

Statement of
The Honorable Linda M. Springer
Director
U.S. Office of Personnel Management

before the

Subcommittee on Federal Workforce, Postal Service,
and the District of Columbia

on

“Federal Benefits: Are We Meeting Expectations?”

August 2, 2007

Good afternoon, Mr. Chairman and Members of the Subcommittee.

Thank you for inviting me today to discuss Federal employee benefits. The Federal Government has long been a recognized leader in employer-sponsored benefits, which helps to make sure we have a competitive advantage in recruiting and retaining top talent to work for our country. The U.S. Office of Personnel Management (OPM) has primary responsibility with respect to these benefit programs, a responsibility we take very seriously. With respect to your hearing topic today, the results of OPM’s recent Federal Benefits Survey indicate that we are largely meeting expectations with respect to our benefit programs. In fact, the 2006 survey shows that employee satisfaction with regards to benefits has increased since 2004. Ratings increased on average by 3 percent on importance, 4 percent on meeting employee/family needs, 5 percent on value, and 7 percent on competitiveness. The Thrift Savings Plan (TSP), retirement annuity, retirement health benefits, and employee health benefits consistently receive high ratings in all of these dimensions. While we are pleased with these results, we know we need to continue our efforts to make sure we offer a full range of benefits that effectively meet the needs of all of our employees and retirees and their families. This is critical if we are to maintain an effective Federal civilian workforce, and it is the primary reason the Administration has put forth new legislative proposals for your subcommittee’s consideration during this current session of Congress.

Retirement

The Federal Government’s benefit programs started with the Civil Service Retirement System (CSRS) in 1920. CSRS is a defined benefit plan which still covers about three out of ten active Federal employees. In 1983, Congress enacted a three-tier system to better meet the needs of

today's workplace. This program consists of a defined benefit tier (the Federal Employees' Retirement System, or FERS), a defined contribution tier (the TSP, the Federal Government's 401(k) equivalent), and Social Security.

There are about 650,000 employees covered by CSRS, and over 2 million under FERS. The Civil Service Retirement and Disability Fund, from which both CSRS and FERS benefits are paid, has approximately \$700 billion in assets. Last year, over \$57 billion was paid to retirees and survivors. CSRS benefits were paid to almost 1.6 million retirees and over 600,000 survivors. And FERS benefits were being paid to about 230,000 retirees and over 22,000 survivors.

In administering these systems, we work closely with other agencies that are involved in benefit administration. We have a particularly close relationship with the Federal Retirement Thrift Investment Board. Although the Thrift Board is an independent entity, our formal and informal cooperation with them on matters of both policy and operations helps to ensure that we both are able to fulfill our interdependent obligations.

As you know, we are also currently working on our Retirement Systems Modernization (RSM) project. This is our strategic initiative to better serve our customers by transforming our retirement processing from a paper-based system to an automated electronic system, which will help ensure retiring Federal employees get their correct annuity payments in a timely manner. I would like to take this opportunity to express our appreciation for the support the House, and specifically this subcommittee, has demonstrated with respect to RSM. We believe this project is now well-positioned to be rolled out to agencies beginning in February, 2008.

Insurance

Beginning in 1954 with Federal Employees' Group Life Insurance (FEGLI), and in 1960 with the Federal Employees Health Benefits Program (FEHBP), we offer a broad array of insurance and related benefits.

Life Insurance

The FEGLI program is the Nation's largest group life insurance program, covering over 4 million Federal employees and retirees, and many of their family members. OPM contracts with the Office of Federal Employees' Group Life Insurance (OFEGLI), which is a private entity that processes and pays claims under the FEGLI Program. FEGLI provides group term life insurance which includes basic life insurance coverage and three optional choices. In most cases, new Federal employees are automatically covered by basic life insurance. The cost of basic insurance is shared between enrollees and the Federal Government. While age does not affect the cost of basic insurance, the enrollee pays the full cost of optional insurance, and age does affect its cost.

