



STATEMENT OF
THE MILITARY OFFICERS ASSOCIATION OF AMERICA
(MOAA)

Subcommittee on Civil Service and Agency Organization

House Government Reform Committee

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Presented by

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**Biography of Sue Schwartz, DBA, RN
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The Military Officers Association of America (MOAA)**

Sue Schwartz is Deputy Director of Government Relations, Health Affairs at the Military Officers Association of America (MOAA) where she follows health care reform legislation and its potential impact on the military health services system and serves as co-chairman of the Military Coalition's Health Care Committee. In November 2000, Dr. Schwartz joined the staff at MOAA after leaving the National Military Family Association (NMFA) as the Associate Director, Government Relations

Dr. Schwartz has over 19 years experience as a registered nurse in a variety of health care settings, holding positions of staff nurse, Operating Room Educator, Operating Room/Post Anesthesia Care Unit Director, and Quality Improvement Director. Her consultative experience with Allegiance Health Care, Inc., emphasized cost reduction through supply logistics and clinical activities reengineering. She has served as a commissioner on the President's Task Force to Improve Health Care Delivery for Our Nation's Veterans and is a member of the Office of the Secretary of Defense's TRICARE Beneficiary Panel.

Her education preparation includes: DBA from NOVA Southeastern University, MBA from Auburn University, Montgomery, MSA from Central Michigan University, BS from Springfield College and ADN from Bristol Community College. Dr. Schwartz is a certified operating room nurse (CNOR) since 1989, receiving the Association of Perioperative Registered Nurses (AORN) scholarship awards in 1990, 1991, 1997 and 1998. In addition, she is a member Beta Gamma Sigma, a national business honorary.

A spouse of an active duty Marine officer, she resides in Northern Virginia.

The Military Officers Association of America, does not receive any grants or contracts from the federal government.

Madam Chairman and distinguished members of the Subcommittee, the Military Officers Association of America (MOAA) is grateful for the invitation to present our views on HR 1231, which would allow active duty servicemembers and Federal civilian and military retirees and survivors to pay health insurance premiums on a pretax basis and to allow a deduction for TRICARE supplemental premiums.

MOAA is the largest military officers association in the country and the fourth largest military veterans organization with approximately 389,000 members. Our membership consists of current, former, or retired officers of the seven uniformed services and their surviving spouses. Included in our membership are active duty, National Guard and Reserve, retired and former officers who were honorably discharged. MOAA was founded in 1929 and is dedicated to "serving those who serve America".

MOAA strongly supports this legislation to help ensure equal treatment for all military and federal beneficiaries

Madam Chairman, we are also most appreciative of your leadership on this issue as an original cosponsor of HR 1231 -- as well as for your continued support for equity in the treatment of uniformed service and federal employees. If enacted, this legislation would allow 8.6 million current and retired service members, families, and survivors the same privilege already enjoyed by millions of other Americans

HR 1231

HR 1231 would amend Section 125 of the Internal Revenue Code to allow active duty and retired military members and federal civilian annuitants to pay their health insurance premiums on a pre-tax basis. Under this premium conversion concept, Federal tax rules allow employees to deduct their share of health insurance premiums from their taxable income, thereby reducing their income tax liability. HR 1231 would provide tax incentives to offset the cost of these important services and promote enrollment.

To meet their health care requirements, many uniformed services beneficiaries – active duty, (including Ready Reservists and National Guardsmen) and retirees --- pay premiums for a variety of health insurance programs, such as TRICARE Prime enrollment fees, TRICARE Standard supplemental policies, the TRICARE Dental Plan (TDP), and the TRICARE Retiree Dental Plan (TRDP). For the vast majority of military beneficiaries, these premiums and enrollment fees are not tax-deductible because their health care expenses do not exceed 7.5 percent of their adjusted gross taxable income, as required by IRS rules.

This creates a significant inequity with many private sector and federal workers, many of whom already enjoy tax exemptions for health and dental premiums through employer-sponsored health benefits “cafeteria” plans. Since October of 2000, the Office of Personnel Management (OPM) has provided current federal employees these pre-tax benefits under the Federal Flexible Benefits Plan ("FedFlex"). FedFlex makes it possible for eligible Federal employees to pay for certain benefits with pre-tax dollars.

