



Highlights of [GAO-04-539](#), a report to the Chairman, Subcommittee on Energy and Water Development, Committee on Appropriations, House of Representatives

Why GAO Did This Study

The Department of Energy (DOE), which carries out its national security, environmental cleanup, and research missions through extensive use of contractors, faces significant costs for postretirement health and pension benefits for contractor employees. Given DOE's long history of using contractors and the rising cost of postretirement benefits, you asked GAO to (1) analyze DOE's estimated financial obligation for postretirement health and pension benefits for contractor employees at the end of fiscal year 2003, (2) determine how DOE evaluates its contractor postretirement health and pension benefit programs and assesses the comparative levels of benefits offered by contractors, and (3) assess how DOE's oversight of these benefits could be enhanced.

What GAO Recommends

GAO recommends four executive actions: (1) institute systematic management review of pertinent data from each contractor location; (2) extend, as practical, DOE comparison study requirements to contractors not currently covered by them; (3) where the extension of the order is not practical, perform appropriate alternative procedures; and (4) incorporate into DOE's oversight a focus on the long-term costs and budgetary implications of decisions pertaining to each component of contractor benefit programs. In written comments on a draft of this report, DOE agreed with these recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-04-539.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Robert Martin at (202) 512-6131 or martinr@gao.gov.

DEPARTMENT OF ENERGY

Certain Postretirement Benefits for Contractor Employees Are Unfunded and Program Oversight Could Be Improved

What GAO Found

As of September 30, 2003, DOE reported an estimated \$13.4 billion in unfunded contractor postretirement health and pension benefits. This figure is an estimate of the present value of all benefits attributed to employee service before September 30, 2003, minus the fair market value of assets dedicated to the payment of retiree benefits. The unfunded balance has grown over the past 4 fiscal years as a result of the continuing accumulation of benefits, declining interest rates, and negative returns on pension assets. A significant portion of the unfunded balance relates to benefit programs at contractor sites that have already closed or will close once the work is complete.

DOE Order 350.1 generally provides that contractors periodically complete self-assessment studies comparing their benefits to professionally recognized measures. DOE uses these studies to make decisions about the level of contractor benefits. While the most recently completed comparison studies suggest that DOE has been successful in offering total contractor benefits that are comparable to those of selected competitors, the DOE Order 350.1 studies are not performed at a significant number of contractor locations, and alternative review procedures performed by DOE personnel are inconsistent from one contractor location to another; thus DOE's ability to evaluate the full range of programs is limited. In addition, GAO found that a number of the comparison studies did not conform to prescribed and recommended methodologies, calling into question the validity and comparability of the results.

Moreover, DOE's current focus on total benefits rather than individual benefit components in evaluating benefits does not fully recognize the differences in costs between deferred benefit programs, such as pension and postretirement health benefits, and other benefit components. This distinction is important because changes to pension and postretirement health benefits can have a significant impact on DOE's long-term costs and budgetary needs. For example, a 1 percent increase in a contractor employee's current year vacation benefits has less impact on DOE's long-term costs and budgetary needs than a 1 percent increase in postretirement pension or health benefits, which have a continuous and compounding effect as they are paid out in each year of retirement. Although reported total contractor benefits are comparable to selected competitors, the postretirement health benefits of DOE contractor employees at these sites averaged more than 44 percent greater than the average of the contractors' competitors, while defined benefit pension benefits averaged 29 percent greater.

The approval and monitoring of DOE contractor employee pension and postretirement health benefits is primarily the responsibility of DOE contracting officers, who administer contracts at individual contractor locations. Management does not systematically review information developed at individual contractor locations to identify best practices or areas where benefit comparisons do not adhere to agency requirements or guidance. Developing and disseminating this information agencywide would enhance DOE's oversight of contractor employee benefits and provide information needed to manage post-closure benefit costs.