In FY 2006, approximately 90,000 claims were paid and \$2.3 billion disbursed in FEGLI benefits. Our goal is to maintain program stability and continue to ensure OFEGLI provides excellent customer service.

Health Benefits

The Federal Employees Health Benefits Program (FEHBP) is the largest employer-sponsored health insurance program in the world. OPM administers the program by contracting with private sector health plans, and this program structure allows us to offer quality healthcare choices at an affordable price. This year, FEHBP offers 284 plan choices including national fee-for-service plans, HMOs, High Deductible Health Plans and Consumer-Driven Health Plans. Retirees are also able to carry coverage into retirement at the same level and with the same premium paid as employees, unlike their counterparts in the private sector.

We emphasize flexibility and consumer choice as very important features of a competitive health benefits program. We have been able to negotiate a comprehensive level of benefits while keeping premium rates down. Premiums for 2007 increased by an average of only 1.8 percent. Approximately 63 percent of enrollees saw no increase in their premiums, with another 15 percent seeing an increase of less than 5 percent. In the past five years, rate increases have been lower than the industry average, with the last three years being remarkably lower.

The Medicare Modernization Act of 2003 allowed a subsidy for employers who elect to continue providing prescription drug coverage to their retirees. The potential use of the subsidy was evaluated by the Federal Government, and it was determined there was no good rationale for the Federal Government to pay itself to continue providing prescription drug coverage to Federal retirees, especially since OPM has no plans to discontinue this coverage. The law does not require employers to apply for the subsidy, nor does it require those who receive the subsidy to use it to offset future premiums. The fact is the subsidy could be used by employers for other business purposes or even to increase a company's bottom line.

OPM is also playing a key leadership role in fulfilling the President's vision of making medical records easily accessible to consumers through the adoption of advanced health information technologies. We have also taken a lead in promoting healthcare price and quality transparency to help patients better control their medical expenses. Last year we worked with FEHBP carriers to post the costs of some common medical procedures on their websites so consumers could view them in making their health plan choices. Over 30 FEHBP carriers were selected for their best practices in price transparency. Many more carriers subsequently made price and quality transparency information available to their members on their websites. Federal enrollees can now find information on healthcare transparency information prominently posted on our website, as well.

And transparency goes beyond price and quality. In 2006, we published new regulations to allow OPM's Inspector General's office the right to audit provider contracts, including Prescription Benefits Management companies. We believe this has helped our FEHBP carriers in their negotiations for the best possible contract terms and prices as well as allowed for greater oversight of those organizations now responsible for managing almost one quarter of the total benefits paid under the Program through their contracts with FEHBP carriers.

Federal Long Term Care Insurance Program

In 2000, the Long-Term Care Security Act authorized OPM to offer a voluntary long term care insurance program to Federal employees and retirees. OPM contracted with Long Term Care Partners, LLC (a jointly held subsidiary of John Hancock and MetLife) to administer the Federal Long Term Care Insurance Program (FLTCIP) program. Through negotiations, OPM has used its buying power to get very competitive premiums and coverage which we believe to be among the most comprehensive available. Enrollment has increase to over 215,000 to make the program the largest group insurance program of its type in the country.

The initial contract will reach the end of its seven-year term in 2008. The Act required us to issue a letter to Congress with our recommendation on whether the program should be continued. In June, we sent our recommendation to Congress that the program be continued. We look forward to reviewing the Congressional response to our recommendation. As we move forward we will look to improve contract terms by September 2008 and seek contemporary and innovative ways to manage future benefits and rate stability.

Flexible Spending Account Program (FSAFEDS)

Since 2003, the Federal Government has offered FSAFEDS which is the Flexible Spending Account (FSA) program for Federal employees. The program is offered under section 125 of the Internal Revenue Code, the same arrangement that governs analogous private sector plans. It is a voluntary program which allows employees to use pre-tax funds to pay for a wide range of common, out-of-pocket health and dependent care expenses. OPM contracts with SHPS, one of the largest FSA administrators in the country, to serve as the program administrator. OPM provides oversight of many aspects of the program, including customer service issues, program management and contract performance.

