Group Life Insurance for Federal Employees

by Weltha Van Eenam *

An ACT of Congress signed by President Eisenhower on August 7, 1954 (Public Law No. 598), authorized the Civil Service Commission to make group life insurance available to civilian officers and employees of the Federal Government and to employees of the municipal government of the District of Columbia. The legislation places these employees in a position similar to that of employees of most large industrial firms; at the end of 1953, approximately 75,000 employers had provided group life insurance amounting to nearly $73 billion to more than 25 million employees.

It was originally estimated that the initial amount of life insurance under this Government life insurance program would total some $7–8 billion. The cost for the first full year of operation was expected to be about $70 million, of which $47 million would be paid by the employees and $23 million by the Government. The most recent information indicates, however, that initially a lower percentage of employees have filed waivers of their right to insurance than was anticipated, with the result that the original estimates may have been on the low side.

Coverage

The act covers appointive and elective officers and employees of the legislative, judicial, and executive branches of the United States Government, including corporations owned or controlled by the Government. It covers also the municipal employees of the District of Columbia (including teachers, policemen, and firemen).

Three groups are specifically excluded from coverage: (1) employees of those corporations under the supervision of the Farm Credit Administration, any member of which is elected or appointed by private interests; (2) noncitizen employees whose place of duty is outside the 48 States or the District of Columbia; and (3) commissioned officers and enlisted personnel on active duty in or with the Army, Navy, Air Force, Marine Corps, or Coast Guard of the United States who have indemnity coverage under the Servicemen's Indemnity Act of 1951. The act permits other exclusions under regulations prescribed by the Civil Service Commission. While these exclusions may apply to seasonal, part-time, or short-term employees, they need not be limited to these types; they may not, however, be based on the hazardous nature of employment.

Regulations issued by the Commission on August 26, 1954, added the following exclusions to the three stated in the law:

"4. Employees serving under appointments limited to one year or less.

"5. Seasonal or emergency employees whose employment is of uncertain or purely temporary duration or who are employed for brief periods at intervals.

"6. Part-time, when-actually-employed, or intermittent employees having no regular tour of duty.

"7. Employees whose salary, pay or compensation on an annual basis is $12 a year or less.

"8. Member or patient employees in Government hospitals or homes.

"9. Employees paid on a contract or fee basis.

"10. Employees paid on a piecework basis, except those whose work schedule provides for regular or full-time service.

"11. Employees serving in cooperation with non-Federal agencies who are paid in whole or in part from non-Federal funds.

"12. Employees whose duties involve the security of the United States and preclude their identification as employees of the Federal Government.

"13. Retired employees reemployed under conditions not terminating their title to annuities." (Such an employee, of course, retains any insurance he may have had as a retired employee.)

Final determination of the applicability of these regulations to specific employees is left with the Commission.

The effective date of the insurance, as determined by the Commission, was the first day of the first pay period beginning after August 28, 1954 (for most people August 29). Unless he filed a Waiver of Life Insurance Coverage (Standard Form 53), an employee was automatically covered if on August 29 he was on the payroll or in nonpay status that had not extended continuously for 12 months on the date preceding the effective date. Thus, an eligible person retiring at the end of August was insured. Those retired before the effective date of the insurance were not covered.

A new employee will be insured on the first day he is in pay status unless he files a waiver. An eligible employee returning to pay status after leave without pay for a continuous period of more than 12 months is automatically insured unless he files a waiver before his return. The insurance for an employee terminates at the end of 12 months of leave without pay, but there is a 31-day extension of the life insurance.

A participant may at any time cancel his insurance by filing a Waiver of Life Insurance Coverage—the same form that is used in an initial waiver. Insurance will cease at the end of the pay period in which the form is received in the employing office. Under Commission regulations, employees who initially waive coverage and those who elect to withdraw from coverage may later cancel the waiver provided (a) the employee is under age 50, (b) at least 1 year has elapsed since the effective date of the waiver, and (c) satisfactory evidence of insurability is furnished.

