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FEDERAL EMPLOYEES' GROUP LIFE INSURANCE

Retirement Benefit and Retained Asset Account Disclosures Could Be Improved

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Accountability * Integrity * Reliability

Highlights

Highlights of GAO-12-94, a report to congressional requesters

FEDERAL EMPLOYEES' GROUP LIFE INSURANCE

Retirement Benefit and Retained Asset Account Disclosures Could Be Improved

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.

View GAO-12-94 for key components.
For more information, contact Alicia Puente Cackley at (202) 512-7022 or cackleya@gao.gov.

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.

Contents

Abbreviations

ACLI	American Council of Life Insurers
AD&D	accidental death and dismemberment
CSRS	Civil Service Retirement System
FEGLI	Federal Employees’ Group Life Insurance
FERS	Federal Employees Retirement System
FDIC	Federal Deposit Insurance Corporation
LIFAR	Life Insurance Federal Acquisition Regulation
MetLife	Metropolitan Life Insurance Company
NAIC	National Association of Insurance Commissioners
NCOIL	National Conference of Insurance Legislators
OFEGLI	Office of Federal Employees’ Group Life Insurance
OPM	Office of Personnel Management
RAA	retained asset account
SFFAS	Statement of Federal Financial Accounting Standards

United States Government Accountability Office
Washington, DC 20548

November 10, 2011

The Honorable Elijah E. Cummings
Ranking Member
Committee on Oversight and Government Reform
House of Representatives

The Honorable Edolphus Towns
Ranking Member
Subcommittee on Government Organization, Efficiency and Financial Management
Committee on Oversight and Government Reform
House of Representatives

Life insurance is an important purchase for many Americans because it provides income replacement and financial protection to beneficiaries if they lose loved ones. While many Americans obtain life insurance by purchasing individual policies in the private market, many also obtain such coverage through employer-sponsored group plans, including the approximately 4 million federal employees and annuitants who purchase life insurance through the Federal Employees' Group Life Insurance program (FEGLI). This program, administered by the Office of Personnel Management (OPM), involves substantial federal resources. In fiscal year 2010, the total amount of FEGLI life insurance coverage in force was $824 billion, and the balance in the plan's financial fund—the Employees' Life Insurance Fund (FEGLI Fund)—totaled approximately $38 billion.[1] In addition, throughout 2010, FEGLI paid out approximately $2.6 billion in insurance claims to beneficiaries of federal employees. The program also involves substantial premium costs to enrolled federal employees, who pay two-thirds of the premium for an initial amount of Basic life insurance and the entire premium for any Optional insurance.[2] As a result, ensuring that FEGLI is properly administered, with appropriately priced policies,

[1]This is the fund OPM uses for the FEGLI program to pay for life insurance settlements, administrative costs, and compensation to MetLife for adjudicating and paying FEGLI claims.

[2]For the purposes of this report, "Basic" coverage refers to FEGLI coverage while "basic" refers to life insurance offered in the private sector. We treat FEGLI's "Option A, B, and C" and the private sector's "optional" coverage similarly.

and that federal employees receive enough information to make an informed decision about participating in the program, is important.

The processes and methods for paying FEGLI life insurance claims determine how beneficiaries of federal employees receive insurance settlement funds. For the first several decades of the program, beneficiaries received settlement funds through a lump-sum check. In 1994, FEGLI began offering retained asset accounts (RAA) to beneficiaries as the default settlement option where the proceeds payable were $7,500 or more. With RAAs, the Metropolitan Life Insurance Company (MetLife)—the life insurer under contract with OPM for the FEGLI program since its creation by Congress in 1954—makes claims payments by establishing guaranteed accounts in beneficiaries' names, manages the assets backing RAA liabilities created by these accounts, determines how to invest RAA funds, guarantees a minimum interest rate to be credited to retained funds, and administers the accounts that allow beneficiaries to access funds as they choose. While some industry participants point to the potential benefits that RAAs provide, other participants have raised questions about these accounts. For FEGLI, these questions have included whether policyholders fully understand their settlement options and their associated costs, benefits, and protections.[3]

This report responds to your interest in how FEGLI operates and how it uses RAAs. The report describes and evaluates

- how FEGLI is structured and operated,
- OPM's administration and oversight of FEGLI, and
- FEGLI's use of RAAs to pay claims.

To describe and evaluate FEGLI's key operations, we examined the program's authorizing statute and associated regulations and reviewed its key policy documents, including the contract between OPM and MetLife. In addition, we compared FEGLI's coverage and practices with those of several large private sector group life insurers. To describe and evaluate

[3]In this report, we use the term "industry participants" to refer to those entities with a role in the insurance industry, including state insurance regulators and benefit administrators, actuaries, consumer advocates, and insurance industry associations.

OPM's administration and oversight of the FEGLI program, we reviewed applicable federal and state laws, regulations, policy guidance, and materials from consumer advocates, and examined OPM's monitoring, reporting, and other oversight activities. We also interviewed OPM and MetLife officials and reviewed FEGLI annual financial and performance reports to understand how FEGLI operates financially and to determine its assets and liabilities. In addition, we reviewed the federal budget for information on FEGLI's claims, assets, and liabilities. We found FEGLI program information and data from OPM and MetLife to be reliable for the purposes of this report. To identify any FEGLI regulatory or consumer protection issues, we met with industry association representatives, a consumer advocate, and other experts. To describe and evaluate the role of RAAs in FEGLI's settlement process, we examined key OPM and MetLife policy documents and program guidance and interviewed OPM management officials. We focused on how RAAs function, what kinds of RAA disclosures FEGLI participants receive, and what RAA protections are available to FEGLI beneficiaries.[4] In addition, we examined how RAAs are regulated by focusing on the activities and processes OPM and state regulators use to oversee these accounts. In particular, we interviewed insurance regulators from California, Florida, New York, North Carolina, and Maryland to determine their methods for overseeing RAAs. We selected this sample of states because it is geographically diverse, has a large number of federal employees, and contains some states that have RAA-specific regulations and others that do not. For a more detailed description of our scope and methodology, see appendix I.

We conducted this performance audit from September 2010 to November 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Established by Congress in the Federal Employees' Group Life Insurance Act of 1954[5] as a benefit to federal employees and their families and

[4]For the purposes of this report we use the term disclosures to include the FEGLI Handbook, Employee Program Booklet, website, and life insurance claim form.

[5]Pub L. No. 83-598. 68 Stat. 736 (Aug 17, 1954).

administered by OPM, FEGLI offers federal employees the opportunity to choose from a range of group term life insurance coverage options.[6] FEGLI insurance is provided through a contract OPM has established with MetLife. MetLife's Office of Federal Employees' Group Life Insurance (OFEGLI) adjudicates claims under the FEGLI program and makes payments to FEGLI beneficiaries.[7]

FEGLI Insurance Coverage and Costs

Most federal employees, including part-time employees, are eligible for insurance under FEGLI, and approximately 85 percent purchase FEGLI coverage. Upon starting their federal employment, federal employees are automatically enrolled in FEGLI's Basic life insurance coverage unless they file appropriate paperwork with their employing agency to opt out of the program. Basic life insurance coverage equals a federal employee's annual salary rounded up to the next even thousand plus two thousand

[6]In addition to FEGLI, the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS) provide survivor benefits under certain conditions to current and former spouses and children in the event a federal employee dies. Under CSRS, survivors may receive 55 percent of the accrued disability annuity for which the employee would have been eligible. Under FERS, survivors of employees who had at least 18 months of service may receive a lump-sum payment (a fixed amount that is adjusted each year for inflation), plus the greater of half of the employee's high-3 average pay or half of the employee's annual rate of pay at death. According to OPM, high-3 average pay is determined by finding the highest average basic pay over any 3-year period. The 3 years must be consecutive. Generally, the final 3 years of service include the highest pay, but pay from an earlier period can be used if it was higher. In addition to this lump-sum payment, FERS survivors of employees who had at least 10 years of service may receive an annuity equal to 50 percent of the employee's accrued benefit. Under both CSRS and FERS, there are also benefits payable to survivors of former employees and to survivors of retirees.

[7]Group life insurance protects a group of people and is usually issued to an employer for the benefit of its employees. Each group member holds a certificate as evidence of his or her insurance. Group life insurance generally does not require individuals to demonstrate medical proof of insurability and may be less expensive than individual policies that require medical underwriting, depending on the health of the individual. Term insurance is generally defined as covering the insured for a certain period of time (the "term"). Term policies provide death benefits only if the insured dies during the term, which can be 1, 5, 10, or even 30 years, with group life policies generally having a term of 1 year. Term policies generally do not have any cash, or paid-up value, and those with term policies cannot get loans by borrowing from this insurance.

dollars, or $10,000, whichever is higher.[8] Basic insurance also provides an extra benefit to employees under age 45, at no additional cost. This extra benefit doubles the amount of Basic insurance payable if the employee dies at age 35 or younger. The extra benefit decreases 10 percent each year until there is no extra benefit at age 45 and above. For Basic coverage, employees pay two-thirds of the premium determined by OPM, and the employing agencies pay the remaining third.[9] The rate all covered employees, regardless of age, pay for each $1,000 of Basic insurance is $0.150 bi-weekly or $0.325 monthly. FEGLI also provides accidental death and dismemberment (AD&D) insurance as part of its Basic insurance at no additional cost.[10] AD&D insurance protects employees in the event of a fatal accident or an accident which results in the loss of a limb or eyesight. For benefits to be paid, the death or loss must occur no later than 1 year from the date of the accident and must be a result of bodily injury sustained from that accident.

Federal employees may also choose to purchase three types of Optional insurance in addition to Basic coverage—Options A, B, and C—by submitting a Life Insurance Election Form (SF 2817) within 60 days of beginning their employment to their human resources office.[11]

- Option A offers $10,000 of life insurance coverage. Premiums for Option A coverage vary by age groups, as determined by OPM. These groups start with employees “under age 35,” progress in 5-year increments until age 59, and finish with a “60 and over” group. Bi-weekly and monthly costs for Option A coverage range from $0.30

[8]These premium amounts, as well as many aspects of the FEGLI program, including for example, the percentage of the premium paid by each employee, the amount of coverage for accidental death and dismemberment (AD&D) coverage, and the existence and amount of optional insurance coverage, are mandated by the FEGLI statute. *See* 5 U.S.C. §§ 8701-8716.

[9]According to OPM, the United States Postal Service pays the entire cost of FEGLI Basic insurance for its employees.

[10]AD&D insurance is also included in Option A insurance coverage at no additional cost.