This year the gap between military and federal employee benefits will widen even further. OPM will expand FedFlex this summer by offering the option to enroll in Flexible Spending Accounts (FSAs). Federal employees will enjoy even greater benefits with FSAs covering additional out-of-pocket costs, including co-payments and deductibles and for health care expenses not covered by insurance, such as dental services and eye care.

Kay Cole James, Director, US Office of Personnel Management has stated, “Used wisely, flexible spending accounts are effective financial management tools that can stretch the disposable incomes of account holders and ensure that funds are available, when needed, to pay for out-of-pocket medical expenses. I am confident that federal employees will benefit from participation in the FSA program....”

MOAA firmly believes that military beneficiaries are federal employees too and should be able to enjoy equal tax relief regarding their health care expenses.

The Society for Human Resource Management's 2002 Benefits Survey shows that 69 percent of the 551 private sector organizations surveyed offer medical flexible spending account benefits to their employees. Even MOAA, a private, non-profit organization with less than 100 employees, offers the premium conversion benefit option. IRS Code Section 125 allows eligible MOAA employees to pay for certain employer-sponsored fringe benefits with pre-tax dollars. A designated amount of money is set aside from each paycheck and deducted from gross pay before federal, FICA, Social Security, Medicare (and in some cases, state) taxes are calculated.

Our Premium Conversion program automatically increases take home pay since these deductions are not subject to federal or FICA taxes. If MOAA can provide this benefit to its 95 employees to maximize employee benefits, why can't the government provide the same benefit to those who currently serve or those who have served their nation in uniform?

As the Department of Defense competes with the private sector in the "war for talent", Premium Conversion can offer a valuable recruitment and retention tool. DoD is constantly challenged to search for new ways to attract qualified candidates away from the private sector to choose military service, as well as to enhance retention. Employers who offer these benefits are more likely to be viewed as employers of choice - who understand and relate to the needs of employees and their families.

Compensation issues continue to be of concern among our military families. Pay and benefit improvements are integral to retaining a top-quality all-volunteer force to wage the war against terrorism at home and abroad. The stresses of military life along with the recent increase in operations tempo – associated with fighting two wars since 9/11 are taking their toll on military families. Sacrifices are taken for granted as a part of the

military life. However, in response to the hardships we impose upon our military families, it is important that every attempt is made to provide them with a Quality of Life that is competitive with the private sector.

HR 1231 contains the following provisions for military beneficiaries:

- Enrollment fees for **TRICARE Prime** and the **TRICARE Retiree Dental Plan (TRDP)** paid by military retirees and **TRICARE Dental Program (TDP)** fees paid by active duty military members would be treated in the same way as pretax options available to private sector workers. Premiums would be deducted by the government from the person's gross pay or retired pay. These enrollment fees/premiums would not be reported as taxable income.
- **TRICARE Standard supplemental** premiums paid by active and retired servicemembers would be treated differently, since these are not government programs. Beneficiaries would be allowed to deduct these premiums on their federal income tax forms. The deduction would be allowable whether or not the taxpayer itemized his/her deductions.

MOAA firmly believes that sailors, soldiers, airmen, and Marines who sacrifice so much in service to their country are also federal employees in every way and deserve to be afforded the same tax relief for their health care premiums as current federal workers.

It is unfortunate that federal annuitants cannot participate in FedFlex because the tax code is unclear on their eligibility to participate. Both military retirees and federal annuitants also bear the burden of increasingly high health premiums. One example of where military retirees would greatly benefit concerns the TRICARE Retiree Dental Program (TRDP).

One of the greatest complaints we hear from our members is that high cost of the retiree TRDP. Unlike the active duty TRICARE Dental Program (TDP), there is no government

subsidy for retiree premiums. This is a significant dissatisfier for retired beneficiaries. Dental care is integral to a beneficiary's overall health status. Dental disease left untreated can lead to more serious health consequences and should not be excluded from a comprehensive medical care program. While the program is clearly successful, participation could be greatly enhanced by offering the Premium Conversion benefit to offset the high costs of this program.

MOAA strongly supports enactment of this legislation to correct this significant inequity in the tax code affecting the military. Rising health care costs affect all federal employees, civilian or uniformed, active or retired, and this proposal is essential to ensure all are provided similar relief.

Our hope is that the precedent set in 2000 for currently serving federal civilian employees will pave the way for similar treatment for all military and federal personnel.