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Amount and Type of Insurance

For participants under age 65, the amount of life insurance is equal to the annual compensation, raised to the next higher $1,000, up to a maximum of $20,000. An employee earning $4,200, for example, will be insured for $5,000. After attainment of age 65, the insurance will be for the amount in force at age 65 reduced by 2 percent for each elapsed month to a minimum prescribed by the Commission; this minimum may not be less, however, than 25 percent of the amount in force at age 65.

Those who are past age 65 when they become insured have the same amount of life insurance that would be in force had they been insured at age 65; that is, their insurance is reduced 2 percent for each elapsed month since attainment of age 65. The reduction for persons over age 65 on the effective date is applied to the amount of the annual compensation as of that date. For those who become insured after age 65 and who had been eligible at age 65, the basis is the lesser of the present compensation or the compensation at age 65.

Life insurance ceases 31 days after the termination of employment except for those entitled to (a) disability annuities or (b) immediate service annuities after 15 years of creditable civilian service. An "immediate annuity" is defined in the regulations as one that begins to accrue not later than 1 month following separation from service. A terminating employee may elect within the 31-day period to convert a part or all of his life insurance to an individual policy at attained age without a medical examination. The group life insurance is term insurance only, and there is no cash surrender value available upon termination or, for that matter, at any time. The life insurance of a retired employee eligible for continuation of insurance is not reduced until the end of the month following the month in which he reaches age 65.

Group accidental death and dismemberment insurance equal in amount to the life insurance is provided, subject to the conditions and limitations of the policies purchased by the Commission. For accidental death before retirement, the amount payable to the beneficiary is thus twice the amount of life insurance in force. Payment equal to one-half the amount of the accidental death insurance is provided for the loss of one hand or one foot, or the loss of the sight of one eye, with no reduction in the amount of life insurance. For the loss of two or more such members, an amount equal to the full amount of life insurance in force is payable. The aggregate amount payable for any one accident under the accidental death and dismemberment insurance may not exceed the total amount of life insurance in force. As noted above, life insurance continues in force for retired employees under certain conditions, but the accidental death and dismemberment insurance will be canceled on retirement. The latter form of insurance is continued for participating employees who remain in service after age 65, but it is reduced by the same percentage as is the life insurance.

Each participant will receive a certificate setting forth the benefits and stating to whom they shall be payable and to whom claims shall be submitted. It also contains a general summary of the provisions.

The Civil Service Commission will protect the rights of separated or retired employees now insured through an association of Federal employees, provided the association terminates all its life insurance agreements with the employees and turns over assets sufficient (if possible) to cover the liabilities assumed by the Commission. These separated or retired persons will be allowed to continue their present insurance under the new program at their present premium rates; this arrangement may not apply to persons who were first insured after 1953. For employees still in service, the association insurance will presumably be replaced by the new group insurance, for the legally determined amount, unless the employee elects not to participate. Associations may, of course, continue under the present arrangements if they wish.

Beneficiaries

Employees may designate a beneficiary or beneficiaries to receive death benefits. Such designation must be in writing and must be signed, witnessed by a disinterested person, and received in the employing office (or, in the case of a retired employee, in the Civil Service Commission) before the death of the insured person. The designated beneficiary may be a person or persons or a firm, corporation, or legal entity other than an agency of the Federal Government or the Government of the District of Columbia; the proceeds may thus be left to an incorporated endowment fund. A change in beneficiary may be made without the consent of the beneficiary, but any change made through a will (and not made as prescribed above) will not be effective.

If there is no designated beneficiary, the order of payees is the same as in the Civil Service Retirement Act for lump-sum death payments: (1) widow or widower, (2) children, (3) parents, (4) estate, and (5) other next of kin.

It should perhaps be pointed out that an employee who has no relatives in the first three categories may wish to designate a beneficiary (or beneficiaries) even though such beneficiary might be entitled to the proceeds through his entitlement to the residue of the estate. If payable to the estate, the amount would, in most States, be included in determining the amount subject to inheritance tax, but it would not be included if there is a named beneficiary.

