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before the

Subcommittee on Oversight of Government Management, the Federal Workforce, and the
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Committee on Homeland Security and Governmental Affairs

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Hearing: " *Federal Retirement Processing: Ensuring Proper and Timely Payments*"

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Good afternoon Chairman Akaka and Ranking Member Johnson. Thank you for inviting
me to testify on the processing of federal retirement applications by the Office of
Personnel Management, a matter that is unfortunately of increasing concern to a growing
segment of federal employees.

The retirement system is an integral part of the federal employee compensation package.
The dominant components of federal retirement are the Civil Service Retirement System
(CSRS) and the Federal Employee Retirement System (FERS). Others include the
Foreign Service Retirement System, the military retirement system and several others
serving specialized communities of federal employees. CSRS and FERS benefits are
funded from the Civil Service Retirement and Disability Fund (CSRDF), a Trust Fund
administered by the U.S. Office of Personnel Management (OPM.) In addition to CSRS
and FERS benefits the CSRDF also provides funding for disability payments to qualified
federal employees. In 1983, when the unfunded liabilities of the CSRDF had soared to
over $500 billion Congress closed the CSRS to new entrants pending the creation of a
new retirement system. FERS was established in 1986 and opened to new employees in
1987, with retroactive enrollment available to those hired between the closure of CSRS
and creation of FERS. FERS employees were also enrolled into the Social Security
system, a benefit generally not available to CSRS employees.

While these steps significantly slowed the growth in the unfunded liability of the CSRDF
they did nothing to actually reduce it and today the unfunded liability has grown to over
$800 billion. FERS was intended to be fully funded in its original design and it has met
those expectations as it does not contribute to the under funding of the CSRDF. I hasten
to point out however, that although FERS is "fully funded" the CSRDF has survived on
borrowed money to meet its cash flow requirements since the 1960s. Employee payroll
deductions together with employing agency contributions today provide about $30 billion
of cash receipts into the CSRDF, a sum dwarfed by payments to annuitants and survivors
totaling nearly $70 billion per year. It is this perpetual and growing reliance on the

General Fund rather than the Trust Fund that has kept the spotlight of controversy on what employee organizations and defenders refer to as an "earned benefit paid for by employee contributions."

In administering the CSRDF OPM provides benefits and services to nearly 2.5 million annuitants and survivors at an operating cost of about $95 million per year drawn primarily on the Trust Fund. The quality of service OPM provides is vital to employees as OPM is the bridge to continued compensation when an employee chooses to retire after decades of public service. OPM has an obligation to provide full and timely annuity payments and not to inflict financial hardship on people who have served faithfully for many years. OPM also serves as the surrogate employer for purposes of maintaining the accuracy and currency of annuitant records and to allow the exercise of various benefit options. The agency is also responsible for maintaining the integrity of payments by preventing fraud and abuse of the system. It is impossible to achieve these goals in a modern operating environment without heavy reliance on up to date information technology and properly designed and maintained information management systems. Past leadership of OPM has recognized this and embarked on succeeding retirement system modernization (RSM) efforts with varying degrees of success and failure. The most recent ambitious effort to provide employees with interactive capability to file for retirement online (RetireEZ) was stymied when OPM found that the products delivered by their RSM contractor were not fully reliable.

Chairman Akaka and Ranking Member Johnson, in your letter inviting me to testify at this hearing, you asked me to address efforts to reform retirement processing including modernization, the management of OPM's resources and their priorities, and any recommendations I might have to improve retirement claims processing. I will discuss each of these in turn.

