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Report to Rep. Robert N. C. Nix, Chairman, House Committee on Post Office and Civil Service; by Elmer B. Staats, Comptroller General.

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Organization Concerned: Civil Service Commission.
Congressional Relevance: House Committee on Post Office and Civil Service.
Authority: Federal Employees Compensation Act. P.L. 90-206.

A comparative analysis was made of life insurance and other death benefit programs available to Federal employees and retirees with similar programs in the non-Federal sector. Findings/Conclusions: Death benefits for Federal Employees are available from several sources, including the Federal Employees' Group Life Insurance Program, various retirement programs, and workers' compensation. As a package, these are generally comparable with benefits provided by larger non-Federal employers; however, benefits are less for younger employees and retirees over age 65. Federal employees also pay more for their benefits than do their non-Federal counterparts.
Recommendations: Changes should be made to the method of funding and the benefit structure of the Federal life insurance program to make coverage attractive and equitable. The Congress should reevaluate the funding requirements and should consider making basic changes to the structure of the program. Possible changes which should be considered include: prefund only those liabilities arising from benefits payable to retired employees; revise present legislation to provide that the Government pay the interest on the program's unfunded liability if the present funding method is retained; use Government contribution as payment in full for a portion of the coverage for all employees; continue premium payments to age 65 rather than terminating at retirement; and provide greater amounts of optional insurance coverage to employees. (Author/SC)

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REPORT TO THE HOUSE COMMITTE ON POST OFFICE AND CIVIL SERVICE

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

Changes To The Federal Employees Group Life Insurance Program Are Needed

Civil Service Commission

Death benefits for Federal employees are available from several sources, including the Federal Employees Group Life Insurance Program, various retirement programs, and workers' compensation. As a package, these are generally comparable with benefits provided by larger non-Federal employers. However, benefits are less for younger employees and retirees over age 65. Federal employees also pay more for their benefits than their non-Federal counterparts.

Death benefits are only a part of Federal employees' total compensation. Although improvements to the various compensation elements should be considered in the context of total compensation comparability with the non-Federal sector, changes should be made to the method of funding and the benefit structure of the Federal life insurance program to make coverage more attractive and equitable.

MAY 6, 1977

FPCD-77-19

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-125004

The Honorable Robert N. C. Nix
Chairman, Committee on Post Office
and Civil Service
House of Representatives

Dear Mr. Chairman:

This report, prepared in response to the former Chairman's November 17, 1975, request, provides a comparative analysis of life insurance and other death benefit programs available to Federal employees and retirees with similar programs in the non-Federal sector. It recommends that changes be made to the Federal Employees Group Life Insurance program to make life insurance a viable part of the Federal death benefits package.

This report contains recommendations to the Congress and to the Chairman, Civil Service Commission, which are set forth on pages 21 and 33. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report. We will be in touch with your office in the near future to arrange for release of the report so that the requirements of section 236 can be set in motion. Copies of this report are being sent to the Subcommittee on Compensation and Employee Benefits.

Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT TO THE HOUSE COMMITTEE ON POST OFFICE AND CIVIL SERVICE

CHANGES TO THE FEDERAL EMPLOYEES GROUP LIFE INSURANCE PROGRAM ARE NEEDED

Civil Service Commission

D I G E S T

Death benefits are an important element of Federal civilian employees' compensation and are available from several sources, including the Federal Employees Group Life Insurance program (Group Life), various retirement systems, and workers' compensation. Changes should be made to the Group Life program to make it a viable part of the death benefits package.

GAO compared death benefits available to Federal personnel from all programs with those provided by 21 major employers in the non-Federal sector. This comparison showed that, although Federal benefits are greater in some instances and lower in others, the overall death benefits are generally comparable. However, Federal employees are required to contribute greater amounts toward the costs of the programs than their non-Federal counterparts. (See pp. 5 to 16.)

Life insurance coverage is superior in the non-Federal sector and usually is free to employees. In general, however, survivor benefits under the civil service retirement system are superior to survivor benefits in the non-Federal sector from employer retirement programs and social security combined. Considering life insurance and retirement programs together, total death benefits are comparable, except for younger employees and retirees over age 65 where social security puts the non-Federal sector ahead. (See pp. 15 and 16.)

Workers' compensation benefits are provided to survivors of Federal and non-Federal employees in case of job-related deaths. Benefits under Federal and non-Federal programs are generally comparable. (See pp. 14 and 15.)

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The relationship between the Government and insurance companies in the Group Life program differs from the relationships between other employers and insurance carriers under their group life insurance plans. Under Group Life, the Government, for all practical purposes, assumes all liabilities and risks, establishes and collects premiums, and manages most of the funds. In non-Federal plans, these functions are primarily the responsibility of the insurance carriers. (See pp. 17 to 19.)

Since Group Life is, in effect, a self-insured program, GAO is recommending that the Congress rescind the requirement that Group Life pay State premium taxes and insurance company risk charges. Annual savings of more than $6 million in premium taxes and $0.8 million in risk charges could be realized. (See pp. 19 to 21.)

Group Life premiums are much higher than those in the non-Federal sector primarily because of the way the Government has chosen to fund anticipated benefit payments. Premiums for most non-Federal programs are established on a pay-as-you-go basis without funding for future costs; however, the Government operates on a level-cost principle whereby liabilities are estimated into perpetuity and premiums are established in amounts sufficient to cover the future benefit payments. The level-cost concept is an attempt to keep premiums relatively stable; however, Group Life premiums have increased considerably. (See pp. 23 to 33.)

In computing level costs and premium amounts, the Civil Service Commission does not consider the fact that Federal employees' salaries--and thus, future benefit payments--will continue to increase. This omission has contributed to an unfunded liability of about $3.7 billion in Group Life. Interest on the unfunded liability represents 36 percent of the current Group Life premium. Lower premiums would result if pay increase assumptions were made in the premium determinations. The Commission should revise its policy and recognize anticipated pay increases in determining these premiums. (See pp. 27 and 28.)

Interest on the unfunded liability of Group Life is treated quite differently from interest on the unfunded liability of the civil service retirement system. The Government is required, by law, to pay the entire interest cost on the retirement system's unfunded liability, whereas the employees pay two-thirds of the interest cost for Group Life and the Government pays one-third. (See p. 28.)

Employees' share of premiums plus interest on the reserve balance have, since the inception of the program, paid all insurance claims. Thus the Government has made little or no cash outlays to the program, and its share of the premium payments has been added to the Group Life reserve fund in the form of Federal debt securities. Projections of estimated income and expenses indicate that this situation will continue. (See pp. 29 and 30.)

Changes to Group Life are needed if the program is to become more attractive to younger employees and more equitable for all. The Congress should reevaluate the funding requirements and should consider making basic changes to the structure of the program. The possible changes GAO discusses are not all inclusive but warrant consideration by the Congress because of their impact on equity, comparability, and cost.

--Prefund only those liabilities arising from benefits payable to retired employees. Such a change would be more consistent with practices in the non-Federal sector and would also result in reduced premiums.

--If the present funding method is retained, revise the Group Life legislation to provide that the Government pay the interest on the program's unfunded liability.

--Use Government contribution as payment in full for a portion of the coverage for all employees. (See pp. 35 and 36.)

--Continue premium payments to age 65 rather than terminating at retirement. (See pp. 36 and 37.)

--Correlate a retiree's postretirement benefits with the length of time he participated in Group Life as a premium-paying employee. (See p. 37.)

--Establish a maximum 50-percent reduction in retiree coverage in lieu of the current 75-percent reduction. (See p. 38.)

--Start reductions in coverage upon retirement instead of age 65. (See p. 38.)

--Provide greater amounts of optional insurance coverage to employees. (See p. 38.)

--Provide dependent coverage and business travel accident insurance. (See p. 39.)

The Civil Service Commssion expressed concern about the low level of participation in Group Life by younger employees and generally agreed that changes to make the program more attractive should be considered. The Commission agreed that other funding approaches could be used but declined to take a position on whether future pay increases should be recognized. in Group Life premium determinations pending completion of its review of the same issue in the civil service retirement system.

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ABBREVIATIONS

FECA Federal Employees Compensation Act

FEGLI Federal Employees Group Life Insurance

GAO General Accounting Office

GLOSSARY

Actuarial assumptions	Assumptions made to tentatively resolve uncertainties concerning future events which will affect life insurance cost, e.g., mortality rate, employee turnover, compensation levels, and investment earnings.
Actuarial valuation	A computation of the liability of a life insurance program and the periodic contributions required to provide future benefits.
Consumer Price Index	A measure of increases or decreases in the cost of living.
Cost of living	The relative prices at various times of a selected group of goods and services typically bought by urban families.
Funding	A method of paying for benefits by collecting and investing contributions.
Level cost	A method of funding whereby a constant premium, supplemented by interest earnings on a fund created by the excess of premiums over benefits in the early years of the program, will pay for all future costs.
Pay as you go	A method of recognizing life insurance cost only when benefits are paid to survivors.
Pension	A series of periodic payments, usually for life.
Unfunded actuarial liability	The unfunded actuarial liability (sometimes called the unfunded liability) of a life insurance program is the difference between the expected future benefit payments and the sum of expected collections plus program assets all expressed in present values.

CHAPTER 1

INTRODUCTION

Death benefits are available to Federal civilian employees under various programs, including group life insurance, retirement systems, and workers' compensation.

FEDERAL EMPLOYEES GROUP LIFE INSURANCE

Employees may elect to be covered by the Federal Employees Group Life Insurance (FEGLI) program in amounts equal to their annual rate of pay rounded to the next higher $1,000, plus $2,000, with a minimum coverage of $10,000. The maximum coverage is based on the annual basic pay for level II positions of the Executive Schedule and automatically increases whenever that pay scale increases. The Government pays one-third of the premium, and the employee pays the remaining two-thirds. Employees may purchase additional coverage of $10,000 with no Government contributions.

The premium for the regular coverage is currently $13.845 annually for each $1,000 of insurance, regardless of age. For the optional $10,000 of insurance, premiums vary by age group as follows.

Age group	Annual rate for $10,000
Less than 35	$ 20.80
35 to 39	31.20
40 to 44	49.40
45 to 49	75.40
50 to 54	117.00
55 to 59	273.00
60 and over	364.00

Employees who retire with at least 12 years of Government service retain their life insurance, but their coverage is reduced after age 65, at the rate of 2 percent a month until a reduction of 75 percent is reached. Retirees receive the regular insurance at no cost, but they must pay for the optional insurance until age 65.

FEDERAL RETIREMENT PROGRAMS

Federal retirement programs provide benefits to survivors of employees and retirees. The civil service retirement system is the largest of these programs and covers most full-time personnel. We did not include the other retirement programs in this review.

Under civil service retirement, annuities are paid to surviving spouses and children of employees with at least 18 months of civilian service. The spouse receives 55 percent of the lesser of (1) 40 percent of the high 3 years' average pay or (2) the annuity that would have been paid had the employee continued working until age 60 at the same high 3 years' average pay. Annuities to surviving spouses are paid for life unless they remarry before age 60. Each qualifying unmarried child receives the lesser of

--60 percent of the high 3 years' average pay divided by the number of qualified children,

--$4,636 divided by the number of qualified children, or

--$1,545.

Higher annuities are paid for children of an employee not survived by a spouse. Children's annuities are paid to age 18 (22 if a full-time student).