[11]In addition, federal employees can elect Basic and Options A, B, and C within 60 days of experiencing a qualifying life event. Qualifying life events include marriage, divorce, the death of a spouse, or acquisition of an eligible child.

and $0.65, respectively, for the “under age 35” group to $6.00 and $13.00, respectively, for the “60 and over” age group.[12]

- Option B offers additional Optional insurance coverage in an amount of one to five multiples of the employee’s annual salary, after rounding the salary up to the next even thousand. For Option B coverage, age group designations also apply but begin with “under age 35,” continue in 5-year age increments until age 79, and end with an “80 and over” age group. Bi-weekly and monthly costs for each $1,000 in insurance can range from a low of $0.03 and $0.065, respectively, for employees under 35 to a high of $2.40 and $5.20, respectively, for employees 80 and older.

- Option C covers eligible family members of an employee or retiree, including the enrollee’s spouse and eligible dependent children. The employee selects one to five times an amount (a “multiple”)—$5,000 for a spouse and $2,500 for each eligible dependent child. If employees purchase optional coverage within the 60 days, no medical underwriting is necessary. For Option C coverage, the age group designations are the same as for Option B, and costs range from bi-weekly and monthly amounts of $0.27 and $0.59, respectively, per multiple for those under 35 to $6.00 and $13.00, respectively, per multiple for those 80 and older.

When federal employees retire, FEGLI also offers Basic and Optional life insurance, and employees are able to choose among several retirement coverage levels after age 65. For Basic insurance in retirement, employees must choose whether to reduce their postretirement insurance level by 75 percent, 50 percent, or maintain full coverage. Those choosing the 75 percent reduction pay no premiums after reaching age 65. Those choosing the 50 percent reduction or full coverage option continue to pay premiums in amounts determined by OPM; the postretirement premium rates are greater than preretirement rates. When the 75 percent reduction in coverage is selected, OPM reduces the coverage level by 2 percent per month beginning at age 65, until 25 percent of the original coverage remains. If the 50 percent reduction is selected, the coverage level reduces by 1 percent per month beginning at

[12]These premium rates are for the full $10,000 of Option A coverage, not per $1,000 of coverage as the rates for Basic and Option B coverage are quoted.

age 65, until 50 percent of the original coverage remains. If no reduction is selected, the coverage does not reduce.

Federal employees may also choose to continue Optional coverage into retirement and FEGLI offers several choices. Option A coverage reduces 2 percent per month beginning at age 65, to 25 percent of the preretirement amount, and no premiums are charged in retirement after the retiree reaches age 65. For Options B and C, employees desiring coverage must elect to continue one to five multiples of coverage into retirement, and elect whether to have all of those multiples retain full coverage or reduce by 100 percent, at a rate of 2 percent per month for 50 months, beginning at age 65. For the 100 percent reduction option, once the reduction starts, retirees do not pay premiums after reaching age 65. For the full coverage option, retirees continue to pay the full premium, as determined by OPM for the retiree's specific age group.[13]

The following provides an example of FEGLI premiums for a 48-year old federal employee, married with three children, and earning $88,300 per year.

- According to OPM, Basic insurance would cost $13.65 bi-weekly and $354.90 annually.[14]
- If the employee seeks to maximize Option B coverage by purchasing five times annual pay, Option B coverage would cost $40.05 bi-weekly and $1,041.30 annually.[15]
- In this example, the employee purchases Basic and Optional life insurance coverage totaling $536,000, at an annual cost of $1,396.20.

[13]For Option B coverage, these rates can range from $.065 per month for each $1,000 of coverage for those under age 35 to $5.20 per month for those 80 years of age and older. For Option C coverage, these rates can range from $.59 per month for each multiple of coverage selected for those under age 35 to $13.00 per month for those 80 years and older.

[14]For Basic insurance, the employee's salary would be rounded up to $91,000. Basic insurance cost would be 91 x $0.150, or $13.65 biweekly and $354.90 annually.

[15]For Option B insurance, the salary would be rounded to $89,000 x 5 multiples of annual salary, or $445,000 in coverage. Option B insurance cost would be 445 x $0.09, or $40.05 biweekly and $1,041.30 annually.

If this employee continues full Basic and Option B coverage after retirement, by choosing the No Reduction option for both, and retires at the age of 65 (assuming the same $88,300 salary), Basic insurance would cost $1,998.36 annually and Option B coverage would cost $8,330.40 annually.[16] The total amount of Basic and Optional insurance for the employee at the time they retire would be $536,000 at an annual cost to the employee of approximately $10,300.

Adding or Adjusting FEGLI Coverage

Federal employees may add or adjust FEGLI coverage when life events such as marriage, divorce, death of a spouse, or the acquisition of an eligible child occurs. Federal employees may also add or adjust coverage when OPM offers open seasons, although OPM officials noted that these periods are rare.[17] FEGLI most recently offered open seasons in 1999 and 2004. Employees who opted out of FEGLI coverage upon starting federal employment may also add coverage during these times. Additionally, if at least a year has passed since an employee opted out of FEGLI, an employee may request FEGLI coverage by providing medical information via a form partially completed by the employee's physician. Employees are responsible for any associated expenses such as a physician's fee. In addition, certain employees of the Department of Defense are eligible to elect FEGLI coverage without experiencing a qualifying life event or by providing medical information.

Payment of FEGLI Benefits

When a federal enrollee with FEGLI coverage dies, MetLife's OFEGLI pays claims to the federal enrollee's designated beneficiary. If no beneficiary has been designated, payments will be made roughly in the following order pursuant to statute: to the enrollee's surviving spouse; if none, to the child or children in equal shares; if none, to surviving parents

[16]This example assumes that the employee retires at age 65, is an annuitant, and chooses the No Reduction option for Basic insurance and five multiples of Option B coverage. The preretirement premium for Basic insurance stops at age 65, but the employee pays an extra premium for the Basic Insurance No Reduction option. The rate for Basic insurance with No Reduction option is $1.83 per $1,000 of coverage per month for an annual total cost of $1,998.36. Having chosen the No Reduction option for five multiples of Option B coverage in retirement at age 65 would cost the employee $8,330.40 annually (445 x $1.560 x 12 months).

[17]An open season is a time designated by OPM during which federal employees can assess their benefits and potentially change their benefits enrollment without undergoing a medical examination or qualifying life event.

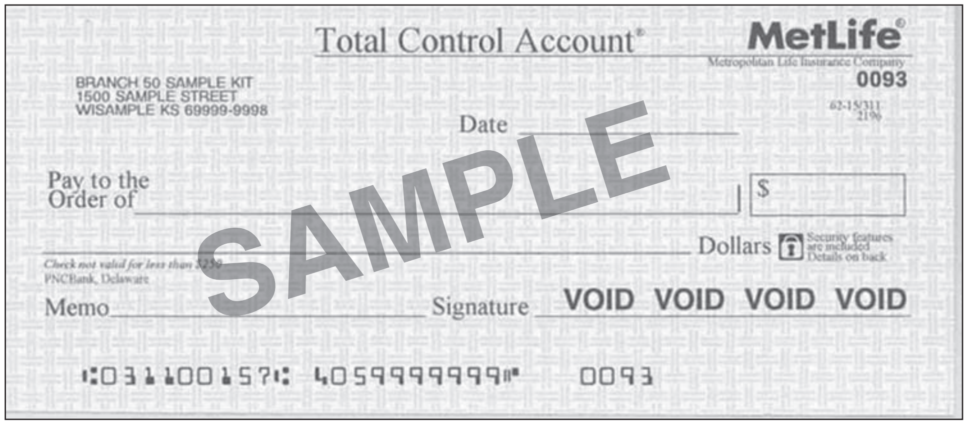
in equal shares; if none, to the executor or administrator of the employee's estate; or, if none, to the enrollee's next of kin as determined by applicable state laws. The enrollee's beneficiary or other survivor must follow a prescribed process for filing a claim and receiving payment that begins with contacting the human resources office at the insured's agency to report the death, submitting a certified death certificate, and submitting a Claim for Death Benefits form.

According to FEGLI materials, beneficiaries may choose a payout by receiving a lump- sum check or an RAA. According to the American Council of Life Insurers (ACLI), RAAs have existed since 1982, and many insurers provide them for both group and individual life insurance policies. When an insured person dies, the life insurance company that issued the policy may place the death benefit proceeds into an RAA, which accrues interest for the beneficiaries from the day the account is established for as long as the funds remain in the account. Beneficiaries have full and immediate access to their funds and can withdraw some or all of the funds at any time without penalty. In addition, MetLife pays RAA accountholders a minimum guaranteed interest rate that typically is calculated using one of several market rate indexes.[18] MetLife compounds interest on RAAs daily and credits that interest monthly. MetLife issues a book of drafts to the beneficiary, allowing immediate access to the funds without penalty. Beneficiaries may then use them to meet various financial needs, for example to pay bills, make retail purchases (fig. 1), or transfer funds from the RAA to another account, such as a savings or checking account.[19] FEGLI beneficiaries, like other life insurance beneficiaries, may leave funds in their RAA for as long as they wish or withdraw the entire amount at any time, and there are no maintenance fees associated with these accounts. By investing the assets backing the liabilities of RAAs funded with FEGLI claims payments, MetLife may earn a profit in the form of a spread, or the difference between the interest it pays beneficiaries and what it earns on invested assets backing RAA liabilities less expenses. MetLife assumes the investment risk associated with investing these assets.

[18]MetLife sets RAA interest rates by referencing two indexes: the iMoneyNet Money Fund Report Averages/Government 7-Day Simple Yield (a leading index of government money market mutual fund rates) and the Bank Rate Monitor National Money Market Rate Index (a leading index of rates paid by the 100 large banks and thrifts on money market accounts).

[19]A draft is a payment order in writing that directs a second party—in the case of RAAs, the insurance company—to pay a specified sum to a third party, for example, a retailer. A check is a bank draft that is payable when presented.

Figure 1: Example of a Sample FEGLI RAA Draft



Source: MetLife.

Although Similar to Private Sector Plans, FEGLI Has Distinct Employee Benefits and Costs That Are Not Clearly Disclosed

Some FEGLI Features Are Similar to Those of Private Sector Group Life Insurance

FEGLI's Basic life insurance coverage shares several similarities with the coverage offered by private sector group plans. First, both FEGLI and most private sector plans automatically enroll employees in basic coverage, often including AD&D coverage, unless they opt out of the program, and both provide options for employees who opted out of the program to join later.[20] Second, neither FEGLI nor private sector basic insurance initially requires employees to provide information on their medical condition or

[20] For FEGLI, Basic coverage equals an employee's salary amount rounded up to the next even thousand, plus two thousand dollars, or $10,000, whichever is higher. According to industry officials, for private plans basic coverage typically can be a flat dollar amount, the amount of an employee's salary, or up to two times an employee's salary.

history.[21] That is, any employee can enroll in the program regardless of age or state of health at the time that the employee is first eligible to join. Third, while some private sector plans offer a flat amount of basic insurance ranging from $5,000 to as much $50,000, many offer coverage in an amount equal to the employee's salary or a multiple of it, as FEGLI does. Finally, FEGLI and private sector programs both typically use a composite rate structure to price their basic group life benefits; that is, a rate structure where all employees pay the same average rate regardless of age or health status. The effect of a composite rate is that all employees pay the same rate per $1,000 of insurance coverage regardless of characteristics such as age and health that impact the cost of life insurance.

