

Why GAO Did This Study

The Federal Employees' Group Life Insurance program (FEGLI), administered by the Office of Personnel Management (OPM), insures over 4 million federal employees and annuitants in the event of an enrollee's death. As a result, it is important that the program is clearly explained and properly overseen. However, some aspects of FEGLI, such as program disclosures and the use of retained asset accounts (RAA)—financial accounts used to settle life insurance claims—have raised questions about the program's operations.

GAO was asked to describe and evaluate (1) the FEGLI program's structure and operations, (2) OPM's administration and oversight of the program, and (3) the use of RAAs in FEGLI claims payments. To address these objectives, GAO reviewed FEGLI law and regulations, interviewed OPM, Metropolitan Life Insurance Company (MetLife), and state insurance officials, and met with insurance industry experts.

What GAO Recommends

GAO recommends that OPM (1) improve disclosures on important FEGLI features, (2) develop and implement a more structured process for reviewing the FEGLI program and premium rates, and document review outcomes, and (3) improve disclosures on RAA protections and regulation. OPM concurred with these recommendations.

FEDERAL EMPLOYEES' GROUP LIFE INSURANCE

Retirement Benefit and Retained Asset Account Disclosures Could Be Improved

What GAO Found

OPM, by directing the funding of the Employees' Life Insurance Fund, has effectively allowed the FEGLI program to assume the risk of loss, while MetLife provides administrative services for the program. FEGLI has some insurance coverage features that most private sector group life plans do not, but a lack of disclosure in certain areas may make it difficult for employees to make fully informed decisions about buying coverage. Generally with private group plans the employer pays the full premium for a set amount of basic coverage, but the statute that created FEGLI requires that enrolled employees contribute two-thirds of the premium for Basic coverage. In addition, FEGLI premiums include the cost of a portion of retirement coverage, a feature generally not found in private sector alternatives, and which can make FEGLI coverage more costly than those alternatives. Further, for Basic coverage, FEGLI premiums are level over employees' working lives, so that early on premiums may be higher than the actual cost of coverage, while later they may be lower. This feature can make FEGLI coverage appear to be more costly than private individual plans for certain employees. However, the materials that FEGLI provides to employees do not disclose either the retirement coverage costs or the level premiums. Employees, particularly those who might leave government service or stop participating in FEGLI before realizing the benefits of these features, may find such disclosures important when deciding whether to purchase the insurance.

OPM oversees FEGLI's provision of life insurance, but certain processes for reviewing program benefits and premiums could be improved. OPM administers basic FEGLI functions such as determining and collecting premiums, publishing program regulations, and overseeing the claims payment processes of MetLife, the insurer contracted to provide claims services. Because the program was intended to provide a low-cost benefit to federal employees, OPM has periodically conducted informal comparisons of FEGLI costs and benefits to those of private group life plans. In addition, to better ensure that the program charges appropriate premium rates, OPM actuaries conduct annual reviews and may recommend rate changes. However, OPM does not have documented processes for conducting its comparisons or for documenting any recommended rate changes. The lack of documented processes in both areas creates a risk that FEGLI benefits may not be meeting the needs of federal employees and could be priced at inappropriate rates.

From the mid 1990s until early 2011, RAAs were the default settlement option for many FEGLI beneficiaries. While RAAs offer some benefits to FEGLI beneficiaries, OPM does not provide beneficiaries with some important information on RAA operations and protections. According to OPM and some industry officials, RAAs can reduce administrative costs, provide guaranteed interest rates, and allow beneficiaries time to decide how to use settlement funds. But other industry participants and a federal regulator said that beneficiaries might not be fully aware of their settlement options or that RAAs are not insured by the Federal Deposit Insurance Corporation. OPM has recently improved FEGLI disclosures for RAAs, and RAAs are no longer the default settlement option. However, the disclosures still lack information on how the accounts are established and regulated, and how certain protections differ across states. Without this information, beneficiaries may not be able to make fully informed decisions when choosing a settlement option for their FEGLI claims payment.