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Health Care Reform: The Federal Employees Health Benefits Program

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HEALTH CARE REFORM: THE FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM

SUMMARY

The Federal Employees Health Benefits program (FEHBP) provides voluntary health insurance coverage for over 9 million Federal Government employees, annuitants (i.e., retirees), and their dependents at a total estimated annual cost of $17.7 billion for FY 1995. The program is authorized by the Federal Employees Health Benefits Act of 1959 (P.L. 86-382), as amended, and has been in operation since July 1, 1960. FEHBP was created to help attract and retain competent personnel by offering employee health benefits. Prior to the enactment of FEHBP, many private employers were providing health benefits to their employees while the Federal Government was not.

FEHBP covers most civilian Federal employees, annuitants and their dependents. Employees and annuitants enroll voluntarily in FEHBP and may end their enrollment at any time. An employee is defined as an individual who is appointed or elected to a position in the executive, legislative, or judicial branch of the U.S. Government, including individuals first employed by the municipal government of the District of Columbia before October 1, 1987; employed by Government-owned or controlled corporations; or employed by Gallaudet College.

FEHBP is unusual when compared to health care coverage provided by most private employer plans because the FEHBP enrollee has a choice among many health plans with varying levels of benefits and premiums. Several FEHBP plans offer more than one benefit package, a high option and a "standard" (low) option. In total, over 300 plans participate in FEHBP, providing approximately 320 possible options.

The Federal Government and enrollees jointly pay for the cost, or premiums, of the FEHBP plans, according to a statutory formula. In 1994, the Government will pay approximately 72 percent of the average premium for employees (excluding U.S. Postal Service employees) and all annuitants. The employees and annuitants will be responsible for the remaining 28 percent of the average premium.

During the current health reform debate, many experts have pointed to FEHBP as a plan deserving to be either replicated in the private sector or expanded to include private sector employers. Some advocates of managed competition have used FEHBP as an illustration of how managed competition might work. Some of the positive health insurance coverage features attributed to the program include the requirements that FEHBP plans offer coverage at group rates to all enrollees, are not allowed to turn down anyone on the basis of a preexisting health condition, and participants are free to enroll in a plan of their choice during an annual open season enrollment period from among the more than 300 private sector health plans participating in the program. Yet some of the health reform bills introduced in the 103rd Congress, including the Administration's Health Security Act (H.R. 3600/S. 1757), would eliminate FEHBP. Other proposals would require FEHBP to standardize the benefit package to conform with proposed health insurance reforms, and still other proposals would require FEHBP plans to accept certain non-governmental small employers. This report provides a brief overview of FEHBP under current law and brief descriptions of proposed changes to the existing program included in various bills introduced in the 103rd Congress.

TABLE OF CONTENTS

INTRODUCTION 1

BACKGROUND 1
Eligibility and Participation 2
Plans and Options 3
Financing 4
Administration 4

LEGISLATION IN THE 103rd CONGRESS 5
Bills Eliminating FEHBP 5
Bills Modifying FEHBP 6
Legislation to Expand FEHBP 8
Prefunding the Government's Share of Federal Retirees' Health Insurance . . 10
CBO Analysis of Health Reform Legislation 10

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INTRODUCTION

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During the current health reform debate, many experts have pointed to FEHBP as a plan deserving to be either replicated in the private sector or expanded to include private sector employers. Some advocates of managed competition[1] have used FEHBP as an illustration of how managed competition might work. Some of the positive health insurance coverage features attributed to the program include the requirements that FEHBP plans offer coverage at group rates to all enrollees and are not allowed to turn down anyone on the basis of a preexisting health condition, and participants are free to enroll in a plan of their choice during an annual open season enrollment period from among the more than 300 private sector health plans participating in the program. Yet some of the health reform bills introduced in the 103rd Congress, including the Administration's Health Security Act (H.R. 3600/S. 1757), would eliminate FEHBP. Other proposals would require FEHBP to standardize the benefit package to conform with proposed health insurance reforms, and still other proposals would require FEHBP plans to accept certain non-governmental small employers. This report will provide a brief overview of FEHBP under current law and brief descriptions of proposed changes to the existing program included in various bills introduced in the 103rd Congress.

