



Hearing Summary

HEARING ON "DEFENSE BASE ACT INSURANCE: ARE TAXPAYERS PAYING TOO MUCH?"

Rep. Henry A. Waxman

Chairman, Committee on Oversight and Government Reform

On May 15, 2008, the Committee held a hearing titled, "Defense Base Act Insurance: Are Taxpayers Paying Too Much?" The hearing examined allegations of waste and abuse in the procurement of Defense Base Act (DBA) insurance, the workers' compensation insurance required for all federal contractors working in Iraq.

Witnesses at the hearing included officials from the Departments of Defense, State, and Labor, the U.S. Army Corps of Engineers, and auditors from GAO and the Army Audit Agency. At the hearing, Chairman Waxman released an analysis showing that insurance companies made unwarranted profits of nearly \$600 million for DBA insurance in Iraq and that the Defense Department has refused to follow auditor recommendations to negotiate DBA insurance contracts at an agency-wide level.

Almost \$600 Million in Insurance Company Profits. Spending on DBA insurance has increased more than twenty-fold since the beginning of the wars in Iraq and Afghanistan, with insurance companies collecting almost \$1.7 billion in DBA premiums since 2002. The vast majority of these premiums were negotiated between the insurance companies and Defense Department contractors. Under these arrangements, insurance companies retained \$585 million (39%) as underwriting profits. These DBA profits are significantly higher than the profits typically earned by workers' compensation insurers.

High DBA Costs under the LOGCAP Contract. The Army Audit Agency testified about their review of DBA costs under the \$27 billion LOGCAP contract, the single largest contract in Iraq. Under this contract, KBR paid an insurance company, AIG, \$284 million for DBA insurance. Because the LOGCAP contract is a "cost-plus" contract, KBR also took a mark-up of up to \$8 million, bringing the total costs to the taxpayer to \$292 million. In contrast, the Army Audit Agency reported that only \$73 million of this amount went to pay for care for injured contractors.

Defense Department Refusal to Lower DBA Costs. The Department of State, the U.S. Agency for International Development, and the Army Corps of Engineers all use a different approach for acquiring DBA insurance. These agencies negotiate DBA contracts themselves to cover all of the agency's contractors. The Congressional Budget Office estimated that the Defense Department could save \$362 million if it adopted this approach. Every year since 2005, GAO, the Army Audit Agency, and Congress have recommended that DOD negotiate for better prices on DBA insurance, but the Defense Department has refused to change its approach.

Legislative Results of Committee Hearing. The FY 2009 National Defense Authorization Act (H.R. 5658), passed by the House on May 22, 2008, contained an amendment (added after the Committee hearing) requiring that DOD implement a new approach to purchasing DBA insurance within the next 18 months. This requirement is likely to save taxpayers hundreds of millions of dollars.

Additional information, including copies of testimony and a web video of the hearing, is available at www.oversight.house.gov.