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COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM, UNITED STATES HOUSE OF REPRESENTATIVES

HEARING TITLED,
"ADDRESSING THE BACKLOG IN THE FEDERAL EMPLOYEE RETIREMENT PROCESS"

DECEMBER 10, 2014

Chairman Farenthold, Ranking Member Lynch, and Members of the House Oversight and Government Reform Subcommittee on Federal Workforce, U.S. Postal Service & the Census, on behalf of the nearly five million federal workers and annuitants represented by the National Active and Retired Federal Employees Association (NARFE), I appreciate the opportunity to express NARFE's views regarding the processing of federal retirement annuity claims.

While I retired from civil service nearly 20 years ago, in my role as a Career Program Manager with the Army, I provided advice to civilian employees in the Army Career Program. I stressed that upkeep of professional and financial records would be necessary for a smooth retirement. Many of the employees I managed moved around the world throughout their careers to support both combat and peacekeeping missions. Essentially, I served as their ongoing human resources officer, offering advice and guiding them through the retirement process.

Over the last three years, both this Subcommittee and its Senate counterpart have recognized the problems associated with the processing of federal retirement annuity claims by agencies and the Office of Personnel Management (OPM), and held several public hearings drawing attention to the issue. As the president of the Association representing those directly affected by these problems, I would like to extend our thanks to the Subcommittee for continuing to highlight this issue. NARFE further appreciates this follow-up to ensure progress is being made.

In February 2012, NARFE appeared before the Senate Homeland Security and Governmental Affairs Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia. At that time, we testified that our office was receiving hundreds of calls from our members complaining that their interim annuity payments were too low, that they were waiting too long to receive their full annuity payments, and that they were unable to communicate with OPM to check the status of their claims. Some had understandably complicated claims that took longer than the average to settle – they may have worked for several federal agencies, had a break in service, or had both military and civilian service. However, even in instances of fully complete claims with few or no errors, wait times were far too long. It would be an understatement to say the delays were a major problem. Our members were struggling.

It was not uncommon for NARFE staff to hear tales of interim payments being as low as 40 percent of a retiree's full annuity and claims taking more than a year to process. Contrary to the belief of some members of Congress, federal employees do not receive exorbitant salaries or have vast savings that render annuity delays inconsequential. These delays had real, substantial impacts on federal retirees, many of whom rely on their modest government pension as their sole source of income. NARFE members reported extreme concern over being able to pay their bills, including their mortgages.

To their credit, officials at OPM acknowledged what our members were experiencing, stating, "[f]ederal employees face unacceptable delays in receiving retirement benefits after years of honorable service to the nation."[1] In January 2012, there was a backlog of 61,108 claims, and the

[1] *Strategic Plan for Retirement Services*, Office of Personnel Management, January 17, 2012

average time to process an annuity claim exceeded five months. Many claims, however, took far longer to process.

It was in this context, coupled with pressure from Congress and organizations representing the interests of employees and retirees, that OPM developed a Strategic Plan to improve the processing of retirement benefit claims. The agency released the plan in January 2012, and promised to do better. Almost three years later, and to its credit, the results show that it has.

Yet, despite the improvements in claims processing, the system remains paper-based, and more costly and time-consuming than modern technologies should allow. OPM unveiled an Information Technology (IT) improvements plan in February 2014 to address this issue. NARFE supports its efforts in this regard, but would like to see a clearer timeline with more detailed benchmarks to measure progress and results.

A Look Back

NARFE appeared before this Subcommittee in May of last year to assess implementation of OPM's Strategic Plan. Let us give credit where credit is due. OPM laid out a strategic plan that predicted improvements in claims processing through additional staff, longer call center hours, the use of overtime and better communication with agency human resource offices. OPM implemented the plan as intended and it has worked to reduce the inventory of claims.

OPM hired more staff and effectively utilized overtime to handle retirement processing, including rehiring some recent retirees who had the experience to process claims quickly. This speaks to the invaluable services reemployed annuitants can offer, as frequently maintained by NARFE. We appreciate the fact that Congress recognized this as well, having recently extended dual compensation waiver authority to agencies for another five years as part of the FY15 National Defense Authorization Act.

