United States General Accounting Office

GAO

Report to the Chairman, Committee on Post Office and Civil Service, House of Representatives

August 1988

FEDERAL RETIREMENT

Implementation of the Federal Employees Retirement System

042902/136497

GAO/GGD-88-107

GAO

United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-230387

August 4, 1988

The Honorable William D. Ford
Chairman, Committee on Post Office
and Civil Service
House of Representatives

Dear Mr. Chairman:

This report responds to your request that we review the implementation of the Federal Employees Retirement System Act of 1986. It examines the actions taken by the agencies with governmentwide responsibilities for implementing the new retirement system and internal efforts by units of two agencies to explain the new system and available options to their employees.

We are sending copies of this report to selected committees of Congress; the Secretaries of Labor and the Army; the Directors, Office of Management and Budget and Office of Personnel Management; the Administrator of Veterans Affairs; the Acting Commissioner of Social Security; the Executive Director, Federal Retirement Thrift Investment Board; and other interested parties.

Sincerely yours,

Rosslyn S. Kleeman

Rosslyn S. Kleeman
Senior Associate Director

Executive Summary

Purpose

The Federal Employees Retirement System Act of 1986 created a new retirement system for federal civilian employees hired after December 1983. Because of the significance and complexity of the act, the Chairman, House Committee on Post Office and Civil Service, asked GAO to assess the act's implementation. (See pp. 8 to 9.)

Background

The Social Security Amendments of 1983 provided that all federal civilian employees first hired after December 31, 1983, would be covered by Social Security. As a result, Congress established a new federal retirement system to incorporate Social Security benefits. The new system provides benefits from three separate components, each implemented and subsequently administered by different agencies. The Office of Personnel Management is responsible for the pension plan; the newly created Federal Retirement Thrift Investment Board is responsible for the tax-deferred thrift savings plan, which is made up of government and employee contributions; and the Social Security Administration is responsible for the Social Security benefit.

Employees hired before January 1, 1984, could elect to transfer to the new system during an open season from July 1987 through December 1987 or continue to be covered by one of several previously existing retirement systems, primarily the civil service retirement system. All civilian employees, regardless of retirement system coverage, can participate in the thrift savings plan; but employees must be in the new retirement system to receive government contributions to their savings accounts. (See pp. 8, 9, 14, and 15.)

Results in Brief

The Office of Personnel Management carried out its implementation responsibilities under the act well. It issued information on the policies and procedures necessary to have the pension plan in place by January 1, 1987, as the act required, and developed and made available substantial information to assist employees in making their decisions about transferring to the new retirement system. (See p. 10.)

About 2.8 percent of eligible employees covered by the civil service retirement system transferred to the new plan. A total of about 700,000 employees, including transfers and new hires, were in the new plan as of March 1988. (See pp. 8 and 21.)

Despite delays in appointing Thrift Board members and other start-up problems, the Board implemented the thrift plan in less than 6 months.

Many of the start-up problems occurred because of coordination problems with over 600 payroll offices. Considering this short time frame and the tasks involved in establishing a new agency and a new plan, GAO believes the Thrift Board has carried out its responsibilities well. (See pp. 14 and 17.)

GAO's Analysis

Pension Plan Implementation

The Office of Personnel Management began issuing information on policies and procedures to implement the legislation shortly after the act was signed and completed necessary actions to make the plan operational by January 1, 1987. It developed numerous materials to help employees covered by the old retirement system understand the factors they needed to consider in making a transfer decision. These materials included an orientation pamphlet, a transfer handbook, videos, a training course for employees assigned to assist coworkers in making their transfer decisions, and a computer model that compared benefits available from both retirement systems. (See pp. 8 and 10 to 11.)

Automation of Records for New Pension Plan

The Office of Personnel Management contracted for the development of an automated system for the new pension plan's records. The automated system is expected to be implemented in October 1991. Until then, these records are being handled by the same system used for civil service retirement records. (See pp. 11 to 12.)

Retirement Counselor Training

As required by the act, the Office of Personnel Management established an annual training program for agency retirement counselors and provided for regular communications with the counselors on pension plan developments. (See p. 12.)

Thrift Plan Implementation

The thrift plan became operational on April 1, 1987, with the establishment of about 600,000 accounts for employees covered by the new system. Approximately $180 million was deposited in these accounts to cover the period January 1, 1984, to April 1, 1987. By May 1988, the thrift plan had over 1 million accounts valued at over $1.6 billion. About 45 percent of employees covered by the new system and 20 percent of employees covered by the civil service system were contributing to the thrift plan at that time. (See pp. 14 to 16.)

