United States General Accounting Office 130992

GAO

Fact Sheet for the Chairman, Subcommittee on Oversight and Investigations, Committee on Energy and Commerce House of Representatives

July 1986

ALTERNATIVE FUELS

Synthetic Fuels Corporation Officer Separation Benefits

GAO/RCED-86-199FS

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

RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION

July 30, 1986

B-223418

The Honorable John D. Dingell
Chairman, Subcommittee on Oversight
and Investigations
Committee on Energy and Commerce
House of Representatives

Dear Mr. Chairman:

Your November 13, 1985, letter asked us to assist your Subcommittee in investigating activities of the U.S. Synthetic Fuels Corporation (SFC). As subsequently agreed with your office, this fact sheet provides information on the separation benefits provided to SFC's board of directors and officers as a result of SFC's abolishment by Public Law 99-190, effective April 18, 1986. Your office was concerned that separation benefits provided to directors and officers would change after SFC was abolished.

As of December 19, 1985, when Public Law 99-190 was enacted, SFC had 5 board directors and 11 officers. Two of the board directors, the Chairman and Vice Chairman, were full-time officers of the corporation. SFC's policies provided for officers, but not directors, to receive separation benefits as a result of the abolishment. Consequently, the Chairman, Vice Chairman, and the other nine officers received the separation benefits provided by SFC's policies, while three directors received no separation benefits.

The separation benefits that SFC provided to the officers were the same as those provided to other SFC employees, except that SFC also provided for a liability insurance policy on directors and officers to be extended for up to 3 years. The benefits provided to officers and other employees included severance pay; unused earned vacation pay; receipt of funds disbursed from liquidated retirement and tax-deferred savings accounts; and life, health, and dental insurance for up to 3 months beyond the separation dates. SFC employees, including officers, may also be eligible to apply for unemployment benefits. These benefits are discussed in section 1.

Section 2 shows the direct compensation and cash value of separation benefits provided to SFC's officers. The 11 officers received a total of $471,441 in compensation and other benefits.

This amount may decrease slightly because of potential life, health, and dental insurance premium refunds and may increase by an undetermined amount if any of the officers apply for and receive unemployment compensation.

To gather and verify information for this fact sheet, we reviewed payroll and disbursement registers from October 1, 1985, through April 14, 1986; monthly retirement and savings reports to American Security Bank of Washington, D.C. (where retirement and savings funds were deposited), from October 1982 through January 1986; the October 30, 1982, trial balance report from American Security Bank; and appropriate personnel policy orders and other documents. We relied on calculations of health, dental, and life insurance premiums by auditors from SFC's Office of Inspector General, who were auditing employee separation benefits during the shutdown period.

We also interviewed appropriate SFC, Office of Personnel Management (OPM), and Department of the Treasury officials concerning separation policies and benefits provided. Public Law 99-190 transferred responsibility for the administration of SFC affairs to the Secretary of the Treasury and required OPM to determine the amount of compensation rights which each SFC director, officer, or employee was entitled to.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this fact sheet until 30 days from the date of this letter. At that time we will send copies to interested parties and make copies available to others upon request. If you have any questions about this fact sheet, please call me on 275-8545.

Sincerely yours,

James Duffus III

James Duffus III
Associate Director

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ABBREVIATIONS

GAO	General Accounting Office
OPM	Office of Personnel Management
SFC	U.S. Synthetic Fuels Corporation

SECTION 1

SEPARATION BENEFITS

On December 19, 1985, the Congress enacted Public Law 99-190, which abolished the U.S. Synthetic Fuels Corporation (SFC), effective on April 18, 1986, and transferred the administration of its affairs to the Secretary of the Treasury. As a result of the abolishment, SFC employees, including officers, were entitled to separation benefits in accordance with SFC policies in effect on December 19, 1985. In this fact sheet, use of the term employees includes officers.