In addition to similarities with respect to basic coverage, FEGLI and private sector group plans generally offer some form of optional coverage that shares some similarities as well. First, employees in both FEGLI and private group plans typically must fund any optional coverage with no employer contribution. In addition, both FEGLI and private sector employers generally offer optional coverage in increments of one to five times the employee's annual salary. Finally, both FEGLI and private sector plans generally offer life insurance coverage on the employee's dependants.

Unlike Private Group Life Plans, FEGLI Assumes Most of the Insurance Risk

Unlike most private sector group life insurance plans, FEGLI, according to OPM officials, assumes most of the risk of loss associated with the program. In the private sector, according to industry experts, employers generally purchase group life insurance policies from insurers that then bear the risk of loss.[22] That is, the insurer bears the risk that the claims associated with the policy may exceed the premiums collected from the policyholder. In contrast, according to OPM officials, the FEGLI program effectively bears all such risk based on the expectation that the FEGLI Fund is sufficient to cover claims made by FEGLI beneficiaries.

[21]According to OPM, for FEGLI, employees enrolling as new hires or during an open season do not need to provide information on their medical condition or history.

[22]Some large private sector employers may share in the risk of loss through certain arrangements with an insurer, such as receiving back from the insurer a portion of premiums paid in excess of claims or paying additional premiums if claims exceed a specified amount.

FEGLI's creation contemplated the federal government purchasing group life insurance from a private sector group life insurer or insurers and mitigating the risk of loss by purchasing reinsurance for those insurers. However, as the FEGLI Fund balance has grown over time, OPM officials noted, the need for an insurer and reinsurers to assume the program's risk of loss has diminished.[23] For example, according to OPM and MetLife officials, even though OPM has a policy with MetLife to provide FEGLI life insurance and makes funds available to MetLife for this policy, when FEGLI beneficiaries submit claims, MetLife draws upon OPM's FEGLI Fund to make claims payments. In addition, according to the same officials, MetLife's exposure to loss is currently limited to its role as a reinsurer for the FEGLI program, as it covers approximately 85 percent of the FEGLI program's reinsurance. However, this exposure would only result in payment after the depletion of the entire FEGLI Fund, which has a balance as of September 30, 2010, of $37.6 billion, or approximately 14 times the amount of FEGLI's annual claims payments. OPM and MetLife both consider the possibility of exhausting the FEGLI Fund to be so remote that the cost of the reinsurance is negligible. While the program initially had about 160 reinsurers, only 10 were participating in 2011, with MetLife providing about 85 percent of the program's reinsurance. OPM pays each of the 10 reinsurers approximately $500 annually for their participation in the program, and FEGLI has never had to use this reinsurance coverage.

Certain FEGLI Features and Benefits Can Result in Higher Costs for Employees Compared with Private Sector Group Term Insurance

Compared with private sector group term life plans, FEGLI has certain features and benefits that can make premiums for all coverage higher for federal employees. First, FEGLI's statute requires enrolled federal employees to pay two-thirds of the premium rate for their Basic life insurance coverage, while employers in the private sector generally cover the full cost of their employees' basic coverage.[24] According to insurance industry officials, the amount of basic coverage that private group plans

[23]A policy contract between OPM and MetLife established MetLife as FEGLI's insurer. In addition to FEGLI's insurer, the program also has additional insurance companies that provide reinsurance. According to the ACLI, reinsurance involves the transfer of some or all risk to another insurer. The company transferring the risk is called the "ceding company" and the company receiving the risk is called the "life assuming company" or "reinsurer."

[24]For employees of the U.S. Postal Service, Basic life insurance for enrollees under FEGLI is free, as the U.S. Postal Service pays for 100 percent of this cost.

generally provide can be a flat amount or equal to an employee's annual salary or more. Whether an employee receives more employer-paid coverage through a private plan that pays the entire premium for some amount of coverage than through FEGLI would depend on the amount of no-cost coverage the private sector employer provides.[25]

Second, according to OPM officials, FEGLI offers federal employees a retirement life insurance benefit that is financed, in part, by a portion of the premiums charged while employees are working. FEGLI's retirement benefit raises FEGLI premiums above those of most private sector group plans, which generally do not offer such a benefit. As we have seen, FEGLI offers a postretirement benefit for both Basic and Optional coverage. According to OPM officials, federal employees who participate in FEGLI begin prefunding, or paying in advance for, Basic retirement coverage as soon as they begin their FEGLI coverage. Prefunding for Basic coverage is necessary because newly retired employees over age 65 who choose a 75 percent reduction in this coverage are no longer required to pay premiums for the coverage they are receiving. With Optional coverage, except for Option A, employees begin prefunding the cost of their retirement benefits when they reach age 55 and continue to do so until they retire. Newly retired employees who choose a 75 percent reduction in their Option A coverage, and a 100 percent reduction in Options B and C, coverage no longer pay premiums for the Optional coverage they are receiving. In addition, life insurance coverage for people of retirement age or older can be expensive. According to private sector insurance industry participants we spoke with, the cost of postretirement benefits is quite high because as employees age, the likelihood of the insurer being required to pay a claim also increases. As a result, few private sector plans offer such benefits. While OPM has stated that having flexible benefits, including life insurance coverage in retirement, contributes to employee retention, insurance industry participants with whom we spoke said that they have not seen any evidence that postretirement coverage attracted or retained employees.

In addition, for certain individuals, FEGLI Basic coverage may appear more costly than private sector basic life insurance. First, FEGLI features level

[25]For example, a private employer may offer $50,000 in basic life insurance coverage without any premiums for employees. FEGLI may offer $100,000 in Basic coverage, but federal employees must pay two-thirds of the premium. So in essence, FEGLI employees who are over age 45 and not receiving the program's extra benefit coverage are getting one-third, or approximately $33,300 in employer-paid coverage.

premiums that may not be a part of some private individual policies. With such a feature, monthly premiums remain the same over time instead of increasing with age. Compared to a policy without such a feature, level premiums are higher earlier in life and then become lower at a certain point. If relatively younger federal employees compare FEGLI to private individual coverage without level premiums, FEGLI coverage may appear to be more costly, depending on their age. Second, because FEGLI is a group life program, all individuals pay the same premiums regardless of their health status, unlike individual coverage where premiums generally depend on the health of the person being insured. As a result, if relatively healthier federal employees compare FEGLI to private individual coverage, FEGLI coverage could also appear more costly. Finally, FEGLI's postretirement coverage, which increases FEGLI premiums but is not generally part of private plans, also contributes to FEGLI's cost relative to private sector alternatives that do not feature this coverage. The possibility that FEGLI coverage may appear more costly than private sector alternatives to relatively younger or healthier federal employees is mitigated to some extent by the extra amount of coverage FEGLI provides federal employees under age 45. However, in cases where FEGLI's premiums exceed those for similar coverage in the private sector, federal employees may conclude that FEGLI is more expensive and choose to opt out of the program.

Although FEGLI's Disclosures Cover Key Aspects of the Program, They Do Not Cover Some Important Features

While FEGLI disclosures cover many key aspects of the program, they do not cover certain program features that could affect an employee's decision to purchase FEGLI coverage. Consistent with OPM's strategic goal of helping ensure that federal employees fully understand their benefits, and with the National Association of Insurance Commissioners' (NAIC) guidance on informative marketing materials, OPM provides a significant amount of information on FEGLI through a handbook, program booklet (a condensed version of the handbook for employees), and website. These disclosures provide information on a range of topics, including enrollment, coverage options and costs, designation of beneficiaries, claims and claims payments, and resources for employees if they have questions or issues. OPM provides this information in hard copy and through the FEGLI website, which also includes a calculator that allows users to determine premiums for various combinations of life insurance coverage. Providing timely and informative FEGLI guidance materials to federal agency human resources staff is another means through which OPM seeks to ensure that federal employees understand their benefits.

While these disclosures are useful, they do not make employees aware of some FEGLI benefits and features that could affect their decision to participate in the program.

- The disclosures do not inform employees that premiums for Basic coverage include a postretirement benefit and that employees prefund this benefit.[26] Employees who are unaware of this prefunding element could decide that FEGLI coverage is too expensive, decline participation in the program, and not receive FEGLI's potentially valuable insurance benefits. Conversely, employees that plan to work in the federal government for only a short period, or at least not through retirement, could decide to participate in the program, not knowing that they would be paying for a benefit they would never receive.

- FEGLI disclosures, while showing a constant premium rate, do not make employees aware of the level-premium feature of the program's Basic coverage that spreads premiums equally over the duration of the policy rather than charging less during early policy years and more in later policy years. Employees unaware of this feature could conclude that FEGLI coverage is more expensive than alternative private sector coverage, particularly in the earlier years of the policy, and decide to opt out, foregoing potentially valuable life insurance coverage.

- The disclosures also do not convey to federal employees that, for Basic coverage, FEGLI charges a composite premium that averages the cost of insurance for all participants regardless of age or health. That is, participants pay the same regardless of whether they pose a lesser or greater risk of loss. This averaging can be of great benefit to some, especially those who may not be able to obtain coverage elsewhere. However, as with the level-premium feature, those not aware of this feature could conclude that FEGLI coverage is simply more expensive than alternative private sector coverage and forego coverage they might not be able to obtain elsewhere.

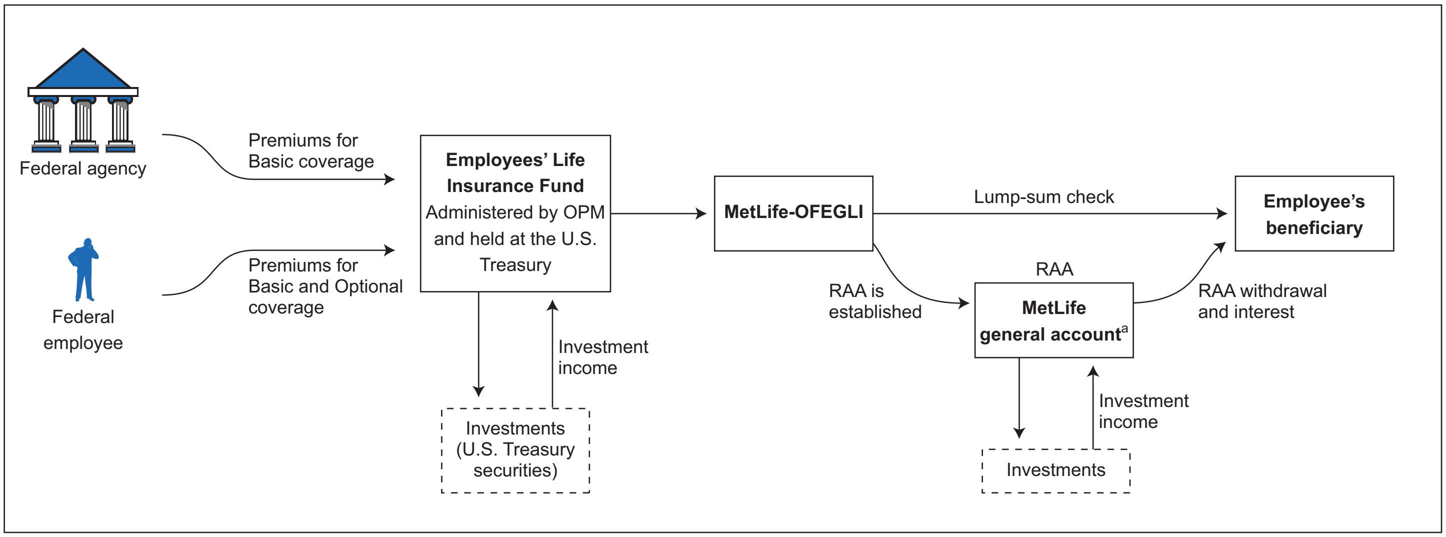
[26]FEGLI disclosures characterize retirement coverage as "free" when certain reduction options are selected after age 65.

