiums in recent years if not for modest benefit reductions and enrollees who shifted to less expensive plans.

Increasing premiums are related to the plans' higher claims expenditures. For FEHBP's three largest plans, about 70 percent of increased claims expenditures from 1998 to 2000 was due to prescription drugs and hospital outpatient care. Most of the increase in drug expenditures was due to higher plan payments per drug, while the increase in hospital outpatient care expenditures was due to higher utilization.

OPM relies on enrollee choice, competition among plans, and annual negotiations with participating plans to moderate premium increases. Whereas some large purchasers require plans to offer standardized benefit packages and reject bids from plans not offering satisfactory premiums, OPM contracts with all plans willing to meet minimum standards and allows plans to vary benefits, maximizing enrollees' choices. Each year, OPM suggests cost containment strategies for plans to consider and relies on participating plans to propose benefits and premiums that will be competitive with other participating plans.

OPM generally concurred with our findings.

Average Annual Change in Premiums for FEHBP and Other Large Purchasers, 1991 through 2003



Source: OPM, Kaiser Family Foundation/Health Research and Educational Trust employer surveys, and CalPERS.

Note: FEHBP and large employers' premium increases in 2001 and 2002 were within 0.3 percentage points of each other. The data from the Kaiser Family Foundation/Health Research and Educational Trust for large employers for 2003 were not available at the time of our work.

www.gao.gov/cgi-bin/getrpt?GAO-03-236.

To view the full report, including the scope and methodology, click on the link above. For more information, contact Kathryn G. Allen on (202) 512-7118.