United States
Office of Personnel Management
Retirement and Insurance Service

Benefits Administration Letter

Number: 97-209 Date: September 29, 1997

Subject: Health and Life Insurance Changes under the Balanced Budget Act of 1997

Background

This explains provisions relative to the Federal Employees Health Benefits (FEHB) and the Federal Employees' Group Life Insurance (FEGLI) Programs in the Balance Budget Act of 1997, Public Law 105-33 approved on August 5, 1997. A description of provisions relative to Federal employee retirement systems is in Benefits Administration Letter 97-106 dated August 13, 1997.

New FEHB Contribution Formula

A new method for calculating the Government contribution toward FEHB enrollment costs will become effective in January 1999. In place of the "Big-6" formula, the Government contribution will be based on the program-wide weighted average premium rates for self only or self and family enrollments, respectively. This will permanently maintain the level of Government contributions, as a percent of the total program costs, regardless of the configuration of health plans.

Current Big-6 Formula

The "Big-6" formula specifies that the Government share of premiums for any FEHB plan or option is the lesser of: (1) 60 percent of the average premium for self only or for self and family high option benefits under six large plans described in law, or (2) 75 percent of the premium for any particular plan.

One distinct component of the Big-6 formula, the Governmentwide Indemnity Benefit Plan, lapsed at the end of 1989. Because average premiums for the five remaining plans would have resulted in lower Government contributions, Congress enacted temporary legislation to continue the "Big 6" calculation based on premiums for the five remaining formula plans and a so-called phantom premium in place of the lapsed plan. The phantom formula effectively held the Government share of total program costs near 72 percent, but that authority will expire at the end of 1998.

New Weighted Average Formula

For 1999 and after, the Office of Personnel Management (OPM) must determine the weighted average of subscription charges in effect under all plans with respect to self only and self and family types of enrollment. The Government contribution will be 72 percent of the weighted average subscription charge for each enrollment type, subject to a maximum of 75 percent of the premium for any specific plan. OPM must determine FEHB Government contribution rates no later than October 1 preceding each FEHB contract year.

To calculate program-wide weighted average subscription charges for self only and for self and family enrollments, respectively, the law directs OPM, first, to multiply rates for each plan or option for the upcoming contract year by the number of enrollees with the same coverage as of the previous March 31 who are eligible for a Government contribution. Then, OPM will divide the total of subscription charges for self only and for self and family enrollments, respectively, by the corresponding total number of enrollees eligible for a Government contribution.

Insurance Eligibility For Certain District of Columbia Employees

Section 11246 of Public Law 105-33 amends the District of Columbia Code to provide that judges and employees of the District of Columbia Courts will be treated as Federal employees for purposes of workers compensation, FEGLI, and FEHB, on and after October 1, 1997 (the first month beginning after OPM issues implementing regulations). Non-judicial court employees also will be treated as Federal employees for retirement purposes, and the D.C. judges' retirement system and the system providing benefits to judges' survivors are deemed to be Federal employee retirement systems for purposes of continuing FEGLI and FEHB after a D.C. judge retires or dies.

Section 11202 of Public Law 105-33 directs the U. S. Attorney General to designate a Corrections Trustee who, as an independent officer of the D.C. Government, will oversee financial operations of the D.C. Department of Corrections during a phased-in transfer of functions to the Federal Bureau of Prisons. A former Federal employee who is appointed Corrections Trustee, or becomes employed by the Trustee, within 3 days of separation from Federal employment will be treated as a Federal employee for purposes of the FEHB, FEGLI, and Federal retirement laws.

New Medicare Choices

Public Law 105-33 also authorizes the Secretary of Health and Human Services to implement a new "Medicare + Choice" Program, modeled on the FEHB Program, which will let eligible Medicare beneficiaries choose from a wide array of private health plans as alternatives to traditional Medicare fee-for-service benefits.

Medicare + Choice will also include a Medical Savings Account (MSA) demonstration project. This coverage combines a health plan with a very high deductible, and thus low cost, with an individual Medical Savings Account (MSA) which accumulates excess Medicare contributions on a tax-free basis and is available to pay out-of-pocket medical expenses of the account owner. **However, the law expressly excludes anyone enrolled in the FEHB Program from participation** in the demonstration, unless OPM can provide assurances that access to MSA-linked health plans would not increase Government FEHB costs (by encouraging the healthiest enrollees to leave other plans).

Abby L. Block, Chief
Insurance Policy
and Information Division