Because the designation of beneficiary is held by the employing agency or, for retired employees, by the Civil Service Commission, it is automatically canceled on the day the employee transfers to another agency or on the day he retires. A redesignation of beneficiaries must be filed with the new agency or, in the case of a retired employee, with the Commission.

Contributions

Employee contribution rates are to be determined by the Commission but may not exceed 25 cents biweekly per $1,000 of life insurance. The initial rate has been placed at the maximum provided by the act. Contributions are made through payroll deductions and cease upon retirement or attainment of age 65, whichever is earlier. The contributions withheld are based upon the last amount of insurance in force during the pay period, and withholdings are discontinued at the end of the pay period preceding the period in which the employee reaches age 65. No contributions are required from insured employees in nonpay status, but their insurance expires at the end of 12 months of continuous nonpay status.

"Free" life insurance is provided for employees retired for disability or those retired for other reasons under an immediate annuity after at least 15 years of credited civilian service and also for employees still in service after age 65.

The department or agency involved makes its contribution from the appropriations used for payment of compensation; the amount is to be determined by the Civil Service Commission, but it may not exceed half the amount paid by the employees. The initial employer rate has been placed at the maximum. In effect, although the Government may pay one-third of the aggregate cost of the program, it will bear little or none of the current cost for the young employees. Conversely, the Government contribution will meet a large part of the current cost for the older participants. All contributions are to be placed in a specific fund in the United States Treasury. The insurance premiums and the expenses of the Commission in administering the program will be paid from this fund.

The rates for the premiums to be paid to the life insurance companies will be determined by the Commission on a basis consistent with the lowest rates charged large employers for group life insurance. Provision is made for adjustment in premium rates for subsequent years based on the experience under the policies, in line with group life insurance practices. The Commission will set a maximum expense and risk allowance for the insurance companies. The excess of the premiums over these two items will be used to build up a contingency reserve. The Commission will determine the maximum reserves to be permitted and any further excess is to be deposited in the Treasury fund.

It may be noted that the maximum Government contribution is $3.25 annually per $1,000 of life insurance on those employees who are contributing. This contribution, with the maximum employee contribution of $6.50 per $1,000 of insurance for those contributing, will probably meet the administrative costs of the Commission and cover the net cost of the life insurance, including the "free" insurance, and of the accidental death and dismemberment insurance—at least until the time that the amount of "free" insurance is of considerable magnitude. Since persons who retired before the effective date of the act are not covered, the relative amount of "free" insurance will be very small at first and increase over the years. This rise, coupled with the probable increase in the age distribution of the insurance in force on the combined active and retired lives, may result in higher costs in the future. Since, however, the Commission has set the initial contribution rates at the maximum, the fund during the early years will probably build up a considerable surplus, which will be available to meet possible future deficits. The insurance is on a group 1-year term basis, with premiums to the insurance companies varying with the distribution of the insurance by attained ages of the participants. In general, under group life insurance plans jointly financed by employer and employee, the employee contribution rate is a definite amount (usually 60 cents a month) per $1,000 of insurance, with the employer contributing the balance. The balance is a flexible amount determined by the age distribution of the amounts in force, by the experience of the group, and to some extent by the experience of all such groups insured by the carrier.

Individual Illustration

The following example shows how the new group life insurance plan operates for the individual who works beyond age 65, illustrating what happens at age 65 and thereafter with respect to the amount of life insurance and contributions.

Assume that Bill Jones, who will become age 54 on January 8, 1955, has had 10 years of credited service. (He was born on January 8, 1901, and will become age 65 on January 8, 1966.) His present salary is $3,920 and is increased by $125 on each May 1 of the years from 1955 through 1958. On May 1, 1959, he is reclassified, and his salary is raised to $5,060. He receives three regular annual increases, and on May 1, 1963, he is reclassified with a salary of $5,500. Bill Jones remains in this classification until his retirement on December 31, 1969, shortly before he reaches age 69. During this period he receives regular increases of $125 on May 1 of each year.