If, at the time of retirement, an annuitant accepts a reduced annuity, a survivor annuity is payable to his or her surviving spouse. The survivor's annuity will be 55 percent of the retiree's annuity before reduction. An unmarried annuitant, by accepting a reduced annuity, can also opt for survivor benefits to an individual in whom he or she has an insurable interest. An insurable interest exists when the beneficiary stands to gain from the insured's continued life and suffers economic loss upon his or her demise.

Regardless of the type of annuity elected at retirement, the children of deceased annuitants are entitled to a survivor annuity under the same conditions and in the same amounts as the children of a deceased employee.

Benefits under the civil service retirement system are adjusted semiannually on the basis of the percentage increase in the Consumer Price Index during the preceding 6-month period.

The cost of the retirement system is shared by the employees (generally 7 percent of their salary) and the Government (the remainder of the costs).

FEDERAL EMPLOYEES' COMPENSATION PROGRAM

The Federal Employees' Compensation Act (FECA), administered by the Department of Labor, provides compensation to

Federal employees for disability due to a personal injury sustained in the performance of duty or to an employment-related disease. The act also provides benefits to dependents if the injury or disease causes the employee's death. Survivor annuities are generally paid:

--To a childless spouse, 50 percent of the employee's pay at the time of death.

--To a spouse with eligible children, 45 percent of pay and 15 percent of pay to each child not to exceed 75 percent of the employee's pay.

--To eligible children as sole survivors to be shared equally 40 percent for the first child and 15 percent for each additional child not to exceed 75 percent of the employee's pay.

The maximum total payments established by law may not exceed 75 percent of the monthly pay of the highest step for a GS-15.

Benefits are automatically increased whenever the Consumer Price Index increases at least 3 percent and remains at least 3 percent higher for 3 consecutive months.

Survivors have the option of receiving benefits under this act or the retirement system. If they opt for the FECA benefits, they are entitled to a refund of the employee's retirement contributions. Benefits received under the act are not subject to Federal income taxes. Burial expenses not to exceed $800 are also paid.

FEDERAL GROUP HEALTH INSURANCE

A variety of group health insurance plans are available for selection by employees and may be retained during retirement. Under various cost-sharing formulas, the Government pays up to 75 percent of the premiums, and the employee pays the remaining percentage. Survivors of employees and retirees may continue the coverage in the same cost-sharing ratio so long as their annuities are sufficient to meet their share of the cost. We did not review the survivor benefits available under these programs.

SCOPE OF REVIEW

Our review included:

--A comparative analysis of life insurance and other death benefit programs available to civilian Federal employees and retirees with similar programs offered to non-Federal employees and retirees both public and private.

--Identification of possible savings and improvements if the Government were to become a self-insurer.

--An analysis of the process by which FEGLI is funded and premiums are established.

--Identification of possible methods by which the FEGLI program could be restructured to provide more attractive and equitable coverage at no additional cost.

We made the review at the Civil Service Commission, Washington, D.C., and at the Metropolitan Life Insurance Company, New York, New York. The review included examination of legislation, documents, records, and reports relating to FEGLI and other death benefits. We also visited 21 major employers, nationwide, in both the private (17) and public (4) sectors of the economy to discuss their death benefit programs and related cost information.

We obtained and considered the views of officials of various Federal employee organizations and analyzed benefit surveys made by the U.S. Department of Labor, The Conference Board, and the Commission.

CHAPTER 2

COMPARISON OF DEATH BENEFITS FOR FEDERAL AND NON-FEDERAL EMPLOYEES

Our comparison of Federal death benefits with benefits provided by 21 non-Federal employers showed that total benefits are generally comparable except at the younger and older ages, where social security puts the non-Federal sector ahead. However, Federal employees pay more for their benefits. Life insurance coverage generally is superior in the non-Federal sector and usually is free to employees. Survivor benefits under the Federal retirement system are superior to death benefits of the non-Federal retirement systems and social security combined for certain age groups but not as liberal for others. Workers' compensation benefits provided to non-Federal survivors vary by State, with the Federal program falling within the States' range of benefits. Summary comparisons of survivor benefits are contained in appendix I.

Comparisons of this nature are informative and useful, but death benefit programs are only part of Federal employees' total compensation. In our opinion, improvements to these and other compensation elements should be considered in the context of total compensation comparability with the non-Federal sector. 1/

APPROACH TO DEATH BENEFIT COMPARISONS

To make comparisons of Federal and non-Federal death benefit programs, we selected five ages at time of death and made certain assumptions regarding the years of service, salary and/or annuity amounts, marital status, and number of dependents, when the death occurred. Our calculations of benefits payable under the various programs were made for persons assumed to have the following characteristics at the time of death.

--A single 25-year-old male with no dependents earning $10,000 a year with 3 years' service.

--A married 28-year-old male with 4 years' service earning $14,000 a year and having a 28-year-old wife and a 5-year-old child.

1/See GAO report entitled "Need for a Comparability Policy for Both Pay and Benefits of Federal Civilian Employees" (FPCD-75-62, July 1, 1975).

--A married 45-year-old male with 20 years' service earning $18,000 a year and having a 45-year-old wife and two children ages 10 and 18.

--A married 58-year-old male who retired at 55 earning $20,000 a year with 30 years' service and having a 58-year-old wife.

--A married 68-year-old male who retired at 65 earning $20,000 with 35 years' service and having a 68-year-old wife.

The non-Federal employers included in the comparison base were 17 large private companies representing a variety of industries dispersed throughout the country and 4 public bodies. All of these employers offered their employees relatively good fringe benefit packages; they should not be considered to be representative of the non-Federal sector as a whole.

GROUP LIFE INSURANCE

Most of the non-Federal employers provide active employees with basic group term life insurance in amounts equal to one to two times their annual salary, whereas others provide a fixed amount regardless of salary. Some provide additional amounts to married employees and to those with children.

After retirement most employers reduce by 50 percent or less the face amount of basic term insurance provided. Some plans make the full reduction immediately upon retirement while others reduce by monthly increments until the established level is reached. Still others defer the reduction until age 65 for those who retire before then.

The amount of preretirement coverage for participants in the non-Federal plans we examined follows.

Coverage expressed as multiples of salary	Number of plans
Up to 1.0	9
1.5	2
2.0	8
2.5	1
3.0	0
3.5	1
Other	a/ 1
	b/22

a/One company offered a flat $10,000 in life insurance coverage.

b/One employer had two plans--one for salaried and the other for hourly employees.

The postretirement reductions under these plans were:

Percent reduced after retirement	Number of plans
18.75	1
25.00	1
30.00	1
33.33	1
50.00	8
60.00	1
80.00	1
100.00	2
Other	a/ 6
	22

a/One plan provided a 50-percent reduction upon retirement with additional gradual reductions to 75 percent. The remaining five plans provided for reductions based on various factors, such as a fixed amount plus a percentage of salary based on years of service.

Under FEGLI employees and retirees generally receive less. Employee coverage is equal to annual salary rounded to the next thousand dollars plus $2,000. Insurance is provided without reduction upon retirement until age 65. Beginning at 65, the amount of insurance is reduced by 2 percent monthly until the minimum of 25 percent of the original coverage is reached.

The following table compares the amount of regular life insurance benefits payable to beneficiaries under FEGLI with amounts payable under non-Federal programs.

Age	FEGLI	Non-Federal plans Minimum	Non-Federal plans Maximum	Non-Federal plans Median	Number of non-Federal plans offering Less coverage	Number of non-Federal plans offering More coverage
Active:						
25	$12,000	$ 5,000	$25,000	$15,000	9	13
28	16,000	10,000	49,000	24,000	8	14
45	20,000	10,000	63,000	31,500	8	14
Retired (note a):						
58	22,000	500	42,000	14,700	13	6
68	5,500	500	30,800	11,500	5	15

a/One employer did not allow retirement at age 55, and two canceled life insurance coverage whenever employees retired.

Since most of the employers offer coverage exceeding annual salary and only reduce their postretirement coverage to 50 percent of the preretirement coverage, life insurance benefits available to non-Federal employees and retirees are superior to those available to the FEGLI participant. This advantage may be offset somewhat to the extent that Federal employees generally retire before age 65, and the reduction in their coverage does not begin until age 65. As shown above, FEGLI was superior to the non-Federal plans only for the 58-year-old retiree.

Accidental death and dismemberment insurance

Of the 21 non-Federal employers, 17 provide additional accidental death and dismemberment coverage. Most of the plans provide one to two times the annual salary when an employee's death or dismemberment results from an accident. This coverage generally terminates at retirement. FEGLI offers a similar benefit, but the amount of coverage is often less, amounting to an individual's annual salary rounded to the next thousand dollars plus $2,000. It also terminates upon retirement.

Of the non-Federal plans that provided accidental death and dismemberment coverage, nine offered coverage exceeding annual salary. The following chart illustrates the maximum coverage available.

Maximum coverage expressed as multiple of salary	Number of plans
0.5	2
1.0	5
1.5	1
2.0	6
2.5	1
3.0	1
Other	a/ 1
Total	17

a/One company offered a flat $4,000 in accidental death and dismemberment coverage.

Other life insurance benefits

Other features included in some non-Federal life insurance packages but not available to Federal employees are:

--Coverage for a spouse in amounts of $1,500 to $5,000 and $1,000 for each child.

--Coverage of two to three times the salary for accidental death incurred while traveling for the employer.

--A combination of whole life and term insurance based on an individual's salary. The whole life coverage has a cash surrender value which increases annually, while the term portion has a corresponding decrease.

--Survivor income insurance of about 20 to 30 percent of salary. This benefit differs from regular group life insurance in that it is restricted to monthly payments to a specified eligible survivor for as long as that person lives.

Cost-sharing arrangements

Most employers pay the full insurance premium whereas others require some contribution by the employee. Under FEGLI the cost-sharing ratio is two-thirds for the individual and the remaining one-third for the Government. This ratio has not changed since FEGLI was established in 1954.

Participants under 15 of the plans received free coverage, whereas participants under 7 others were required to make some payment for their insurance. In each case FEGLI participants were required to pay more than those in the other plans.

All non-Federal plans which provided postretirement coverage (20 of 22) did so at no cost to the retiree. Under FEGLI, the cost of postretirement coverage is included in the current Government and employee premiums and retirees are not required to contribute.

OPTIONAL INSURANCE

Only 15 of the non-Federal employers provided optional insurance. Ten of these offered employees a maximum of one to two times the annual salary. On the other hand, FEGLI participants are limited to $10,000.

Most non-Federal plans provide for termination of optional insurance upon retirement, whereas some permit coverage to age 65 when employees retire sooner. Under FEGLI, optional insurance continues after retirement and, like regular insurance, coverage declines by 2 percent a month starting at age 65, until it reaches 25 percent of the original $10,000.

The premiums for optional insurance under both FEGLI and the non-Federal plans are paid by the employees. Federal retirees must pay for optional coverage until age 65; however, premiums at this age are very expensive.

DEATH BENEFITS UNDER RETIREMENT PROGRAMS

Survivor benefit provisions may be included in retirement programs in addition to retirement annuities. For non-Federal employees, death benefits accrue from employer plans and the social security program. For most Federal civilian employees, benefits are provided by the retirement system only since they are generally prohibited by law from participating in social security through their Federal employment.

Employer plans

Non-Federal employees receive death benefits from their employers through group pension plans which provide either lump-sum or life annuity payments to beneficiaries. The amount paid is based on a percent of the deceased's accrued pension benefit and varies widely contingent upon age, salary, and length of service. Benefits are generally considered as a supplement to social security benefits. An increasing number of group pension plans are now being completely financed by the employers. In its 1974 publication

"Profile of Employee Benefits" covering 1,800 firms, The Conference Board reported:

> "Most of the companies in this survey do, in fact, provide pension plans for their employees. The pension plan is typically provided free of charge to the employee--only 20 percent require employee contributions."

