



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

109353



LM109353

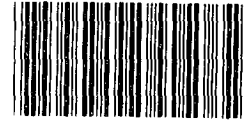
FEDERAL PERSONNEL AND
COMPENSATION DIVISION

B-157593

MAY 14, 1979

The Honorable Alan K. Campbell
Director, Office of Personnel
Management

DLG 00925



109353

Dear Mr. Campbell:

This letter expresses our concern over the need to increase employee understanding of the benefit elements of their compensation package and urges you to adopt a program that would make employees aware of the value of their benefits. Federal expenditures for benefits are substantial and should not go unnoticed by employees. In fiscal year 1977 they were \$13 billion of the total civilian payroll of about \$59 billion. While the Government may be doing an adequate job of providing benefits, it needs to maximize the return from such expenditures by doing a better job of informing employees about the value and significance of those benefits.

Based on informal surveys, we believe Federal employees substantially underestimate the value of their benefits. It seems benefit plans become more complex and extensive each year and at the same time more obscure to the covered employees. The present method of providing general announcements and descriptive brochures aimed at large groups of employees does little to inform individuals about the specific value of their benefits.

The Government's most important asset is its employees. But unlike its other assets--buildings, land, machinery, and equipment--it does not own them. In order to get the maximum commitment from employees, they must know, understand, and appreciate the Government's commitment to them. If workers know little about their benefits, the basic objectives of motivating and retaining them will not be accomplished.

Letter Report

FPCD-79-53
(963084)

005254/109353

The lack of employee information on retirement benefits was discussed in a recent study by the Task Force on Public Employee Retirement Systems, House Committee on Education and Labor. The task force surveyed 55 Federal retirement plans: 20 indicated that participants were automatically furnished information on accrued benefits; 9 indicated that such information was not furnished employees, even upon request; 18 indicated that such information was available if requested by the employee; and 8 did not address the subject at all.

The study concluded that the disclosure practices of public employee retirement systems at the Federal, State, and local levels fall considerably short of the standards set for private pension plans under the Employee Retirement Income Security Act (88 Stat. 829). The act requires that all private pension plans provide covered employees, upon request, a statement showing the total benefits accrued and the vested or nonforfeitable portion.

Even before the act, many employers already had a program for automatically providing employees with detailed information on the value of their benefits. Varying communications techniques were used. However, the one considered most successful was a personalized benefits statement submitted annually to each employee showing the actual dollar value of each benefit. From such statements an employee can see exactly what benefits programs provide. Employers using benefits statements believe they are useful in assisting employees to evaluate and make personal financial plans, along with achieving the desired understanding of benefit program value.

DLB-00925

We recognize that the lack of employee understanding of benefit values is not unique to employees covered by programs administered by the Office of Personnel Management (OPM). However, OPM is in a position to eliminate the misconceptions about the value of benefits for most Federal employees since it administers benefit programs for about 95 percent of all Federal civilian personnel.

OPM HAS NOT ADOPTED OUR PRIOR
RECOMMENDATIONS TO INCREASE EMPLOYEES'
UNDERSTANDING OF BENEFITS

In a July 1, 1975, report to the Congress on the need for a comparability policy for both pay and benefits of Federal civilian employees (FPCD-75-62), we recommended that the former Civil Service Commission evaluate the degree to

which employees understand their benefit provisions and take measures to assure employee awareness of the importance of such benefits in their compensation packages.

An OPM official told us that OPM has not acted on our recommendation to evaluate the degree to which employees understand benefit provisions because it is a generally accepted fact that Federal employees do not know or fully understand them. The official told us that actions to increase employee awareness were considered when the report was issued but were not adopted primarily because the Commission did not have an accurate source of information for preparing personalized benefits statements for all Federal civilian personnel.

Recently, however, we were advised that OPM has reconsidered our recommendations and is now studying the feasibility of providing its employees personalized benefits statements beginning the latter part of this year. OPM personnel also indicated that the procedures developed for providing benefits statements may be made available to other interested agencies. We were told that the Automated Systems Development Program Group plans to determine the feasibility of providing employee benefits statements to all Federal civilian employees covered by benefit programs administered by OPM. However, we understand that early indications are that it may be best if employing agencies provide such statements because the agencies maintain the current personnel and payroll records.