Delays in presidential appointments of Board members caused the thrift plan's implementation date to slip from January 1, 1987, to April 1, 1987. Delays in the distribution of the first open season materials and in fully implementing the loan program were also experienced, but they were primarily the result of coordination problems with agency payroll offices and agency difficulties with meeting Thrift Board time frames. (See pp. 17 to 19.)

Actions by the Social Security Administration and Department of Labor

The Social Security Administration developed a special process to provide employees with Social Security earnings and coverage information for use in determining if they should transfer. From May to December 1987, about 950,000 employees received this information. (See p. 13.)

In 1987, the Department of Labor contracted with two accounting firms to develop an audit program to review fiduciary standards at the Thrift Board. In 1988, the firms will make an audit of fiduciary standards and review selected agency payroll offices with high employee participation rates. (See p. 20.)

Transfers to the New Retirement System at Selected Facilities

Agency officials at the 12 Department of the Army and 11 Veterans Administration facilities GAO visited said employees received the transfer handbook explaining the provisions of the old and new retirement systems. In addition, certain employees at these facilities were trained as "decision advisors" to assist coworkers with their transfer decisions and were provided with computer models to compare retirement benefits from each system. Briefings, video presentations, and individual counseling sessions were also made available, but most employees did not attend them. (See pp. 21 to 24.)

According to the Office of Personnel Management, about 2.8 percent of eligible employees transferred to the new system. At the 23 facilities GAO visited, transfer rates ranged from 0.7 to 4.2 percent. (See pp. 21 and 26.)

Two of the reasons cited by officials concerning why employees did not transfer to the new system were that (1) employees planned to make the federal government a career and believed the civil service retirement system offered greater benefits to career employees and (2) employees lacked trust in some aspect of the design or stability of the new retirement system. (See pp. 23 and 24.)

Recommendations

This report provides information on the status of the FERS implementation and therefore contains no recommendations.

Agency Comments

GAO sought the views of responsible agency officials during the course of its work and incorporated them where appropriate. Office of Personnel Management, Thrift Board, and Department of Labor officials informally reviewed the report and agreed with the information presented.

Contents

Abbreviations

CSRS	Civil Service Retirement System
FERS	Federal Employees Retirement System
OPM	Office of Personnel Management
SSA	Social Security Administration
VA	Veterans Administration

Introduction

The Social Security Amendments of 1983 (Public Law 98-21), primarily intended to resolve financial difficulties in the Social Security system, had a significant effect on the retirement program for future federal employees. The amendments required that all federal civilian employees first hired since December 31, 1983; former employees returning to federal employment after a break in service of 1 year or more; and elected and politically appointed officials be covered by the Social Security program. Civilian employees of the government who were employed before January 1984 were generally not in Social Security. Most of them were covered by the civil service retirement system.

On June 6, 1986, the President signed the Federal Employees Retirement System (FERS) Act of 1986 (Public Law 99-335). The act specified that FERS would be in place on January 1, 1987, and effective retroactively to January 1, 1984. FERS has three components: Social Security, a pension plan with benefits based on salary and length of service, and a thrift savings plan to which employees and their agencies contribute. The act gave employees covered by the previously existing retirement systems a one-time opportunity to transfer to FERS during an open season between July 1 through December 31, 1987.[1] As of March 1988, approximately 700,000 federal employees were covered by FERS including transfers and new hires.[2]

FERS Implementation

The agencies principally involved in the implementation of FERS were the Office of Personnel Management (OPM), which is responsible for administering the pension plan component of FERS and educating employees about the new system; the Social Security Administration (SSA), which assisted OPM in educating employees about Social Security and informing employees how much Social Security credit they had earned from previous employment; and the Federal Retirement Thrift Investment Board, established by the act to administer the thrift savings plan. In addition, the Pension and Welfare Benefits Administration of the Department of Labor has regulatory and enforcement authority

[1]OPM regulations allowed agencies to accept belated transfers to FERS for up to 6 months after the close of the open season. Transfers could be made if employees certified they did not receive the FERS transfer handbook or for other reasons, such as the employees being unaware of the impact of the public pension offset provisions of the Social Security amendments passed by Congress on December 22, 1987, just before the close of the open season.

[2]The FERS act also established slightly different pension plans for officers and employees of the Foreign Service and the Central Intelligence Agency. We did not examine the implementation of these plans.

under the FERS act relating to the fiduciary responsibilities of the Thrift Board.

Objective, Scope, and Methodology

The Chairman, House Committee on Post Office and Civil Service, requested that we assess the actions taken to implement the FERS act. Our objective was to determine how well the principal agencies carried out their responsibilities in implementing the new system. To do this, we (1) interviewed responsible officials at OPM, SSA, the Thrift Board, and the Department of Labor; (2) reviewed the agencies' implementation plans and procedures; and (3) monitored various activities of the agencies during the implementation period.