Efforts to Reform Retirement Processing

My familiarity with retirement system modernization goes back about 30 years. At that time OPM concentrated on acquiring computer systems to improve storage capacity, operating reliability and processing speed for monthly calculation and storage of annuity payments. Annuitant employment records consisted primarily of paper files. Automated computation modules were used to improve productivity and enhance accuracy in processing and calculating annuitant claims. This was all done in the context of CSRS until 1987 when FERS was first established. Obviously there was no need to process many FERS retirement applications until a sufficient number of employees had spent a few years in the new system. By the early 1990s with both CSRS and FERS claimants filing in increasing numbers a retirement modernization effort (FERS Automated Processing System) was undertaken at a cost of several million dollars. There were a number of weaknesses with this effort and by 1996 it was abandoned. A new initiative called the Retirement System Modernization (RSM) was begun the next year. Meanwhile, commercial entities providing retirement services to private sector employers had developed a number of systems that could potentially be modified for use in the

federal sector. RSM envisioned relying on such commercially available hardware and software but with appropriate modifications. With Internet usage exploding the notion of online management of employee benefit programs took the RSM in a new direction. Further, a number of agencies began to incorporate online access and benefit management for their employees.

In 2001 OPM expanded RSM and began to consider outsourcing the modernization effort. In 2006 the agency awarded contracts to automate retirement processing and convert paper records to digital files. By this stage RSM envisioned what was to become "RetireEZ," an approach that would give employees the ability to file for retirement benefits online.

As I noted earlier this particular version of retirement system modernization was put on hold in May 2008 just as the first modules of RetireEZ were becoming available. The deliverables from the contractor were deemed insufficiently reliable and the ten year $290 million RSM contract was later cancelled in October 2008 for non-performance. The overall modernization program remained active though OPM was planning to undertake system upgrades using their own personnel. OPM had already spent over $30 million in various failed modernization efforts in the previous decade. I have no doubt that some benefits have accrued to OPM from these expenditures but considering the growing backlog of retirement claims it is hard to tell what those might be.

What is disappointing is the current administration's apparent abandonment of full-scale modernization. Despite shortcomings and failures of past efforts, at least OPM recognized the need to modernize a process still fatally dependent on paperwork submissions. In the 21st century, when IT is a leading technology of America's economic engine, it is hard to understand how the leaders of a government agency can accept the manual entry of data into modules that perform limited specialized computations as their vision of the future. This is how we processed retirement applications 20 years ago. Why are we not passing through the technological gates that the Internet has opened for us? We can file complicated tax returns online and purchase most any kind of product or commodity online. We can execute complex financial transactions involving investment portfolios online or even apply for a mortgage online. Is filing a retirement application more complicated than filing a tax return based on thousands of pages of tax rules and regulations?

OPM announced the termination of RSM in February 2011 but it wasn't until last month that OPM Director Berry produced a "Strategic Plan for Retirement Services." With retirement claims backlogged at over 48,000 claims the Director proposes to throw money and bodies at the problem. The primary "pillar" advanced in the plan is "people." The agency is proposing to hire 76 new people to toss at its mountain of claims. These new hires will require extensive training and it will take months, according to Director Berry's own estimate, before they can fully shoulder their burden. In addition, OPM proposes to expand the use of overtime, establish higher production standards among current claims processors and more effectively track their productivity. A third "pillar" looks to improve the pre-processing work performed by the federal agencies. And finally,

almost as an afterthought, upgrading IT capabilities are thrown into the mix. Director Berry missed a clear opportunity to reassure the federal community that a wholesale restructuring would be forthcoming. He instead advances a plan that relies on automation that other agencies have grown to depend on in the absence of OPM leadership. If commercially available application modules are adequate for use by federal agencies one can ask why such modules are inadequate for use by OPM.

The recent lack of leadership from OPM on retirement system modernization has left agencies with retiring employees to fend for themselves. Given the past history of failures at OPM this is not necessarily a bad outcome, but it certainly leaves one to wonder how $95 million of operating expenses for retirement operations are prioritized and allocated. Which brings me to the second issue you asked me to address.

Resource Management and Prioritization

In light of the significant backlog of retirement claims on hand serious questions arise about the management of resources and the agency's priorities. Although the RSM contract had been cancelled in October 2008 retirement system modernization was a continuing effort. By early 2009 new OPM leadership was well aware of the cancellation and the history and need for retirement modernization. OPM had been broascasting a forthcoming retirement "tsunami" since 2006. The economic downturn in 2008 has slowed the rush of federal employees for the exits but only temporarily. The resource needs of the retirement program in 2009 were also well known to OPM leadership since management of the retirement system is a very visible core function of the agency. Further, funds to operate the retirement system come from the dedicated CSRDF Trust Fund. The need to upgrade the capacity for processing retirement claims has been the justification for RSM for years. Director Berry cannot have been surprised at the current crisis.

