

094219



REPORT TO THE CONGRESS

Improving Administration Of The
Uniform Plan Of Health Insurance For
Federal Employees Who Retired
Before July 1, 1960 B-164562

Civil Service Commission

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

~~710690~~
094219

JUNE 12 1960



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

B-164562

To the President of the Senate and the
Speaker of the House of Representatives

This is our report entitled "Improving Administration of the Uniform Plan of Health Insurance for Federal Employees Who Retired Before July 1, 1960." The Plan is administered by the Civil Service Commission through a contract with the Aetna Life Insurance Company, Hartford, Connecticut.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget, and to the Chairman, Civil Service Commission.

A handwritten signature in cursive script that reads "James B. Stacks".

Comptroller General
of the United States

C o n t e n t s

	<u>Page</u>
DIGEST	i
CHAPTER	
1 INTRODUCTION	1
Uniform Plan	2
2 PREMIUM RATES AND RESERVES	7
Premium rates	7
Reserves	9
Conclusion	18
Recommendations	19
Agency and contractor comments and our evaluation	19
Matters for consideration by the Congress	20
3 INVESTMENT INCOME	21
Interest on funds controlled by the Commission	21
Interest on funds controlled by Aetna	22
Recommendation	23
Agency comments	23
Questionable practices relating to investment-income credits	23
Conclusion	27
Recommendation	28
Agency comments and our evaluation	28
Investment-income credits reduced because of Federal income taxes	28
Conclusions	30
4 COMMISSION'S AUDITS OF OPERATIONS UNDER THE UNIFORM PLAN	31
5 SCOPE OF REVIEW	34

APPENDIX

I	Principal health benefits under the Uniform Plan	35
II	GAO summary of statements furnished by Aetna to the Civil Service Commission on annual accounting and reserves under the Uniform Plan cumulative from July 1, 1961, to December 31, 1972, and for contract period January 1 to December 31, 1972	36
III	Retired Federal Employees Health Benefit Program Uniform Plan summary of reserves as of December 31, 1972	37
IV	Letter dated July 24, 1973, from the Director, Bureau of Retirement, Insurance, and Occupational Health, Civil Service Commission, to GAO	38
V	Letter dated June 1, 1973, from the Vice President, Group Division, Aetna Life and Casualty, to the Civil Service Commission	42
VI	Principal officials of the Civil Service Commission responsible for administering the Retired Federal Employees Health Benefits Program	46

ABBREVIATIONS

GAO	General Accounting Office
IRS	Internal Revenue Service

D I G E S T

WHY THE REVIEW WAS MADE

✓ The Civil Service Commission contracts for health benefit plans under the Retired Federal Employees Health Benefits Program. The Uniform Plan administered by Aetna Life Insurance is the largest under this program.

As of June 1973 over 68,200 persons were enrolled in the Plan. Premium income for 1972 amounted to about \$5.5 million. (See pp. 5 and 8.)

GAO studied this Plan as part of an examination of several Federal employee health plans managed by major carriers, including the Service Benefit Plan administered by the Blue Cross and Blue Shield and the Indemnity Benefit Plan administered by Aetna.

GAO previously reported on the administration of these two large plans which are available to all civilian Federal employees and certain members of their families or their survivors and to annuitants retiring after July 1, 1960 (B-164562, Oct. 20, 1970, and May 22, 1972, respectively).

FINDINGS AND CONCLUSIONS

High premiums created reserves substantially exceeding needs

The law establishing the Plan

required that premiums be adjusted after each contract period to reasonably and equitably reflect the cost of benefits provided--that is on an experience basis. However, in all but the last two contract periods premium income substantially exceeded the actual cost of benefits and administrative expenses. (See p. 8.)

Because premiums were unnecessarily high and were not reduced to levels reflecting the cost of benefits provided, the Plan accumulated reserves substantially in excess of amounts needed to protect the interests of the Plan and Aetna. (See pp. 8, and 10 to 16.)

✓ A large portion of the reserves has been created since 1966 as a result of Medicare, which assumed a significant portion of the health benefits liability which the Plan previously paid. (See p. 15.)

In November 1971 the Commission estimated that the Plan's reserves, amounting to over \$37 million at the end of 1971, were sufficient to cover probable losses through 1986 to 1987. Premium reductions and increases in health benefits made in 1967 and 1970 had little impact on the large reserves. (See pp. 15 and 16.)

The Commission announced further general reductions in premiums and increases in benefits effective January 1, 1973, which it

estimates should resolve the problem of surplus reserves by June 30, 1978. Due to the magnitude of the reserves and the limitations that currently prevail in expeditiously reducing the reserves by premium reductions to enrollees--premiums paid by enrollees currently range from 50 cents to a maximum of \$1.00 per month--it appears that the Commission's plan for solving the problem of surplus reserves by June 30, 1978, is reasonable. (See pp. 16 and 19.)

Enrollees who are also eligible for Medicare benefits

Most Uniform Plan enrollees are also eligible for health benefits under Medicare and these benefits overlap to a significant degree. When enrollees have dual eligibility, Uniform Plan benefits are paid after Medicare benefits have been paid. To avoid duplicate coverage, Plan payments are limited to those not paid by Medicare. (See p. 16.)

This causes an inequity, since enrollees of the Plan who also have Medicare do not derive the same benefit from their Plan premiums as those without Medicare, because both groups pay the same rates under the Uniform Plan. The inequity could be adjusted by establishing differential medical benefits for enrollees with, and those without, Medicare. (See pp. 16 and 17.)

To adjust a similar inequity in the Federal Employees Health Benefits Program, section 210 of Public Law 92-603 requires the Civil Service Commission to assure that by January 1, 1975, Federal Employees and retirees who are eligible under both the Federal Employees Health Benefits Program and Medi-

care be provided supplemental coverage or reduced premiums in recognition of the overlap between the two programs. However, because of the need to solve the reserve problem of the Retired Federal Employees Health Benefits Program, it appears that the establishment of differential premium rates may not be practicable until the unnecessary reserves have been eliminated--now estimated to be in 1978. (See p. 17.)

Periodic rather than annual payment of Government contribution

The Retired Employees Health Benefits Fund usually receives the Government's total annual share of contributions upon enactment of the act for making appropriations for the Retired Employees Health Benefits Programs. However, the Fund receives the contributions of enrollees of eligible health plans in monthly amounts and as premiums become due monthly to the carriers of the health plans. The 1960 act establishing the program authorizes the Secretary of the Treasury to invest and reinvest any moneys of the Fund in interest bearing obligations of the United States for purposes of the Fund. Since 1961, \$3.9 million in interest has been earned on the Government's share of contributions held in the Fund until used to pay premiums or administration expenses. This interest has been credited to the program's Operating Surplus. (See p. 9.)

The Government's share of the contributions to the Fund should be paid into the Fund concurrently with the contributions made by enrollees. (See p. 18.)

Inequitable and inconsistent allocations of investment income

Aetna's method of computing income credits was inconsistent with respect to the handling of capital gains and losses and resulted in lower investment-income credits to the Plan than Aetna earned on Plan funds. GAO estimated that the amount of investment credits to the Plan would have been nearly \$203,000 greater if Aetna had been consistent in computing rates of earnings on invested assets of the Plan. This and certain inequitable situations that GAO noted in the bases Aetna used for allocating investment income to the Plan and in computing interest rates used for determining investment income credits are discussed on pages 23 to 26.

Aetna credited the Plan with \$271,000 in 1972 to adjust prior interest inequities (including about \$57,000 for interest which would have been earned on the additional investment income credits). Aetna also revised the method for allocating short-term investment income. (See p. 26.)

Although the Commission's contract with Aetna is silent concerning interest earned on Other Reserves--primarily funds held for the Plan by Aetna to pay accrued claims and expenses--Aetna has always credited the Plan with such interest. This practice is proper and should be made a matter of contractual agreement. (See pp. 22 and 23.)

Investment-income credits reduced by deductions for Federal income tax

The Plan was charged \$900,000 from 1960 through 1971 for Federal income tax on over \$1.8 million allocated to

the Plan by Aetna for interest on Other Reserves. The Commission questioned the taxability of this interest income and Aetna presented arguments against such taxation to the Internal Revenue Service (IRS), New Haven, Connecticut, office and advised us that in September 1971 it obtained the opinion of an IRS official of that office that the interest is nontaxable. However, since Aetna said it was told that the opinion at that level is not binding on IRS, Aetna is currently processing a request for a formal ruling on whether the interest on Other Reserves is, or is not, taxable. (See pp. 28 and 29.)

RECOMMENDATIONS OR SUGGESTIONS

The Commission should:

- Administer the Uniform Plan on an experience basis as required by law, once reserves have been reduced to the amount required for estimated accrued benefit claims, unpaid administrative expenses, and adverse claim fluctuations. (See p. 19.)
- Establish procedures whereby the Government's contribution to the Retired Employees Health Benefits Fund be paid into the Fund concurrently with the contributions made by enrollees. (See p. 19.)
- Move to amend the contract to (1) provide that the Plan be credited with interest on Other Reserve funds and (2) establish the basis for computing such credits. (See p. 23.)
- Review Aetna's methods of arriving at the amount of investment income to be credited to the Plan, with particular attention to the

equity of amounts credited and to the need for adjusting any inadequate amounts credited for prior years. (See p. 28.)

