UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

STATEMENT OF
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before the

SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT, THE FEDERAL WORKFORCE, AND THE DISTRICT OF COLUMBIA
COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

on

The Federal Government's Role in Empowering Americans to Make Informed Financial Decisions

July 15, 2010

Chairman Akaka, Ranking Member Voinovich and Members of the Subcommittee:

Thank you for the opportunity to testify today on the critical work that the Office of Personnel Management (OPM) is doing to improve the financial literacy of Federal employees and to ensure that they are adequately prepared for retirement.

OPM is committed to educating Federal employees about the need for retirement savings and investments and providing information on how to plan for retirement, including how to calculate the retirement savings and investments needed to meet their retirement goals. As part of that commitment, we were pleased to participate in Financial Literacy Day on Capitol Hill in April where we provided information about the various benefits programs available to Federal employees. We had experts available to answer attendees' questions and also invited representatives from the Thrift Savings Plan (TSP) to join us. These experts provided attendees with additional resources to discuss important facets of their retirement benefits.

OPM is proud of the active role it has taken as a member of the Financial Literacy and Education Commission (FLEC). OPM co-chairs, with the Department of Treasury, the National Financial Education Network, which seeks to facilitate and advance financial education at the state and local level. This network creates a clearinghouse of state and local government financial education programs that serves as a place to share best practices and resources. The clearinghouse not only serves as a valuable resource to state and local governments, it provides a rich array of resources that agency benefits officers can use to expand their retirement readiness education program for Federal employees. OPM is a member of the FLEC core competencies working group. This working group brought together the full range of financial education leaders, practitioners and constituency groups to identify the core financial competencies all Americans should have to be financially fit.

Due to the leadership of this subcommittee, Congress took the necessary steps to improve financial literacy of Federal employees when it passed the Thrift Savings Plan Open Elections Act of 2004. The Act directed OPM to develop a strategy to "provide employees information on how to plan for retirement, and how to calculate the retirement investment needed to meet their retirement goals." OPM developed a comprehensive retirement education strategy based on a model called *Retirement Readiness NOW*. The model focuses on the outcome of our retirement financial education programs, which will ultimately provide employees information on how to plan for retirement and how to calculate the retirement investment needed to meet their retirement goals.

The retirement readiness strategy combines basic information about the benefits provided by the Government, as an employer, and the broader financial education needs of employees. Rather than being a "near retirement" event, the retirement readiness model considers retirement financial literacy and financial education as a career-long process. The model incorporates a broad range of information that employees need to assist them in making informed retirement planning decisions. The model also recognizes that needs change as individuals progress through their careers.

OPM's *Retirement Readiness NOW* model takes a total balanced approach to planning that covers:

- Networking and Engagement – finding enjoyable challenges, connecting with people in meaningful activities such as volunteer work, or exploring a new career;

- Overall Health – staying as healthy as possible for the duration of your life; understanding the aging process and how best to approach healthcare issues such as preventative and disease treatment; and

- Wealth – preparing financially to have sufficient income to have a sustainable standard of living and lifestyle in retirement.

Retirement readiness is also a dynamic that changes over time. The activities and planning employees should do, such as being aware that they may need to monitor and/or alter their choice of TSP funds during their careers; become pro-active in preventative health care measures; and deciding what plans to make with regard to what they will do and where they will live in retirement are all changes made as one moves through life stages. Providing employees with the necessary tools and resources to empower them to make informed financial decisions is a shared responsibility amongst OPM, employing agencies, and employees. Each has an important role to play.

OPM has three key roles in retirement readiness: Catalyst, Capacity, and Coordination. OPM serves as a catalyst for retirement readiness programs helping to focus attention on the issue. OPM speakers participate in a variety of conferences involving Federal employees to discuss the need for retirement readiness and our education programs. This past April, OPM began to send weekly “Retirement Readiness NOW Tips” to more than 10,000 subscribers of our email list. These tips focused on small steps employees can take to move toward retirement readiness, as well as provided a weekly reminder of the need for retirement readiness.

Building capacity means providing the necessary training and tools to agency benefits officers so that they can assist employees in understanding their benefits and identify their financial education needs. The Federal benefits programs form an important base for employees to build their financial security upon. OPM training programs for benefits officers play an important role in preparing them to provide employees with the information they require.

In May, OPM conducted our fifth benefits officers Retirement Financial Education Symposium. The symposium provides training for agency benefits officers on a wide variety of benefits administration topics including updates on our retirement readiness initiatives. The theme of this year’s symposium focused on communicating benefits information to different generational groups in the workforce. Young employees entering the workforce have spent their entire lives “wired” and connected. They have different learning styles, information preferences and benefit needs in relation to older employees. It is critical for benefits officers to understand these differences and tailor their educational programs accordingly so that they can effectively provide the information needed by all employees to make informed benefits choices. In addition, OPM has begun to look at the role of new social networking sites/media, such as Twitter, and how they can aid in reinforcing retirement readiness messages.

