

GAO

Testimony

For Release  
on Delivery  
Expected at  
10:00 a.m. EST  
Wednesday  
March 25, 1987

Implementation of the Federal Employees'  
Retirement System Act of 1986

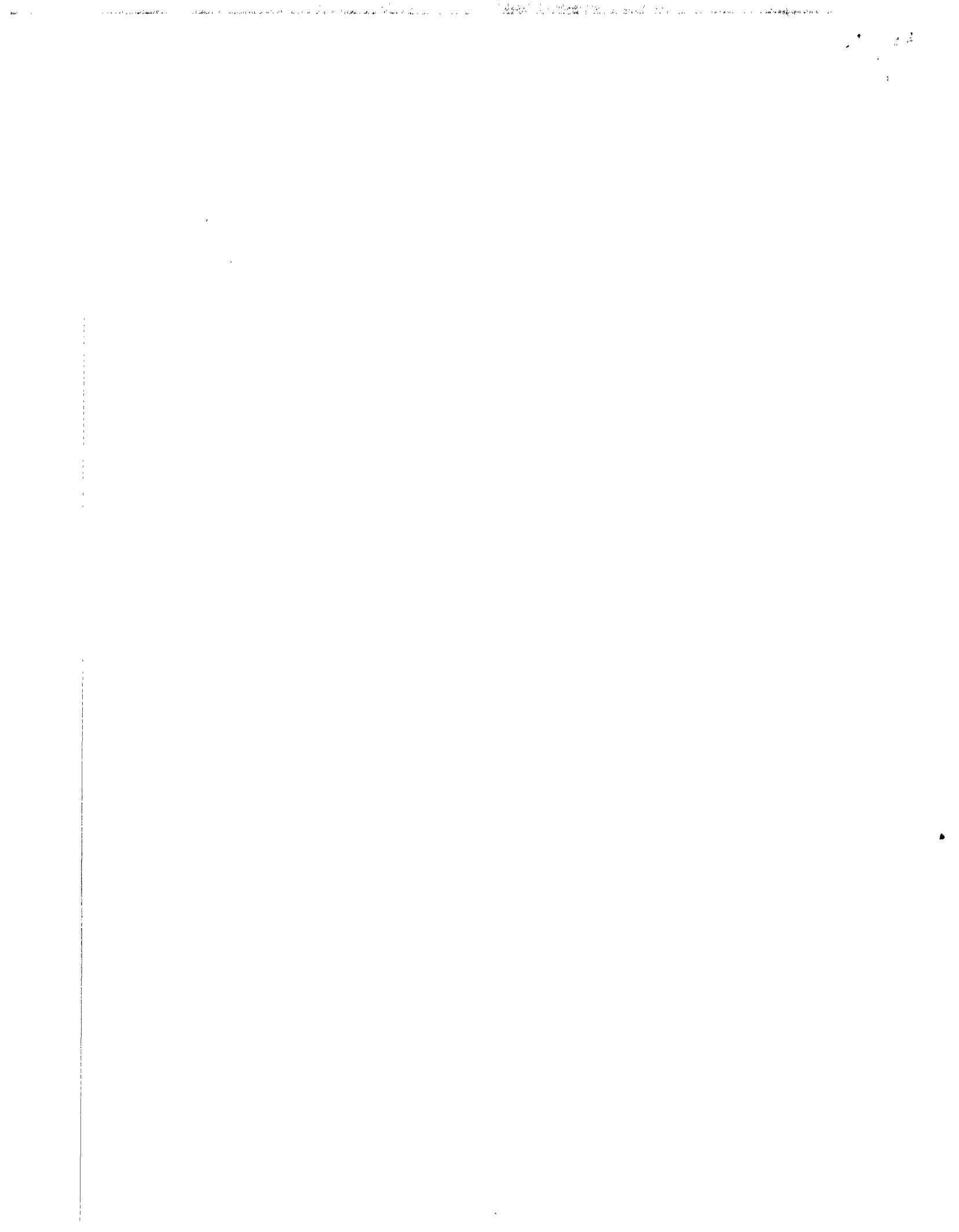
Statement of  
William J. Anderson, Assistant Comptroller General  
General Government Programs

Before the  
Committee on Post Office and Civil Service  
House of Representatives



132483

038363



Mr. Chairman and Members of the Committee:

I am pleased to be here today to provide our views on the actions agencies are taking to implement the Federal Employees Retirement System (FERS) Act of 1986. As you requested in your letter of December 11, 1986, we have been monitoring and evaluating these actions.

I will summarize the activities of the lead agencies involved--the Federal Retirement Thrift Investment Board, the Office of Personnel Management (OPM), and the Social Security Administration--and discuss some concerns we have about how they are implementing the act.

#### THRIFT BOARD

The Thrift Board was established by the act to set policy for investment and management of the thrift savings fund, to invest or provide for the investment of fund assets, and to review the performance of investments made.

FERS was enacted on June 6, 1986. However, because of delays in appointing the Board members and Executive Director, the Thrift Board did not become operational until November 1986. As you know, these delays caused implementation of the thrift plan to be deferred to April 1, 1987, instead of January 1, 1987, as the act had originally provided.

Nevertheless, once in place, the Board has accomplished a great deal in a relatively short period of time. It arranged for the Department of Agriculture's National Finance Center to receive payroll deductions from government agencies, maintain

employees' thrift accounts, and advise the Board on fund balances available for investment. Later this year the Board plans to permit the private sector to bid on taking over these recordkeeping functions. The Board has also established communications with agencies, drafted interim rules and guidance, and prepared and distributed employee booklets and enrollment forms.