In Overseeing FEGLI, Processes for Setting Premium Rates Could Be Improved

OPM Performs Many of FEGLI's Administrative and Operational Functions and Works Closely with MetLife

According to OPM officials, OPM performs many FEGLI administrative and operational functions, including collecting premiums, overseeing FEGLI's claims settlement process (which MetLife administers), and publishing FEGLI's regulations and disclosures. The same officials said that FEGLI premiums are collected by withholding premiums from enrollees' paychecks, annuities, or compensation and collecting agency contributions from employing agencies or retirement systems, as applicable, for deposit by OPM into the FEGLI Fund. On a monthly basis, premiums are moved from the FEGLI Fund which is held by the Treasury Department, into a letter of credit account, which is administered by a Federal Reserve Bank and from which MetLife can draw down funds to pay claims. MetLife's OFEGLI, which is responsible for paying claims to beneficiaries, draws money from the FEGLI Fund on a monthly basis using the line of credit and transfers claims payments to beneficiaries. In addition to its premium collection function, OPM officials said OPM is also responsible for investing FEGLI Fund assets in government securities and ensuring that investment income on program assets is taken into account when determining program costs. Funds that flow through FEGLI, according to these officials, ultimately begin with employee and agency premiums and end with a payout to beneficiaries in the form of a check or an RAA. Figure 2 illustrates the flow of FEGLI funds between those endpoints, including being held in the FEGLI Fund.

Figure 2: FEGLI Funds and Operations



Sources: OPM; Art Explosion.

[a]MetLife's general account and the investment income it earns are used to meet beneficiaries' RAA withdrawals and the interest MetLife guarantees beneficiaries on their RAA accounts.

In addition to managing FEGLI resources, OPM officials said they monitor and oversee MetLife's claims settlement processes by receiving and reviewing weekly reports on claims activity. In addition to managing processes for dispersing FEGLI funds, OPM officials said they receive annual financial reports on claims and administrative costs that are used to determine the timeliness of payments and, as noted earlier, help predict future claims and other expenses.[27]

In addition to producing and updating FEGLI's Handbook, Program Booklet, website and forms, OPM officials said that OPM also issues FEGLI regulations, including the Life Insurance Federal Acquisition

[27]In addition to financial management and oversight by OPM's actuarial and financial staff, OPM's Inspector General audits the FEGLI program every 2 years. MetLife's auditors also audit administrative and other expenses charged to the FEGLI program.

Regulation (LIFAR), that guide the program's operations.[28] The regulations, for example, outline the types of Basic and Optional insurance available through FEGLI, the amounts of FEGLI coverage that the program offers, eligibility requirements, program costs, and beneficiary designation. Additionally, the LIFAR describes the terms of the contractual arrangement between OPM and MetLife under the FEGLI program, including MetLife's receipt and administration of claims and the calculation of administrative costs and profit levels. The LIFAR also provides guidance on contract oversight, including requiring policies and procedures to help ensure that FEGLI services conform to the contract's quality requirements, and an OPM evaluation of MetLife's system of internal controls. Additionally, the LIFAR requires that MetLife develop a quality assurance program that includes procedures to address (1) timeliness of claims payments to beneficiaries, (2) quality of services and responsiveness to beneficiaries and OPM, and (3) detection and recovery of fraudulent claims, among other things. Although FEGLI's statute exempts the program from contractual competitive bidding, the LIFAR also provides direction on contract modifications and circumstances that would allow for contract termination. According to OPM officials, they fulfill these requirements by monitoring consumer feedback, tracking the timeliness of claims payments, and reviewing external audits of MetLife, which include OFEGLI. These officials said that they have not received any indication of problems with timeliness or responsiveness, or indications of any other deficiencies.

Although OPM has numerous administrative and oversight responsibilities for FEGLI, MetLife, according to its officials, has a central role in several key FEGLI financial and claims administration functions. First, officials said that MetLife works with OPM on an annual basis to develop a monthly premium amount. This premium is the amount made available to MetLife to pay claims, MetLife's administrative expenses, and MetLife's service charge. MetLife annually conducts a review of claims paid and recommends a premium amount to OPM based on the projected level of claims and expenses for the upcoming fiscal year. Officials noted that

[28]The purpose of the LIFAR is to implement and supplement the Federal Acquisition Regulation specifically for acquiring and administering a contract, or contracts, for life insurance under FEGLI. 48 C.F.R. § 2101.101(b). The part of the Federal Acquisition Regulation that specifies contractual competition requirements does not apply to FEGLI because the statute that created FEGLI, 5 U.S.C Chapter 87, exempts the FEGLI program from competitive bidding.

OPM and MetLife then agree on a total annual premium level for FEGLI, which OPM then uses to determine rates for employees and federal agencies. Second, OPM officials said that MetLife plays a key role in receiving life insurance claims from FEGLI beneficiaries, processing these claims, and ensuring that beneficiaries receive their life insurance settlements. On a daily basis, MetLife officials said that they determine how much they need to withdraw from the letter of credit account to meet expenses associated with beneficiaries' use of their RAAs.

In addition, OPM officials said MetLife prepares weekly and annual financial reports on its FEGLI claims that provide important information on the flow of funds from the FEGLI Fund to MetLife and from MetLife to beneficiaries. OPM reimburses MetLife for its administrative expenses for FEGLI, including its claims and financial functions. OPM officials said that most of these expenses are the result of MetLife's OFEGLI, through which MetLife processes and pays claims. In 1997, according to MetLife officials, OPM and MetLife entered into an agreement that capped MetLife's direct administrative expenses for FEGLI at $6.1 million and indirect expenses at 20 percent of that ceiling. This ceiling is adjusted annually by the Urban Consumer Price Index. In addition to administrative expenses, officials said that MetLife receives a service charge for adjudicating and administering FEGLI claims. This service charge is calculated using the profit analysis factors found in the LIFAR. For fiscal year 2011, according to OPM officials, MetLife's service charge was $965,000.[29]

Under OPM's Administration, FEGLI Funding Has Been Sufficient to Pay Claims and Meet Program Liabilities

Under OPM's administration of the FEGLI program, according to OPM officials, program funds have been sufficient to pay life insurance claims and meet program liabilities. According to OPM officials, one of their key responsibilities is to determine FEGLI's liability for current and future life insurance coverage and to take steps to ensure that sufficient assets are available to meet these potential liabilities. Various factors affect how these liabilities are calculated, including changes in the mortality of federal employees, federal salaries, and interest rates. OPM actuaries said that they use these factors as part of an actuarial valuation model to

[29]According to the LIFAR, OPM applies a weighted guidelines method to determine the service charge for FEGLI. The profit analysis factors include contractor performance, contract cost risk, federal socioeconomic programs, capital investments, cost control, independent development, and transitional services.

make annual estimates of FEGLI's current and future liabilities. The actuaries then estimate the funds needed from premiums to cover these liabilities and program expenses, taking into account interest on retained funds and the FEGLI Fund balance. In addition, according to OPM officials, OPM actuaries monitor and annually review the claims experience for each FEGLI insurance coverage option, by age group and gender, and make recommendations to OPM senior management on the premium rates employees and their agencies should pay.

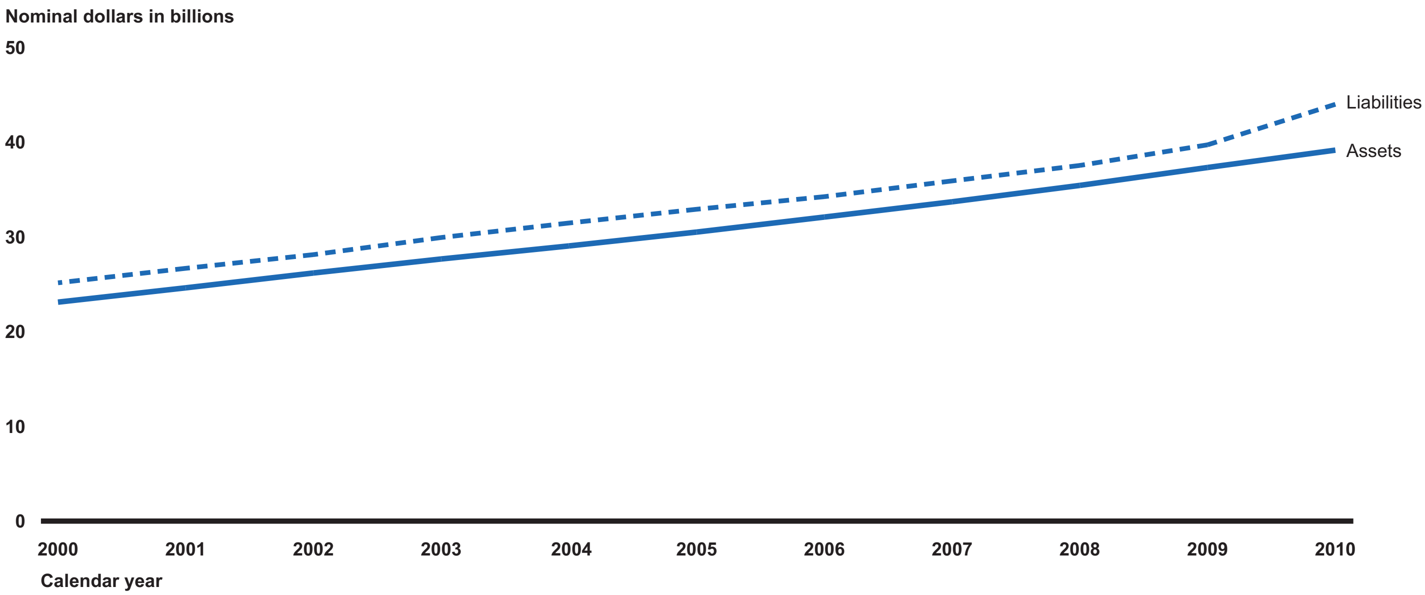
According to OPM officials, the FEGLI program is adequately funded if FEGLI revenues meet or slightly exceed program costs and the program's assets meet or exceed its liabilities. Figure 3 shows OPM data on FEGLI's assets and liabilities from 2000 to 2010, and appendix II provides additional information on FEGLI's annual premiums, claims, and investment income. In particular, OPM reported in its 2010 annual report that the program's liabilities as of September 30, 2010, were approximately $43.9 billion and that its assets totaled $39.2 billion.[30] According to OPM officials, while the reported data would appear to indicate that the program was underfunded, they believe FEGLI's financing is adequate because the overall liability amount reported above does not take into account employee contributions for optional insurance coverage, which has the effect of making the liability appear to be larger than it actually is.[31] According to OPM, they take these funds into account in other internal analyses, and these analyses show that the program's

[30]In past reports we have noted the importance of federal agencies determining the liability created by their insurance programs and ensuring the availability of funds to meet those liabilities. See GAO, *Federal Emergency Management Agency: Action Needed to Improve Administration of the National Flood Insurance Program*, GAO-11-297 (Washington, D.C.: June 9, 2011) and *Budget Issues: Budgeting for Federal Insurance Programs*, GAO/AIMD-97-16 (Washington, D.C.: Sept. 30, 1997).

