

Testimony of the Honorable Tom Davis
Government Reform Subcommittee on the Civil Service
Hearing on Premium Conversion Legislation

Wednesday, July 9, 2003

Madame Chairman and Members of the Subcommittee, I appreciate the opportunity to come before you today to discuss this important issue for our nation's military and civil servants.

I can't help but feel like I am preaching to the choir this afternoon, as I am pleased to see all but two of the members of the Subcommittee as cosponsors of my legislation on this issue. Although we all know full-well the deliberative nature of Congress, it has been 1,152 days since I first introduced premium conversion legislation, and I am pleased to finally have the ability to testify on this issue.

As you know, I have again introduced legislation in the 108th Congress to allow federal civilian and military annuitants to pay their Federal Employees Health Benefits Program (FEHBP) premiums on a pretax basis, and allow active duty military personnel to apply a below the line deduction for TRICARE supplemental premiums paid annually. Although not an answer to rising healthcare costs, H.R. 1231 will take the next step in helping to

improve the quality of life for those retirees and active duty personnel living on a fixed income.

I first introduced this legislation in the 106th Congress, and was pleased to receive the support of 111 of our colleagues. In the 107th Congress, H.R. 2125 received even broader bipartisan support, yet despite 282 co-sponsors, was never acted upon. I am pleased to say that we have moved quickly in the 108th Congress, and in the first 6 months have surpassed our total from the last Congress, with 283 cosponsors to date.

The FEHBP covers 8.6 million individuals, including 2.2 million federal and postal employees, 1.9 million federal annuitants, and 4.5 million dependents. All of us here recognize the importance of the FEHBP as we seek to recruit and retain the best and the brightest to serve our nation as members of the civil service. Deputy Director Blair pledged late last year to work closely with the members of the Government Reform Committee, as well as providers and plan participants, to keep the FEHBP a model for employer-provided healthcare coverage. OPM has continued this commitment, and I firmly believe my legislation will be integral to this effort.

Under current law, amounts distributed from a section 401(a) qualified plan and used to pay for benefits in a former employer's section 125 cafeteria must be included in the participant-retiree's income. Section 402(a) stipulates that distributions from a qualified plan are taxable to the distributee in the taxable year in which distributed, except for two instances stated in the statute. Current exemptions include distributions made to a spouse or former spouse under court order, and eligible rollover distributions transferred within 60 days.

In 1959, Congress created the Federal Employees Health Benefits Plan (FEHBP) as a recruitment and retention tool for the Federal government to compete in the job market. There is no disputing that federal employees, retirees, and their survivors enjoy the widest selection of health plans in the country, enabling users to compare the costs, benefits, and features of different plans. Market-orientation and consumer choice have been hallmarks of the program's success, and although OPM has been more successful than private sector plans at constraining cost, the numbers tell us that our annuitants are losing more and more of their monthly paychecks to healthcare premiums. According to GAO, FEHBP premiums have increased by an average of nearly 10 percent a year since 1998, a trend which promises

to continue into the near future given the increased costs for prescription drugs and outpatient care. Conversely, COLAs have only increased by 2.38 percent for CSRS and 1.96 percent for FERS over the last 5 years. It is critical for annuitants to receive relief since they have been forced in recent years to shoulder increasingly high health insurance and prescription drug costs on their average monthly annuity of \$1869 and average annual annuity of \$22,428. It has been estimated that my legislation would result in a savings of approximately \$434 a year. For some, this could mean an annual utility bill or car insurance payment, for others it could mean airfare to see their family. Regardless of the choice, a modest amount of money to those on a fixed income will have a substantial impact.

In addition, this legislation is important to establish parity between employees and retirees. OPM made administrative changes and began offering premium conversion plans to executive branch employees in October of 2000 and Congress extended the tax benefit to legislative branch workers in January 2001. This option must be made available to those whose income is fixed and whose medical costs are on average much higher than current employees. In fact, yesterday the House reaffirmed parity between retirees and current employees with the passage of my legislation,

H.R. 2631. This legislation represents the federal government's commitment that our annuitants will remain on equal footing with current employees with regard to prescription drug benefits. This commitment must also be made in terms of providing the premium conversion benefit to our annuitants.

In conclusion, now more than ever is the time to show our appreciation to those men and women who have and continue to dedicate their lives to our nation and our ideals. Our nation's tax code, although arcane and complex, has many built-in incentives that assist individual taxpayers in areas our nation holds most dear, such as education, philanthropy and healthcare. I can think of few priorities as dear as providing appropriate healthcare for our retirees and our active duty military. It is my hope that this legislation will be enacted in the 108th Congress, and I will continue to work to ensure its passage. I appreciate the Subcommittee taking a look at this issue today and look forward to working with all of you as we remain vigilant in our efforts to provide the best for our federal civilian and military employees and annuitants.