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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Cash Management Improvements Will Save Federal Insurance And Benefits Programs Millions Annually

The Office of Personnel Management and the Department of the Treasury administer the Federal employee life insurance and health benefits programs. GAO found serious weaknesses in the cash management procedures the agencies used and recommended improvements which will:

--increase income to the life insurance program and the Treasury by about $4.3 million annually, and

--eliminate the loss of income to the health benefits program which has totaled at least $550,000 since 1976.

The agencies have implemented these recommendations.

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FGMSD-80-83

OCTOBER 10, 1980

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-200333

To the President of the Senate and the
Speaker of the House of Representatives

This report addresses cash management problems in the handling of funds for the Federal employees' life insurance and health benefits programs. Funds held by the Treasury and insurance carriers for these programs are invested and the income earned is used to reduce costs to Federal employees and the Government.

We noted serious weaknesses in the procedures used by the Office of Personnel Management (OPM) and the Treasury Department to remit premiums to insurance carriers. We found that payments to the Metropolitan Life Insurance Company--the insurer for the life insurance program--were being made prematurely. We also found that payments to Metropolitan Life and all of the health insurance carriers were being made by check instead of the more efficient method of bank wire transfer (electronic funds transfer).

The Office of Personnel Management and the Treasury have already implemented our life insurance program suggestions to avoid premature payment and to pay by bank wire. We estimate that these actions will increase income for the life insurance program and the Treasury by about $4.3 million annually. Similarly, use of bank wire transfers to remit premiums to the health insurance carriers will also substantially increase investment income for the health benefits program. Since 1976, this program has lost at least $550,000 in income because check payments were not received when due.

OBJECTIVES, SCOPE, AND METHODOLOGY

We are reviewing financial management aspects of the Federal employees' life insurance and health benefits programs. We found serious weaknesses in the cash management procedures being used. This report specifically determines if investment income is being maximized for the programs and the Treasury through (1) the timing of payments to the life insurance carrier and (2) the method of remitting payments to all carriers.

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Our work on other aspects of the financial management of the programs is continuing. We plan to issue an overall report on the financial management of the programs when our entire review is complete.

For this report, we reviewed contracts between OPM and the principal insurance carriers for the life insurance and health benefits programs--Metropolitan Life Insurance Company, Blue Cross and Blue Shield, and Aetna Life Insurance Company. We reviewed the procedures used by OPM to pay premiums to these insurers. We also reviewed investment practices for the two programs.

LIFE AND HEALTH INSURANCE PROGRAMS

The Federal employees' life insurance and health benefits programs are authorized by the Federal Employees' Group Life Insurance Act of 1954 and the Federal Employees Health Benefits Act of 1959. These acts, as amended, provide that the employees' and Government's contributions (1) are to be deposited in life insurance and health benefits funds in the Treasury, and (2) may be invested in Treasury special issues until premium payments are remitted to the insurance carriers.

The Office of Personnel Management administers the programs, including the receipt and investment of program funds and the payment of premiums to the insurance carriers. OPM receives insurance contributions from Federal payroll offices every business day. These contributions are deposited in the Treasury, and invested in Treasury special issue securities until premium payments are sent to the insurance carriers.

Treasury established its special issues for the investment of idle cash by Federal agencies and funds. These securities are equivalent to Treasury securities which private investors purchase on the open market, except that special issue holding periods and maturity dates are tailored to the cash needs of the investing agency or fund. Special issues earn interest at approximately the prevailing market rate for Treasury bills. In the case of the life insurance and health benefits funds, interest earned on special issues reduces future premium costs.

Procedures used in paying the insurance carriers

The Metropolitan Life Insurance Company is the insurer for the life insurance program. There are 106 plans in the health benefits program, with Blue Cross and Blue Shield and Aetna Life Insurance Company receiving over 65 percent of all insurance subscription income.

In accord with agreements with the insurance carriers, OPM remits premium payments at various times each month. For example, Metropolitan Life receives one payment each month, while the health insurance carriers are paid twice a month. The insurance carriers invest the premiums until the funds are needed to pay claims. As with the special issues, investment income is credited to the Federal programs to reduce future premium costs.

The Government can make payments to the carriers by preparing and mailing a check or by bank wire transfer through the Treasury Financial Communications System. At the time of our review, all insurance carriers were paid by Government check. As a result, timely receipt and investment of premiums by the carriers was dependent upon the check processing and mail systems.