AGENCY COMMENTS AND
UNRESOLVED ISSUES

The Commission said that:

- Experience rating should be a goal to balance experience over a period of years rather than to have each year's income precisely equal that year's cost. Additionally, the Commission said that it has acted to eliminate by the end of fiscal year 1978 the large current reserves. Although the law requires that rates be set for each contract period, on the basis of the experience of the preceding contract period, it appears that the Commission's plan for solving the problem of surplus reserves by June 30, 1978, is reasonable. (See pp. 19, 39, and 40.)
- Although the Commission is not aware of any law or regulation which has been violated in the method used in funding the program, it would consider changing

the procedures in the future.
(See pp. 19 and 20.)

- It would include a formal provision in the contract with Aetna for crediting interest on Other Reserve funds. (See p. 41.)
- Some inconsistencies existed in arriving at investment income credited to the Plan. Although adjustments have been made to correct the inconsistencies, the Commission will continue to emphasize the equitable allocation of investment income credits in reviewing Aetna's administration of the Plan. (See p. 28.)

MATTERS FOR CONSIDERATION
BY THE CONGRESS

The Congress may wish to consider including the Retired Federal Employees Health Benefits Program under the provisions of section 210 of Public Law 92-603, which requires that Federal employees and retirees, eligible under both the Federal Health Benefits Program and Medicare, be provided supplemental coverage or reduced premiums, because of the overlap between the two programs. (See p. 20.)

CHAPTER 1

INTRODUCTION

The Federal Employees Health Benefits Act of 1959 (5 U.S.C. 8901) provides health benefits for Government employees, annuitants, and certain members of their families or their survivors.

We previously issued reports to the Congress on the administration of Blue Cross and Blue Shield's Service Benefit Plan and Aetna's Indemnity Benefit Plan (B-164562, Oct. 20, 1970, and May 22, 1972, respectively). These are the two large plans available to all civilian Federal employees and certain members of their families or their survivors and to annuitants retiring after July 1, 1960.

The Retired Federal Employees Health Benefits Act, approved September 8, 1960 (74 Stat. 849) (hereinafter referred to as the 1960 act) established a program of health benefits for retired Government employees (and certain members of their families or their survivors) who, because they retired before July 1, 1960, were not eligible for the benefits provided by the Federal Employees Health Benefits Act of 1959. The Bureau of Retirement, Insurance, and Occupational Health of the Civil Service Commission administers the Retired Federal Health Benefits Program, which became effective July 1, 1961.

Eligible annuitants had the option of obtaining health benefits coverage from the Government-wide Uniform Plan under Section 6 of the 1960 act or of obtaining or retaining such coverage from (1) other plans of qualified insurance companies or (2) plans sponsored by an association or other organization where more than 50 percent of the members were current or former Federal employees.

Public Law 91-418 amended the 1960 act, effective January 1, 1971, to provide another option. The Government's contribution under the program may be applied to the cost of medical insurance for Part B coverage under the Medicare program.

UNIFORM PLAN

Contract provisions

Effective July 1, 1961, the Commission contracted with the Aetna Life Insurance Company to provide a health benefits plan to eligible retired Federal employees (and certain members of their families or their survivors) under a Uniform Plan. The contract has been amended several times since, principally to change premium rates and health benefits.

The 1960 act gives the Commission the option to reinsure, and the contract for the Uniform Plan provides for Aetna, as the insurer, to reinsure portions of the total insurance under its contract with other participating companies. The 1960 act also provides that the amount of reinsurance for each participating company be based on an equitable formula determined by the insurer and approved by the Commission. Since 1961, about 91 percent of the insurance under the Uniform Plan has been reinsured by other companies.

The premiums paid by the Commission provide Aetna with funds to make benefit payments and reimburse it for its actual administrative expenses not exceeding 12.5 percent of the first \$1 million of premiums accrued in the policy year, plus 5.4 percent of the balance. In addition, until December 31, 1972, the contract required the Commission to reimburse Aetna for reinsurance charges and related income tax and expense allowances.

During the eleven policy periods through December 31, 1972, the Commission paid over \$2 million for these items which was distributed proportionately among numerous reinsurers. Aetna's proportion of the reinsurance charge for 1972 was 9 percent, or \$4,050. Effective January 1, 1973, the reinsurer's expense and related income tax allowances were discontinued and the contract provided for Aetna to be paid \$45,000 a year as a service charge and the company agreed to reinsure the Plan without additional payments. The contract also provides for Aetna to prepare and furnish the Commission, not later than 90 days after each policy year, a statement of operations for that year.

Premiums and health benefits

Section 3(c) of the 1960 act provides that premiums " * * * shall reasonably and equitably reflect the cost of benefits provided" and that "Rates determined for the first term shall be adjusted for subsequent terms on the basis of experience."

Three types of medical care coverage are available to enrollees--basic coverage, major-medical coverage, and a combination of these called basic-plus-major-medical coverage. Appendix I shows the principal benefits included in these coverages.

The Government and the enrollees share in the cost of the Uniform Plan. Section 4(a) of the 1960 act provides that the monthly Government contribution, prescribed by the Commission, be not less than \$3 nor more than \$4 for self-only coverage and that the rate for self-and-family coverage be twice that prescribed for self only. The following table shows the figures for each option since inception of the Uniform Plan.

Monthly Premium Rates and Individual
and Government Contributions

Option	Effective date									
	7-1-61		7-1-63		10-1-67		10-1-70		1-1-73	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Basic--self only:										
Individual	\$ 3.50	54	\$ 4.00	53	\$ 2.00	36	\$ 0.50	12	\$0.50	12
Government	<u>3.00</u>	46	<u>3.50</u>	47	<u>3.50</u>	64	<u>3.50</u>	88	<u>3.50</u>	88
Total	<u>\$ 6.50</u>		<u>\$ 7.50</u>		<u>\$ 5.50</u>		<u>\$ 4.00</u>		<u>\$4.00</u>	
Basic--self and family:										
Individual	\$ 7.00	54	\$ 8.00	53	\$ 4.00	36	\$ 1.00	12	\$1.00	12
Government	<u>6.00</u>	46	<u>7.00</u>	47	<u>7.00</u>	64	<u>7.00</u>	88	<u>7.00</u>	88
Total	<u>\$13.00</u>		<u>\$15.00</u>		<u>\$11.00</u>		<u>\$ 8.00</u>		<u>\$8.00</u>	
Major medical--self only:										
Individual	\$ 3.00	50	\$ 3.50	50	\$ 1.50	30	\$ 0.50	12	\$0.05	12
Government	<u>3.00</u>	50	<u>3.50</u>	50	<u>3.50</u>	70	<u>3.50</u>	88	<u>3.50</u>	88
Total	<u>\$ 6.00</u>		<u>\$ 7.00</u>		<u>\$ 5.00</u>		<u>\$ 4.00</u>		<u>\$4.00</u>	
Major medical--self and family:										
Individual	\$ 6.00	50	\$ 7.00	50	\$ 3.00	30	\$ 1.00	12	\$1.00	12
Government	<u>6.00</u>	50	<u>7.00</u>	50	<u>7.00</u>	70	<u>7.00</u>	88	<u>7.00</u>	88
Total	<u>\$12.00</u>		<u>\$14.00</u>		<u>\$10.00</u>		<u>\$ 8.00</u>		<u>\$8.00</u>	
Basic-plus-major medical--self only:										
Individual	\$ 9.50	76	\$11.00	76	\$ 7.00	67	\$ 4.50	56	\$0.50	12
Government	<u>3.00</u>	24	<u>3.50</u>	24	<u>3.50</u>	33	<u>3.50</u>	44	<u>3.50</u>	88
Total	<u>\$12.50</u>		<u>\$14.50</u>		<u>\$10.50</u>		<u>\$ 8.00</u>		<u>\$4.00</u>	
Basic-plus-major medical--self and family:										
Individual	\$19.00	76	\$22.00	76	\$14.00	67	\$ 9.00	56	\$1.00	12
Government	<u>6.00</u>	24	<u>7.00</u>	24	<u>7.00</u>	33	<u>7.00</u>	44	<u>7.00</u>	88
Total	<u>\$25.00</u>		<u>\$29.00</u>		<u>\$21.00</u>		<u>\$16.00</u>		<u>\$8.00</u>	

The Government's percentage share of monthly premiums has increased over the years because its dollar contributions have been constant since July 1963, but premiums were reduced substantially in October 1967, October 1970, and January 1973. The 1970 and 1973 reductions were accompanied by a substantial increase in health benefits. These changes became possible, in part, because since 1966 a portion of the health costs, otherwise payable by the Uniform Plan, have been paid under Medicare.

Under the Uniform Plan, the enrollees' shares of the premiums are withheld from their monthly annuities. The Commission pays Aetna monthly the withheld enrollees' shares plus the Government's contribution. From these amounts Aetna pays health benefit claims from its home office in Hartford, Connecticut, and from 19 paying offices throughout the country.

As noted earlier, the Uniform Plan provides three types of coverage to its enrollees. Until January 1, 1973, basic coverage was available at any time to persons eligible for the Plan and major medical coverage was available to annuitants when enrolling in the Plan for the first time.

The Commission's Health Benefits Manual formerly provided that annuitants who originally (1) elected basic coverage, (2) elected plans of other qualified insurance companies, associations, or organizations, or (3) chose not to enroll were not eligible for major-medical coverage. However, the manual provided that, as of January 1, 1973, all those enrolled in either basic coverage only or major-medical coverage only were automatically given basic-plus-major-medical coverage with no change in premiums. Those already enrolled in basic-plus-major-medical coverage retained it. Annuitants enrolling in the Uniform Plan for the first time after January 1, 1973, receive basic coverage only and are not granted major-medical coverage except in rare¹ instances.