Evaluation measures are critical to ensuring that our efforts are effective. Our strategy requires agencies to develop their own plans guided by OPM’s Retirement Readiness Now model. Additionally, agencies will report annually to OPM on their retirement readiness programs. These annual reports help to guarantee that agencies institute sustainable programs and evaluate their effectiveness.

OPM is also developing tools for employees to use in order to better understand their benefits and plan for retirement. One of the tools developed in partnership with the American Savings Education Council (ASEC) of the Employee Benefits Research Institute is the Federal Ballpark Estimate, a savings goal worksheet that is based on the widely used ASEC Ballpark Estimate. The Federal Ballpark Estimate makes it possible to automatically calculate estimates of future Civil Service Retirement System or Federal Employees Retirement System retirement benefits and TSP account balances, as well as inform the user of how well the individual is doing in meeting his savings goal. During FY 2009, there were 90,000 visits to the Federal Ballpark Estimate on OPM’s web site and more than 273,000 estimates completed. Users typically created 2 or 3 scenarios to help them test different savings strategies to assist them in setting up their savings goal. Many agencies, such as the Federal Retirement Thrift Investment Board, link their sites to the Federal Ballpark Estimate.

Another key role of OPM is coordination of financial education resources. A wealth of financial education materials and programs—course materials, web sites, brochures, newsletters, etc., have been developed by Federal agencies such as the Federal Reserve System, the Federal Deposit Insurance Corporation (FDIC), the Department of Agriculture Cooperative State Research, Education and Extension Service, and the Thrift Savings Plan. In addition, there are numerous non-profit organizations, such as the American Savings Education Council and the National Endowment for Financial Education, that have also developed excellent resources that are available at little or no cost.

OPM's role is to identify those resources and create partnerships to leverage the use of those materials by agencies for their employees. In 2008, we entered into a partnership with FDIC to provide train-the-trainer training and course materials for their Money Smart program to benefits officers. Over the past two years, we've trained over 200 benefits officers through this partnership. FDIC gave a presentation on Money Smart and how benefits officers can use the program in their agencies during our Retirement Financial Education Symposium in May.

Over the next year, OPM plans to expand our partnerships with nonprofit financial education organizations, and to reach out to Federal Executive Boards and employee organizations to build partnerships that will leverage their day-to-day relationships with employees to utilize the financial education resources of our other partners.

OPM recently released a study analyzing participation in the TSP. The study identified employee participation rates and determined if the data suggests whether possible actions were to be taken to improve the methodology by which we educate Federal employees so that they will be better able to plan for retirement. The study showed that participation in the TSP is generally high, and employee participation rates increased between 2005 and 2007. However, some of the data indicated that minorities were lagging behind non-minorities in terms of the percentage of employees participating, salary deferral rates, and TSP balances. Discrepancies were also present when participation rates and TSP balances were compared across genders (men and women).

The TSP Enhancement Act of 2009 provisions of the Family Smoking Prevention and Tobacco Control Act (P.L. 111-31) provided for agencies to automatically enroll all new Federal civilian employees into the TSP. Employees who do not want to participate in the TSP can choose to opt out of the program. Based on research studies on behavioral economics, we expect that automatic enrollment in TSP will reduce the discrepancies in TSP participation described above. However, since this new policy only affects new Federal employees, OPM is taking action now to increase TSP participation among current employees and reduce the discrepancies across groups.

OPM will increase educational and outreach efforts in three main areas. Primarily, we will work to build strategic partnerships and coalitions with Federal employee groups such as unions and employee affinity groups representing diverse populations of employees. Secondly, we will provide agencies and partners with financial education programs focused on helping employees understand the importance of saving through the TSP at events such as chapter meetings and conferences. Finally, OPM and other partners will conduct outreach programs to agency benefits officers and their respective memberships to make them aware of the resources available to help promote participation in the TSP. We will measure the effectiveness of these efforts by regularly tracking changes in TSP participation among all Federal employees, groups of employees currently underrepresented in TSP, and individual employees who participate in our education and outreach activities.

Agencies share responsibility and play a key role in OPM's retirement readiness programs. They have primary responsibility for identifying employee needs by using the tools OPM developed; providing training, information and access to resources to their employees; and giving OPM feedback so that we can continue to improve agencies' retirement education capacity. For example, OPM conducts a speaker series throughout the year on topics such as debt management, TSP, college savings plans, and home mortgages. OPM employees also have access to a financial education page on the agency intranet. The recent DOD Worldwide Human Resources Conference included a financial education fair that provided information to participants and introduced the entire DOD human resources community to this effective financial education tool. DOD also recently launched a Financial Fitness web site to provide tips, techniques, and tools to assist DOD employees in staying on track toward achieving their goals.

OPM's responsibility, and one we work on daily, is to provide sufficient tools and information to help employees understand the importance and value of retirement savings and investments and to make informed financial decisions in preparation for retirement. However, OPM and agencies cannot improve employees' retirement readiness without the direct involvement of the employees themselves. Employees must take advantage of opportunities provided and assume responsibility for taking steps to meet their retirement goals.

Thank you for allowing me to testify before the Subcommittee on this very important issue, and I will be glad to answer any questions you may have.