In the Strategic Plan for Retirement Services he issued last month, the Director concludes that the "retirement claims backlog developed over a number of years and for a number of reasons." If that is so then the problem should have been attended to in 2009 and not delayed until now. And if the backlog is of more recent vintage then the problem reflects a failure of his leadership. In either instance OPM resources were not properly allocated to manage a core priority.

In 2009 Director Berry needed to double down on technology when RSM needed his attention. It is worth noting that instead he allowed the looming problem of retirement claims to fester and now proposes to add additional jobs to OPM's payroll and fund more overtime pay. The Director chose to double down on labor. Whose interests have been better served with his management of this crisis?

Suggestions for Improvements to Retirement Claims Processing

In the long term I believe that moving retirement claims processing to full automation should remain the highest priority for OPM. This will not only improve the efficiency and effectiveness of the process but save on costs as well. The original concept inherent to the RSM was to rely on commercially available technologies. This was a sound strategy and it should receive renewed consideration. In November of last year, well after OPM had abandoned modernization, GAO testified on OPM retirement modernization (GAO-12-226T). Nothing in GAO's testimony suggested that termination of RSM was called for. Though critical of a number of OPM shortcomings in the modernization effort, GAO was generally supportive of the concept and need for modernization.

In the short term I would embrace OPM's "partnering with agencies" but I would enhance the role agencies currently play in pre-processing retirement claims. Agencies have a cadre of employee benefit officers that already work closely with OPM. I would upgrade their skills and bring on additional personnel at those agencies, particularly the larger ones that produce the bulk of retirees. Further, I would fund the acquisition of competing commercial technologies at these agencies to serve as a comparison test bed to see which are more accurate and effective. I would accept retirement claim calculations for pre-defined classes of annuitants from designated agencies so that employees could help to complete their claims while still employed. For example employees retiring with unreduced benefits from an agency with which they spent their entire careers would generally have simplified applications. OPM could perform detailed reviews of randomly selected claims as a means of maintaining the integrity of the process and provide whatever corrective measures agencies might need. Difficult claims would be identified much sooner in the retirement process and employees would have opportunities to resolve some of their problems while still employed and while still having access to their agency claim processor rather than a telephone answering device.

Further, I would put more emphasis on technology development for FERS because that constituency will be retiring in greater numbers in the next few years while CSRS retirees will decline significantly in number over the next five to ten years. The CSRS cases while more complex in their employment history tend to be easier to resolve in the benefit calculation.

Finally, I would urge Congress to maintain close oversight over OPM's claim processing until such time as the backlog has been reduced to an acceptable number of claims on hand. It is only congressional scrutiny that has forced OPM to take action in the current instance. Congress should consider requiring OPM to file monthly progress reports on backlog reduction, applicable performance standards, productivity metrics, use of overtime dollars, and the like. High level attention and keeping the agency focused on its priorities are what it will take to fix this problem.

Conclusion

There is no question that retirement system modernization is essential to the proper delivery of the federal retirement benefit. OPM has had a nearly two-decade history of

pursuing this goal with only limited success. Most of the major goals have not been attained. There is a current crisis in the processing of retirement claims that has resulted in a huge and growing backlog of claims. This reflects insufficient attention and inadequate resource allocation to the retirement program on the part of the current leadership of OPM. The long-term solution to timely claims processing and effective administration of the retirement system lies in full modernization. In the short term OPM should enhance the capabilities of agencies to process retirement applications in conjunction with their retiring employees. OPM should define the circumstances under which agency calculations would be accepted as the basis for annuity payments. More difficult or contentious cases would be identified sooner and forwarded to OPM for final determination. Finally, Congress must exercize its oversight responsibility to keep the agency focused on fixing this problem.