BACKGROUND

FEHBP provides health insurance coverage for over 9 million enrollees and dependents at an annual estimated cost of $17.7 billion in FY 1995. The basic structure of FEHBP has undergone relatively few changes since the program went into operation over thirty years ago. The future of FEHBP is of concern to a diverse and often divergent group of interests, including enrollees, the Federal Government as employer and

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[1]Managed competition is a proposal to reform the health care system to create an environment in which consumers would choose from among a variety of competing health plans and would be given financial incentives to select the most cost-effective plan.

administrator of the program, insurers, and Federal employee unions and organizations. As a part of the larger health reform debate, the Congress may have to decide the future of FEHBP.

Eligibility and Participation

In 1994, there are over 9 million individuals covered by FEHBP: 2.3 million active employees, 1.7 million annuitants, and 5 million dependents. In the same year, approximately 72 percent of Federal employees and annuitants are enrolled in FEHBP. The remaining 28 percent are either ineligible or had waived FEHBP coverage, including 500,000 annuitants who did not participate and 450,000 employees who waived coverage.[2]

FEHBP covers most civilian Federal employees, annuitants and their dependents. Employees and annuitants enroll voluntarily in FEHBP and may end their enrollment at any time. An employee is defined as an individual who is appointed or elected to a position in the executive, legislative, or judicial branch of the U.S. Government, including individuals first employed by the municipal government of the District of Columbia before October 1, 1987; employed by Government-owned or controlled corporations; or employed by Gallaudet College.

Coverage is also provided for the following individuals, who are required to pay the total premium amount including the Government share: certain former spouses of employees and former employees and annuitants, and certain temporary employees who have completed 1 year of current continuous employment. In addition, individuals whose FEHBP coverage terminates under certain circumstances are eligible for temporary continuation of coverage. Such individuals pay the total plan premium (including the Government share) plus 2 percent of the premium costs to cover the cost of administration. Continuation of coverage is available for involuntary or voluntary separation (for 18 months), a child who loses eligibility (36 months), and a former spouse not eligible under the Spouse Equity or similar statute (36 months).

Certain annuitants and survivor annuitants (i.e., family members of a deceased employee or annuitant) also are covered by FEHBP. They pay the same premiums and receive the same benefits as active employees enrolled in the same plan.[3] An employee is eligible to continue enrollment into retirement if (1) the employee retired under a retirement system for civilian employees of the Federal Government or the District of

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[2]Some Federal workers and annuitants waive FEHBP coverage because they have other health insurance coverage provided by the employer of a spouse. Some younger, healthy, and/or lower-wage workers might decide to waive health insurance coverage under FEHBP in order to use the income for other purposes. Certain temporary employees, and retirees not participating in FEHBP during the 5 years prior to retirement are ineligible.

[3]Annuitants participate in FEHBP on the same basis as employees, except that FEHBP plans waive their cost-sharing requirements (e.g., deductibles, coinsurance) for annuitants who also have Medicare coverage. However, since many FEHBP annuitants (70 percent) become covered by Medicare when the reach age 65, they become less costly to insure since Medicare becomes the primary payer, with FEHBP plans covering remaining expenses.

Columbia; (2) the employee retires with an immediate annuity (one that begins within 1 month after the separation date); and (3) the employee was enrolled or covered as a family member in FEHBP for the 5 years of service immediately preceding retirement or, if fewer than 5 years, for all service since the first opportunity to enroll in FEHBP. Survivor annuitants who were covered under a family enrollment may continue their coverage after the death of the employee or annuitant.

An individual may enroll in either *self only* coverage, or in *self and family* coverage which covers the enrollee and his/her dependents. Enrollees may change from *self and family* enrollment to *self only* enrollment at any time. However, other coverage changes can be made only at specified times (e.g., when marital status changes) or during the annual open enrollment period (known as *open season*).

