

**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***

April 30, 2007

Mr. Chairman and Members of the Subcommittee:

It is my pleasure to be here today to outline the important work the Office of Personnel Management (OPM) is doing to ensure Federal employees are ready 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 last week, where we provided information about the various benefits programs available to Federal employees and had experts available to answer attendees' questions. We also invited representatives from the Thrift Savings Plan to join us, thereby providing attendees with additional resources to discuss this important facet of their retirement benefits.

As you know, the Thrift Savings Plan (TSP) is a Federal Government-sponsored retirement savings and investment plan open to Federal civilian employees and to members of the uniformed services. The TSP offers savings and tax benefits comparable to what many private corporations offer their employees under tax-deferred 401(k) plans. It is one of the Nation's largest retirement plans and one we strongly encourage all eligible Federal employees to take advantage of as a means of preparing for their future. Due to your leadership, Congress took steps to help make Federal employees more aware of the opportunities available to them through the TSP when it passed the Thrift Savings Plan Open Elections Act of 2004. The Act directed the Board that manages the TSP, the Federal Retirement Thrift Investment Board, to evaluate and improve the existing TSP education program and to annually report to Congress on these efforts. OPM was directed to develop a strategy (in consultation with the Board) to "provide employees information on how to plan for retirement and how to calculate the retirement investment needed to meet their retirement goals." OPM is doing that through a strategy based on an education model we call *Retirement Readiness NOW*. The term focuses on the outcome of our retirement financial education programs—to provide employees information on

how to plan for retirement and how to calculate the retirement investment needed to meet their retirement goals.

Retirement readiness 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 education as a career-long process. The model incorporates the broad range of information employees need to help them make informed retirement planning decisions. It also recognizes that these needs change as a person moves through his or her career.

Our *Retirement Readiness NOW* model takes a total balanced approach to planning that covers:

- Networking & Engagement – finding enjoyable challenges, connecting with other people in meaningful activities such as volunteer work, or even exploring a new career;
- Overall Health – staying as healthy as you can for however long you live; understanding the aging process and how best to approach healthcare such as preventative and disease treatment; and
- Wealth– preparing financially to have sufficient income to support your own standard of living in retirement.

Retirement readiness is also dynamic. It changes over time. The activities and planning employees need to do, such as awareness they may need to alter their choice of stock funds during their careers, preventative health care measures, and planning what they will do and where they will live in retirement – are all changes made as one moves through life stages.

OPM has three key roles in retirement planning: Capacity, Coordination, and Catalyst. Building capacity means providing training and tools to agency benefits officers so that they can help their employees understand their benefits and identify their financial education needs.

OPM's Retirement System Modernization (RSM) will provide employees with tools that for the first time ever will allow them to model their future retirement benefits based on a complete set of their actual Federal employment information. RSM modeling tools will include a web-based application that will contain personalized content and decision support, enabling employee self-service access 24 hours a day, 7 days a week, by telephone or via a web interface. The RSM tools will allow a one-stop experience for employees to initiate changes to their retirement benefits. These capabilities will be available beginning February 2008.

In addition to providing information on Federal annuity retirement contributions, it will also link to an employee's Social Security benefit and current Thrift Savings Plan account balance. This complete picture of earned Federal Government benefits will

provide the Federal employee a more accurate view of their retirement financial forecast. In addition, RSM will make the full annuity payment at the very beginning of an employee's retirement. RSM will do this by replacing the current system of receiving interim payment while employment history is verified with a process of placing verified employee data in advance of making the retirement application. We are also in the early stages of creating additional educational tools to complement the RSM capability.

Another important step we have taken is the development of a partnership with the American Savings Education Council (ASEC) of the Employee Benefits Research Institute. Through this partnership, we have developed the Federal Ballpark Estimate—a savings goal worksheet—based on the widely-used American Savings Education Council Ballpark Estimate. The Federal Ballpark Estimate makes it possible to automatically calculate estimates of future Civil Service Retirement System (CSRS) or Federal Employees' Retirement System (FERS) retirement benefits and TSP account balances, as well as inform the user of how well he or she is doing in meeting their savings goal. We plan to post the Federal Ballpark Estimate on our web site by the end of May. As an example of our coordination with the Federal Retirement Thrift Investment Board, it will replace its current link to the ASEC's Ballpark Estimate with the one to the tailored Federal Ballpark Estimate.