The amount of insurance is $4,000 up to the pay period that includes May 1, 1955, when it is increased to $5,000 in line with his salary of $4,045. This amount is stationary until his salary is raised to $5,060 upon his reclassification in 1959. The insurance at this point increases to $6,000. Since his salary at age 65 is $5,750, the insurance remains at $6,000 until the end of February 1966 (the month following the month during which he reaches age 65). The monthly reduction, effective as of the end of February 1956, is $120. Further regular salary increases that result in a salary of $6,125 on May 1, 1968, and of $6,250 on May 1, 1969, do not affect the amount of insurance. His insurance continues to be reduced by $120 each month until, by March 1969, it amounts to $1,560. At the end of that month the insurance is further reduced by $60 to the minimum of $1,500 (one-fourth of $6,000) and is stationary thereafter.

The accidental death and dismemberment insurance continues in force until retirement (in this case until

Table 1.—*Illustrative experience under Federal group life insurance for hypothetical employee who works beyond age 65*

Date	Age attained during month		Assumed annual salary	Amount of life insurance	Employee biweekly contribution
	Years	Months			
9/1/54	53	8	$3,920	$4,000	$1.00
5/1/55	54	4	4,045	5,000	1.25
5/1/59	58	4	5,060	6,000	1.50
5/1/63	62	4	5,500	6,000	1.50
1/1/66	65	0	5,750	6,000	[1] 0
2/1/66	65	1	5,750	6,000	0
3/1/66	65	2	5,750	5,880	0
5/1/68	67	4	6,125	2,760	0
3/1/69	68	2	6,125	1,560	0
4/1/69	68	3	6,125	1,500	0
5/1/69	68	4	6,250	1,500	0
1/1/70 to date of death	69	0	(2)	1,500	0

[1] Assumes that pay period preceding the one in which January 8, 1966, falls ended in December.
[2] Worker retired.

almost age 69), but the amount decreases with the decrease in life insurance. Unlike life insurance, however, it ceases at retirement.

Table 1 shows the amount of life insurance held by Bill Jones and his weekly contributions on selected dates.

Insurance Carriers

The Commission is authorized to purchase from one or more companies, meeting specified requirements, a policy or policies to provide the proposed insurance benefits. To be eligible as a primary carrier, the company must (1) be licensed to write life and accidental death and dismemberment insurance in each of the 48 States and the District of Columbia; and (2) have at least 1 percent of the total amount of employee group life insurance in the United States as of the most recent December 31 for which information is available.

Eight companies now meet these qualifications. At a meeting of representatives of these companies and of the Commission, it was decided that the administration would be simplified if one company became the insurer. The Metropolitan Life Insurance Co. was chosen for the role. A portion of the insurance will be reinsured by other life insurance companies. Any company with group life insurance of any type in force in the United States at the end of 1953 may participate as a reinsuring company. About 260 life insurance companies are initially eligible; in addition, the seven companies that qualify as insurers but are not thus participating qualify as reinsuring companies.

The formula for allocating the insurance both to the insurers and the reinsurers favors the smaller companies. It will take into account the amount of each company's group life insurance in force in the United States on December 31, 1953. In determining the proportions, 100 percent of the first $100 million of group life insurance in a company will be taken into account; 75 percent of the next $100 million; 50 percent of the third $100 million; 25 percent of the fourth $100 million; and 5 percent of any amount in excess of $400 million. The resulting amount for each company will then be related to the total resulting amount for all companies that elect to participate. Certain limitations are, however, specified:

(a) The amount to be allocated to any company is not to exceed 25 percent of the life insurance in force (all types) on United States lives carried by the company as of December 31, 1953.