[31]According to OPM officials, they calculate FEGLI's actuarial liability using methods that are consistent with guidance established by the Federal Accounting Standards Accounting Board's *Statement of Federal Financial Accounting Standards (SFFAS) 5: Accounting for Liabilities of the Federal Government*. They also use *SFFAS 33: Pensions, Other Retirement Benefits, and Other Post-Employment Benefits: Reporting Gains and Losses from Changes In Assumptions and Selecting Discount Rates and Valuation Dates*. When they perform FEGLI's liability calculations following these standards, FEGLI's total liability exceeds program assets. However, FEGLI's total liability does not account for employee contributions for Optional coverage.

assets sufficiently meet the program's liability when employee contributions are considered.[32]

Figure 3: FEGLI Assets and Liabilities, 2000-2010



Source: OPM Agency Financial Reports and Performance and Accountability Reports.

OPM's Processes for Achieving the Goal of Providing a Low-Cost Benefit to Federal Employees Lacked Clarity

The legislation that created FEGLI intended the program to offer a low-cost insurance benefit to federal employees and their families. Specifically, the statute that created FEGLI described the program as an insurance benefit for federal employees that provides insurance at rates OPM determines are generally consistent with the lowest basic premium rates for new policies issued to large employers. Further, FEGLI's legislative history suggests that the program's purpose is to provide low-cost group life insurance to federal employees. In addition, OPM's most recent strategic plan calls for ensuring that available benefits, including life insurance benefits, align with employees' needs.

[32] OPM provided us with the results of these internal analyses. We did not verify them, both because of the potentially significant costs involved and because of the program's history of meeting its claims payment responsibilities in every year of its operation.

As we have seen, however, FEGLI has features—some required by statute—that can make its coverage more expensive for federal employees compared with the type of coverage generally offered by private group life insurance programs. For example, as noted earlier, FEGLI requires an employee contribution for Basic insurance, something generally not required in private sector plans. In addition, the program features a postretirement benefit that, although not generally found in private sector plans, does increase the premiums that FEGLI participants must pay. OPM officials told us that they periodically compare FEGLI to other large group life insurance plans, primarily in terms of coverage levels, and have concluded that the features and benefits FEGLI offered are on par with those offered by private sector plans. In addition, OPM officials noted that key FEGLI characteristics such as coverage levels, the portion of the cost paid by federal employees, and the structure of Basic premiums are determined by FEGLI's statute, and as a result, changing the program can involve statutory changes that require congressional action. They further noted that because of the program's size, the limited number of OPM staff available to administer the program, the amount of administrative work involved in making a change to the program, and the potential need for the FEGLI statute to be changed, altering program processes is not a simple task. OPM officials said that because of various concerns, such as the length of time required for legislative changes, inherent costs incurred with structural program modifications, and their interest in preserving program continuity, requests for significant changes are minimal and made only after careful consideration. However, OPM is able to make changes to FEGLI premium rates paid by federal employees and agencies, as well as other changes including options available to beneficiaries for receiving claims payments. Nevertheless, OPM did not appear to have a systematic or documented process, or requirements, for comparing FEGLI with private sector plans. In addition, OPM did not have a methodology or criteria with appropriate benchmarks or measures for consistently comparing FEGLI benefits with those provided by the private sector. The results of such analyses could be used, for example, to make changes to the program within OPM's authority or, potentially, suggest legislative changes to Congress.

OPM Lacked Clear, Documented Processes for Considering FEGLI Premium Rate Changes

Since the last premium adjustment, OPM actuaries have recommended changes—both increases and decreases—to FEGLI premium rates. As we have seen, each year OPM actuaries review and analyze FEGLI's assets and liabilities to determine the sufficiency of program assets to cover life insurance benefit costs for all FEGLI enrollees. In addition, the actuaries analyze the claims experience associated with each type of coverage and age band and determine appropriate premium rates, which may be higher or lower than the existing rates. OPM actuarial and financial officials present the results of these analyses and any rate change recommendations in an annual meeting with OPM management that includes the FEGLI contracting officer, actuaries, financial staff, and other OPM senior management. According to OPM officials, OPM senior management then has the authority to decide whether to raise, lower, or hold constant the rates that employees and agencies pay for FEGLI insurance. However, according to OPM officials, OPM management decided not to make these rate changes because they believed they introduced more complexity for FEGLI participants and entailed administrative changes that, at the time, were not practical given the significant resources required.[33]

Standards for internal control in the federal government state that policies and procedures should exist for ensuring that findings from any audits or reviews are promptly resolved and that all transactions and other significant events are clearly documented.[34] OPM's annual actuarial reviews are effectively an internal control designed to help ensure the accuracy and adequacy of premium rates. However, OPM does not appear to have a documented process providing guidance on what to include in the annual actuarial reviews and recommendations to management. In addition, it does not have a process for documenting management's decisions with respect to those recommendations, including any accompanying rationale. Management's decisions on the actuarial findings are significant events because of their potential effect on the financial condition of the program and its ability to pay claims to beneficiaries. Without documented processes for actuarial and financial reviews and their disposition, OPM risks compromising the efficiency and the effectiveness of these reviews and being unable to help ensure premiums are consistent with program experience.

[33]The most recent changes to FEGLI premium rates took place in 2002 and were phased in between 2003 and 2005.

[34]See GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD 00-21.3.1 (Washington, D.C.: November 1999).

RAAs Are No Longer the Default Settlement Option, but Better Disclosures Are Needed

RAAs Were the Default Option from 1994 to 2011

RAAs had been the default method used from 1994 until February 2011 for many FEGLI beneficiaries to receive their life insurance settlements. RAAs became the default option in 1994 for payments over $7,500 after MetLife requested that OPM allow RAAs to be used in addition to lump-sum check payments. OPM granted the request under certain conditions, including RAAs be provided as additional benefits to FEGLI beneficiaries at no additional cost. OPM officials noted that the change to RAAs reduced administrative costs, including for staff time and materials that were associated with issuing lump-sum checks.

In February 2011, OPM changed the FEGLI life insurance settlement process, requiring beneficiaries to choose between receiving a lump-sum check or an RAA when receiving a settlement. Specifically, OPM revised the form that FEGLI beneficiaries submit for a life insurance claim, removing the default option and requiring beneficiaries to affirmatively choose a lump-sum payment or an RAA for settlement amounts over $5,000.[35] OPM officials said that they made this change after reviewing RAA practices and procedures and published concerns about RAA practices. Two major life insurers with whom we spoke said that making the RAA payment method optional can have a considerable effect on consumers. When consumers have the option to choose between RAAs and lump-sum check payments, the overwhelming majority choose lump-sum check payments.

[35] As stated in OPM's official death claim form from February 2011, if the proceeds exceed $5,000 and no box is checked, beneficiaries will receive an RAA.

Industry Views Vary on the Benefits and Consumer Protection Concerns from RAAs

According to several insurance companies and OPM, RAAs can benefit beneficiaries, but others expressed concerns about the extent of RAA disclosures and consumer protections. Industry participants cited flexibility and a guaranteed interest rate as the primary benefits of RAAs. For example, some said RAAs offer beneficiaries flexibility during a difficult time and loss to determine how best to use or invest the life insurance proceeds, which are often sizeable sums. While deciding how to use the funds, beneficiaries with RAAs receive a guaranteed minimum interest rate on their RAA account. According to MetLife officials, for FEGLI, each beneficiary's minimum interest rate is based on when the RAA was opened and is guaranteed for as long as the beneficiary maintains the RAA. According to the same officials, the guaranteed interest rates are 3.0 percent for RAAs opened before April 2003, 1.5 percent for RAAs opened April 2003 to April 2009, and 0.5 percent for RAAs opened after April 2009. The officials noted that even the most recent interest rate paid on RAAs is competitive compared to what beneficiaries could currently earn on similar alternative investments. For example, as of September 26, 2011, the best available rates for a money market account ranged from .10 percent to 1.10 percent.[36] In addition, they said that RAAs provide beneficiaries the ability to access their funds at any time, including the opportunity to withdraw either partial amounts or the entire amount.

Despite these benefits, RAA disclosures in general do not convey some important information to consumers, including information on options beneficiaries have for receiving their life insurance settlement funds. For example, the disclosures do not clearly indicate that OPM considers life insurance claims to be closed, and its relationship with beneficiaries ended—as it is with a lump-sum payment—once a beneficiary chooses an RAA as a settlement option. In addition, beneficiaries may not understand that RAAs involve a separate contract with MetLife that is not part of the FEGLI program and is regulated by states rather than the federal government. Regulatory officials we interviewed from one state said that consumer choice and product understanding is critically important to consumers and that that state's law, in force since the mid-1990s, requires companies to offer beneficiaries a choice of life insurance settlement options at the time life insurance claims are submitted. The same officials noted that RAAs cannot be the default life insurance

[36]Money market account interest rate information is according to Bankrate.com.

settlement vehicle in their state. Three other states' regulators were concerned about how well beneficiaries understood RAAs and one of these states had recently passed a bill that required RAA disclosures to include information on settlement options available to beneficiaries. Another part of the bill prevents insurance companies from offering RAAs as their default settlement option. Regulatory officials from another of these states said that their office had undertaken a regulatory review and was developing guidance for insurance companies on using RAAs.