OPM also implemented process improvements to increase the efficiency of staff already in-house. These efforts included employing Lean Six Sigma principles and holding employees to higher standards overall.

At the time of the May 2013 hearing, OPM had been outpacing its projections for claims processing every month, and the inventory of claims had dropped from 61,108 in January 2012 to 30,080 in April 2013. Although this total was slightly behind OPM's schedule, this was due to two primary factors outside of its control. First, an unanticipated and abnormal spike in retirements occurred during February and March of 2013, in large part due to roughly 20,000 buy-outs and early retirements from the United States Postal Service. Second, reduced funding caused by sequestration prevented OPM from utilizing the overtime hours that had helped the agency achieve much of its progress in reducing the backlog. Absent these two factors, OPM likely would have reached its goal to reduce the claims inventory to roughly 13,000 by July 2013.

Nonetheless, OPM was able to reinstitute overtime in August 2013 and get back on track, bringing the inventory of claims below 13,000 in December 2013, and keeping it in line with projected (and manageable) inventories. Today, the current inventory of pending claims is 14,039.

Where Are We Now?

Thanks in large part to the efforts laid out in the Strategic Plan, we have noticed a considerable decline in complaints from NARFE members. We believe the decline indicates OPM is doing a much better job of answering customer calls regarding the status of their claims, and utilizing an online system to provide individual status updates regarding claims processing.

For the first eleven months of 2014, claims received outpaced projected claims in six of those months. In all but four of those months, OPM exceeded its number of claims processed compared to projected claims processed. The current inventory of cases sits at 14,039.

In May 2014, OPM began tracking the number of cases processed within 60 days, with a goal of processing 90 percent of cases within that time frame. At 83.4 percent in November, OPM is not meeting that goal but is coming close. Out of the 14,039 in the queue in November, 12,460 (88.8 percent) were 1-60 days old, 768 (5.5 percent) were 61-90 days old, 611 (4.4 percent) were 91-180 days old, and 200 (1.4 percent) were over 180 days old.

NARFE Member Experiences

When NARFE was made aware of this hearing, we sent an email to all NARFE members asking for feedback on their experience with the retirement claims processing procedure. We specifically asked for feedback from those who retired within the last two years. The feedback we received was overwhelming.

Contrary to the avalanche of complaints we heard three years ago, the responses from NARFE members were overwhelmingly positive. In fact, nearly 75 percent of the responses we received were, at a minimum, satisfied with their experiences with OPM during this process. Many others had nothing but praise for the customer service they received and the timeliness of responses from OPM staff. In most cases, they reported, their full annuity check came three to four months following their separation from service. Additionally, a large number of those who reported quick processing of their claims noted they received timely information and assistance from their employing agencies. We also heard that proper due diligence on the part of the employee prior to retiring, such as attending pre-retirement seminars, went a long way.

Unfortunately, the responses we received from members who were not satisfied indicated their claims have been in the process anywhere from six months to more than two years. These individuals, not surprisingly, are very unhappy and tell lengthy stories critical of OPM and the service they have received. Most reported people problems, not system problems. While these cases provided evidence of incompetence, those instances now seem to be the exception rather than the rule. Nonetheless, as we previously mentioned, 611 cases (4.4 percent) are 91-180 days

old, and 200 cases (1.4 percent) are over 180 days old. OPM should explain to this committee and to its customers why there are still cases over six months old.

Some of those who retired prior to 2014 who reported problems had very complicated work histories – employment at multiple agencies, military service, subject to the Government Pension Offset, court orders and more. Given OPM's reliance on the employing agencies for accurate information, it is not surprising these types of cases would take longer to process.