To determine what was done by other agencies to implement FERS, we visited the 23 Department of the Army and Veterans Administration field activities listed in the appendix of this report. We selected two large agencies, one military and one civilian. Both employ a large number of civilian employees and have numerous field activities widely dispersed throughout the country. However, because we did not randomly select the two agencies or their field locations, the information obtained cannot be projected to portray the implementation of FERS throughout the Army, Veterans Administration, or the government.

At the field activities, we interviewed officials who were responsible for implementing the new retirement system and employees who were designated as "decision advisors" and trained to assist other employees in deciding whether to transfer to FERS. We ascertained what information was provided to employees at those locations, the availability of decision advisors for counseling sessions, and the type of training given to the advisors.

Our work was done in accordance with generally accepted government auditing standards between February 1987 and March 1988. The views of responsible agency officials were sought during the course of our work and are incorporated where appropriate. OPM, Thrift Board, and Labor officials informally reviewed the report and agreed with the information presented.

Implementation of the Pension Plan

The act required OPM to begin administering the FERS pension plan by January 1, 1987. Accordingly, OPM issued information on policies and procedures necessary for the pension plan to begin operating on that date and for employees in other systems to transfer to FERS at their election. It developed and provided a substantial amount of information to assist employees who were eligible to transfer to FERS. As required by the act, OPM also developed a training program for agencies' retirement counselors so they could provide employees up-to-date information and is taking steps to automate FERS pension plan records. Overall, we believe OPM carried out its responsibilities well in implementing FERS within the legislated time frames.

SSA provided technical support to OPM and provided over 950,000 federal employees with Social Security earnings and coverage information for use in making their transfer decisions.

OPM Established the New Pension Plan and Provided Guidance to Agencies

The act made OPM responsible for administering the pension plan and coordinating implementation requirements with agencies. Because the act created a completely new retirement system, OPM was required to advise agency personnel and payroll offices of the provisions of the legislation and to develop regulations, guidelines, and forms for agencies to use in administering FERS. OPM began issuing information on new policies and procedures shortly after the act was signed and continued to issue clarifying policy and procedural guidance until the plan was implemented.

An OPM official estimated about 2.1 million federal civilian employees covered by CSRS were eligible to transfer to FERS during the open season. OPM developed the following materials and guidance to assist employees in understanding the differences between the two systems:

- FERS pamphlet - The pamphlet gave an overview of FERS, described the transfer eligibility requirements, and provided illustrations of benefits available to employees from each system. According to OPM, the pamphlet was distributed to federal agencies in September 1986.
- FERS Transfer Handbook (A Guide to Making Your Decision) - The handbook was a comprehensive explanation of the various CSRS and FERS features. OPM instructed agencies to provide the handbook to all employees eligible to transfer to FERS and requested that it be distributed in June 1987, just prior to the open season. OPM believed the handbook contained all the necessary information to make a transfer decision. The handbook was 124 pages long and described in detail the key provisions of FERS,

including the benefits available from the pension plan, Social Security, and the thrift plan. An appendix to the handbook enabled employees to estimate the retirement benefits they could receive under each system. An audio tape covering the same information was made available for the visually impaired.

- Decision advisor training - OPM designed and conducted a 4-day training course for employees selected by their agencies to assist other employees in making transfer decisions. These employees, designated as "decision advisors," were expected to (1) have a good understanding of the provisions of FERS and CSRS, (2) make presentations to groups of coworkers, and (3) assist individual employees in making comparative benefit calculations and transfer decisions. Decision advisors were directed to refrain from recommending the decisions employees should make.
- Computer model - OPM adapted a computer model initially developed by the Congressional Research Service that made comparative estimates of benefits available from CSRS and FERS. OPM officials said they believed employees should make transfer decisions on the basis of which retirement system better fit their personal situations and that the benefit estimates available from the model could be helpful to them. The model allowed employees to estimate benefits from the two systems at various retirement ages, salary levels, years of service, and thrift plan contribution levels.

OPM also made the following videos available:

Today's News - This 20-minute orientation video was presented in an evening news format and highlighted the provisions and benefits under FERS and CSRS. A closed caption version was also made available for the hearing impaired.

Today's News - Special Edition - This 60-minute video, which also had a closed caption version for the hearing impaired, was in a news magazine format. The video identified the differences between FERS and CSRS and illustrated career plans and circumstances that could cause hypothetical federal employees to choose to stay in CSRS or transfer to FERS. OPM suggested agencies show the video during employee briefings and orientation sessions. It also encouraged public service television stations to broadcast the video.

