

The Honorable John W. Warner
Chairman, Committee on Armed Services
United States Senate
Washington, DC 20510-6050

Dear Mr. Chairman

We respectfully submit the enclosed report entitled, *Joint Evaluation by the Department of Defense (DOD) and Office of Personnel Management (OPM) of the Federal Employees Health Benefits Program (FEHBP) Demonstration: Second Report to Congress*. This report is in response to the requirement outlined in Section 721 of the National Defense Authorization Act for Fiscal Year 1999.

The Secretary of Defense and the Director, Office of Personnel Management, co-sponsored the FEHBP demonstration, a three-year project that tested the feasibility of providing the FEHBP option to military retirees on a permanent basis. The FEHBP Demonstration Project was successfully implemented and operated during its three-year period. Enrollment in the project remained extremely low and was further influenced by the National Defense Authorization Act for Fiscal Year 2001, which enacted TRICARE for LIFE as the permanent comprehensive healthcare benefit for Medicare-eligible Uniformed Services retirees.

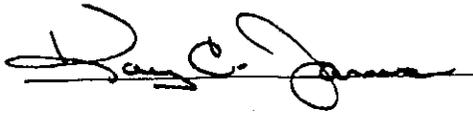
Due to the low enrollment in the demonstration project and the availability of the less costly and comprehensive TRICARE for LIFE benefits, FEHBP does not appear to be a viable option for Uniformed Services beneficiaries.

Although we recommend that the demonstration end, Public Law 105-261 required DOD and OPM to make recommendations on how many opportunities eligible beneficiaries should have to enroll in the FEHBP if the program were made permanent. In that case, we would have recommended that they be given one year from the date they become eligible to receive hospital insurance under part A of title XVIII of the Social Security Act to enroll. This would provide adequate time for beneficiaries to learn how to navigate a multiple option health benefit program like the FEHBP.

The enclosed report represents the result of DOD and OPM's effort in meeting the requirements of the law.

Thank you for your continued support of the military health system

Sincerely,



Kay Coles James
Director
U S Office of Personnel Management



 William Winkenwerder, Jr, M D
Assistant Secretary of Defense
(Health Affairs)

Enclosure:
As stated

cc:
Senator Carl Levin