Similarly, only about 20 percent of the plans we looked at required an employee contribution.

Some of the major survivorship provisions in the 18 plans for which we were able to obtain data follow.

--One provided an annuity and a $1,000 lump-sum payment regardless of age or length of service.

--Seven provided annuity benefits at age 50 with from 10 to 30 years' service. Additionally, one provided a lump-sum payment of 1 year's salary regardless of age or length of service.

--Seven provided annuity benefits at age 55 with from 10 to 20 years' service.

--Two provided annuity benefits at age 60 with less than 10 years' service.

--One provided annuity benefits at age 65 with 15 years' service.

Under the civil service retirement system, employees become eligible for survivor benefits upon completing 18 months' service. The system also provides for cost-of-living increases, whereas only 4 of the 18 non-Federal programs had such a provision. Civil service survivor benefits are described in detail on pages 1 and 2.

Social security

Survivor benefits are generally available to non-Federal employees under the old-age survivor and disability insurance program commonly referred to as social security. The program is funded through contributions paid by both the employee and the employer. At the time of our review, the rate paid by each was 4.95 percent of the first $15,300 of annual salary. 1/

The extent and amount of coverage varies, depending on the insured's year of birth and death and the number of quarters insured.

Survivor benefits for fully insured employees are paid to:

1. A widow, widower, or divorced wife, 60 or over, or 50 to 59 and disabled.

2. A dependent parent, 62 or over.

3. A widow, widower, or surviving divorced mother, any age, caring for child to age 18 except students to age 21.

4. A child or grandchild, under 18, 18 to 21 if student, or any age if disabled.

If an employee does not have sufficient credit to qualify as fully insured, certain benefits can still be paid if he qualifies as being currently insured (has credit for at least six quarters during the 3 years before death).

Survivor benefits for currently insured employees are paid to the third and fourth categories listed above.

The survivor benefits consist of a lump-sum payment of $255 and monthly annuities of various amounts, depending on the worker's average annual earnings under social security. Examples of monthly cash benefits based on different levels of average annual earnings follow.

	Average annual earnings of		
Recipient	$923 or less	$5,000	$10,000
Child	$101.40	$214.60	$334.10
Spouse, age 60	74.90	204.60	318.50
Spouse and one child	152.10	429.20	668.20
Highest family benefits	152.10	528.10	779.60

1/The total social security contribution rate is 5.85 percent. However, 0.9 percent covers medical benefits paid from the Medicare program. Effective Jan. 1, 1977, the social security contribution base increased to $16,500.

Annuities are subject to annual cost-of-living increases.

Comparison of benefits under pension plans

We compared the present values 1/ of the death benefits payable to survivors of personnel covered under the civil service retirement system with those available to survivors of non-Federal employees and retirees under 22 employer pension plans and social security. In computing the benefit amounts, we used the same assumptions as to age, salary, years of service, marital status, and number of dependents as in our life insurance analysis. (See pp. 5 and 6.) The following table shows the present value comparison.

Age	Federal Government	Non-Federal employers: Private plans Minimum	Private plans Maximum	Social security	Total Minimum	Total Maximum	Median (note a)	Number providing: Less than Federal	More than Federal
Active:									
25	$ -	$ -	$ 1,000	$ 255	$ 255	$ 1,255	$ 255	0	22
28	74,000	-	47,000	103,000	103,000	150,000	103,000	0	22
45	114,000	-	124,000	64,000	64,000	188,000	64,000	21	1
Retired:									
58	78,000	-	91,000	29,000	29,000	119,000	66,000	14	5
68	71,000	12,000	81,000	38,000	50,000	119,000	77,000	2	18

a/The typical (median) employer retirement plan provided no survivor benefits to active employees with the characteristics (age, service, etc.) used in our assumptions. Survivor benefits for these employees were provided solely by the social security program.

Survivors of a single Federal employee receive no benefits from the civil service retirement system. The survivors, however, receive a refund of what the deceased had paid into the system. Survivors of a non-Federal single employee receive only a small amount from social security for burial expenses. At ages 45 and 58, Federal personnel generally receive greater benefits. However, at ages 28 and 68, they do not fare as well, receiving less than their non-Federal counterparts because of social security benefits.

1/Present value is a concept which recognizes the time value of money. It is a technique for determining the amount of money which, if invested today at a given interest rate, would be sufficient to provide the monthly benefits in the future.

Most of the pension plans provided by non-Federal employers (18 out of 22) did not require employee contributions. However, the non-Federal employees all contributed to social security. The following table compares 1 years' Federal employee contributions with those of non-Federal counterparts. It illustrates that Federal employees, at all ages, pay more toward their retirement programs than most of their non-Federal counterparts.

			Non-Federal employees					Number requiring	
			Private plans	Social	Total			More than	Less than
Age	Salary	Federal employees	maximum	security	Minimum	Maximum	Mode	Federal	Federal
25	$10,000	$ 700	$500	$495	$495	$ 995	$495	4	18
28	14,000	980	700	693	693	1,393	693	5	17
45	18,000	1,260	900	757	757	1,657	757	4	18

WORKERS' COMPENSATION PROGRAMS

Federal and non-Federal employees receive compensation benefits for any disability sustained while working or for an employment-related disease. Benefits, including those of survivors, are available in the non-Federal sector from State workers' compensation programs. Federal employees receive disability and survivor benefits under the Federal Employees Compensation Act which is administered by the Department of Labor.

In the majority of cases, workers' compensation benefits are paid to non-Federal employees in addition to any regular pension benefits they receive. However, Federal employees must make an election as to whether they want to receive benefits under the retirement system or the Federal Employees Compensation Act.

Survivor benefits paid by the 50 States and the Government vary in amounts. The States' base for computing benefits is weekly, whereas the Federal Government's base is monthly. In most cases the payments are equivalent to a percentage of an employee's salary at the time of his death plus a one-time burial allowance. Death benefits are generally paid to the spouse until remarriage. For children, however, payments are made until a specified age. Some programs establish a maximum period for which benefits can be paid. Variations are illustrated in the following table.

	Compensation as percent of pay at the time of employee's death (note a)		
	State programs		Federal program (note b)
	Minimum	Maximum	
Recipient:			
Spouse only	32.5	80	50
One child (only)	25	80	40
Spouse with child	60	90	75
Burial allowance	$400.00	$1,800.00	$800.00

a/Maximum dollar amounts are set in each State. These amounts are subject to automatic adjustments based on the State's average weekly wage.

b/The total monthly compensation may not exceed 75 percent of the employee's pay (except when due to authorized cost-of-living increases) or 75 percent of the monthly pay of the highest step for GS-15 of the General Schedule.

COMPARISON OF TOTAL DEATH BENEFITS

The amount of survivor benefits available to Federal and non-Federal employees from the various programs vary widely. Federal benefits are greater in some instances and lower in others. Moreover, benefit amounts often differ, depending on the circumstances causing the death. To compare total benefits, we determined the benefits payable from all sources when death occurred from the following causes:

--Natural causes.

--Job-related accidental causes.

--Non-job-related accidental causes.

Death due to natural causes

The table on page 16 shows the present value of benefits payable to survivors of employees and retirees who die from natural causes.

	Federal benefits			Non-Federal benefits							Federal benefits	
				Group life insurance		Private retirement plans	Social	Total (note a)				
Age	FEGLI	Retirement	Total	Minimum	Maximum	maximum	security	Minimum	Maximum	Median	More	Less
Active:												
25	$12,000	$ -	$ 12,000	$ 5,000	$25,000	$ 1,000	$ [illegible]35	$ 5,255	$ 25,255	$ 16,000	9	13
28	16,000	74,000	90,000	10,000	49,000	47,000	103,000	113,000	171,000	131,000	0	22
45	20,000	114,000	134,000	10,000	63,000	124,000	64,000	76,000	215,000	100,000	20	2
Retired:												
58	22,000	78,000	100,000	500	42,000	91,000	29,000	29,000	123,000	78,000	15	b,c/4
68	5,500	71,000	77,000	500	31,000	81,000	38,000	54,000	129,000	88,000	3	c/17

a/The totals may not cross-foot since the employer who provides the minimum or maximum group life insurance amount will not necessarily be the same employer who provides the minimum or maximum benefit under the private retirement plan.

b/One plan offered no retirement at age 55.

c/Information not available for two plans.

Job-related accidental death

When an employee dies because of a job-related accident, the present value of the total benefits paid to his survivors are:

Age (note a)	Federal	Non-Federal Minimum	Non-Federal Maximum	Non-Federal Median	Federal More	Federal Less
25	$ 25,000	$ 11,000	$ 60,000	$ 28,000	11	11
28	172,000	150,000	390,000	214,000	3	19
45	201,000	111,000	343,000	192,000	13	9

Non-job-related accidental death

When an employee dies because of a non-job-related accident, the present value of his survivor's benefits are:

Age (note a)	Federal	Non-Federal Minimum	Non-Federal Maximum	Non-Federal Median	Federal More	Federal Less
25	$ 24,000	$ 10,000	$ 45,000	$ 23,000	12	10
28	106,000	106,000	194,000	145,000	0	22
45	154,000	78,000	242,000	119,000	19	3

a/Ages 58 and 68 were not included since accidental death coverage ceases at retirement.

AGENCY COMMENTS AND OUR EVALUATION

The Civil Service Commission has agreed that Federal death benefits are generally comparable to benefits of other large employers and that non-Federal employers pay more of the costs. It cautioned and we agree, however, against changing Federal life insurance contributions to be comparable to other employers without considering the comparability of all elements of Federal and non-Federal employee compensation.

CHAPTER 3

FEGLI IS NOT A TYPICAL GROUP LIFE INSURANCE PROGRAM

The relationship between the Government and insurance companies in the FEGLI program differs considerably from the relationships between other employers and insurance carriers under their group life insurance plans. Under FEGLI the Government, for all practical purposes, assumes all risks, establishes and collects premiums, establishes reserves and manages most of the funds. In non-Federal plans, these functions are primarily the responsibility of the insurance carriers.

The Government, in effect, is a self-insurer of the FEGLI program but does not reap all the advantages that could accrue from such a relationship. As a self-insurer the Government would not be obligated to annually pay premium taxes to the States and risk charges to the insurance companies of $6.4 million and $850,000, respectively, in 1975.

HOW FEGLI DIFFERS FROM OTHER GROUP INSURANCE

In a typical group insurance program, an employer purchases coverage for its employees from an insurance carrier. The insurance carriers for most group life insurance plans assume any liability for claims exceeding the premiums paid. Although premiums are generally established high enough to cover all claims in normal years, the carriers are liable for unusually high claims in any one year and for extremely high claims in the event of a disaster. Disasters obviously are rare. Carriers would tend to increase subsequent premiums on those plans where excessive claims were paid in any one year. However, the employer need not renew his policies with that carrier. On the other hand, under FEGLI the Government reimburses the insurance company for all claims paid in good faith, regardless of the number or nature of death. Carriers for most group life insurance plans also:

--Establish premium rates.

--Establish the type and amount of reserves.

--Manage reserve funds.

Civil Service Commission responsibilities under FEGLI

The Commission:

--Establishes premiums.

--Contracts with private insurance companies to provide claims processing and other services.