Automation of FERS Pension Plan Records

In September 1987, OPM contracted for the development of an automated system for FERS pension plan records. An OPM official said a fully automated system would enable OPM to handle FERS records more efficiently than the predominately manual system used for CSRS records and that an automated system should be implemented while the volume of FERS records is relatively low. Implementation of the automated system is planned for October 1991. Until that time, FERS records are being handled in the same manner as CSRS records. Because of the large number of CSRS records on file and the time-consuming process of converting records to a computer-readable format, OPM doubted if CSRS records will ever be fully automated.

Retirement Counselor Training

The FERS act required OPM to provide annual training to employees responsible for retirement counseling in federal agencies. As a first step in carrying out this requirement, OPM asked each agency to establish a new Retirement Counselor position at the headquarters level. Because of the complexity of the retirement systems, OPM suggested that the position be created at a level reporting directly to the Personnel Director and that agency heads give careful consideration in appointing individuals to this position.

In 1987 OPM met the annual training requirement by designing and presenting the decision advisor training. In 1988, the training requirement is being met by requiring agency Retirement Counselors to attend sessions of OPM's Interagency Advisory Group Committee of Retirement Counselors. The Committee is made up of OPM officials and about 100 agency Retirement Counselors who meet at least bimonthly to discuss personnel policies, programs, and problems affecting retirement matters. As of May 1988, the Committee had met four times (December 1987 and February, April, and May 1988). As a result of Committee discussions, OPM is developing training courses for agency employees in headquarters and field units who are providing individual retirement counseling, processing retirement applications, and performing retirement related payroll functions.

In addition to the training sessions, OPM officials told us they have improved communications with agencies by creating Retirement Counselor Letters—a series of letters to retirement counselors alerting them to proposed retirement changes or seeking their opinions on various proposals. In addition, OPM is developing a Retirement Counselor Manual. OPM said these documents will be used to keep retirement counselors up-to-date on any matters dealing with retirement, and the retirement counselors will be responsible for informing all headquarters and field retirement officers in their agencies of these matters.

SSA Implementation Activities

SSA was responsible for providing Social Security earnings and coverage data to federal employees so they could more completely assess the benefits of transferring to FERS. SSA also provided technical assistance to OPM in developing the FERS handbook and materials used by decision advisors and by participating in some FERS briefings at agencies.

SSA anticipated that it could receive requests for information from as many as 1.6 million employees, which would overwhelm its system for handling inquiries for earnings and coverage information. Therefore, SSA contracted with a private firm to design and process information requests using a fully automated system and machine-readable forms. OPM reimbursed SSA $500,000 for the costs of developing the system and processing the requests.

SSA gave agencies the options of distributing the machine-readable forms to all employees or distributing them on a request basis. To help limit inquiries to employees who were actually considering transferring to FERS, SSA urged agencies to use the latter option. One agency—the U.S. Postal Service—did not use either option. It requested SSA to provide earnings and coverage information for all its employees.

From May to December 1987, SSA processed about 950,000 requests, including about 540,000 requests from the Postal Service.

Implementation of the Thrift Savings Plan

The FERS act created the Federal Retirement Thrift Investment Board as an independent agency responsible for administering the thrift savings plan. The President appointed the Board members about 4 months after the act was passed. Because of this delay, the Board had to implement the plan in less than 6 months to have it operational by April 1, 1987. Considering this short time frame and the tasks involved in establishing a new agency and a new plan, we believe the Thrift Board has carried out its responsibilities well.

The Board experienced delays in distributing brochures and employee enrollment forms to the agencies before the first open season began. In addition, some agency payroll offices did not modify their payroll procedures or submit payroll tapes to the Board's record keeper within designated time frames, resulting in some participants permanently losing interest earnings on their initial contributions. Loan disbursements were delayed until at least March 1988 because agencies could not establish loan repayment procedures using direct deposit/electronic fund transfers as the Board required. Until repayment mechanisms are in place, the Thrift Board is allowing agencies to process loan repayments with journal vouchers.

As of May 1988, over 1 million federal employees had thrift savings accounts with a total value of over $1.6 billion. At that time, 45 percent of the eligible employees covered by FERS were contributing to the thrift plan (all eligible FERS-covered employees receive agency contributions), and about 20 percent of the CSRS-covered employees were contributing.

Thrift Investment Board

The FERS act required that the thrift plan be managed by five Board members appointed by the President and an Executive Director appointed by the Board. All of these individuals were required to have training and expertise in the management of financial investments and pension benefit plans. The Board establishes investment policy and oversees investment performance and plan administration. The act required the Chairman of the Board to appoint a 14-member Employee Thrift Advisory Council to advise the Board and Executive Director on investment and administrative policies. The Executive Director manages the day-to-day operations of the plan.

