



November 14, 2008

The Honorable Barack Obama
c/o Presidential Transition Offices
451 6th Street, N.W.
Washington, D.C. 20001

Dear President-Elect Obama:

We first want to congratulate you on your election as the 44th President of the United States. Each of our organizations stand ready to work with you on issues of mutual interest to all Americans, including the 4.6 million federal employees and retirees who have devoted their working life to our country as public servants.

We are writing to urge you to exercise your authority to instruct the Office of Personnel Management (OPM) to apply for the Medicare employer payment which could be used to lower premiums, enhance plan coverage, and help contain the amount the federal government -- as an employer -- as well as federal workers and annuitants pay for Federal Employees Health Benefits Program (FEHBP) premiums. While there are a number of actions that OPM can take that would improve the lives of federal workers and retirees, we wish to call your attention to this issue since it would have an immediate and far-reaching beneficial impact.

In response to concerns that employers would react to the creation of the Medicare Part D prescription drug benefit by reducing or eliminating their own retiree drug coverage, the authors of the Medicare Modernization Act of 2003 (MMA) added a provision to the law (Section 1860D-22) which would make employers, including the federal government, eligible to receive a payment if they provided their retired workers a prescription drug benefit that was at least as generous as the new Medicare Part D program. Payments to OPM, unlike other employers, would not result in new budget obligations since they would be an intragovernmental transfer.

While OPM and Centers for Medicare and Medicaid Services (CMS) staff made preparations in 2004 to receive the employer payment on behalf of FEHBP, under what was suggested to be direction from the White House, OPM announced in the April 19, 2005 "call letter" to FEHBP insurance carriers, that the Office would not apply for the payment. As a consequence of this action, the Postal Service was also foreclosed from accessing the employer subsidy.

A December 2006 Government Accountability Office (GAO) study (GAO 07-141) found that premium growth in one of the largest FEHBP plans with a high share of older enrollees could have been 3.5 to 4 percent lower in 2006 had the payment been accessed. Additionally, the payment would have lowered the growth in premiums across all FEHBP plans for 2006 by more than 2 percentage points on average, from 6.4 percent to about 4 percent. GAO also found that future FEHBP premiums would be more sensitive to drug cost increases than premiums of other large private and public employer plans



that receive the retiree drug payment. CMS makes the payment to employers on an annual basis, and to date, OPM has forgone four payments, that could have lowered FEHBP costs by more than \$4 billion.

The undersigned organizations urge you, upon taking office, to direct OPM to apply for the Medicare employer payment for the purpose of offsetting FEHBP premiums charged to the government/employer and all enrollees on an equitable basis.

Sincerely,

American Federation of Government Employees
American Foreign Service Association
American Postal Workers Union
Federal Managers Association
International Association of Fire Fighters
National Active and Retired Federal Employees Association
National Association of Letter Carriers
National Association of Government Employees
National Association of Postmasters of the United States
National Federation of Federal Employees
National League of Postmasters
National Rural Letter Carriers' Association
National Treasury Employees Union

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