April 2011

DEPARTMENT OF ENERGY

Progress Made Overseeing the Costs of Contractor Postretirement Benefits, but Additional Actions Could Help Address Challenges

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Highlights

Highlights of GAO-11-378, a report to the Ranking Member, Subcommitee on Energy and Water Development, Committee on Appropriations, U.S. Senate

Why GAO Did This Study

The Department of Energy (DOE) relies on contractors to conduct its mission activities. DOE reimburses these contractors for allowable costs, including the costs of providing pension and other postretirement benefits, such as retiree health care plans. Since the economic downturn, DOE has had to devote significantly more funding toward reimbursing these benefit costs, in part because of a decline in interest rates and asset values that has increased contractor pension contributions. In a challenging budgetary environment, further growth in these costs could put pressure on DOE's mission work.

GAO was asked to report on (1) the level of control DOE has over contractor pension and other postretirement benefit costs under its current business model and (2) the changes DOE has adopted since the national economic downturn to manage those costs and the extent to which those changes have enhanced its approach. To do so, GAO reviewed relevant laws, regulations, and DOE guidance; analyzed agency financial data; and interviewed officials.

What GAO Recommends

GAO recommends, among other things, that DOE comprehensively review how it manages contractor postretirement benefit costs and define criteria for evaluating contractor requests to contribute more than the minimum to their pension plans. DOE agreed with three of GAO's recommendations but disagreed with the need to define such criteria.

View GAO-11-378 or key components.
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What GAO Found

Under its current business model, DOE has limited influence over contractor pension and other postretirement benefit costs. For example, contractors sponsor benefit plans and, as a result, control the types of benefits offered to their employees and the strategies for investing pension plan assets. DOE nevertheless ultimately bears the investment risk incurred by the contractors. Moreover, external factors beyond both DOE's and the contractors' control, such as economic conditions and changes in statutory requirements, can significantly affect benefit costs. For example, the investment performance of plan assets can affect pension contributions, while changes in health care law can affect postretirement benefit payments. Even with these constraints, however, DOE can exercise some influence over contractor pension and other postretirement benefit costs through its oversight efforts, reimbursement policy for contractor benefit costs, and contract requirements. Still, the department will ultimately have to reimburse the cost of contractor pension benefits that have already been accrued.

Since the economic downturn deepened in 2008, DOE has taken steps to enhance its management of contractor benefit costs—particularly for contractor pensions—but has not comprehensively reviewed its approach to managing its contractors' other postretirement benefit costs, such as retiree health care coverage. In addition, DOE has not added agencywide information on the costs of its contractors' other postretirement benefits to its annual budget request. As a result, DOE may be delayed in identifying options that might better address the growth of its reimbursement costs and may not provide important information to Congress that could inform annual funding decisions. Moreover, while DOE has, for the most part, continued to use the same reimbursement policy and contract requirements from before the economic downturn, it lacks complete guidance on how program offices should evaluate contractor requests to contribute more than DOE's minimum requirement to their pension plans. DOE is therefore unable to ensure that its offices decide on contractor requests on the basis of consistent criteria reflecting departmentwide goals for managing contractor pension costs. In addition, DOE's existing process for having contractors align their benefit packages with DOE's reimbursement standard is incomplete. Specifically, DOE lacks a comprehensive timetable for when contractors must modify benefit packages whose values exceed DOE's standard. As a result, only 1 of the 16 contractors with benefit packages exceeding DOE's standard for the most recent evaluation period is expected to bring its benefits in line with that standard. Further, DOE guidance allows contracting officers to waive the requirement for contractors to correct benefit packages exceeding DOE's reimbursement standard, but does not detail the criteria contracting officers should follow in making that decision or require a review by DOE headquarters. As a result, some contractors may continue for an undefined period to accrue liabilities and be reimbursed by DOE for benefit packages exceeding the department's reimbursement standard.