There is one issue in particular that was brought to our attention that we believe is worth exploring. In 2009, Congress changed a longstanding law allowing federal employees in Alaska, Hawaii and the U.S. Territories to transition from receiving an annual cost-of-living adjustment (COLA) to receiving locality pay. The conversion was intended to extend over a period of three years. We are hearing that those who retired before 2014 are experiencing extreme delays in receiving their annuity checks. One NARFE member in Alaska who retired in April 2012, after 43 years of federal service, is still not receiving his full annuity check. While these circumstances are admittedly complicated, a two-year wait for a full annuity is unacceptable. We can only hope this is not happening to every retiree in Alaska, Hawaii and the Territories who separated between 2010 and 2014.

Anecdotally, OPM's customer service appears to have greatly improved. For many NARFE members, a 30-minute wait on the phone is acceptable if the person on the other end listens, understands their concerns, and provides useful information on next steps in a polite and competent manner. In 2011 and 2012, NARFE received numerous complaints of rude customer service agents and incomplete answers to questions. We still hear those complaints, but far less frequently. There is still room for improvement.

While OPM reports that the average wait is now 10 minutes, NARFE members still consistently report higher wait times and difficulty reaching a customer service representative. We also continue to receive reports from members who are unable to get through altogether.

Efforts by Employing Agencies

While OPM bears responsibility for processing the claims, a federal employee's transition to a rewarding retirement does not start with claims processing. It starts with the individual's employing agency.

In looking at the Agency Monthly Audit reports OPM makes public on its website, the government-wide error rates for retirement submissions are in double-digit percentages (11 percent for November). The U.S. Postal Service is the only big agency that has consistently shown single-digit error percentages in its retirement application submissions to OPM. Error rates as high as 30 percent occur despite efforts over the last two years by OPM to provide guidance and tools to employing agency personnel offices on submitting "healthy" retirement packages.

Although publishing results has led to public pressure on agencies to improve, there does not seem to be significant improvement overall in error rates from 2012 to 2014. After two years, agencies should be performing better. A seemingly easily obtainable goal of a 10 percent error rate would likely go a long way toward improving processing at OPM. Both the short-term goal of holding agencies more accountable and the long-term goal of automating the entire process should be a priority for OPM, especially as it bears the brunt of retirees' frustration with delayed annuity claims.

These high error rates remain unacceptable. They affect the financial security of retirees and they cost additional time and money to both employing agencies and OPM. In the near term, pre-retirement counseling for all employees is essential to reducing errors. In the long run, the successful completion of OPM's IT initiatives, in particular government-wide electronic retirement records, along with the maintenance of the retirement data repository, will be essential.

What we said at the hearing last May bears repeating: While progress has been made, there needs to be more communication with employing agencies to ensure retirement packages reaching OPM are as complete as possible. The employing agency checklist was a good step, as was publicly publishing results, but we believe agencies should be held accountable for incomplete packages. Where possible, agencies should be providing their human resources staff with additional training, particularly those agencies that are failing to meet expectations. Similarly, agency human resources staff is often unaware of an employee's intention to retire until the employee has started the process. It would serve employing agencies well to maintain a calendar of employee retirement-eligibility, so that HR professionals can guide individuals through the process before it even starts.

More than a year ago, OPM provided NARFE with a copy of its employee retirement checklist, which we ran as the cover story in *narfe* magazine – a publication with wide distribution among the federal community. That effort has yielded accolades from recipients, and NARFE is more than willing to do what we can to help OPM and the people it serves. We encourage OPM to continue to utilize NARFE and the other federal employee groups to help distribute checklists widely and often.

As suggested by the Government Managers Coalition and supported by NARFE, the retirement information process should start when an employee first joins the civil service. As part of the onboarding process, employees should be made aware that they should keep records of standard forms, transfers between agencies and personnel actions that will eventually affect their retirement annuities. In addition, as employees near retirement eligibility, they should be provided with fact sheets with a list of common errors and more complex issues. Once an employee declares his/her intention to retire, agencies should ensure that s/he receives the standardized checklist, a list of common problems that can delay processing, an FAQ (contact numbers, information on what to expect, etc.) and a list of forms that may need to be updated (beneficiaries, life insurance). It also should be made clear to an employee that the retirement process takes time, especially if their career included multiple federal agencies, since most

employee records are in paper form. The employee should also follow up with his/her employing agency to ensure the request to receive those records has been made.

