# CONGRESSIONAL BUDGET OFFICE
# COST ESTIMATE

July 14, 1998

## H.R. 2675
### Federal Employees Life Insurance Improvement Act

*As ordered reported by the Senate Committee on Governmental Affairs on June 17, 1998*

## SUMMARY


H.R. 2675 would make a number of changes to the Federal Employees' Group Life Insurance (FEGLI) program. The bill would allow retired federal employees who carry additional optional life insurance or optional life insurance on family members to continue paying premiums after turning 65 and avoid having their coverage phased out. The bill would also increase the amount of optional life insurance that employees may purchase on family members and would allow separated federal employees to continue purchasing additional optional life insurance at group rates.

CBO estimates that this bill would reduce direct spending by $69 million during the 1999-2003 period and increase discretionary spending by a minor amount. Direct spending would decrease because additional FEGLI premiums would be larger than additional claims over this period. CBO estimates that employee premium payments to FEGLI, which are treated as offsetting collections, would rise by $292 million over the 1999-2003 period and premium payments would increase by $223 million.

This bill would affect direct spending and therefore be subject to pay-as-you-go procedures. H.R. 2675 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act of 1995 (UMRA) and would have no impact on the budgets of state, local, or tribal governments.


## ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2675 is shown in the following table.

| | By Fiscal Year, Outlays in Millions of Dollars | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
| **SPENDING SUBJECT TO APPROPRIATION** | | | | | | | | | | |
| Agency Share of FEGLI Premiums | * | * | * | * | * | * | * | * | * | * |
| **CHANGES IN DIRECT SPENDING** | | | | | | | | | | |
| Increased FEGLI Premiums | -8 | -40 | -68 | -81 | -95 | -113 | -133 | -156 | -181 | -209 |
| Increased FEGLI Claims | 1 | 29 | 56 | 64 | 73 | 90 | 111 | 134 | 161 | 192 |
| Total | -7 | -11 | -12 | -17 | -21 | -22 | -22 | -22 | -20 | -17 |

* Less than $500,000.
Note: Components may not sum to totals because of rounding.

The mandatory costs of this legislation fall within budget function 600, Income Security.

## BASIS OF ESTIMATE

### Discretionary Spending

H.R. 2675 would remove the cap on the amount of FEGLI coverage available to employees with basic pay at or above Level II of the Executive Schedule (currently $136,500). According to the Office of Personnel Management (OPM), fewer than 200 people would be affected by this change. Discretionary spending would increase by about $5,000 annually due to higher agency payments for part of these employees' premiums.

### Direct Spending

Federal employees may supplement their basic FEGLI life insurance with three forms of optional insurance. Option A allows employees to buy $10,000 of additional life insurance as well as additional accidental death and dismemberment insurance. Under Option B, federal employees may buy additional life insurance worth 1, 2, 3, 4, or 5 times their annual basic pay. Under Option C, employees may purchase life insurance for their family members at the fixed amounts of $5,000 for a spouse and $2,500 for each dependent child.

Unlike basic FEGLI life insurance, which requires a matching employer contribution, employees pay the full cost of any optional FEGLI insurance. If an employee has Option B or C coverage for the entire five years prior to retiring or receiving worker's compensation, he or she may keep the additional insurance after retirement. However, the retiree no longer pays premiums after reaching age 65, and the amount of coverage decreases by 2 percentage points a month over 50 months until no coverage is left. Employees who are ineligible to continue their FEGLI coverage after leaving government service must convert their coverage to an individual policy.

H.R. 2675 would amend Options B and C in three ways. First, employees who continue their Option B or C coverage during retirement would be able to continue paying premiums after age 65 and avoid having the coverage phased out. Second, employees would be allowed to select 1, 2, 3, 4, or 5 times the current $5,000 and $2,500 coverage amounts under Option C. These changes would take effect 180 days after enactment and, with one exception, apply only to current and future employees. The bill would allow retired employees who are still enrolled in Option B to maintain their existing Option B coverage.

Finally, the bill would make FEGLI benefits more portable by allowing federal employees who separate from service and are currently ineligible to stay in FEGLI to continue their Option B coverage at group rates. This provision would become effective 180 days after the bill's enactment and would be in effect only for the following three years. After that, coverage for the now-ineligible employees still enrolled in Option B would end, and those employees would have to convert their coverage to individual policies. The bill would also require OPM to recommend within three years of the bill's enactment whether this insurance should be extended, made permanent, or terminated.

