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September 27, 2010

The Honorable Gene L. Dodaro
Acting Comptroller General of the United States
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Dodaro:

Life insurance provided through the Federal Employees Group Life Insurance program (FEGLI) is an important benefit covering more than 4 million federal employees. The payment of claims under this program is critical for families and others in dealing with the loss of a loved one. Funding the program is also a significant expense for the U.S. government, with almost \$4.7 billion in costs incurred in 2009. Because of the importance of this program to federal employees and its cost to U.S. taxpayers, proper administration and oversight by the Office of Personnel Management (OPM) is critical.

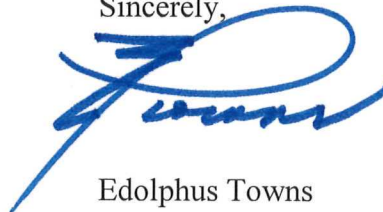
Recently, we became aware that FEGLI beneficiaries no longer receive a direct lump-sum payment. Instead, the money is deposited in a "retained asset account" administered by MetLife. This raises questions about disclosures and account protections provided to those beneficiaries, and this in turn has highlighted the cost of the program to the federal government. Moreover, when the insurer contracted by OPM to administer FEGLI payments holds the funds, it earns interest at a much higher rate than the rate being paid to the owner of the account.

In the 1970s and 1980s, GAO identified several concerns about the operation of FEGLI. It is unclear whether these issues were ever addressed by OPM. Therefore, we request that GAO conduct a thorough review of the operation of the FEGLI program and OPM's administration of it. Specifically, we request that GAO:

1. Describe how the FEGLI program works, including identifying who the policyholder is, what state insurance laws apply, who underwrites the policies, whether the FEGLI program meets the legal definition of “insurance”, how premiums are set and by whom, what portion of the premium is paid by the insured and what part is paid by the federal government, who bears the risks, and the extent to which liability for claims payments is retained by the U.S. government or spread to private market insurers and reinsurers, and how FEGLI premiums and practices compare to other large employer-based group life insurance programs.
2. Evaluate OPM’s implementation and oversight of the program, including the use of a contractor to administer the program, how often the contract has been recompeted, the rules and other requirements that apply to these contractors, and OPM’s compliance with relevant statutory requirements associated with the program.
3. Analyze the use of retained-asset accounts in the payment of claims under FEGLI, including what happens when a claim is paid via a retained-asset account (e.g., the extent to which the account is guaranteed by state insurance guarantee funds); the returns typically earned on these accounts; how rates paid to beneficiaries are set on retained-asset accounts; what risks, if any, these accounts create for beneficiaries; what impact, if any, these accounts may have on the Treasury’s opportunity costs and administrative costs charged to the federal government for administering the program; and the extent to which the use of retained-asset accounts and activities associated with these accounts are governed by federal or state laws.
4. Compare the use of retained-asset accounts by FEGLI to their use by private sector insurers, including the amount of money held in retained-asset accounts, how and where the money in these accounts is invested, the length of time benefits are usually held in retained-asset accounts, how inactive accounts are defined, the amount of money held in inactive accounts, and what happens to the money held in inactive accounts.
5. Any other issues that GAO identifies as relevant to the administration and oversight of the FEGLI program.

Should you have any questions concerning this request, please contact Neema Guliani or John Arlington of the Committee staff at 202-225-5051.

Sincerely,



Edolphus Towns
Chairman

cc: The Honorable Darrell Issa
Ranking Minority Member
Committee on Oversight and Government Reform