

GAO

## Testimony



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H.R. 2514

Federal Retirement Thrift Savings Plan

Statement of  
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Before the  
Subcommittee on Compensation and Employee  
Benefits  
Committee on Post Office and Civil Service  
House of Representatives



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H.R. 2514  
AMENDMENTS TO THE FEDERAL EMPLOYEES  
RETIREMENT SYSTEM ACT OF 1986

SUMMARY OF STATEMENT BY  
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In response to a request from the Chairman, House Subcommittee on Compensation and Employee Benefits, GAO reviewed H.R. 2514, a bill to amend the Federal Employees Retirement System Act of 1986. H. R. 2514 would authorize federal agencies to pay interest to employees' Thrift Savings Fund accounts because of administrative errors made by employing agencies and would remove restrictions on investments by certain thrift savings plan participants. GAO supports these changes.

In a February 1989 Comptroller General decision, GAO said agencies did not have statutory authority to make interest payments to employees thrift savings accounts from appropriated funds without an express mandate from Congress. H.R. 2514 would authorize such payments and compensate federal employees who have lost earnings because of agencies' administrative errors.

The bill would also eliminate restrictions which now phase-in the amount of contributions which can be invested in the common stock index investment fund (C fund) and in the fixed income index investment fund (F fund). GAO supports the proposal and believes the elimination of these restrictions would provide opportunities for employees to participate more fully in the thrift savings plan by allowing them to invest in whatever investment fund best meets their personal investment goals.

GAO noted that the percentage of employees who are contributing to the thrift plan and are covered by the Federal Employees Retirement System in components of some agencies is far below the average of all such employees. Unless these employees begin contributing, they will find their retirement benefits significantly less than employees covered by the Civil Service Retirement System. Agencies and the Thrift Board need to identify reasons why participation rates are low, and hold special meetings for employees in those organizations to further explain the significance of the benefits which they are foregoing.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss H.R. 2514, a bill that proposes to amend the Federal Employees' Retirement System Act of 1986. The bill (1) would authorize federal agencies to pay lost earnings to employees' thrift savings accounts caused by administrative errors of employing agencies and (2) would remove restrictions on investments by certain plan participants. We support these proposals. In addition, we believe agencies and the Thrift Board, which administers the thrift plan, need to do more to encourage employees who are not currently contributing to make the thrift plan part of their retirement income program.

Lost earnings

As of May 1989, about 800,000 employees covered by the Federal Employees Retirement System (FERS) and about 400,000 employees covered by the Civil Service Retirement System (CSRS) had thrift savings accounts. Over 600 payroll offices governmentwide provide the Federal Retirement Thrift Investment Board which administers the plan with millions of transactions annually affecting these accounts. Despite the controls in place at the agencies, administrative errors occur. While the overall number of errors may be relatively small, an error in an individual account, if not corrected early, can significantly affect the retirement benefits of an individual employee.

In December 1987, the Thrift Board implemented regulations to allow correction of administrative errors made by agencies in processing thrift plan transactions. These regulations say the Board will accept agency payments representing interest lost if the agency determines that it has the authority to spend funds for that purpose.

During the past year, we received several inquiries from federal agencies concerning the legality of making payments for lost interest resulting from agency administrative errors. In our February 1989 decision<sup>1</sup> to the Department of the Interior, we held that earnings lost by an employee due to an agency's failure to make timely contributions into an employee's thrift savings plan account are a form of interest not expressly provided for by statute. We concluded that, barring an express mandate by Congress, there is no statutory basis for making such payments to employee accounts from appropriated funds even where the loss was a direct result of an agency error and the employee was blameless. Because this would financially penalize federal employees, we said that from an equitable standpoint, we would support legislation authorizing agencies to make payments into savings plan accounts to cover earnings lost due to an agency's delay in making contributions.

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<sup>1</sup>Agency Authority to Pay Lost Earnings on Contributions to Employee Thrift Savings Plan Accounts, B-231205, Feb. 3, 1989.

