CATCHING UP: BENEFITS THAT WILL HELP RECRUIT AND RETAIN FEDERAL EMPLOYEES

HEARING

BEFORE THE

SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE, AND THE DISTRICT OF COLUMBIA

OF THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

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CATCHING UP: BENEFITS THAT WILL HELP RECRUIT AND RETAIN FEDERAL EMPLOYEES

TUESDAY, APRIL 29, 2008

HOUSE OF REPRESENTATIVES, ,
SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE, AND THE DISTRICT OF COLUMBIA, ,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM, ,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:04 p.m., in room 2154, Rayburn House Office Building, Hon. Danny K. Davis (chairman of the subcommittee) presiding.

Present: Representatives Davis of Illinois, Norton, Cummings, and Kucinich.

Staff present: Lori Hayman, counsel; and Marcus A. Williams, clerk/press secretary.

Mr. DAVIS OF ILLINOIS. The subcommittee will now come to order. Unfortunately, Mr. Marchant's plane is delayed a little bit and so he may not arrive. At any rate, though, we welcome you to the Federal Workforce, Postal Service, and the District of Columbia hearing on the Thrift Savings Plan and Federal Employees Health Benefits plan.

The chairman and ranking member and subcommittee members will each have 5 minutes to make opening statements, and all Members will have 3 days to submit statements for the record. And hearing no objection, that will be the order.

Today the subcommittee is holding hearings on two issues that will ultimately benefit the retirement and health of enrollees in the Thrift Savings Plan and the Federal Employees Health Benefits Plan respectively. Under the current law, newly hired Federal employees and members of the Uniformed Services can elect to contribute to the TSP.

The first hearing panel will discuss the legislation that would authorize the automatic enrollment of new and rehired employees and members of the Uniformed Services in the TSP. Automatically enrolled participants who want to stop participation and have their contributions returned would have a 90-day period from the date of deposit of the first contributions in his or her TSP account to terminate contributions.

Automatic enrollment will go a long way in improving the saving habits of Federal employees. Currently, a new participant account established in the TSP is defaulted to a 100 percent investment in the G-Fund.

The TSP panel hearing will also discuss legislation that would change the default investment fund from the G-Fund to an age-appropriate Lifecycle Fund, the L-Fund. While the G-Fund provides protection against investment loss, long-term investment solely in the G-Fund is unlikely to provide returns sufficient to meet requirement needs.

Young adults are the fastest growing age group among the uninsured. Almost 400,000 young adults, younger than 23 years old, will be uninsured upon graduating from college. This is due to the overwhelming amount of individuals who will be cutoff from their parents' or university's health insurance plan.

A report by the Commonwealth Fund, a private foundation that aims to promote a high-performing health care system in the United States showed that two out of five college graduates are uninsured after they leave school.

The second hearing panel will discuss covering young adult dependents between the ages of 22 and 25 under the FEHBP. Last month, I introduced H.R. 5550 to raise the age young adults would qualify for health insurance under the FEHBP from 22 to 25 years of age.

As many of you know, cost is a key factor in what legislation will be brought to the House floor for consideration. It was just a few weeks ago that members were debating at the subcommittee and full committee markups whether the possible costs associated with legislation that would provide maternity leave for Federal and congressional staff was worth the cost.

Following this hearing, I will offer an amendment in the nature of a substitute to H.R. 5550 that will address the cost associated with the bill, while preserving coverage for young adults.

I ask unanimous consent that the written statements of the Federally Employed Women and the Retirement Security Project be included in the record.

[The information referred to follows:]

www.few.org

1666 K Street NW, Suite 440
Washington, DC 20006
202/898-0994
fax 202/898-1535

WRITTEN TESTIMONY OF THE

FEDERALLY EMPLOYED WOMEN (FEW)

HOUSE SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE AND THE DISTRICT OF COLUMBIA

HEARING ON "Catching Up: Benefits That Will Help Recruit and Retain Federal Employees"

April 29, 2008

Federally Employed Women (FEW)
1666 K Street, NW
Suite 440
Washington, DC 20006
(202-898-0994)
www.few.org

FEW is a private, non-profit organization founded in 1968 after Executive Order 11375 – that added sex discrimination to the list of prohibited discrimination in the federal government – was issued. FEW has grown into an international organization serving the one million federally employed women (both civilian and military). FEW is the only organization dedicated solely to eliminating sex discrimination in the federal workplace, and the only organization that monitors legislation particularly of concern to women employed in the federal government.

INTRODUCTION

Federally Employed Women (FEW) very much appreciates the opportunity to submit this written statement in support of HR 5550 that increasing the maximum age to qualify for coverage as a "child" under the health benefits program for federal employees.

BACKGROUND

FEW is a private, non-profit organization founded in 1968 after Executive Order 11375 – that added sex discrimination to the other forms of discrimination prohibited in the federal government – was issued. The early organizers of FEW realized that the government could dismantle the Federal Women's Program (FWP) that was established after E.O. 11375 was issued within most Federal agencies. They wanted to ensure that there would always be an organization dedicated to promoting equality for women and addressing concerns of women in the Federal workforce.

As a private organization, FEW works as a constructive pressure group to improve the status of women employed by the Federal government. This includes contact with Congress to encourage progressive legislation. FEW national officers also meet with agency officials at all levels to demonstrate support of the FWP, encourage officials to support the program and to obtain insight on the effectiveness of the FWP at agency and local levels. FEW has been called on in past years to testify before Congress on sexual discrimination, Senior Executive Service (SES) diversity and sexual harassment cases.

For almost 40 years, Federally Employed Women has been working to end sexual discrimination and enhance opportunities for the advancement of women in government. Every day, nationwide, FEW members work together to bring about an awareness of the issues facing women throughout the federal government and achieve positive reforms and equality for women in the federal workplace. In addition, FEW members support all efforts within the government to improve operations and efficiencies in the federal workforce.

SUPPORT FOR CHANGE

FEW's members support increasing the age from 22 to 25 of federal worker children to receive health benefits under their parent's plan. Especially in times similar to this when our economy is slowing and jobs are hard to find, these children should not be forced out of any health care system. Many of them will have just graduated from college, and therefore will be trying to pay of student loans. The last thing they need to worry about is how to pay any medical bills they might incur.

Additionally, parents should have the option of keeping their children on their plans until they find a job and can afford to pay for health care on their own. Federal workers who happen to be parents of new graduates will be much more productive and focused in the workplace if they are not worried about their children's health and economic well-being.

Finally, as an added benefit for federal workers, this change should help recruit and retain more federal workers. FEW remains very concerned about the future of our federal workforce – especially considering the very high numbers of retirements expected over the next five years. Without new employees being hired now, we will not have enough experienced and skilled managers five years from now.

Additionally, we need to ensure that enough workers are employed in the federal government so that the essential services they provide to all Americans will not be interrupted – from disbursing Social Security payments and benefits to protecting our nation, delivering the mail and helping the needy across the United States. Without an influx of new federal workforce recruits, these services, as well as hundreds more, will be in serious jeopardy.

Again we very much appreciate the Chairman's interest in improving benefits for all federal workers and all the support all the Subcommittee members have given them in the past. The members of FEW firmly believe that this change could help fill the ever-increasing gap in our federal workforce.

The Retirement Security Project RSP

June 18, 2007

By Facsimile

Federal Retirement Thrift Investment Board
1250 H Street, N.W.
Washington, D.C. 20005

Attention: Gregory T. Long, Executive Director

Re: Automatic Enrollment

Dear Greg:

We are writing to follow up on our meetings and other conversations with you, your predecessor as Executive Director, Gary Amelio, and your colleagues, including Tom Trabucco, Penny Moran and Tracey Ray, over the past several years regarding automatic enrollment in private sector 401(k) plans and the possibility of instituting automatic enrollment and other automatic features (such as default investment) in the federal Thrift Savings Plan.

As we have discussed on previous occasions, the evidence shows that automatic features in 401(k) plans are significantly improving the saving habits of American workers and, accordingly, are spreading rapidly. Moreover, my colleagues and I at the Retirement Security Project believe these approaches have great potential to raise our nation's personal savings rate. Most importantly, for reasons that we have discussed (and that I discussed with Gary Amelio in 2005 and with his predecessor years earlier), automatic enrollment and related automatic features would serve the interests of actual and potential participants in the Thrift Savings Plan (TSP).

While a plan participation rate in the neighborhood of 86 or 87 percent of eligible employees is quite good, the excellent experience of many private-sector 401(k) sponsors with automatic enrollment suggests that there is every reason to expect TSP participation to increase meaningfully if automatic features were adopted for the TSP. In a plan with more than 4 million eligible employees, every percentage point increase in participation would benefit tens of thousands of families. Even a moderate increase to 90% participation in the TSP, for example, might enhance retirement security for more than 100,000 households – many of them families of moderate means -- who are not in the saving and investment system

The Retirement Security Project is supported by The Pew Charitable Trusts in partnership with Georgetown University's Public Policy Institute and The Brookings Institution.

today. As you know, the President's Tax Reform Panel recommended that the TSP adopt automatic enrollment, and the concept also was favorably received in your recent TSP participant survey.

In the late 1990s, when my colleagues and I at the US Treasury Department first began to encourage the TSP staff to consider automatic enrollment, it was a somewhat novel concept, and TSP staff were not yet interested. We are pleased that, in the past two to three years, in discussions with the Retirement Security Project and in other forums, you and your colleagues have been open to considering the concept and have engaged in a thoughtful, deliberative process. As you continue to consider adoption of automatic features and work through the related issues, we would like to reiterate our offer to assist you, the Board, and your staff in any way you or they might find helpful.

Yours sincerely,

J. Mark Iwry /gwm

J. Mark Iwry
Principal
The Retirement Security Project

Mr. DAVIS OF ILLINOIS. I want to thank all of the witnesses for coming and being willing to participate and all of you for being here.

I'm going to ask Representative Norton if she has any opening comments she would like to make.

Ms. NORTON. No, Mr. Chairman, no opening comments.

Mr. DAVIS OF ILLINOIS. Thank you very much.

Then we'll proceed to our first panel of witnesses, and I will introduce the witnesses. Mr. Greg Long serves as the director of product development for the Federal Investment Board, which is the agency responsible for administering the Thrift Savings Plan for Federal employees. Prior to working for the Federal Retirement Investment Board, Mr. Long served as director of marketing for the American Bar Association retirement funds with City Street.

And Mr. Richard Brown is the current vice chairman of the Employee Thrift Advisory Council. In addition to his role on the Advisory Council, Mr. Brown is the president of the National Federation of Federal Employees.

Gentlemen, thank you both. And if you would stand and raise your right hands and be sworn in.

[Witnesses sworn.]

Mr. DAVIS OF ILLINOIS. The record will show that the witnesses answered in the affirmative. So we thank you gentlemen very much, and we'll begin with you, Mr. Brown. Of course, we know the 5-minute statement period. The yellow light indicates that a minute is left, and we stop at the red. And thank you both very much. Please proceed.

STATEMENTS OF RICHARD BROWN, VICE CHAIR, EMPLOYEE THRIFT ADVISORY COUNCIL; AND GREGORY T. LONG, EXECUTIVE DIRECTOR, FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

STATEMENT OF RICHARD BROWN

Mr. BROWN. Thank you, Mr. Chairman, committee members. Thank you for the opportunity today. My name is Richard M. Brown. I serve as the national president of the National Federation of Federal Employees, an affiliate of the IAMAW, as well as the vice chairman of the Employee Thrift Advisory Council [ETAC]. ETAC is comprised of 15 individuals from 15 different organizations which represent active and retired Federal employees and Uniformed Services.

ETAC serves as the advisory body to the Federal Retirement Thrift Investment Board which oversees the Federal Government's Thrift Savings Plan [TSP].

It is in my capacity as ETAC vice chair that I appear before you today. I'm here to address TWO specific Board-proposed legislative changes to the TSP: an automatic enrollment provision for new employees, and a change in the default for new employees who could not make an investment decision. It is my intention to accurately share with you the views of the Council as a whole regarding these two issues.

First, the automatic enrollment. I will first discuss the issue of automatic enrollment with the Thrift Savings Plan. The TSP is an opt-in system. Employees who want to participate in the TSP must complete and submit a contribution election to their specific—respective agency. New employees do not have contributions to the TSP deducted from their paycheck unless they specifically choose to do so. Sorry about that.

According to the Board's proposed plan, all newly eligible Federal employees who do not affirmatively decline to invest a portion of their paycheck in TSP would automatically have 3 percent of their base pay deferred on their behalf, the level at which would receive 100 percent agency match; a 90-day grace period from the date of the first automatic contribution to include—included in the proposal. Any automatically enrolled participants who did not wish to participate in the TSP could withdraw the current market value of their employee contributions at any time during this period. The withdrawal would be taxable as ordinary income in the first year it was distributed, but would not be subject to early withdrawal penalties. A participant could still stop or change their contributions at any time after the grace period expired, but the account would be subject to normal withdrawal rules.

The Board hired an independent consultancy, Watson Wyatt Worldwide, to conduct a survey gauging participant satisfaction with the TSP and input on proposed changes, including automatic enrollment in the program. The survey revealed strong support for automatic enrollment of new employees. Nearly two-thirds of all respondents agreed that automatic enrollment of new employees is a good idea, compared with only 20 percent who disagreed. Neither age nor income made a large difference in the respondents' support for automatic enrollment.

ETAC discussed the automatic enrollment issue at our June 12, 2007 meeting, and there was widespread support for the proposed change. There was some minimal concern about the administrative cost and work involved in implementing a change, but the overall sense of the Council was benefits of automatic enrollment outweighed the implementation costs. Council members made a number of arguments in favor of the automatic enrollment. Starting the habit of early saving on one's career increases the likelihood that an employee will continue contributing throughout his or her career. Through compounding earnings, even a modest automatic 3 percent contribution may lead to a sizable account balance over time, particularly when 3 percent is combined with the automatic 1 percent agency contribution and an additional 3 percent in matching funds that the employee will receive.

Initiating automatic enrollment will ensure that those employees who do not intentionally refrain from investing in the TSP will not continue to miss out on the dollar-for-dollar matching funds to which they are entitled. The Council feels that all Federal employees should invest in TSP; however, new hires will be educated on the change and presented with the necessary information to make an informed decision about their participation in the plan. We do not believe this information will be difficult for them to access or understand, and the grace period and related opt-out provision ensure that they'll have time to make these decisions without penalty.

For all these reasons, the ETAC strongly supports automatic enrollment in the TSP for new employees.

The second change to the TSP proposed by the Board is all new employee enrollees in the plan who do not make an investment election would have their contributions defaulted to age-appropriate Lifecycle, or L-Fund.

Currently TSP participants may choose how their money is allocated. They have a number of funds to choose from, specifically the G, F, C, S and I Funds. When participants do not make allocation choices, their contributions are automatically invested in the government securities or G-Fund. The G-Fund earns interests and does not incur any losses, but due to low-level risk may not provide substantial rate of return to meet the employee's long-term retirement goals.

According to the Board's proposed plan, employees would have the same set of funds to choose from, but the default election would change from the G-Fund to an age-appropriate L-Fund based on specific participant's estimated retirement age. In the L-Fund, money is allocated more heavily toward stocks for younger participants, which may lead to greater asset fluctuation and more risk, but are also expected to produce higher rate of return. The closer a participant gets to retirement, the more heavily the L-Fund is invested in government securities and bonds.

In the previously mentioned survey, respondents were asked whether the G-Fund or an age appropriate L-Fund should be used as a default fund for those TSP contributors who do not specifically know how their funds are to be allocated. The study found that 49 percent of the respondents preferred the L-Fund as the default, while 27 percent preferred the G-fund and 24 percent had no preference.

When respondents were broken down by age group, all those under 40 expressed the strongest preference for the L-Fund as the default; and 55 percent, those 40 to 49, at 53 percent; and those over 50, at 45 percent. It is worth knowing, though, that every age group preferred the L-Fund over the G-Fund as a default.

This issue was also addressed by ETAC at our June 12, 2007 meeting. There was some hesitation about changing the default election to the age-appropriate L-Fund. The primary concerns were that the L-Fund does not yet have a long history and that the change would expose enrollees to risk. Participants may lose money in L-Funds, particularly in the short term. However, ETAC members were largely in favor of the change to the L-Fund for default allocations.

Committee members expressed support to change the L-Fund default for a number of reasons. Many of us expressed our wish that they had delivered—diversified our investments and taken more risk when we were younger. Many of us were initially skeptical of the plan but were much more supportive after reading the survey results and talking to our own members.

We are generally supportive of, and understand the change. The TSP is intended to be a long-term investment, a vehicle for participants. So a default that maximizes a chance for growth in the long term makes sense. Furthermore, the TSP plan participants are able to change their future investment allocations to a different fund or funds within the plan as well as move their existing account balances via interfund transfer. Any employee who does not wish to invest in the L-Fund would be able to easily make a different investment decision.

For all these reasons, the ETAC also supports legislation that would change the default fund from the G-Fund to the age-appropriate L-Fund for all newly enrolled participants.

This concludes my statement. Once again, thank you very much for the opportunity to be here today.

Mr. DAVIS OF ILLINOIS. Thank you very much, Mr. Brown.

[The prepared statement of Mr. Brown follows:]

STATEMENT BY

RICHARD N. BROWN

NATIONAL PRESIDENT
OF
NATIONAL FEDERATION OF FEDERAL EMPLOYEES

BEFORE

THE HOUSE SUBCOMMITTEE ON THE FEDERAL WORKFORCE, POSTAL SERVICE, AND THE DISTRICT OF COLUMBIA

REGARDING

PROPOSED CHANGES TO THE FEDERAL EMPLOYEE THRIFT SAVINGS PLAN

ON

APRIL 29, 2008

Thank you, Chairman Davis and distinguished Subcommittee members, for the opportunity to submit the following testimony.

My name is Richard N. Brown. I serve as the National President of the National Federation of Federal Employees, an affiliate of the IAMAW, as well as the Vice Chairman for the Employee Thrift Advisory Council, or ETAC. ETAC is comprised of 15 individuals from 15 different organizations, including employee organizations, unions, and the uniformed services, which represent active and retired federal employees. ETAC serves as an advisory body to the Federal Retirement Thrift Investment Board. The five presidentially-appointed members of the Board and its Executive Director oversee the Federal Government's Thrift Savings Plan, or TSP. It is in my capacity as ETAC Vice Chairman that I submit this testimony.

I will address two specific Board-proposed legislative changes to the TSP: an automatic enrollment provision for new employees, and a change in the default fund for new enrollees who do not make an investment decision. It is my intention to accurately share with you the views of the Council as a whole regarding these two issues.

Automatic Enrollment

In accordance with the Federal Employees' Retirement System Act of 1986, or FERSA, the TSP is an opt-in, defined contribution retirement savings and investment plan for federal and postal employees, and members of the uniformed services. The TSP provides federal employees with the same type of savings and tax benefits that many private corporations offer their employees through 401(k) plans. Employees who want to participate in the TSP must complete and submit a contribution election to their respective agency. New employees do not have contributions to the TSP deducted from their paycheck unless they specifically choose to do so. Therefore, the retirement income that an employee receives from his or her TSP account depends on how much the employee (and his or her respective agency) has contributed to the account during his or her working years and the earnings on those contributions.

According to the Board's proposed plan, all newly eligible federal employees who do not affirmatively decline to invest a portion of their paycheck in the TSP would automatically have 3 percent of their base pay deferred on their behalf, the level at which they would receive a 100 percent agency match when covered by the Federal Employees' Retirement System, or FERS.

A 90-day grace period from the date of the first automatic contribution is included in the proposal. Any automatically enrolled participants who did not wish to participate in the TSP could withdraw the current market value of their employee contributions at any time during this period. The withdrawal would be taxable as ordinary income in the year it was distributed, but would not be subject to early withdrawal penalties. A participant could still stop or change their contributions at any time after the grace period expired, but the account would then be subject to normal withdrawal rules.