Enrollment

Enrollment in the Uniform Plan has decreased each year since 1962 because only those employees (or their survivors) who retired before July 1, 1960, are eligible for the program. Commission reports show enrollment as follows:

<u>Date</u>	<u>Enrollees</u>	<u>Increase or decrease (-)</u>
July 1961	134,115	-
July 1962	134,390	275
June 1963	132,185	-2,205
June 1964	128,375	-3,810
June 1965	123,620	-4,755
June 1966	115,845	-7,775
June 1967	87,730	-28,115
June 1968	83,540	-4,190
June 1969	80,160	-3,380
June 1970	76,360	-3,800
June 1971	73,830	-2,530
June 1972	71,402	-2,428
June 1973	68,285	-3,117

¹ The exception to this regulation pertains to a survivor annuitant who presents evidence that the annuitant did not elect major-medical coverage because he was unable to do so for a cause beyond his control, such as illness.

The Commission estimates that by 1987 the Plan will have less than 20,000 enrollees.

When Medicare began on July 1, 1966, many Uniform Plan enrollees became eligible for Medicare. Many of them dropped the Uniform Plan in favor of Medicare, which accounts for the large decrease in enrollees under the Uniform Plan from June 1966 to June 1967. Some enrollees elected to be covered under both health programs.

Reserves

Section 3(c) of the 1960 act provides that

"The Commission shall prescribe the extent to which reserves due to favorable experience^[1] may be retained by the carrier. Such reserves shall in any case be retained for the benefit of retired employees enrolled thereunder, and members of their families."

The 1960 act also provides in section 8(c) that "Any dividends or other refunds made by the carrier * * * shall be set aside * * * as a contingency reserve for the Government-wide plan."

Aetna maintains two reserves for the Uniform Plan--the Special Reserve, representing funds held to pay possible future costs, and Other Reserves, representing funds held to pay accrued health benefit claims. The Commission maintains a Contingency Reserve representing dividends and other refunds made by Aetna. In addition, the Commission maintains an unrestricted reserve, the Operating Surplus, for all the program's plans, including the Uniform Plan.

¹ Excess of premium and investment income over cost of benefits provided and administrative expenses, including the risk (or service) charges and, before January 1973, costs incurred for reinsurers' expense allowances and Federal income tax allowance on reinsurers' risk charges.

CHAPTER 2

PREMIUM RATES AND RESERVES

Section 3(c) of the Retired Federal Employees Health Benefits Act states:

"The rates charged for the health benefits plan * * * shall reasonably and equitably reflect the cost of the benefits provided. Rates determined for the first term shall be adjusted for subsequent terms on the basis of experience.^[1] The Commission shall prescribe the extent to which reserves due to favorable experience may be retained by the carrier [Aetna]."

In addition, section 8(c) provides for establishing a contingency reserve for dividends or refunds made by the carrier and for using this reserve

"* * * to defray increases in future rates of or to reduce the retired employees' and the Government's contributions to, or to increase the health benefits provided by that plan, as the Commission may from time to time determine."

PREMIUM RATES

The table below shows the premium income; cost of benefits; administrative expenses, including risk (or service) charges; reinsurers' expense allowances and Federal income tax allowances on reinsurers' risk charges; and excess premium income over costs since the inception of the Uniform Plan, as shown by the Plan's annual accounting statements prepared by Aetna under the requirements of its contract with the Commission.

¹Experience rating is the general process whereby the premium charged during the first rating period (usually 12 months) for each eligible group in a given rating class is adjusted upward or downward for the subsequent rating period and each subsequent period on the basis of the actual claim experience for that group.

<u>Contract period</u>	<u>Premium income</u>	<u>Plan costs</u>		<u>Total</u>	<u>Excess of premium income over costs</u>	<u>Percentage of excess premiums to premium income</u>
		<u>Benefits</u>	<u>Adminis- trative</u>			
(millions)						
1-61 to 6-30-62	\$19.8	\$16.6	\$1.6	\$18.2	\$1.6	08.1
1-62 to 6-30-63	19.1	15.2	1.2	16.4	2.7	14.1
1-63 to 12-31-64	31.6	24.0	1.8	25.8	5.8	18.4
1-65 to 12-31-65	20.0	15.8	1.1	16.9	3.1	15.5
1-66 to 12-31-66	17.0	12.2	1.0	13.2	3.8	22.4
1-67 to 12-31-67	12.6	7.3	.8	8.1	4.5	35.7
1-68 to 12-31-68	9.2	7.1	.8	7.9	1.3	14.1
1-69 to 12-31-69	8.7	6.8	.7	7.5	1.2	13.8
1-70 to 12-31-70	7.7	6.3	(a)	6.3	1.4	18.2
1-71 to 12-31-71	5.9	8.1	.5	8.6	-2.7	-45.8
1-72 to 12-31-72	5.5	8.0	.5	8.5	-3.0	-54.5

^aThe administrative costs for the year were -\$49,000 primarily because a significant negative accrual was made for premium taxes during the year.

As shown in the table, the premium income has exceeded the cost of benefits and administrative expenses in 9 of the 11 contract periods. These excess premiums, which ranged from 8 percent of the total premium income in 1962 to nearly 36 percent in 1967, indicate that the Commission has not adjusted premium rates for subsequent terms of the contract as contemplated by statute; that is, it has not adjusted the rates for subsequent terms on the basis of experience so that the rates "* * * reasonably reflect the cost of benefits provided." Although the Commission has adjusted premiums four times since inception of the Plan, the Plan's reserves continually increased through 1970. (See p. 10.) Following the reduction in premiums in October 1970, Plan costs exceeded premium income in 1971 for the first time.

In March 1972 we discussed with Commission officials the situation which had developed by keeping premiums unnecessarily high in the earlier years of the Plan and the methods of reducing the large reserves. On November 30, 1972, the Commission announced further substantial reductions in premium rates and substantial increases in health benefits to take effect on January 1, 1973. Commission officials believe that this action will gradually reduce the reserves.

RESERVES

Both the Civil Service Commission and Aetna maintain reserves of the Uniform Plan. (See app. III for a summary of reserves and other available funds of the Retired Federal Employees Health Benefits Program.)

Reserves maintained by Commission

Contingency Reserve

Until 1970 Aetna maintained all the reserves for the Uniform Plan. However, because Aetna believed that too large a surplus was accumulating in the Plan's Special Reserve, it advised the Commission by letter dated April 3, 1967, that it would like to eliminate further accumulation of surplus in the Special Reserve. Subsequently, in 1970 Aetna transferred about \$25.6 million from the Special Reserve to the Commission and this sum created the Plan's Contingency Reserve which the enabling legislation states should be established for refunds made by the carrier. The transferred funds represent a portion of the excess of premium and interest income over the costs of health benefit claims and expenses of administering the Plan.

Operating Surplus

The Commission also maintains an unrestricted reserve in the Retired Employees Health Benefits Fund called the program's Operating Surplus. The 1960 act establishing the program authorizes the Secretary of the Treasury to invest and reinvest any moneys for the Fund in interest bearing obligations of the United States for purposes of the Fund. At December 31, 1972, the Operating Surplus amounted to about \$3.9 million, which represented the income earned since 1961 by investing the Government's share of contributions to the Retired Employees Health Benefits Fund.

The Fund also receives, via deductions from annuity payments, the enrollees' monthly contributions for the premiums of the Uniform Plan and Government contributions for the program. The Fund is used to pay premiums of eligible annuitants and administrative expenses.

Reserves maintained by Aetna

As of December 31, 1972, Aetna's Other Reserves amounted to about \$3.2 million. Since inception of the Uniform Plan through December 31, 1972, the excess of income over the cost of incurred health benefit claims and incurred expenses amounted to about \$28.1 million. Of this amount, about \$2.5 million was retained in Aetna's Special Reserve and about \$25.6 million was transferred to the Commission during 1970 to establish the Contingency Reserve. (See p. 9.)

The relationship of the Special Reserve to the premium and investment income is shown below.

<u>Contract period</u>	<u>Premium and investment income</u>	<u>Special Reserve</u>	
		<u>Balance at close of contract period</u>	<u>As a percentage of income</u>
	(millions)	(millions)	
7-1-61 to 6-30-62	\$19.8	\$ 1.5	7.6
7-1-62 to 6-30-63	19.3	4.4	22.8
7-1-63 to 12-31-64	32.2	10.8	33.5
1-1-65 to 12-31-65	20.7	14.6	70.5
1-1-66 to 12-31-66	17.9	19.4	108.4
1-1-67 to 12-31-67	13.7	25.1	183.2
1-1-68 to 12-31-68	10.6	27.7	261.3
1-1-69 to 12-31-69	10.3	30.6	297.1
1-1-70 to 12-31-70	8.4	a7.2	a85.7
1-1-71 to 12-31-71	6.3	4.9	77.8
1-1-72 to 12-31-72	6.3	2.7	42.8

^aThe sharp reduction in the year-end balance was the result of transferring \$25.6 million from the Special Reserve to the Contingency Reserve during 1970.

Under a health insurance plan operated on an experience basis, if premiums have been properly established, there is little or no need for accumulating funds, because any shortage of income for paying benefits and costs of operating the plan in one term should be recovered in the next term by increasing premiums to cover the deficiency. At any time, a plan based on experience rating needs only enough funds to

meet incurred benefits and operating expenses and to provide for chance fluctuations in claim costs.