In short, more needs to be done on the part of employing agencies to ensure retirees' claims are processed in a timely manner.

OPM's IT Strategic Plan and the Future of Retirement Processing

OPM must continue to work to enter the electronic age and eventually end the process of paper records being physically driven up and down the east coast. We realize this is no easy feat and requires a collaborative effort with employing agencies, not to mention the unenviable task of obtaining funding from Congress. The process of transitioning into retirement varies too widely among employing agencies. A standardized process and use of electronic records and processing would go far in ensuring a backlog of the magnitude we have seen will become and remain a distant memory.

Currently, OPM is taking an incremental approach to automating its retirement processing. Given the setbacks OPM has had in the past with electronic processing, NARFE supports this methodical approach.

OPM's IT Strategic Plan, unveiled in February 2014, includes a multifaceted approach to reaching the goal of electronic records and processing. The more you understand all the necessary steps, the more daunting a task you realize it is. But that is all the more reason to require continual and measurable progress.

The IT plan includes five major initiatives:

- Electronic Retirement Record (ERR)
- Retirement Data Repository (RDR)
- Data Bridge
- Online Retirement Application
- Case Management System

While it appears incremental progress on these initiatives is being made, it is unclear what the timeline is for completion and how OPM plans to be held accountable for keeping on schedule, with successful results.

Particularly in contrast to the detailed and regimented plan to reduce the backlog, the plan to modernize IT seems vague, distant and uncertain. While there is more complexity in the task of modernizing the IT system, the process calls for an even more in-depth and focused plan to meet the enormity of the task. We hope OPM is tackling this challenge with the same determination and purpose with which it continues to tackle the claims backlog.

However, to do so, OPM may need the help of Congress. Currently, it is unclear how funding for these new initiatives will be obtained, particularly during these days of budget caps and sequestration. In fiscal year 2014, the Obama administration requested and received $2.6 million

in Trust Fund No-Year Authority, intended to be directed towards modernizing the retirement processing system.[2] Specifically, the Congressional Budget Justification states that OPM's Retirement Services "plans to implement a case management system for centralized storage processing of all retirement and related benefits claims."

This is money that comes directly from the Civil Service Retirement and Disability Trust Fund (CSRDF); money that federal employees have contributed their entire career in return for retirement stability. These funds should not be used lightly or taken for granted.

It is unclear to us how this money was spent, and as such, OPM should provide additional details to members of Congress, as well as federal employee and retiree representatives, regarding this plan. As currently described, it is difficult to ascertain what this proposal entails. Presumably, we are here today to discuss these concerns and receive answers to these questions.

In the future, and consistent with past practice, we urge that financing for information technology modernization should come from the general fund rather than the Trust Fund. We strongly support efforts by OPM to modernize its retirement services to improve efficiency and better serve federal retirees. However, we are skeptical of drawing down additional precious resources from the retirement trust fund as an alternative source of funding simply because Congress is unwilling to provide adequate financing to complete this necessary task.

Conclusion

In January 2012, there were major problems with federal retirement annuity claims processing, but remarkable improvements have been made over the past two years. We commend former OPM Director John Berry and current Director Katherine Archuleta, as well as Associate Director of Retirement Services Ken Zawodny, for their leadership in recognizing and tackling the problem head on, as well as the hard work of the employees at OPM in reducing the backlog of claims.

There is still more work to do to modernize the system. Retirement claims processing remains buried (literally and figuratively) in a cave in rural Pennsylvania, as if still in the Stone Age. While we continue to support a multistep and incremental approach in order to avoid the errors of previous attempts, it is past time to implement the necessary IT improvements to bring the retirement process into the 21st century. The United States government is a world class entity, and for the employees who make it run, achieving a world-class, modern retirement system to provide them with deserved security in retirement is critical.

Thank you, again, for inviting me to testify and for giving me the opportunity to share NARFE's views.

[2] *Congressional Budget Justification, Performance Budget, Fiscal Year 2014*, Office of Personnel Management (CBJ Submission April 2013).