**Increased FEGLI Premium Payments.** A significant number of current and retired federal workers have Option B or C coverage. Approximately 126,000 retirees carry Option B coverage, and 1 million workers and 314,000 retirees have Option C coverage. CBO used data from OPM to project the number of people who would enroll in Options B and C coverage over the next ten years. These projections included the number of retirees with Option B or C coverage, the number of retirees over age 65, and the average amount of coverage.

CBO assumed that enrollees in Option C would increase their coverage to an average of 3 times the current level. For employees enrolled in Option C, this amount is the midpoint of the new coverage amounts that would be available. Employees currently pay a fixed premium for Option C coverage, and OPM has indicated that Option C premiums would increase to reflect the rise in available coverage envisioned under H.R. 2675. CBO assumed that premiums for Option C would rise in proportion to the amount of coverage selected. For example, an employee who pays $18.20 for $5,000 of coverage for their spouse would pay $54.60 for $15,000 of coverage. Finally, CBO assumed that half of the retirees with Option B or C coverage would decide to keep their coverage after turning 65.

For the bill's portability provisions for Option B coverage, CBO assumed that about 120,000 employees would separate from federal service annually, and that about 43 percent of them would be enrolled in Option B, which is the participation rate for all federal employees. Based on information from the Employee Benefit Research Institute, about 75 percent of private-sector employees participate in employer-provided life insurance. CBO assumed that 75 percent of the employees separating from federal service would get life insurance through their new employer, and that two-thirds of the remaining 25 percent would stay enrolled in Option B.

Based on these assumptions, CBO estimated that premium payments from retirees with Option B coverage would increase by $183 million over the 1999-2003 period. Premiums from current employees and retirees with Option C coverage would rise by $84 million and $14 million, respectively. Premiums from separated employees who would continue their Option B coverage would be $11 million.

**Increased FEGLI Claims Payments.** Because federal employees and retirees would purchase more FEGLI coverage, payments of claims would increase under H.R. 2675. Using data from OPM, CBO estimated the number of claims that would be made under Options B and C and the average amount of each claim. Separate projections were made for current employees, separated employees, and retirees.

Claims payments to retirees with Option B coverage would rise by $108 million during the 1999-2003 period as some retirees keep their coverage past age 65. CBO estimates that claims for separated employees in Option B would be $14 million. Claims payments for current employees enrolled in Option C would increase by $95 million, while claims for retirees with Option C would increase by $6 million.

**Other provisions.** H.R. 2675 contains a number of other provisions that CBO estimates would not have a significant budgetary impact. These provisions include requiring OPM to conduct a study on expanding the types of insurance available under FEGLI, including foster children under the FEGLI definition of "family member," and allowing FEGLI enrollees to pay their premiums directly if their pay or annuity is too small to pay premiums through withholding. The bill would also lengthen the time that a federal employee has to seek judicial review of a decision of the Merit Systems Protection Board from 30 days to 60 days.

## PAY-AS-YOU-GO CONSIDERATIONS

The provisions of this bill would affect direct spending and therefore be subject to pay-as-you-go procedures. The pay-as-you-go procedures cover only the current year, budget year, and the succeeding four years.

Summary of Pay-As-You-Go Effects

| | By Fiscal Year, in Millions of Dollars | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
| Change in outlays | -7 | -11 | -12 | -17 | -21 | -22 | -22 | -22 | -20 | -17 |
| Change in receipts | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

## INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 2675 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act of 1995 (UMRA) and would have no impact on the budgets of state, local, or tribal governments.

## COMPARISON WITH OTHER ESTIMATES

On November 4, 1997, CBO issued an estimate for H.R. 2675 as reported by the House Committee on Government Reform and Oversight. That version of H.R. 2675 was estimated to reduce direct spending by $72 million between 1998 and 2002. Like the more recent version of H.R. 2675, the Government Reform bill would allow retirees with Option B or C coverage to continue paying premiums after age 65 and maintain their coverage, and would increase the amounts of coverage available under Option C. However, the Government Reform version of H.R. 2675 did not contain any provision for continued Option B coverage for separated employees.

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