--Prepares regulations and procedures for employees, retirees, and employing agencies.

--Answers inquiries and advises employees and retirees of their rights, privileges, and benefits.

--Receives and accounts for employees', retirees', and agencies' premium payments.

--Determines obligations and authorizes payments to the insurance companies.

--Develops and maintains financial and statistical data for management use and for annual reporting to the Congress.

--Audits and reports on the operations of the insurance companies.

The premiums collected are deposited in a trust fund in the U.S. Treasury. The fund is available, without fiscal year limitation for the payment of claims, administrative expenses, and other charges. At June 30, 1976, the fund amounted to about $2 billion.

The Commission's Bureau of Retirement Insurance and Occupational Health administers the FEGLI program. About 2.5 million active employees and 800,000 retirees, or a total of 3.3 million persons, are insured under the program. Insurance in force as of July 1, 1975, was about $55.5 billion--$49.1 billion regular and $6.4 billion optional. In fiscal year 1975 claims paid amounted to $382 million. From inception of the program in 1954 through fiscal year 1975, insurance claims totaling $3.5 billion have been paid.

Insurance companies' responsibilities under FEGLI

Over 360 insurance companies are involved in the FEGLI program, but the Metropolitan Life Insurance Company carries out practically the entire role. Metropolitan's Office of Federal Employees Group Life Insurance, under a contract with the Commission: 1/

1/The Commission also has a contract with the Shenandoah Life Insurance Company for coverage of employees under various employee beneficial associations' policies in effect before FEGLI was enacted.

--Settles and pays life insurance and accidental death and dismemberment claims.

--Contracts for and administers the contracts with the other insurance companies (reinsurers) in the FEGLI program.

--Participates with about 100 other carriers in maintaining a conversion pool to cover those terminated Federal employees who choose to convert their FEGLI coverage to private insurance.

--Maintains a contingency reserve for fluctuations in claims. The reserve has been reduced from $195 million in fiscal year 1972 to $50 million in fiscal year 1976.

--Prepares annual financial statements covering its activities.

--Determines and pays tax liabilities.

The Commission monthly remits amounts necessary for the payment of benefit claims to Metropolitan. Premium collections exceeding these payments are retained in the FEGLI fund under the Commission's control.

GOVERNMENT AS A SELF-INSURER

The primary motivation for an employer to assume the role of a self-insurer is to reduce such costs as State premium taxes, risk charges, and administrative expenses, as well as to maintain control over reserve funds.

Premium taxes

Generally, States do not impose premium taxes on group life insurance programs which are self-insured. They do, however, impose such taxes on insurance carriers when they underwrite group life programs. Furthermore, States are precluded from imposing any taxes on the Government. Since FEGLI is not by law a self-insured program, Metropolitan is required to pay State premium taxes on the claims it pays. The Government reimburses Metropolitan for its FEGLI tax payments. Although those taxes amounted to $6.4 million in 1975, the amounts being paid to each State are relatively insignificant, as shown below.

Amount	Number of States, including Washington, D.C., and Puerto Rico
Under $50,000	19
$50,001 to $100,000	14
$100,001 to $200,000	10
$200,001 to $300,000	4
Over $300,000	5
Total	52

California received the largest amount--$715,000.

These taxes are being paid in response to congressional intent as articulated in hearings held before the FEGLI Act of 1954 was passed. Those hearings indicated that the Federal Government should be treated as any other major employer in that premiums paid are subject to State taxes. The hearings were silent regarding the de facto self-insurer role played by the Government under FEGLI.

Reinsurers

The major function of reinsurers is to share the risk of catastrophic loss with the prime insurance carrier so that no one company is unduly burdened by such a loss. The amount is usually subject to some stated maximum liability for each catastrophe, and the reinsurer is paid for the assumption of that risk. Unlike other large employers' policies, the Commission's contract with Metropolitan does not include a catastrophic loss provision.

Since the Federal Government reimburses Metropolitan for all claims paid in good faith regardless of reason, no insurance risk is being assumed by anyone save the Government. Despite this, the Commission's policy with Metropolitan provides for risk charge payments to Metropolitan and its 363 reinsurers of about $46,000 and $804,000, respectively. The amount being paid to each company is relatively insignificant, as shown below.

Amount of risk charge	Number of reinsurers
Less than $250	57
$251 to $1,500	94
$1,501 to $4,000	185
$4,001 to $10,000	21
More than $10,000	6
Total	363

The FEGLI Act encouraged and required the use of reinsurers. In fact, however, they are not performing any services for FEGLI.

Administrative expenses

The fiscal year 1975 administrative expenses for the FEGLI program follow.

Metropolitan	$1,435,000
Civil Service Commission	572,000
Total	$2,007,000

Metropolitan's administrative expenses are subject to audit by the Commissions' Program and Audits Office. For our study, we assumed that it would not cost the Government less than Metropolitan to perform the functions currently being carried out by Metropolitan.

CONCLUSIONS

FEGLI is not a typical group life insurance program in that the Government does not purchase employees' coverage from an insurance carrier. Under FEGLI, the Government, for all practical purposes, assumes all risks and liabilities, establishes and collects premiums, establishes reserves and manages most of the funds. Metropolitan's function is primarily to settle and pay insurance claims for which it is reimbursed by the Government.

We believe the practice of contracting with Metropolitan to process insurance claims, instead of the Government's performing this function itself, may be beneficial since it uses Metropolitan's experience and knowledge in the life insurance field. We question, however, the appropriateness of Metropolitan's being required to pay State premium taxes since FEGLI is, in effect, a self-insured program. Also we believe the payment of risk charges to Metropolitan and its "reinsurers" is highly questionable since the Government pays all the FEGLI claims.

RECOMMENDATION TO THE CONGRESS

We recommend that the Congress rescind the requirement that FEGLI pay State premium taxes and insurance company risk charges.

AGENCY COMMENTS AND OUR EVALUATION

The Commission stated that our report may have oversimplified the distinction between FEGLI and other group life insurance programs and maintained that other large employers handle many of the administrative duties in their insurance programs in a manner not too dissimilar from FEGLI.

We agree that there is a range of administrative functions performed by the parties in various life insurance programs and that, the larger the employer, the more administrative duties it is likely to perform. However, of the 21 major employers we visited, none followed the FEGLI practice of reimbursing the carrier for claims paid and administrative expenses and of retaining premiums in excess of these amounts in the employer's possession. Because of the respective responsibilities of the Government and the carrier, whereby the Government bears the risks, we still believe that FEGLI is, in effect, a self-insured program and should not be subject to State premium taxes and insurance company risk charges.

CHAPTER 4

FEGLI: FUNDING AND ESTABLISHING PREMIUMS

As originally conceived, FEGLI coverage, premiums, and required-employee contributions were anticipated to be comparable to the best programs in the non-Federal sector. These objectives have not been met. Since the program's inception in 1954, FEGLI premiums have increased dramatically and are considerably higher than group life insurance premiums in the non-Federal sector. Similarly, Federal employees generally pay much more as their share of premium cost than their non-Federal counterparts.

FEGLI premiums are much higher than those paid by the 21 non-Federal employers reviewed primarily because of the way the Government funds anticipated benefit payments. The non-Federal employers generally operate on a pay-as-you-go 1/ basis or prefund a limited amount of future costs; however, the Government operates on a level-cost principle which estimates liabilities for every participant and establishes premiums in amounts sufficient to cover all future benefit payments. But at June 30, 1973 (effective date of the latest actuarial valuation), the FEGLI program had an unfunded actuarial liability of $3.7 billion.

Although the Government pays one-third of the FEGLI premium, the employees' share of premiums plus interest on the reserve balance have, since the inception of the program, generally been sufficient to pay all insurance claims. Thus the Government has made little or no cash outlays to the program, and its share of the premium payments have been added to the FEGLI reserve fund in the form of Federal debt securities.

The annual FEGLI premium rate of $13.845 for each $1,000 of insurance includes $4.986, or 36 percent of the premium, for interest on the unfunded liability. Interest on the unfunded liability of the civil service retirement system is treated quite differently. The Government is required, by law, to pay the entire interest cost on the retirement system's unfunded liability, but under FEGLI the employees pay two-thirds of the interest cost.

A major reason for the unfunded liability in the FEGLI program is the lack of recognition in the level cost and

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1/A method of recognizing cost only when benefits are paid.

premium determinations that Federal employee salaries will continue to increase, causing higher benefit payments in the future. Use of the "dynamic" assumption that pay rates will increase 4 percent annually, for example, would result in a premium rate of $12.60, of which $1.09, or about 8.6 percent, is interest on the unfunded liability.

FEGLI PREMIUMS ARE HIGHER THAN THOSE OF OTHER PLANS

Employers for 12 plans furnished sufficient information to compute the premium rate per $1,000 of insurance for the past 3 to 5 years. The rates ranged from a low of $3.62 to a high of $10.29.

Plan	Premium rate
1	$ 3.62
2	3.75
3	4.01
4	4.43
5	5.26
6	5.75
7	6.29
8	6.60
9	6.90
10	7.55
11	8.42
12	10.29

FEGLI's average rate during the same period was $11.04, which was the highest and significantly higher than 11 of the 12 other plans.

HOW FEGLI PREMIUMS ARE ESTABLISHED AND WHY THEY HAVE INCREASED

The FEGLI Act of 1954 set the initial premium at $9.75 annually for each $1,000 of coverage. The employee's share of the premium was $6.50, whereas the Government's contribution was $3.25 annually. The rate, which was expected to decline as the average age of the insured group stabilized, was based on the rates generally being charged by carriers on other existing group policies. However, the Commission's actuarial valuations showed that rate increases were needed, as shown below.

Date	Recommended annual premium	Increase effective as of
Original rate	$ 9.75	-
Mar. 1963	10.725	Feb. 1968
Feb. 1971 (note a)	12.47	-
Dec. 1973	13.811	Mar. 1975

a/No increase implemented.

The Commission believes that the increases in the premium rate were necessary because:

--The fund had to be compensated to cover the cost of those estimated future benefits which were not provided for in previously established premiums.

--The $10,000 minimum coverage is less significant in reducing level-cost premiums as salaries increase because fewer participants are affected. The minimum is most effective when it results in a proportionately greater insurance coverage for the under-age-35 enrollees, particularly females who have lower mortality rates.

--The trend toward earlier optional retirement and an increase in the use of involuntary retirement provisions resulted in a smaller number of active premium-paying participants than the number estimated. Program costs must be spread over a shorter working life necessitating a higher premium rate.

--The number of new and young employees waiving FEGLI coverage has increased. This group traditionally has had a lower mortality rate than the insured universe as a whole thereby helping to maintain a lower premium rate. The 1973 actuarial valuation showed that 15 percent of all new employees were declining FEGLI, contrasted with only 2 percent in 1967.

RELATIONSHIP OF FUNDING TO PREMIUMS

Initially, FEGLI premium rates were established by law, but in 1967 the Congress authorized the Commission to establish premium rates based on the level cost of the program. Public Law 90-206 requires employees to pay two-thirds of level cost and the employing agency one-third.

Level-cost funding

Under the level-cost concept, future benefit payments are estimated for every participant in the program and premiums are established in amounts sufficient to cover the anticipated outlays. This means that, if the Government collected the level premium each year for all new employees during their active careers and invested any cash flow excess in interest-bearing securities, enough funds in the form of principal and interest would be available to pay death benefit claims for these employees. Although the Congress mandated level-cost funding, it provided no criteria or procedures for calculating a level-cost premium rate.