With April 1 rapidly approaching, we are concerned that some agencies are still experiencing difficulty in programming their payroll systems to handle employee and agency contributions to the thrift plan. The Board planned to have payroll offices submit test data tapes in early January, but many still have not done so. Staff of the Finance Center told us last week that of 587 payroll offices, only 147, representing a little over half of the civilian workforce, had submitted test tapes. And the tapes from about half of these offices, representing more than a million employees, still had problems that needed to be corrected.

If agencies are unable to process the contributions in April, their employees could lose agency matching contributions and the interest earnings on contributions that would otherwise have been made. We will be closely monitoring this situation and keep you advised of any major problems that develop.

The Board also experienced some delays in distributing employee booklets and enrollment forms on time. On February 15th the first open season began for employees to fill out election

and beneficiary forms. Because of printing and distribution problems, the booklets and forms were generally not available at that time. The Board's staff has been working with agencies and distributors to resolve the problems, and most agencies now have the materials necessary for employees to participate. However, there appears to be a problem with agencies delaying the distribution of materials to their employees. Last week, we took a poll at the Federal Managers Association convention with attendees from numerous agencies across the country. We found that only about 20 percent of the attendees had received the pamphlet and election forms necessary to participate. Thrift Board officials will need to closely monitor agencies on this matter as well as the preparation for handling thrift plan contributions.

Another issue of concern pertains to the uncertainty about the ultimate benefits available from the thrift plan. Like thrift plans in the private sector, the federal employee thrift plan is subject to Internal Revenue Service (IRS) nondiscrimination rules whereby the contributions of higher paid employees (earning more than \$50,000), as a group, cannot significantly exceed the average contribution of other employees. If higher paid employees are found to have exceeded the permissible contribution level, their excess contributions will be returned to them. An unanswered question in the case of the federal thrift plan is whether the rule will be applied to all employees as a group, or separately for employees in the FERS and

civil service retirement systems. Because the FERS group will receive matching contributions not available to civil service participants, employee contribution rates are likely to vary significantly between the two groups. In an October 1986 report on the FERS act, the Senate Committee on Governmental Affairs said that separate tests should be applied because the matching levels and investment alternatives are so different between the two groups. The IRS has not yet advised the Board on how the nondiscrimination rules should be applied to the federal thrift plan. This will be a matter of particular concern to employees who are considering switching from the civil service system to FERS. An IRS determination is needed to resolve this question before the July open season for switching to FERS begins.

Originally the Board planned to pay interest on employees' average daily account balances. We told the Board that because paydays vary throughout the government, by several days, some employees would have their contributions credited to their accounts before others even though their biweekly pay period was the same. They would therefore earn more interest which, over a working career, could add up to a significant amount. After hearing our concerns, the Board now plans to pay interest on average monthly balances which will alleviate the undesirable effect of varying paydays.

IMPLEMENTATION BY OFFICE OF PERSONNEL  
MANAGEMENT AND AGENCIES

OPM is responsible for administering the basic annuity portion of FERS and has published regulations covering that portion of the system. It is preparing instructional materials and training programs for agencies to use in counseling employees on the decision to switch to FERS. Agencies and OPM are expected to train 4,000 "decision advisors" to assist employees in making the choice. OPM has also been involved in the preparation of a series of FERS informational materials for employees, including pamphlets, videos, a workbook, and a computer program. The workbook and computer program are key items which will take employees in the civil service retirement system through the steps necessary to determine whether they should switch to FERS. The workbooks, which will contain necessary information on provisions of the retirement systems, are scheduled to be available in April. The computer program is intended to be used by the decision advisors to compare for each employee their future contributions and benefits under both retirement systems.

A provision of the FERS act that has recently been resolved authorizes alternative forms of annuities whereby retiring employees may withdraw lump-sum amounts equivalent to the contributions they made into the retirement system and also receive reduced annuities. This provision applies to both FERS and the civil service retirement system. OPM's regulations on lump sum payments have been available for five months, but actual payments were delayed pending a ruling by the IRS on their

taxability. Earlier this month IRS provided guidance for retirees explaining the specific tax consequences. Over 50,000 retirees have been awaiting this information before deciding whether to take the lump sum alternative.

#### SOCIAL SECURITY ADMINISTRATION

While the Social Security Administration has no direct role in the FERS implementation, it will be the source of information important to employees who are considering transferring to the new system. For employees to make informed decisions about the transfer, they need to know the social security-covered earnings they may have had. Using that information, employees will be able to more accurately estimate their future social security benefits and determine whether they will be exempt from the reduction of social security benefits that often applies to government retirees receiving civil service pensions. Social Security Administration officials told us they plan to distribute forms and instructions for obtaining earnings information to agencies early in May. The Administration says employees who submit request forms can expect to receive the information within 4 weeks under special expedited procedures set up for the FERS implementation. Normally this process can take as long as 3 months or more.

Considering the difficulties encountered and time needed by the Thrift Board to disseminate information government-wide, we are concerned that many employees will not have the necessary social security information on July 1 when the open season for



switching to FERS begins. Social Security Administration officials informed us that they originally planned to have a procedure in place earlier but did not have the funds. OPM subsequently agreed to fund the current procedure.

- - - - -

That concludes my prepared statement, Mr. Chairman. I would be glad to answer any questions you may have.

