Calendar No. 590

105TH CONGRESS
2d Session

SENATE

REPORT
105–337

FEDERAL EMPLOYEES LIFE INSURANCE IMPROVEMENT ACT

R E P O R T

OF THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

TO ACCOMPANY

H.R. 2675

TO REQUIRE THAT THE OFFICE OF PERSONNEL MANAGEMENT SUBMIT PROPOSED LEGISLATION UNDER WHICH GROUP UNIVERSAL LIFE INSURANCE AND GROUP VARIABLE UNIVERSAL LIFE INSURANCE WOULD BE AVAILABLE UNDER CHAPTER 87 OF TITLE 5, UNITED STATES CODE, AND FOR OTHER PURPOSES

SEPTEMBER 21, 1998.—Ordered to be printed

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FEDERAL EMPLOYEES LIFE INSURANCE IMPROVEMENT ACT

SEPTEMBER 21, 1998.—Ordered to be printed

Mr. THOMPSON, from the Committee on Governmental Affairs, submitted the following

REPORT

[To accompany H.R. 2675, as amended]

The Committee on Governmental Affairs, to which was referred the bill (H.R. 2675) to provide for the Office of Personnel Management (OPM) to conduct a study and submit a report to Congress on the provision of certain options for universal life insurance coverage and additional death and dismemberment insurance under chapter 87 of title 5, United States Code, and for other purposes, having considered the same, reports favorably thereon with amendments and recommends that the bill as amended do pass.

I. PURPOSE

H.R. 2675, the Federal Employees Life Insurance Improvement Act, is designed to improve the structure and administration of the life insurance program provided by the Federal Government for its civilian employees and retirees under chapter 87 of title 5, United States Code, and for other purposes.

II. BACKGROUND

The Federal Employees Group Life Insurance Program (FEGLI) was established by the Federal Employees Group Life Insurance Act of 1954, P.L. 83–598 and is codified in chapter 87, title 5, United States Code. The program provides employees, retirees, and their family members with group life insurance coverage. The program is managed by the Office of Personnel Management and has been administered through a contract with Metropolitan Life Insurance Company.

H.R. 2675 was introduced by Representative John Mica to improve the administration and structure of the FEGLI program. Following its approval by the House of Representatives, the legislation was referred to the Committee on Governmental Affairs. During consideration of the legislation by the Committee, Senator Cochran introduced an amendment in the nature of a substitute. Further, Senator Levin introduced an amendment to the substitute amendment offered by Senator Cochran. Both amendments were adopted by the Committee.

Current law

Under current law, as codified in 5 U.S.C. §§ 8701–8716, federal employees are allowed to purchase basic term life insurance coverage equal to their actual annual basic pay (rounded up to the next $1,000) plus $2,000. The maximum basic insurance amount is the actual rate of annual basic pay payable for positions at Level II of the Executive Schedule plus $2,000. In addition, employees may supplement their basic life insurance with three forms of optional insurance. Option A allows employees to buy $10,000 of additional life insurance as well as additional accidental death and dismemberment insurance. Under Option B, federal employees may buy additional life insurance equal to one, two, three, four, or five times their annual basic pay. Under Option C, employees may purchase life insurance for their family members at the fixed amount of $5,000 (for a spouse) or $2,500 (for each dependent child).

Except for the Postal Service, which pays the full cost of FEGLI basic insurance for its employees, federal agencies pay one-third of the basic insurance cost, and their employees pay the other two-thirds. The cost of optional life insurance is borne fully by the employees electing such coverage. Beginning at age 65, employees are no longer required to pay for the insurance, but its face value declines at the rate of two percent a month until depleted.

The FEGLI program offers an accelerated death benefit, or "living benefit" option, which allows terminally ill employees with a life expectancy of no longer than nine months to elect to receive a lump-sum payment. Employees may also assign their insurance to any person or persons they choose by way of a viatical settlement. Both the living benefit election and the reassignment of policy are irrevocable.

Overview of amendment

H.R. 2675, as amended by Senator Cochran's amendment in the nature of a substitute, would require the Office of Personnel Management to conduct a study on federal employees" interest in being offered group universal life insurance, group variable universal life insurance, and additional voluntary accidental death and dismemberment insurance coverage. Universal life insurance generally refers to a whole life policy with flexible premiums, adjustable death protection, and a cash value accumulated at current rates of interest. Universal life insurance offers both insurance protection (in effect, term insurance) and savings, i.e., the ability to accumulate a cash value in the policy by making contributions in excess of the level required to provide the term insurance death benefit. Variable universal life insurance refers to the premium flexibility and policy adjustment features of the universal life policy with the policy owner-directed investment aspects of variable life insurance. Variable universal life policies are technically classified as securities, and are subject to regulation by the Securities and Exchange Commission.