The Board hired an independent consultancy, Watson Wyatt Worldwide, to conduct a survey gauging participant satisfaction with the TSP and input on proposed changes, including automatic enrollment in the program. The survey revealed strong support for the automatic enrollment of new employees. Nearly two-thirds of all respondents agreed that automatic enrollment of new employees "is a good idea," compared with only 20 percent who disagree. Neither age nor income made a large difference in respondents' support for automatic enrollment.

ETAC discussed the automatic-enrollment issue at our June 12, 2007 meeting, and there was widespread support for this proposed change. There was some minimal concern about the administrative costs and work involved in implementing the change, but the overall sense of the Council was that the benefits of automatic-enrollment outweighed the implementation costs.

Council members made a number of arguments in favor of automatic enrollment. Starting the habit of saving early on in one's career increases the likelihood that an employee will continue contributing throughout his or her career. Through compound earnings, even a modest automatic three percent contribution may lead to a sizable account balance over time, particularly when that three percent is combined with the automatic one percent agency contribution and additional three percent in matching funds that the employee will receive. Initiating automatic enrollment will ensure that those employees who do not intentionally refrain from investing in the TSP will not continue to miss out on the dollar-for-dollar matching funds to which they are entitled.

The TSP was intended to play an important role in generating retirement income for participants. The 14 percent of FERS employees who are not currently contributing to the plan are doing a great disservice to themselves down the road, as they are less-likely than plan participants to be financially self-sufficient in retirement. Given that FERS employees are eligible to receive matching funds from their agencies, the opportunity cost of not investing in the plan as early as possible is even greater.

The Council feels that all federal employees should invest in the TSP. However, new hires will be educated on this change and presented with the necessary information to make an informed decision about their participation in the plan. We do not believe this information will be difficult for them to access or understand, and the grace period and related opt-out provision ensure that they will have time to make these decisions without penalty.

For all of these reasons, ETAC strongly supports automatic enrollment in the TSP for new employees.

Default Elections

The second change to the TSP proposed by the Board is that all new enrollees in the plan who do not make an investment election will have their contributions defaulted to the age-appropriate Lifecycle, or "L", Fund.

Currently, TSP participants may choose how their money is allocated. They have a number of funds to choose from, specifically the G, F, C, S and I Funds. When participants do not make allocation choices, their contributions are automatically invested in the Government Securities, or "G" Fund. The G Fund earns interest and does not incur any losses, but due to its low level of risk, it may not provide a substantial rate of return to meet an employee's long-term retirement goals.

According to the Board's proposed plan, employees would have the same set of funds to choose from, but the default election would change from the G Fund to the age-appropriate L Fund, based on the specific participant's estimated retirement date as determined by their agency-reported date of birth. The L Fund allocates assets among the individual TSP funds and is designed to maximize expected performance for the amount of risk taken. The L Fund automatically addresses changing asset allocation needs as employees get closer to retirement. In the L Fund, money is allocated more heavily toward stocks for younger participants, which may lead to greater asset fluctuation and more risk, but is also expected to produce a higher rate of return. The closer a participant gets to retirement, the more heavily the L Fund is invested in Government securities and bonds.

In the previously mentioned survey, respondents were asked whether the G Fund or an age-appropriate L Fund should be used as the default fund for those TSP contributors who do not specify how their funds should be allocated. The study found that 49 percent of respondents preferred the L Fund as the default, while 27 percent preferred the G Fund and 24 percent had no preference. When respondents were broken down by age group, those under 40 expressed the strongest preference for the L Fund as the default at 55 percent, those 40-49 at 53 percent, and those over 50 at 45 percent. It is worth noting, though, that every age group preferred the L Fund over the G Fund as the default fund.

This issue was also addressed by ETAC at our June 12, 2007 meeting. There was some hesitation about changing the default election to the age-appropriate L Fund. The primary concerns were that the L Fund does not yet have a long history, and that the change would expose enrollees to risk. Participants may lose money in the L Funds, particularly in the short-term. However, ETAC members were largely in favor of a change to the L Fund for default allocations.

Committee members expressed support for the change to an L Fund default for a number of reasons. Many of us expressed our wish that we had diversified our investments and taken more risk when we were younger. Many of us were initially skeptical of the plan, but were much more supportive after reading the survey results and talking to our own members, who are generally supportive of and understand the change. The TSP is intended to be a long-term investment vehicle for participants, so a default fund that maximizes the chance for growth in the long-term makes sense.

Furthermore, TSP plan participants are able to change their future investment allocations to a different fund or funds within the plan, as well as move their existing account balance via an interfund transfer. Any employee who does not wish to invest in the L Fund would be able to easily make a different investment decision.

For all of these reasons, ETAC also supports legislation which would change the default fund from the G Fund to the age-appropriate L Fund for all newly enrolled TSP participants.

Conclusion

I would like to conclude by pointing out the great pride the Council takes in how responsibly and cost-effectively the TSP is run. We feel that the current system, under which we advise the Board, which takes our opinions into consideration and in turn proposes program policy changes to Congress, works extremely well. We strongly support the Board and Congress working together and reaching a consensus before making any substantive changes to the law governing the TSP. By all working together we have operated, and will continue to operate, a plan that represents the best interests of federal employees, postal workers, and our uniformed service members.

Thank you for the opportunity to present the views of the Employee Thrift Advisory Council regarding this matter.

Mr. DAVIS OF ILLINOIS. We'll go to Mr. Long.

STATEMENT OF GREGORY T. LONG

Mr. LONG. Good afternoon, Chairman Davis and members of the subcommittee. My name is Greg Long. Mr. Chairman, you had previously noted my title as director of product development. That is actually my former title. And as of today, I am the executive director of the Federal Retirement Thrift Investment Board. And as such, I am the managing fiduciary of the Thrift Savings Plan [TSP]. And I welcome this opportunity to appear before the subcommittee.

The Board is an independent agency with responsibility to act solely in the interest of TSP participants. Consequently, our statements to the Congress are not submitted for clearance by the Office of Management and Budget.

You requested my views today on two proposals we transmitted for consideration by the Congress to improve the Thrift Savings Plan for Federal employees. We appreciate your holding this hearing to examine these proposals. The Board strongly supports amending the Federal Employees Retirement System Act of 1986 [FERSA], to authorize automatic enrollment of all newly hired Federal and postal employees into the Thrift Savings Plan; and second, to change the TSP default for new enrollees from the government securities investment, or G-Fund, to an age-appropriate L-Fund, or Lifecycle Fund.

Lifecycle TSP is a retirement savings and investment plan for Federal and postal employees and members of the Uniformed Services. It is a defined contribution plan that offers the same type of benefits that many private sector employees receive under 401(k) plans. The TSP is available to employees covered by the Civil Service Retirement System, the Federal Employees Retirement System and also members of the Uniformed Services.

Under FERSA, employees and service members who wish to participate in the TSP must submit a contribution election to their employing agency or service. FERSA also requires employing agencies to create an account for noncontributing FERS employees following the completion of a statutory waiting period. Agencies must deposit an amount equal to 1 percent of the FERS employee's basic pay to the accounts. Participant contributions by FERS employees are matched by the agencies, based upon a statutory formula. Since FERSA designates the G-Fund as the TSP's default fund, all initial contributions from the employees and agencies are invested in the G-Fund. Thereafter, participants may submit a request to direct their contributions and reallocate their investments among any of the TSP's funds. For participants who do not submit a request, their accounts will remain invested in the G-Fund by default.

Now, following the passage of the Pension Protection Act of 2006 [PPA], the Board undertook a review of the TSP's policies in light of that legislation. Particularly we focused on provisions of the PPA which applied to private-sector qualified plans and 401(k) plans but not the TSP. This included the automatic enrollment, as well as a focus on qualified default investment alternatives [QDIAs].

The Board conducted significant research and data collection on automatic enrollment and QDIAs. The research included an analysis of the 401(k) industry, data and trends, a review of TSP specific data, consideration of survey findings, consultation with the statutory Employee Thrift Advisory Council, solicitation of feedback from the agencies and, finally, a cost analysis.

Agency matching contributions provide a strong incentive for employees to contribute their own funds. And the voluntary participation currently stands at 86 percent, which compares very favorably to private sector 401(k) plans. However, 14 percent of FERS employees and 73 percent of Uniformed Service employees who are not contributing currently to the TSP are less likely to be financially self-sufficient in retirement than their counterparts who do contribute.

Further, noncontributing FERS participants are failing to collect agency matching contributions, which the Congress authorized for their benefit. The statutory ETAC expressed support for automatic enrollment in its June meeting and the feedback from the civilian agencies are generally favorable. Our analysis indicates that the systems communications and staffing modifications required will be minimal. That legislative proposal authorizes immediate automatic contributions from all newly hired employees who did not affirmatively decline to contribute a portion of their pay to the TSP. The initial contribution rate would be 3 percent of basic pay, but employees may opt-out or change their contribution at any time. Participants would also have a 90-day grace period from the date of their first contribution in which to withdraw the funds.

I'm aware that under congressional budget rules, the automatic enrollment proposal could generate a potentially significant cost. I hope that a way can be found to overcome that obstacle so that more employees will make full use of the TSP in order to be better prepared for their retirements.

I can see, Mr. Chairman, that my time has now expired and I know that my statement has been submitted for the record. With your concurrence, I can wrap up here or continue.

[The prepared statement of Mr. Long follows:]

STATEMENT BY GREGORY T. LONG
EXECUTIVE DIRECTOR
FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
BEFORE THE
HOUSE SUBCOMMITTEE ON THE FEDERAL WORKFORCE, POSTAL SERVICE,
AND
THE DISTRICT OF COLUMBIA

APRIL 29, 2008

Good afternoon Chairman Davis and Members of the Subcommittee. My name is Greg Long. I am the Executive Director of the Federal Retirement Thrift Investment Board and, as such, the managing fiduciary of the Thrift Savings Plan, or TSP. I welcome this opportunity to appear before the Subcommittee.

The Board is an independent Agency with responsibility to act solely in the interest of TSP participants. Consequently, our statements to the Congress are not submitted for clearance by the Office of Management and Budget.

You requested my views today on two proposals we transmitted for consideration by the Congress to improve the Thrift Savings Plan for Federal employees. We appreciate your holding this hearing to examine these proposals.

The Board strongly supports amending the Federal Employees' Retirement System Act of 1986 (FERSA) to authorize automatic enrollment of all newly hired Federal and Postal employees into the Thrift Savings Plan (TSP) and to change the TSP default fund for new enrollees from the Government Securities Investment (G) Fund to an age-appropriate Lifecycle (L) Fund.

The TSP is a retirement savings and investment plan for Federal and Postal employees and members of the uniformed services. It is a "defined contribution" plan that offers the same type of savings and tax benefits that many private sector employers offer their employees under so-called "401(k)" plans. The TSP is available to employees covered by the Civil Service Retirement System, the Federal Employees' Retirement System (FERS), and members of the uniformed services.

Under FERSA, employees and service members who wish to participate in the TSP must submit a contribution election to their employing agencies or services. FERSA also requires employing agencies to create an account for non-contributing FERS employees following the completion of a statutory waiting period. Agencies must deposit an amount equal to one percent of FERS employees' basic pay (i.e., Agency Automatic (1%) Contributions) to the accounts. Participant contributions by FERS employees are matched by the Agencies based on a statutory formula. Since FERSA designates the G Fund as the TSP's default fund, all initial contributions from employees and agencies are invested in the G Fund. Thereafter, participants may submit a request to direct their contributions and/or reallocate their investments among the other TSP funds. For participants who do not submit a request, their accounts remain invested in the G Fund by default.

Following passage of the Pension Protection Act of 2006 (PPA), the Board undertook a review of the TSP's policies in light of that legislation. Particularly, that review focused on provisions of the PPA which applied to private sector qualified plans but not to the TSP, including automatic enrollment and Qualified Default Investment Alternatives (QDIA).

The Board conducted significant research and data collection on automatic enrollment and QDIAs. The research and analysis included a review of 401(k) industry data and trends, a review of TSP-specific data, consideration of TSP participant survey findings, consultation with the statutory Employee Thrift Advisory Council (ETAC), the solicitation of feedback from employing agencies, and a cost analysis.

The TSP is an integral part of the retirement package for FERS employees. Agency Matching Contributions provide a strong incentive for employees to contribute their own funds. Voluntary participation stands at 86 percent, which compares very favorably to private sector 401(k) plans.

However, the 14 percent of FERS employees and 73 percent of uniformed services members who are not contributing to the TSP are less likely to be financially self-sufficient in retirement than their counterparts who do contribute. Furthermore, non-contributing FERS participants are failing to collect Agency Matching Contributions which the Congress authorized for their benefit.

TSP data and participant feedback further reveal that, while some non-contributors intentionally decide against participating, a significant number simply place a low priority on returning election forms or fail to undertake any retirement planning. Automatic enrollment addresses these issues by making inertia work in favor of participation.

The statutory ETAC expressed support for automatic enrollment in its June 12, 2007, meeting. Feedback from civilian agencies was generally favorable. Our analysis indicates that the systems, communications, and staffing modifications required to implement these proposals will be minimal.

The legislative proposal authorizes immediate automatic contributions from all newly hired eligible employees who do not affirmatively decline to contribute a portion of their pay to the TSP. The initial contribution rate would be three percent of basic pay, but employees may opt out or change their contribution amount at any time. This approach would be similar to the Federal Employees' Group Life Insurance (FEGLI) model used successfully in the Federal government for many years. Participants would also have a 90-day grace period from the date of the first contribution in which to withdraw the funds. Such refunds would be treated as taxable income, but would not be subject to any early withdrawal penalty. Agency Automatic (1%) and Matching Contributions would still begin only after the statutory waiting period.

I am aware that, under Congressional budget rules, the automatic enrollment proposal could generate a potentially significant cost. I hope that a way can be found to overcome that obstacle so that more employees will make full use of the TSP in order to be better prepared for their retirement.

With regard to the TSP's default fund, the Board reviewed the Department of Labor's proposed implementing regulations for QDIAs. These regulations alleviate liability concerns for plan sponsors and fiduciaries by providing safe harbor protections for the selection of an appropriate default fund. The Congress believed that providing plan sponsors and fiduciaries with a safe harbor would free them from liability concerns which necessitated selection of a money market or stable value fund with lower projected returns over time. The three types of QDIAs defined by the proposed regulations are lifecycle or target date funds (which are similar to the TSP's L Funds), balanced funds, and managed accounts.

Significantly, the Board's review of the TSP's data revealed that, of those participants whose contributions were initially invested in the G Fund during the first quarter of 2004 (the first full plan year under the new daily-valued system), only 26 percent submitted a request to move their money to other funds by the end of the following calendar quarter. Tracking that same group through the first quarter of 2007, we found that 48 percent never made an investment decision after they enrolled. They simply remain 100 percent invested in the G Fund. Of most concern, 62 percent of these participants are under 40 years of age.

These participants, like the vast majority of newly hired Federal employees and uniformed service members, are unquestionably long-term investors. The L Funds are asset allocation funds designed to take advantage of long-term equity market performance while lowering risk as the draw-down date approaches. For these participants, L Fund investments are a more appropriate default option and will enhance their retirement security.

Changing the default fund will not require agencies or services to modify any procedures or systems, and the cost for

TSP modifications is minimal. Like automatic enrollment, the statutory ETAC expressed support for changing the default fund to an age-appropriate L Fund at its June 12, 2007, meeting.

The legislative proposal would authorize the investment of all contributions from all newly hired eligible employees in an age-appropriate L Fund as determined by their date of birth. The TSP will assume age 65 as the draw-down date and invest contributions in the particular L Fund with the time horizon that most closely matches the draw-down date. For example, a newly enrolled participant who was born in 1967 will reach age 65 in 2032. This participant's contributions would be invested in the L 2030 Fund until the participant makes a different investment election. At the time of their enrollment participants would be informed of the benefits and risks of the L Funds as well as how to move their funds to the risk-free G Fund or other asset allocations of their choosing.

As the fiduciaries of the TSP, the Board Members and I believe favorable Congressional consideration of these proposals would enable the Plan to continue to meet the needs of employees as reliance on the TSP for retirement income security continues to increase over time.

Uniformed Services

During our examination of this matter last year, we became aware of differing concerns among the various uniformed services. With extraordinary assistance from the leadership at the Department of Defense, Board members, senior staff, and I were invited to make a presentation at the Pentagon on this matter to the leadership of all seven uniformed services. The Department of Defense is currently working hard to finalize its position on automatic enrollment of service members. We look forward to receiving their views and accommodating any special concerns which they identify.

Roth Feature

The Board last summer also considered the potential addition of a Roth feature to the TSP. As you know, the PPA made the "Roth 401(k)" feature a permanent provision of tax law, replacing an earlier temporary provision. This change has caused some retirement plan managers to reconsider this offering.

The addition of a Roth feature would allow participants to select different tax treatments for their future TSP contributions. Standard (non-Roth) employee contributions are made on a pre-tax basis and reduce a participant's income subject to Federal and (most) state taxes. These contributions and their related earnings are then taxed as ordinary income when withdrawn.

Roth contributions, on the other hand, are after-tax contributions -- they are not excluded from current taxable income. The intended benefit of a Roth account is that these contributions and their associated earnings are withdrawn tax-free. Roth contributions generally are considered more favorable for participants who expect that their tax rates in retirement will exceed their current levels.

Contributions to a Roth account would count against the elective deferral and other Internal Revenue Code limits (e.g., $15,500 for regular contributions and $5,000 for catch up contributions in 2008) just as pre-tax contributions do. Consequently, a Roth account would <u>not</u> allow a participant to contribute any more money than the law currently allows. The amount of any Agency Matching Contributions credited to the participant's TSP account would not be affected by whether the employee elects to contribute to a Roth account or not.

While Roth accounts may be viewed as beneficial by a number of participants, the scope, impact, and costs to participants for this project would be huge. As of now, I am not convinced that this feature would have broad appeal, and it is not clear how participants would react to the educational efforts needed for complex tax planning issues. Therefore, I recommended that we not seek legislation to add a Roth 401(k) feature at this time, but that we continue to review private-sector experience with Roth accounts. I advised the Board members that we will revisit this issue in mid-2009.

I believe this timeframe will allow us to survey TSP Plan participants on how they will view a Roth feature, analyze the demographics of TSP participants to determine how many participants are likely to find Roth accounts beneficial and finally examine how Private Sector plans are faring with their implementation and operating of Roth 401(k) features.

I am aware that members of Congress, the Judiciary, and the uniformed services have voiced an interest in adding a Roth feature. I want to assure all interested parties that we will proceed with deliberate speed.

In conclusion, Mr. Chairman, I would like to thank you for holding this hearing today. I would also like to thank the Subcommittee and full Committee staff members for their work on these proposals over the past few months. Like you and I, they are committed to making sure Federal employees and uniformed service members in the TSP enjoy the same benefits enjoyed by private- sector 401(k) participants.

Mr. DAVIS OF ILLINOIS. Thank you both very much, gentlemen. We appreciate your testimony.

Let me begin with you, Mr. Brown. Could you think of any reasons that employees would want to opt-out of enrolling in the TSP?

Mr. BROWN. Just so I understand "opt-out," want to get out; could I think of a reason?

Mr. DAVIS OF ILLINOIS. Yeah.

Mr. BROWN. I don't know; it is all based on personal individuality. Maybe they were—if they had some sort of personal hardship or something, they may want to opt-out. And in today's stressful economic time, I could see that probably happening, especially with junior employees and people that have not reached up through the career ladder. But I can tell you at least from the position of this Union and so forth, and being a TSP participant myself, we would strongly urge them to remember to save some for the long haul and be part of that three-legged stool, if you will, of retirement; you know, Social Security, your pension, and this thing. It would be TSP, obviously, and personal savings.

Mr. LONG. I think I can add to Rick's comment there by saying in looking at the data from the 401(k) world—and many plans have adopted automatic enrollment. There are a small percentage of people that opt-out, far less than those who do not affirmatively sign up. But why that happens is because some people who literally cannot afford it. But what we're trying to get is of the 14 percent of FERS employees that don't participate, there might be 2 or 3 percent that really are living hand-to-mouth, paycheck-to-paycheck, and can't afford it. And we have created a mechanism for them to opt-out. They can do that. It is the percentage in between that we believe are not opting-in simply because of inertia. And what automatic enrollment does is, it uses inertia to encourage retirement savings.