Plans and Options

FEHBP is unusual when compared to health care coverage provided by most private employer plans because the FEHBP enrollee has a choice among many health plans with varying levels of benefits and premiums. Several FEHBP plans offer more than one benefit package, a high option and a "standard" (low) option. In total, over 300 plans participate in FEHBP, providing approximately 320 possible options. Because of certain restrictions described below, enrollees actually choose from a minimum of 18 to a maximum of about 35 options.

The FEHBP statute prescribes the three major types of plans which OPM may contract for or approve:

- **Governmentwide Plans**, which, since 1990, includes only a Service Benefit Plan administered by the National Blue Cross and Blue Shield Association.[4] This plan is open to all Federal employees and annuitants and offers a high and standard option.

- **Employee Organization Plans**, which are sponsored by employee organizations or unions and are open only to employees or annuitants who are, or who become, members of the sponsoring organization. Some Employee Organization Plans are open only to employees in certain occupational groups and/or agencies, while others are open to all who join the organization. Normally a membership fee is charged, in addition to the health plan premium. In 1994, there are 14 such plans in FEHBP, 7 of which are open to all Federal employees. Three Employee Organization Plans offer two options.

- **Comprehensive Medical Plans**, or health maintenance organizations (HMOs), which provide or arrange for health care by designated plan physicians, hospitals, and other providers in particular geographic

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[4]Prior to 1990, a second government-wide plan was offered, an Indemnity Benefit Plan administered by the Aetna Life Insurance Company.

locations. There are about 200 HMOs in FEHBP in 1994. Approximately 15 participating HMOs offer two options.

Financing

The Federal Government and enrollees jointly pay for the cost, or premiums, of the FEHBP plans, according to a statutory formula. The Government's portion of each enrollee's premium is a fixed dollar amount equal to 60 percent of the average of the high option premiums for what are commonly known as the *Big Six* plans. The *Big Six* average is currently calculated using the premiums for the government-wide plan (Blue Cross/Blue Shield) and a proxy premium based on Aetna's 1989 premium updated by the annual change in the premiums of the five remaining *Big Six* plans; the two Employee Organization Plans with the largest number of enrollees (in 1994, GEHA and Mail Handlers); and the two HMOs with the largest number of enrollees (in 1994, Kaiser of Northern California and Kaiser of Southern California). Separate averages are calculated for self only and for family coverage. The Government contribution cannot exceed 75 percent of any plan's premium. In 1994, the Government will pay approximately 72 percent of the average premium for employees (excluding U.S. Postal Service employees) and all annuitants. The employees and annuitants will be responsible for the remaining 28 percent of the average premium.

The U.S. Postal Service (USPS), under a collective bargaining agreement negotiated with its employees, pays a higher percentage of total FEHBP plan premiums than does the Federal Government. The USPS share for its employees is 75 percent of the *Big Six* average premium, not to exceed 93.75 percent of any plan's premium. In 1994, the USPS share is 89 percent of the average premium for postal employees. USPS employees are responsible for the remaining 11 percent of the average premium.

The combined Federal Government and USPS average premium contribution for both nonpostal and USPS employees and all annuitants is 72 percent in 1994, with the enrollees paying the remaining 28 percent. However, the share that the Government contribution represents of any particular plan's premium varies from 29 to 93.75 percent because the Government's contribution is relatively fixed while the FEHBP plan premiums vary widely.

Administration

FEHBP is administered by the Office of Personnel Management (OPM). OPM approves qualified plans for participation in the program, negotiates yearly with plans to determine benefits and premiums for the following year, manages the FEHBP premium payments, and makes available information concerning plan options.