In addition, H.R. 2675, as reported, would change FEGLI in several other ways. The bill would repeal the maximum limitation on base pay used for insurance calculation (5 U.S.C § 8710(c) and § 8714(b)). It is expected that this change would affect about 200 senior level executives, congressional, and judicial employees whose pay is not limited to level II of the Executive Schedule. Medium to large employers today typically offer group life insurance reflecting an earnings multiple of at least one time base salary. This change will make FEGLI benefits more comparable with accepted employer practice and more equitable to all FEGLI participants.

This legislation would change the definition of “family member” for life insurance purposes to include foster children. Currently, the definition for a family member includes a spouse and any unmarried dependent children under 22 years of age, or a child over 22 if the child became incapable of self-support because of mental or physical disability prior to his or her twenty-second birthday (5 U.S.C. § 8701(d)(1)(B)). This change would facilitate consistency with existing health insurance policies available to federal employees.

Further, with respect to “family insurance,” H.R. 2675, as reported, would increase the amount of optional life insurance for spouses and children that federal employees may purchase through FEGLI (5 U.S.C. § 8714c(b)). Employees would be able to purchase insurance on a spouse up to $25,000 and $10,000 per child. OPM must establish an eight week open enrollment opportunity to allow employees to elect optional insurance coverage without submitting evidence of insurability. In addition, this open season would allow employees to begin, resume, or increase their life insurance without submitting evidence of insurability.

This legislation provides that employees who had purchased life insurance erroneously would be offered the opportunity to retain it if the coverage and applicable withholdings have been in force for 2 years (5 U.S.C. § 8706). Contractual incontestability clauses are standard practice in the insurance industry, but currently are not uniformly effective for FEGLI purposes if a conflict with statutory requirements arises. There is no statutory bar to allowing active employees to continue whatever coverage they have reasonably come to rely on after discovery of an error. However, FEGLI law requires a five-year participation requirement for continuing insurance into retirement and insurance that is erroneously continued in these cases must be terminated whenever the error is discovered. A statutory incontestability provision will establish consistent treatment for all enrollees.

The legislation further provides that employees whose pay, annuity, or compensation is insufficient to cover their life insurance premiums could have the option to continue their insurance coverage by electing to make direct payment through the agency or retirement system which administers pay or a benefit entitlement (5 U.S.C. §§ 8707, 8714(d), 8714b(d) and 8714c(d)).

H.R. 2675, as reported, also would allow employees the option to continue full additional optional life insurance at their own expense beyond age 65. Further, the bill makes, on a temporary basis not to exceed three years, group additional optional life insurance portable when an employee leaves the federal service.

Finally, provisions are made to increase from 30 days to 60 days the period employees and OPM have to appeal a Merit System Protection Board appeal to the U.S. Court of Appeals for the Federal Circuit (5 U.S.C. § 7703).

III. Legislative History

H.R. 2675 was introduced on October 21, 1997 by Representative John Mica (R–FL). The bill was referred to the Committee on Government Reform and Oversight and to the Subcommittee on Civil Service on October 22, 1997. The legislation was marked up, with an amendment, by the Subcommittee on October 22, 1997 and by the full Committee on October 31, 1997. No hearings were held, nor written testimony received. H.R. 2675 was considered by the full House under suspension of the rules and was approved by voice vote on Nov. 4, 1997.

H.R. 2675 was received in the Senate and referred to the Committee on Governmental Affairs on November 5, 1997. On June 17, the Committee on Governmental Affairs considered H.R. 2675. Senator Cochran offered an amendment in the nature of a substitute to H.R. 2675. Senator Levin offered an amendment to Senator Cochran's substitute amendment to increase the period from 30 to 60 days that an employee has to file an appeal of a Merit Systems Protection Board (MSPB) decision to the United States Court of Appeals for the Federal Circuit. The Committee favorably considered the bill and amendments en bloc and ordered the bill, as amended, to be reported by voice vote.

IV. Section-by-Section Analysis

SEC. 1. SHORT TITLE

This Act may be cited as the "Federal Employees Life Insurance Improvement Act".