As of December 19, 1985, SFC had 5 board directors and 11 officers. Two of the board directors, the Chairman and Vice Chairman, were full-time officers of the corporation. SFC's policies provided for officers, but not directors, to receive separation benefits as a result of the abolishment. Consequently, the Chairman, Vice Chairman, and the other nine officers received the separation benefits provided by SFC's policies, while three directors received no separation benefits. SFC provided the same separation benefits to officers as it provided to other SFC employees, except it also provided for a liability insurance policy on the directors and officers to be extended for up to 3 years. The benefits provided to officers and other employees included

--severance pay based on their period of SFC employment;

--salary paid for unused earned vacation;

--receipt of funds from liquidated retirement and tax-deferred savings accounts; and

--up to 3 months' coverage of life, health, and dental insurance beyond the employee's separation date.

The cash value of these separation benefits for the 11 officers totaled $471,441. This included $10,582 in advance payments of life, health, and dental insurance premiums for 3 months of extended coverage beyond the officers' separation dates (see sec. 2). SFC employees, including officers, may also be eligible to file for up to 26 weeks of unemployment compensation if they do not find other employment subsequent to their separation.

SEVERANCE PAY

SFC's separation policy provided for each employee to be given 4 weeks of salary for the first year or partial year of service and 2 weeks of salary for each full and partial year thereafter. SFC calculated severance pay by dividing the employee's annual salary by 260 (the number of SFC work days in a year) to determine a daily salary rate, multiplying the result by 5 to determine a weekly rate, and then multiplying the weekly rate by the number of weeks of severance pay the employee had earned. SFC paid its 11 officers a total of $141,203 in severance pay (see sec. 2).

VACATION PAY

SFC's separation policy provided for each employee to be paid salary for any unused earned vacation. Employees earned vacation time on an hourly basis at a rate determined by their length of service. SFC calculated vacation compensation by dividing the employee's annual salary by 2,080 (the number of SFC work hours in a year) to determine an hourly pay rate and multiplying the result by the number of unused earned vacation hours. SFC paid its 11 officers a total of $65,425 for unused earned vacation (see sec. 2).

RETIREMENT CONTRIBUTIONS

In October 1982, SFC implemented a retirement plan that provided monthly contributions to liquidity and equity fund accounts on behalf of each employee based on a percentage of his or her salary. The liquidity fund was invested in fixed interest-paying investments. The equity fund was invested primarily in common stocks, providing greater growth opportunities but also greater risks of loss or diminished value than the liquidity fund. Employees specified what portions of the contributions were to be placed in each fund.

When the plan was implemented, SFC made retroactive payments to the employees' accounts for their SFC employment prior to that period. Thereafter, SFC calculated its contributions to the employees' retirement accounts for each bimonthly pay period and deposited the funds in the accounts once a month. Employees did not contribute to the retirement accounts. The rates at which SFC contributed to individuals' retirement accounts are shown in table 1.1.

Table 1.1: SFC Retirement Contribution Rates

Year	Social Security taxable wage base	Percentage applied to earnings below Social Security taxable wage base	Percentage applied to earnings above Social Security taxable wage base
1980	$25,900	5.5	10.5
1981	29,700	5.5	10.5
1982	32,400	5.0	12.0
1983	35,700	5.0	12.0
1984	37,800	5.5	10.5
1985	39,600	5.5	10.5
1986	42,000	5.5	10.5

SFC's separation policy provided for employees to be paid the amount of funds in their retirement accounts. On January 21, 1986, SFC's board of directors terminated the retirement plan, effective January 31, 1986, and the officers were paid the balances in their accounts. During the periods of the 11 officers' employment, SFC made total payments of $190,477 into their retirement accounts (see sec. 2).

SAVINGS PLAN CONTRIBUTIONS

SFC also implemented an employee savings plan in October 1982. Employees could elect to withhold part of their earnings to be placed in liquidity and equity fund accounts, the same fund accounts used for the retirement plan. In addition, SFC contributed to the employees' savings accounts, generally at a rate of 50 percent of the employee's contribution but no more than 3 percent of his or her salary. As with the retirement plan, employees specified what portions of the contributions--both their own and SFC's--were to be placed in liquidity and equity funds. Each employee's taxable earnings were reduced by the amount of the contributions withheld from his or her paychecks. Taxes on both SFC and employee contributions to the plan, as well as on the earnings from the funds' investments, were deferred until the funds were withdrawn or paid to the employee.