Mr. DAVIS OF ILLINOIS. The employees expressed an interest in automatic enrollment in TSP and the automatic default to the Lifecycle Fund on the survey. Are you aware of any other expressed interests in implementing changes or improvements in the TSP? Are there recommendations or suggestions that employees have provided that they might think would improve the TSP?

Mr. LONG. Well, we do get comments on a regular basis of things that people would like to have different, sure. And we, as part of our normal course of business, consider those. There are certainly some changes that we have made recently. One of which is we have decided to send out on an annual basis a statement to all of our participants, almost 4 million people, that aids with our educational efforts. We also created an ability to have spousal accounts so that a spouse can inherent the account of a participant. There are other recommendations and ideas that we get from—that are participant-based and we consider them all the time.

Mr. DAVIS OF ILLINOIS. What would be the impact on the retirement funds of Federal employees enrolled in FERS if they do not participate or contribute to the TSP?

Mr. BROWN. What would be the impact to themselves personally?

Mr. DAVIS OF ILLINOIS. Yes.

Mr. BROWN. They would wind up at the end of their career without any type of saving if they didn't participate. And I think that would be probably devastating to anyone. I mean, if I could just caveat on what Greg has said, part of the things that we have done and looked at other issues as trying to help out participants, one of the main things is the ability to in and opt-out. That in and of itself is an excellent vehicle for these folks, whoever wants to participate.

What we also try to do is look at investments and changes to TSP, keeping the overhead low, thus making the return on the employees' investments higher. Across the board, even though we are 15 other organizations, we try to act collectively to ensure that dollar-for-dollar that the Federal Employees Retirement System is offering the best quality-requirement for their hard-earned dollars they invest.

Mr. DAVIS OF ILLINOIS. What would be the impact if employees kept most of their dollars—investment dollars, that is—in the G-Fund?

Mr. LONG. Long term, the G-Fund is a fund that never has a bad day and it also never has an especially good day. Long term, the equity markets have shown that they have better performance. So likely—there are no guarantees in life—but likely over the long term, somebody in the G-Fund will make a smaller return than somebody who invests in the L-Funds. That translates to less money after a 20, 30 or 40-year career and therefore a lower quality of life. We're trying to turn that on its head. We are trying to improve the quality of life for our retirees.

Mr. DAVIS OF ILLINOIS. Do these operate on the basis of the greater the risk, the greater the reward?

Mr. LONG. That is the intention, yes. And the capital markets are built on that assumption, that you don't want to avoid risk, you want to manage risk and take an appropriate level of risk for your particular goals. The Lifecycle Funds are built on that assumption. So that somebody who has a 30-year window, 30-year horizon for when they actually need the money, can invest more heavily toward stocks than somebody who is going to retire and withdraw the money in 4 or 5 years.

Mr. DAVIS OF ILLINOIS. So the individuals who are the more cautious investors, realizing that they have the assurance of the protection of their investment would want to do the G-Fund?

Mr. LONG. Uh-huh.

Mr. DAVIS OF ILLINOIS. And those who are a little more open, that kind of reminds me of the parables in the Bible where these individuals were given different sets of talents and, of course, the ones who did the most investing ended up with the most return. But I guess they weren't so worried about the assurance of making sure that everything was there.

Mr. LONG. I can assure you that we are well aware of the participants' desire for safety, especially in these volatile times in the marketplace. And therefore the G-Fund will always remain a choice that anybody can put all of their money in at any time. The desire for the change in the default from the G-Fund to the Lifecycle is again about inertia, and we have unfortunately, a significant amount of people that their money goes to the G-Fund initially when they might only be 25 or 30 years old, and they sit there for an awfully long time and they sit out on the potential to get that return that I know many of Rick's members have unfortunately missed out on, and we're trying to fix that.

Mr. DAVIS OF ILLINOIS. Thank you very much.

Delegate Norton.

Ms. NORTON. Mr. Chairman, I think your first question, did we know why people would opt-out in the first place is an important one, because it is hard to believe that people truly understand the one for one. Doubling your money up to 4 percent is a pretty sure bet. Did your survey cover people who had opted out?

Mr. LONG. Yes, it did. And we were actually surprised about this. I'm speaking from memory here. But we did segregate the survey between people who only got the 1 percent and that was their only contribution, therefore they were not participating, and asked them about the automatic enrollment. And they were—that group was still in favor of it, which was actually a little bit surprising to us.

Ms. NORTON. Have they been asked why they opted out in the first place? If they are simply conferring what they have already done, if you ask them should you have to contribute, this is money they have to put forward. But I am wondering if they have been specifically surveyed as to why in the first place, which would give some sense of whether they had a full understanding that they are losing money.

Mr. BROWN. Speaking for our Union, nothing—I have spoken to many members around the country. I have never spoken to someone that opted out or chose not to.

Ms. NORTON. That's why I'm asking, since you have been surveying people, and you surveyed people about opting out for this—as reported to the subcommittee. I'm trying to find out what you know about people who opt-out.

Mr. BROWN. I would guess—and this is just a guess—but from talking to the folks and being a participant myself, maybe because they didn't get the value of it or the whole process explained to them very well by their particular agencies. You know, in speaking on behalf of the Union and not as the ETAC Vice, the more that is explained to them at their local agency, regardless of who they work for, the more informed they are, they seem to be more diversified in their investment portfolio, if you will. And they also participate without opting out when they are explained that they can borrow against it or they can add more or specific funds and how they operate.

The smarter the folks are—that's why—on the ETACs of the House we've gone and have taken farther steps not only with the Web site and DVDs and pamphlets and literature, but we rely heavily on a lot of the managers at the various agencies to explain it to them properly. I think if you looked at why they might opt-out, only because it wasn't explained to them properly. Not that they can't know, they just didn't know.

Ms. NORTON. Mr. Brown, I really believe that what you're saying is in fact the case. It is more likely to be the case than not. I also think that managers are more likely to put—everybody does—his or her own business first and foremost and prioritize what is important.

So I suspect that there are a lot of people who simply do not understand, particularly since it is the agency. And I am not sure the extent to which unions are involved in explaining this matter, but I'm very concerned to know who these people are who are opting out. I would assume that if there is knowing opting out, that it does have to do with what, I think, you, Mr. Long, said about how they can't even afford to put that away. And I'm sure there are such people, and certainly such people work for the Federal Government. Can you opt to put in less than a certain amount?

Mr. LONG. Yes. And I do want to—I misspoke earlier when I said that 14 percent of the people opted out. That is actually—those are the 14 people among the first group that didn't opt-in because——

Ms. NORTON. Yeah. And I would expect that. See, that I would expect. But you haven't—for me at least—gotten to the people who never participated, who would be expected, it seemed to me when questioned, to want to continue to do as they have before. And it does seem to me there is some obligation to find out more—that's a large number as far as I'm concerned. And this is a matter of free choice. So nobody is going to say you have to do it, even—you yourself are allowing people to opt-out. But I do believe that some obligation—particularly if you want them in—to—for example, not rely only on anecdotal evidence, to in fact—it is not hard to think of a survey that one could do where one could actually ask the specific questions: Did you know if you put in $5, the Federal Government adds to that and puts in $10, and go on down the line until you get to the point where you might know something about this group.

I also would like to know who they are. I would like to know their GS ratings, I would like to know, you know, where they work. That is too large a number simply to report. So I would ask you, since I believe you also believe that the more the merrier, as it were, that a rather simple survey be designed to find out more about those who are not going to opt-in—not about those who are going to opt-out—once again, I would say, because they have already opted out—but about why they have chosen not to participate. I think you would learn a great deal more about the program if you learned more about them. You learn from those who made a deliberate choice not to participate because some of those reasons might help you improve the program and you would certainly learn whether or not there are a large group of people who are not spending the time to find out because they think this is just another piece of paper from the government.

The government doesn't pass out many pieces of paper that amount to money in your hands and the notion that this one will be picked up and understood seems to me too much of an assumption to make, given the large number who are not participating.

So I would request that you endeavor to find out more about who they are, what their reasons are, in order to perhaps encourage them to come to the program, particularly given Mr. Brown's testimony that when in fact the matter is explained sufficiently, more and more people look like they come into the program. Then, of course, once you found out who they were by survey indicated, you know, how they opt-out of a program, why they are not opting-in, would tell you what you need to know about how to get more information to people and whether Web sites are enough—these people aren't going to your Web site because they have already opted-out. So you're preaching to the converted when there are, you know, 14 percent, large numbers, who may want to come to church too, but don't know that when you put your money in this collection box, the preacher gives you back some before you go home. So I'm interested in expanding the program in that way, if you would——

Mr. BROWN. I think part of that, and as we touched on earlier is the—you know, the centralizing of the personnel functions and the various agencies. They don't have people to stand out there and meet with the new employees, or even existing employees, and inform them of their benefits. And we have spoken against that on many occasions because not only just for your TSP, but the rest of your benefits and entitlements for working for the Federal Government.

And I would say most people, they don't spend as much time in the personnel department with the employees they've done. I've seen it, I've witnessed it. I've been involved in the Federal Government since 1985 and I have seen the various agencies draw down their personnel departments. It is critical to explain these benefits to these folks. And they are not doing it; they are centralizing the personnel systems, this way divesting themselves of personal contact, and an employee winds up losing because of that. And I think if you——

Ms. NORTON. And who loses? The employee and, frankly, the program.

Mr. BROWN. That's right.

Ms. NORTON. That's why I would like to put the burden on the program. I don't think any preaching to the managers is going to work. I do believe most of them are doing very difficult jobs and regard this as in people's best interest and therefore perhaps they are not giving it the kind of time they should. For them it may seem too paternalistic to go beyond simply informing them of the program. It may be. I don't know enough about these people to know who we are talking about in the first place.

But one more question in that regard. Could one reason be the difficulty of getting money out? Would you recall for me what it takes to get your money out in case you need some of the money that is in a Thrift Savings Program?

Mr. LONG. There are loans that you can take out a loan. There are two loans available. So if somebody wants to purchase a residence, or for any other reason, a general purpose loan, you can take out a loan. It does require you to pay it back. And this is a common feature in 401(k) plans, and that is designed so that people who put their money in can take some comfort that they can get the money back if they need it.

There is a secondary option, and that is a hardship withdrawal that can be done in-service. So let's say you're a Federal employee and you—because of medical reasons or any other reasons, you encounter a financial hardship, you can take that money out. There are, depending upon your age, penalties.

Ms. NORTON. There are what? I'm sorry.

Mr. LONG. Depending upon your age, there can be penalties that you need to be concerned about.

Ms. NORTON. What kind of penalty? How great——

Mr. LONG. IRS tax penalties. Ten percent usually is what occurs. And then, of course, you have to pay taxes on the money because you have not yet paid taxes on those moneys.

I think I can also shed some light on your earlier comment, that is the——

Ms. NORTON. See, if I can just respond to that answer. I think it is an important answer. I'm not sure they understand that. I would say that perhaps that is one of the reasons and, of course, it is important for people to have that information too. But I suspect that they haven't gotten that far to know that if you, in fact, have to take your money out, there is a 10 percent penalty or, for that matter, they should know about the loans which probably are at a rate that would be favorable. But I suspect that they don't get past not getting in the program in the first place. Go ahead.

Mr. LONG. Getting that 14 percent down to as small a number as possible is exactly why we are here. So we are of the same mind here. We want to get as many Federal employees participating. We are doing two things. Automatic enrollment, I think, is the most important thing that can shrink that number down. The second—right now——

Ms. NORTON. But that would still leave 14 percent, or the present number, out of the program.

Mr. LONG. Yes. This is a go-forward perspective provision, that is correct. What we're doing now is we know those people who are receiving that 1 percent automatic but not participating. And starting this year, we're sending them a statement. Every single person will get one every year. The people who are not participating, we have a customized message on there that speaks to the fact that if you're not participating, you're missing out on matching dollars. We're trying to use our educational efforts to encourage participation.

Also yesterday, here, actually over on the Senate side, the TSP staff held a financial fair because we know that there are some people who work in Congress that don't participate. So we use our efforts and our resources to deliver educational efforts to the staff on the Hill.

Ms. NORTON. What percentage of those who are staff of the Congress do not participate?

Mr. LONG. I have to tell you, I don't know. I can certainly find out.

Ms. NORTON. I'd like to have that information as well. I would like to have that information as well.

Mr. LONG. Yeah, we can get that.

Ms. NORTON. Thank you very much, Mr. Chairman.

Mr. DAVIS OF ILLINOIS. Thank you very much. Mr. Cummings.

Mr. CUMMINGS. Thank you very much, Mr. Chairman. I want to thank you for this hearing. I'm just wondering, just following—I have just one question with regard to what Congresswoman Norton was talking about. We know there are a group of people who don't opt-in; is that right?

Mr. LONG. Yes.

Mr. CUMMINGS. And we—but we don't know why they don't opt-in. We're guessing; is that right? Have we done any surveys or anything?

Mr. LONG. We have done a survey.

Mr. CUMMINGS. You have?

Mr. LONG. Yes.

Mr. CUMMINGS. And what have they said?

Mr. LONG. Among the first group, and this is the group that receives the matching, the Federal Employees Retirement System. The most significant reason—and this comes at 24 percent—of that 14 percent is they don't have the money.

Mr. CUMMINGS. They don't have the money. So they need every dime—basically what they are saying is I need every dime of my pay and I'm not anxious to put this money in there and get matched; is that right?

Mr. LONG. Yeah, that's correct.

Mr. CUMMINGS. Have you all ever tried to navigate your Web site?

Mr. LONG. Yes.

Mr. CUMMINGS. Well, let me just talk about that for a moment. Because if nothing else happens out of this hearing, I want to deal with your Web site. The other day I went to the Web site and, literally, it is not the easiest thing to navigate. I'm just telling you. And I have heard that from other people also. I have heard it from constituents and staff. And I want you to just take a look at it. I mean, in other words, get some experts to look at it and talk to some just regular everyday people, not people that, you know, that work in your office. Maybe just some regular folks and ask them—I'd like you to do a little survey and check into that. I literally had to—Mr. Brown, I see your expression, but I'm telling you what I feel and what I have observed, OK?

Mr. BROWN. No. That——

Mr. CUMMINGS. But let me just be clear. Because you all are here today talking about suggestions for trying to improve and have a more open situation for people to come into. Well, the fact is that if it is difficult to navigate your Web site, that is a problem. And all I'm asking you to do is to take a look at it and get some folk who—just regular people, and just find out what they think and how they think it can be improved.

Sometimes I think we do things because we have been doing them. And sometimes I think we need to take a look at, you know, situations. I literally had to go to Member Services to get somebody to help me get through the Web site, because I wanted to do—try to make some changes and find out exactly where my money and was, that kind of thing.

And so I know that if I'm going through it, I'm sure other people are going through it, too. Do you all do surveys or anything like that with regard to the Web site?

Mr. LONG. I think I have some good news for you.

Mr. CUMMINGS. I can't hear you. I'm sorry.

Mr. LONG. I think I have some very good news for you.

Mr. CUMMINGS. You have some good news for me? Let's make sure the press hears this. Now, what is the good news?

Mr. LONG. I accepted your recommendation and we are doing exactly that. About 3 months ago, I hired a consultant and their job is specifically to aid us, first of all, in conducting focus groups, and we'll be redesigning the Web site. I'm familiar that our Web site is functional, although it needs to be updated and the navigation issues are real.

Mr. CUMMINGS. They are very real. I was so frustrated, I'm serious, I was so frustrated, I wouldn't even be bringing this up if it were not for my frustration. I sat there for half an hour trying to figure this thing out, and ended up having to call Member Services. And then we got on the phone and went through it together to figure out, you know, how to do what I had to do.

All right, Mr. Brown.

Mr. BROWN. Part of my—you made a comment about my facial expressions. I was trying to remember—I know we had discussed that at one of the ETAC meetings about—because—before it was even started up, before there was even such a thing as a Web site or even before it was able—other than just informational at best, and trying to be able to invest over the Internet and so forth. And as I was sitting here, I was trying to think that—because all Web designs, including the one that our unit has, and another one has, can always be improved and can always be made more simplistic and more time efficient and so forth.

As I was sitting here and as you were speaking, I was trying to think that we—I don't have the minutes in front of me, but I know that we had discussed that. I'm sure we did. So I was kind of wondering in my mind when we did it. I know it was sometime ago. So you saw the look on my face—it wasn't——

Mr. CUMMINGS. I was trying to read your mind, and I shouldn't have done that.

Mr. BROWN. There is very little to read.

Mr. CUMMINGS. Because I just think that—I just think that in today's world, if something is inviting and if the person can easily navigate, I think that helps, I really do. And I think we have to—I think it needs to be—I know your consultant is going to tell you what to do, but you have also got to keep in mind there is an older generation who have learned how to deal with computers from 5 and 6-year-olds. Keep that in mind also. And that is real.

And I just think that like I said, I think you will do a big favor by trying to improve that. Now, is there a—is there a timetable in that, Mr. Long?

Mr. LONG. We are expecting a report back from the consultant within about 3 months. But then comes the technology part, then comes the building.

Mr. CUMMINGS. Whoa, whoa, whoa. Let's rewind. You said you've been doing it for 3 months. They have been looking at your Web site for 3 months. And—now—all right. So when are you expecting them to come back?

Mr. LONG. There are significant parts to this. I expect them to come back to us with final recommendations and design and mark-ups within 3 months. Over the summer.

Mr. CUMMINGS. OK. And then how long do you think it will take to, you know, actually put them into effect?

Mr. LONG. I don't have an estimate for you on that.

Mr. CUMMINGS. Well, can—Mr. Chairman, can we kind of hold them to something? I mean, we—let me just tell you—let me just tell you what I'm concerned about. Since I have been in Congress, I have these—I chair some hearings, and one of the things I have noticed is that people will come before us—not you, others—will come before us and tell us they are going to do things, right? And then we don't have another hearing about it until the next Congress or maybe two Congresses later. Players have changed, the chairman has changed, and a lot of times things have not gotten done.

And I would really like for you to give our chairman of our committee—I mean, when you get back—I'm not trying to force you to come up with a date right now. But we need to be dealing with some deadlines, because I think if you recognized 3 months ago or longer that there was a problem, then that means that, just based on what you have just said, 6 months are going to go by, at least, where we haven't done anything about this problem. And I am convinced that government can move faster. I really am.

And I think government should move very fast when it comes to people's money, particularly in this day and age. And I think that all the thrift folks who have money in there in your plan would be elated. I think we sometimes need to move as fast as private industry would move.

I know it is hard. I know you have some things to jump over. But let me tell you something. What you come in here and said to us and I think, by the way—I agree with you, we need to do the things that you have said. I agree with you a million percent. But at the same time, I just think that there are certain things you all need to do, too, and need to do faster.

With that, Mr. Chairman—and if you would kindly give us a date that we can hold you to. And then we can at least, you know, just make sure that date doesn't pass by.

Mr. LONG. We'll work on correspondence back to you.

Mr. CUMMINGS. You're going to get me some correspondence?

Mr. LONG. Exactly.

Mr. CUMMINGS. You said you'll work on it.

Mr. LONG. I don't think I can—I will get you some correspondence.

Mr. CUMMINGS. Yes. OK. And how soon can you get me that? How soon can you get me that, what you've just said?

Mr. LONG. I think it would be reasonable to assume I could do that within a week.

Mr. CUMMINGS. Good. I'm going to hold you to that.

Mr. DAVIS OF ILLINOIS. Thank you very much, Mr. Cummings.

I think it would be very helpful if before certainly we were recessing or ending our work leading up to the Presidential election with the idea that we are going to start kind of fresh and new, at least with the executive branch, that we have this information—that information, so that individuals could use it as we are getting down to closing out the year, if they wanted to try to make some changes. I think it would be very helpful.

Gentlemen, thank you very much. I have no further questions. And we appreciate your testimony. We will prepare for our second panel.