We were also told that OPM lacks authority to require Federal agencies to provide benefits statements to their employees. It was indicated that, because of the decentralization of personnel functions under civil service reform, OPM would be hesitant to do any more than suggest that other Federal agencies consider providing employees such statements.

The need to increase employee awareness could be even more important if certain proposed changes in the compensation process are adopted.

In recent years there has been considerable discussion regarding the adoption of a total compensation comparability principle for adjusting Federal employees' pay and benefits on the basis of those received by the non-Federal sector. Legislation developed by OPM is expected to be introduced during this session of Congress calling for the adoption of such a principle. The draft legislation prohibits downward

adjustments of benefits during the first 5 years of operation, but permits adjustments in rates of pay to reflect any imbalance in the estimated value of benefits between the Federal and non-Federal sectors.

If pay is to be adjusted to reflect differences in benefit values, it is critically important that employees be made aware of the value of their benefits. Otherwise, there could well be considerable employee mistrust of the new adjustment procedures, along with decreased morale and motivation.

SOME FEDERAL AGENCIES ALREADY
PROVIDE ANNUAL BENEFITS STATEMENTS,
WITH EXCELLENT RESULTS

A few Federal agencies such as the Animal, Plant and Health Inspection Service, Department of Agriculture; Tennessee Valley Authority; and Federal Reserve System, by their own initiative, have begun providing their employees personalized benefits statements. Officials from each of these agencies stated that the advantages from such statements far outweighed their cost, and thought their adoption Government-wide would be very worthwhile. The primary advantages cited included increased employee morale, lower attrition rates, and better employee awareness of what the employer is doing for him.

The Animal, Plant and Health Inspection Service was so persuaded by the merits of providing employees annual benefits statements that it has convinced practically all other Department of Agriculture agencies to do likewise. According to Service personnel officials, adopting employee benefits statements eased their attrition problem with veterinarians and also resulted in overall cost savings within the personnel department by virtually eliminating employee inquiries on specific benefits. Previously, the personnel office normally researched the inquiry and responded to the employee in writing.

THE COST OF PROVIDING BENEFITS
STATEMENTS IS NOMINAL

Available information indicates that the cost of providing Federal employees personalized annual benefits statements would be about \$1 each if contracted out, after establishing an accurate data base. The cost varies depending on the amount of detail in the statements, the kind of records available for the data base, and the size of the

work force receiving the statements. We have no information on the estimated cost if such statements were produced in-house.

The Animal, Plant and Health Inspection Service, through a contract with a private concern, provided the initial employee benefits statements at \$1.48 each. The cost for subsequent statements was expected to drop because the Service would be able to build on the established data base. In the meantime, it persuaded most of the other Department of Agriculture agencies to join it in providing employees benefits statements, and requested bids on a consolidated basis. A contract was awarded for 86 cents a statement. The decreased cost was primarily attributable to the increased size of the work force being provided the statements.

RECOMMENDATIONS

Once again, we recommend that the Director of OPM take the lead in insuring that Federal employees understand the value of their benefits. Specifically, we recommend that OPM proceed with the effort to provide its employees personalized annual benefits statements. Further, OPM, through its responsibility for insuring good personnel management throughout Government, should publicize the advantages and success that Federal agencies have had with benefits statements and strongly urge other Federal agencies to provide benefits statements to their employees. An offer to work with the interested agencies should also be extended to maintain maximum standardization among the statements. If agencies fail to adopt this suggestion, we recommend that OPM seriously consider providing benefits statements to all Federal employees covered by benefits programs administered by OPM.

- - - -

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

B-157593

We are sending copies of this letter to the House Committee on Post Office and Civil Service, the Senate Committee on Governmental Affairs, and the House and Senate Committees on Appropriations.

Sincerely yours,

H. L. Krieger

H. L. Krieger
Director