The Commission, by an actuarial valuation as of June 30, 1973, established the current premium rate as follows:

Actuarial liability		Amount (000,000 omitted)
Present value of estimated future benefits		$7,458
Current assets (represents funds held by the U.S. Treasury and Metropolitan)	a/$1,371	
Present value of future premiums	2,394	3,765
Unfunded actuarial liability		$3,693

Annual cost	Amount per $1,000 of insurance
Level cost of regular benefits	$ 7.761
Accidental death and dismemberment benefits	.430
Interest on unfunded actuarial liability	4.986
Other costs	.222
Expenses and taxes	.412
Total annual cost	b/$13.811

a/Includes accrued interest and other receivables.

b/The difference between the total annual premium in effect ($13.845) and the $13.811 computed above is due to rounding required by law.

The first step in the valuation was the determination of the average annual level cost of basic insurance for new employees over their careers--$7.761 per $1,000 of insurance. This was based on a model age, sex, and salary distribution of 100,000 employees enrolled during fiscal years 1971 through 1973. The Commission estimated the present value of future benefits for all current active employees and annuitants to be $7.4 billion. From the benefits total, the Commission subtracted current assets of $1.3 billion and the present value of future premiums at the premium rate of $7.761 per $1,000, or $2.4 billion. The difference of $3.7 billion represented the program's estimated unfunded actuarial liability. FEGLI would have been fully funded if its assets equaled $5 billion rather than the existing $1.3 billion.

Projections of the type needed to establish level premiums by their nature must be based on many assumptions regarding the future. They include, but are not limited to, interest, mortality, inflation, retirement and disability rates, and salary scales.

We did not audit the Commission's actuarial valuation. However, we noted that, in projecting employees' salary progressions, the Commission included factors for anticipated promotion and within-grade salary increases but did not consider future general pay increases.

Various laws require that the pay of Federal employees be adjusted periodically to maintain comparability with their counterparts in the private sector. Pay increases have occurred frequently and in large amounts. Since the amount of insurance in force and benefit payments are directly related to employees' salaries, the results of the actuarial valuation can be significantly affected by the pay progression used. To illustrate, the Commission prepared a valuation for us on a dynamic basis assuming that pay rates would increase 4 percent annually as a result of the pay comparability processes. Following is a comparison of the static and dynamic valuations.

	Rate per $1,000 of insurance		
	Static valuation	Dynamic valuation	Difference increase or decrease(-)
Level cost	$ 7.761	$10.497	$ 2.736
Interest on unfunded liability	4.986	1.089	-3.897
Other cost	1.064	1.015	- .049
Total annual cost	$13.811	$12.601	-1.21

As shown, dynamic assumptions would increase the level cost of insurance for new employees from $7.761 to $10.497 but would decrease interest costs on the unfunded liability from $4.986 to $1.089, resulting in a reduction in the premium of $1.21 per $1,000 of coverage. The reduction takes place because interest and other costs are spread over a larger amount of insurance in force.

Unfunded liability

An actuarial unfunded liability is the difference between what is expected to be paid in future benefits and the sum of what is expected to be collected plus program assets all expressed in present value.

According to the Commission, the $3.7 billion unfunded liability was caused by the following factors.

--Employees who retired shortly after the program's inception in 1954 received substantial benefits with little contributions.

--The effects of general pay raises on benefit amounts were not included in the level-cost determinations.

--The premium rates in effect before the March 1975 increase were insufficient to cover accruing benefit costs.

The FEGLI rate established in March 1975 includes $4.986. or 36 percent of the $13.845 annual premium, as interest on the $3.7 billion actuarial liability. When premiums are calculated on a dynamic basis, as shown above, interest costs of $1.089 annually represents about 8.6 percent of the premium. The interest is for the amount which must be paid to prevent the liability from increasing and does not include any payment of the liability. According to the Commission, interest costs are included in the premium calculations since, by law, all costs associated with the FEGLI program must be shared by the employees and their agencies.

However, interest on the unfunded FEGLI liability is treated quite differently from interest on the unfunded liability of the civil service retirement system. In 1969 the Congress enacted Public Law 91-93 which requires the Government to pay all the interest on the unfunded liability of the retirement system. Under FEGLI employees are paying two-thirds of the interest cost.

Premiums versus current program costs

The Commission's financial statements showed that the premium rates generated sufficient income to meet benefit payments made and other program costs and to build up a reserve of almost $2 billion. In fiscal year 1976, for example, insurance premiums exceeded expenses by over $243 million. The premium income, reserves, and expenses for years 1971 through 1976 follow.

Fiscal year	Income: Contributions: Government	Income: Contributions: Employees	Income: Interest on reserve	Income: Total income	Expenses and benefit payments	Excess of income over outlays	Cumulative reserve balance at yearend (note a)
	(millions)						
1971	$119	$238	$ 59	$416	$278	$138	$1,090
1972	126	252	69	447	298	150	1,199
1973	126	252	78	456	321	135	1,331
1974	133	266	87	486	348	138	1,431
1975	b/220	231	97	548	357	191	1,664
1976	307	307	128	743	371	372	1,991

a/Some of the excess was credited to other balance sheet accounts.

b/Starting in July 1974 the United States Postal Service began to pay 100 percent of the premium cost for regular insurance for its employees, thereby increasing the Government's contribution significantly.

Since FEGLI's inception in 1954 through 1975, the Government's contribution totaled about $1,604 million, or about $60 million less than the accumulated reserve balance of $1,664 million. This indicates that the Government made no cash outlay for its share of the premium cost; rather, its contribution, for the most part, was added to the reserve balance through a bookkeeping entry. The reserve fund held by the Government is in Federal debt securities.

The dramatic rise in reserves in fiscal years 1975 and 1976 resulted primarily from the March 1975 increase in the FEGLI premium rate. The Commission estimates that premiums will continue to exceed expenses until a crossover point is reached in the late 1980s. Although premiums alone are not expected to cover program costs, from that point forward, premiums plus interest income on the reserve balance will be sufficient for that purpose. Additionally, the Commission believes that by the late 1980s the FEGLI group will have a stabilized population which will include about 1.8 million retirees.

Under the dynamic approach, the crossover point was estimated to fall between 1990 and the year 2000, but the reserve would continue to grow. For the two 5-year periods ended 1975 and 1976, employees and Government contributions increased at an average annual rate of 5.14 percent, whereas claims and other expenses increased at a rate of 7.2 percent. We projected these average rates over the next 10 years. Data for selected years follows.

Fiscal year	Income: Contributions (note a): Govern-ment	Income: Contributions (note a): Employ-ees	Income: Interest	Income: Total	Benefit payments expenses	Excess of income over outlays	Reserve balance at yearend
	(000,000 omitted)						
1979	$238	$476	$143	$ 857	$457	$401	$3,130
1982	277	563	207	1,047	562	475	4,479
1985	322	643	282	1,247	693	554	6,061
1986	338	676	310	1,324	743	582	6,643

a/Although the United States Postal Service pays 100 percent of the premiums for its employees, for the purpose of our projections, we used the one-third, two-thirds cost-sharing ratio prescribed by law.

The projections indicate the reserve balance will increase from $1.9 billion in 1976 to about $6.6 billion in 1986. The projections also show that the employees' share plus interest on the reserve balance will continue to exceed claims and other costs indefinitely.

INDUSTRY FUNDING PRACTICES

Our comparison of the FEGLI plan with those of various other group insurance plans showed major differences in premium computations and funding.

Employers for 17 group insurance plans provided information on funding practices. Nine of them established premiums basically on annual term costs without funding for future costs. Eight established premiums exceeding annual costs to provide funds for future premiums. The funds were to cover benefits for employees that were disabled, retired employees, or both. The level-cost concept used by the Commission in establishing FEGLI premiums was not used by any of the 17 plans.

A comparison of the claims experience and the prefunding (averages over the past 3 to 5 years) of FEGLI with those of six other plans that included prefunding provisions follows.

Plan	Claims and other costs	Funding excess premiums plus interest on reserves over claims and other costs	Average premium plus interest
	Rate per $1,000 of insurance		
1	$4.39	$5.90	$10.29
2	3.86	1.40	5.26
3	5.70	.90	6.60
4	7.65	.77	8.42
5	7.03	.52	7.55
6	5.74	.01	5.75
FEGLI	7.75	3.29	11.04
FEGLI (estimate, fiscal year 1976)	7.32	6.20	13.52

Employers for 12 plans furnished enough information to compute the claims and other costs as a rate per $1,000 of insurance for the past 3 to 5 years. The rates ranged from a low of $3.62 to a high of $7.65 as follows:

Plan	Claims and other costs
1	$3.62
2	3.75
3	3.86
4	4.01
5	4.39
6	4.43
7	5.70
8	5.74
9	6.29
10	6.90
11	7.03
12	7.65

The prefunding practice followed for FEGLI was, by far, the major cause for the higher FEGLI premium rate. However, average claims and other costs for FEGLI were also generally higher than the other plans. The information needed to analyze the precise causes for these differences was not available. Generally, the differences come about because of dissimilar characteristics of the universe insured as to age, sex, type of employment, turnover of young employees, percentage of active employees and annuitants, retirement ages, and mortality rates. One of the more important factors affecting rates is the extent of the participation in the plan by younger employees who have lower mortality rates. Most of the non-Federal plans have some form of noncontributory insurance which induces participation by all employees. On the other hand, FEGLI's relatively high premium rate discourages participation by younger employees, most of whom can obtain their own term insurance at lower rates.

CONCLUSIONS

FEGLI, as initially conceived, was to be a low-cost group life insurance program comparing favorably with those being offered in the private sector. Additionally, the premium rate used to inaugurate the program was expected to decline as the program stabilized. These objectives were not met.

FEGLI is funded on a basis unlike any other group program we examined. Whereas future FEGLI benefits are prefunded, non-Federal employers operate on a pay-as-you-go basis or prefund only a portion of anticipated benefit claims. This difference in funding approach is the primary reason that FEGLI premiums are higher than those in the non-Federal sector. Even though the level-cost concept, on which FEGLI premiums are based, is an attempt to keep premiums constant over time, FEGLI premiums have increased dramatically.

Because of the high premiums and the requirement that employees pay two-thirds, benefit payments to FEGLI beneficiaries have been financed solely by employee contributions since the program began. The Government should reevaluate its funding approach and consider adopting one more consistent with the practices followed by non-Federal employers.

In estimating level costs to establish premiums, the Commission ignored a very important assumption--general pay increases. Recognition of this factor would have moderated the premium increase initiated in March 1975. Including interest costs on FEGLI's unfunded liability in the premium determinations has also contributed to the high premium rate. The unfunded liability exists because of past funding insufficiencies and is unrelated to the cost of providing FEGLI to new employees. The Government pays all interest on the unfunded liability of the retirement program. Adoption of a similar approach under FEGLI could further reduce premiums to employees.

RECOMMENDATION TO THE CIVIL SERVICE COMMISSION

We recommend that the Chairman, Civil Service Commission, revise the Commission's policy and recognize anticipated pay increases in determining FEGLI premiums.

MATTERS FOR CONSIDERATION BY THE CONGRESS

The Congress should reevaluate the FEGLI funding requirements. It should consider prefunding only those liabilities arising from benefits payable to retired employees. Such a change would be more consistent with what is being done in the non-Federal sector and could materially reduce premiums.

If the present funding method is retained, the Congress should consider revising the FEGLI legislation to provide that the interest on the program's unfunded liability be paid by the Government.