SEC. 2. STUDY AND REPORT ON CERTAIN LIFE INSURANCE OPTIONS OFFERED TO FEDERAL EMPLOYEES

The original House bill required the Office of Personnel Management (OPM) to submit proposed legislation within 6 months to make group universal life insurance, group variable universal life insurance, and additional voluntary accidental death and dismemberment insurance available to Federal employees. The Committee amendment requires OPM to conduct a study to gauge employees" interest in these additional forms of insurance.

SEC. 3. REPEAL OF MAXIMUM LIMITATION ON EMPLOYEE INSURANCE

Section 3 of the House bill allows employees the option to continue full additional optional life insurance beyond age 65. This provision was incorporated into the new section 8 of the Committee amendment described below. Section 3 of the Committee amendment would repeal the maximum limitation on base pay used for insurance calculations thereby allowing these federal employees the benefit of life insurance coverage based on their full salary. This affects about 200 senior level executive, congressional, and judicial employees whose pay is not limited to level II of the Executive Schedule.

SEC. 4. FOSTER CHILD COVERAGE

Section 4 of the original House bill provided improved optional life insurance for family members. This section has been moved to section 9 of the Committee amendment. The new language in section 4 adds foster children to the definition of "family member" in section 8701(d)(1). This would make the definition of family member for life insurance purposes consistent with the definition of family member for health insurance purposes in section 8901(5).

SEC. 5. INCONTESTABILITY OF ERRONEOUS COVERAGE

This section was added by the Committee amendment. It gives employees who were allowed to purchase life insurance erroneously the option to retain it if the insurance and applicable withholdings have been in force for two years.

SEC. 6. DIRECT PAYMENT OF INSURANCE CONTRIBUTIONS

This section allows employees whose pay, annuity, or compensation is insufficient to cover the life insurance premiums the option to continue their insurance coverage by paying the difference through their agency or retirement system.

SEC. 7. ADDITIONAL OPTIONAL LIFE INSURANCE CONTINUATION AND PORTABILITY

This section incorporates provisions from section 3 of the original House bill. It allows employees at age 65 the option to continue their additional optional insurance, without reduction, at their own cost. This section also includes a portability provision allowing employees the option to continue group additional optional life coverage upon leaving the Federal service.

SEC. 8. IMPROVED OPTIONAL LIFE INSURANCE ON FAMILY MEMBERS

This new section incorporates section 4 of the original House bill. It would increase the amount of life insurance employees may purchase on spouses from 5,000 to $25,000 and on children from $2,500 to 10,000. It also contains the technical and conforming provisions from the former section 4.

SEC. 9. OPEN SEASON

This new section incorporates an expanded open enrollment period from section 4 of the original House bill. It would require OPM to hold an open enrollment window for a period of at least 8 weeks to allow employees to begin, resume, or increase group life insurance without submitting evidence of insurability. Section 4 of the original House bill only provided for an open enrollment window to increase insurance on family members.

SEC. 10. MERIT SYSTEM JUDICIAL REVIEW

This new section was added by Senator Levin's amendment to Senator Cochran's substitute amendment. This provision increases from 30 days to 60 days the period of time employees and OPM have to appeal a Merit Systems Protection Board (MSPB) decision to the United States Court of Appeals for the Federal Circuit.

SEC. 11. EFFECTIVE DATES

This new section contains the effective dates for the new life insurance provisions. It also requires OPM to prescribe regulations under which existing retirees may elect to continue their remaining additional optional insurance.

V. Regulatory Impact Statement

Pursuant to the requirement of paragraph 11(b) of rule XXVI of the Standing Rules of the Senate, the Committee has considered the regulatory and paperwork impact of H.R. 2675, as amended by the United States Senate. The Committee reports that H.R. 2675, as amended, will not result in any new regulation of individuals or businesses; will have no economic impact on individuals, consumers, or businesses affected except for additional insurance coverage; will have no impact on personal privacy; will have minor one-time impact on paperwork for the Office of Personnel Management to prepare a report required by section 2 on the provision of certain options for universal life insurance coverage and additional death and dismemberment insurance; and may have some impact on the number of appeals filed with the United States Court of Appeals for the Federal Circuit as a result of section 10 which increases the time from 30 days to 60 days that employees and OPM have to appeal a Merit Systems Protection Board (MSPB) decision. H.R. 2675, as amended, contains no intergovernmental or private sector mandates as defined in the Unfunded Mandates Reform Act of 1995 (UMRA) and would have no impact on the budgets of state, local, or tribal governments.