Aetna indicated in its letter of June 1, 1973, to the Commission (see p. 42) that, in its opinion, there was a need to accumulate reserves. It said:

"* * * Health care costs rose so rapidly during the 1960's that carriers had all they could do to raise rates enough to cover the inflation in health care costs that would occur that year. It was very difficult to expand the rate increase to recoup any prior losses. Hence, it was desirable, if not imperative, to so establish premium rates that the likelihood of loss would be relatively small.

"The Uniform Plan represents a closed group of high risk enrollees in contrast to the normal group case which is a self-renewing group of individuals, with healthy young lives being added each year to replace the unhealthy old lives that have retired. Thus, it was also felt that a bare-bones premium rate structure would result in annual rate increases for the Uniform Plan and that this would have an adverse psychological effect on the enrollees. Accordingly, a conscious effort was made to avoid such a situation.

"In addition, our prior experience with other retiree groups indicated that we could expect a rapid deterioration in the experience under the Uniform Plan. Our recollection is that the 1962 monthly claim records, long since destroyed in accordance with our normal file maintenance rules, indicated that this expected deterioration was starting to set in. Accordingly, when it was decided in 1963 to shift the policy year from a fiscal year basis to a calendar year basis and to have a long policy year, we felt a rate increase was essential in order that the premium rate might still be adequate at the end of the long policy year. In retrospect, the claim experience suddenly

stabilized for many months, a result that could hardly have been anticipated."

Although, as Aetna stated, the claim experience which suddenly stabilized for many months could not have been anticipated and although the excess of premium income over costs continued to improve steadily--\$1.6 million for July 1961 to June 1962, \$2.7 million for July 1962 to June 1963, and \$5.8 million for July 1963 to December 1964 (or an average of \$3.86 million a year) which built the balance of the Special Reserve to \$10.8 million as of June 30, 1964--action was not taken to reduce the reserves until 1967, when the Plan's premiums were first reduced.

We believe that the reserves accumulated in excess of Plan requirements because of Aetna's and the Commission's failure to take action to reduce premiums at the end of the 1964 contract period.

Efforts to reduce reserve levels

In its April 3, 1967, letter to the Commission concerning the growth of the Special Reserve and the need for change, Aetna said:

"The second, and more important reason for a change [in the Uniform Plan] is that the rate structure is too high at this time for the plans now that they are integrated with Medicare and we are developing too large a surplus in the special reserve account. We do not believe that we should continue to accumulate surplus in the special reserve and we would like to eliminate this.

* * * * *

"The real problem is the question of how to use up some of the special reserve. With a special reserve of the present magnitude you might wish to have us maintain the initial rates for a period of several years. The problem with following this approach would be that when the special reserve became exhausted or down to the optimum level * * * the rate increase which would be required at that time would be substantial. Although we can hold rates on a level basis, we cannot do the same for claim costs. Therefore, [we have] worked out two cost projections * * * [for two alternative plans, both to be effective January 1, 1968.]

* * * * *

"The first projection assumes that there would be no increase in rates for three years. This would reduce the special reserve to an unsatisfactory low level at the end of a three year period. Beginning January 1, 1971, [increases in premiums would be required] represent[ing] a doubling of the rates at that time.

* * * * *

"In the second projection we have assumed an increase on January 1, 1969, to \$9 single and \$18 family in order to keep the rates from falling

too far below claims. * * * The second projection produces a special reserve of slightly less than six million dollars as of January 1, 1971 and the rate increase then would have to be \$10.50 single and \$21 family. A larger increase would probably be desirable, however, to make the next succeeding rate increase less drastic.

* * * * *

"However, the projections do illustrate the advantages of a more gradual reduction in the special reserve through the adoption of a rate increase after the first year. There is no limit to the possible combinations of timing and magnitude of rate increases in order to gradually deplete the special reserve and at the same time avoid a drastic rate increase at any given time."

Aetna advised us that, although it did recommend against further accumulation of surplus in the Special Reserve, it did not specifically recommend a reduction. The Plan's premiums were first reduced in October 1967; however, the reserves continued to increase until December 1970.

On April 13, 1970, the Director, Bureau of Retirement, Insurance, and Occupational Health, prepared a memorandum to inform the Commission that the Bureau was again ready to change the Plan by increasing health benefits and reducing premiums. The memorandum stated:

"The problem is how to shift from a growing reserve to a method of using up the reserve without creating a situation in which, at a future date, we will have to drastically increase premiums or reduce benefits for older people who can least afford it."

In reviewing the history of the Plan, the memorandum stated that, because of dwindling enrollment and the experience of the Uniform Plan through June 30, 1963, premiums needed to be increased and that, until Medicare began in 1966, the premiums were inadequate.

As shown on page 10, the Special Reserve increased each year since inception of the Plan and accumulated to an amount somewhere between \$14.6 million and \$19.4 million before Medicare began. A significant accumulation of the reserves appears to have resulted from the increase in premiums made in 1963. As of June 30, 1963, the Special Reserve had already accumulated to \$4.4 million, representing 22.8 percent of the income for the contract period ended on that date. Also, before Medicare was introduced, the Special Reserve balance increased to \$10.8 million as of December 31, 1964, and \$14.6 million as of December 31, 1965, representing 33.5 and 70.5 percent, respectively, of the Plan's income for the two policy periods ending on those dates.

Aetna's annual financial statements for the Plan do not support the view that the Plan deteriorated, since claim benefits paid in the contract period ended June 30, 1963, were \$15.2 million, compared with \$16.6 million for the preceding contract period. In addition, the excess of premiums over costs amounted to \$2.7 million during the 1963 contract period compared to only \$1.6 million in the 1962 contract period.

The Commission's April 1970 memorandum stated further that, because the Uniform Plan does not duplicate Medicare benefits--that is, it does not pay the health costs covered and paid for by Medicare--the Plan's experience began to improve and its reserves began to increase so that by October 1967 the enrollees' portions of the Plan premiums could be reduced. According to the memorandum, the Uniform Plan's experience has been good since 1967 and, as of December 1969, reserves exceeded \$30 million. This favorable experience was attributed to the fact that Medicare had paid medical benefits which otherwise the Plan would have had to pay.

The Bureau's solution to the increasing reserves problem was to decrease premiums and increase health benefits in October 1970. (See p. 14.) In its memorandum, the Bureau acknowledged that this still might not have the desired full effect if Medicare benefits were further improved,¹ because the Uniform Plan's liability for health costs would be further reduced and the reserves would not be used up.

¹ Medicare benefits were broadened by the Social Security Amendments of 1972, approved Oct. 30, 1972 (86 Stat. 1329).

The Commission estimated in November 1971 that the Uniform Plan reserves should be able to cover, through 1986 or 1987, any probable losses resulting from excesses of expenses incurred and costs of benefits provided over the premium and interest income received.

The Commission made another estimate after its decision to substantially reduce premiums and increase health benefits effective January 1, 1973. However, even with the potential future losses of income and increased expenses stemming from the decision, the Commission has estimated that it will take until June 30, 1978, to resolve the Plan's surplus reserves problem.

Medicare coverage and premium rates

The majority of Federal employees who retired before July 1, 1960, are eligible for health benefits under both the Retired Federal Employees Health Benefits Program and Medicare. When Medicare was established in July 1966, retired Federal employees who were then 65 years of age automatically became eligible for benefits under Medicare Part A, free of cost, and for the benefits of Medicare Part B on an optional basis upon payment of the premiums set for Part B benefits.

Health benefits under the Retired Federal Employees Health Benefits Program and Medicare overlap significantly. In recognition of this double coverage, Medicare and Civil Service Commission regulations require that (1) Uniform Plan benefits not be paid until after Medicare benefits have been paid and (2) Uniform Plan disbursements be limited to payment for those benefits of the Plan that have not been paid by Medicare. The effect of this situation is that enrollees of the Plan having Medicare coverage do not derive the full benefits of their Plan premiums. The Commission pays the full Plan benefits for an enrollee without Medicare coverage but only a portion of such benefits for an enrollee with Medicare coverage, yet both enrollees pay the same premium rates.

Since this situation suggests that differential premium rates or health benefits in favor of enrollees having Medicare might be an appropriate way to adjust the inequity between those with and those without Medicare, we proposed

that the Commission develop differential premium rates equitably reflecting the cost of providing benefits to each group. The Commission pointed out that it felt that it would be burdensome to develop and administer differential premium rates for the small proportion of enrollees who do not have Medicare coverage and said that dual rates would result in premiums near zero for those with Medicare and drastically escalate the premiums for those without Medicare.

A further impediment to dealing equitably with the two groups is the large reserves currently in the Uniform Plan. Until the excessive reserves are used up--the Commission's estimate is during 1978--premium rates for both groups of enrollees will be nominal and this limits the potential to establish differential premium rates that would be effective. Our actuaries estimate, on the basis of the Commission's estimate that 95 percent of Uniform Plan enrollees have Medicare coverage, that the premium rate for basic self-only coverage for those with Medicare would drop from 50 cents to 10 cents a month and that the premium for those without Medicare would increase from 50 cents to \$8.25 a month.

To adjust a similar inequity between those with and those without Medicare in the Federal Employees Health Benefits Program, section 210 of Public Law 92-603 requires the Civil Service Commission to insure that by January 1, 1975, Federal employees and retirees who are eligible under both the Federal Employees Health Benefits Program and Medicare be provided supplemental coverage or reduced premiums in recognition of the overlap between the two programs. However, because of the need to solve the reserve problem of the Retired Federal Employees Health Benefits Program, it appears that the administrative cost and burden of establishing and administering differential premium rates is not a practical course to pursue until after 1978, when unnecessary reserves have been eliminated.

