

Statement of

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Before the

**Committee on Oversight and Government Reform
U.S. House of Representatives**

**Defense Base Act Insurance:
Are Taxpayers Paying Too Much?**

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10:00 a.m.**

Chairman Waxman, Representative Davis, and distinguished members of the Committee, thank you for the opportunity to appear before you today to discuss Defense Base Act (DBA) insurance and the War Hazards Compensation Act (WHCA) program. As the Deputy Assistant Secretary for Logistics Management, the Department of State's central contracting authority reports to me, and I am happy to address the Department of State's contracting for DBA insurance.

The Defense Base Act of 1941 mandates that Federal prime and subcontractors provide and maintain a broad form of workers' compensation insurance coverage for their personnel working on construction and services contracts outside the United States. The cost of DBA insurance is ultimately borne by the contracting agency, often as a reimbursable cost. The Department's goal is to ensure all our contractors, both large and small, are able to obtain legally compliant coverage at a manageable cost.

DBA insurance covers U.S. citizens as well as host country and Third Country Nationals who are working under a State Department contract. A waiver of DBA insurance is often available for local national employees who are employed under a Department contract if they are covered by a local host country worker compensation program that provides effective compensation for work-related illness and injuries. In Iraq and Afghanistan, the lack of an effective local worker compensation program requires that DBA coverage be extended to local nationals. All Iraqi and Afghani citizens working under a Department contract in those countries are covered under the DBA. When any employee working under a Department of State contract is injured or

killed, a determination must be made by the insurance carrier and (if there is a dispute) the Department of Labor, as to the reason for the injury or death and whether it might be covered by the DBA. The Department of Labor subsequently will determine eligibility for reimbursement under the WHCA program.

Prior to 1990, the Department of State required contractors to obtain DBA insurance independently and rates varied based on the contractor's number of employees, claims history, and work location. Small businesses with limited overseas experience often found it difficult to obtain DBA insurance, or were required to pay very high premiums. In 1990, a State Department Office of the Inspector General audit concluded that the Department's DBA insurance costs could be significantly reduced if a blanket insurance contract was awarded to a single insurance provider. Subsequently, in an effort to control costs and provide uniform DBA insurance rates and coverage for all our contractors, both large and small, the Department competitively awarded a multi year contract in 1991 to CIGNA Property and Casualty Insurance Company.

The follow-on DBA insurance contract was competed in 2000 with four offerors competing: CIGNA, AIU, Ace International, and CNA. The contract was awarded to CNA in 2001 and remains in place today.

The blanket contract business model has stabilized rates and from 2000 to 2007 premium rates were unchanged: \$3.87 to \$6.45 per \$100 of employee salary for services and \$5.00 to \$8.34 of employee salary for construction. In July 2007, the CNA contract was extended for one year with two additional specific service categories: security services without aviation and security services with aviation. Due to the high risk and

claims associated with these categories, CNA proposed higher rates for these categories: \$10.30 per \$100 of employee salary for security service without aviation and \$17.50 of employee salary for security services with aviation. These rates became effective with the July extension; however, since most contractor policies are not renewed until June 2008, the effects of these rates have not been realized by contractors or the Department.

In April 2008, the Department issued a synopsis in FedBizOpps announcing the availability of a fully competitive solicitation to continue to provide DBA insurance coverage. The solicitation is expected to be issued later this month.

Mr. Chairman, thank you and the members of the committee for your interest in DBA insurance. I would be happy to address any question that you may have.