The Federal employing agencies pay from their appropriations the Government's share of the FEHBP premiums for their employees and supervise most health insurance activities for their employees according to procedures prescribed by OPM. OPM is responsible for health insurance activities for all annuitants, including payment of the Government's share of annuitants' premiums from OPM's appropriations. The cost to

administer FEHBP by OPM was $21.3 million in FY 1994, which represents 0.138 percent of benefit payments in that year.[5]

LEGISLATION IN THE 103rd CONGRESS

Several bills have been introduced during the 103rd Congress that would affect FEHBP. Some would eliminate the program entirely, while others would make modifications to the existing program to standardize certain features of FEHBP and bring the program in line with health insurance coverage provided by other private insurers affected by proposed health insurance reforms. One bill would expand FEHBP to allow small employers and their employees to participate in FEHBP plans. In addition, some health reform proposals would require Federal agencies to *prefund* health insurance benefits for annuitants. Brief descriptions of these bills with provisions affecting FEHBP follow.

Bills Eliminating FEHBP

The Administration's Health Security Act (H.R. 3600/S. 1757) would establish regional health alliances which would serve as the intermediary between consumers and private health plans for most Americans. The bill would terminate FEHBP on December 31, 1997, requiring Federal employees and annuitants to purchase their health insurance through the regional alliance serving the area where they reside beginning January 1, 1998.[6] The USPS would be allowed to separate from FEHBP and form its own corporate alliance. The bill would require all employers, including the Federal Government, to contribute 80 percent of employee premiums. OPM would be required to provide a supplemental health plan for current annuitants to insure that annuitants would receive the same benefits after enactment that they were receiving under FEHBP. OPM would also be given the authority to establish supplemental health insurance plans for active workers and future annuitants covered under the regional alliances. OPM would also be required to establish by regulation a health insurance program for Federal employees residing abroad after the termination of FEHBP.

The proposal introduced by Representative McDermott and Senator Wellstone, the American Health Security Act (H.R. 1200/S. 491), would eliminate the current private health insurance system and create a single-payer system to be operated by States with Federal funding. Under the bill, FEHBP would be eliminated and all Federal employees, annuitants, and their dependents would be eligible for the same comprehensive set of benefits provided for all U.S. citizens and legal residents.

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[5]U.S. Office of Management and Budget. *Budget of the United States Government Fiscal Year 1995*. Washington, GPO, 1994. Appendix. p. 837.

[6]For more information on the Administration's plan, see U.S. Library of Congress. Congressional Research Service. *Health Care Reform: President Clinton's Health Security Act*. CRS Report for Congress No. 93-1011 EPW, by Beth C. Fuchs and Mark Merlis. Washington, 1993.

Proposals to eliminate FEHBP raise the question, why get rid of a program that is operational and often touted as a model for other health reform proposals? Eliminating FEHBP would mean redistributing over 9 million currently insured persons who are reportedly largely satisfied with the types of health insurance coverage that is currently available to them. Opponents of this measure point to the provision of the Administration's plan that permits large employers of 5,000 or more employees to opt out of participation in the regional alliances. In addition, the President's plan would allow the USPS, which is currently covered through FEHBP, to separate from the remaining Federal workforce and form a separate corporate alliance. Some question why nonpostal FEHBP enrollees are not allowed to also form a separate corporate alliance under the bill. Moreover, many Federal workers and their unions are concerned that the benefits offered by plans in regional alliances may differ and be less generous than the health insurance coverage provided under FEHBP. This concern remains despite the provision in the Clinton bill requiring employers to contribute 80 percent of an employees premium, which would represent an increase over the current Federal Government contribution which averages around 72 percent of the premium.

Many analysts say that the proposed elimination of FEHBP is largely motivated by the concern that Federal workers, including Members of Congress and senior Administration officials, might be perceived by the public as having better benefits in a separate program and should be included in the same program that would cover most Americans. Others argue that the more than 9 million FEHBP enrollees represent a significant proportion of some communities, particularly in largely rural or low-population density States, and reforms that rely on large community-rated insurance pools (alliances or purchasing cooperatives) would need to incorporate as many people as possible to achieve certain economic efficiencies and the broad spread of health risks. In such States, allowing Federal enrollees to opt out of their area health insurance pools could have significant implications for pool premiums.