(b) If, at the end of 1 year following the date of enactment, any company that had previously issued policies to an association of Federal Government employees has less allocated insurance (under the above formula) than the decrease in such company's insurance under these policies (because of the changeover to the new plan), the allocated amount shall be raised to the amount of decrease at the first reallocation. A reallocation is to be made at least every 3 years.

If all the companies writing group life insurance (about 270) elect to participate, the eight companies that now qualify as insuring companies and that had an aggregate of more than 83 percent of the total group life insurance in force in the United States at the end of 1953 will carry less than 41 percent of the insurance of the program. Approximately 235 companies (each with less than $100 million of group life insurance on United States lives) with an aggregate amount equal to 3 percent of the total in force in the United States will be allocated about 20 percent of the life insurance of this program. In determining the allocation, less than 8 percent of the group life insurance in force in the eight companies would be taken into account, whereas 100 percent of that of the 235 companies would be used. The remaining companies (approximately 25) with about 14 percent of the group life insurance in force are eligible for about 40 percent—on the assumption, again, that all eligible life insurance companies participate.

Administration

The functions usually performed by the employer under group life insurance are being performed by the Civil Service Commission and by the employing agencies involved. In accordance with the act, the insuring company has set up a central administrative office known as the "Office of Federal Employees Group Life Insurance." An Advisory Council on Group Insurance—consisting of the Secretary of the Treasury as Chairman, the Secretary of Labor, and the Director of the Bureau of the Budget—is established by the act. The Council will review operations and advise the Commission on matters of policy. A committee of five insured employees to advise on matters of concern to employees will be appointed by the Chairman of the Civil Service Commission.

The Commission has general responsibility for the program and will handle all arrangements with the insurance companies. It will issue regulations from time to time regarding matters left to its determination. The first regulations, issued on August 26, 1954, cover such points as eligibility, the effective date of the insurance, the current contribution rates of employees and their agencies, and rules regarding cessation and conversion of insurance, cancellation of waiver of coverage, and designation of beneficiary.

Some of the detailed work—such as keeping record of the amounts of life insurance on individual lives, amounts to be withheld from salaries, the date of cessation of withholding, and the beneficiary designation—is being performed by the various Government agencies.

Legislative History

President Eisenhower in a message to Congress on May 19, 1954, outlined "a plan of contributory group life insurance for Federal civilian employees." Following this message a bill was introduced in the Senate on May 24 as S. 3507, after which the Committee on Post Office and Civil Service held public hearings. A revised bill, S. 3681, was passed without amendments by the Senate on July 8 and by the House on August 3. It was signed by the President on August 17, 1954.

Under S. 3507 the employee contributions were to be payable until retirement. The 15-year service qualifying provision for continuation of insurance (without contributions) after retirement would apply to dis-

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Table 4.—*Status of the old-age and survivors insurance trust fund, by specified period, 1937–54*

[In thousands]