VI. CBO Cost Estimate

U.S. Congress,
Congressional Budget Office,
Washington, DC, July 14, 1998.

Hon. Fred Thompson,
Chairman, Committee on Governmental Affairs,
U.S. Senate, Washington, DC.

Dear Mr. Chairman: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 2675, the Federal Employees Life Insurance Improvement Act of 1998.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Eric Rollins.

Sincerely,

June E. O'Neill, *Director.*

Enclosure.

H.R. 2675—Federal Employees Life Insurance Improvement Act

Summary: H.R. 2675 would make a number of changes to the Federal Employees' Group Life Insurance (FEGLI) program. The bill would allow retired federal employees who carry additional optional life insurance or optional life insurance on family members to continue paying premiums after turning 65 and avoid having their coverage phased out. The bill would also increase the amount of optional life insurance that employees may purchase on family members and would allow separated federal employees to continue purchasing additional optional life insurance at group rates.

CBO estimates that this bill would reduce direct spending by $69 million during the 1999–2003 period and increase discretionary spending by a minor amount. Direct spending would decrease because additional FEGLI premiums would be larger than additional claims over this period. CBO estimates that employee premium payments to FEGLI, which are treated as offsetting collections, would rise by $292 million over the 1999–2003 period and premium payments would increase by $223 million.

This bill would affect direct spending and therefore be subject to pay-as-you-go procedures. H.R. 2675 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act of 1995 (UMRA) and would have no impact on the budgets of state, local, or tribal governments.

Estimated cost to the Federal Government: The estimated budgetary impact of H.R. 2675 is shown in the following table.

[By fiscal year, outlays in millions of dollars]

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
SPENDING SUBJECT TO APPROPRIATION										
Agency share of FEGLI premiums	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
CHANGES IN DIRECT SPENDING										
Increased FEGLI premiums	−8	−40	−68	−81	−95	−113	−133	−156	−181	−209
Increased FEGLI claims	1	29	56	64	73	90	111	134	161	192
Total	−7	−11	−12	−17	−21	−22	−22	−22	−20	−17

[1] Less than $500,000.
Note: Components may not sum to totals because of rounding.

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

Basis of estimate: *Discretionary spending*—H.R. 2675 would remove the cap on the amount of FEGLI coverage available to employees with basic pay at or above Level II of the Executive Schedule (currently $136,500). According to the Office of Personnel Management (OPM), fewer than 200 people would be affected by this change. Discretionary spending would increase by about $5,000 annually due to higher agency payments for part of these employees' premiums.

Direct spending—Federal employees may supplement their basic FEGLI life insurance with three forms of optional insurance. Option A allows employees to buy $10,000 of additional life insurance as well as additional accidental death and dismemberment insurance. Under Option B, federal employees may buy additional life insurance with 1, 2, 3, 4, or 5 times their annual basic pay. Under

Option C, employees may purchase life insurance for their family members at the fixed amounts of $5,000 for a spouse and $2,500 for each dependent child.

Unlike basic FEGLI life insurance, which requires a matching employer contribution, employees pay the full cost of any optional FEGLI insurance. If an employee has Option B or C coverage for the entire five years prior to retiring or receiving worker's compensation, he or she may keep the additional insurance after retirement. However, the retiree no longer pays premiums after reaching age 65, and the amount of coverage decreases by 2 percentage points a month over 50 months until no coverage is left. Employees who are ineligible to continue their FEGLI coverage after leaving government service must convert their coverage to an individual policy.

H.R. 2675 would amend Options B and C in three ways. First, employees who continue their Option B or C coverage during retirement would be able to continue paying premiums after age 65 and avoid having the coverage phased out. Second, employees would be allowed to select 1, 2, 3, 4, or 5 times the current $5,000 and $2,500 coverage amounts under Option C. These changes would take effect 180 days after enactment and, with one exception, apply only to current and future employees. The bill would allow retired employees who are still enrolled in Option B to maintain their existing Option B coverage.

Finally, the bill would make FEGLI benefits more portable by allowing federal employees who separate from service and are currently ineligible to stay in FEGLI to continue their Option B coverage at group rates. This provision would become effective 180 days after the bill's enactment and would be in effect only for the following three years. After that, coverage for the now-ineligible employees still enrolled in Option B would end, and those employees would have to convert their coverage to individual policies. The bill would also require OPM to recommend within three years of the bill's enactment whether this insurance should be extended, made permanent, or terminated.