Bills Modifying FEHBP

The Managed Competition Act of 1993 (H.R. 3222/S. 1579), introduced by Representative Cooper and Senator Breaux would leave FEHBP largely intact, with some modifications to the program. First, the bill would require all open accountable health plans (AHPs)[7] to enter into a contract with OPM to offer coverage under FEHBP. Second, beginning January 1, 1995, health plans would only be allowed to participate in FEHBP if they were an AHP, and the amount of the Federal Government contribution under FEHBP would be subject to certain limits: (1) the amount of the Federal contribution would be the same for any premium class for all AHPs in a health plan purchasing cooperative (HPPC) area; (2) for any individual in a premium class, the

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[7]H.R. 3222/S. 1579 defines an open AHP as a health insurance plan required to cover a uniform set of benefits, comply with premium rating standards, and limit preexisting condition restrictions. Open AHPs would enter into agreements with health plan purchasing cooperatives (HPPCs) in a State to offer coverage to all eligible enrollees including individuals and employees of small firms. They differ from a closed AHP, which is defined as a plan that is limited by structure or law to one or more large employers.

Federal contribution would be limited to the lowest premium established by any open AHP in a HPPC area; and (3) in the aggregate, for any year, the Federal contribution could not exceed the aggregate contribution that would have been made if this provision of the bill had not been enacted. Finally, the bill would require Federal government agencies within the executive branch to *prefund* government health benefits contributions for their annuitants (see below).

The Consumer Choice Health Security Act of 1993 (H.R. 3698/S. 1743), introduced by Representative Stearns and Senator Nickles would eliminate the current exclusion of employer-paid health benefits from employees' taxable income, and provide instead direct tax credits for the purchase of individual coverage. The bill would require employers that provide their employees health insurance coverage to "cash out" the benefits; that is, offer employees the option of converting the value of their existing coverage to taxable wages. Employees would then have the choice of continuing to purchase their exisitng health insurance through their employers or purchasing coverage through other plans that better suited their needs. For FEHBP enrollees, the Commission would be required to report to Congress by not later than one year after enactment of the bill on a similar proposal that would allow Federal workers to cash out their health insurance benefits. The proposal would then be considered by Congress under the procedures for consideration of an *approval resolution* described by the bills.

The provision to limit the Federal Government contribution proposed by the Cooper/Breaux bill is one obvious concern for Federal workers. When compared to health benefits offered by private sector business, the evidence indicates that the Federal Government continues to lag behind large employer plans which compare more favorably in employee health insurance benefits. The effect of the contribution limit on FEHBP premiums is unclear. Under the Cooper/Breaux proposal, the Federal contribution might pay 100 percent of the lowest cost plan, compared to the current average contribution of 72 percent of employee premiums. If the Federal contribution limit fell below current levels, employees might have to select health insurance offering less generous benefits than they currently have under FEHBP. Although the bill would provide for more plan choice in FEHBP by requiring that all AHPs enter into contracts with OPM to participate in FEHBP, this might be expected to place a significant administrative burden on OPM as administrator of Federal benefits. The rationale for the Cooper/Breaux proposal to expand plan choice in FEHBP may be viewed by some opponents as adding to the longstanding criticism of FEHBP that with over 300 plans currently participating in the program, most enrollees are overwhelmed and confused by too much choice in the current program to make rational, cost-effective insurance decisions. However, the Cooper/Breaux bill would standardize benefits, which could perhaps make the choice of health plans easier by simplifying benefit comparisons among plans. In addition, the bill would fix the current problem in FEHBP of national plans offering one national rate while local HMOs offer local rates. Under Cooper/Breaux, all plans would offer local area rates, allowing for fairer price comparisons between national plans and local plans.

The Nickles/Stearns proposal to study the possibility of offering a cash-out option for FEHBP enrollees could be criticized for encouraging less rather than more employer financial responsibility in ensuring the coverage of employees and their dependents.

Critics argue that *cash outs* would be hard to enforce and would result in higher costs to employees. Proponents of the bill would argue that the bill is designed to make individuals (not employers) choose plans and make them more price-conscious in deciding between wages and health insurance benefits. In addition, the provision of tax credits might result in more generous support than is currently available for low-wage employees, while providing a less generous benefit for high-wage employees.