Although the FERS act authorized the establishment of the Thrift Board in June 1986, the President did not appoint the Board members until

October 1, 1986. The Board subsequently appointed an Executive Director who assumed his duties on November 1, 1986. Notwithstanding these delays, by April 1, 1987, the Thrift Board had

- developed policies and procedures for implementing the thrift plan;
- designed and implemented an accounting system;
- disseminated thrift plan brochures and election and beneficiary forms to all federal agencies; and
- established accounts for approximately 600,000 employees covered by FERS who were hired before January 1987.

Thrift Savings Plan

The thrift savings plan provides employees income tax deferral on their contributions, agency contributions, and investment earnings. All eligible FERS employees receive an automatic agency contribution of 1 percent of their basic salary each pay period into their thrift plan accounts whether or not they contribute to the plan themselves.[1] FERS employees may contribute up to 10 percent of their basic salary each pay period. Agencies match employee contributions dollar-for-dollar for the first 3 percent of pay and 50 cents on the dollar for the next 2 percent. Agencies do not match employee contributions greater than 5 percent of pay. Employees covered by CSRS may participate in the thrift plan, but they do not receive government contributions and may only contribute up to 5 percent of pay.

The thrift savings plan is a long-term savings plan designed to provide retirement income. Therefore, federal employees may not obtain funds from their accounts before retirement except through a loan program. Employees leaving the federal government before retirement eligibility may transfer vested account balances to an Individual Retirement Account or eligible retirement plan, or they may defer payments until they are eligible to retire. At retirement, they may (1) receive a lump-sum payment, (2) withdraw the account balance in equal installments, or (3) receive an immediate or deferred life annuity based on the balance in the account.

In April 1987, the Thrift Board deposited approximately $150 million in the accounts of about 600,000 employees who entered the government

[1]Newly hired federal employees are generally required to wait between 6 months and 1 year before they are eligible to participate in the thrift plan and/or receive agency contributions. Employees hired between January and June of any year begin receiving the 1 percent agency contribution the first full pay period of the following January, and those hired between July and December of the year begin receiving the 1-percent contribution the first full pay period of the following July.

between January 1, 1984, and December 31, 1986. This represented a one-time congressional appropriation of 1 percent of the employees' salaries plus interest for that period. A separate retroactive contribution of approximately $30 million from agency budgets was also deposited into employees' accounts to cover 1 percent of their salaries, plus interest, for the period January 1, 1987, the original planned start of the plan, through April 1, 1987, when the thrift plan actually became operational.

Investment Options

During 1987, all employee and agency contributions in the thrift plan were required by the FERS act to be invested solely in nonmarketable securities issued by the U.S. Treasury, called the G fund.

Beginning in January 1988, the act permitted FERS employees to invest a portion of their contributions (and beginning in 1993, a portion of their agencies' contributions) in two additional investment options—a common stock index investment fund (C fund) and a fixed income index investment fund (F fund). The C fund will be invested proportionately in all of the common stocks included in Standard & Poor's 500 Stock Index (except for stock of the Wells Fargo Company, the manager of the C fund) and is intended to replicate the performance of that index. The F fund is a bond index fund designed to duplicate the performance of the Shearson Lehman Hutton Government/Corporate Bond Index and consists of a representative selection of U.S. Treasury, federal agency, and corporate notes and bonds included in the overall index. Investments in the C and F funds involve greater risk than the G fund but also provide an opportunity for participants to receive higher rates of return. Thrift plan participants covered by CSRS may invest only in the G fund.

As of May 1988, about 22,400 FERS employees had invested about $1.25 million in the C fund and about $875,000 in the F fund.

Open Seasons

As required by the act, the thrift plan is to have two open seasons annually during which eligible employees can join the plan, change their contribution rate, or modify their investment mix. Employees are allowed to terminate thrift plan participation at any time. In 1987, the first open season was February 15 to April 30, and the second was May 15 to July 31. For 1988, the first open season was November 15, 1987, to January 31, 1988; and the second was May 15 to July 31, 1988. Before the start of each open season, the Board distributed updated thrift plan booklets to all federal agencies for dissemination to their employees and plans to continue this practice in the future. Every 6 months the Board also distributes employee account statements that show ending balances and transactions processed during the statement period.

Start-Up Problems

Although the thrift plan had some start-up problems, many of the problems occurred because each of the plan's programs and operations needed to be coordinated with over 600 agency payroll offices. The Thrift Board believes the problems were not serious or unexpected, especially in view of the large number of agencies and employees that needed to be served and the limited amount of time the Board and agencies had to implement the plan.