And we are very pleased to have Mr. Daniel Green, who is the Deputy Associate Director for Employee and Family Support Policy, Strategic Human Resources Policy Division, U.S. Office of Personnel Management. Mr. Green is currently responsible for developing Federal employee benefits policy, covering the multibillion-dollar retirement and insurance programs administered by OPM.

And we have Ms. Colleen Kelley, who is the president of the National Treasury Employees Union, the Nation's largest independent Federal sector Union representing employees at 31 different government agencies. As the Union's top elected official, she leads NTEU's efforts to achieve the dignity and respect Federal employees deserve. Ms. Kelley represents NTEU before Federal agencies, in the media, and testifies before Congress on issues of importance to NTEU members and Federal employees.

We have Dr. Sara Collins, who is currently the assistant vice president of the Commonwealth Fund and an economist by trade. Dr. Collins oversees and manages the program on the future of health insurance at the Commonwealth Fund. And we thank you, Dr. Collins.

Mr. John Gage is the national president of the American Federation of Government Employees, AFGE AFL–CIO. Mr. Gage watches over the rights of some 600,000 Federal and D.C. Government employees. Mr. Gage was elected national president at AFGE's 2003 National Convention in Las Vegas, NV.

Thank you all for coming. And if you would stand and raise your right hands to be sworn in.

[Witnesses sworn.]

Mr. DAVIS OF ILLINOIS. The witness will show that—I mean the record will show that the witnesses answered in the affirmative. We thank you all for being with us. We will follow our usual procedure of 5 minutes for a summary statement. Your full statements are in the record. The yellow light indicates that you have a minute left and, of course, the red light means that our time is up. Thank you all for being here. We will begin with Mr. Green.

STATEMENTS OF DANIEL A. GREEN, DEPUTY ASSOCIATE DIRECTOR FOR EMPLOYEE AND FAMILY SUPPORT POLICY, STRATEGIC HUMAN RESOURCES POLICY DIVISION, U.S. OFFICE OF PERSONNEL MANAGEMENT; COLLEEN M. KELLEY, PRESIDENT, NATIONAL TREASURY EMPLOYEES UNION; SARA R. COLLINS, ASSISTANT VICE PRESIDENT, THE COMMONWEALTH FUND; AND JOHN GAGE, NATIONAL PRESIDENT, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, AFL–CIO

STATEMENT OF DANIEL A. GREEN

Mr. GREEN. Chairman Davis and distinguished members of the committee, I am pleased to be here today to discuss the issue of health insurance coverage for young adult dependents of Federal employees and retirees. The Office of Personnel Management offers numerous tools for Federal agencies to recruit and retain an effective civilian work force. At OPM we believe that success in our mission helps the total work force succeed at theirs: safeguarding the health, security and well-being of all Americans. Good personnel policies and practices just make good business sense.

Overall, the government provides excellent comprehensive benefit programs, with care for employee dependents being an important aspect of an effective work force. OPM administers the Federal

Employees Health Benefits Program, which covers approximately 8 million Federal employees, retirees and their dependents. The FEHB program offers competitive health benefit products for Federal workers by contracting with private sector health plans. We emphasize flexibility and consumer choice as important features of the program. In addition to the 283 plan choices offered under the program, Federal enrollees may choose between self-only or family coverage. Dependents under family coverage are spouses and unmarried children under 22 years of age, including adopted, foster and stepchildren. At age 22, young adult dependents lose FEHB coverage. They may enroll in temporary continuation of coverage for the full cost of premium, plus a 2 percent administrative fee. TCC enrollments may be continued for up to 36 months following loss of eligibility. Therefore TCC currently assists young adult dependent children with additional insurance coverage to age 25.

TCC allows dependents the choice to enroll in a different health plan than their parents' family coverage. Dependents may therefore enroll in a lower-cost plan.

The average FEHB premium for self-only coverage in 2008 is $433 per month, including both government and enrollees' shares. However, the Mail Handlers Value Option has a 2008 self-only premium of $178 a month.

In addition, some FEHB carriers offer affinity products which are not administered by OPM, but which provide enrollees with standalone dependent coverage for young adults over the age of 22. For example, one of the FEHB carriers offers an affinity product with dependent coverage for young adults up to age 27 at $184 per month.

We understand that Chairman Davis will be introducing a substitute for the current H.R. 5550. It would be premature for the administration to state a position ahead of the substitute's introduction. Nonetheless, we have considered this general topic in the past and offered the following observations regarding extended dependent coverage for young adult children. Simply changing the age of dependent children under family enrollments, as proposed in the current H.R. 5550, would raise total premium costs for the government and all enrollees to offer additional benefits for only part of the population.

In 2005, at the request of Congress, OPM reviewed the potential costs associated with adding coverage for dependent full-time students up to age 25. We found that adding those dependents alone would increase FEHB costs by over $200 million a year. Approximately $160 million would be borne by the government with the remainder of the cost paid by enrollees through increased premiums.

Chairman Davis' substitute for H.R. 5550 proposes to offer extended dependent coverage for employees with young adult children over the age of 22 as a voluntary enrollment option. The proposed legislation would allow health insurance companies to bid competitively to offer such coverage to dependents of FEHB enrollees. Premiums for the voluntary option would not include a government contribution, and dependents would need to have been covered under the FEHB program up to age 22 to qualify. We estimate there are about 245,000 dependents, students and nonstudents, in the target age group.

In 2006, OPM actuaries estimated the cost of extending FEHB benefits to unmarried, full-time student dependents under 23 years of age at about $1,640 per member per year, or roughly $135 per month. This cost estimate was based on experience data from one of our largest fee-for-service health plans; therefore, we believe this represents the low end of any cost estimate.

Mr. Chairman, I appreciate the opportunity to testify before the subcommittee on this issue. OPM will be pleased to work you and the rest of the Congress on addressing this issue, and I will be glad to answer any questions you or other Members may have.

Mr. DAVIS OF ILLINOIS. Thank you very much, Dr. Green.

[The prepared statement of Mr. Green follows:]

STATEMENT OF
DANIEL A. GREEN
DEPUTY ASSOCIATE DIRECTOR
OFFICE OF PERSONNEL MANAGEMENT

before the

SUBCOMMITTEE ON FEDERAL WORKFORCE,
POSTAL SERVICE AND THE DISTRICT OF COLUMBIA
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
U.S. HOUSE OF REPRESENTATIVES

on

Providing health insurance to young adults enrolled as dependents in the Federal Employees Health Benefits Program.

April 29, 2008

Chairman Davis and distinguished Members of the Subcommittee:

I am pleased to be here today to discuss the issue of health insurance coverage for young adult dependents of Federal employees and retirees.

The Office of Personnel Management (OPM) offers numerous tools for Federal agencies to recruit and retain an effective civilian workforce. At OPM, we believe that success in our mission helps the total workforce succeed in their own – safeguarding the health, security, and well being of all Americans. Good personnel policies and practices just make good business sense. Overall, the Government provides excellent, comprehensive benefit programs, with care for employee dependents being an important aspect of an effective workplace.

Current Coverage for Young Adult Dependents

OPM administers the Federal Employees Health Benefits (FEHB) Program, which covers approximately 8 million Federal employees, retirees, and their dependents. The FEHB Program offers competitive health benefits products for Federal workers by contracting with private sector health plans. We emphasize flexibility and consumer choice as important features of the Program. In addition to the 283 plan choices offered under the Program, Federal enrollees may choose between self only or family coverage. Dependents under family coverage are spouses and unmarried children under 22 years of age, including adopted, foster and stepchildren.

At age 22, young adult dependents lose FEHB coverage, but may enroll in Temporary Continuation of Coverage (TCC) for the full cost of premium (both the Government and enrollee share) plus a two percent administrative fee. TCC enrollments may be continued for up to 36 months following loss of eligibility. Therefore, TCC currently assists young adult dependent children with additional insurance coverage to age 25.

TCC allows dependents the choice to enroll in a different health plan than their parents' family coverage. Dependents may, therefore, enroll in lower cost plans. The average FEHB premium for self-only coverage in 2008 is $433 per month, including both Government and enrollee shares. However, the Mail Handlers Value Option has a 2008 self-only premium of $178 per month. Dependents may also choose to enroll in a high deductible health plan, with a premium pass-through savings account that allows them to preserve health care dollars for future needs.

In addition, some FEHB carriers offer affinity products which are not administered by OPM, but which provide enrollees with stand-alone dependent coverage for young adults over the age of 22. For example, one of the FEHB carriers (SAMBA) offers an affinity product with dependent coverage for young adults up to age 27 at $184 per month.

Legislative Proposal

We understand that Chairman Davis will be introducing a substitute for the current H.R. 5550. It would be premature for the Administration to state a position ahead of the substitute's introduction. Nonetheless, we have considered this general topic in the past and offer the following observations regarding extended dependent coverage for young adult children.

Simply changing the age of dependent children under family enrollments, as proposed in H.R. 5550, would raise total premium costs for the Government and all enrollees to offer additional benefits for only a part of the population. In 2005, at the request of Congress, OPM reviewed the potential costs associated with adding coverage for dependent full-time students up to age 25. We found that adding those dependents, alone, would increase FEHB costs by over $200 million a year. Approximately, $160 million would be borne by the Government with the remainder of the cost paid by enrollees through increased premiums. OPM is committed to maintaining reasonable healthcare costs for Federal families.

Chairman Davis' substitute for H.R. 5550 proposes to offer extended dependent coverage for employees with young adult children over the age of 22 as a voluntary enrollment option. The proposed legislation would allow health insurance companies to bid competitively to offer such coverage to dependents of FEHB enrollees. Premiums for the voluntary option would not include a Government contribution, and dependents would need to have been covered under the FEHB Program up to age 22 to qualify.

The proposed legislation would establish a voluntary program open to young adult dependents formerly covered under the FEHB Program. We estimate there are about 245,000 dependents (students and non-students) in this age group. In 2006, the OPM Actuaries Group estimated the cost of extending FEHB benefits for unmarried full-time student dependents under 23 years of age at about $1,640 per member per year, or roughly $135 per month. This cost estimate was based on experience data from one of our largest fee-for-service health plans. We believe this represents the low end of any cost estimate.

Mr. Chairman, I appreciate this opportunity to testify before the Subcommittee on this issue. OPM would be pleased to work with you and the rest of the Congress on addressing this issue. I will be glad to answer any questions you or other Members may have.

Mr. DAVIS OF ILLINOIS. We will proceed to Ms. Kelley.

STATEMENT OF COLLEEN M. KELLEY

Ms. KELLEY. Thank you very much, Chairman Davis, Representatives Norton and Cummings, for the opportunity to address this important issue to Federal employees.

NTEU supports H.R. 5550, the bipartisan bill to extend FEHB coverage for child dependents up to age 25. This bill takes a simple approach to solve a large problem. Right now, young people who receive health insurance through their parents FEHB family policies lose it when they turn 22. These young adults are frequently in college or out of school, but with no job, or a job with no benefits. They are part of a growing segment of society who are not financially independent of their families and cannot afford health insurance on their own. NTEU believes they should have coverage.

Research data shows that young adults ages 19 to 29 are the largest and fastest growing segment of the population without health insurance. There are numerous precedents in the States and in the private sector for care independence past age 21.

According to the National Association of Insurance Commissioners, most health insurance policies cover full-time student dependents until age 23, a full year longer than FEHB. In recent years, 17 States have required coverage for dependents in private plans up to ages 24, 25, 26 or, in one case, to age 30.

In Massachusetts, young adults are considered dependents for insurance purposes up to age 25, or for 2 years after they are no longer claimed on their parents' tax returns, whichever comes first. And Maryland enacted a law last year requiring plans to cover unmarried young people who reside with the policyholder until age 25. It is not surprising, then, that Federal employees and retirees who participate in FEHB are disappointed that the Federal Government is far behind.

If the States require private policies to carry dependents past age 22, why not the Federal Government? Private insurers offer coverage for young people out there in the States, yet one of the largest health insurance plans in the country, one that serves almost 9 million people, is way behind the curve. If employees working in the private sector can have their dependents covered well beyond the time they turn 22, then surely the Federal Government, with the largest risk pool in the country, should be able to do the same. Let's have the Federal Government lead on this issue rather than follow.

Barely a day goes by without an article about the pending retirement "tsunami" and the need to attract and retain talent in the Federal work force. The bill before us is an excellent place to begin. Increasing the age for young adults' health coverage is a move toward personnel competitiveness, recruiting and retaining talent, and realizing work force equity in the Federal sector. Let me provide two brief examples.

A daughter of one of our Members lost her insurance at age 22, and while in college and at the same time working for a company that did not offer health insurance, she fell down her stairs, broke her jaw and had to have teeth removed and repaired. Her parents could not afford to carry a separate policy on her. The daughter incurred a debt of $25,000 in medical expenses. Needless to say, as a young person, she could not readily pay this, and she was required to get a full-time job to pay off her debt and put college on hold.

As OPM has noted, FEHB offers temporary continuation of coverage, TCC, to those who lose insurance. But as OPM noted, enrollees must pay the full cost of the premium, the enrollee and the government share, for a total of 100 percent plus a 2 percent administrative fee. This essentially puts it out of reach for young people when they are dropped, even when parents help to pay.

Another example is an NTEU member who took TCC for his daughter. He was required to pay $457 a month for TCC, plus paying his daughter's deductible, plus the family's own FEHB premiums. The father wrote this to us in an e-mail, "I would be better off working for a private employer in New Jersey. I have worked almost 33 years with the IRS. And this insurance issue might be the one that forces me to leave before I wanted to. I might have to find another job in the private sector."

As to cost, to my knowledge, there has not been an in-depth examination by impartial experts, but common sense would suggest that infusing a large number of young and generally healthy individuals into a risk pool of government employees who are older or retired should not cost much. OPM did a cursory three-page paper in 2005 and came up with a 0.7 percent increase in premiums.

I find even a small increase hard to believe, and I urge the subcommittee to authorize an impartial study of the issue in its entirety.

Let me reaffirm NTEU's support for H.R. 5550. It is good public policy, one which would certainly help the Federal Government retain its talented work force and attract new employees.

We very much appreciate your leadership on this issue, Mr. Chairman, and I look forward to working with you to make it happen. Thank you.

Mr. DAVIS OF ILLINOIS. Thank you very much, Ms. Kelley.

[The prepared statement of Ms. Kelley follows:]

NTEU
The National Treasury Employees Union

Testimony of

Colleen M. Kelley
National President
National Treasury Employees Union

on

H.R. 5550, FEHBP Dependent Coverage

Before the

Subcommittee on the Federal Workforce, Postal Service, and the District of Columbia
Oversight and Government Reform Committee

United States House of Representatives

April 29, 2008

Chairman Davis, Ranking Member Marchant, and members of the Subcommittee, I appreciate the opportunity to appear before this distinguished subcommittee to discuss H.R. 5550 and the important subject of extending coverage under the Federal Employees Health Benefits Program (FEHBP) to child dependents past the age of 22. As you know, the National Treasury Employees Union (NTEU) represents more than 150,000 federal employees in over 31 different agencies and departments throughout the government.

NTEU supports H.R. 5550, the bipartisan bill that takes a simple approach to solve a large problem. Right now, young people who receive health insurance through their parents' FEHB family policies lose it when they turn 22. These young adults are frequently in college, or out of school but with no job, or no job with benefits. They are part of a growing segment of society who are not financially independent of their families and cannot afford health care insurance on their own. NTEU believes they should have coverage. H.R. 5550 proposes to simply strike "age 22" in the FEHB statute and replace it with "age 25." We believe this is sound federal policy and an answer to a problem calling out to be fixed. NTEU will gladly lend its support to the bill and work towards its enactment.

Not only do federal employees support the age 25 proposal, colleges all over American want to see young people covered as well. Some colleges now require health insurance coverage for their students as a condition of admission. Some offer their own coverage which can greatly vary in cost and coverage.

The Commonwealth Fund found in its August, 2007 report, *Rite of Passage? Why young Adults Become Uninsured and How New Policies Can Help,* that young adults ages 19 to 29 are the largest and fastest growing segment of the population without health insurance. Fortunately, FEHBP covers unmarried dependents up until age 22. But frequently 22 year olds are still in college and find themselves cut off from their parents' health insurance plans even before they have finished their studies. Some are in their senior year, or in programs that require more than four years. Some may be seeking their first job, or have one that doesn't provide benefits. Some interrupt their studies to work in volunteer or community service jobs and find themselves aged out when they return. At 22, college-educated or not, young adults face waiting periods, temporary positions, and lower wage jobs as they enter the job market.

According to the Government Accountability Office (GAO) about 1.7 million college students age 18 through 23 were uninsured in 2006 (GAO-08-389). Of the uninsured students, 35 percent of those age 23 and 25 percent of those age 22 were uninsured compared with 16 to 19 percent of the college students aged 18 through 21. While many colleges, to their credit, offer student health insurance, plans vary widely with differing prices and coverage; some cannot afford to offer preventive services, prescription drugs or other benefits. Students and other young adults generally cannot afford health insurance at this point in their lives.

FEHBP does offer a program available to enrollees who lose their health coverage, including those who reach age 22, known as the Temporary Continuation of Coverage (TCC) program. However, TCC enrollees must pay the full cost of the premium—the enrollee and the government share for a total of one-hundred percent plus a 2 percent administrative fee. This essentially puts it out of reach for most young people when they are dropped. If their parents pay the cost, they do it as a separate policy in addition to the already existing family premiums. And if they have more than one child cut off at 22, the cost is prohibitive.

Mr. Chairman, I want to emphasize that there are numerous precedents in the states and throughout the private sector for carrying dependents past age 21. According to the National

Association of Insurance Commissioners (NAIC), most health insurance policies cover full–time student dependents until age 23, a full year longer than FEHB. (www.naic.org) In recent years, seventeen states have required coverage for dependents in private plans up to age 24, 25, 26, or in one case, age 30. In Massachusetts, for example, young adults are considered dependents for insurance purposes up to age 25 or for two years after they are no longer claimed on their parents' tax returns, whichever comes first. Maryland enacted a law last year requiring plans to cover unmarried young people who reside with the policyholder until age 25.

In Texas, dependents can stay on their parents' policies up to age 25, and if they are students, until age 25 or longer. New Jersey requires most health insurers to cover single adult dependents up to age 30. In Utah, a dependent may not age out until 26 providing they are unmarried. The National Conference of State Legislatures lists 25 states on its website that have or are considering legislation relating to the changing definition of "dependent." *(http://www.ncsl.org/programs/health/dependentstatus.htm)*

It is not surprising then, that our federal employees and retirees who participate in FEHBP are disappointed that the federal government is so far behind. If the states require private policies to carry dependents past age 22, why not the federal government? This is an area in which the federal government should lead, not follow. Private insurers are offering coverage for young people out there in the states, yet one of the largest health insurance plans in the country—one that serves almost 9 million people-- is way behind the curve. If employees working in the private sector can have their dependents covered well beyond the time they turn 22, then surely the federal government— with the largest risk pool in the country—should be able to do the same.

Barely a day goes by without an article about the pending retirement "tsunami" and the need to attract and retain talent in the federal workforce. Comparing benefits like health insurance for children of employees with those offered by private sector plans is a good place to start. The federal government will not attract the talent it wants and needs if it lags behind in an area as important as health care coverage. When agencies can't compete effectively with benefits offered in the private sector, the American people will be deprived of the quality workforce it depends upon to keep to keep government systems running and protect the homeland.

The Office of Personnel Management (OPM) says it is interested in creative solutions to retain and recruit talented public servants. The bill before us, H.R. 5550, is an excellent place to begin. This committee just marked up a bill to provide paid parental leave, a step towards making federal government competitive in workplace issues. Increasing the age of dependents for health insurance is another positive step toward achieving personnel competitiveness, recruiting and retaining talent, and realizing workforce equity.

Let me share with the subcommittee some real life examples from federal employees who have faced financial and emotional hardship due to the age 22 cutoff. A daughter of one of our members lost insurance at age 22 and, while in college and at the same time working for a company that did not offer health insurance, fell down her stairs, broke her jaw and had to have teeth removed and repaired. Her parents could not afford to carry a separate policy on her. The daughter incurred a debt of $25,000 in medical expenses. Needless to say, as a young person she could not readily pay this and was required to get a full-time job to pay off her debt and put college on hold.