On the other hand, bank wire allows for an instant transfer of funds from the Treasury to virtually any bank in the country. This helps assure that payments arrive on the due dates so that investments can be made quickly and interest is maximized. Bank wire simply entails obtaining a bank account number for the receipt of the funds and electronically transferring funds to that account on a specified due date. This procedure is accomplished at no additional cost to the Government.

According to Treasury's Bureau of Government Financial Operations, moneys paid to the insurance carriers are drawn from Treasury's operating accounts at the Federal Reserve. These operating accounts are funded in part from Treasury's tax and loan accounts. The tax and loan accounts are maintained in commercial banks throughout the country and amounts due the Federal Government, such as Federal payroll taxes, are directly deposited in those accounts. Commercial banks pay Treasury interest on funds on deposit in the tax and loan accounts. The interest rate is generally higher than the rate Treasury pays on its short term obligations. In January 1980, for example, Treasury earned about 13.6 percent on its tax and loan accounts and paid an average of 12 percent on its Treasury bills and special issues.

ACTION TAKEN TO IMPLEMENT GOOD CASH MANAGEMENT PRACTICES WILL SAVE MILLIONS FOR THE LIFE INSURANCE PROGRAM

/The Office of Personnel Management did not follow prudent cash management practices in paying premiums to the Metropolitan Life Insurance Company. Early payment of premiums during 1979 caused (1) the life insurance program to lose about $3.5 million in investment income from Treasury special issues and (2) the Treasury to lose up to $300,000 in interest on its tax and loan accounts.

Metropolitan Life commingles Federal employee program funds with other groups' funds in an investment pool. It apportions investment income among pool members in proportion to the funds each pool member has with Metropolitan Life on the last business day of the month.

The Office of Personnel Management, however, was not aware of Metropolitan Life's system of apportioning investment income and routinely paid Metropolitan Life the monthly premium payment--presently $42.5 million--on the first Thursday of each month. On the average, payment was made on the 4th of the month, or about 26 days prematurely. Since Metropolitan Life pays investment income to group plans in proportion to their funds on deposit as of the last business day of the month, the Federal program essentially gained no additional investment income by paying the premium about 26 days early. (The Federal program's share of the investment pool is less than 1 percent.)

Not only did the Federal program not gain any additional income from Metropolitan Life by paying early, it actually lost about 26 days investment income from Treasury special issues each month because of paying prematurely. We estimated this loss of investment income at about $3.5 million during 1979. Furthermore, we estimated that the Treasury lost up to an additional $300,000 in interest income on its tax and loan accounts. The $300,000 is the difference between the $3.8 million the Treasury also could have earned on its tax and loan accounts in 1979 had Metropolitan Life not been paid early, and the $3.5 million in additional interest Treasury would have had to pay to the Federal employee life insurance program on the special issues. This estimate was based on actual 1979 monthly composite rates for the special issues and tax and loan accounts.

We met with OPM officials and suggested that premium payments to Metropolitan Life (1) be made on the last business day of each month and (2) be made by bank wire to help ensure prompt receipt. We also discussed this with Metropolitan Life officials who were agreeable to receiving payment on the last business day of the month. Further, we advised Treasury officials of our findings. They agreed with our suggestions but indicated that the Treasury did not have the authority to unilaterally change the payment date and that this action had to be taken by OPM. We held these meetings in December 1979, so that the payment scheduled for January 3, 1980, could be delayed until the last business day of the month.

Although agreeing to immediately act on our suggestions to delay the payment date, OPM nevertheless paid Metropolitan Life $42.5 million on January 3, 1980. This cost the Federal employee life insurance program another $390,000 in investment income. Also, the early payment in January cost the Treasury up to an additional $50,000 in interest income on its tax and loan accounts. The January loss reflects the higher rates paid on special issues and tax and loan accounts during early 1980.

With the help of the Treasury's Bureau of Government Financial Operations, we succeeded in getting OPM to implement our suggestions in February 1980. This will save roughly $4.3 million annually--$3.9 million for the Federal employees' life insurance program, and up to $400,000 for the Treasury through increased interest earnings on its tax and loan accounts. This estimate is based on the average monthly composite interest rate for special issues and tax and loan accounts from November 1978 (when tax and loan accounts first started earning interest) through May 1980.