Special Catch-Up Benefits

The FERS act required the thrift plan to begin operating on January 1, 1987. However, because of the delays in appointing the Board and the Executive Director, the act was amended to start plan operations on April 1, 1987. To compensate employees for the late start and the lost opportunity to make contributions, the amendment increased the maximum employee contribution rate and matching agency contributions on a one-time-only basis. From April 1 through September 30, 1987, FERS employees were able to contribute up to a maximum of 15 percent of their basic pay. For April, May, and June 1987, agencies contributed 2 dollars for every 1 dollar of FERS employees' contributions, up to 3 percent of pay, and matched dollar-for-dollar the next 2 percent. Employees covered by CSRS were allowed to contribute up to 7.5 percent of their pay from April through September 1987.

Distribution of Some Thrift Plan Booklets and Forms Delayed

The first open season was February 15 to April 30, 1987, but because of printing and shipping problems, the thrift plan booklets and enrollment forms were generally not available to employees by February 15. According to a Thrift Board official, the majority of booklets arrived at agency receiving points by the third week of February, and the last of the enrollment forms went to the agencies the second week of March. After receipt, agencies were responsible for distributing the booklets and forms to their employees. The Executive Director of the Thrift Board said that through mid-April the Board continued to receive complaints from employees that they had not received the booklets or enrollment forms from their agencies, but he said that this was no longer a problem. In mid-April we conducted a limited survey of 22 federal installations throughout the country and identified that booklets and forms had been distributed to employees or were available to employees at their personnel offices.

Tape Submission Delays Caused Employees to Lose Earnings on Contributions

On November 21, 1986, the Thrift Board entered into an agreement with the Department of Agriculture's National Finance Center to develop and maintain the records on employee thrift plan accounts. The Board and Finance Center worked with agencies' payroll offices to establish procedures for submitting computer tapes showing participants' and agencies' contributions. Because there is no unified payroll system in the federal government, 602 payroll reporting offices located throughout the world were involved.

Between April and June 1987, some employees lost interest on their thrift account contributions because their agencies were delinquent in submitting accurate payroll tapes to the Thrift Board. While Board officials were unable to estimate how many participants were affected or how much interest was lost, they concluded the loss was minimal. They cited a Department of Health and Human Services estimate that each of its participants lost between 55 and 60 cents interest on their contributions because payroll tapes were submitted late during April 1987. In general, we found that employees lost 1-month's interest on their contributions for the month of April 1987.

Because of these delays, Congress amended the FERS act, effective January 8, 1988, to require agencies to submit payroll tapes no later than 12 days after the end of each pay period. The act previously required agencies to submit payroll tapes "at the end of the pay period."

Late Start for Loan Program

As authorized by the act, beginning in 1988 thrift plan participants who accumulate at least $1,000 of their own contributions and associated earnings in their accounts may apply for loans to use toward the purchase of a primary residence, meet educational or medical expenses, or offset financial hardship. Loans are provided to employees at the interest rate being earned by the G fund during the month the loan application was requested. Employees obtain loans from and make repayments to their own accounts. The Board distributed loan applications and booklets to agencies between December 1987 and January 22, 1988, and the first loans were disbursed to employees in March 1988.

Loan disbursements are made once a month following the allocation of earnings to participants' accounts. As of mid-May 1988, 904 loans had been disbursed to participants (94 in March, 287 in April, and 523 in May) for a total of $1,184,466 for the 3-month period.

Some employees were unable to get loans during March and April 1988 because their agency payroll offices did not have acceptable loan repayment mechanisms in place. Except for prepayments in full, the Thrift Board requires loan repayments to be made through payroll allotments. The allotment procedure preferred by the Thrift Board is direct deposit/electronic fund transfer when the payroll offices are in the continental United States. Payroll offices outside the continental United States may issue checks for employee loan repayments.

In March and April 1988, in response to a Thrift Board survey, 260 payroll offices reported that they could process loan repayments using the direct deposit/electronic fund transfer mechanism. These offices covered about 56 percent of all employees with thrift accounts. An additional 78 payroll offices, covering 13 percent of employees with thrift accounts, expected to have repayment processes in place by June 1988. Twenty-one payroll offices, serving about 16 percent of employees with thrift accounts, expected to have acceptable repayment processes in place by September 1988. The remaining payroll offices either did not estimate when they would be ready to process loan repayments using direct deposit/electronic fund transfers or estimated they would not be ready until after September 1988.

The Thrift Board had not contemplated that payroll offices would lack the capability to make repayments through discretionary allotments using direct deposit/electronic fund transfers. However, in order to accommodate employees in those agencies, the Thrift Board authorized the use of an interim manual loan repayment process using manual journal vouchers until the agencies could establish a direct deposit/electronic fund transfer discretionary allotment capability. By mid-May 1988, the Thrift Board had disbursed all approved loans because employees' payroll offices had either established the preferred repayment procedures or agreed to the interim manual procedures.