In addition to concerns about RAA disclosures, some industry participants and a federal regulator expressed concern about the kinds of protections that apply to RAAs and how well beneficiaries understand them. For example, they indicated that while RAAs are not insured by the Federal Deposit Insurance Corporation (FDIC), the use of drafts that closely resemble checkbooks offered by banks could give the appearance that FDIC insurance protects RAAs.[37] Others noted that whether state guaranty funds were adequate to fully protect those with RAAs is unclear. Industry officials we spoke with noted that state guaranty funds typically protect RAAs up to a limit of $300,000, although in some states that limit may be as high as $500,000. An insurance industry expert explained that beneficiaries who have RAA assets that exceed state guaranty fund limits may not be fully protected. According to OPM, approximately 25 percent of federal employees covered by FEGLI have insurance in force of $300,000 or more. Other officials noted that state guaranty fund protections are not the same as FDIC insurance. Each FDIC-insured account is protected; therefore, consumers with multiple accounts can be protected above the $250,000 FDIC limit in the aggregate. Conversely, state guaranty funds limit an individual's payout protection to the statutory ceiling so consumers with multiple retained asset accounts are not protected beyond it.

[37]FDIC is an independent agency of the United States government that provides protection against the loss of deposits if an FDIC-insured bank fails. FDIC insurance covers all deposit accounts at insured banks, including checking accounts, Negotiable Order of Withdrawal (NOW) accounts, savings accounts, money market deposit accounts, and certificates of deposit (CDs). The FDIC does not insure money invested in stocks, bonds, mutual funds, life insurance policies, annuities, or municipal securities, even if these products were purchased from an insured bank. FDIC insurance is backed by the full faith and credit of the United States government. Since the FDIC's creation in 1933, no depositor has ever lost money on FDIC-insured deposits.

Insurance Industry Organizations Have Issued Guidance to Improve RAA Regulation

In late 2010, NAIC and the National Conference of Insurance Legislators (NCOIL) addressed concerns about RAAs by issuing guidance intended to improve disclosures to consumers. In December 2010, NAIC issued a model bulletin for use by state insurance regulators to establish standards for disclosing information about the payment of life insurance benefits with RAAs.[38] For example, under the bulletin, disclosures should clearly state that choosing an RAA involves establishing a supplemental contract with an insurance company that is distinct from the life insurance policy. The bulletin also notes that the supplemental policy should also provide clear disclosures of the rights of the beneficiaries and the obligations of insurers. Other key provisions in the bulletin included making sure disclosures explain

- available settlement options for beneficiaries,
- applicability of FDIC protections,
- applicable RAA fees charged by insurers,
- guaranteed interest rates associated with RAAs,
- provision and use of draft books,
- frequency of financial statements to beneficiaries, and
- policies for inactive RAA accounts.

Around the same time, NCOIL released its Beneficiaries' Bill of Rights, a document which was intended to improve not only disclosures associated with RAAs but also transparency and accountability. NCOIL's new standards echoed many of NAIC's proposed improvements and also included provisions that, if adopted, would require insurers to

- refer beneficiaries to their state insurance departments if they had further questions about RAAs,

[38]According to NAIC, model bulletins are documents produced by NAIC that are generally used by state insurance departments to notify companies and/or insurance producers on how state insurance departments intend to interpret various issues or developments. Bulletins do not generally carry the force of state law, though they may be used to notify interested parties of adoptions or changes to existing state law.

- immediately return to beneficiaries remaining RAA balances if accounts became inactive during a 4-year period,

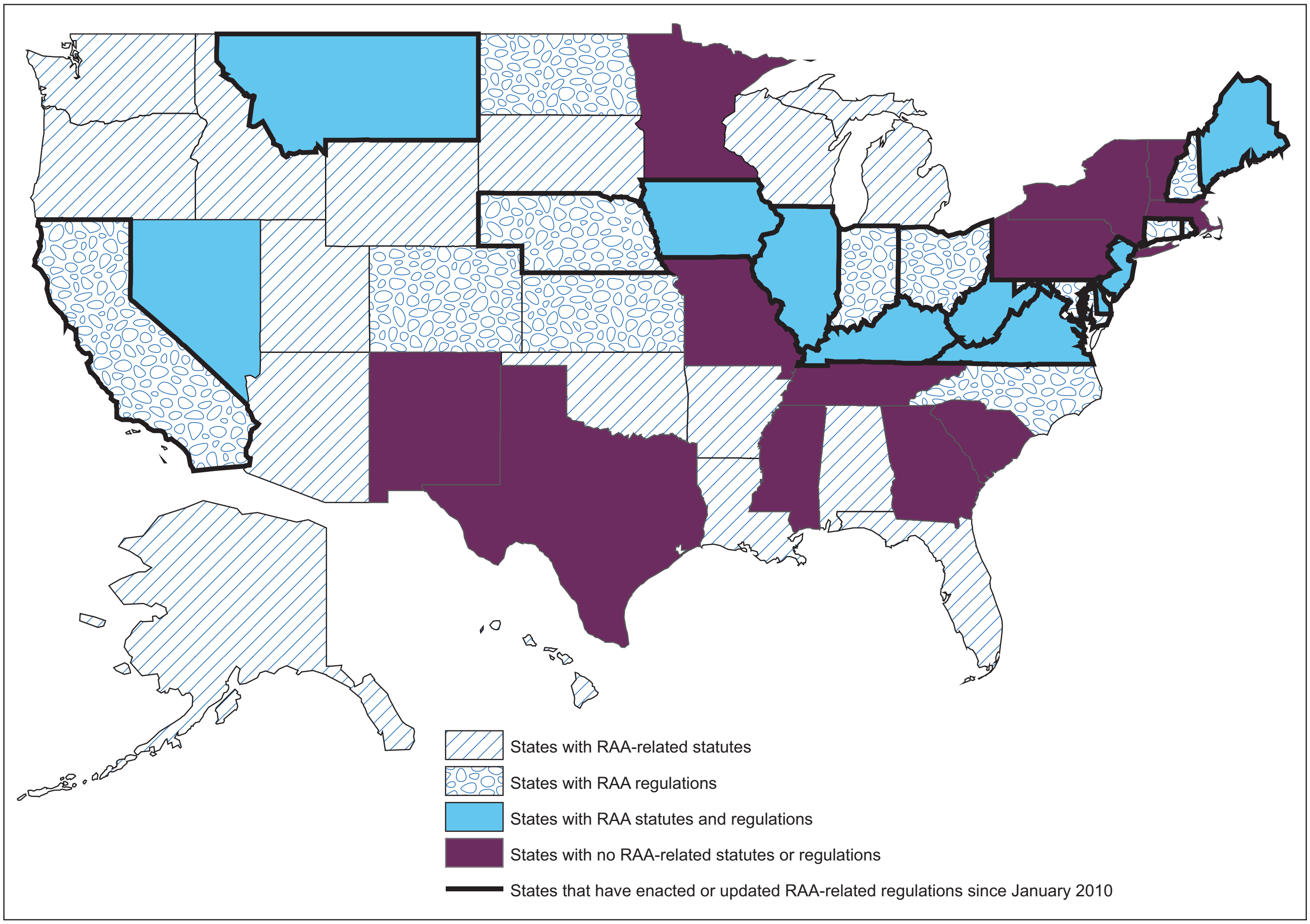
- make clear that any violation of NCOIL's Bill of Rights would constitute a violation of states' unfair trade practices law,

- identify any financial institution or entity that administers RAAs on the insurer's behalf, and

- report annually to state regulators on the number and dollar amount of RAAs held, RAA structure and investment earnings, interest rates paid to beneficiaries, and numbers and dollar amounts of RAAs that go through state unclaimed property processes.

Some states already have regulations in place that specifically address RAAs and others have recently taken action to address concerns about the accounts. For example, according to NAIC, as of August 2011, 26 states had RAA-related statutes that allowed insurance companies to establish RAAs for beneficiaries and hold life insurance assets in these accounts. In addition, according to NAIC, 22 states had RAA-specific regulatory protections and disclosures, including many of the provisions found in NAIC's model bulletin. According to NAIC, many states either enacted or updated RAA regulations since the beginning of 2010. Figure 4 provides information on how states have approached regulating RAAs.

Figure 4: State Regulation of RAAs, as of August 2011



Source: NAIC (data); MapInfo (map).

Recently Improved FEGLI RAA Disclosures Still Lack Important Information

While OPM recently revised and improved the FEGLI RAA disclosures beneficiaries receive, the disclosures still lack some important information. In February 2011, OPM improved FEGLI disclosures, particularly the form that beneficiaries must use to file a claim. FEGLI disclosures now inform beneficiaries that they have settlement options and include language stating that beneficiaries have an important choice to make in choosing between a lump-sum check and an RAA and indicating their choice on their claims form. In particular, the new form explicitly states that MetLife offers a guaranteed minimum interest rate that may be better or worse than the market's prevailing interest rate and, unlike in the previous version, clearly informs beneficiaries that MetLife may profit from RAAs. OPM further improved disclosures by more clearly explaining that beneficiaries can access the total amount of their funds at any time with no cost and by improving the information on applicable protections. For instance, the disclosures now explicitly state that RAAs are not bank accounts and are not insured by FDIC or any other federal agency. They also explain that MetLife guarantees all RAA accounts, including interest earned, and that this guarantee is backed by state insurance guaranty associations.

Despite OPM's improved disclosures, they continue to lack some important information. In addition to failing to mention the aforementioned separate RAA contract between FEGLI beneficiaries and MetLife, OPM's revised disclosures

- do not tell beneficiaries how to identify and contact the proper state department of insurance regulation should they have any questions or concerns about their RAAs. FEGLI beneficiaries may not clearly understand that OPM oversees all aspects of FEGLI prior to settlement but that state regulators become responsible thereafter. In the event that beneficiaries have questions or face issues with an RAA, they may not know where to turn for regulatory assistance. Further, there may be differences of opinion among regulators about who is the responsible regulator, making such guidance even more important to beneficiaries

- do not provide information on how to identify the relevant state guaranty fund and its applicable limits, or where to find additional information on a particular state's fund.[39] According to the National Organization of Life and Health Guarantee Associations, beneficiaries whose RAA accounts contain more than their state guarantees may be at risk of leaving some funds unprotected.

[39]FEGLI disclosures, however, now alert beneficiaries that RAAs, including interest, are fully guaranteed by MetLife and that MetLife's guarantee is further backed by state insurance guaranty funds. In addition, the disclosures state that maximum limits on guarantees that protect beneficiaries' RAAs vary across states.