Increased FEGLI premium payments.—A significant number of current and retired federal workers have Option B or C coverage. Approximately 126,000 retirees carry Option B coverage, and 1 million workers and 314,000 retirees have Option C coverage. CBO used data from OPM to project the number of people who would enroll in Options B and C coverage over the next ten years. These projections included the number of retirees with Option B or C coverage, the number of retirees over age 65, and the average amount of coverage.

CBO assumed that enrollees in Option C would increase their coverage to an average of 3 times the current level. For employees enrolled in Option C, this amount is the midpoint of the new coverage amounts that would be available. Employees currently pay a fixed premium for Option C coverage, and OPM has indicated that Option C premiums would increase to reflect the rise in available coverage envisioned under H.R. 2675. CBO assumed that premiums for Option C would rise in proportion to the amount of coverage selected. For example, an employee who pays $18.20 for $5,000 of coverage for their spouse would pay $54.60 for $15,000 of coverage. Finally, CBO assumed that half of the retirees with Option B or C coverage would decide to keep their coverage after turning 65.

For the bill's portability provisions for Option B coverage, CBO assumed that about 120,000 employees would separate from federal service annually, and that about 43 percent of them would be enrolled in Option B, which is the participation rate for all federal employees. Based on information from the Employee Benefit Research Institute, about 75 percent of private-sector employees participate in employer-provided life insurance. CBO assumed that 75 percent of the employees separating from federal service would get life insurance through their new employer, and that two-thirds of the remaining 25 percent would stay enrolled in Option B.

Based on these assumptions, CBO estimated that premium payments from retirees with Option B coverage would increase by $183 million over the 1999–2003 period. Premiums from current employees and retirees with Option C coverage would rise by $84 million and $14 million, respectively. Premiums from separated employees who would continue their Option B coverage would be $11 million.

Increased FEGLI claims payments.—Because federal employees and retirees would purchase more FEGLI coverage, payments of claims would increase under H.R. 2675. Using data from OPM, CBO estimated the number of claims that would be made under Options B and C and the average amount of each claim. Separate projections were made for current employees, separated employees, and retirees.

Claims payments to retirees with Option B coverage would rise by $108 million during the 1999–2003 period as some retirees keep their coverage past age 65. CBO estimates that claims for separated employees in Option B would be $14 million. Claims payments for current employees enrolled in Option C would increase by $95 million, while claims for retirees with Option C would increase by $6 million.

Other provisions.—H.R. 2675 contains a number of other provisions that CBO estimates would not have a significant budgetary impact. These provisions include requiring OPM to conduct a study on expanding the types of insurance available under FEGLI, including foster children under the FEGLI definition of "family member," and allowing FEGLI enrollees to pay their premiums directly if their pay or annuity is too small to pay premiums through withholding. The bill would also lengthen the time that a federal employee has to seek judicial review of a decision of the Merit Systems Protection Board from 30 days to 60 days.

Pay-as-you-go considerations: The provisions of this bill would affect direct spending and therefore be subject to pay-as-you-go procedures. The pay-as-you-go procedures cover only the current year, budget year, and the succeeding four years.

[By Fiscal Year, in Millions of Dollars]

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Change in outlays	−7	−11	−12	−17	−21	−22	−22	−22	−20	−17
Change in receipts	0	0	0	0	0	0	0	0	0	0

Intergovernmental and private-sector impact: H.R. 2675 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act of 1995 (UMRA) and would have no impact on the budgets of state, local, or tribal governments.

Comparision with other estimates: On November 4, 1997, CBO issued an estimate for H.R. 2675 as reported by the House Committee on Government Reform and Oversight. That version of H.R. 2675 was estimated to reduce direct spending by $72 million between 1998 and 2002. Like the more recent version of H.R. 2675, the Government Reform bill would allow retirees with Option B or C coverage to continue paying premiums after age 65 and maintain their coverage, and would increase the amounts of coverage available under Option C. However, the Government Reform version of H.R. 2675 did not contain any provision for continued Option B coverage for separated employees.

Estimate prepared by: Federal cost: Eric Rollins. Impact on State, local, and tribal governments: Leo Lex. Impact on the private sector: Matthew Eyles.

Estimate approved by: Paul N. Van de Water, Assistant Director for Budget Analysis.