Another parent of two daughters contacted me with his case. His daughter attended a community college before going to a four year university which added a year to her period to obtain a bachelor degree. At age 22 after losing health insurance, the parents paid $457 per month for TCC in addition to the premiums for the regular family FEHBP plan. They had researched other insurance plans for their daughter, but the daughter needed medication and without an adequate prescription drug component, it would have cost about $1,000 a month just for medication. After taking the TCC for this dependent, it became apparent that their daughter needed to incur an entirely new deductible under the TCC plan so the parents were paying the $457 a month, plus her deductible, plus their own FEHBP premiums. To make matters worse, this family has another 20 year old child in a 5–year accounting program so they will soon revisit the insurance dilemma. Here's what the father wrote to us in an email: **"I would be better off working for a private employer in New Jersey....I have worked almost 33 years with the IRS, and this insurance issue might be the one that forces me to leave before I wanted to. I might have to find another job in the private sector."** As I mentioned earlier, New Jersey allows dependents to be covered in most cases up to age 30.

Another of our members, the parent of a diabetic who tests her blood sugar 6 to 8 times a day, described her basic costs: A box of 100 test strips range from $80 - $100 per box, insulin pump supplies run approximately $773 per quarter and insulin runs about $500 a quarter. In addition she goes to the endocrinologist at least 3 times a year at $225 per visit and has lab work done at a cost of approximately $180 per visit. And this is just routine care. Her daughter, who will not be independent at 22 will not be able to pay this—or TCC—on her own.

NTEU parents point out to me that many, many young people do not complete college anymore in four years through no fault of their own. Degrees such as physical therapy take six, and those requiring student teaching frequently take five. Educators often recommend beginning kindergarten later for some children which puts them a year behind automatically.

But whether these 22 year old dependents are students or not, I emphasize the point made earlier – that the federal workforce should catch up to the private sector and the states with respect to dependent coverage. It should extend the age, as H. R. 5550 recommends, to 25.

Finally, I want to address a subject I know is on the minds of many. To my knowledge there has not been an in depth examination by impartial experts of the cost of extending coverage for young people covered under FEHBP as dependents for an additional three years—or even for an additional year or two. But common sense tells us that infusing a large number of young and generally healthy individuals into a risk pool of government employees who are older or retired, should not cost much. In fact, some, like the Commonwealth Fund, argue it could even *help* the risk pool and conceivably save money.

I am aware of a cursory 3- page "report" sent by OPM to this subcommittee in 2005 to comply with a provision of the Federal Employee Dental and Vision Program (PL 108-496) which claimed an increase in premiums by 0.7 percent. I find that hard to believe. Given the new risk pool we are talking about, and the limited number of enrollees who have dependents in this situation, I find that number extremely suspect and would welcome an in-depth look at the cost by an independent body. I encourage the subcommittee to task an impartial body to look at the overall issue, and examine what the states are requiring as well as numbers affected and current usage of FEHBP now by those nearing 22 to determine a realistic cost.

In conclusion, let me reaffirm NTEU's support for H.R. 5550. The federal government should lead, not follow, in the important area of health care coverage. It is good public policy, one that will surely help the federal government retrain its talented workforce and attract new employees. Young enrollees in FEHBP who are dependents need health care coverage. This is the right thing to do.

Mr. DAVIS OF ILLINOIS. Dr. Collins.

STATEMENT OF SARA R. COLLINS, Ph.D.

Ms. COLLINS. Thank you, Mr. Chairman, for this invitation to testify on providing health insurance coverage to young adults enrolled as dependents in the Federal Employees Health Benefits Program. The subcommittee is to be commended to explore ways to stem the growing tide of uninsured young adults in the United States.

Adults ages 19 to 29 are the fastest growing age group among people who lack health insurance in the United States, as you stated in your opening comments. The number of uninsured young adults, 19 to 29, climbed to 13.7 million in 2006; this is up from 13.3 million in 2005. Young adults are disproportionately represented among people who lack health insurance, accounting for 30 percent of the 46 million nonelderly uninsured people, even though they comprise just 17 percent of the population.

Why do young adults become uninsured?

The most gaping hole in our voluntary, employment-based health insurance system occurs when people do not have access to employer coverage and have incomes that are too high to qualify for Medicaid and the State Children's Health Insurance Program.

The individual insurance program has proven to be a largely inadequate substitute for employer coverage because of underwriting and the fact that people face the full cost of the premium.

Young people making the transition from childhood to adulthood fall into this gap in greater frequency than any other age group.

Young adults are at risk of losing access to employer coverage or public insurance programs at two critical transition points: 19th birthdays or graduation from high school and graduation from college.

Young adults covered as dependents on their parents' employer policies often lose their eligibility for that coverage at 19 or graduation from high school, particularly if they don't go on to college.

Medicaid and SCHIP reclassify all teenagers as adults on their 19th birthday, meaning that most lose coverage.

As a result of these changes, uninsured rates drop sharply at age 19, rising from 11 percent among children under age 18 to 30 percent among young adults 19 to 29. Low-income young adults are particularly at risk of losing coverage: Among those in families with incomes under poverty, more than half are uninsured compared to about one in five low-income children.

Half of young adults who graduate from high school, but do not go on to college are uninsured for some time during the year following their graduation. This is twice the rate for young adults who attend college.

Among young adults who go to college, the year following their college graduation can also be perilous. As new entrants to the labor force, they can confront hazards that reduce their likelihood of having coverage like those faced by high school graduates: waiting periods, temporary positions, low-wage jobs, employment at small firms and job turnover. Nearly two of five college graduates can expect to spend at least some time uninsured in the year just after graduation.

What are the consequences of going without health insurance?

While young adults are, on average, in better health than older adults, losing coverage disrupts their access to health care and leaves them and their families at risk of high out-of-pocket costs.

Health risks that are prevalent among young adults include obesity, which increased by 70 percent in this age group in the 1990's. There are 3½ million pregnancies each year in this age group. One-third of all HIV diagnoses are made among young adults. Injury-related visits to emergency rooms are far more common among young adults than they are among either children or older adults.

The Commonwealth Fund Biennial Health Insurance Survey found that half of uninsured young adults, 19 to 29, because of costs, had either failed to fill a prescription, not gone to a doctor or specialist when they were sick, or skipped a recommended medical test, treatment or followup visit. This is compared to about 30 percent of young adults who are insured all year.

Just one-third of uninsured young adults, 19 to 29, have a regular doctor, compared with 81 percent of those who are insured. Forty-six percent of uninsured young adults in the Commonwealth Fund Survey reported problems with their medical bills, including having trouble making payments, being contacted by a collection agency because of inability to pay bills, significantly changing their way of life in order to pay bills or pay off medical bills over time. This is compared to about a quarter of young adults who had coverage and reported such problems.

Federal action to expand affordable, comprehensive health insurance to everyone would help ensure that young adults would avoid gaps in their health insurance. Massachusetts has led the Nation on expanding health insurance to all and has included policies targeted to ensure that young adults stay enrolled.

In addition, 18 other States have passed legislation that increases the age of dependency for young adults for purposes of private insurance coverage. New ages of dependency range from 24 in Delaware, Indiana and South Dakota to age 30 in New Jersey. Twelve States have settled on age 25.

In the absence of universal coverage at the Federal level, three targeted policy changes would help cover more young adults, extend eligibility for Medicaid and SCHIP beyond age 18. This would have by far the biggest impact on reducing the number of uninsured young adults, extending eligibility for dependents under private coverage beyond 18 or 19, as 19 States have done and which this committee is considering for FEHB. Even increasing the age to 23 could cover an estimated 1.4 million unmarried dependent young adults.

And finally, States could ensure that all colleges and universities require full-time and part-time students to have health insurance and that they offer coverage to both.

Thank you.

Mr. DAVIS OF ILLINOIS. Thank you very much.

[The prepared statement of Ms. Collins follows:]

THE COMMONWEALTH FUND

RISING NUMBERS OF UNINSURED YOUNG ADULTS: CAUSES, CONSEQUENCES, AND NEW POLICIES

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Invited Testimony
Subcommittee on Federal Workforce, Postal Service, and the District of Columbia
Committee on Oversight and Government Reform
United States House of Representatives
Hearing on
"Providing Health Insurance to Young Adults Enrolled as Dependents in FEHBP"

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RISING NUMBERS OF UNINSURED YOUNG ADULTS: CAUSES, CONSEQUENCES, AND NEW POLICIES

Sara R. Collins, Ph.D.

Executive Summary

Thank you, Mr. Chairman, for this invitation to testify on providing health insurance to young adults enrolled as dependents in the Federal Employees Health Benefits Program (FEHBP). The Committee is to be commended for exploring ways to stem the growing tide of uninsured young adults in the United States. Adults ages 19 to 29 are the fastest growing age group among people who lack health insurance in the United States. The number of uninsured young adults ages 19 to 29 climbed to 13.7 million in 2006, up from 13.3 million in 2005. Young adults are disproportionately represented among people who lack health insurance, accounting for 30 percent of the 46.4 million uninsured people under age 65, even though they comprise just 17 percent of the population. They are a significant driver of the annual growth in the number of uninsured people under age 65, accounting for about 17 percent of the increase in 2006.

Why Do Young Adults Become Uninsured?

- The most gaping hole in our voluntary, employment-based health insurance system occurs when people do not have access to employer coverage and have incomes that are too high to qualify for Medicaid and the State Children's Health Insurance Program (SCHIP).
- The individual insurance market has proven to be a largely inadequate substitute for employer group coverage because of underwriting in many states and the fact that people face the full cost of the premium.
- Young people making the transition from childhood to adulthood fall into this gap in greater frequency than any other age group.
- Young adults are at risk of losing access to employer coverage or public insurance programs at two critical transition points: nineteenth birthdays or graduation from high school, and graduation from college.

Critical Transition Points: 19th Birthdays and High School Graduation

- Young adults covered as dependents on their parent's employer policies often lose their eligibility for that coverage at age 19 or graduation from high school, particularly if they do not go on to college. Among employers who offer coverage, nearly 60 percent do not insure dependent children over age 18 or 19 if they do not attend college.
- Similarly, Medicaid and SCHIP reclassify all teenagers as adults on their 19th birthdays. Most low-income young adults are ineligible for Medicaid, since eligibility for adults in most states generally is restricted to very-low-income parents or disabled adults.
- As a result of these public and private insurance rules, uninsured rates jump sharply at age 19, rising from 11 percent among children age 18 and under to 30 percent among those ages 19 to 29. Low-income young adults are particularly at risk of losing coverage: among those in families with incomes under poverty, more than half (51%) are uninsured, compared with about one of five (20%) low-income children age 18 and under.
- Young adults who enroll in college full-time when they graduate from high school are the most likely in their age group to have insurance coverage, primarily because they are able to maintain eligibility under their parents' employer's policies. Some full-time students also gain coverage through plans offered by universities or through the individual insurance market.
- According to an analysis of the Survey of Income and Program Participation (SIPP), among all young adults graduating from high school, three of 10 are uninsured for some time in the year following high school. Half of young adults who graduate from high school but do not go to college are uninsured for some time during the year following their graduation—twice the rate for young adults who attended college.
- For young adults entering the labor market without the benefit of a college education, the jobs available are those that are least likely to have health benefits—jobs that pay low wages, are with small companies, or are part-time or temporary.

Critical Transition Points: College Graduation

- Among young adults who go to college, the year following their college graduation also can be perilous with respect to health insurance coverage. Coverage available to them as students either through a parent's employer or a student health plan is lost upon graduation.
- As new entrants to the labor force, albeit with a college education, they confront hazards that reduce their likelihood of having coverage similar to those faced by high school graduates: waiting periods, temporary positions, lower-wage jobs, employment in small firms, and job turnover.
- Of those college students who graduated during 1996-2000, 38 percent were uninsured for at least part of the time in the year following graduation, with 21 percent uninsured for six months or more. Based on the experiences of recent graduates, nearly two of five college graduates can expect to spend at least some time uninsured in the year just after graduation.

What Are the Demographics of Uninsured Young Adults?

- By far, the young adults most at risk of lacking coverage are those from low-income households. Of all uninsured young adults ages 19-29, more than 7 in 10 (72%) have household incomes of less than 200 percent of poverty.
- Young adults in low income households are both more likely to experience some time uninsured and to go without coverage for long periods of time. In the analysis of the SIPP, nearly 80 percent of young adults with incomes under 200 percent of poverty level were uninsured for at least part of a four-year period; more than half (52%) were uninsured for 13 months or more.
- Nearly half of uninsured young adults are white. But Hispanics and African Americans are both at greater risk of being uninsured than white young adults: 34 percent of African Americans and 52 percent of Hispanics ages 19 to 29 are uninsured, compared with 23 percent of whites in that age range.
- Hispanics and African American young adults are at high risk of being uninsured at any time and for experiencing long spells without coverage. In the SIPP analysis, more than three-quarters of Hispanic young adults ages 19–23 were uninsured over a

four year period and 15 percent were uninsured for the entire time period, five times the rate of white young adults.

What Are Consequences of Going Without Health Insurance for the Health and Economic Security of Young Adults and Their Families?

- While young adults are on average in better health than older adults, losing insurance disrupts their access to the health care system, introduces barriers to care when it is needed, and leaves young adults and their families at risk for high out-of-pocket costs in the event of a serious illness or severe injury.
- Health risks that are prevalent among young adults include:
    - Rising rates of obesity: about 14 percent of adults ages 18 to 29 are obese. In the 1990s, obesity increased by 70 percent in this age group—the fastest rate of increase among all adults.
    - There are 3.5 million pregnancies each year among the 21 million women ages 19 to 29.
    - One-third of all HIV diagnoses are made among young adults.
    - Injury-related visits to emergency rooms are far more common among young adults than they are among either children or older adults.
- The Commonwealth Fund Biennial Health Insurance Survey has consistently found that uninsured young adults are much more likely to go without needed care because of costs than are insured young adults: more than half of young adults ages 19–29 with a time uninsured in the past year, because of cost, either had failed to fill a prescription, not gone to a doctor or specialist when sick, or skipped a recommended medical test, treatment, or follow-up visit.
- The survey also found that uninsured young adults are far less likely than those with coverage to have a regular doctor: just one-third of uninsured young adults ages 19–29 had a regular doctor, compared with 81 percent of those who were insured all year.
- Forty-six percent of uninsured young adults in the Commonwealth Fund survey reported problems with medical bills including having trouble making payments, being contacted by a collection agency because of inability to pay bills, significantly

changing their way of life in order to pay medical bills, or paying off medical debt over time.

New Policies To Expand Coverage to Young Adults

- Federal action to expand affordable, comprehensive health insurance to all would help ensure that young adults would avoid gaps in their health insurance when they make the transition from childhood to adulthood.
- Massachusetts has led the nation on expanding health insurance to all and has included policies targeted to ensure that young adults stay enrolled.
- In addition, 19 states have passed legislation that increases the age of dependency for young adults for purposes of private insurance coverage. New ages of dependency range from age 24 in Delaware, Indiana and South Dakota to age 30 in New Jersey. Twelve states have settled on age 25. All but three laws apply to non-students and students. In general, these laws apply to plans covered under state insurance regulations and thus do not apply to self-insured employers.
- In the absence of universal coverage at the federal level, three targeted policy changes would help cover more young adults:
    - **Extend eligibility for Medicaid/SCHIP public coverage beyond age 18.** This change would have by far the biggest impact on reducing the number of uninsured young adults. If extended to age 25, such a policy change could help the 3.3 million uninsured young adults ages 19 to 25 with incomes under 100 percent of poverty or the 5.7 million uninsured young adults ages 19 up to 25 with incomes under 200 percent of poverty.
    - **Extend eligibility for dependents under private coverage beyond age 18 or 19, as 19 states have done.** Even increasing the age to 23 could cover an estimated 1.4 million unmarried, dependent young adults. If the benefit requirement were extended to family policies, the average premium for those plans would rise by about 3 to 5 percent.
    - **States could ensure that all colleges and universities require full-time and part-time students to have health insurance, and that they offer health insurance coverage to both.**

The persistent rise in the number of uninsured young adults each year reflects the spreading weaknesses in the United States' voluntary, employer-based health insurance system. As a country we depend nearly entirely on employers to provide health insurance to working age adults and indeed more than 160 million workers and their dependents are covered under employer-based health plans. But the unabated growth in health care costs of the last several years has made it increasingly difficult for many employers, particularly small employers, to provide affordable health insurance coverage to all their workers. New entrants to the labor force, particularly those with low wages or who are in temporary positions, are at high risk of not being offered health insurance by an employer or not being able to afford it when it is offered. New strategies are needed to expand health insurance coverage to everyone and many promising approaches are being discussed or pursued at both the federal and state levels. Yet, if we cannot amass the will to cover everyone at once, then surely we have the will to begin to move towards universal coverage by first expanding health insurance to those most at risk of being without it.

Thank you.

RISING NUMBERS OF UNINSURED YOUNG ADULTS: CAUSES, CONSEQUENCES AND NEW POLICIES

Sara R. Collins, Ph.D.

Thank you, Mr. Chairman, for this invitation to testify on providing health insurance to young adults enrolled as dependents in the Federal Employees Health Benefits Program (FEHBP). The Committee is to be commended for exploring ways to stem the growing tide of uninsured young adults in the United States. Adults ages 19 to 29 are the fastest growing age group among people who lack health insurance in the United States.[1] The number of uninsured young adults ages 19 to 29 climbed to 13.7 million in 2006, up from 13.3 million in 2005 (Figure 1).[2] There are more than 6.1 million young adults uninsured between the ages of 19–23 and more than 7.5 million uninsured between ages 24–29. Young adults are disproportionately represented among people who lack health insurance, accounting for 30 percent of the 46.4 million uninsured people under age 65, even though they comprise just 17 percent of the population. They are a significant driver of the annual growth in the number of uninsured people under age 65, accounting for about 17 percent of the increase in 2006.

Why Do Young Adults Become Uninsured?

The most gaping hole in our voluntary, employment-based health insurance system occurs when people do not have access to employer coverage and have incomes that are too high to qualify for Medicaid and the State Children's Health Insurance Program (SCHIP). The individual insurance market—where just 6 percent of the under-65 population buys coverage—has proven to be a largely inadequate substitute for employer group coverage because of underwriting in many states and the fact that people face the full cost of the premium. Young people making the transition from childhood to adulthood fall into this gap in greater frequency than any other age group. Only 3.6 million, or 8 percent of young adults 19–29, have coverage through the individual

[1] S. R. Collins, C. Schoen, J. L.Kriss, M. M. Doty, B. Mahato, *Rite of Passage? Why Young Adults Become Uninsured and How New Policies Can Help* (New York: The Commonwealth Fund) August 2007.

[2] J. L. Kriss, S. R. Collins, B. Mahato, et al., *Rite of Passage? Why Young Adults Become Uninsured and How New Policies Can Help* (New York: The Commonwealth Fund) forthcoming May 2008.

market, two-thirds of whom are 19–23. Young adults are at risk of losing access to employer coverage or public insurance programs at two critical transition points: nineteenth birthdays or graduation from high school, and graduation from college.

Graduation from high school. Young adults covered as dependents on their parent's employer policies often lose their eligibility for that coverage at age 19 or graduation from high school, particularly if they do not go on to college. A 2004 Commonwealth Fund study found that among employers who offer coverage, nearly 60 percent do not insure dependent children over age 18 or 19 if they do not attend college.[3]

Similarly, Medicaid and SCHIP reclassify all teenagers as adults the day they turn 19. As a result, young adults who had been insured under Medicaid or SCHIP as children typically do not have an option to stay covered through those programs, unless they are able to qualify for Medicaid as adults. Regardless of school, work, or dependent status, they lose their eligibility as dependents or children. Most low-income young adults become ineligible for public programs, since eligibility for adults in most states is generally is restricted to very-low-income parents or disabled adults.

