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FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM

Federal Employees Health Benefits Program

The headlines focused on the fact that federal employees' and retirees' average premiums have increased by an average of 12.3 percent in 2026, following a 13.5 percent increase in 2025. In 2024, the average premium increase was 7.7 percent so putting these three years together means a terrible period of premium inflation and cost-shifting from the government onto employees and retirees. Sixty-six of the 132 plans available in 2026 allow employees to receive the maximum government share of premiums of 75 percent. However, since the government's share is based on a weighted average of premiums, the cost-sharing ratios vary tremendously. The worst in terms of percentage paid by the government is Aetna's High Option in New Jersey where the government will pay just 27 percent of 2026's premium.

The Office of Personnel Management (OPM), which administers the program, blames prescription drugs generally and GSP-1s in particular, along with chronic illnesses, for the enormous increases.

The most popular plans are the three Blue Cross/Blue Shield plans, with its Standard option being the most highly subscribed. The Standard premiums rose by 7.7% for employees and retirees in 2026; the Basic rose by 17.5% and the most bare-bones option; Blue Focus rose by 12.9%.

The Federal Employees Health Benefits (FEHB) Program, which covers more than eight million federal employees, retirees, and their dependents, is the nation's largest employer-sponsored health insurance program. FEHB Program is also a target of those who would force federal employees to forfeit their earned benefits to finance deficit reduction. The attacks on FEHB Program are likely to continue in Congress this year as part of any focus on deficit reduction. AFGE strongly opposes dismantling either the FEHB Program or Medicare, including by replacing the current premium-sharing financing formula with vouchers.

Issue and Background - Maintain Quality and Control Escalating Employee Costs for the FEHB Program

At present the FEHB Program is a cost-sharing program. On average, the government contributes approximately 70 percent of the premium cost for most employees, although this number can vary considerably depending on the plan chosen by a covered employee and his/her family. (This formula is 72 percent of the weighted average premium; in practice, this has meant an average contribution of 70 percent or less).

In order to lower the overall costs of the program, the Office of Personnel Management (OPM), the federal agency administering the FEHB Program, has been promoting employee enrollment into lower premium plans, e.g., the Blue Cross/Blue Shield Blue Focus plan. While this plan and other lower premium plans may appeal to those seeking to pay lower upfront costs, the plans offer inferior benefits, and very high out-of-pocket costs. For employees and their families who experience high overall health care costs in a given year, these plans can be a risky choice.

It is vital to federal employees that the government's current premium sharing formula for the FEHB Program be maintained, and that the share of cost attributable to employee-paid premiums be kept as low as possible. In addition, all plans should be required to offer comprehensive benefits.

That is, the FEHB Program must continue to be financed with the government's paying a percentage of premiums, not a flat rate or cash voucher, and every plan must cover essentially the same set of comprehensive benefits.

The largest FEHB Program plans contract with OPM on a fixed price re-determinable basis with retroactive price redetermination. This means that even as the insurance companies receive only a fixed amount per contract year per "covered participant," they are allowed to track their costs internally until the end of the year. The following year, they can claim these costs and recoup any amount they say exceeded their projections from the previous year. *They are guaranteed a minimum, fixed profit each year regardless of their performance or the amount of claims they pay.*

The cost "estimates" on which they base their premium demands are a combination of what they report as the prior year experience plus projections for the coming year plus their minimum guaranteed profit. Clearly, there is no ability for federal employees to alter the "high cost" of these plans. There is no ability to audit their reported costs to verify their accuracy, particularly with regard to cost accounting, attributing costs to FEHBP rather than other subscribers. It is in the FEHB insurance companies' interests to keep costs and profits high and benefits low.

That is why it is imperative that FEHBP plans be subject to the government's Cost Accounting Standards. The government cannot verify the experience claims of FEHB carriers without these standards, yet due to lobbying and threats of exit from the program, the insurance companies, alone among federal contractors, have continued to be exempt from adherence to these cost accounting standards. AFGE will continue to monitor OPM's administration of the FEHB Program and urges all members to actively engage with their Congressional representatives to ensure that any attempts to scale back the government's FEHB Program share of premiums be defeated.

Issue and Background - Turning FEHB Program into a Voucher System

Some have recommended changing FEHB Program into a "premium support system." This is a euphemism for vouchers and has been proposed as part of the reconciliation package for 2025. Those bent on reducing the compensation of federal employees suggest that because the

government covers a set percentage of an employee's health premium, FEHB participants have an incentive to choose higher-priced health plans.

Under the compensation-cutting proposals, the government would offer a standard, i.e., fixed dollar amount, federal contribution towards the purchase of health insurance and employees would be responsible for paying the rest. The Republican Study Committee has said, "This option would encourage employees to purchase plans with the appropriate amount of coverage that fits their needs."

What this means is that they propose turning the FEHB Program into a defined-contribution or voucher system. Premium support or voucher plans provide a fixed subsidy that is adjusted by an amount unrelated to changes in premiums. One proposal would adjust the voucher by the growth in Gross Domestic Product (GDP).

The voucher plan would change the FEHB Program by having the government provide a fixed amount of cash each year that employees could use to buy insurance on their own, instead of paying a percentage of average premiums charged by the insurance companies coordinated by the Office of Personnel Management, as is currently the case. Under the existing statutory system, if premiums go up by 10 percent, the government's contribution goes up by around 10 percent. The FEHB Program financing formula requires the government to pay 72 percent of the weighted average premium, but no more than 75 percent of any given plan's premium. With a voucher-based plan, the government's "defined contribution" or voucher would not rise in step with premium increases and thus, every year, employees would have to pay a larger percentage of the cost of their insurance.

Issue and Background - Scaling Back FEHB Program for Retirees

Yet another attack on the FEHB Program is likely to be continued by conservatives and their allies, based on a Heritage Foundation proposal. Again, the proposal will likely be justified on the basis of the "urgent need" for deficit reduction.

The key part of the Heritage proposal is to shift more federal retiree health care costs away from the FEHB Program. Heritage proposes that all federal retirees be required to purchase Medicare Part B insurance even if they already have better FEHB Program coverage and do not have either the means or the desire to pay two insurance premiums instead of one. Mandatory Medicare Part B coverage would be useless to veterans who use the FEHB Program in combination with Department of Veterans Affairs (VA) care to cover their costs. Heritage includes in its proposal a loss of all health insurance for retirees who refuse to pay two premiums.

The Postal Reform bill recently enacted by Congress establishes a bad precedent regarding FEHB and Medicare Part B premiums. Under the Postal Reform law, as of January 1, 2025, all newly retiring Postal Service employees (with some few exceptions) were required to pay Medicare Part B premiums to maintain the Postal Service equivalent of the FEHB Program.

Congressional Requests Needed to Address FEHB Program Issues

1. FEHB Program's funding structure should be maintained in its current form. All attempts to convert the formula into a voucher or "premium support system" should be rejected. AFGC urges lawmakers to reject all efforts to change the premium support system into a voucher system.
2. Any attempt to change FEHBP eligibility criteria for federal retirees should be rejected.