CONCLUSION

Since premium income exceeded the cost of benefits and administrative expenses from \$1.2 to \$5.8 million for each of the first 9 years of the Plan, the Commission did not, in our opinion, adjust premium rates on an experience basis, as contemplated by section 3(c) of the 1960 act.

The financial records show that Plan reserves amounted to over 22 percent of Plan income for the contract period ended June 30, 1963, and over 70 percent of the Plan income for the contract period ended December 31, 1965, both before the introduction of Medicare, which did not indicate deterioration in the financial condition of the Plan.

Since 1966 Medicare has paid a significant portion of the Plan's potential liability for health benefits, which has reduced the need for the levels of premiums in force and caused the accumulation of substantial reserves. We believe that some recognition should be given to the current inequity between enrollees covered by both Medicare and the Uniform Plan because of the overlap in benefits between these programs. This recognition might take the form of reduced premiums or additional health benefits to those enrollees having Medicare coverage, but we believe such recognition should be deferred until the excess reserves have been used up.

Since the Uniform Plan is meant to operate on an experience basis, the only reserves required are those needed to cover the estimated amount of accrued benefit claims (\$3.2 million as of Dec. 31, 1972) and unpaid administrative expenses, plus an amount to cover adverse claim fluctuations to compensate Aetna should the contract with the carrier be terminated and the estimate for unpaid claims and expenses prove insufficient.

The program's Operating Surplus represents income earned by investing the Government's share of contributions to the Retired Employees Health Benefits Fund. In the interest of economy, we believe that the Government's share of contributions to the Fund should be paid into the Fund by the Commission concurrently with the contributions made by enrollees, although the present method is not in violation of any law.

RECOMMENDATIONS

We recommend that the Commission administer the Uniform Plan on an experience basis as required by section 3(c) of the 1960 act, once the reserves have been reduced to the amount required for estimated accrued benefit claims, unpaid administrative expenses and adverse claim fluctuations.

We also recommend that the Commission establish procedures whereby the Government's share of contributions to the Retired Employees Health Benefits Fund be paid into the Fund concurrently with the contributions made by enrollees.

AGENCY AND CONTRACTOR COMMENTS AND OUR EVALUATION

Reserves

With regard to our first recommendation, the Commission stated that once the reserves have been reduced to the amount required, an immediate and drastic increase in premium rates would be necessary. The Commission said it believes that the elimination of the reserves over the next 5 years is a reasonable approach and that this gradual reduction is in no way inconsistent with the experience-rating concept. The Commission said it believes that a better concept of experience rating is to balance experience over a period of years, rather than to have each year's income precisely equal that year's cost.

Although the concept of balancing rates (premiums) over a period of years with the cost of benefits and administrative expenses may have merit, section 3(c) of the 1960 act requires that rates (premiums) determined for the first term be adjusted for subsequent terms on the basis of experience; that is, rates should be set as appropriate for each contract period.

We agree that, under the prevailing circumstances, the Commission's plan for solving the problem of surplus reserves appears to be reasonable.

Operating Surplus

With regard to our second recommendation the Commission stated that it is not aware of any law or regulation which

has been violated in the method used in funding the Uniform Plan. The Commission said, however, that it would be willing to consider changing these procedures.

MATTERS FOR CONSIDERATION BY THE CONGRESS

Section 210 of the Social Amendments of 1972, Public Law 92-603, requires the Civil Service Commission to insure that by January 1, 1975, Federal employees and retirees who are eligible under both the Federal Employee Health Benefits Program and Medicare be provided supplemental coverage or reduced premiums in recognition of the overlap between the two programs and because clauses in the Commission's contracts with carriers require that benefits under the Plan be paid after Medicare benefits and that Plan benefits not duplicate those paid by Medicare. Thus, enrollees with Medicare protection do not currently derive the full value of the protection contemplated under the Plan.

The Congress may wish to include the Retired Federal Employees Health Benefits Program under section 210 of Public Law 92-603 to treat all retired Federal employees uniformly. However, if the Congress decides to include the Retired Federal Employees Health Benefits Program under section 210 of Public Law 92-603 we believe that establishment of differential premium rates for enrollees with and those without Medicare coverage should be deferred until the problem of unnecessary reserves has been solved. The Commission expects to achieve this in 1978.

CHAPTER 3

INVESTMENT INCOME

The Retired Federal Employees Health Benefits Program earns investment income from program funds invested in Government securities and from Plan funds invested by Aetna.

INTEREST ON FUNDS CONTROLLED BY THE COMMISSION

Pursuant to section 8(a) and (b) of the 1960 act the Commission deposits, with the U.S. Treasury to the credit of the Retired Employees Health Benefits Fund, (1) Government contributions for the Program, (2) withholdings from annuities of enrollees in the Uniform Plan, and (3) any refunds of Uniform Plan reserves from Aetna. The fund is available, without fiscal-year limitation, for monthly payments of the Uniform Plan's subscription charges to the carrier, the Government's contribution to enrollees in other plans, and expenses incurred by the Commission in administering the program.

The Secretary of the Treasury is authorized by Section 8(d) of the 1960 act to invest funds not immediately needed for program operations in U.S. interest-bearing securities. At December 31, 1972, about \$40.2 million of program funds had been invested in U.S. Treasury securities having maturity dates ranging from January 31, 1973, to August 15, 1979. For 1971 and 1972 the investment income was about \$2.7 million and \$2.5 million, respectively.

During 1970 and 1971 the Commission did not credit any of this income to the Uniform Plan's Contingency Reserve, even though most of it resulted from investments of funds from this reserve. Instead, the Commission credited the income to the program's Operating Surplus account. Following our discussion of this situation with the Chief of the Commission's accounting section, the Commission transferred \$3.6 million--the Plan's portion of the investment income earned on program funds through December 31, 1971--from the program's Operating Surplus to the Plan's Contingency Reserve. Another \$300,000 was credited to the Contingency Reserve for the Plan's proportion of investment income earned on program funds in 1972.

INTEREST ON FUNDS CONTROLLED BY AETNA

As shown in appendix II, the gross investment income on Plan funds from inception in 1961 through December 31, 1972, amounted to about \$9.4 million, from which Aetna deducted \$0.9 million for related Federal corporate income taxes. The balance of \$8.5 million (interest income of \$7.6 million on the Plan's Special Reserve and \$0.9 million on the Plan's Other Reserves) was credited to the Plan's Special Reserve.

A problem relating to Aetna's deductions for Federal corporate income taxes is discussed on pages 28 and 29.

Interest on Special Reserve funds

For the first two contract periods--July 1, 1961, to June 30, 1963, Aetna, as provided by the contract, credited the Plan with interest on Special Reserve funds using rates determined before each period which were subject to Commission approval. These interest rates were applied to the mean of the balances of the reserve at the beginning and end of each period.

Since June 30, 1963, the contract has provided that the interest rate will be the higher of (1) the effective rate credited by Aetna on the mean of its group accident and health insurance ledger assets at the beginning and end of each calendar year in which the policy period began or (2) the rate of interest guaranteed by Aetna on similar group accident and health policies.

Interest on Other Reserve funds

The Commission's contract is silent on interest credits on Aetna's Other Reserve funds. Since inception of the Plan, Aetna has credited the Plan with interest on these funds. An Aetna official informed us that these credits had been made pursuant to an oral agreement with the Commission.

From inception of the Plan in 1961 through December 31, 1972, a total of about \$0.9 million in interest income on the Other Reserve funds was credited to the Plan. These credits represented gross interest income of over \$1.8 million, less Federal corporate income taxes of about \$0.9 million.

To eliminate any possible question regarding the intent of the parties and to protect the interests of the Government and the Plan's enrollees, we believe that arrangements for crediting the Plan with interest income on Other Reserve funds should be formalized and not be dependent on an oral agreement between Aetna and the Commission.

RECOMMENDATION

We recommend that the Commission initiate action to amend the contract for the Uniform Plan to provide for the Plan to be credited with interest on Other Reserve funds and to set forth the basis for computing such credits.

AGENCY COMMENTS

The Commission agreed that a formal provision should be included in its contract with Aetna to meet the recommendation and stated that action would be taken to incorporate the appropriate language into the contract.

QUESTIONABLE PRACTICES RELATING TO INVESTMENT-INCOME CREDITS

Aetna has two departments, each maintaining a separate set of accounts for assets, liabilities, income, and disbursements. One of these departments is the Nonparticipating Department which includes seven of Aetna's major lines of business, including all its accident and health insurance. Investment income earned by the department is allocated to all its lines of business, because Aetna does not identify specifically the sources of the department's investment funds.

We reviewed Aetna's computations and noted several practices which appeared to have resulted in credits to the Plan of about \$252,000 lower than the amounts Aetna had actually earned on Plan funds made available for investment. These practices related to (1) the allocations of investment income to the group accident and health insurance line of business, which includes the Uniform Plan, (2) the methods of calculating the interest rates used for computing investment-income credits, and (3) the application of such interest rates.

Allocations of investment income

For the calendar years which included the contract periods from July 1, 1963, through December 31, 1971, Aetna allocated most of the investment income of the Nonparticipating Department to the various lines of business which made funds available for investment. The allocations were based on the cash-contribution ratios of the funds made available by each line of business to the total funds made available by all lines of business.

We noted, however, that, for the calendar years which included the contract periods from July 1, 1963, through December 31, 1970, Aetna had allocated short-term investment income on the basis of the cash-contribution ratios applicable to funds made available for investment before 1962. We questioned this basis of allocation because the short-term investment income had been earned from investments financed by the funds made available to the department in all years, not just the funds made available before 1962.