It is important for beneficiaries to be able to identify the relevant state insurance regulator and guaranty fund in case they have questions or issues regarding their RAAs and associated guarantee fund protection. However, identifying the appropriate regulator is challenging because some regulators differed on what type of instruments RAAs are, as well as who regulates them. For example, according to two state regulators and NAIC officials, RAAs are supplemental insurance contracts between beneficiaries and insurance companies. However, two other states' regulators classified them as settlement options. Yet another state's regulator said that RAAs were both supplemental contracts and settlement payouts of existing life insurance policies. States also differed on the time frame for considering insurance contracts and settlements settled. OPM officials said that FEGLI life insurance claims were satisfied as soon as beneficiaries established RAAs, and two of the five state regulators with whom we spoke shared that view. However, regulatory officials we interviewed from one state said that the original insurance contract was not satisfied until all funds were withdrawn from the RAA. The state insurance regulators and some industry officials with whom we spoke also differed on which state's regulator oversees a particular RAA account and, as a result, which state's guaranty fund would apply. For example, two states' regulatory officials and NAIC representatives said that the relevant regulator would be the one from the state where the beneficiary resided. However, two other states' officials said it would be the state where the original group life insurance policy was issued, and yet another state regulator as well as officials from the National Organization of Life and Health Guaranty Associations said it would be the state where the group life insurer was domiciled. A representative from a life insurance industry association with whom we spoke said that the appropriate regulator could be the one from the state where the insurance contract was established, where the beneficiary resided, or both.

Without clarity on which state insurance regulator has jurisdiction over an RAA held by a FEGLI beneficiary, or which state guaranty fund might apply, beneficiaries may not know where to turn to find answers to RAA-related questions on the extent of protections applicable to their RAA. For example, the underlying FEGLI policyholder (the federal government) is located in Washington, D.C.; the RAA provider (MetLife) is domiciled in New York; and federal employees and their beneficiaries can live anywhere in the United States. Identifying which state has jurisdiction over a MetLife RAA contract, and which state guaranty fund applies, could be difficult, especially if the state regulators themselves might not agree on the proper jurisdiction. And as we have seen, state guaranty funds provide varying levels of protection. According to OPM officials, determining the appropriate state regulator for RAAs is technically beyond their purview because their involvement ends once the RAA is funded with the FEGLI claim payment. However, OPM does work with MetLife to create the disclosures that provide beneficiaries with information that helps them determine whether or not they wish to select an RAA as their settlement option. Information concerning the relevant state regulator and guaranty fund would be important to have in deciding whether or not to choose an RAA because it could determine the amount of protection available to the beneficiary. In addition, it could also inform the beneficiary of potential challenges in seeking regulatory assistance if, for example, the beneficiary is located in one state but the relevant regulator is located in a different state.

OPM Does Not Consider the Investment Income Earned on RAAs in Setting Premium Levels

In contrast to some private insurers with whom we spoke, OPM does not consider any of the income MetLife earns on FEGLI RAAs when determining premium rates for FEGLI coverage. Some insurance company representatives we interviewed said that they considered all investment income, including income earned on RAAs, when determining the premium rates for their life insurance policies, and that this income typically had the effect of reducing the premiums insurers charge or defraying other related costs. While officials from two companies with whom we spoke said that they considered RAA earnings when pricing their overall group life insurance plans, other insurers suggested that investment income from their RAA accounts was too small to affect their rate-setting calculations.

Because OPM contracts with MetLife for settlement services, RAAs funded with FEGLI claims payments are established and operated by MetLife. As a result, MetLife retains investment gains and losses earned on these accounts, as do most private insurers. According to OPM officials, because OPM considers a FEGLI claim to be fully paid when a MetLife RAA is established, OPM has no connection to the RAA accounts or any of their funds. In addition, OPM does not track any data related to MetLife's FEGLI-based RAAs. However, these RAAs are established with FEGLI claims payments, and by not considering the income earned on the accounts by MetLife, OPM may be missing an opportunity to offset program expenses and potentially reduce premium rates.

While MetLife officials said that they could not specifically determine the amount of investment gains and losses on FEGLI-funded RAAs, they did say that as of December 31, 2010, RAAs maintained for FEGLI beneficiaries totaled approximately $3.5 billion. According to MetLife's 2010 annual financial statements, the company had a total of approximately $12 billion in FEGLI and non-FEGLI RAA accounts at year end and had earned approximately $267 million in net investment income on those accounts. The same officials also said that the company must meet costs and expenses associated with these RAAs, including the payment of guaranteed interest rates to FEGLI beneficiaries, and that by guaranteeing the minimum rates previously noted, MetLife has assumed financial risk. The same officials noted that these guaranteed rates are higher than most rates of return beneficiaries could currently receive through a bank or other liquid investment vehicle. In addition, MetLife would pay and has paid interest at a higher rate than the guaranteed minimum rates in more favorable interest rate environments, and according to officials, approximately 40 percent of FEGLI RAAs have been open for 5 or more years. This higher retention percentage, they said, may be partially due to advantageous rates MetLife is paying those beneficiaries. In contrast, several other life insurers with whom we spoke said that RAAs are often a short-term option for beneficiaries, and that beneficiaries typically close their RAAs within 1 to 2 years.

Conclusions

Because life insurance is an important purchase for those seeking to protect their dependents, prospective buyers need to fully understand the details of the policy they are considering. Although OPM provides significant information on its life insurance program, some information that could influence federal employees' decision to buy FEGLI coverage is lacking. First, although FEGLI offers federal employees postretirement coverage, a benefit not commonly found in private sector group plans, FEGLI disclosures do not explain the effect of this benefit on premium levels, particularly the fact that federal employees begin prepaying for this coverage as part of their Basic insurance when they begin their employment. As a result, employees may be unaware that their premiums may be higher than those of group plans that do not offer such coverage. Second, the disclosures do not discuss FEGLI's level-premium and composite rate structure for Basic coverage. Because these features can make FEGLI premiums look more expensive than private individual coverage without them, especially to younger and healthier individuals, some employees might conclude that FEGLI coverage is not a beneficial choice and pass up a potentially valuable benefit. Conversely, someone planning to work for the federal government for a short period of time might purchase FEGLI coverage without realizing that the coverage includes a retirement benefit they may not receive and will likely cost more than a group policy without such a benefit.

Since FEGLI's inception, OPM has sought to provide life insurance benefits that meet federal employees' needs at reasonable costs. While OPM has conducted some periodic comparisons of FEGLI benefits and premiums with those found in other group life plans, without formal, documented processes for these comparisons, OPM risks that FEGLI may not meet employees' needs, that its premiums may exceed prices charged for similar benefits in the private sector, or even that it may be offering features that it does not need to offer to be competitive with private sector group plans. For example, many private sector employers no longer offer postretirement benefits in their group life plans because of the cost. To help ensure that FEGLI premium rates are appropriate, OPM officials said that OPM actuaries annually review and assess FEGLI's claims experience across different plans and age groups, recommending rate changes when they believe such changes are necessary. However, OPM lacks documented processes for making such recommendations and documenting management's disposition of any rate change recommendations. Without a clear and consistent process for making, reviewing, and implementing rate change recommendations, OPM risks that needed changes may not be made and that the premiums charged to federal employees may not reflect the coverage they are receiving.

FEGLI now offers two settlement options—a lump-sum check payment or an RAA—and it is important for beneficiaries to be able to choose the option that best meets their needs and to know where to turn to resolve any issues they might have. While RAAs may offer benefits that some beneficiaries appreciate, such as certain flexibilities and a guaranteed interest rate, they also have certain characteristics that need to be fully disclosed. OPM has recently revised its disclosures to beneficiaries to provide more information on RAAs, but the disclosures still do not contain some important information. For instance, they do not explicitly state that RAAs involve a new contract between beneficiaries and MetLife that is regulated by states rather than the federal government and that involves state-based protections with certain limitations. As a result, FEGLI beneficiaries may be unaware that new contractual terms and conditions govern their RAAs. They also may not fully understand how their RAAs are protected and what the limitations of that protection might be. Finally, the disclosures do not provide the information that beneficiaries need to find the proper regulator should they have questions about their accounts—a problem that is complicated by the fact that the regulators themselves may disagree over which one has jurisdiction.

Recommendations for Executive Action

To help better ensure that federal employees have all the information they need when deciding whether to purchase life insurance through FEGLI, we recommend that the Director of the Office Personnel Management take steps to ensure that FEGLI disclosures include complete and accurate information on key benefits and features, including the program's postretirement coverage, composite rates, and level-premium structure.

To help ensure that FEGLI provides relevant benefits that meet the needs of federal employees at a reasonable and appropriate cost, we recommend that the Director of the Office of Personnel Management develop and implement a more structured process for comparing FEGLI with private sector group life insurance plans and for documenting OPM actuaries' rate recommendations and any management decisions concerning those recommendations.

To help ensure that FEGLI beneficiaries are provided with information on all relevant aspects of selecting an RAA as a FEGLI settlement option, we recommend that the Director of the Office of Personnel Management include more complete information on financial protections and regulatory oversight in program disclosures, working as necessary with MetLife and NAIC to determine the appropriate state regulator for beneficiaries and their RAAs.

Agency Comments and Our Evaluation

On October 7, 2011, we provided a draft of the report to OPM for comment. On October 28, 2011, OPM provided written comments, which are reproduced in full in appendix III. OPM concurred with the recommendations in the report and also provided technical comments, which we incorporated as appropriate.

OPM concurred with our first recommendation that it take steps to ensure FEGLI disclosures include complete and accurate information on FEGLI's key benefits and features, including postretirement coverage, composite rates, and level-premium structure. Specifically, OPM stated that it strives for FEGLI transparency and will take steps to provide more information on key FEGLI features to ensure federal employees have the information they need to make an informed benefit decision.

OPM also concurred with our second recommendation that OPM develop and implement a more structured process for comparing FEGLI with private sector group life insurance plans and for documenting OPM actuaries' rate recommendations and any management decisions concerning those recommendations. Specifically, OPM stated that it believes that benchmarking federal benefits programs, including FEGLI, with other employer-provided benefits is essential to ensuring that the federal government can recruit, retain, and honor a world-class workforce.

Finally, OPM concurred with our third recommendation that OPM include more complete information on financial protections and regulatory oversight, working as necessary with MetLife and NAIC to determine the appropriate state regulator for beneficiaries and their RAAs. Specifically, OPM stated that it has updated the FEGLI claims form and website to provide more information about the choice for FEGLI beneficiaries to receive a lump-sum check or RAA and will ensure that the best information is available to assist beneficiaries in their decision-making process.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies of this report to appropriate congressional committees, the Director of the U.S. Office of Personnel Management, and the Chief Executive Officer of the National Association of Insurance Commissioners. In addition, the report will be available at no charge on GAO's website at http://www.gao.gov.

If you or your staffs have any questions regarding this report, please contact me at (202) 512-7022 or cackleya@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff that made major contributions to this report are listed in appendix IV.