VII. Changes in Existing Law

In compliance with paragraph 12 of rule XXVI of the Standing Rules of the Senate, changes in existing law made by H.R. 2675, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new material is printed in italic, existing law in which no change is proposed is shown as roman):

UNITED STATES CODE

TITLE 5—GOVERNMENT ORGANIZATION AND EMPLOYEES

* * * * * * *

CHAPTER 77—APPEALS

* * * * * * *

§7703. Judicial review of decisions of the Merit Systems Protection Board

(a) * * *

(b)(1) Except as provided in paragraph (2) of this subsection, a petition to review a final order or final decision of the Board shall be filed in the United States Court of Appeals for the Federal Circuit. Notwithstanding any other provision of law, any petition for review must be filed [within 30 days] *within 60 days* after the date the petitioner received notice of the final order or decision of the Board.

* * * * * * *

(d) The Director of the Office of Personnel Management may obtain review of any final order or decision of the Board by filing, *within 60 days after the date the Director received notice of the final* *order or decision of the Board,* a petition for review in the United States Court of Appeals for the Federal Circuit if the Director determines, in his discretion, that the Board erred in interpreting a civil service law, rule, or regulation affecting personnel management and that the Board's decision will have a substantial impact on a civil service law, rule, regulation, or policy directive. If the Director did not intervene in a matter before the Board, the Director may not petition for review of a Board decision under this section unless the Director first petitions the Board for a reconsideration of its decision, and such petition is denied. In addition to the named respondent, the Board and all other parties to the proceedings before the Board shall have the right to appear in the proceeding before the Court of Appeals. The granting of the petition for judicial review shall be at the discretion of the Court of Appeals.

* * * * * * *

CHAPTER 87—LIFE INSURANCE

* * * * * * *

§8701. Definitions

(a) * * *

* * * * * * *

(c) For the purpose of this chapter, "basic insurance amount" means, in the case of any employee under this chapter, an amount equal to the greater of—

(1) the annual rate of basic pay payable to the employee, rounded to the next higher multiple of $1,000, plus $2,000, or

(2) $10,000[,

except that the amount of insurance may not exceed the annual rate of basic pay payable for positions at level II of the Executive Schedule under section 5313 of this title, rounded to the next higher multiple of $1,000, plus $2,000.]. In the case of any former employee entitled to coverage under this chapter, the term means the basic insurance amount applicable for the employee at the time the insurance to which the employee is entitled as an employee under this chapter stops pursuant to section 8706(a) of this title.

* * * * * * *

(d)(1) For the purpose of this chapter, "family member", when used with respect to any individual, means—

(A) the spouse of the individual; and

(B) an unmarried dependent child of the individual (other than a stillborn child), including an adopted child, stepchild *or foster child* (but only if the stepchild *or foster child* lived with the individual in a regular parent-child relationship), or recognized natural child—

(i) who is less than 22 years of age, or

(ii) who is 22 years of age or older and is incapable of self support because of a mental or physical disability which existed before the child became 22 years of age.

* * * * * * *

§8706. Termination of insurance; assignment of ownership

(a) * * *

* * * * * * *

(g) The insurance of an employee under a policy purchased under section 8709 shall not be invalidated based on a finding that the employee erroneously became insured, or erroneously continued insurance upon retirement or entitlement to compensation under subchapter I of chapter 81 of this title, if such finding occurs after the erroneous insurance and applicable withholdings have been in force for 2 years during the employee's lifetime.

§8707. Employee deductions; withholding

[(a) During**]** *(a) Subject to subsection (c)(2), during* each period in which an employee is insured under a policy purchased by the Office of Personnel Management under section 8709 of this title, there shall be withheld from the employee's pay a share of the cost of the group life insurance and accidental death and dismemberment insurance.

[(b)(1) Whenever**]** *(b)(1) Subject to subsection (c)(2), whenever* life insurance continues after an employee retires on an immediate annuity of while the employee is receiving compensation under subchapter I of chapter 81 of this title because of disease or injury to the employee, as provided in section 8706(b) of this title, deductions for insurance shall be withheld from the employee's annuity of compensation, except that, in any case in which the insurance is continued as provided in section 8706(b)(3)(A) of this title, the deductions shall not be made for months after the calendar month in which the employee becomes 65 years of age.

* * * * * * *

(c)*(1)* The amount withheld from the pay, annuity, or compensation of each employee subject to insurance deductions shall be at the rate, adjusted to the nearest half-cent, of 66⅔ percent of the level cost as determined by the Office for each $1,000 of the employee's basic insurance.