FEDERAL PAYMENTS FOR THE HEALTH INSURANCE PROGRAM MUST BE MADE EFFICIENTLY AND PROMPTLY

The Office of Personnel Management and the Treasury did not follow prudent cash management practices in paying insurance carriers under the health benefits program. Although these two agencies have discussed the use of bank wire since 1977, health insurance carriers were still being paid by Government check as of May 1980. Because payments made by check are often delayed, at least $550,000 of investment income has been lost since 1976.

Major health insurance carriers invest premiums as soon as they are received from OPM. The health benefits program earns income from the day of investment by the carrier. This is different from the monthend apportionment concept used by Metropolitan Life for the life insurance program. Funds invested in special issues are disinvested as of the due date of the payment to the health insurance carrier and thus stop earning interest at the Treasury. Therefore, the health benefits program loses income whenever payments do not reach the carriers when due.

In 1979, checks for 7 of the 24 payments to Blue Cross and Blue Shield were between 1 and 5 days late, resulting in a loss of about $358,000 in interest income. For example, a $90.5 million payment due on February 22, 1979, was not received by Blue Cross and Blue Shield until late on February

26, and could not be invested until February 27. The health benefits program lost over $116,000 in interest income during those 5 days. Also, at least six premium payments made to Aetna Life Insurance Company between 1976 and 1978 were received by Aetna after the due date, resulting in an estimated $25,000 loss of interest income.

In late 1979 and early 1980, we discussed paying health insurance carriers by bank wire transfer with officials of Blue Cross and Blue Shield, Aetna, OPM, and the Treasury's Bureau of Government Financial Operations. These officials all agreed that bank wire should be used.

However, as of May 1980, bank wire still was not being used, even though, as discussed previously, it is a very simple procedure with no additional cost to the Government. Treasury and OPM officials said that they are working together to implement bank wire transfer for payments to Blue Cross and Blue Shield. In the meantime, however, the health benefits program continues to lose interest income. Because bank wire was not immediately implemented, checks for the April 24, 1980, payment to Blue Cross and Blue Shield, which totaled $105 million, were received by the carrier up to 5 days late causing the Federal program to lose investment income of over $170,000. Similar losses will continue until appropriate action has been taken.

Also, there were no plans to use bank wire to pay the other major carrier--Aetna--although it would prefer payment that way and our work shows this would increase interest income for the health benefits program. Further, since there are 104 other health plans in the Federal health benefits program, there is potential to increase interest income by using bank wire to help ensure that payments reach these carriers and are available for investment on the due dates.

CONCLUSIONS

Improved cash management is necessary to reduce the Government's and employees' cost for the Federal employee life insurance and health benefits programs. The use of bank wire to pay premiums to insurance carriers on the date due will help maximize investment income for the programs and thus reduce premium costs. Changing the payment date and using bank wire transfer for the life insurance program has resulted in substantial savings, and goes a long way toward resolving some of the problems we identified.

However, the Office of Personnel Management and the Treasury must act to assure that investment income is also maximized for the health benefits program. This can be done by using bank wire for payments to Blue Cross and Blue Shield as well as Aetna. Although we did not study the other 104 health plans, we believe there is potential for further savings if bank wire is used to pay those carriers.

RECOMMENDATIONS

We recommend that the Secretary of the Treasury and the Director, Office of Personnel Management direct that

--payments under the health benefits program to Blue Cross and Blue Shield and Aetna be made by bank wire rather than by check, and

--using bank wire to pay other health insurance carriers be studied and that this payment method be adopted whenever it would increase interest income.

AGENCY COMMENTS

The Department of the Treasury completely agreed with our recommendations as did OPM program officials. As of July 10, 1980, payments to Blue Cross and Blue Shield and Aetna are being made by bank wire.

Further, Treasury and OPM program officials have begun to study how the other health carrier payments can be made by bank wire.

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We are sending copies of this report to the Directors of the Office of Personnel Management and the Office of Management and Budget; and to the Chairpersons of the House Committee on Government Operations, the Senate Committee on Governmental Affairs, the Subcommittee on Civil Service and General Services of the Senate Committee on Governmental Affairs, and the Subcommittee on Compensation and Employee Benefits of the House Committee on Post Office and Civil Service; and to the Secretary of the Treasury.

Elmer B. Staats
Comptroller General
of the United States

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