Legislation to Expand FEHBP

On March 24, 1994, Senator Roth introduced the Federal Health Care Expansion Act of 1994, S. 1978. One of the purposes of the bill would be to expand the current FEHBP to allow small employers with 100 or fewer employees (including businesses with one self-employed individual) meeting certain requirements to offer their employees access to health insurance coverage under FEHBP plans at the same total premium rates as Federal enrollees (including individual and government contribution). The buy-in of small employers would be phased-in over a 5-year period, beginning with businesses that have between 75 and 100 employees in the first year, 50 to 74 employees in the second year, 1 to 49 employees in the third year, and after the fourth year, would be open to any small business.

In the first year of the small business FEHBP buy-in, each carrier enrolling small business participants would be required to ensure that the number of such enrollees was no less than 5 percent of the number of Federal employees enrolled under FEHBP. In the second year, the number of small business enrollees would be required to be no less than 20 percent of the number of Federal enrollees, with the required enrollment percentage increasing to 40 percent in the third year of the buy-in and 60 percent in the fourth year and 80 percent in the fifth year.

Small employers would be required to enter into contracts with an FEHBP carrier for no less than 1 year. In the first year of the phase-in, a small employer with between 75 and 100 employees would be allowed to participate in a FEHBP plan if the employer could ensure that at least 80 percent of its employees would enroll in the plan. During the 5-year phase-in, if during a contract year more small businesses applied to participate in FEHBP than the percentage allowed by the bill, carriers would be required to randomly select small businesses for participation from all applications, while ensuring that at least 50 percent of these randomly selected small businesses were not offering any type of health insurance benefits to its employees. This requirement could be waived if it was determined that there was insufficient interest in participating in FEHBP among small employers in a region.

Individuals enrolled in a health benefits plan would be required to pay the health plan premium of an amount equal to the contributions made by both the Federal Government and Federal employee. Employers could by contract agree to make any amount of the contribution on behalf of an employee toward the premium cost, and a State government agency could also contribute any portion of an enrollee's premium payment. The Secretary of Health and Human Services (HHS) could also subsidize the premium of low-income enrollees (with eligibility criteria to be determined by the Secretary) in a budget

neutral manner, financed by reductions in the Medicare and Medicaid disproportionate share hospital payments which are intended to compensate hospitals for part of the costs associated with treating a disproportionate number of low-income persons.

S. 1978 would also expand the existing continuation of health insurance coverage provisions for Federal workers under FEHBP from 18 months to 36 months of coverage following involuntary separation. Small employer enrollees in FEHBP would also be eligible to receive up to 36 months of continuation of health insurance coverage.

One year after enactment and for each of the next 4 years, each participating carrier (i.e., insurer) would be required to report to OPM by January 30 on the aggregate costs of coverage of Federal employees and others originally covered under FEHBP compared to the costs of covering employees of small businesses. Not later than 2 years after enactment, OPM would be required to conduct a study and submit a health benefits plan risk adjustment report to the Congress which would include: 1) the feasibility of risk adjusting premiums by the use of subsidies and surcharges to hold carriers harmless for enrollment risks, based on demographic variables; 2) the risk adjustment factors that are correlated with increased or diminished risk for consumption of the type of health services included in the standardized level of benefits established by the bill for Federal and nonfederal FEHBP enrollees; 3) a formula for assigning numerical risk factors for lower than average, average, and higher than average risk for consumption of services, and a methodology for the adjustment of these risk factors; and 4) any recommendations for the enactment of legislation.

The Secretary of HHS would also be required to study how nonworkers and employees of employers not covered by the bill could be incorporated into the FEHBP buy-in. The Secretary would be required to report the results of this study and any appropriate legislative recommendations to the Congress no later than 2 years after enactment.

The bill also provides for reforms in the small group health insurance market, including limits on medical underwriting, restrictions on the variations in rates an insurer may charge to small groups for the same benefits, and standardization of benefit packages.