(2) An employee who is subject to withholdings under this section and whose pay, annuity, or compensation is insufficient to cover such withholdings may nevertheless continue insurance if the employee arranges to pay currently into the Employees' Life Insurance Fund, through the agency or retirement system that administers pay, annuity, or compensation, an amount equal to the withholdings that would otherwise be required under this section.

* * * * * * *

§8714a. Optional insurance

(a) * * *

* * * * * * *

(d)(1) * * *

* * * * * * *

(3) Notwithstanding paragraph (1), an employee who is subject to withholdings under this subsection and whose pay, annuity, or compensation is insufficient to cover such withholdings may neverthe-

less continue optional insurance if the employee arranges to pay currently into the Employees' Life Insurance Fund, through the agency that administers pay, annuity, or compensation, an amount equal to the withholdings that would otherwise be required under this subsection.

* * * * * * *

§8714b. Additional optional life insurance

(a) * * *

(b) The additional life insurance provided under this section shall be made available to each eligible employee who has elected coverage under this section, under conditions the Office shall prescribe, in multiples, at the employee's election, of 1, 2, 3, 4, or 5 times the annual rate of basic pay payable to the employee (rounded to the next higher multiple of $1,000) **[**except that coverage may not exceed an amount equal to 5 times the annual rate of basic pay payable for positions at level II of the Executive Schedule under section 5313 of this title (rounded to the next higher multiple of $1,000).**]**.

(c)(1) * * *

(2) in the case of any employee who retires on an immediate annuity or who becomes entitled to receive compensation under subchapter I of chapter 81 of this title because of disease or injury to the employee, so much of the additional optional insurance as has been in force for not less than—

(A) the 5 years of service immediately preceding the date of retirement or entitlement to compensation, or

(B) the full period or periods of service during which the insurance was available to the employee, if fewer than 5 years,

may be continued under conditions determined by the Office after retirement or while the employee is receiving compensation under subchapter I of chapter 81 of this title and is held by the Secretary of Labor (or the Secretary's delegate) to be unable to return to duty. **[**The amount of insurance under this paragraph shall be reduced each month by 2 percent effective at the beginning of the second calendar month after the date the employee becomes 65 years of age and is retired or is in receipt of compensation. The reduction shall continue for 50 months at which time the insurance stops.**]**

(3) The amount of additional optional insurance continued under paragraph 2 shall be continued, with or without reduction, in accordance with the employee's written election at the time eligibility to continue insurance during retirement or receipt of compensation arises, as follows:

(A) The employee may elect to have withholdings cease in accordance with subsection (d), in which case—

(i) the amount of additional optional insurance continued under paragraph (2) shall be reduced each month by 2 percent effective at the beginning of the calendar month after the date the employee becomes 65 years of age and is retired or is in receipt of compensation; and

(ii) the reduction under clause (i) shall continue for 50 months at which time the insurance shall stop.

(B) The employee may, instead of the option under subparagraph (A), elect to have the full cost of additional optional life insurance continue to be withheld from such employee's annuity or compensation on and after the date such withholdings would otherwise cease pursuant to an election under subparagraph (A), in which case the amount of additional optional insurance continued under paragraph (2) shall not be reduced, subject to paragraph (4).

(C) An employee who does not make any election under the preceding provisions of this paragraph shall be treated as if such employee had made an election under subparagraph (A).

(4) If an employee makes an election under paragraph (3)(B), that individual may subsequently cancel such election, in which case additional optional insurance shall be determined as if the individual had originally made an election under paragraph (3)(A).

(5)(A) An employee whose additional optional insurance under this section would otherwise stop in accordance with paragraph (1) and who is not eligible to continue insurance under paragraph (2) may elect, under conditions prescribed by the Office of Personnel Management, to continue all or a portion of so much of the additional optional insurance as has been in force for not less than—

(i) the 5 years of service immediately preceding the event which would cause insurance to stop under paragraph (1); or

(ii) the full period or periods of service during which the insurance was available to the employee, if fewer than 5 years,

at group rates established for purposes of this section, in lieu of conversion to an individual policy. The amount of insurance continued under this paragraph shall be reduced by 50 percent effective at the beginning of the second calendar month after the date the employee or former employee attains age 70 and shall stop at the beginning of the second calendar month after attainment of age 80, subject to a provision for temporary extension of life insurance coverage and for conversion to an individual policy of life insurance under conditions approved by the Office. Alternatively, insurance continued under this paragraph may be reduced or stopped at any time the employee or former employee elects.

