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2157 RAYBURN HOUSE OFFICE BUILDING

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MAJORITY (202) 225-5051
FACSIMILE (202) 225-4784
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Opening Statement of Rep. Henry A. Waxman Chairman, Committee on Oversight and Government Reform Defense Base Act Insurance: Are Taxpayers Paying Too Much? May 15, 2008

One of the primary issues this Committee has tackled this Congress has been the waste and abuse of taxpayer dollars. From crop insurance in Kansas to an Air Force base in Ramstein, Germany, we've held over a dozen hearings into federal programs that don't seem to be using taxpayer money wisely.

Today and next week, we turn back to Iraq. Our subject today may seem obscure: insurance payments under the Defense Base Act of 1941. But the costs to the taxpayer are high.

The Defense Base Act requires contractors operating in Iraq and Afghanistan to purchase workers' compensation insurance for their employees. Three agencies — the State Department, USAID, and the Corps of Engineers — have approached this requirement responsibly. They conducted a competition to select an insurance carrier to offer this insurance at low rates to their contractors.

The Defense Department has taken a completely different approach: it allows contractors to negotiate their own individual insurance contracts. This approach has produced a boondoggle for the insurance companies and the private contractors — and saddled the taxpayer with enormous costs.

Typically, insurers offering workers' compensation pay out as much in claims and expenses as they take in through premiums. The carriers make their real money off of investment returns they earn during the interval between when they receive premiums and pay claims and expenses.

This has been the experience of the State Department, USAID, and the Corps of Engineers. In fact, the company that won these contracts, CNA, has actually paid out 8% more in claims and expenses than it has received in premiums.

But these contracts represent only 10% of the insurance market in Iraq and Afghanistan. Ninety percent of the DBA market is controlled by the Defense Department. And the experience in the DOD market has been completely different.

Under the DOD approach, private contractors negotiate with private insurers, but bill the taxpayer for the costs. This arrangement has been exceptionally lucrative for the private insurers and the contractors. Over the last five years, the four largest private insurers have made underwriting profits of nearly 40%. That's almost \$600 million in profits.

The LOGCAP troop support contract — the largest single contract in Iraq — illustrates what's going wrong. As a series of charts will illustrate, KBR paid an insurance company, AIG, \$284 million for worker's compensation coverage. Since KBR's contract is a cost-plus contract, this \$284 million premium plus a mark-up for KBR of up to \$8 million gets billed to the taxpayer, bringing the total costs to the taxpayer to \$292 million.

Out of this amount, just \$73 million actually goes to injured contractors, and AIG and KBR pocket over \$100 million as profit.

This is disgraceful. The taxpayer is paying nearly \$300 million to deliver less than \$75 million in benefits to injured contractors. Rube Goldberg could not design a more inefficient way to help employees wounded or injured in Iraq.

The Defense Department has argued that the fact that Iraq is a war zone justifies the high costs of the insurance program. But under the Defense Base Act, the taxpayer — not the insurance companies — has to pay the costs when a contractor is wounded in action. The insurance companies only pay for the types of injuries that could occur at any worksite.

What makes the situation even worse is the people this program is supposed to benefit — the injured employees working for contractors — have to fight the insurance companies to get their benefits. Delays and denials in paying claims are the rule.

Audit after audit has said the Defense Department model doesn't work, but still the Department won't change. When Congress passed a law in 2006 requiring the Defense Department to rethink its approach, the Department reported that it would be too expensive to collect the necessary data and "there are no compelling procurement reasons for DoD to initiate any ... efforts."

My staff prepared an analysis of the Defense Base Act, which has been distributed to the members as a supplemental memo. Based on new data from the insurers, it identifies 600 million reasons why the Defense Department should care. That's the amount of the excessive profits that insurance companies have earned at taxpayer expense in just five years.

I ask that this memorandum and the documents it cites be made part of today's record.

In the course of our hearings into government waste, fraud, and abuse, we've learned to recognize the recipe for wasteful government spending. And all the key ingredients are here: an

obscure federal program; a procurement approach that leaves federal taxpayers, not private contractors, liable for the biggest risks; and officials who ignore warning after warning.

We need to stop this flagrant abuse of taxpayer dollars. And this hearing is an important step in this process.