When the plan was implemented, employees were allowed to make retroactive payments of up to 6 percent of their salaries earned in 1982 prior to plan implementation. SFC made no matching contributions for these payments.

From October 1982 to May 1984, employees could withhold up to 6 percent of their earnings to be placed in the savings accounts. To compensate employees for delays in implementing the savings plan, SFC matched 100 percent of these contributions for a period of time equal to the employee's 1982 service with SFC before the plan was implemented (up to 9-1/2 months). Thereafter, SFC matched 50 percent of the employee's contribution up to 3 percent of his or her earnings.

Employees were allowed to contribute up to 10 percent of their earnings to the savings accounts from May 1984 through April 1985, up to 12 percent for the remainder of 1985, and up to 11 percent in January 1986. During these periods, SFC continued to match 50 percent of the employees' contributions up to 3 percent of their earnings.

SFC's separation policy provided for employees to be paid the amount of funds in their savings accounts. The savings plan was terminated by SFC's board of directors on January 21, 1986, effective January 31, 1986, and employees were paid the balances in their accounts. During the periods of their employment, SFC contributed $63,754 to the 11 officers' savings accounts, while the officers contributed $156,957 of their own earnings through payroll withholdings (see sec. 2).

INSURANCE COVERAGE

Life and disability insurance

During its operation, SFC provided employees basic term life and accidental death and dismemberment insurance coverage in the amount of 200 percent of their annual earnings. Employees had the option to obtain additional life insurance coverage in amounts up to 200 percent of their annual earnings. SFC also provided long-term disability insurance coverage in the amount of 60 percent of the employee's first $5,000 of monthly salary at the time of disability, and 40 percent of any additional monthly salary up to $3,333.

SFC paid the basic life, accidental death and dismemberment, and long-term disability insurance premiums. It also paid about 75 percent of the cost of the optional life insurance coverage; the employee paid the remainder through payroll deductions. The precise amount paid by an employee depended on his or her age and the amount of coverage.

The basic life and accidental death and dismemberment insurance continued in force for 3 months following the date of separation or until the employee obtained new employment, whichever occurred earlier, while the long-term disability and optional life insurance discontinued upon the employee's separation. SFC paid the 3-month extended basic life and accidental death and dismemberment insurance premiums in advance for all employees. It paid $3,605 in extension premiums for its 11 officers (see sec. 2).

Health and dental insurance

During its operation, SFC provided employees group health and dental insurance coverage. Employees could elect a health plan from one of four carriers, while the dental plan was provided by one carrier. SFC paid the premiums in full for its employees, and employees shared premiums with SFC for family and other dependent coverage. The amount of premiums employees paid depended on the policies and extent of additional coverage they elected.

Health and dental insurance continued for 3 months after the employee's separation or until the employee found new employment, whichever occurred earlier. SFC paid the 3-month premium in advance for each employee and withheld the employee's share of the premium for family and other dependent coverage, when applicable, from his or her severance paycheck. SFC paid $6,977 in health and dental insurance extension premiums for its 11 officers (see sec. 2).

Refunds of extended insurance premiums

If an employee found new employment within the 3-month extension period for life, health, and dental insurance, he or she was supposed to notify the appropriate insurance carriers and coverage would have been discontinued effective on the date of new employment. The carriers were then supposed to refund the premiums for the discontinued portions of the coverage to SFC (or to Treasury after SFC terminated) which, in turn, was supposed to refund any amount due to the employee for his or her share of the premiums. However, if the employee did not notify the carriers to cancel coverage upon obtaining new employment, the premiums SFC and the employee paid may not be recovered. Treasury officials told us that as of July 14, 1986, SFC and Treasury had received no refunds from the carriers and no notifications of new employment from former SFC employees.