Current enrollment includes more than 200,000 in health care accounts and more than 30,000 enrollments in dependent care accounts. We are working to promote the advantages of this program to all Federal employees and to promote dependent care accounts, especially to lower income employees. And, we are assessing the SHPS contract terms and performance to determine if there are ways to improve the program beyond what it is today.

Federal Employees Dental and Vision Insurance Program (FEDVIP)

The latest addition to our insurance offerings is dental and vision benefits coverage. The Federal Employees Dental and Vision Insurance Program (FEDVIP) became effective in December 2006 as a voluntary, enrollee-pay-all supplemental dental and vision benefits program for Federal employees and retirees.

OPM has contracted with seven dental carriers and three vision benefit plans. Now in its first year of operation, enrollment in the program far exceeded pre-operational projections. There are currently more than 400,000 enrollments in the dental program and more than 300,000 enrollments in the vision program. As we move forward, we will be using our purchasing power

to keep premiums down and allow the FEDVIP to remain an attractive supplemental benefit for Federal employees and retirees.

Short Term Disability Insurance

There is one additional benefit program, short term disability insurance, that we are now considering. That proposal would be designed to close the gap for employees who may have short-term disability needs, such as maternity leave, but are unable to do more than patch together various forms of annual, sick, advance, or donated leave to fulfill those needs, as the current Federal benefits package requires.

The Part-Time Reemployment proposal

You have heard me on any number of prior occasions make reference to the retirement tsunami, and it is essential that we make preparation for the changes we are facing in our workforce. Toward that end, earlier this year, I submitted to Speaker Pelosi a legislative proposal which would authorize Federal agencies to reemploy retired Federal employees on a limited basis without offset of annuity from salary. While they would receive both salary and annuity payments, they would not be considered employees for the purposes of retirement, would earn no additional retirement benefits based on the service, and would have all insurance premiums paid from their annuity payments. They may be reemployed under temporary appointments on either a part-time or full-time basis to meet agency needs. The proposal is carefully drafted to make such reemployment both attractive to annuitants and easy for agencies to use, and to avoid possibilities for significant abuses.

The Retirement Improvements Act

I would also ask that you take action on another legislative proposal submitted to Speaker Pelosi earlier this year, the "Federal Retirement Improvements Act of 2007". The draft bill would 1) endorse the long-standing policy that states that receipt of military retired pay bars civilian retirement service credit for all military service; 2) improve the provisions for computing CSRS annuities involving part-time service; 3) clarify the use of service as a cadet at a U.S. military academy for civilian retirement purposes; and 4) authorize Federal employees to invest bonuses in the Thrift Savings Plan.

While the third aspect of the proposal dealing with service credit for U.S. military academy service is being considered in connection with the FY2008 Defense Authorization bill, each of the elements of the proposal would be useful. I am particularly concerned that the delay in enacting the provisions dealing with computing CSRS annuities involving part-time service will result in the permanent loss of CSRS employees who would wish to continue their career on a part-time basis, but who are unwilling to do so because of the double reduction in their annuity if they do. This anomaly needs to be eliminated.

FEHB Improvements

For the FEHB Program, the Administration has proposed legislation to allow the Service Benefit Plan (BCBS) and Indemnity Benefit Plan to offer more than two levels of benefits since current law does not permit it. This would effectively allow these plans to offer a high deductible health plan. We are also seeking an expansion of our contracting authority to allow us to contract directly with other types of health plans such as regional PPOs, and high deductible health plans.

Conclusion

We are proud of the package of benefits we offer to Federal employees, and of the manner in which we administer them. We believe that they represent an appropriate package that has proved to be influential in both the recruitment and retention of an effective workforce. Nevertheless, I strongly urge that action be quickly taken on the proposals we have submitted to you.

In conclusion, Mr. Chairman, thank you for inviting me back today to continue our discussions on issues important to our Federal workforce and their families. I will be glad to answer any questions you or other Members of the subcommittee may have.