Our view was that the investment income credits to the Plan would have been more in line with the income Aetna had actually earned on Plan funds if short-term investment income had been treated as if all funds made available for investment had contributed to such income. We estimated that, if Aetna had allocated short-term investment income on such a basis, the investment-income credits to the Plan for the contract periods July 1, 1963, through December 31, 1970, would have been about \$33,500 larger than the amounts actually credited.

We discussed these matters with an Aetna official who said that our conclusions appeared valid and that Aetna would review its allocation practices for the items involved. Aetna subsequently informed us that it has developed a revised method for allocating short-term investment income in line with our suggested approach and that it had used the revised method for 1971.

Computations of interest rates

For each of the contract periods since July 1, 1963, Aetna calculated the interest rate for computing investment income credits to the Plan by dividing the investment income

allocated to the group accident and health insurance line of business for a calendar year by the mean of that line's ledger asset balances at the beginning and end of the year. The ending ledger asset balance used by Aetna included the investment income allocated to the line for the year.

The rate as determined by Aetna was then applied to the amount of Plan funds available for investment during the year to compute the amount of investment-income credit to the Plan for the year. We noted, however, that the amount of Plan funds available for investment against which the rate was applied did not include the funds' investment income earned during the year. This inconsistency in the method of computation resulted in investment-income credits to the Plan which were less than the amounts Aetna had earned on Plan funds during the year.

We believe that, to obtain appropriate amounts of investment income allocable to the Plan, either the investment income allocated to the group accident and health insurance line for a year should be excluded from the ending ledger asset balances of that line in computing the rate of earnings on invested assets or, if such investment income is not so excluded, the allocable amount of investment income should be included in the ending ledger asset balances of both the group accident and health insurance line and in the amount of funds made available for investment by the Plan.

We noted that the National Association of Insurance Commissioners, in its instructions for completing life, accident, and health annual statement blanks to be submitted to State insurance departments, provides for computing the rate of earnings on invested assets by a formula which excludes the net investment income for the year covered by the statement from the ending ledger asset balances. We noted also that, for the two contract periods ending June 30, 1963, Aetna had excluded investment income from the ending ledger asset balances of the Nonparticipating Department and the Plan in arriving at the rates of interest used for computing investment income credits to the Plan on Other Reserve funds.

Another inconsistency we noted in Aetna's method of computing investment-income credits was that it included capital gains and losses in the group accident and health insurance line's funds available for investment but did not

include these amounts as part of the line's investment income subject to distribution to the Plan. This practice also resulted in investment-income credits to the Plan of amounts lower than the amounts Aetna had earned on Plan funds.

We estimated that the amounts of the investment income credits to the Plan from July 1, 1963, through December 31, 1971, would have been nearly \$203,000 greater if Aetna had been consistent in computing the rates of earnings on the invested assets of the Plan.

In a January 1972 letter to the Commission, Aetna agreed that there had been some inconsistencies in applying the formula for determining the mean ledger assets at the beginning and end of the year.

In the 1972 accounting statement, Aetna adjusted the Uniform Plan's reserve by about \$260,000, consisting of about \$203,000 relating to prior interest calculations from July 1, 1963, through December 31, 1971, and about \$57,000 for the interest that the \$203,000 would have earned through 1972. An additional \$11,000 was also credited to the Plan for 1972 interest because of the revised method of calculating the interest rate. As far as we know, the Commission has not reviewed the accuracy of these adjustments.

Application of computed interest rates

In computing the investment-income credits on certain Plan reserves for the first three contract periods--from July 1, 1961, through December 31, 1964--Aetna used interest rates that were computed for the calendar years in which the contract periods began in the manner as provided for in the contract. For example, the rate used for July 1, 1961, to June 30, 1962, was the rate computed for calendar year 1961. Since interest rates increased each year during the periods, use of these rates resulted in lower credits than the amounts of interest Aetna actually earned from investing Plan funds.

We estimated that, if Aetna had computed investment income credits on the basis of the rates applicable to the periods involved, the amounts credited to the Plan for the first three contract periods would have been about \$15,600 greater than the amounts actually credited for these periods. Of this amount, about \$5,500 would apply to the Plan's Other Reserve funds and about \$10,100 would apply to the Plan's Special Reserve funds.

We discussed these matters with Commission officials, who pointed out that the problem no longer exists because the contract periods have coincided with calendar years since 1965. The officials stated, however, that the Commission would look into the matter for the contract periods before 1965.

CONCLUSION

Although Aetna has credited the Plan about \$260,000 for prior interest and revised the method of allocating short-term interest, the Commission needs to review further Aetna's practices for crediting investment income to the Plan and agree on acceptable methods to be followed for this purpose. The Commission should specifically review the revised method for allocating short-term investment income applicable for the contract periods July 1, 1963, through December 31, 1970, and request that Aetna credit the Plan with the amount of any investment income that may still be due to the Plan.

RECOMMENDATION

We recommend that the Commission further review Aetna's practices in arriving at the amount of investment income to be credited to the Plan based on the revised method for allocating short-term investment income applicable for the contract periods July 1, 1963 through December 31, 1970, and that it give particular attention to the equitableness of the amounts credited and obtain any necessary adjustments for any inadequate amounts of investment income credited for prior years.

AGENCY COMMENTS AND OUR EVALUATION

The Commission stated that both Aetna and the Commission officials have agreed that some inconsistencies did exist and, in a subsequent review of interest matters, Aetna made credit adjustments of \$260,322 and debit adjustments of \$187,388.

The Commission also advised us that it will continue to emphasize the equitable allocation of investment income credits in reviewing Aetna's administration of the Plan.

We found that the \$260,332 adjustment cited by the Commission had been made. The \$187,388 adjustment, however, did not relate to the subject matter of this report but rather to a mathematical error made by Aetna in preparing its statement. This was subsequently corrected by a revised statement.

Even though the adjustment of \$260,000 relating to prior interest calculations was made, we believe the Commission should further review and confirm the equity of Aetna's revised method for allocating short-term investment income for the contract periods July 1, 1963, through December 31, 1970, and verify the accuracy of the interest credited for the period.

INVESTMENT-INCOME CREDITS REDUCED BECAUSE OF FEDERAL INCOME TAXES

The Commission's contract provides that the expenses charged to the Plan may include the accrued amount of all governmental fees and taxes directly attributable to the Plan, as determined by Aetna.

From inception of the Plan in 1960 through 1972, Aetna allocated a total of over \$1.8 million to the Plan for investment income on Other Reserve funds. The net credits to the Plan for investment income on these funds amounted to only \$0.9 million, however, because Aetna deducted about that amount for Federal corporate income taxes on such investment income. Aetna deducted no Federal income tax on the investment income applicable to the Plan's Special Reserve funds.

In its tax returns for periods through 1968, Aetna had reported as taxable about \$0.6 million of the gross investment income of about \$1.2 million which had been allocated to the Plan as applicable to Other Reserve funds. In its accounting reports to the Commission, however, Aetna had deducted Federal income taxes on the basis that all the investment income (\$1.2 million) in Other Reserve funds had been taxable. Aetna officials stated that this was an oversight and that all the investment income on Other Reserve funds would be shown as taxable on Aetna's tax returns for 1969 and subsequent years.

The Commission questioned the taxability of the investment income derived from Other Reserve funds. In September 1971, an Aetna official informed us that in May and again in July 1971, Aetna had discussed with an officer of the Appellate Division, Internal Revenue Service, in New Haven, Connecticut, whether or not interest applicable to the Plan's Other Reserve funds was subject to Federal corporate income taxes. He stated that Aetna had presented arguments against such taxation at the July meeting and that a ruling on the matter would be made by that officer at a later date.

Subsequently, the Aetna official told us that on September 10, 1973, the IRS official in the New Haven office said that it was his opinion that interest on the Other Reserves would not be taxable but that this may not be the final IRS ruling.

Since September 1973, Aetna has been negotiating with the Commission on various revisions to the contract which can be used depending on whether the final IRS ruling is affirmative or negative concerning the taxability of interest on the Plan's Other Reserve. In April 1974, Aetna told us that it was in the process of preparing a request for a formal ruling on this matter.

CONCLUSIONS

We believe that Aetna's accounting reports to the Commission should be considered tentative until Aetna obtains a final ruling from the Internal Revenue Service on the taxability of the interest it earns from investing the Plan's Other Reserve funds. When such a ruling is obtained, the Commission must still decide how to treat the interest earned by Aetna on the funds charged against the Plan for taxes which were not promptly paid.

CHAPTER 4

COMMISSION'S AUDITS OF OPERATIONS

UNDER THE UNIFORM PLAN

The Office of Program Review and Audits performs the Commission's external audits of activities under the Federal Employees Health Benefits Program. The Chief of this Office reports to the Director, Bureau of Retirement, Insurance, and Occupational Health, who has the responsibility of administering the Federal Employees Health Benefits Program. The Office's audits are performed as an aid to the administration of the contracts rather than as part of the Commission's central internal audit function, which is carried out by the Office of Management Analysis and Audits, Bureau of Management Services.

The Commission's Office of Management Analysis and Audits, in a November 1970 report on a review of the Bureau of Retirement, Insurance, and Occupational Health, stated that the responsibilities of the Office of Systems and Audits (now Office of Program Review and Audits) were to (1) conduct external audits of insurance carriers and plans, including the Uniform Plan, and (2) design and install internal systems. The report, which was transmitted to the Commission's executive director, stated that improvements were needed in both areas if the Office was to fully meet its assigned responsibilities.