We are also nearing completion of the Retirement Readiness Profile—an interactive assessment tool that will tell employees how well they are doing on the 3 dimensions of *Retirement Readiness NOW*, networking and engagement, overall health,

and wealth, based on their career stages. It will then recommend next steps the employees can take to increase their retirement readiness.

Evaluation measures are critical to ensuring our efforts are effective. Our strategy requires agencies to report to OPM on their retirement readiness programs. These plans will help ensure agencies institute sustainable programs and evaluate their effectiveness.

We have developed a method of measuring employee benefits knowledge and will collect a Government-wide baseline later this year. The level of employee benefits knowledge is one measure of the effectiveness of our education program.

In addition, we have produced a retirement video to provide employees with an overview of critical information they need to know as they begin planning for their retirement. The video is available on the OPM web site at:

http://www.opm.gov/Video_Library/Retirement/index.asp

We also delivered a series of pre-retirement seminars to staff of the U.S. House of Representatives this past November. We were pleased that over 200 Congressional staff took part in the series.

Coincidentally, OPM's Center for Human Capital Management Services held a briefing on the TSP for our employees just 10 days ago in our Washington headquarters. Attendees were very enthusiastic about the briefing and requested additional retirement

planning workshops. This further demonstrates employees are eager for information about financial planning.

Next month we will conduct our second benefits officers Retirement Financial Education Symposium. The symposium will provide training for agency benefits officers on a wide variety of benefits administration topics, as well as updates on our retirement readiness initiatives. Last week, we published a Benefits Administration Letter (BAL 07-102) providing guidance to agencies on developing retirement financial education plans for their employees. Agencies' plans must discuss four key elements: the content of their retirement readiness programs, how they will deliver the information to their employees, the evaluation metrics that will be used, and the steps being taken to insure the long-term sustainability of the programs. The plans must be submitted to OPM annually.

We are also developing a series of Workshops in a Box. These workshops are designed as a complete kit for benefits officers to use to train their employees on benefit topics. Topics in the series include: Overviews of CSRS and FERS; Flexible Spending Accounts, and Benefits for new employees.

Based on a series of Financial Education Fairs we conducted, we issued a how-to handbook for agencies to use to conduct their own retirement readiness fairs. The handbook provides step-by-step instructions, planning worksheets, and sample promotional materials. We also published a list of contacts in Government agencies who are available to participate in these events.

Another key role of OPM is coordination of financial education resources. There is a wealth of financial education materials and programs—course materials, web site, brochures, newsletters, etc., that have been developed by Federal agencies such as the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Department of Agriculture Cooperative Extension Service, and the Thrift Savings Plan. In addition, numerous non-profit organizations such as the American Savings Education Council, InCharge Educational Foundation, and the National Endowment for Financial Education 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. An example of a partnership is our work with the Employee Benefits Research Institute to create the Federal Ballpark Estimate.

OPM also serves as a catalyst for retirement readiness programs. Recently we distributed the first edition of our retirement readiness eLetter to benefits officers. The bi-monthly newsletter provides information about retirement readiness education they can use and can pass on to others. Additionally, OPM speakers participate in a variety of conferences involving Federal employees to spread the word on the need for retirement readiness and our education programs.

Agencies play a key role in OPM's retirement readiness programs. They have the primary responsibility of identifying employee needs using the tools we develop, of providing training, information and access to resources to their employees, and of giving us feedback so we can continue to improve agencies' retirement education capacity.

However, OPM and agencies can't improve employees' retirement readiness without the direct involvement of the employees themselves. Employees must take advantage of opportunities provided and must assume responsibility for taking steps to meet their retirement goals. Our responsibility, and one we work on daily, is to provide as many tools and as much information as is needed to understand the importance and value of retirement saving and investments in preparation for retirement.

OPM also is proud of the active role it has taken as a member of the Financial Literacy and Education Commission. We were on the national strategy working group and earlier this month co-hosted with the Department of Treasury the first meeting of the National Financial Education Network. The network is creating a clearinghouse of State and local government financial education programs to serve as a place to share best practices and resources. This clearinghouse will not only serve as a valuable resource to State and local governments, it will identify a rich array of resources agency benefits officers can use to explain their retirement readiness education program for Federal employees.

I appreciate this opportunity to testify before the Subcommittee on this very important issue. I will be glad to answer any questions you may have.