Period	Receipts		Expenditures		Assets			
	Net contribution income and transfers [1]	Interest received [2]	Benefit payments	Administrative expenses [3]	Net total of U. S. Government securities acquired [4]	Cash with disbursing officer at end of period	Credit of fund account at end of period	Total assets at end of period
Cumulative, January 1937–July 1954	$30, 766, 680	$2, 984, 880	$13, 051, 623	$729, 518	$19, 409, 864	$403, 246	$157, 309	$19, 970, 418
Fiscal year:								
1952–53	4, 096, 602	386, 640	2, 627, 492	89, 429	1, 544, 542	286, 878	261, 885	18, 366, 356
1953–54	4, 589, 923	438, 909	3, 275, 457	88, 638	1, 522, 270	373, 547	329, 277	20, 042, 688
1953								
July	213, 774	----------	254, 509	6, 787	86, 700	295, 022	119, 519	18, 318, 834
August	529, 884	----------	254, 714	7, 367	63, 400	308, 292	310, 652	18, 586, 638
September	258, 748	10, 917	256, 811	6, 692	71, 594	329, 341	224, 172	18, 592, 801
October	173, 686	14, 818	260, 989	6, 838	39, 341	328, 778	106, 069	18, 513, 476
November	398, 352	----------	263, 853	7, 462	26, 000	325, 687	210, 197	18, 640, 513
December	152, 597	190, 960	268, 100	9, 013	186, 609	335, 889	79, 830	18, 706, 956
1954								
January	84, 670	268	269, 613	6, 554	−146, 000	336, 739	33, 750	18, 515, 727
February	609, 224	[5] 11, 595	275, 059	6, 917	38, 800	338, 788	331, 744	18, 854, 571
March	597, 809	10, 946	287, 370	7, 180	164, 918	358, 974	460, 845	19, 168, 775
April	284, 915	14, 818	293, 884	7, 502	245, 941	360, 145	212, 080	19, 167, 122
May	777, 733	----------	293, 969	7, 447	229, 000	370, 317	449, 226	19, 643, 440
June	508, 529	196, 182	296, 585	8, 878	515, 967	373, 547	329, 277	20, 042, 688
July	218, 264	[5] 9, 551	292, 652	7, 433	70, 000	403, 246	157, 309	19, 970, 418

[1] For July 1940 to December 1950 equals taxes collected under the Federal Insurance Contributions Act. Beginning January 1951, amounts appropriated in accordance with sec. 201 (a) of the Social Security Act as amended in 1950; from May 1951, includes deposits by States under voluntary coverage agreements. For 1947–51 includes amounts appropriated to meet costs of benefits payable to veterans' survivors under the Social Security Act Amendments of 1946. Includes deduction to adjust for reimbursement to the general treasury of the estimated amount of taxes subject to refund on wages in excess of $3,600 paid to employees who worked for more than 1 employer during the calendar year—$33 million in December 1952 for 1951 taxes and $40.5 million in September 1953 for 1952 taxes—in accordance with sec. 1401 (d) of the Internal Revenue Code.

[2] Includes interest transferred from the railroad retirement account under the financial interchange provision of the Railroad Retirement Act, as amended in 1951. See footnote 5.

[3] Represents net expenditures for administration. Beginning November 1951, adjusted for reimbursements to trust fund of small amounts for sales of supplies and services. Beginning October 1953, includes amounts for expenses of plans and preparations for construction authorized by P. L. 170, 83d Cong., 1st sess.

[4] Includes accrued interest and repayments on account of accrued interest on bonds at time of purchase.

[5] Represents interest, transferred from the railroad retirement account, for the fiscal year 1952–53 on $488 million and for the fiscal year 1953–54 on $424.5 million—the estimated amount that would place the old-age and survivors insurance trust fund in the same position in which it would have been on June 30, 1952, if railroad employment had always been covered under old-age and survivors insurance, less offsets, for 1953–54, made under subparagraph (c) of section 5 (K) (2) of the Railroad Retirement Act, as amended in 1951.

Source: *Daily Statement of the U. S. Treasury.*

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ability annuitants as well as to service annuitants. Under the act as passed, all employee contributions cease at age 65, even though employment continues. Life insurance is continued on all disability annuitants, regardless of the number of years of service. The waiving of employee contributions for those remaining in service after age 65 may have been prompted by the administrative difficulties involved in handling the monthly decrease in the amount of insurance after age 65 (especially since contributions are largely on a biweekly basis).

The original bill limited the reinsuring companies to those who were licensed to write group life and accidental death and dismemberment insurance in one or more States and to those who were carriers of life insurance for at least 25 employee groups. Through the removal of these restrictions in the final bill, group life insurance covering outstanding loans was recognized in determination of eligibility, as well as in allocation of amounts. The number of qualified reinsuring companies was thus increased from about 85 to about 260 (excluding those eligible as insurers). A special provision in the law as enacted renders eligible as a reinsurer any fraternal benefit association, licensed under the laws of a State or the District of Columbia and issuing insurance on the lives of Federal employees only.