



INTERNATIONAL FEDERATION OF PROFESSIONAL & TECHNICAL ENGINEERS AFL-CIO & CLC

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2024 IFPTE Issue Brief

118th Congress

Modernize Federal Employee's Group Life Insurance (FEGLI)

More than one-third of federal civilian employees are eligible for retirement in the next five years, and fewer than 6 percent of current federal employees are under the age of 30. Along with the stress of the COVID-19 pandemic and years of pay freezes and low pay increases, retaining and recruiting federal workers is becoming increasingly challenging across the federal government. IFPTE requests Congress improve FEGLI by adding flexibility.

FEGLI Overview – Established by Congress in 1954, FEGLI is the largest group life insurance program in the world, covering over 4 million federal employees, retirees, and eligible family members. The FEGLI program is administered by OPM and is available for federal and postal employees and annuitants.

Newly hired federal employees are automatically covered by FEGLI's basic life insurance with premiums being automatically deducted through payroll deduction. Only those workers who elect to waive coverage are not enrolled in FEGLI. The cost of the Basic level of insurance is shared between the federal worker and the government. The employee pays two-thirds of the total cost, and the government pays one-third, and age does not affect the cost of Basic insurance. The cost of the Optional insurance options is paid 100% by employees, and it is dependent on age. In addition to the Basic FEGLI coverage, there are three other forms of Optional insurance that workers must proactively elect to be enrolled in. As a term life insurance policy, FEGLI plans do not accrue cash value.

IFPTE proposes adding the following reforms to the FEGLI program:

- Allow FEGLI life insurance policies to accrue cash value throughout the life of the policy.
- Allow federal workers who retire to have the options of (a) continuing in the Basic FEGLI life insurance program, (b) transferring the cash value of the life insurance policy into an annuity of their choice, or (c) using the cash value toward a long-term care policy.
- Utilize the IRS Section 1035 exchange option for any federal employees who elect to transfer the cash value of their FEGLI plan. Federal worker earnings that are deducted into the FEGLI program are already taxed and the IRS 1035 transfer is appropriate for allowing any transfer of cash value to be tax-free. An IRS 1035 exchange is a provision in the tax code allowing for a tax-free transfer from a life insurance policy with a cash value to an annuity conversion or toward securing a qualified long-term care insurance policy.

Conclusion – **Shifting the FEGLI policies to cash value policies by utilizing the IRS Section 1035 exchange will help federal workers offset the increases in health care and elder care costs by giving federal retirees and their families increased flexibility and allowing them to afford appropriate care and retirement options.** This is a win-win for both federal employees and taxpayers, as it provides options for long-term care for retirees, which the vast majority of Americans are expected to need after age 65. This reality, combined with the ballooning growth in overall Medicare and Medicaid spending, resulting in \$13,276 spent per Medicare beneficiary and \$8,485 per Medicaid enrollee in 2019, underscores the need to provide this benefit to federal workers.