Monitoring the Responsibilities of Thrift Board Fiduciaries

As fiduciaries of the thrift savings plan, the five Board members and the Executive Director are required to act solely in the interest of thrift plan participants and beneficiaries and will be held liable for any inappropriate actions. Under the Employee Retirement Income Security Act of 1974, the Department of Labor is responsible for, among other things, the administration and enforcement of fiduciary standards for private sector employee benefit plans.[2] The FERS act gave the Department similar responsibilities for the thrift savings plan.

According to Department officials, their activities involving the Thrift Board during 1987 included identifying and assessing the Board's fiduciary responsibilities and contracting with two private accounting firms to develop an audit program to review the Board's compliance with the fiduciary requirements. During 1988, the Department plans to write regulations and develop milestones for specific projects, such as the adoption of final bonding rules for Thrift Board members. During the summer of 1988, one contractor will begin auditing payroll offices with high participation levels. In the fall, the other contractor will begin auditing the Thrift Board's compliance with fiduciary requirements. As of May 1988, no allegations of Board member or Executive Director misconduct had been made by, or brought to the attention of, the Department of Labor's enforcement unit.

[2]Department of Labor officials said the agency is responsible for oversight of financial institutions and other organizations that manage private pension, health, and dental plans. The Department makes approximately 1,700 investigations a year. These were initiated through referrals from employees, lawyers, Members of Congress, and anonymous tipsters and through auditing bank accounts with substantial amounts of benefit plan funds.

FERS Open Season Implementation at Selected Army and VA Facilities

In October 1987, we visited 12 Army and 11 VA facilities to determine how they implemented the open season when CSRS-covered employees could transfer to FERS. We found that these installations generally followed OPM's suggested approach for implementing FERS and provided employees with FERS information and numerous opportunities to obtain further details about FERS. Most employees did not attend available training sessions.

For budgeting and planning purposes, the Office of Management and Budget estimated that as many as 40 percent of eligible employees would transfer to FERS. In January 1988, OPM requested agency retirement counselors to identify the number of employees who transferred to FERS during the open season. Their responses indicated that about 56,900 employees transferred from CSRS to FERS, or about 2.8 percent of all employees who were eligible. The transfer rate at Army and VA facilities we visited varied from 0.7 percent to 4.2 percent of eligible employees. (See the app. for the transfer rate for each facility.) While fewer CSRS employees than expected transferred to FERS, we found no underlying deficiencies in the implementation of the transfer program.

Distribution of FERS Information

All of the facilities distributed the FERS transfer handbook, which outlined the basic features of CSRS and FERS, to employees during the period May to July 1987. In addition, 22 of the 23 facilities distributed the 21-page FERS pamphlet to their employees between November 1986 and June 1987. An official at the VA Regional Office in Washington, D.C., said pamphlets were not distributed because they were not received from VA headquarters.

Officials at 10 of the 23 facilities we visited said they provided all employees the Social Security earnings request form to obtain Social Security earnings and coverage data. The remaining 13 facilities said they followed SSA's suggestion and provided forms to employees upon request.

Decision Advisors Were Trained and Available to Assist Employees

An April 28, 1987, OPM memorandum to agencies' personnel directors emphasized that FERS decision advisors were critical to an effective open season and included a suggested employee memorandum identifying the decision advisors at agency facilities. OPM said the decision advisors were responsible for assisting employees in making their decisions by answering questions, conducting briefings and individual counseling sessions, making comparative benefit estimates with the computer model, and assisting employees in analyzing the results. A March 6, 1987, OPM memorandum said that agencies should designate 1 decision advisor for every 500 employees.

A total of 317 decision advisors were designated to cover about 78,000 employees located at the 23 facilities we visited. According to officials at the facilities, about 76 percent (241 of 317) of the decision advisors attended the OPM decision advisor training course. Most of the remaining decision advisors attended informal training sessions conducted by employees who attended the OPM course or attended training courses offered by private contractors.

Briefings Were Available but Not Well Attended

All facilities offered employees opportunities to attend briefings conducted by the decision advisors in order to become better informed about FERS and CSRS. While briefings varied at facilities, we were told that most included the viewing of the OPM videos or slides made locally, and a question and answer session. Some facilities also presented the videos and briefings in separate sessions.

Agency officials at 18 of the 23 facilities we visited estimated that fewer than 50 percent of the eligible employees attended briefing sessions. The attendance percentages at the 18 facilities ranged from 48 percent at a Fort Worth, Texas, Army facility to about 2 percent at the Fort Meade, Maryland, Army facility. At the remaining five facilities, four had more than 50 percent attend the briefing sessions, and one did not have specific attendance information.