With respect to external auditing, the report recommended that the Office of Systems and Audits

- establish a consistent policy in determining which insurance plans are to be audited,
- prepare a formal audit schedule,
- expand the scope of audit coverage,
- standardize audit reporting requirements,
- establish adequate procedures to insure followup on audit findings,

- develop a system for documenting and maintaining audit workpapers,
- improve external and internal communications, and
- adjust manpower deployment.

For internal systems, the report recommended that the Office of Systems and Audits be provided with sufficient resources to effectively carry out its systems responsibilities. Since the report was issued the systems functions have been transferred to a new Division of Systems Development. The Office of Program Review and Audits is responsible for internal management reviews of Bureau systems and programs, in addition to external audits.

The Director of the Bureau of Retirement, Insurance, and Occupational Health generally agreed with the findings and recommendations in the report and said that the Bureau was implementing the necessary changes, with various target dates for completion.

Since inception of the Uniform Plan, the Office of Program Review and Audits has issued three reports on operations under the Plan. The reports were issued in August 1964, February 1966, and October 1970. An official of the Office of Program Review and Audits told us that since July 1972 the claims processing procedures of three of Aetna's 19 paying offices have been reviewed and that reports on these reviews will be issued shortly. Previously, reports related to reviews of selected paying offices were incorporated into the report which deal primarily with the review of the accounting records of the Uniform Plan's operations which are maintained at the Aetna home office.

The Commission's audits in the past may be described generally as financial audits, including some aspects of compliance with the Commission's regulations and the contract with Aetna.

The major objectives of the audits have been to ascertain whether the carriers are conforming with the contract, to develop data to aid in setting policies and making management decisions, and to determine that charges and credits to the Plan are proper. To meet these objectives the Commission's

audit program covers reviews of benefit payments, including procedures relating to enrollment, eligibilty, and adjudication; administrative expenses, including the equity of methods of allocation; taxes, fees, and similar items; premium and investment income and related practices; and the accounting sytems and internal controls used by the carrier.

The audit reports indicate that the carrier generally adjudicated and paid benefit claims satisfactorily and that only relatively minor adjustments of the financial records were found to be necessary. The reports also show that the Commission has questioned for several years Aetna's deduction of Federal income tax from investment interest due to the Uniform Plan. This matter is pending a formal ruling by the Internal Revenue Service. (See pp. 28 and 29.)

CHAPTER 5

SCOPE OF REVIEW

We evaluated certain Commission policies, procedures, and practices in administering its contract with Aetna for providing health benefits under the Uniform Plan.

Our review included (1) the basic legislation authorizing the Program and its related legislative history, (2) the reasonableness of the provisions of the Commission's contract with Aetna, and (3) the propriety and reasonableness of the amounts Aetna credited to the Plan as interest income and charged to the Plan for administrative and other types of expenses authorized by the contract.

We made our review at Commission headquarters in Washington, D.C., and at the Aetna home office in Hartford.

PRINCIPAL HEALTH BENEFITS UNDER THE UNIFORM PLAN

BASIC COVERAGE:

Hospital room and board	Up to \$30 a day for 31 days a calendar year.
Other hospital services and supplies	Up to \$300 a calendar year.
Surgeons' charges	Fee schedule allowance (\$480 maximum payment a calendar year).
Administration of anesthetics	Up to \$24 or 20 percent of total surgical allowance, whichever is greater, up to \$96 a calendar year.

MAJOR-MEDICAL COVERAGE:

Hospital room and board	Up to \$24 a day beginning with the 32d day of hospital confinement in a year for up to \$2,160 a calendar year.
Convalescent hospital room and board	Up to \$12 a day for 31 days in a calendar year.
Other Medical Expenses:	
Other hospital charges	80 percent after the deductible
Doctors' charges	(\$75 per person of \$100 per family in each calendar year)
Special or private-duty nursing charges by registered nurses	has been satisfied.
Diagnostic X-rays and laboratory tests	
X-ray, radium, and radioactive isotope treatment	
Blood or blood plasma not donated or replaced	
Anesthetic and oxygen	
Rental of durable medical equipment	

BASIC-PLUS-MAJOR-MEDICAL COVERAGE

This is a combination of all the health benefits included in the basic and major-medical benefits coverages.

APPENDIX II

GAO SUMMARY OF STATEMENTS FURNISHED BY AETNA
 TO THE CIVIL SERVICE COMMISSION ON
 ANNUAL ACCOUNTING AND RESERVES UNDER
 THE UNIFORM PLAN CUMULATIVE FROM JULY 1, 1961,
 TO DECEMBER 31, 1972, AND FOR CONTRACT PERIOD
 JANUARY 1 TO DECEMBER 31, 1972 (note a)

	Cumulative from July 1, 1961, to December 31, 1972	Contract period January 1 to December 31, 1972
Subscription income received and accrued	\$157,304,220	\$5,553,862
Health benefit charges paid and accrued	<u>127,542,481</u>	<u>8,035,256</u>
Excess or deficit (-) of subscription income over health benefit charges	<u>29,761,739</u>	<u>-2,481,394</u>
Expenses:		
Administrative expenses	5,087,286	344,066
Premium taxes	3,004,739	150,735
Risk charges	1,679,160	45,000
Federal income taxes on risk charges	59,674	-2,118
Reinsurer's expense	<u>314,607</u>	<u>11,108</u>
Total expenses	<u>10,145,466</u>	<u>548,791</u>
Gain or loss (-) from operations	<u>19,616,273</u>	<u>-3,030,185</u>
Investment income:		
Gross investment income	9,441,973	719,948
Less Federal corporate income taxes	<u>948,180</u>	<u>121,110</u>
Net investment income	<u>8,493,793</u>	<u>598,838</u>
Gain or loss (-) for the period	28,110,066	-2,431,347
Special reserves, beginning of period	-	4,936,308
Adjustment to first policy period	<u>12,451</u>	<u>-</u>
Subtotal	28,122,517	2,504,961
Special reserves transferred to the Commission	<u>25,617,556</u>	<u>-</u>
Special reserves, end of period	<u>\$ 2,504,961</u>	<u>\$2,504,961</u>

^a GAO has not audited the basic financial statements used in preparing this summary.

RETIRED FEDERAL EMPLOYEES HEALTH BENEFIT PROGRAM

UNIFORM PLAN

SUMMARY OF RESERVES AS OF DECEMBER 31, 1972

	_____ (millions) _____	
Reserves held by Aetna:		
Special Reserve--excess of income over incurred ex- penses through Dec. 31, 1972	\$28.1	
Less funds transferred to Civil Service Com- mission during 1970	<u>25.6</u>	\$ 2.5
Other Reserves--accrued health benefit claims		<u>3.2</u>
Total		\$ 5.7
Reserve held by the Civil Service Commission:		
Contingency Reserve:		
Transfer from Aetna special reserve	25.6	
Add interest income for 1970 through 1972	<u>3.9</u>	
Total		^a <u>\$29.5</u>
Total reserves held by Aetna and the Civil Service Commission		<u>\$35.2</u>

^aIn addition to these amounts the Civil Service Commission held an unrestricted reserve amounting to \$3.9 million, called the Programs Operating Surplus, on behalf of the Retired Federal Employees Health Benefits Program.



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

IN REPLY PLEASE REFER TO

YOUR REFERENCE

July 24, 1973

Mr. Charles S. Collins
Assistant Director
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Collins:

This is in response to your May 9, 1973, letter enclosing a draft of your proposed report to the Congress, on the Uniform Plan of the Retired Federal Employees Health Benefits Program.

It transmits our views on the major audit points and recommendations contained in the draft report. Comments were obtained from the Aetna Life Insurance Company as you requested, and a copy of these comments is attached. Particular attention is invited to numbered paragraph 8 of the Aetna letter which comments on the 1963 premium increase.

We note your footnote qualifications indicating that you have not audited the basic financial statements which appear in the draft report. Similarly, Commission staff has not retraced the GAO audit efforts to verify all the figures used.

We appreciate the opportunity to comment on the draft report, and your interest in improving the administration of the Plan.

Reducing Reserves

[See GAO note 1, p. 45.]

The bulk of the reserves which have accumulated under the Uniform Plan was a result of the introduction of Medicare in 1966. Medicare became the primary carrier and thereby significantly reduced the benefit costs of the Uniform Plan, since most Uniform Plan enrollees were also eligible for Medicare.

The Commission has taken action in recent years to reduce these reserves. The most recent premium rate cuts and benefit increases

APPENDIX IV

in January of 1973, should result in the complete elimination of current reserves by the end of FY 1978 if not sooner.

Since the Uniform Plan covers a dwindling group of elderly people, the elimination of all reserves in 1978 will then require an immediate and drastic increase in premium rates. Consequently, we believe that the elimination of reserves over the next five years is a reasonable approach, and that in view of the predictable experience anticipated for this closed group of high-risk enrollees, such a "gradual" reduction is not in any way inconsistent with the "experience rating" concept.

It should be noted that the objective is not to get rid of the reserve, but rather to reach the point where cumulative income from premiums and investments will have equalled cumulative benefits and other costs. The report treats experience rating as if the goal were to have each year's income precisely equal that year's costs. A better concept of experience rating is to balance experience over a period of years. This goal will have been achieved by present rates and benefits by about 1978.

It should be noted also that the course of action followed by the Commission in fixing premium rates has not operated to the disadvantage of enrolled retirees. Rather it has enabled them to enjoy the same rate of Government contributions as has been available to retirees enrolled in private plans whose experience has been less favorable.