As a result of the combined impact of public and private insurance rules, uninsured rates jump sharply at age 19. Turning 19 increases the uninsured rate nearly threefold; it rises from 11 percent among children age 18 and under to 30 percent among those ages 19 to 29 (Figure 2). Low-income young adults are particularly vulnerable to being uninsured. Among those in families living below the poverty level, more than half (51%) are uninsured, compared with about one of five (20%) low-income children age 18 and under. Those young adults with slightly higher incomes (100%–199% of poverty) fare only marginally better—roughly two of five (42%) are uninsured.

Young adults who enroll in college full-time when they graduate from high school are the most likely in their age group to have insurance coverage, primarily because they are able to maintain eligibility under their parents' employer's policies. A small share of full-time students also gains coverage through plans offered by universities or through the individual insurance market. Roughly 38 percent of public universities and 79 percent of private universities and colleges require that students have health insurance as a condition

[3] S. R. Collins, C. Schoen, M. M. Doty, and A. L. Holmgren, *Job-Based Health Insurance in the Balance: Employer Views of Coverage in the Workplace* (New York: The Commonwealth Fund, Mar. 2004).

of enrollment.[4] Six states (California, Idaho, Illinois, Massachusetts, Montana, and New Jersey) have either a state mandate or a higher education governing board mandate that full-time undergraduate students who are U.S. citizens must have health insurance in order to enroll.[5] Half (50%) of full-time students ages 19 to 23 receive health insurance through their parents' employer-sponsored plans, while another 18 percent have individual coverage, including college and university plans (Figure 3).

Young adults who are not in school full-time following graduation from high school are much more likely to be uninsured, primarily because it is much harder for them to gain access to employer coverage. Thirty-nine percent of part-time and non-students ages 19 to 23 are uninsured, compared with 17 percent of full-time students (Figure 3). Young adults who opt to enter the labor market rather than go to college are unlikely to be eligible for coverage under their parents' policies, and may have difficulty finding a job with health benefits. For those entering the labor market without the benefit of a college education, the jobs available are those that are least likely to have health benefits—jobs that pay low wages, are with small companies, or are part-time or temporary.[6] The Commonwealth Fund Biennial Health Insurance Survey (2005) found that 43 percent of all workers ages 19 to 29 who earn less than $10 per hour are uninsured.[7] Almost one-third (31%) of workers between ages 19 and 29 have jobs that pay less than $10 per hour.[8]

Using the Survey of Income and Program Participation (SIPP), a federal survey which follows people over time, Pamela Farley Short tracked a sample of young adults in the year following graduation for the Commonwealth Fund. Among all young adults

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[4] Dana M. Mills, "The State of Student Health Insurance: Implications for ACHA's Standards," 2007 Student Health Insurance/Benefit Plan Survey Results, presentation at ACHA's Annual Meeting, Jun 1 2007; Communication with S. Beckley, Stephen L. Beckley & Associates, Inc., Fort Collins, Colo, June 9, 2007.

[5] Ibid.

[6] S. R. Collins, K. Davis, and A. Ho, "A Shared Responsibility: U.S. Employers and the Provision of Health Insurance to Employees," *Inquiry* Spring 2005 42(1):6–15; S. R. Collins, K. Davis, M. M. Doty, and A. Ho, *Wages, Health Benefits, and Workers' Health* (New York: The Commonwealth Fund, Oct. 2004); S. R. Collins, C. Schoen, D. Colasanto, and D. A. Downey, *On the Edge: Low-Wage Workers and Their Health Insurance Coverage, Findings from the 2001 Health Insurance Survey* (New York: The Commonwealth Fund, Mar. 2003); B. Garret, L. M. Nichols, and E. K. Greenman, *Workers Without Health Insurance: Who Are They and How Can Policy Reach Them?* (Washington, D.C.: The Urban Institute, Sept. 2001); S. H. Long and M. S. Marquis, "Low-Wage Workers and Health Insurance Coverage: Can Policymakers Target Them Through Their Employers?" *Inquiry*, Fall 2001 38(3):331–37.

[7] Authors' analysis of the Commonwealth Fund Biennial Health Insurance Survey (2005).

[8] Ibid.

graduating from high school between 1996 and 2000, three of 10 were uninsured for some time in the year following high school (Figure 4). Half of young adults who graduated from high school but did not go to college were uninsured for some time during the year following their graduation—twice the rate for young adults who attended college that year.

Graduation from college. Among those young adults who go to college, the year following their college graduation also can be a time during which connections to the health system are fragile and break down. The protections afforded them by virtue of being a full-time student—coverage through a parent's employer policy or a student health plan—are lost upon graduation. As new, albeit college-educated, entrants to the labor force, they confront hazards that reduce their likelihood of having coverage similar to those faced by high school graduates: waiting periods, temporary positions, lower-wage jobs, employment in small firms, and job turnover. Of those college students who graduated during 1996 to 2000, 38 percent were uninsured for at least part of the time in the year following graduation, with 21 percent uninsured for six months or more (Figure 5). Based on the experiences of recent graduates, nearly two of five college graduates can expect to spend at least some time uninsured in the year just after graduation.

Contrary to conventional wisdom, young adults appear to value the protection that health insurance coverage provides. The Commonwealth Fund Biennial Health Insurance Survey (2005) found that nearly three-quarters (73%) of employed young adults ages 19–29 accept health insurance coverage when their employer offers it to them, only slightly less than the take-up rate (82%) of workers age 30 or older (Figure 6). They are less likely to work for firms that offer coverage than older adults and less likely to be eligible for their employer coverage than older adults.

Demographics of Uninsured Young Adults

By far, the young adults most at risk of lacking coverage are those from low-income households. Like children and adults, young adults in lower income families are disproportionately represented among the uninsured. About 24 percent of adults ages 19 to 29 live in households with incomes below 100 percent of the poverty level, but more than two-fifths (41%) of uninsured young adults live in households with incomes below poverty (Figure 7).[9] More than 7 in 10 (72%) uninsured young adults have household incomes of less than 200 percent of poverty.

Young adults from low-income households are both more likely to experience some time uninsured and to go without coverage for long periods of time. In Pamela Farley Short's analysis of the SIPP, nearly 80 percent of young adults with incomes under 200 percent of the poverty level were uninsured for at least part of the four-year period spanning 1996–2000; more than half (52%) were uninsured for 13 months or more (Figure 8).

Nearly half of uninsured young adults are white. But Hispanics and African Americans are both at greater risk of being uninsured than white young adults: 34 percent of African Americans and 52 percent of Hispanics ages 19 to 29 are uninsured, compared with 23 percent of whites in that age range. Hispanics are also disproportionately represented among uninsured young adults, representing 19 percent of adults ages 19 to 29, but accounting for nearly one-third (32%) of uninsured young adults. Hispanic and African American young adults are at high risk of being uninsured at any time and for experiencing long spells without coverage. In the SIPP analysis, more than three-quarters of Hispanic young adults ages 19–23 were uninsured over the four year period and 15 percent were uninsured for the entire time period, five times the rate of white young adults.

What Are Consequences of Going Without Health Insurance for the Health and Economic Security of Young Adults and Their Families?

Young adults are on average in better health than older adults. They also have lower per-capita health expenditures than do older age groups (Figure 9). But going without insurance disrupts their access to the health care system, introduces barriers to care when it is needed, and leaves young adults and their families at risk for high out-of-pocket costs in the event of a serious illness or severe injury. Young adults, particularly women, are in need of regular preventive care. If young adults lose their coverage at age 19 or upon graduation from college, their ties with their physicians may be severed at precisely the

[9] In 2005, the under-65 poverty thresholds were $10,160 for one person, $13,078 for two adults, $15,720 for two adults and one child under 18, and $19,806 for two adults and two children under 18. See C. DeNavas-Walt, B. D. Proctor and C. H. Lee, *Income, Poverty, and Health Insurance Coverage in the United States: 2005*, Current Population Reports, Consumer Income (Washington, D.C.: U.S. Census Bureau, Aug. 2006).

time they should be forming stronger links to the health care system and taking responsibility for their own care. The following are a few reasons why coverage is as important for young adults as it is for everyone else:

- 14 percent of adults ages 18 to 29 are obese. In the 1990s, obesity increased by 70 percent in this age group—the fastest rate of increase among all adults.[10]
- There are 3.5 million pregnancies each year among the 21 million women ages 19 to 29.[11]
- One-third of all HIV diagnoses are made among young adults.[12]
- Injury-related visits to emergency rooms are far more common among young adults than they are among either children or older adults.[13]
- More than 20,000 people with congenital heart disease reach their 19th birthday each year.[14]

The Commonwealth Fund Biennial Health Insurance Survey (2005) shows that being uninsured or having gaps in health insurance impedes access to the health care system. More than half (54%–57%) of young adults ages 19 to 29 who either were uninsured for the entire year or had a time without coverage said that they had gone without needed health care because of cost (Figure 10). Forgone care included failing to fill a prescription, not seeing a doctor or specialist when sick, or skipping a recommended medical test, treatment, or follow-up visit.

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[10] A. H. Mokdad, E. S. Ford, B. A. Bowman et al., "Prevalence of Obesity, Diabetes, and Obesity-Related Health Risk Factors, 2001," *Journal of the American Medical Association*, Jan. 1, 2003 289(1):76–79; T. A. Hillier and K. L. Pedula, "Complications in Young Adults with Early Onset Type 2 Diabetes: Losing the Relative Protection of Youth," *Diabetes Care*, Nov. 2003 26 (11):2999–3005; A. H. Mokdad et al., "The Spread of the Obesity Epidemic in the United States, 1991–1998," *Journal of the American Medical Association*, Oct. 27, 1999 282(16):1519–22.

[11] K. Quinn, C. Schoen, and L. Buatti, *On Their Own: Young Adults Living Without Health Insurance* (New York: The Commonwealth Fund, May 2000).

[12] Ibid.

[13] National Center for Health Statistics, *Health, United States, 2005* (Hyattsville, Md.: NCHS, Nov. 2005), Table 89.

[14] G. Rosenthal, "Prevalence of Congenital Heart Disease," in *The Science and Practice of Pediatric Cardiology*, Second Edition, A. Garson, J.T. Bricker, D.J. Fisher, and S.R. Neish (eds.) (Baltimore: Williams and Wilkins, 1998), pp. 1095–96.

In addition, uninsured young adults are far less likely than those with coverage to have a regular doctor. In the survey, only one-third of uninsured young adults ages 19 to 29 had a regular doctor, compared with 81 percent of those who were insured all year (Figure 11). Uninsured female young adults had regular doctors at about half the rate of young women who were insured all year. Male young adults who were uninsured had the most fragile link to the health care system: just 21 percent had a regular doctor, compared with 75 percent of male young adults who were insured all year.

Many young adults have problems paying medical bills or are paying off medical debt over time. More than one-third (35%) of all young adults surveyed, both insured and uninsured, report problems with medical bills: including having trouble making payments, being contacted by a collection agency because of inability to pay bills, significantly changing their way of life in order to pay medical bills, or paying off medical debt over time (Figure 12). About one of five (20%) young adults were paying off medical debt over time. Uninsured young adults were the most burdened with medical bills and debt; 46 percent reported at least one bill-related problem.

New Policies To Expand Coverage to Young Adults

Universal health insurance coverage would help ensure that young adults would avoid gaps in their health insurance when they make the transition from childhood to adulthood, from high school or college or graduate school to the workforce.[15] Several recent federal proposals aim for universal insurance coverage and many also include specific provisions to increase coverage among young adults in existing private and public insurance arrangements.[16] The Commonwealth of Massachusetts passed a universal coverage law in 2006, which includes specific provisions for young adults. As 2008 presidential candidates, both Senator Clinton (D-NY) and Senator Barack Obama (D–Ill.) have proposed approaches to achieve universal coverage similar in framework to the universal

[15] The Commonwealth Fund Commission on a High Performance Health System, *A High Performance Health System for the United States: An Ambitious Agenda for the Next President,* The Commonwealth Fund, November 2007; S.R. Collins, et. al, *A Roadmap to Health Insurance For All: Principles for Reform,* The Commonwealth Fund, October 2007.

[16] S. R. Collins, K. Davis, J. L. Kriss, *An Analysis of Leading Congressional Health Care Bills, 2005–2007: Part 1, Insurance Coverage*, The Commonwealth Fund, March 2007.

coverage law passed in Massachusetts.[17] Senator Obama's proposal would allow young adults up to age 25 to continue coverage under their parents' plans. Still other, more incremental, federal proposals would expand coverage for children as well as young adults, or exclusively target young adults.[18]

Recent state initiatives. In the absence of federal action to expand insurance coverage, 19 states have passed legislation that increases the age of dependency for young adults for purposes of private insurance coverage (Table 1).[19] Legislatures or governors in Florida, Illinois, New York, and Pennsylvania have introduced similar proposals. New ages of dependency range from age 24 in Delaware, Indiana and South Dakota to age 30 in New Jersey. Twelve states have settled on age 25. All but three laws apply to non-students and students. In general, these laws apply to plans covered under state insurance regulations and thus do not apply to self-insured employers.

Some of the new laws and proposals are part of broader state efforts to expand coverage. As part of Massachusetts' 2006 law, young adults are considered dependents for insurance purposes up to age 26 or for two years after they are no longer claimed on their parents' tax returns—whichever comes first.[20] The state's new Commonwealth Choice program also provides lower-cost insurance products for young adults ages 19 to 26.[21] Pennsylvania Governor Ed Rendell's health reform proposal includes a requirement that insurers offer coverage to unmarried dependents up to age 30, and it would require all full-time college and graduate students to have health coverage that meets minimum requirements.[22] In Illinois, Governor Rod Blagojevich's proposal for universal coverage in his state includes a provision to increase the dependent age for young adults to age 30.[23]

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[17] S. R. Collins and J. L Kriss, *Envisioning the Future: The 2008 Presidential Candidates' Health Reform Proposals*, The Commonwealth Fund, January 2008.

[18] S. R. Collins, C. Schoen, J. L. Kriss, et al., *Rite of Passage?*

[19] See National Conference of State Legislatures, http://www.ncsl.org/programs/health/dependentstatus.htm.; State Coverage Initiatives, http://www.statecoverage.net/matrix/dependentcoverage.htm.

[20] Massachusetts H.B. 4850, http://www.mass.gov/legis/laws/seslaw06/sl060058.htm.

[21] "Health Care Access and Affordability Conference Committee Report," Apr. 2006. http://www.mass.gov/legis/summary.pdf.

[22] Pennsylvania Governor Rendell's "Prescription for Pennsylvania" proposal, http://www.gohcr.state.pa.us/prescription-for-pennsylvania/index.html.

[23] "Illinois Covered" plan, http://www.illinoiscovered.com/details.html.

Targeted Policy Options

Whether they are included in a broader coverage expansion plan or implemented on their own, targeted policy options like those described above could improve access to coverage for young adults and help them stay insured. At the same time, expanding coverage for this group could very well lower the average cost of group insurance, since young adults are generally healthier than older adults and have far lower per capita health care expenditures (Figure 9).[24]

Three policy changes could extend coverage to a substantial portion of uninsured young adults and prevent others from losing coverage in the future.

1. *Extend eligibility for Medicaid/SCHIP public coverage beyond age 18.* Congress could allow or require states to extend coverage to those young adults in Medicaid and SCHIP who lose their eligibility because of age, with federal matching funds provided. Young adults in households with incomes under 100 percent of poverty are by far the group most at risk of lacking health insurance coverage. Such an expansion would have the biggest impact in terms of lowering the number of uninsured young adults. Young adults with incomes of 100 percent to 199 percent of poverty also lack insurance at a high rate. States would have the option of extending coverage up to a target age such as 25, and could phase in coverage one year at a time.

Alternatively, Congress could require states to extend coverage to those currently enrolled in the programs and who "age off," just as states are now required to extend Medicaid coverage to those who become ineligible because of higher earnings.[25] Such a policy change could help the 3.3 million uninsured young adults ages 19 to 25 with incomes under 100 percent of poverty or the 5.7 million uninsured young adults ages 19 up to 25 with incomes under 200 percent of poverty.

2. *Extend eligibility for dependents under private coverage beyond age 18 or 19.* Private insurers and both public and private employers could be required to define dependent coverage as all unmarried dependents beyond age 18 or 19. As noted above, many states have recently redefined the age at which a young adult is no longer a dependent. Some

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[24] Analysis of the Medical Expenditure Panel Survey (MEPS), 2004, by S. Glied and B. Mahato, Columbia University, for The Commonwealth Fund. See Methodology for a description of the MEPS.

[25] J. M. Lambrew and A. Garson, Jr., *Small But Significant Steps to Help the Uninsured* (New York: The Commonwealth Fund, Jan. 2003).

private and public employers already provide such coverage voluntarily. Such an expanded benefit could be either structured as a rider with a supplemental premium or simply extended to all policies and covered by the family premium. Even increasing the age to 23 could cover an estimated 1.4 million unmarried, dependent young adults.[26] If the benefit requirement were extended to family policies, the average premium for those plans is estimated to rise by about 3 to 5 percent, where 3 percent is the estimated increase for extending the benefit to all non-single policies and 5 percent is the estimated increase for adding the benefit to family policies with dependents only.

3. *States could ensure that all colleges and universities require full-time and part-time students to have health insurance, and that they offer health insurance coverage to both.* Many colleges and universities already require health insurance coverage as a condition of enrollment, and a handful of states (California, Idaho, Illinois, Massachusetts, Montana, and New Jersey) have either a state mandate or a higher education governing board mandate requiring that full-time undergraduate students who are U.S. citizens have health insurance in order to enroll. Students at these institutions generally can choose to enroll in a school health plan or provide proof of coverage from another source, usually a parent's employer-based plan.

The cost of the school plans, which ranges from about $500 to $2,400 per year, is usually added to tuition along with other required fees.[27] Increasing the number of schools that require students to have health insurance coverage and that offer such coverage through state mandates could help cover the 1.6 million part-time and full-time uninsured students ages 19 to 23. Federal or state subsidies for premiums would help offset the costs of insurance coverage for students.

Conclusion

The persistent rise in the number of uninsured young adults each year reflects the spreading weaknesses in the United States' voluntary, employer-based health insurance

[26] Analysis of the March 2006 Annual Social and Economic Supplement to the CPS, S. Glied and B. Mahato.

[27] The range reflects the costs of those school health plans that are consistent with standards recommended by the American College Health Association. Communication with S. Beckley, Stephen L. Beckley & Associates, Inc., Fort Collins, Colo.; L. Rosellini, "Healthcare Headaches," *U.S. News & World Report*, Apr. 15, 2002, p. 52.

system. As a country we depend nearly entirely on employers to provide health insurance to working age adults and indeed more than 160 million workers and their dependents are covered under employer-based health plans. But the unabated growth in health care costs of the last several years has made it increasingly difficult for many employers, particularly small employers, to provide affordable health insurance coverage to all their workers. New entrants to the labor force, particularly those with low wages or who are in temporary positions, are at high risk of not being offered health insurance by an employer or not being able to afford it when it is offered. The individual insurance market has proven to be an inadequate substitute for employer-based coverage. As increasing numbers of adults have lost employer-based coverage over the last half decade, enrollment in the individual market has remained largely static: the majority of people who lose access to employer coverage become uninsured. New strategies are needed to expand affordable and comprehensive health insurance coverage to everyone and many promising strategies are being discussed or pursued at both the federal and state levels. Yet, if we cannot amass the will to cover everyone at once, then surely we have the will to begin to move towards universal coverage by first expanding health insurance to those most at risk of being without it.

Thank you.

Table 1. State Laws That Increase the Age Up To Which Young Adults Are Considered Dependents for Insurance Purposes

State	Year law passed or implemented	Limiting age of dependency status	Applies to non-students?
Colorado[1]	2006	25	Yes
Connecticut[2]	2007	26	Yes
Delaware[3]	2006	24	Yes
Idaho[4]	2007	25	No
Indiana[5]	2007	24	Yes
Maine[6]	2007	25	Yes
Maryland[7]	2007	25	Yes
Massachusetts[8]	2006	25	Yes
Minnesota[9]	2007	25	Yes
Montana[10]	2007	25	Yes
New Hampshire[11]	2007	26	Yes
New Jersey[12]	2006	30	Yes
New Mexico[13]	2005	25	Yes
Rhode Island[14]	2006	25	No
South Dakota[15]	2005	24	No
Texas[16]	2003	25	Yes
Utah[17]	1994	26	Yes
Washington[18]	2007	25	Yes
West Virginia[19]	2007	25	Yes

[1]Colorado House Bill 05-1101; Requires group and privately purchased individual health plans to cover unmarried dependents up to age 25. Dependents must be unmarried or financially dependent, or live at the same address as parents, but eligibility is not dependent on full-time enrollment in school.

