CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

November 4, 1997

H. R. 2675

To require that the Office of Personnel Management submit proposed legislation under which group universal life insurance and group variable universal life insurance would be available under chapter 87 of title 5, United States Code, and for other purposes.

As ordered reported by the House Committee on Government Reform and Oversight on October 31, 1997.

SUMMARY

H.R. 2675 would require the Office of Personnel Management (OPM) to submit legislation that would make group universal life insurance and group variable universal life insurance available through the Federal Employees' Group Life Insurance (FEGLI) program. In addition, H.R. 2675 would change FEGLI in two ways. First, the bill would increase the amount of optional life insurance for spouses and children that federal employees may purchase through FEGLI. Second, the bill would allow retired federal employees who have optional FEGLI life insurance for themselves, their spouses, or their children to continue paying premiums after turning 65 and avoid having their coverage phased out. This bill would affect direct spending and would therefore be subject to pay-as-you-go procedures.

CBO estimates that this bill would reduce direct spending by $72 million over the FY 1998-2002 period. Direct spending would decrease because additional premiums would be larger than additional claims. CBO estimates that employee premium payments to FEGLI, which are treated as offsetting collections, would rise by $287 million over the 1998-2002 period, and FEGLI claims payments would increase by $215 million.

H.R. 2675 contains no intergovernmental 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. H.R. 2675 also contains no private-sector mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

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

	By Fiscal Year, in Millions of Dollars				
	1998	1999	2000	2001	2002
CHANGE IN DIRECT SPENDING					
Increased FEGLI Premium Payments	- 23	- 58	- 63	- 68	- 75
Increased FEGLI Claims Payments	18	44	47	51	55
Total Direct Spending	- 6	- 14	- 16	- 18	- 20

Note: Numbers may not sum to totals due to rounding. This estimate assumes that HR 2675 is enacted by November 15, 1997.

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

BASIS OF ESTIMATE

Federal employees are currently allowed to purchase term life insurance through the Federal Employees' Group Life Insurance (FEGLI) program. In addition, employees may supplement their basic 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 amount of $5,000 (for a spouse) or $2,500 (for each dependent child).

H.R. 2675 would require the Office of Personnel Management (OPM) to submit proposed legislation to Congress that would expand the types of insurance available through FEGLI to include group universal life insurance and group variable universal life insurance. OPM is required to submit its proposals within six months of the bill's enactment. CBO estimates that this provision would not have a significant cost impact.

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 going on worker's compensation, he may keep the optional insurance after he retires. However, once the retiree reaches age 65, he no longer pays premiums, and the amount of coverage decreases by 2 percentage points a month over 50 months until no coverage is left.

H.R. 2675 would amend Options B and C in two ways. First, employees would be allowed to select 1, 2, 3, 4, or 5 times the current $5,000 and $2,500 amounts under Option C. In addition, federal employees who continue their Option B or C coverage during retirement would be able to continue paying premiums after age 65 and avoid having their coverage phased out. The changes to Option B would take effect 120 days after enactment and would affect only those employees who retire on or after the effective date. The changes to Option C would take effect 180 days after enactment and would affect all current enrollees.

Increased FEGLI Premium Payments. A significant number of current and retired federal employees have Option B or C coverage. Approximately 126,000 retirees carry Option B coverage, and 1 million current 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 over the next five 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 Option C enrollees would increase their coverage to an average of 2.5 times the current level. 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 increase 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 currently pays $18.20 for $5,000 of coverage for a 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.

Given these assumptions, CBO estimated that additional premium payments from retirees with Option B coverage would rise by $50 million between 1998 and 2002. Premiums from current employees with Option C coverage would increase by $83 million during this period. Finally, premiums from retirees with Option C coverage would increase by $155 million. The increase in the premium payments for Option C retirees would be relatively large since they would be able both to select more coverage and keep that coverage past age 65.

Increased FEGLI Claims Payments. Because federal employees and retirees would purchase more FEGLI coverage, claims payments 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 and retirees.

Claims payments to retirees with Option B coverage would rise by $34 million between 1998 and 2002 as some future retirees keep their coverage past age 65. Claims payments to current employees with Option C coverage would increase by the same proportion as the assumed increase in coverage, and would total $98 million over the 1998-2002 period. As with premium payments, claims payments to retirees with Option C coverage would be relatively larger, totaling $82 million between FY 1998 and FY 2002.

PAY-AS-YOU-GO CONSIDERATIONS:

The provisions of this bill would affect direct spending and would therefore be subject to pay-as-you-go procedures.

Summary of Pay-As-You-Go Effects

	By Fiscal Year, in Millions of Dollars				
	1998	1999	2000	2001	2002
Change in Outlays	- 6	- 14	- 16	- 18	- 20
Change in Receipts	0	0	0	0	0

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS: H.R. 2675 contains no intergovernmental 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 IMPACT ON THE PRIVATE SECTOR: H.R. 2675 contains no private-sector mandates as defined in UMRA.

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