(B) When an employee or former employee elects to continue additional optional insurance under this paragraph following separation from service or 12 months without pay, the insured individual shall submit timely payment of the full cost thereof, plus any amount the Office determines necessary to cover associated administrative expenses, in such manner as the Office shall prescribe by regulation. Amounts required under this subparagraph shall be deposited, used, and invested as provided under section 8714 and shall be reported and accounted for together with amounts withheld under section 8714a(d).

(C)(i) Subject to clause (ii), no election to continue additional optional insurance may be made under this paragraph 3 years after the effective date of this paragraph.

(ii) On and after the date on which an election may not be made under clause (i), all additional optional insurance under this paragraph for former employees shall terminate, subject to a provision for temporary extension of life insurance coverage and for conver-

sion to an individual policy of life insurance under conditions approved by the Office.

(d)(1) During each period in which the additional optional insurance is in force on an employee the full cost thereof shall be withheld from an employee's pay. During each period in which an employee continues additional optional insurance after retirement or while in receipt of compensation under subchapter I of chapter 81 of this title because of disease or injury to the employee, as provided in subsection (c) of this section, the full cost thereof shall be withheld from the former employee's annuity or compensation, except that, *if insurance is continued as provided under subsection (c)(3)(A),* beginning at the end of the calendar month in which the former employee becomes 65 years of age, the additional optional insurance shall be without cost to the former employee. Amounts so withheld *(and any amounts withheld as provided in subsection (c)(3)(B))* shall be deposited, used, and invested as provided in section 8714 of this title and shall be reported and accounted for together with amounts withheld under section 8714a(d) of this title.

* * * * * * *

(3) Notwithstanding paragraph (1), an employee who is subject to withholdings under this subsection and whose pay, annuity or compensation is insufficient to cover such withholdings may nevertheless continue additional optional insurance if the employee arranges to pay currently into the Employees' Life Insurance Fund, through the agency or retirement system which administers pay, annuity, or compensation, an amount equal to the withholdings that would be required under this subsection.

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§ 8714c. Optional insurance on family members

(a) * * *

(b)(1) The optional life insurance on family members provided under this section shall be made available to each eligible employee who has elected coverage under this section, under conditions the Office shall prescribe, in multiples, at the employee's election, of 1, 2, 3, 4, or 5 times—

(A) $5,000 for a spouse; and

(B) $2,500 for each child described under section 8701(d).

(2) An employee may reduce or stop coverage elected pursuant to this section at any time.

(c)(1) * * *

(2) In the case of any employee who retires on an immediate annuity or who becomes entitled to receive compensation under subchapter I of chapter 81 of this title because of disease or injury to the employee and who has had in force insurance under this section for no less than—

(A) the 5 years immediately preceding the date of retirement or entitlement to compensation, or

(B) the full period or periods of service during which the insurance was available to the employee, if fewer than 5 years,

optional insurance on family members may be continued under the same conditions as provided in [in section 8714b(c)(2) of this title] *section 8714b(c)(2) through (4).*

(d)(1) During each period in which the optional life insurance on family members is in force the full cost thereof shall be withheld from the employee's pay. During each period in which an employee continues optional insurance on family members after retirement or while in receipt of compensation under subchapter I of chapter 81 of this title because of disease or injury to the employee, as provided in subsection (c) of this section, the full cost shall be withheld from the annuity or compensation, except that beginning at the end of the calendar month in which the former employee becomes 65 years of age, the optional life insurance on family members shall be without cost to the employee. *Notwithstanding the preceding sentence, the full cost shall be continued after the calendar month in which the former employee becomes 65 years of age if, and for so long as, an election under this section corresponding to that described in section 8714b(c)(3)(B) remains in effect with respect to such former employee.* Amounts so withheld shall be deposited, used, and invested as provided in section 8714 of this title and shall be reported and accounted for together with amounts withheld under section 8714a(d) of this title.

(2) * * *

(3) Notwithstanding paragraph (1), an employee who is subject to withholdings under this subsection and whose pay, annuity, or compensation is insufficient to cover such withholdings may nevertheless continue optional life insurance on family members if the employee arranges to pay currently into the Employees' Life Insurance Fund, through the agency or retirement system that administers pay, annuity, or compensation, an amount equal to the withholdings that would otherwise be required under this subsection.

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