[2]Connecticut C.G.S.A. § 38a-497; Requires that group health insurance policies extend coverage to children up to age 26; effective January 1, 2009.

[3]Delaware House Bill 446, Chapter No. 419; Requires insurance providers to cover unmarried young adults under a pre-existing family policy up to age 24. Applicable as long as the young adult has no dependents and either lives in the state of Delaware or is a full-time student.

[4]Idaho Senate Bill 1105, Chapter No. 148; Allows unmarried financially dependent full-time students up to age 25 to remain on their parents' health insurance, and unmarried non-students up to age 21.

[5]Indiana House Bill 1678; Requires commercial health insurers and health maintenance organizations to cover dependents up to age 24 on their parents' insurance.

[6]Maine Chapter 115 Title 24-A; Requires individual and group health insurance policies to continue coverage for a dependent child up to age 25 if the child is financially dependent on the policyholder and has no dependents of his/her own.

[7]Maryland House Bill 1057; Allows young adults up to age 25 to receive coverage through their parents' health insurance as long as they live with the policyholder and are unmarried.

[8]Massachusetts House Bill 4850; As part of Massachusetts' April 2006 health insurance expansion law, young adults are considered dependents for insurance purposes up to age 25 or for two years after they are no longer claimed on their parents' tax returns, whichever comes first.

[9]Minnesota House Bill 475; Effective January 1, 2008; Allows dependents up to age 25 to remain on their parents' private health insurance plans.

[10]Montana MCA 33-22-140; provides insurance coverage to unmarried children up to 25 years of age under a parent's policy; effective January 1, 2008.

[11]New Hampshire Senate Bill 183-FN; Applies to dependents up to age 26 who are unmarried, have no dependents of their own, are residents of New Hampshire or full-time students, and are not provided coverage through another group or individual health plan.

[12]New Jersey Public Act 2005 Chapter 375; Requires most group health plans to cover single adult dependents up to age 30.

[13]New Mexico House Bill 335; Requires that all insurance policies provide coverage for unmarried dependents up to age 25, regardless of school enrollment.

[14]Rhode Island Senate Bill 2211; Requires health insurance plans to cover unmarried dependent children up to age 19, or age 25 for financially dependent students.

[15]South Dakota Codified Law 58-17-2.3; Prohibits any insurance provider that offers dependent benefits from terminating coverage before age 19, or 24 if the dependent is a full-time student.

[16]Texas House Bill 1446; Allows dependents up to age 25 to be covered by their parents' insurance plans. Full-time students age 25 and older are also eligible to remain on their parents' health insurance.

[17]Utah Code, Title 31A-22-610.5; Requires insurance policies that include dependent coverage to cover unmarried dependents up to age 26.

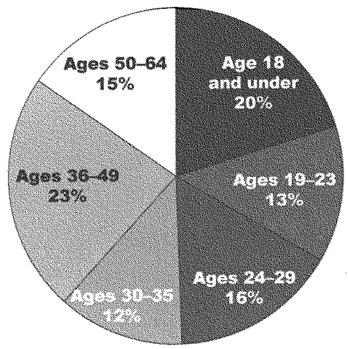
[18]Washington Chapter 259, 2007 Laws PV (Senate Bill 5930); effective January 1, 2009; Requires all commercial insurance carriers and the state employee programs to offer enrollees the opportunity to extend coverage to unmarried dependents up to age 25.

[19]West Virginia Chapter 134, Acts, 2007; Requires health insurance plans to cover unmarried dependent children up to age 25.

Note: Five states have passed laws to extend the dependency eligibility age for young adults in the military or who are disabled. Pennsylvania requires that full-time students whose studies are interrupted by military service are considered dependents until they finish school, regardless of age; Illinois requires that full-time students whose studies are interrupted by military service are considered dependents for the amount of time they spent serving, up to age 25. Idaho allows unmarried disabled children to remain dependents for insurance purposes up until any age; Oregon includes disabled adult children in the definition of dependent; Maine requires that children with a mental or physical disability that prevents them from enrolling in school are considered dependents up to age 24.

Additional sources: National Conference of State Legislatures, *Changing Definition of 'Dependent': Who is Insured and For How Long?*, http://www.ncsl.org/programs/health/dependentstatus.htm; State Coverage Initiatives, *Dependent* Coverage, http://www.statecoverage.net/matrix/dependentcoverage.htm.

Figure 1. There Are 13.7 Million Uninsured Young Adults Ages 19–29, 30 Percent of the Nonelderly Uninsured, 2006



Uninsured nonelderly = 46.4 million

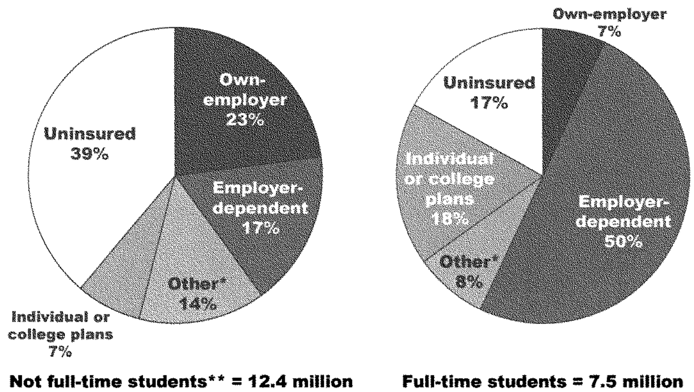
Note: Numbers may not sum to 100% because of rounding.
Source: Analysis of the March 2007 Current Population Survey by S. Glied and B. Mahato for The Commonwealth Fund.

Figure 2. Percent Uninsured, Children and Young Adults, by Poverty Level, 2005

Percent Uninsured	Children Age 18 and Under	Young Adults Ages 19–29
Total	11%	30%
<100% FPL	20	51
100%–199% FPL	16	42
≥200% FPL	7	16

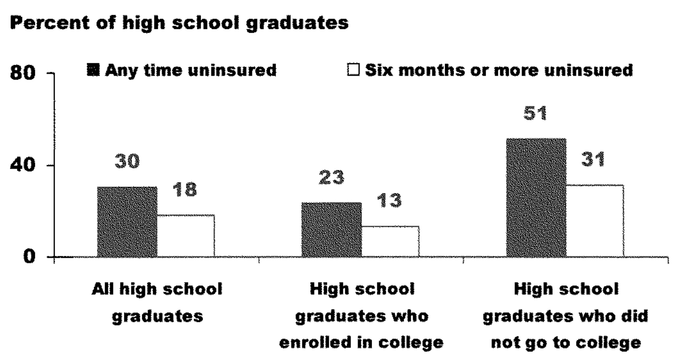
Source: Analysis of the March 2006 Current Population Survey by S. Glied and B. Mahato for The Commonwealth Fund.

Figure 3. Insurance Sources for College-Age Adults Ages 19–23, 2005



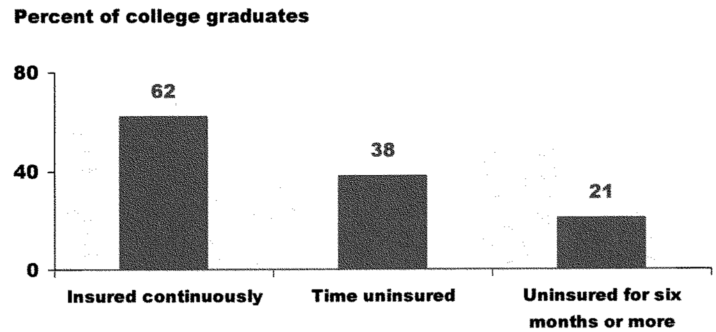
Note: Numbers may not sum to 100% because of rounding.
* Other includes Medicare, Medicaid, and Military. ** Includes part-time students and non-students.
Source: Analysis of the March 2006 Current Population Survey by S. Glied and B. Mahato for The Commonwealth Fund.

Figure 4. Percent of High School Graduates with Gaps in Insurance Coverage in the Year Following Graduation, by Student Status, 1996–2000*



* People who graduated from high school during 1996–2000.
Source: Analysis of the 1996 Panel of the Survey of Income and Program Participation by P. F. Short and D. Graefe for The Commonwealth Fund.

Figure 5. Nearly Two of Five College Graduates Had Time Uninsured in Year Following Graduation, 1996–2000*



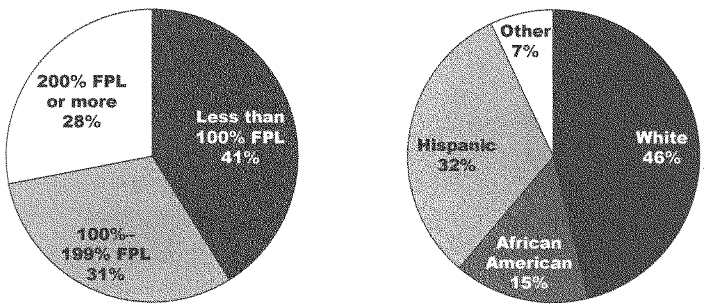
* People who graduated from college during 1996–2000.
Source: Analysis of the 1996 Panel of the Survey of Income and Program Participation by P. F. Short and D. Graefe for The Commonwealth Fund.

Figure 6. Availability of and Workers' Eligibility for Employer Insurance, Among Workers Ages 19–64

	Total	Ages 19–29	Ages 30–64
Total (millions)	125.8	26.0	99.8
Eligibility			
Employer offers a plan	77%	71%	78%
Eligible for employer plan	71	62	73
Coverage			
Covered through own employer	57	45	60
Covered through someone else's employer	17	15	17
Covered through public program	4	6	3
Individual	5	5	6
Other	3	6	2
Uninsured	15	23	13
Take-up rate of own-employer insurance	80	73	82

Note: Workers include full-time and part-time workers.
Source: The Commonwealth Fund Biennial Health Insurance Survey (2005).

Figure 7. Distribution of Uninsured Young Adults Ages 19–29 by Poverty Status and Race/Ethnicity, 2005



Uninsured young adults = 13.3 million

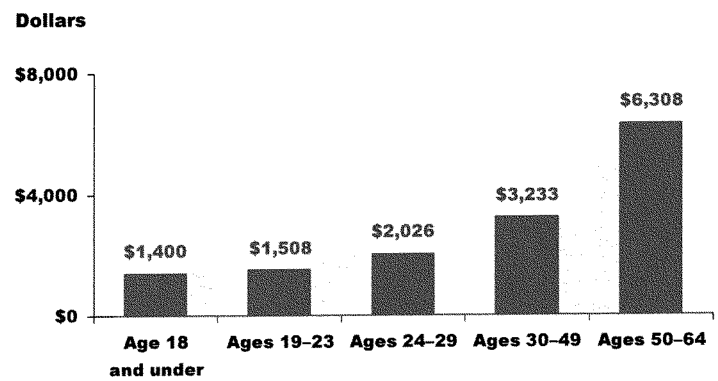
Source: Analysis of the March 2006 Current Population Survey by S. Glied and B. Mahato for The Commonwealth Fund.

Figure 8. Months Uninsured Among Young Adults, 1996–2000

	Population in millions	Any part of 4-year period	13 months or more	25 months or more	48 months
Total 19–23*	17	64%	33%	22%	6%
Poverty					
≤200% FPL	5	79	52	37	12
>200% FPL	12	57	25	15	3
Race					
White	12	61	29	18	3
Black	2	65	38	25	11
Hispanic	2	76	52	39	15

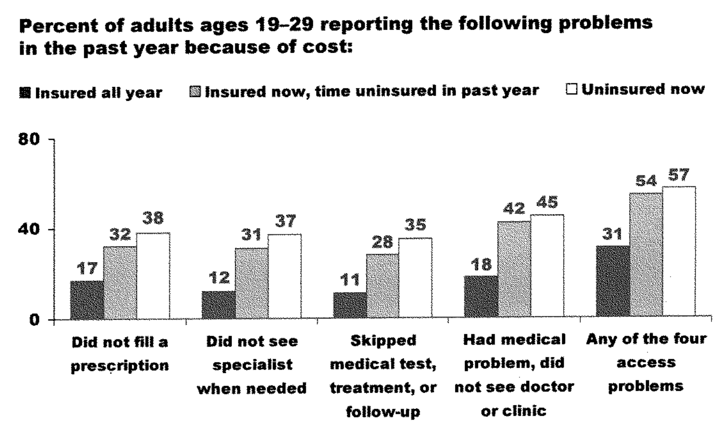
*People who were 19–23 at beginning of survey in 1996.
Source: Analysis of the 1996 Panel of the Survey of Income and Program Participation by P. F. Short and D. Graefe for The Commonwealth Fund.

Figure 9. Annual Per Capita Total Health Expenditures by Age Group, 2007*



* Inflated to 2007 dollars using actual and estimated annual growth rates in national health expenditures.
Source: Analysis of the 2004 Medical Expenditure Panel Survey by S. Glied and B. Mahato for The Commonwealth Fund.

Figure 10. Lacking Health Insurance for Any Period Threatens Young Adults' Access to Care, 2005



Source: The Commonwealth Fund Biennial Health Insurance Survey (2005).

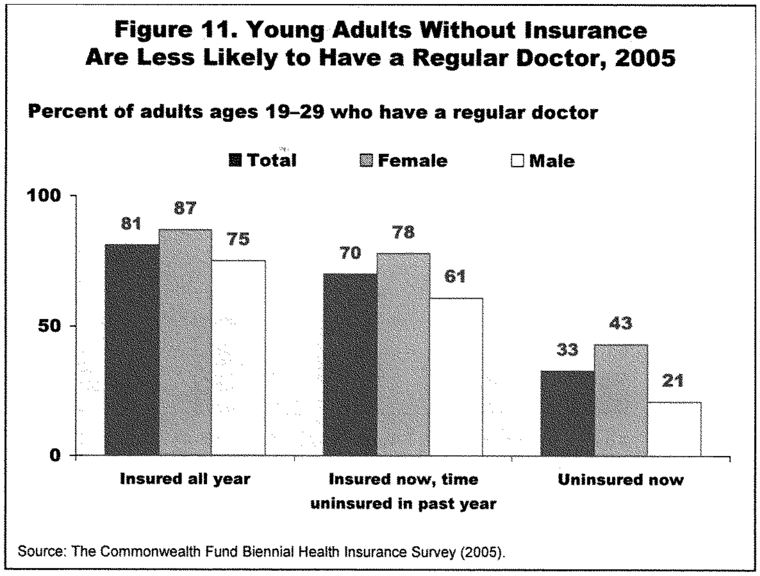


Figure 11. Young Adults Without Insurance
Are Less Likely to Have a Regular Doctor, 2005
Percent of adults ages 19–29 who have a regular doctor
Total
Female
Male
100
50
0
81
87
75
70
78
61
33
43
21
Insured all year
Insured now, time uninsured in past year
Uninsured now
Source: The Commonwealth Fund Biennial Health Insurance Survey (2005).

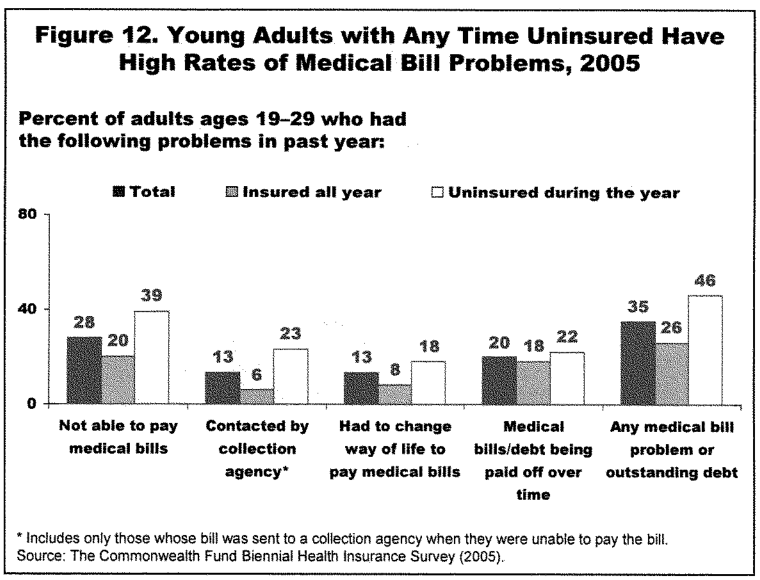


Figure 12. Young Adults with Any Time Uninsured Have
High Rates of Medical Bill Problems, 2005
Percent of adults ages 19–29 who had the following problems in past year:
Total
Insured all year
Uninsured during the year
80
40
0
28
20
39
13
6
23
13
8
18
20
18
22
35
26
46
Not able to pay medical bills
Contacted by collection agency*
Had to change way of life to pay medical bills
Medical bills/debt being paid off over time
Any medical bill problem or outstanding debt
* Includes only those whose bill was sent to a collection agency when they were unable to pay the bill.
Source: The Commonwealth Fund Biennial Health Insurance Survey (2005).

Mr. DAVIS OF ILLINOIS. Mr. Gage.

STATEMENT OF JOHN GAGE

Mr. GAGE. Thank you, Mr. Chairman, Congresswoman Norton. On behalf of the more than 600,000 Federal employees represented by AFGE, I thank you for the opportunity to testify today.

Extending health insurance coverage through the FEHB to dependents up to age 25 has long been a priority for AFGE's members. Many children of Federal employees are forced to delay completion of college degrees because they must work to earn the money necessary to pay ever-increasing college tuition. Some young adults may be pursuing the advanced degrees which are increasingly necessary even for entry-level jobs at some professional occupations.

Finally, a large number of young adults whose parents are Federal employees are working but hold jobs that provide either no employer-sponsored health insurance or health insurance options that are entirely unaffordable. According to the Robert Wood Johnson Foundation, as of 2004, approximately 13.7 million Americans between the ages of 19 and 29 were uninsured. Unless they are full-time students or their parents, full-time caregivers, they lose eligibility for coverage under their parents' family coverage.

In FEHB, unmarried children can be covered up until age 22. FEHB will not cover dependents over age 22 unless the child is incapable of supporting him or herself because of a disability that began before age 22.

At least 14 States have passed legislation that redefines "dependent" for purposes of family health insurance coverage, and most of those have extended coverage to the age of 25 and beyond.

The legislation introduced by you, Mr. Chairman, H.R. 5550, was an attempt to bring the Federal Government up to the standards set by these progressive States and other employers against whom the Federal agencies compete to recruit and retain employees. AFGE strongly supports H.R. 5550, because it provides a straightforward answer to the problem of insurance coverage for the young adult dependents of Federal employees.

The actual cost to FEHB of extending family coverage to those in the age interval of 22 to 25 are likely to be negligible, but the benefits to families would be substantial.

The compromise bill before us today would have OPM make available for purchase a separate insurance policy for the young adult dependents. While certainly no one means for this compromise to be a model for future efforts to improve health insurance for Federal employees and their families, it is important to note that employee-pay-all insurance products are not employee benefits.

It is unclear how many Federal employees would be able to afford coverage for their dependents, age 22 to 25. But since thousands of Federal employees remain uninsured, all together, because they cannot afford FEHB premiums, we can only conclude that there are many thousands more in the lower grades of the general schedule and the Federal wage system who can barely afford their current plan and could not possibly afford to purchase additional individual plans for their young adult dependents.

For the government to claim it cannot afford to extend their current FEHB family coverage to dependents is especially frustrating to hear, since the Bush administration continues to refuse to take advantage of rebates made available under the Medicare Modernization Act. This law, establishing the Medicare Part D prescription drug program, allowed subsidies for employers who provide their retirees with prescription drug coverage. According to a recent GAO study, if OPM were to apply for these rebates, all FEHB premiums would be cut immediately by roughly 2 percent and future premium growth would be reduced as well.