[See GAO note 1, p. 45.]

APPENDIX IV

Operating Surplus

[The report] recommends that procedures be established whereby funds necessary for paying premiums to Aetna, would be made available only as needed. Aetna premiums are paid monthly.

[See GAO note 1, p. 45.]

The "Operating Surplus" referred to is, in fact, interest on invested funds, and not an operating surplus in accepted accounting usage of that term. We are not aware of any law or regulation which has been violated in the method used in funding the Uniform Plan. We therefore, could not agree to any retroactive change in procedure. We would be willing however, to consider changing these procedures for the future, in keeping with the spirit of this recommendation.

[See GAO note 1, p. 45.]

Other Reserve Funds

The report recommends that the Commission take action to amend the contract for the Uniform Plan to provide for the Plan to be credited with interest on Other Reserve funds and to set forth the basis on which such credits are to be computed.

As the report points out, Aetna has credited the Plan with interest on these funds since inception of the contract in 1961. The recommendation, therefore, is a call for formal recognition in the contract of a de facto arrangement.

We agree that formal provision should be made for crediting this interest and will take action to incorporate appropriate language into the Aetna contract.

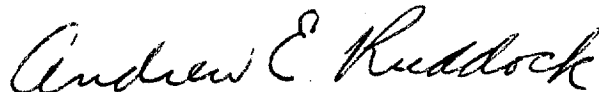
Investment Income Credits

The report suggests that the Commission review the practices followed by Aetna in arriving at the amount of investment income to be credited to the Plan, with particular attention to the equitableness of the amounts so credited and to the need for adjustment for inadequate amounts credited in prior years.

As the report notes, Aetna and Commission officials have agreed that some inconsistencies did exist. In a subsequent review of interest matters involving the Uniform Plan, Aetna has made credit adjustments of \$260,322 and debit adjustments of \$187,388.

We consider investment income credits to be an area of primary financial importance. We will continue to emphasize the equitable allocation of investment income credits in reviewing Aetna's administration of the Plan.

Sincerely yours,



Andrew E. Ruddock
Director

Attachment



151 Farmington Avenue
Hartford, Connecticut 06115

D. W. Pettengill
Vice President
Group Division

June 1, 1973

Mr. Andrew E. Ruddock, Director
Bureau of Retirement, Insurance,
and Occupational Health
United States Civil Service Commission
Federal Building
1900 E Street South, N. W.
Washington, D. C. 20415

Dear Mr. Ruddock:

In accordance with your request of May 10, 1973 to Mr. N. W. Chellgren we have reviewed the confidential Draft of Report to the Congress of the United States entitled "Opportunities for Improving Administration of the Uniform Plan of Health Insurance for Federal Employees Who Retired Before July 1, 1960" which has been prepared by the Comptroller General of the United States. We would like to submit the following comments for your consideration.

[iii and p. 19]²

1. On Pages 1, 19, 21 and elsewhere in the report, the inference is made that the Plan has not been administered on an "experience" basis as is required by the law. We respectfully submit that this inference is incorrect because the Plan has been operated on an experience basis ever since it's inception.

A plan operated on an experience basis means that at the end of each policy year the carrier determines the excess of earned premiums over incurred claims and expenses and credits (debits if the excess is negative) the excess to the policyholder's account. The policyholder is at liberty to take this credit in cash, to have the carrier hold it for future use, or to use it to improve benefits or reduce premiums for the ensuing policy year. In setting the premium rates for any given renewal year, it is true that experience for the prior years is used as a base, but to this base must be added margins for anticipated increases in claim costs and for probable fluctuations therein.

At the time the Uniform Plan was established, it was not uncommon for an experience-rated policyholder to request that an additional margin be included in the premium rate in order to build a fund from which anticipated future increases in costs could be paid without the

Page 2

Mr. Ruddock - CSC

June 1, 1973

necessity of rate increases at that time. In brief, the renewal premium rates under an experience-rated plan do not have to be set so as to just meet the claims and expenses of the policy year concerned. Indeed, they seldom are.

2. We do not agree with the statement in the first full paragraph on Page 3 to the effect that "no risk has been involved in insuring the Plan". In the early years of the Uniform Plan, there was a real risk of adverse experience, and until the current contract there was a risk of loss due to cancellation. Furthermore, quite apart from the validity of the insurers having made a charge for the risk involved, there is also the fact that insurers must make some sort of charge to maintain or increase the surplus they need to guarantee that they will be able to meet their obligations to all clients. Had there been no possibility of any profit under this contract, we would not have been a party to it. This same comment applies to Page 26 where profit is discussed in more detail.

- 3.

[See GAO note 1, p. 45.]

- 4.

- 5.

Page 3

Mr. Ruddock - CSC

June 1, 1973

6. In connection with the paragraph entitled "Contingency Reserve" on Page 17, we would point out that, while the Etna did recommend in 1967 against further accumulation of surplus in the Special Reserve, it did not recommend a reduction. Accordingly, we respectfully request that the second and third sentences of this paragraph be revised to read as follows:

"However, because Etna believed that too large a surplus was accumulating in the Special Reserve account which it maintained for the Plan, it advised the Commission in April 1967 that it would like to eliminate further accumulation of surplus in the Special Reserve."

7. [See GAO note 1, p. 45.]

8. We believe it would be advisable to rewrite Page 19. This is especially true of the first sentence at the top of Page 19, because the history of health insurance in the 1960's demonstrated just the opposite of what this first sentence now says. Health care costs rose so rapidly during the 1960's that carriers had all they could do to raise rates enough to cover the inflation in health care costs that would occur that year. It was very difficult to expand the rate increase to recoup any prior losses. Hence, it was desirable, if not imperative, to so establish premium rates that the likelihood of loss would be relatively small.

The Uniform Plan represents a closed group of high risk enrollees in contrast to the normal group case which is a self-renewing group of individuals, with healthy young lives being added each year to replace the unhealthy old lives that have retired. Thus, it was also felt that a bare-bones premium rate structure would result in annual rate increases for the Uniform Plan and that this would have an adverse psychological effect on the enrollees. Accordingly, a conscious effort was made to avoid such a situation.

In addition, our prior experience with other retiree groups indicated that we could expect a rapid deterioration in the experience under the Uniform Plan. Our recollection is that the 1962 monthly claim records, long since destroyed in accordance with our normal file maintenance rules, indicated that this expected deterioration was starting to set in. Accordingly, when it was decided in 1963 to shift the policy year from a fiscal year basis to a calendar year basis and to have a long policy year, we felt a rate increase was essential in order that the premium rate might still be adequate at the end of the long policy year.

Page 4
 Mr. Ruddock - CSC
 June 1, 1973

In retrospect, the claim experience suddenly stabilized for many months, a result that could hardly have been anticipated.

9.

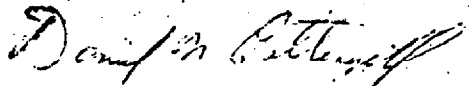
[See GAO note 1, p. 45.]

[25]²

10. With respect to the paragraph at the beginning of the bottom of Page 33 and running to the top of Page 34, we concur that there was some inconsistency in the application of the formula for determining the mean ledger asset balances at the beginning and ending of the policy year. We regret this clerical error, and, as the report states at [26]² the bottom of Page 35, a special adjustment has been made in our accounting statement for the 1972 policy year to correct for this inconsistency.

We appreciate having been given this opportunity to review the draft report and hope that our comments may be helpful.

Sincerely,



Daniel W. Pettegill
 Vice President, Group Division

DWP*mp

GAO notes:

1. Deleted material concerns matters which have been revised in this final report.
2. Page numbers in brackets refer to pages in this final report.

PRINCIPAL OFFICIALS OF THE
 CIVIL SERVICE COMMISSION RESPONSIBLE FOR
 ADMINISTERING THE RETIRED FEDERAL EMPLOYEES
 HEALTH BENEFITS PROGRAM

	Tenure of office	
	From	To
COMMISSIONERS:		
Robert E. Hampton, Chairman	Jan. 1969	Present
L. J. Andolsek	Apr. 1963	Present
Jayne B. Spain	June 1971	Present
John W. Macy, Jr., Chairman	Mar. 1961	Jan. 1969
Robert E. Hampton	July 1961	Jan. 1969
James E. Johnson	Jan. 1969	June 1971
 EXECUTIVE DIRECTOR:		
Bernard Rosen	June 1971	Present
Nicholas J. Oganovic	June 1965	May 1971
 DIRECTOR, BUREAU OF RETIREMENT, INSURANCE, AND OCCUPATIONAL HEALTH (formerly Bureau of Retirement and Insurance):		
Thomas A. Tinsley	Jan. 1974	Present
Andrew E. Ruddock	Sept. 1959	Dec. 1973

Copies of this report are available at a cost of \$1 from the U.S. General Accounting Office, Room 4522, 441 G Street, N.W., Washington, D.C. 20548. Orders should be accompanied by a check or money order. Please do not send cash.

When ordering a GAO report please use the B-Number, Date and Title, if available, to expedite filling your order.

Copies of GAO reports are provided without charge to Members of Congress, congressional committee staff members, Government officials, news media, college libraries, faculty members and students.

AN EQUAL OPPORTUNITY EMPLOYER

**UNITED STATES
GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548**

**OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE, \$300**

**POSTAGE AND FEES PAID
U. S. GENERAL ACCOUNTING OFFICE**



THIRD CLASS

Mr. T. E. Sullivan
Transportation
Room 5033