Some facilities offered numerous briefings but also did not have large attendance rates. For example, the Washington, D.C., VA facility offered 39 briefing sessions with total attendance of about 14 percent (208 of the 1,517 eligible employees).

Computer Model Estimates Were Generally Available

Although the number of employees who obtained computer model estimates varied widely at the facilities we visited, personnel officials said all employees requesting estimates received them except employees at the San Francisco VA Medical Center. An official at this facility believed the computer program was inaccurate and would not allow the analyses to be prepared for employees. However, the official made copies of the program available to employees so they could develop their own analyses. The highest percentage of employees receiving estimates was at the Fort Worth, Texas, Army facility where 80 percent (1,680 of 2,100) of the eligible employees received them by August 1987. Other facilities had much lower rates: 49 of the 1,507 eligible employees (3 percent) at the Palo Alto, California, VA Medical Center received estimates; and 40 of about 5,000 eligible employees (1 percent) received estimates at the Army's Fort Meade, Maryland, facility. At the Waco, Texas, VA medical facility, the only notice that a computer estimate was available was provided during briefings attended by 160 of the Center's 1,038 eligible employees; only 5 had received estimates at that location as of late October 1987.

Individual Counseling Sessions Were Available

Decision advisors were available at most facilities to provide individual counseling sessions to assist employees. At these sessions, employees had the opportunity to obtain answers to any questions they had after reading the OPM material or attending briefings. The individual sessions offered a climate of confidentiality, which some employees desired. Computer analyses were sometimes done at these sessions, but usually they were done by decision advisors in advance so that results could be discussed at the sessions.

Views on Why More Employees Did Not Transfer to FERS

As part of our review, we obtained information from officials at 11 Department of the Army and 10 Veterans Administration facilities about agency efforts to assist employees in making their decisions on whether to remain in CSRS or transfer to FERS. In October 1987, we interviewed 46 decision advisors or personnel officials at these locations who were involved in the FERS implementation process. These officials provided their views on why employees did not transfer to FERS. The major reasons officials identified and the number of times these reasons were cited are as follows:[1]

- Employees planned to make the federal government a career and believed CSRS provided greater benefits for career employees than FERS. Thirty-two officials cited this reason.
- Lack of trust in some aspect of the design or stability of FERS was cited by 25 officials. These aspects include: the viability of the social security system, which is a component of FERS (cited 15 times); future changes by the Administration (cited 13 times); future changes by Congress in the

[1]These views were previously reported in our report FEDERAL PERSONNEL: Views From Two Agencies on Why More Employees Did Not Join the New Retirement System (GAO-GGD-88-52FS, Mar. 1988).

present design of FERS (cited 9 times); and the permanency of FERS benefits (cited 2 times). Some officials cited more than one aspect.

- Employees could not afford to contribute to the thrift plan component of FERS. Twenty-two officials cited this reason.
- Employees were waiting for Congress to act on proposals to change the FERS provisions, a reason cited by 13 officials. The provisions most frequently mentioned in this respect were those relating to "windfall" Social Security benefits, eligibility of FERS participants for Social Security spousal and survivor benefits, and/or discrimination tests on higher paid employees' contributions to the thrift plan.
- FERS is too complex for employees to understand. This reason was cited by 10 officials.

Transfer Rates at Army and VA Facilities Included in GAO Review

Agency	Facility	Transfer rate
Army	Aberdeen Proving Grounds, MD	2.1
	Corps of Engineers Headquarters, Washington, DC	1.9
	Fort Belvoir, VA	1.6
	Fort Benning Infantry Center, GA	3.8
	Fort Gordon, Augusta, GA	2.2
	Fort Meade, VA	2.0
	Fort Worth Army Engineering, TX	4.1
	Hoffman Building, Alexandria, VA	1.0
	Pentagon, Arlington, VA	1.2
	Presidio of San Francisco, CA	2.0
	Red River Army Depot, Texarkana, TX	0.7
	Sacramento Army Depot, CA	1.5
Veterans Administration	Augusta Medical Center, GA	1.9
	Dallas Medical Center, TX	1.8
	Martinsburg Medical Center, WV	2.9
	Palo Alto Medical Center, CA	4.2
	Perry Point Medical Center, MD	1.5
	Richmond Medical Center, VA	4.0
	San Francisco Medical Center, CA	1.8
	Tuskegee Medical Center, AL	2.0
	Waco Medical Center, TX	1.1
	Washington, DC, Benefits Office	1.8
	Washington, DC, Medical Center	2.4

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