AGENCY COMMENTS AND OUR EVALUATION

The Commission agreed that FEGLI's level-cost funding criteria was far more stringent than the various criteria used by other employers and pointed out that, unlike retirement, there are no standard funding concepts for group life insurance. The Commission did not oppose revision of the FEGLI funding concept but cautioned that introduction of a lower financing system today could possibly conceal the true cost of the program and could lead to higher funding in the future, particularly if employees were not required to share in future cost increases.

The Commission stated that it was currently reviewing the question of whether future general salary increases should be recognized in cost calculations for the civil service retirement program and thought it would be premature to apply dynamic financing techniques to FEGLI until the whole question of dynamic funding or financing by the Government is resolved.

We continue to believe the level-cost concept being used for the FEGLI program, which requires advance funding of future benefits payable to both active and retired employees, should be reevaluated. As long as other employers do not prefund benefit costs in this manner, FEGLI premiums will continue to exceed those in the non-Federal sector. Although revising the level-cost concept to provide advance funding of retirees' benefits only, as we have suggested, might cause premiums to increase in the future, FEGLI premiums have increased considerably and will continue to increase under the level-cost concept as now applied.

We fully support and have recommended dynamic costing techniques for the Government's retirement programs, as well as FEGLI, and agree that the question of dynamic funding should be resolved for all programs. However, we believe that life insurance and retirement programs are sufficiently different so that the issue could be resolved independently and dynamic costing could be used for the FEGLI program regardless of whether the concept is also used for retirement. In retirement programs, employee contributions are fixed, generally at 7 percent of pay, and the Government is responsible for all additional costs without regard to whether the costs are determined on a static or a dynamic basis. Under FEGLI, however, the failure to consider future pay increases results in higher premiums of which employees must pay a two-thirds share.

CHAPTER 5

CAN FEGLI BE MADE MORE ATTRACTIVE WITH NO INCREASE IN TOTAL COST?

FEGLI can be restructured to provide more attractive and equitable coverage. The possible choices presented may either increase or decrease the level cost of insurance somewhat or more equitably shift the cost burden on the basis of age, salary, and employment status. The choices presented can be combined in various ways and are not all inclusive; rather, they are those we believe warrant consideration because of their impact on equity, comparability, and cost.

The eight different methods we discuss for restructuring FEGLI fall under one of three basic categories.

1. Improve equity to various segments of FEGLI members by redistributing premiums.

2. Increase coverage for retirees and thereby make FEGLI more comparable with non-Federal plans.

3. Increase coverage for active employees which would make FEGLI more comparable with non-Federal plans.

REDISTRIBUTE PREMIUMS

Noncontributory insurance

Most other employers give their employees some noncontributory insurance coverage. The Government could provide a similar benefit by using its contribution, (one-third of total premiums) as payment in full for a portion of the coverage for all employees. At current premium rates, the Government's contribution would purchase $6,000 of insurance for each employee. This method would reduce the burden of high FEGLI premiums for younger and lower salaried employees and perhaps induce higher participation. It would also provide more equitable distribution of the Government's contribution in that each employee would receive the same benefit regardless of salary.

A comparison of the cost-sharing relationship which would result from this variation follows.

Coverage	Current (note a) Govern-ment's share	Employ-ee's share	Total	Revised Govern-ment's share	Employ-ee's share	Total	Govern-ment's contri-bution rate	Differ-ence in employee's contribu-tion
10,000	$ 46.15	$ 92.30	$138.45	$83.07	$ 55.38	$138.45	60%	$(36.92)
12,000	55.38	110.76	166.14	83.07	83.07	166.14	50	(27.69)
15,000	69.23	138.45	207.68	83.07	124.61	207.68	40	(13.84)
20,000	92.30	184.60	276.90	83.07	193.83	276.90	30	9.23
25,000	115.38	230.75	346.13	83.07	263.06	346.13	24	32.31
30,000	138.45	276.90	415.35	83.07	332.28	415.35	20	55.38
35,000	161.53	323.05	484.58	83.07	401.51	484.58	17	78.46
40,000	184.60	369.20	553.80	83.07	470.73	553.80	15	101.53
45,000	207.69	415.35	623.04	83.07	539.97	623.04	13	124.62
47,000	216.91	433.81	650.72	83.07	567.65	650.72	13	133.84

a/Contribution rate is fixed at one-third Government, two-thirds employees.

Pay premiums to age 65

Under the current system, Federal employees who retire before age 65 retain their full insurance coverage without paying premiums. During fiscal year 1975, 37 percent of the claims were paid to this group even though they comprised only 12 percent of the insured population. People who work to age 65 continue to pay premiums.

Requiring retirees and the Government to pay premiums to age 65 would reduce the burden on younger employees and more equitably distribute premiums to those generating the cost. This change should induce younger employees to participate, since their premiums would be lowered.

The impact on premiums would be considerable. The level cost per $1,000 of insurance would decrease by $2.183 from the current $13.811 to $11.628. The annual premiums for an active employee with minimum insurance of $10,000 would decrease from $138.45 to $116.28. The annual premium for a retiree under 65 with $20,000 insurance would increase from zero to $232.56, of which the retiree would pay $155.04.

A possibly more important reason for continuing premium payments to age 65 is the significant differences in retirement ages of individual employees under the civil service retirement system, as well as the other Federal retirement systems whose covered employees also participate in FEGLI. For example, optional retirement under the civil service retirement system is allowed at age 55 with 30 years' service, age 60 with 20 years, and age 62 with 5 years. Also, the system has numerous other provisions whereby employees may retire at earlier ages. For example, law enforcement and fire fighter personnel may retire at age 50 with 20 years' service, and disabled employees may retire at any age after

5 years' service. In 1975 the average age of new retirees under the system was about 58, ranging from 53 for involuntary retirees to 71 for mandatory retirees. Moreover, other Federal retirement systems have quite different retirement requirements, such as the District of Columbia's policemen and firemen's retirement system whose employees may retire at any age after 20 years of service; the foreign service retirement system with retirement at age 50, and the Tennessee Valley Authority retirement system where employees must serve to age 65 to receive full retirement benefits.

Correlate postretirement benefits with length of FEGLI participation

Employees who waive FEGLI coverage are permitted to later join the program provided:

--They are less than 50 years of age.

--More than 1 year has expired since the insurance was waived.

--They furnish proof of medical insurability.

Retiring employees retain their regular coverage if they have completed at least 12 years of Government service. The law does not require that these employees be covered by FEGLI for the entire 12 years to receive the free postretirement coverage. Disability retirees receive free coverage without the 12-year requirement.

Under the current high premium structure, employees younger than 44 can generally obtain term insurance in the marketplace at lower premiums than their share of the FEGLI premium. Regulations permit employees to join the program in later years when FEGLI costs become competitive. Later joining employees upon retirement still have the same insurance benefits without paying premiums for their entire career. Since the premiums include estimated postretirement costs, a significant inequity exists in the FEGLI program. Greater equity would result if the law were changed to correlate the amount of postretirement coverage with the length of time a retiree was covered by the FEGLI program as an active employee.

INCREASE COVERAGE FOR RETIREES

Most employers reduce insurance coverage by 50 percent either at the time of retirement or when retirees reach age 65. FEGLI requires insurance coverage of retirees to be reduced at the rate of 2 percent per month starting at age 65, with a maximum reduction of 75 percent.

Two possible methods for increasing retirees' coverage can be considered to improve FEGLI comparability.

Establish maximum 50-percent reduction

This method would retain the 2-percent reduction per month starting at the later age of 65 or retirement and change the maximum reduction from 75 percent to 50 percent.

The impact on premiums is significant. The level cost per $1,000 of insurance would increase $3.089 from the current $13.811 to $16.90. Annual premiums for an active employee with minimum insurance of $10,000 would increase from $138.45 to $169. A retiree with $10,000 of insurance would now retain, without paying premiums, $5,000 of insurance after completion of reductions starting at age 65 rather than $2,500 of insurance as at present.

Start reduction upon retirement with maximum 50-percent reduction

This method would retain the 2-percent reduction per month, start the reductions upon retirement rather than at age 65, and change the maximum reduction from 75 percent to 50 percent.

The level cost per $1,000 of insurance would increase by $0.922 from the current $13.811 to $14.733. Annual premiums for an active employee with minimum insurance of $10,000 would increase from $138.45 to $147.33. A retiree with $10,000 of insurance would now have $5,000 of insurance upon completion of deductions starting at retirement and retain it rather than receive reductions starting at age 65 down to $2,500 of insurance, as is currently the case.

INCREASE COVERAGE FOR EMPLOYEES

Most employers provide employees with a substantially higher amount of insurance coverage than FEGLI. Some employers also provide dependent coverage and additional coverage while in a travel status which is not available to Federal employees.

Increase amount of insurance

This will include an alternative of providing greater amounts of optional insurance to employees based on a sliding scale of needs by age groups. FEGLI's $10,000 of optional insurance premiums for employees under 35 years of age are very reasonable--$20.80 annually. Thus younger employees who need more insurance can obtain it at reasonable rates.

Dependent coverage

FEGLI could provide for group life insurance coverage for an employee's spouse ($1,000) and children ($500 each child). Without accidental death and dismemberment coverage and discontinuing insurance after retirement, the total annual cost for this insurance would be:

Age	Annual cost
Under 35	$ 2.34
35 to 39	3.12
40 to 44	4.16
45 to 49	6.24
50 to 54	9.10
55 to 59	14.04
60 and over	22.36

Business travel accident coverage

Insurance coverage could be provided for accidental death or dismemberment incurred while an employee is traveling on official Government business. This benefit would be in addition to the current FEGLI coverage for accidental death and dismemberment. Data required for computing the cost impact is not readily available. However, the cost is not significant; it would be less than the annual cost for accidental death and dismemberment which amounts to $0.41 per $1,000 coverage. An employee with $10,000 of insurance would pay less than $4.10 annually.

CONCLUSIONS

FEGLI can be restructured in many ways to provide more attractive and equitable coverage. The choices discussed are not all inclusive but represent those we believe warrant consideration because:

--They would impact favorably on FEGLI's equity and comparability with non-Federal programs.

--They could be implemented at little or no additional cost to the Government, with a relatively moderate increase in the total costs to employees.

If FEGLI is to become more attractive to younger employees and more equitable for all personnel, employee contributions should be reduced. Although some of the suggested structural changes would achieve this, changes to the funding concept (see pp. 32 to 34) and different allocation of costs between employees and the Government could further reduce employee premiums. Limited savings would also result if the law recognized that FEGLI is, in effect, a self-insured program. (See pp. 21 and 22.)

AGENCY COMMENTS

The Commission agreed that the possible modifications we suggested for restructuring the program might make FEGLI more attractive to younger employees and stated that these and other suggestions would be considered by the Commission in reviewing and recommending changes to the program.