Proponents may argue that the Roth bill advances several important positive features as a health reform proposal. These features include: (1) building on an existing program that has been in operation for over 30 years and does not require any new bureaucracy; (2) providing access to health insurance coverage to small employers at large group rates; and (3) expanding health coverage to the uninsured that is the same as what Federal workers and elected officials receive and offering benefits comparable to those provided by large employers.

However, S. 1978 does not require employer contributions toward the purchase of health insurance, and some experts question whether employees of small businesses would find FEHBP coverage affordable at 100 percent of the premium costs. Since the bill does not specify the level of low-income subsidies for workers and provides limited financing for the subsidies, it is difficult to determine how many of the currently uninsured would

benefit from such a proposal. Moreover, the willingness and/or capacity of health plans currently participating in FEHBP to expand coverage to employees of small businesses remains a concern.

The Roth proposal to expand access to coverage under FEHBP to small employers raises a number of concerns for Federal employees. One primary concern would be the effect on premium costs for Federal enrollees resulting from the entry of employees of small businesses. Many argue that there would be adverse selection against FEHBP plans as small businesses who are currently unable to obtain affordable health insurance for workers because of preexisting conditions and insurance company underwriting practices move into FEHBP. Adverse selection might result in increased premiums for all FEHBP enrollees. Proponents might argue that such adverse selection would be limited because of the more general reforms in the small group insurance market established under the bill, and the phased-in expansion of small firms into FEHBP.

Prefunding the Government's Share of Federal Retirees' Health Insurance

Several health reform bills introduced in the 103rd Congress include provisions that would require Federal Government agencies within the executive branch that have receipts and disbursements which are not generally included in the totals of the U.S. budget (such as the USPS and the Tennessee Valley Authority (TVA)), to prepay the Government contributions which are, or will be required, to fund health benefits coverage for annuitants. These bills include H.R. 3080/S. 1533 (Michel/Lott); H.R. 3222/S.1579 (Cooper/Breaux); and H.R. 3955 (Rowland).

In the Congressional Budget Office (CBO) 1993 analysis of the Federal budget deficit reduction options and proposals, CBO estimated that this type of provision would have no budgetary effect for most Federal agencies and would simply represent transactions between accounts within the Federal budget.[8] However, for government enterprises (such as the USPS, the TVA, and various public power administrations), a requirement to prefund retirees' health benefits would result in near term reductions in the Federal budget deficit as these types of entities would be required to incur higher current costs of operations in order to make deposits into a health benefits fund for future annuitants. Most of the savings would come from the labor-intensive Postal Service and would not be expected to save the Federal Government much money over the long term, according to CBO's analysis.

CBO Analysis of Health Reform Legislation

CBO has not published a detailed analysis of the budgetary and economic impact of many of the health reform proposals introduced in the 103rd Congress. In February 1994, CBO published an analysis of the Administration's health reform proposal, H.R. 3600/S. 1757. The CBO report does not provide a detailed estimate of the costs or savings of the Administration's proposed changes to FEHBP. However, the study does report that

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[8]CBO did not include this proposal in their 1994 report on options and proposals to reduce the Federal deficit.

FEHBP would save money from premium limits set by the bill which would slow the growth of the program's spending, and from being relieved of part of its responsibility for subsidizing the health benefits of retirees.[9]

CBO's analysis of the Cooper/Breaux bills, released on May 4, 1994, also did not contain any estimate of cost or savings resulting from changes to FEHBP. However, because the Cooper/Breaux proposal would require plans participating in FEHBP to be AHPs, in the event of a budgetary shortfall in the low-income subsidies provided by the bill, FEHBP plans might experience shortfalls in premiums for low-income enrollees.[10] If a FEHBP plan had significant losses as a result of these subsidy shortfalls, the plan might raise premiums for all enrollees to cover the average system wide shortfall. This could result in higher premiums for FEHBP enrollees in future years.

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[9]U.S. Congressional Budget Office. *An Analysis of the Administration's Health Proposal.* Washington, GPO, 1994. p. 35.

[10]U.S. Congressional Budget Office. *An Analysis of the Managed Competition Act.* Washington, GPO, 1994. p. 42.