### Investment restrictions

The Federal Employees Retirement System Act requires all employees covered by the CSRS to invest all thrift funds in nonmarketable securities issued by the U.S. Treasury, called the G fund. Employees covered by FERS were required to invest all employee and employer thrift funds in the G fund through 1987. Beginning in January 1988, however, the act permitted FERS employees to invest a portion of their contributions (and beginning in 1993, a portion of their agencies' contributions) in two additional investment options - a common stock index investment fund (C fund) and a fixed income index investment fund (F fund). All restrictions would be removed by 1997. Section 2 of H.R. 2514 proposes to remove all of the temporary restrictions on investments by participants covered by FERS.

Senate Report 99-166, in discussing the various provisions of the FERS Act, said that the limitation on thrift plan investments during the plan's first 10 years was intended to avoid sudden administrative, financial, or budgetary impacts because the thrift fund was included in the federal budget. In a May 1987 letter<sup>2</sup> concerning the budget treatment of the Thrift Savings Fund, we said the fund's transactions should not be considered transactions of the federal government and, therefore, should not

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<sup>2</sup>Letter to Congressman Willis D. Gradison, Jr. (B-227344, May 29, 1987).

be included in the federal budget's total. The Office of Management and Budget agreed with our position and removed the thrift fund from the federal budget in fiscal year 1989. Now that the fund is not included in the budget and its expenditures are not reflected as budget outlays, the restrictions on investments are no longer needed.

Removing restrictions would be beneficial from an employee perspective for several reasons. First, it would reduce confusion concerning the amount of contributions and earnings which may be placed in the C and F funds. Second, the proposal would allow participants to more easily allocate the funds in their accounts among the three plans. Third, it would give employees full control over their investments so they can better meet their personal investment goals.

#### Participation rates

In addition to our comments on H.R. 2514, I would like to address a challenge still facing agencies and the Thrift Board. While about 800,000 FERS employees have thrift fund accounts because of the automatic 1 percent government contribution, less than 400,000 of these employees are contributing and receiving matching government contributions. Unless the employees who are not contributing can be encouraged to participate, they will find that at the time of retirement their benefits will be significantly less than employees covered by CSRS, and by then it

will be too late to do anything about it. This is because the FERS program was designed to provide benefits comparable to CSRS only when employees fully participate in the savings plan.

The Thrift Board has regularly produced reports identifying participation rates by agency. As of May 1989 (the latest available data), 49 percent of eligible FERS employees contributed to the thrift plan and received matching government contributions. Participation rates among major departments varied from 40 percent at the Department of the Treasury to 70 percent at the Department of State.

The Board expanded the reports in May 1989 to identify participation rates by major components within Departments and we noted significant variances in these rates. For example, within the Department of Navy, component participation rates varied from 26 to 61 percent and within the Department of the Treasury, the participation rates varied from 33 to 73 percent. The Executive Director of the Thrift Board said in a memorandum to the agency heads accompanying this component information that the rates could vary because of significant differences in the way the plan is administered.

One of the factors that may be contributing to the low participation rates is the 7 to 12 month waiting period for newly hired employees before they are eligible to contribute to the

plan. During our current study of U.S. Park Police compensation, we found that only 28 percent of their eligible FERS employees were contributing. Park Police officials said they discuss the thrift plan with new employees at the time they are hired but do not provide any further orientation at the time these employees become eligible to contribute. We believe agencies should target these employees for special briefings to further explain the importance of their participation just before their first opportunity to contribute.

To facilitate the flow of information about the plan to federal agencies, Thrift Board staff have regularly held periodic meetings with department and agency payroll and personnel staff. In addition, at the request of agencies, Thrift Board staff held about 100 meetings with employee groups since the plan began in April 1987. We believe agencies and the Thrift Board should target for special meetings those organizations with low participation rates. Also, they should identify further the reasons why participation rates are low in some organizations and what could be done to address those reasons.

This concludes my statement. I would be pleased to respond to any questions.