COMPARISON OF SURVIVOR BENEFITS PROVIDED BY THE FEDERAL GOVERNMENT AND BY 21 NON-FEDERAL EMPLOYERS

COMPARISON OF EMPLOYEES' AND RETIREES' SURVIVOR BENEFITS

AMOUNTS REPRESENT LUMP-SUM PAYMENTS AND/OR PRESENT VALUE OF ANNUITIES

FEDERAL GOVERNMENT VERSUS 21 PRIVATE AND PUBLIC EMPLOYERS

Regular Group Life Insurance

	Active			Retired	
Age (note a)	25	28	45	58	68
Employer:					
FEGLI	$12,000	$16,000	$20,000	$22,000	$ 6,000
Other employers (note b):					
1	11,000	15,000	19,000	15,000	15,000
2	22,000	30,000	38,000	500	500
3	5,000	35,000	45,000	5,000	5,000
4	10,000	14,000	18,000	11,000	8,000
5	15,000	21,000	27,000	2,500	5,000
6	19,000	28,000	36,000	9,000	11,000
7	10,000	14,000	18,000	40,000	14,000
8	10,000	14,000	18,000	20,000	16,000
9	20,000	28,000	36,000	(c)	13,000
10	12,000	16,000	17,000	17,000	9,000
10-1 (note d)	20,000	28,000	36,000	40,000	21,000
11	10,000	14,000	18,000	8,400	8,000
12	23,000	30,000	38,000	42,000	31,000
13	25,000	49,000	63,000	26,000	26,000
14	22,000	30,000	38,000	17,000	17,000
15	20,000	28,000	36,000	-	-
16	20,000	28,000	36,000	40,000	10,000
17	15,000	21,000	27,000	4,000	4,000
18	14,000	18,000	22,000	12,000	12,000
19	10,000	10,000	10,000	-	-
20	10,000	14,000	18,000	5,000	5,000
21	20,000	28,000	36,000	40,000	20,000

Optional Group Life Insurance

Age (note a)	Active 25	Active 28	Active 45	Retired 58	Retired 68
Employer (note e):					
FEGLI	$ 10,000	$ 10,000	$ 10,000	$10,000	$ 2,500
Other employers:					
1	11,000	15,000	19,000	20,000	-
2 (note f)	-	-	-	-	-
3	-	-	-	-	-
4	20,000	28,000	36,000	11,000	8,000
5	-	-	-	-	-
6	-	-	-	-	-
7	20,000	14,000	18,000	-	-
8	70,000	90,000	54,000	19,000	-
9	120,000	169,000	73,000	(c)	23,000
10	-	-	-	-	-
10-1 (note d)	5,000 to 50,000	5,000 to 70,000	5,000 to 90,000	-	-
11	10,000	14,000	18,000	-	-
12 (note f)	10,000	14,000	18,000	25,000	-
13 (note f)	-	-	-	-	-
14	-	-	-	-	-
15	-	-	-	-	-
16	-	-	-	-	-
17	15,000	21,000	27,000	-	-
18	-	-	-	-	-
19	20,000	20,000	20,000	5,000	5,000
20	20,000	28,000	36,000	-	-
21 (note f)	-	-	-	-	-

Optional Accidental Death Coverage

Age (note a)	Active 25	Active 28	Active 45
Employer (notes e and g):			
FEGLI	$ 10,000	$ 10,000	$ 10,000
Other employers:			
1	-	-	-
2	22,000 to 66,000	30,000 to 90,000	38,000 to 114,000
3	-	-	-
4	20,000	28,000	36,000
5	3,000	3,000	3,000
6	-	-	-
7	-	-	-
8	-		-
9	10,000 to 50,000	10,000 to 70,000	10,000 to 90,000
10	-	-	-
10-1 (note d)	10,000 to 250,000	10,000 to 250,000	10,000 to 250,000
11	-	-	-
12	-	-	-
13	25,000 to 50,000	25,000 to 75,000	225,000 to 100,000
14	-	-	-
15	-	-	-
16	-	-	-
17	-	-	-
18	-	-	-
19	-	-	-
20	10,000 to 250,000	10,000 to 250,000	10,000 to 250,000
21	-	10,000 to 150,000	10,000 to 150,000

Social Security and Private Retirement Plans

	Active			Retired	
Age (note a)	25	28	45	58	68
Social security	$ 255	$103,000	$ 64,000	$ 29,000	$ 38,000
private retirement plans:					
Employer:					
1	-	14,000	18,000	55,000	57,000
2	-	-	-	43,000	51,000
3	-	-	-	38,000	45,000
4	-	-	-	27,000	34,000
5	1,000	47,000	124,000	39,000	70,000
6	-	-	-	38,000	37,000
7	-	6,000	42,000	26,000	35,000
8	-	16,000	43,000	37,000	29,000
9	-	-	-	(c)	39,000
10	-	-	13,000	Not available	Not available
10-1 (note d)	-	3,000	13,000	Not available	Not available
11	-	3,000	-	43,000	37,000
12	-	-	-	-	39,000
13	-	-	44,000	60,000	50,000
14	-	-	-	8,000	12,000
15	-	-	-	-	39,000
16	-	-	-	29,000	81,000
17	-	-	-	91,000	75,000
18	-	-	-	66,000	58,000
19	-	-	-	17,000	34,000
20	-	-	-	53,000	48,000
21	-	-	-	34,000	41,000

Total Retirement Plan Benefits

Age (note a)	Active 25	Active 28	Active 45	Retired 58	Retired 68
Employer:					
Federal	-	$ 74,000	$114,000	$ 78,000	$ 71,000
Other employers:					
1	$ 255	117,000	82,000	84,000	95,000
2	255	103,000	64,000	72,000	89,000
3	255	103,000	64,000	67,000	82,000
4	255	103,000	64,000	56,000	71,000
5	1,255	150,000	188,000	68,000	108,000
6	255	103,000	64,000	66,000	75,000
7	255	109,000	106,000	55,000	73,000
8	255	119,000	107,000	65,000	67,000
9	255	103,000	64,000	(c)	77,000
10	255	106,000	77,000	Not available	Not available
10-1 (note d)	255	106,000	77,000	Not available	Not available
11	255	103,000	64,000	71,000	74,000
12	255	103,000	64,000	29,000	76,000
13	255	103,000	108,000	88,000	87,000
14	255	103,000	64,000	37,000	50,000
15	255	103,000	64,000	29,000	77,000
16	255	103,000	64,000	57,000	119,000
17	255	103,000	64,000	119,000	113,000
18	255	103,000	64,000	95,000	95,000
19	255	103,000	64,000	46,000	72,000
20	255	103,000	64,000	82,000	86,000
21	255	103,000	64,000	63,000	79,000

Employee Annual Contributions For Regular Life Insurance

	Active		
Age (note a)	25	28	45
Employer (note g):			
Federal	$ 111	$ 148	$ 185
Other employees:			
1	-	-	-
2	126	174	266
3	-	-	-
4	-	-	-
5	-	-	-
6	78	114	390
7	-	-	-
8	-	-	-
9	-	-	-
10	-	-	-
10-1 (note d)	-	-	-
11	-	-	-
12	-	-	-
13	Not available	Not available	Not available
14	132	180	228
15	48	67	86
16	72	101	130
17	-	-	-
18	73	94	114
19	-	-	-
20	-	-	-
21	-	-	-

Employee Annual Contributions for
Social Security and Private Retirement Plans

	Active		
Age (note a)	25	28	45
Social security (note g)	$535	$819	$825
Private retirement plans (note g):			
1	-	-	-
2	-	-	-
3	-	-	-
4	-	-	-
5	304	464	624
6	-	-	-
7	-	-	-
8	-	-	-
9	102	222	342
10	-	-	-
10-1 (note d)	-	-	-
11	-	-	-
12	-	-	-
13	-	-	-
14	-	-	-
15	-	-	-
16	500	700	900
17	281	402	602
18	200	280	477
19	-	-	-
20	-	-	-
21	-	-	-

Total Employee Annual Contributions for Retirement Plan Benefits

	Active		
Age (note a)	25	28	45
Employee (note g):			
Federal	$ 700	$ 980	$1,260
Other employees:			
1	585	819	825
2	585	819	825
3	585	819	825
4	585	819	825
5	889	1,283	1,449
6	585	819	825
7	585	819	825
8	585	819	825
9	687	1,041	1,167
10	585	819	825
10-a (note d)	585	819	825
11	585	819	825
12	585	819	825
13	585	819	825
14	585	819	825
15	585	819	825
16	1,085	1,519	1,725
17	866	1,221	1,427
18	785	1,099	1,302
19	585	819	825
20	585	819	825
21	585	819	825

Workers' Compensation Benefits and Employer Survivor Benefits for Work-Related Accidental Death

	Active		
Age (note a)	25	28	45
Employer (note g):			
Federal (note h)	$ 800	$155,000	$161,000
Other employers:			
1 (note i)	1,250	78,000	63,000
2	1,000	156,000	106,000
3	1,000	37,000	37,000
4	750	78,000	62,000
5	745	40,000	41,000
6 (note i)	21,150	61,000	69,000
7	750	78,000	62,000
8 (note i)	20,750	158,000	144,000
9	1,000	155,000	106,000
10	1,500	54,000	54,000
10-1 (notes d and i)	11,500	68,000	72,000
11	1,000	37,000	37,000
12	750	78,000	62,000
13	750	78,000	62,000
14	1,750	33,000	33,000
15	1,500	54,000	54,000
16	800	57,000	57,000
17 (note i)	750	266,000	252,000
18	1,000	156,000	106,000
19	1,750	33,000	33,000
20	1,000	37,000	37,000
21	1,000	15,000	15,000

Accidental Death Benefits (Not-Work Related)

	Active		
Age (note a)	25	28	45
Employer (note g):			
Federal	$12,000	$16,000	$20,000
Other employers:			
1	11,000	15,000	19,000
2	-	-	-
3	5,000	35,000	45,000
4	10,000	14,000	18,000
5	15,000	21,000	27,000
6	19,000	28,000	36,000
7	20,000	28,000	36,000
8	-	-	-
9	10,000	14,000	18,000
10	6,000	8,000	9,000
10-1 (note d)	10,000	14,000	18,000
11	20,000	28,000	36,000
12	-	-	-
13	20,000	42,000	54,000
14	-	-	-
15	10,000	28,000	36,000
16	20,000	28,000	36,000
17	-	-	-
18	-	-	-
19	4,000	4,000	4,000
20	-	-	-
21 (note g)	20,000	28,000	36,000

Total Benefits Paid on Natural Death

	Active			Retired	
Age (note a)	25	28	45	58	68
Employer:					
Federal	$12,000	$ 90,000	$134,000	$100,000	$ 77,000
Other employers:					
1	11,000	132,000	101,000	99,000	110,000
2	22,000	133,000	102,000	72,000	90,000
3	5,000	138,000	109,000	72,000	87,000
4	10,000	117,000	82,000	67,000	79,000
5	16,000	171,000	215,000	71,000	113,000
6	20,000	131,000	100,000	75,000	86,000
7	10,000	123,000	124,000	95,000	87,000
8	10,000	133,000	125,000	85,000	83,000
9	20,000	131,000	100,000	(b)	90,000
10	12,000	121,000	94,000		
10-1 (note d)	20,000	134,000	113,000		
11	10,000	117,000	82,000	80,000	83,000
12	23,000	133,000	102,000	71,000	107,000
13	25,000	152,000	171,000	114,000	113,000
14	22,000	133,000	102,000	54,000	67,000
15	20,000	131,000	100,000	29,000	77,000
16	20,000	131,000	100,000	97,000	129,000
17	15,000	124,000	91,000	123,000	117,000
18	14,000	121,000	86,000	107,000	107,000
19	10,000	113,000	74,000	46,000	72,000
20	10,000	117,000	82,000	87,000	91,000
21	20,000	131,000	100,000	103,000	99,000