Alicia Puente Cackley

Alicia Puente Cackley
Director, Financial Markets and
Community Investment

Appendix I: Scope and Methodology

To describe and evaluate the Federal Employees' Group Life Insurance (FEGLI) program's key operational and financial components, we examined FEGLI's authorizing statute and associated regulations, including the Life Insurance Federal Acquisition Regulation (LIFAR). In addition, we reviewed the program's key policy documents, including the FEGLI Handbook, FEGLI Program Booklet for Federal Employees, FEGLI website, and the contract between the Office of Personnel Management (OPM) and the Metropolitan Life Insurance Company (MetLife). We focused on how FEGLI provides life insurance coverage to federal employees and their families and the cost of that insurance to federal employees and their respective agencies. Interviews with OPM and MetLife officials provided additional information on FEGLI operations, including the program's coverage options; how the government, MetLife, and reinsurers bear insurance risk; and how the Employees' Life Insurance Fund—FEGLI's main financial fund—is used for paying life insurance claims and other program costs. We reviewed data from OPM annual financial reports and performance and accountability reports from 2000 to 2010 to analyze FEGLI's assets and liabilities. In addition, we reviewed information in the *U.S. Budget* on FEGLI from fiscal years 2002 to 2012 to analyze FEGLI premiums, claims payments, and investment income. We also reviewed MetLife financial statements to determine the total dollar amount of MetLife's retained asset accounts (RAA) and the total investment income MetLife derives from its RAA investments. Because these are audited documents and financial statements, with unqualified audit opinions, we found data from these documents and summary statistics from OPM and MetLife to be reliable for the purposes of this report. In addition, to determine how FEGLI's structure and operations compare to large private sector group life insurance plans, we compared FEGLI to plans offered by six large private sector group life insurers. Our comparison focused on insurance coverage options, processes for determining premiums, available settlement options, and methods for establishing capital or surplus levels. We selected these insurers based on various insurer characteristics including their group life insurance market share, number of group life policies and certificates issued, and whether or not they provided group life insurance to federal employees. We also interviewed officials from the National Association of Insurance Commissioners (NAIC) and the American Council of Life Insurers (ACLI) to gain their perspective on group life insurance plans, finances, and operations. For additional information on how private sector group life plans are structured and the insurance they offer, we met with insurance regulators and benefits administrators from the states of California, Florida, New York, North Carolina, and Maryland. We selected this sample of states because it is geographically diverse, includes states of domicile for several large insurance companies that sell a significant number of the industry's group life insurance policies, has a large number of federal employees, and contains some states that have RAA regulations and others that do not. In addition, we met with representatives from two private companies with experience in insurance brokerage, and human capital and benefits consulting.

To describe and evaluate OPM's oversight of the FEGLI program, we (1) reviewed FEGLI's authorizing statute and regulations, including the LIFAR, (2) reviewed OPM's program monitoring, reporting, and other oversight activities, (3) interviewed OPM and MetLife officials, and (4) met with industry association representatives. We focused on the steps OPM takes to periodically monitor and review FEGLI's financial condition, and on OPM processes for overseeing MetLife functions for receiving, adjudicating, and paying claims to FEGLI beneficiaries. In addition, to identify possible regulatory and consumer protection issues with group life insurance plans and settlement vehicles, we met with representatives from NAIC, ACLI, and a consumer advocate from the Center for Economic Justice. To determine how states generally regulate group life insurance plans, we met with insurance regulators from the five states described earlier and compared FEGLI oversight with state regulation of private group life insurers and identified similarities and differences.

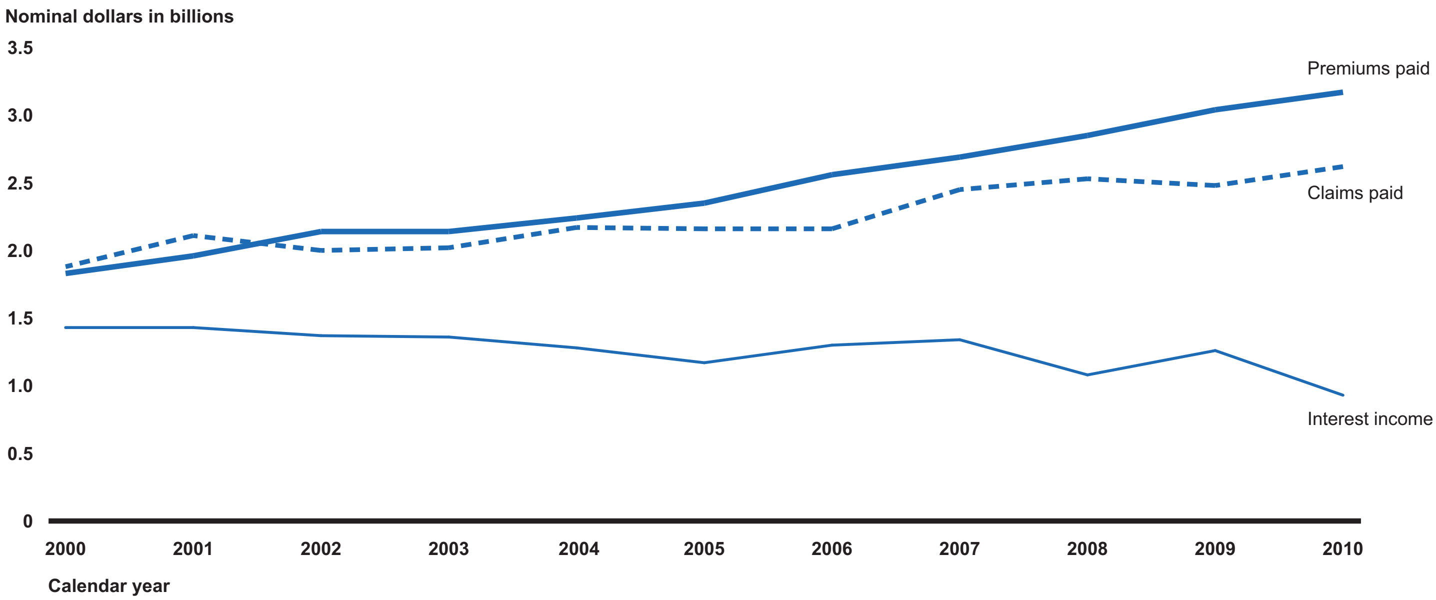
To describe and evaluate the role of RAAs in FEGLI's settlement process, we examined key OPM disclosures, including the FEGLI Handbook, FEGLI Program Booklet for Federal Employees, FEGLI website, and Strategic Plan, 2010-2015, and we interviewed OPM officials. To understand the kinds of information beneficiaries receive on life insurance settlement processes, we also reviewed MetLife's Welcome Kit for RAAs and interviewed MetLife officials. We focused on (1) what RAAs are, how they function, and how they are funded, (2) the kinds of RAA disclosures OPM and MetLife provide and how clearly they help beneficiaries understand their use, and (3) what RAA protections apply to FEGLI beneficiaries. In addition, we examined how RAAs are regulated by focusing on the activities and processes OPM and state regulators use to oversee these accounts. With respect to state RAA oversight and to determine what kinds of regulatory and consumer protection requirements states have for insurance companies that offer RAAs, we chose a small number of states as described earlier, some of which have RAA-specific regulation, and others that do not. In addition, we compared FEGLI's use of RAAs to their use in the private sector and looked for any similarities, differences, and emerging issues. We also looked to the insurance industry for any applicable best practices with respect to RAAs that might be used to improve the FEGLI program. To better understand protections associated with RAAs, we contacted officials from the Federal Deposit Insurance Corporation, state regulators from our sample, and officials from the National Organization of Health and Life Insurance Guaranty Associations and the Center for Economic Justice. We also reviewed information on RAA guidance from the National Conference of Insurance Legislators.

We conducted this performance audit from September 2010 to November 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Federal Employees' Group Life Insurance Program Financial Information

This appendix provides information on the dollar amount of premiums the FEGLI program has collected from enrolled federal employees and their respective agencies. It also shows the dollar amount of claims the program has paid to beneficiaries of federal employees. In addition, the figure shows the dollar amount of interest income derived from investing FEGLI Fund assets in U.S. Treasury securities. From 2000 to 2010, the dollar amount of premiums collected and claims paid has grown, while the dollar amount of interest income has declined slightly.

Figure 5: FEGLI Premiums, Claims Paid, and Interest Income, 2000-2010



Source: U.S. Budget Appendix for OPM, Fiscal Years 2002-2012.

Appendix III: Comments from the Office of Personnel Management

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

The Director

OCT 2 8 2011

Ms. Alicia Puente Cackley
Director, Financial Markets and
Community Investment
U.S. Government Accountability Office (GAO)
441 G Street NW
Washington DC 20548

Dear Ms. Cackley:

Thank you for providing the U.S. Office of Personnel Management (OPM) the opportunity to comment on the Government Accountability Office draft report "Federal Employees' Group Life Insurance: Retirement Benefit and Retained Asset Account Disclosures Could Be Improved". We appreciate the opportunity to provide you with comments about this report.

Recommendation 1

To help better ensure that Federal employees have all the information they need when deciding whether to purchase life insurance through FEGLI, we recommend that the Director of the Office of Personnel Management take steps to ensure that FEGLI disclosures include complete and accurate information on key benefits and features, including the program's postretirement coverage, composite rates, and level-premium structure.

OPM Response

We concur. We are pleased that your thorough review of the FEGLI Program has shown that it is a sound program that has served the Federal workforce for over 50 years, providing life insurance to over four million Federal employees and retirees. We strive for transparency of our program and will provide more information about the level-premium structure, including the composite rates and post retirement coverage, to ensure Federal employees have what they need to make an informed benefit decision.

Recommendation 2

To help better ensure that FEGLI provides relevant benefits that meet the needs of Federal employees at a reasonable and appropriate cost, we recommend that the Director of the Office of Personnel Management develop and implement a more structured process for comparing FEGLI

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with private sector group life insurance and for documenting OPM actuaries' rate recommendations and any management decisions concerning those recommendations.

OPM Response

OPM concurs with GAO's recommendation to develop and implement a more structured process for evaluating the FEGLI program. OPM believes that periodic benchmarking of the Federal Benefits Programs, including the FEGLI Program, with other employer-provided benefits is essential to ensuring that the Federal government is able to recruit, retain and honor a world-class workforce.

Recommendation 3

To help ensure that FEGLI beneficiaries are provided with information on all relevant aspects of selecting an RAA as a FEGLI settlement option, we recommend that the Director of the Office of Personnel Management include more complete information on financial protections and regulatory oversight, working as necessary with MetLife and NAIC to determine the appropriate state regulator for beneficiaries and their RAAs.

OPM Response

We concur. OPM has updated the FEGLI claim forms and website to provide more information about the choice for beneficiaries between a lump sum check and a Total Control Account. We want knowledgeable and informed beneficiaries to make the best financial decision during a difficult time. We will ensure that the best information available is posted to assist beneficiaries in their decision making process.

OPM appreciates the opportunity to respond to information in the draft report.

Sincerely,

John Berry

John Berry
Director

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

Alicia Puente Cackley (202 512-7022 or cackleya@gao.gov

Staff Acknowledgments

In addition to the contact named above, Patrick Ward (Assistant Director), Joe Applebaum, Jan Bauer, Emily Chalmers, Marc Molino, Alan Rozzi, Steve Ruszczyk, Mel Thomas, and Frank Todisco made key contributions to this report.

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