Conversion to individual policies

Employees, at their own expense, had options to convert both life and health insurance to individual policies upon expiration of the group policy coverage. Conversion options were not available for dental, long-term disability, and accidental death and dismemberment coverage.

Liability insurance

On January 21, 1986, the board of directors voted to extend a liability insurance policy on directors and officers for up to 3 years for their actions on behalf of SFC. SFC made an advance payment of $162,700 to the servicing agent, Alexander & Alexander, Inc., of Tulsa, Oklahoma, and instructed it to make its best efforts to renew the existing policy with RLI Insurance Company of Peoria, Illinois, in the amount of $1 million per year. SFC also instructed the servicing agent to use any excess funds to increase the liability limit up to $5 million and, to the extent that coverage could not be obtained, to refund appropriate amounts to the Department of the Treasury. The current policy has a $5 million liability limit and a $97,625 yearly premium. It expires on September 17, 1986. As of July 14, 1986, the agent had not taken any action to extend the policy, but expected to initiate such action no later than 30 days before the policy's expiration.

UNEMPLOYMENT COMPENSATION

SFC's employees, including officers, are eligible to file for unemployment compensation with the District of Columbia for up to 26 weeks after separation if they have not found other employment subsequent to their separation and do not have other disqualifying income. Claims paid by the District government for SFC employees are paid from a fund established from previous quarterly unemployment taxes paid by SFC. Amounts that might be paid would vary with salary and length of employment and would generally be limited to $250 per week for up to 26 weeks for each individual.

WAIVERS OF BENEFIT QUALIFICATION REQUIREMENTS

Public Law 99-190 stipulated that SFC could not waive any requirements in its by-laws which were necessary for a director, officer, or employee to qualify for pension or separation benefits under the by-laws and written personnel policies and procedures in effect on December 19, 1985. We did not note any waivers of these eligibility requirements.

BENEFIT CHANGES

Public Law 99-190 stipulated that employee compensation or benefits in effect on December 19, 1985, could not be changed unless the Director, Office of Personnel Management (OPM), agreed that such changes were reasonable. The law also required OPM to determine the amount of compensation rights each SFC officer, director, and employee was entitled to. OPM's personnel management specialist responsible for determining the compensation rights told us that SFC made the following changes after December 19, 1985, without consulting OPM:

- --The retirement and savings plans were terminated, effective January 31, 1986.

- --An employee option to receive severance pay in extended regular payments in lieu of lump-sum payments was eliminated.

- --The maximum savings withholding for employees was reduced from 12 to 11 percent of their earnings beginning on January 1, 1986.

The OPM personnel management specialist also told us that he was aware of these proposed changes in January 1986 and advised SFC officials that they should formally notify the Director, OPM, of the proposed changes. However, he said that he did not become concerned about the changes and SFC's failure to notify the Director, OPM, before implementing them because (1) he considered them to be reductions in benefits and (2) it was his understanding that the Congress' intent in prohibiting changes was to prevent SFC from adding or enhancing benefits before its termination.

According to SFC documents, the retirement and savings plans were terminated as of January 31, 1986, and the extended severance payments option was eliminated to facilitate making payouts to employees and conducting final audits before SFC's April 18, 1986, shutdown. Also, SFC announced the reduction in allowable withholdings to its employees on December 5, 1985, 2 weeks before the abolishing legislation that prohibited changes was enacted.

SECTION 2

TABLES SUMMARIZING SFC OFFICERS' SEPARATION BENEFITS

The tables in this section summarize the separation benefits that were provided to SFC's 11 officers. As shown in the tables, SFC paid $460,859 in direct compensation to its officers and $10,582 in life, health, and dental insurance premiums for extended coverage, for a total of $471,441. Direct compensation included $141,203 in severance pay, $65,425 in unused vacation pay, and the invested proceeds of $254,231 in SFC contributions to savings and retirement funds (see table 2.1). The officers also received the invested proceeds of the $156,957 they had contributed to the savings funds through their payroll withholdings (see table 2.4).