Total Benefits Paid on Non-Job-Related Accidental Death

	Active		
Age (note a)	25	28	45
Employer (note g):			
Federal	$24,000	$106,000	$154,000
Other employers:			
1	22,000	147,000	120,000
2	22,000	133,000	102,000
3	10,000	173,000	154,000
4	20,000	131,000	100,000
5	31,000	192,000	242,000
6	39,000	158,000	136,000
7	30,000	151,000	160,000
8	10,000	133,000	125,000
9	30,000	145,000	118,000
10	18,000	129,000	102,000
10-1 (note d)	30,000	148,000	131,000
11	30,000	145,000	118,000
12	23,000	133,000	102,000
13	45,000	194,000	225,000
14	22,000	133,000	102,000
15	30,000	159,000	136,000
16	40,000	159,000	136,000
17	15,000	124,000	91,000
18	14,000	121,000	86,000
19	14,000	117,000	78,000
20	10,000	117,000	82,000
21	40,000	159,000	136,000

Total Benefits Paid on Job-Related Accidental Death

	Active		
Age (note a)	25	28	45
Employer (note g):			
Federal	$25,000	$172,000	$201,000
Other employers:			
1	24,000	211,000	164,000
2	23,000	289,000	208,000
3	11,000	210,000	191,000
4	21,000	209,000	162,000
5	32,000	232,000	283,000
6	60,000	219,000	205,000
7	31,000	229,000	222,000
8	31,000	291,000	268,000
9	31,000	301,000	224,000
10	19,000	183,000	156,000
10-1 (note d)	42,000	215,000	202,000
11	31,000	182,000	155,000
12	24,000	211,000	164,000
13	46,000	272,000	287,000
14	24,000	166,000	135,000
15	32,000	213,000	189,000
16	41,000	216,000	193,000
17	16,000	390,000	343,000
18	15,000	277,000	192,000
19	16,000	150,000	111,000
20	11,000	154,000	119,000
21	41,000	174,000	151,000

a/Our calculations of benefits payable under the various programs were made for persons assumed to have the following characteristics at time of death.

--A single 25-year-old male with no dependents earning $10,000 a year with 3 years' service.

--A married 28-year-old male with 4 years' service earning $14,000 a year and having a 28-year-old wife and a 5-year-old child.

--A married 45-year-old male with 20 years' service earning $18,000 a year and having a 45-year-old wife and two children, ages 10 and 18.

--A married 58-year-old male who retired at age 55 earning $20,000 a year with 30 years' service and having a 58-year-old wife.

--A married 68-year-old male who retired at age 65 earning $20,000 with 35 years' service and having a 68-year-old wife.

The non-Federal employers included in the comparison base were 17 large private companies representing a variety of industries dispersed throughout the country and 4 public bodies. All of these employers were known to offer their employees relatively good fringe benefit packages. Since some of the data we collected from these employers was sensitive confidential, we are not identifying them.

b/Other life insurance benefits included in the packages offered by several non-Federal employers but not available to FEGLI participants are:

--Coverage for a spouse in amounts of $1,500 to $5,000 and $1,000 for each child.

--Coverage of two to three times the salary for accidental death incurred while traveling for the employer.

--A combination of whole life and term insurance based on an individual's salary.

c/Employer benefits do not provide for retirement at age 55.

d/This employer has two separate fringe benefit plans--one for hourly wage employees and one for salaried employees.

e/Participation in the optional group life insurance plans varies in the non-Federal sector from a low of 50 percent to a high of 80 percent of eligible employees. Only 24 percent of eligible Federal employees participate in FEGLI's optional insurance. We were unable to obtain participation data on optional accidental death and dismemberment insurance of non-Federal employees.

f/These employers offer survivor income insurance of about 20 to 30 percent of salary. This benefit differs from regular group life insurance in that it is restricted to monthly payments to a specified eligible survivor for as long as that person lives.

g/Retirees are not required to contribute to any death benefit plan and generally are not provided any job-related death benefit or accidental death and dismemberment insurance. One non-Federal employer (indicated on our list as number 21) provided accidental death coverage after retirement until age 65.

h/Survivors of Federal employees have the option of selecting either workers' compensation or retirement system benefits.

i/These totals include employer benefits, in addition to workers' compensation benefits, as follows:

Employer 1--$500 burial benefit.
Employers 6 and 8--Two times the annual salary.
Employers 10 and 1--Annual salary.
Employer 17--Age 28, $135,841 and age 45, $144,345.

APPENDIX II

NINETY-FOURTH CONGRESS

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U.S. House of Representatives
COMMITTEE ON POST OFFICE AND CIVIL SERVICE
207 CANNON HOUSE OFFICE BUILDING
Washington, D.C. 20515

November 17, 1975

B-125004

Honorable Elmer B. Staats
Comptroller General of the United States
U.S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Comptroller General:

Recent hearings by the Subcommittee on Retirement and Employee Benefits on the Federal Employees' Group Life Insurance (FEGLI) program have shown that a re-evaluation of the program is needed. We are concerned that younger employees are declining to participate in the program because of its cost, while, at the same time, the reduced level of coverage to retirees may not be adequate or comparable with coverage provided to retirees under other employers' life insurance programs.

I am hereby requesting that the General Accounting Office perform a comprehensive analysis of life insurance and other death benefit programs available to Federal employees and retirees with similar programs provided for non-Federal employees, both public and private. Your review should identify possible alternative methods in which the FEGLI program could be restructured to provide better and more acceptable coverage for the premiums being paid as well as the savings and improvements that could be accomplished if the Government were to assume responsibility for the program as a self-insurer.

Thank you for your cooperation.

Sincerely yours,

David N. Henderson

DAVID N. HENDERSON
Chairman

DNH:bjl

UNITED STATES CIVIL SERVICE COMMISSION
BUREAU OF RETIREMENT, INSURANCE, AND OCCUPATIONAL HEALTH
WASHINGTON, D.C. 20415

IN REPLY PLEASE REFER TO

YOUR REFERENCE

MAR 8 1977

Mr. H. L. Kreiger
Director
Federal Personnel and Compensation Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Kreiger:

This is in response to your January 11, 1977 request for comments on the GAO draft report, "Changes to the Federal Employees Group Life Insurance Program are Needed." We find the report to be a clear and thorough explanation of a very complicated subject and wish to compliment you for it. The comments below are divided into the same sections as the draft report.

Comparison of death benefits for Federal and non-Federal employees

Your report notes that there are several Federal programs providing death benefits and includes a comparison of the benefits of 21 other employers. We agree that all sources of death benefits, including FEGLI, Civil Service Retirement, and Federal Employees Compensation, as well as others, should be considered. Federal benefits are, as you note, generally comparable to benefits of other large employers but the trend has been toward a larger share of the cost paid by other employers than by the Federal government. In many cases the employer pays the entire cost of insurance benefits. However, we would caution against changing life insurance contributions to be "comparable" to the contributions of other employers without considering the comparability of all elements of compensation.

FEGLI is not a typical group life insurance program

The report notes that the participation of the government in the FEGLI contract differs significantly from that of other employers because, among other things, the government establishes premiums, answers employee inquiries, accounts for premium payments and audits the operation of the insurance companies. Consequently, the report suggests that Congress consider whether FEGLI should be liable for the premium taxes and risk charges paid under a standard contract.

The distinction between FEGLI and the typical group life insurance program may be oversimplified. It is true that a small employer purchasing group life insurance will leave all administrative duties to the insurer. Larger

THE MERIT SYSTEM—A GOOD INVESTMENT IN GOOD GOVERNMENT groups will, however, handle many of the administrative duties. We suggest that you may want to note that there are not just two types of contracts—FEGLI and all others—but that there are many varieties in between and the employers' participation in FEGLI may not be too dissimilar from the insurance programs of other very large groups.

As you note, Congress decided in 1954 to subject FEGLI contributions to premium taxes and the Commission and the carrier cannot change this situation without the action of Congress.

Funding and establishing premiums

The funding of FEGLI is a very complex question as reflected in your report. You note that FEGLI is funded on a much stronger basis than is typical for group insurance contracts and suggest changes in the funding criteria and/or the government share of the cost.

The FEGLI program began with a total payment of 37.5 cents biweekly per $1,000 of insurance. Early projections showed that, while the 37.5 cents might eventually have to be supplemented, it would only happen after a long time. We saw no reason to ask for an increase in the rate until the need for such increase was imminent and certain. Our 1957 valuation of the system noted that "the necessity for increasing contributions to support the ultimate benefit load is not a problem of the foreseeable future."

The General Accounting Office, however, took a different view of the possible long range short fall. In a letter dated May 16, 1962, the Comptroller General recommended that "Congress adopt the level cost principle in establishing premium rates as the need arises." Based on this advice, Congress added the level cost concept to the program. Your current recommendation is more in line with the funding criteria followed by the Commission prior to that time. Excess funds were set aside to pay benefits to retirees but there was no formal level cost goal.

As you point out, the level cost criteria is far more stringent than the various criteria used in the private sector. Unlike retirement financing, there are no standard funding concepts for group life insurance. Employers pay the term cost for active employees and, if they have post-retirement insurance, fund that cost in many different ways. Post-retirement funding ranges from simply setting aside any excess gains to a formalized contribution system like FEGLI.

There are many pre-funding systems in use and many others which could be devised.

We would caution, however, against introducing a lower financing system and possibly concealing the true cost. Radically lower levels of funding today will lead to much higher funding in the future. If the employee pays two-thirds of a lower cost today, and does not share in the increasing cost, the government will wind up paying more than one-third of the cost. Rather than approach higher government funding by using lower funding criteria, we recommend that the question of the appropriate share for the employee and the government be directly faced and decided on.

The report includes one funding recommendation for the Commission—recognition of future general salary increases in the cost calculation. As you know, the question of use of "dynamic" funding criteria—including general salary increases—is currently being reviewed for the Civil Service Retirement System. Also, the Board of Actuaries is beginning a major reevaluation of the Civil Service Retirement System. It would be premature to take one element of dynamic financing and apply it to FEGLI until the whole question of "dynamic" funding or financing by the government is resolved.

Can FEGLI be improved with no increase in total cost?

[See GAO note.]

We share your concern about the low level of participation in the program by younger employees. If even lower levels of participation occur, the rates may have to be increased, and even more younger employees may be driven out.

You have suggested a number of possible modifications that might make the program more attractive to younger employees. Other changes will undoubtedly be suggested as we review the FEGLI program and those you have suggested as well as others will be considered and evaluated in terms of costs and benefits before we make our recommendations for changes in the program.

Sincerely yours,

Thomas A. Tinsley
Director

GAO note: The deleted comments relate to matters which were discussed in the draft report but which were omitted from this report.

PRINCIPAL OFFICIALS OF THE CIVIL SERVICE COMMISSION

RESPONSIBLE FOR ADMINISTERING ACTIVITIES

DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
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Georgiana H. Sheldon, Vice Chairman	Mar. 1976	Present
L. J. Andolsek	Apr. 1963	Present
Robert E. Hampton, Chairman	Jan. 1969	Jan. 1977
John W. Macy, Jr., Chairman	Mar. 1961	Jan. 1969
Jayne B. Spain, Vice Chairman	June 1971	Dec. 1975
James E. Johnson	Jan. 1969	June 1971
Robert E. Hampton	July 1961	Jan. 1969
EXECUTIVE DIRECTOR:		
Raymond Jacobson	July 1975	Present
Bernard Rosen	June 1971	June 1975
Nicholas J. Oganovic	June 1965	May 1971
DIRECTOR, BUREAU OF RETIREMENT, INSURANCE AND OCCUPATIONAL HEALTH:		
Thomas A. Tinsley	Jan. 1974	Present
Andrew E. Ruddock	Sept. 1959	Dec. 1973