It is not too late for OPM to apply for and receive the Medicare Part D subsidy. Federal employees pay, on average, 30 percent of premiums, and in each of the past 3 years the enrollees share of premiums has risen by a higher percentage than the agency share.

AFGE strongly urges the Congress to require OPM to obtain the maximum amount available to FEHB under Medicare's Part D employer subsidy provision. We believe that these funds are adequate to pay for both an extension in eligibility for dependent coverage to age 25, as provided in H.R. 5550, and the improvement in FEHB financing that is provided for in H.R. 1256.

In closing, we commend the chairman for introducing H.R. 5550; and we hope that many Federal employees will be able to afford the plans that OPM chooses to make available for this age group and that, soon, Congress and a new administration will be successful in addressing in a more comprehensive way the many problems of health care in America.

That concludes my statement, Mr. Chairman.

Mr. DAVIS OF ILLINOIS. Thank you very much.

[The prepared statement of Mr. Gage follows:]

AFGE
Congressional
Testimony

STATEMENT OF

JOHN GAGE
NATIONAL PRESIDENT

AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES
AFL-CIO

BEFORE THE

SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE AND
THE DISTRICT OF COLUMBIA

HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

ON

CATCHING UP: BENEFITS THAT WILL HELP RECRUIT AND RETAIN
FEDERAL EMPLOYEES

APRIL 29, 2008

American Federation of Government Employees, AFL-CIO
80 F Street, NW, Washington, D.C. 20001 ★ (202) 737-8700 ★ www.afge.org

Mr. Chairman and Members of the Subcommittee: My name is John Gage. I am the National President of the American Federation of Government Employees, AFL-CIO (AFGE). On behalf of the more than 600,000 federal employees represented by AFGE, I thank you for the opportunity to testify today on the issue of health insurance coverage for the young adult dependents of federal employees.

Extending health insurance coverage through the Federal Employees Health Benefits Program (FEHBP) to dependents up to age 25 has long been a priority for AFGE's members. Many children of federal employees are forced to delay completion of college degrees because they must work to earn the money necessary to pay the ever-increasing tuition and fees charged by institutions of higher learning. These young adults may also remain economic dependents of their federal employee parents until age 25 because they are pursuing the advanced degrees which are increasingly necessary even for entry-level jobs in some professional occupations. Finally, a large number of young adults whose parents are federal employees are in the workforce but hold jobs that provide either no employer-sponsored health insurance or health insurance options that are entirely unaffordable.

According to the Robert Wood Johnson Foundation, as of 2004, approximately 13.7 million Americans between the age of 19 and 29 were uninsured. Unless they are either full-time students, or their parents' full-time caregivers, they, for the most part, lose eligibility for coverage under their parents' family coverage. In the FEHBP, unmarried children can be covered up until the age of 22. Only in rare circumstances, such as when the child is incapable of supporting him or herself because of a disability that began before age 22, will FEHBP continue to cover dependents over that age. Fourteen states have passed legislation that to some degree redefines "dependent" for purposes of family health insurance coverage, and the majority of those have extended coverage to the age of 25.

The legislation introduced by Chairman Danny K. Davis, H.R. 5550, was an attempt to bring the federal government up to the standards set by these progressive states and other employers against whom the federal agencies compete to recruit and retain employees. AFGE strongly supports H.R. 5550 because it provides a straightforward answer to the problem of insurance coverage for the young adult dependents of federal employees. The actual costs to FEHBP of extending family coverage to those in the age interval of 22 to 25 are likely to be negligible, but the benefit to families would be substantial.

The compromise forced upon the Subcommittee, which would have the Office of Personnel Management (OPM) make available for purchase a separate insurance policy for the young adult dependents of federal employees, is unfortunate. Even though there is absolutely no evidence that anyone meant for this compromise to constitute a model for future efforts to improve health insurance for federal employees and their families, it must be acknowledged that employee-pay-all insurance products are not employee benefits. Because the current legislation would require federal employees who have uninsured dependents between the ages of 22 and 25 to purchase separate policies for them outside the FEHBP, it is unclear how many would be able to afford coverage, especially those with large families. In light of the fact that thousands of federal employees remain uninsured altogether because they cannot afford FEHBP premiums, it is reasonable to conclude that there are many thousands more in the lower grades of the General Schedule and the Federal Wage System who barely afford the coverage they have in FEHBP and could not begin to afford to purchase additional individual plans for their young adult dependents.

The claim that extending FEHBP family coverage to dependents up until the age of 25 is unaffordable is especially frustrating to hear in light of the Bush Administration's continued refusal to take advantage of rebates made available under the Medicare Modernization Act that, according to a Government Accountability Office (GAO) study, would immediately cut all FEHBP premiums by roughly two percent, and reduce future premium growth in perpetuity.

In December 2006 GAO issued a report on FEHBP premium trends, and addressed OPM's decision not to take advantage of the fact that the law establishing the Medicare Part D prescription drug program allowed subsidies for employers who provided their retirees with prescription drug coverage.[1] GAO surveyed both small and large FEHBP plans and all agreed that that the retiree drug subsidy would have had some effect on premium growth if OPM had applied for the subsidy and used it to offset premiums. (GAO-07-141 page 13).

OPM's rationale for declining the subsidy has been reported to rest on two arguments: First, OPM does not worry that its carriers would cease offering prescription drug coverage to retirees, as there are no separate benefit packages in FEHBP plans between active and retired enrollees (so far), and Title 5 requires all FEHBP plans to provide at least some prescription drug coverage. Second, they did not interpret the statute "to require employers to use the subsidy to mitigate premium growth." (GAO-07-141 page 14). Nevertheless, the GAO study goes on to describe the fact that prescription drug prices are responsible for the bulk of premium increases. Data from the five largest FEHBP plans (which cover 2/3 of the FEHBP population) between 2003 and 2005 show prescription drug spending as causing 34% of total increases (hospital inpatient and all physician services combined totaled only 30% of the increase, by comparison). The GAO study further estimated that if OPM had taken advantage of the Medicare Part D subsidy it would have reduced the average growth in premiums by 2.6% if

[1] Government Accountability Office, GAO-07-141. Federal Employees Health Benefits Program: Premium Growth has Recently Slowed, and Varies among Participating plans. Report to the Subcommittee on Oversight of Government Management, the Federal Workforce, the District of Columbia of the Senate Committee on Homeland Security and Government Affairs, December 2007.

applied in 2006. In plans with large retiree enrollment, the potential impact is estimated to be as large as 3.5% to 4%.

It is not too late for OPM to apply for and receive the Medicare Part D subsidy. If applied, it would not only reduce premiums for as long as it is applied, it would reduce future premium inflation as long as prescription drug prices rise faster than the prices of FEHBP's other covered services. Since federal employees are required by law to pay at least 25% of FEHBP premiums, and since they pay on average 30% of premiums, and since in each of the past three years the enrollee share of premiums has risen by a higher percentage than the agency share, AFGE strongly urges the Congress to require OPM to obtain the maximum amount available to FEHBP under Medicare's Part D employer subsidy provision. We believe that these refunds are more than adequate to pay for both an extension in eligibility for dependent coverage to age 25 as provided for in H.R. 5550, and the improvement in FEHBP financing that is provided for in H.R. 1256.

Absent a national health insurance reform that delivers affordable universal coverage, federal employees and their families look to FEHBP as a means of providing health insurance for themselves and their dependents. We commend the Chairman for introducing H.R. 5550 in recognition of the fact that young adults who are pursing higher education, and working at jobs that provide either no insurance, or unaffordable insurance options, continue to need coverage through their parents' employer-sponsored plans. We hope that many federal employees will be able to afford the plans that OPM chooses to make available for this age group, and that soon Congress and a new administration will be successful in addressing in a more comprehensive way the many problems of health care in America.

This concludes my statement. I will be happy to answer any questions that the members of the Subcommittee may have.

Mr. DAVIS OF ILLINOIS. And I thank each one of you.

Mr. Green, let me ask you, in your testimony, you state that the cost of the underlying bill, H.R. 5550, would be $200 million a year.

Could you tell us how you arrived at that cost figure?

Mr. GREEN. Yes, sir. The cost could be more than that depending upon the final bill and how it is proposed. It is simple math, however.

Our actuaries tell us that the average medical expense for young adults that are in the FEHB—that are covered in the FEHB, the 21-year olds, 20-year olds—while they, indeed, use less health care than do older employees, they still cost about, at last check, $1,640 a year. Since there would be no offsetting revenue to pay for that additional expense, you multiply 1,640 times the number of children, adult children, that would continue to be covered, and that is how you come up with the expense.

Mr. DAVIS OF ILLINOIS. I noticed in your statement you indicated that OPM couldn't really take a position on the substitute because it had not been introduced, and you didn't really know exactly what might very well be in it.

Does OPM have a position on the concept of providing coverage for this category of young people, essentially, that we are talking about?

Mr. GREEN. OPM has the position that what is of concern to Federal employees, to their health and welfare and their families' health and welfare, is of concern to us. This has been an issue, and we know it is of concern to Federal employees and to Members of Congress. We have heard from them; we have heard from Members of Congress.

We know ourselves, in our own life, that it is an issue. And so, yes, of course, we are open to discussing any and all ways that the issue can be dealt with fairly for all, and that includes people with and without young dependent children—or young adult children.

Mr. DAVIS OF ILLINOIS. Even if, let's say, the beneficiaries had to pay the cost themselves—and I know it is difficult to project, but would you venture an opinion as to where OPM might be on the bill if that was the way we ended up suggesting that it be paid for?

Mr. GREEN. Well, fortunately, we have had some experience with that recently.

OPM implemented the dental and vision law for Federal employees, and as you know, it has been very popular with enrollees, with both employees and retirees. I think, at last check, over 700,000 people had been enrolled in one or the other or both programs.

So we have some experience with that, and if such a bill became law, we would certainly implement it as effectively as we know how, because I do think that it would be a challenge, but nonetheless doable to come up with a balance of premium and benefits that made it attractive to people that needed that kind of coverage.

It is correct that the TCC is relatively expensive, although it is a godsend—I can say to that personally—that it is a godsend for folks because it is automatic issue. You don't need to take—it isn't underwritten; you don't need to take a medical exam to be covered.

Mr. DAVIS OF ILLINOIS. Well, thank you very much.

Ms. Collins, let me ask you: You indicated in your testimony, certainly that there is a need to insure young adults between the ages of 19 and 29.

If we ended up covering this group that we are talking about, 22 to 25, and they had to pay the cost themselves, would you view that as being preferable to them having no coverage at all?

Ms. COLLINS. Considering the only option is really the individual market or this continuation policy, the CP is certainly a better option. The larger group you can buy into, the better, the lower your premium will likely be; so it would be a better option.

At least, of course, it would be better for these families if the premiums were subsidized and some of the costs were offset, but it would be much more preferable to buying on the individual market.

Mr. DAVIS OF ILLINOIS. Thank you.

Let me ask you, Ms. Kelley and Mr. Gage, I understand that both your organizations would prefer that the government absorb the cost of the young adult health coverage. Of course, you also know that we must abide by the PAYGO rules whether we are talking about $50 or whether we are talking about $200 million. I mean, those rules are in effect.

Do either of you have any recommendations that could perhaps offset the cost of H.R. 5550, as introduced?

Ms. KELLEY. Well, from a cost offset standpoint, I would be willing to work with the subcommittee and look for that. But I guess I have to say that my biggest concern about the cost right now is that when I think about the cost of a stand-alone plan that employees or their families would have to buy for them versus amending the current FEHB, it seems that the cost is going to be more in a stand-alone plan.

And it also seems to me that there is a lot of successful experience out there in these States that everyone has cited, and I have never seen any kind of analysis on what the States have done to either minimize or eliminate the additional cost, or what success they have had. That is one of the reasons we would like to work with the subcommittee on having some kind of an impartial expert actually look at these numbers.

I understand the OMB did the numbers, and it is either a three-page report, or it is referred to as "simple math." But I have to say, usually when it is a Federal employee issue, OPM's solution to it is a new plan with 100 percent of the premium borne by the employees, and that is not one, as you noted, that we would normally support.

So I believe there are probably some other options out there of how this can be costed or priced, and I don't think that analysis or research has been appropriately done by an impartial expert; and that is what I would ask the subcommittee's help in having done.

Mr. DAVIS OF ILLINOIS. Thank you.

Mr. Gage, do you have a——

Mr. GAGE. Yes, sir. We suggested that OPM take full advantage of the Medicare Part D subsidy. Of course, that shifts it to Medicare.

But I am a poster child for this. I have two kids in college now, two just out of it, four kids between those ages, and I can tell you—

one just back from Iraq—and I can tell you what a strain it is on them not to have health insurance coverage. So I would like to work with the subcommittee.

I don't think it is a matter of simple math. I don't know how these States—Maryland, for instance—can cover students through 25, and not see an appreciable premium increase for the other participants in the plan. So I think we ought to put everything on the table here and recognize that this is a huge problem for Federal employees and their families and make sure that—I just can't believe in actuarial numbers, in underwriting, that this is a simple matter of multiplying the number of potentials times the cost for young adults who should be very good, very good underwriting risks.

So I, too, would like to work with the subcommittee on this. But I do think that the time is now for this. This problem is getting worse.

Ms. KELLEY. If I could add, Mr. Chairman, one of our concerns is this stand-alone plan versus FEHB; and, you know, maybe there is a way to figure it out so that it stays as an amendment or addendum to FEHB, not as a stand-alone plan; and that would go a long way to ensuring that the risk pool isn't so small that only those who know they have some kind of serious medical condition would opt into whatever this new plan is, which would defeat the whole purpose of trying to provide insurance for all of the dependents, ages 22 to 25.

So I don't think it has to be an either/or, but again it would take some real neutral cost analysis to look at that from a State perspective and their experience, as well as the FEHB pool.

Mr. DAVIS OF ILLINOIS. Yes.

Ms. COLLINS. I also had a question, too, for Mr. Green, whether adding this less-expensive group to this large-risk pool, what it would do to the overall premiums for this risk pool. So has that been taken into account, too? Rather than selling it as a separate—having it off as a separate plan, what does just adding this healthier group into the pool do to the premiums?

Mr. DAVIS OF ILLINOIS. Well, thank you very much. Let me just shift over to Ms. Norton.

Ms. NORTON. Well, thank you very much, Mr. Chairman, for a very important hearing. And I want to thank these witnesses for excellent and informed testimony.

The chairman is right that we have to go on PAYGO, but if you are dealing with insurance, calculating extra cost is very different from the way we do for most Federal programs. So I am skeptical, along with some of you, about additional costs and how it is done.

I think a stand-alone plan is absurd. They could do their own stand-alone plans. I think it is absurd at a time when Republicans and Democrats are saying that the entire country should have access to the FEHB.

That is the big plan that people run around the country with and have been talking about, now, for at least a decade, that one of the ways to give health care to everybody is to let them into this large pool. And the whole point is, you get a more diverse pool than the Federal employees, who tend to be older, and you get the efficiencies that the FEHB has.

So what we do, if you will forgive me, stupidly, is to force committees like this to go to more expensive ways to do what needs to be done.

So I am very concerned about denying access to FEHBP, when consistently we hear from Members of Congress on both sides of the aisle that denying access to FEHBP for relatives, people who are already in and already part of it, so it would only be for them beyond the age where they are now already part of the plan.

And I am very concerned, as well, Mr. Chairman, because I am not certain that CBO, or whoever, has calculated the cost, is actuarially intelligent. I don't know if, for example, they have figured out what it would mean to the increasingly older work force of the Federal Government to have an influx of new young bodies who would add to the pool; that, actuarially, it seems to me, would have a salutary effect on the pool for everybody who is in it.

And I think we do need an independent study, but I think it needs to be done by insurance experts. It needs to be done by people who would look at our pool and talk about what would adding new people between the ages we are talking about—they are rather small in number—what it would mean, so that at least we would know there is a figure and what the figure is.

So I am very bothered by being forced, as the chairman has been forced, because we don't have any other information. And we know what the rules are and we have to abide by them.

I believe that the bill itself, the wisdom of the bill itself, cannot be doubted. Here is a country that is unwilling to provide health care for these youngsters. We are talking about people who get out of school, where they are almost automatically low-wage people—very often they are temps—where even out of what they earn they have to pay for their own health care. That is a reason right there to save money.

They are on something close to stand-alone plans. You find yourself a pool through some health insurance plan that does not give you nearly the benefits that going into our FEHB would. They have lower wages. Some of them are still in school, for goodness sakes. They are carrying loans; many of them are carrying loans from college.

And then I say to you—there is a professor of law at Georgetown, who teaches one course there every year—that they are also carrying their law school loans. We are already making it impossible for these young people. They go back home to live because of the cost of housing compared with wages that have been stagnant even for people with skills and for families.

We want them to go to school and graduate school, and yet we don't want to provide a way for their health care to be taken care of. And there is very little incentive for people who have low wages or no wages, because they are still in school and are overage for the plan, to take from meager wages to pay for what families and people who are on larger salaries today find they are unable to pay for, even with the kind of subsidy they get from their employers.

So I just think we are stuck way on stupid now. We are going to, it looks like, provide health care only incrementally to people. That is why we went to children last year, got vetoed four times just for trying to add funds for children. And we were trying to go that route.

Here are some more children, although somewhat over the age, many of whom have the wages of children, if you would forgive me, who are still in school. So I am very bothered by the fact that we have to go this way, although I don't see any way consistent with what we know now but your suggestion is that we need to find out, and we need to find out far more than we know.

I also want to suggest that we are talking to employees who are dealing with the same Federal contribution to their Federal health care plan; in memory, I can't remember when this was raised. I think it is what it always has been, that it has never been raised. So the burden would be terrifically on the parent or the person on whom the dependent was depending. But again I think most people would understand the danger of not being in health care.

And I would just think that for those of us—the chairman is one of them, Mr. Cummings is another—who have sponsored the bill to increase the employer share in FEHB, you would think that at least this small increase, whatever it is, should be what the Federal Government would be willing to do at a time when it has been unwilling to increase its own contribution—while, in fact, inflation with health care premiums has certainly not avoided us anymore than it has avoided others—forcing employees to pay a greater percentage of their own health care.

Mr. Chairman, what we are seeing is the scattering of Federal Government employees even before they are retired. The government should 1 day sit down and try to figure out the cost of the loss of this skilled work force; then it might figure out something to do about their health care. They are going to take the skills that they got in the Federal Government and they are going to go to contractors or to the private sector and do quite well, thank you.

Meanwhile, we are left with the investment in them and no way to keep them; and as your hearings have shown, Mr. Chairman, no way to attract an equal pool of the pool that is now retiring and very often leaving before retirement, leaving us before the retirement program. We have to find ways, even if they are small, incremental ways, to keep these employees with us and to reduce the hardships on them. This would seem to me to be an obvious and intelligent way to do it.

I strongly support the chairman's amendment and hope that we can do some more work before we have to go along with the plan that will cost everybody more, who is involved.

And finally, Mr. Chairman, may I say one thing? I am—excuse me—sick and tired of every time we offer something more to Federal employees we say, You can have it if you pay 100 percent: You can have certain kinds of dental health; you can have certain kinds of help for vision; and let us all give us ourselves a pat on the back because you can have that. You can even have a long-term health plan for long-term illness.

All of that, we, your Federal employer, is proud to give you if you pay 100 percent of it. Compared to what? Compare that to what the private sector is offering young people, and you will see why we are having trouble recruiting young people to join the Federal work force, especially those at the rank we need, and you will see why so many Federal employees have figured out that they can get out of Dodge, and it is best to do so now even before retirement.

Thank you very much, Mr. Chairman.

Mr. DAVIS OF ILLINOIS. Thank you.

Mr. Cummings.

Oh, Elijah left.

Let me thank you all for coverage and for sharing with us. I have no further questions, and you are excused. Thank you.

[Whereupon, at 3:45 p.m., the subcommittee was adjourned.]

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