The total benefits paid may decrease slightly by the amount of insurance premiums that are eventually refunded to Treasury, if any, and may increase by an undetermined amount if any unemployment benefits are applied for and received by the officers.

Table 2.1: Summary of Separation Benefits

Officer	Severance pay	Unused vacation pay	Insurance premiums for 3 months	SFC retirement and savings contributions	Total
1	$ 19,465	$10,661	$ 1,087	$ 57,073	$ 88,286
2	19,465	9,642	558	38,215	67,880
3	8,342	2,178	687	10,631	21,838
4	16,685	11,241	932	37,347	66,205
5	8,342	1,484	687	9,380	19,893
6	8,342	3,014	1,544	6,728	19,628
7	13,904	8,436	527	29,989	52,856
8	13,904	9,409	1,299	21,531	46,143
9	16,068	1,005	1,033	20,104	38,210
10	8,342	6,351	1,544	13,085	29,322
11	8,342	2,004	687	10,149	21,182
Total	$141,203[a]	$65,425	$10,582[a]	$254,231	$471,441[a]

[a]Does not add because of rounding.

Table 2.2: Salaries and Severance Pay

Officer	Length of service (yrs./mos.)	Annual salary before Dec. 16, 1985[a]	Annual salary after Dec. 16, 1985[a]	Severance pay Weeks	Severance pay Amount
1	5/1	$108,000	$ 72,300	14	$ 19,465
2	5/6	74,000	72,300	14	19,465
3	1/2	86,200	72,300	6	8,342
4	4/9	76,500	72,300	12	16,685
5	1/2	75,000	72,300	6	8,342
6	1/1	82,500	72,300	6	8,342
7	3/11	74,000	72,300	10	13,904
8	3/9	72,300	72,300	10	13,904
9	4/9	69,630	69,630	12	16,068
10	1/8	76,000	72,300	6	8,342
11	1/4	75,000	72,300	6	8,342
Total		$869,130	$792,630		$141,203[b]

[a]Public Law 99-190 limited all SFC employee salaries to level IV of the Federal Executive Schedule after December 19, 1985 ($72,300 on Dec. 19, 1985). SFC made retroactive salary reductions for the pay period beginning December 16, 1985.

[b]Does not add because of rounding.

Table 2.3: Vacation Pay and 3 Months of Insurance Premiums

Officer	Unused vacation pay Hours	Unused vacation pay Amount	3 months of insurance premiums Health and dental	3 months of insurance premiums Life	3 months of insurance premiums Total
1	306.7	$10,661	$ 843	$ 244	$ 1,087
2	277.4	9,642	314	244	558
3	62.7	2,178	443	244	687
4	323.4	11,241	443	489	932
5	42.7	1,484	443	244	687
6	86.7	3,014	1,055	489	1,544
7	242.7	8,436	443	84	527
8	270.7	9,409	1,055	244	1,299
9	30.0	1,005	443	590	1,033
10	182.7	6,351	1,055	489	1,544
11	57.7	2,004	443	244	687
Total		$65,425	$6,977[a]	$3,605	$10,582[a]

[a]Does not add because of rounding.

Table 2.4: Retirement and Savings Plan Contributions

Officer	SFC retirement contribution	SFC savings contribution	Total SFC contribution	Officer's savings contribution
1	$ 43,932	$13,141	$ 57,073	$ 25,417
2	29,384	8,831	38,215	23,653
3	7,775	2,856	10,631	5,713
4	28,175	9,172	37,347	14,920
5	6,784	2,596	9,380	9,713
6	6,026	702	6,728	1,202
7	21,940	8,049	29,989	20,227
8	15,284	6,247	21,531	16,831
9	14,359	5,745	20,104	16,828
10	9,474	3,611	13,085	13,109
11	7,343	2,806	10,149	9,346
Total[a]	$190,477	$63,754	$254,231	$156,957

[a]Totals do not add because of rounding.

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