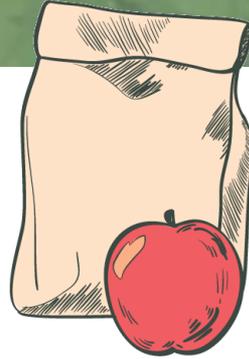


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Actuary Serving Congress: A Conversation with GAO's Chief Actuary

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Outline

- I. GAO: Who Are We and What Do We Do?
- II. Role of the Actuary at GAO
- III. Selected Areas of GAO Work

GAO History

- Established in 1921, under the Budget and Accounting Act, as General Accounting Office
 - GAO was given the statutory authority to “investigate...all matters relating to the receipt, disbursement, and application of public funds”
- GAO increasingly involved in a full range of oversight, insight, and foresight activities, including program evaluations and policy analyses
 - Name changed to Government Accountability Office in 2004

GAO Today

- GAO's Mission:
 - Support the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the benefit of the American people.
 - Provide Congress with timely information that is objective, fact-based, nonpartisan, nonideological, fair, and balanced.

www.gao.gov

GAO Today

- We support Congressional oversight by:
 - Auditing agency operations to determine whether federal funds are being spent efficiently and effectively
 - Investigating allegations of illegal or improper activities
 - Reporting on how well government programs and policies are meeting their objectives
 - Performing policy analyses and outlining options for Congressional consideration
 - Issuing legal decisions and opinions, such as bid protest rulings and reports on agency rules

GAO Today

- Sources of Work
 - Congressional requests
 - Congressional mandates
 - Comptroller General's statutory authority
 - Informed by strategic planning and ongoing dialogue with Congress.
- In fiscal year 2013:
 - 709 reports
 - 114 Congressional testimonies
- Strict professional standards of review and referencing

GAO Today

- GAO is part of the legislative branch of the federal government.
- Sister agencies:
 - Congressional Budget Office (CBO)
 - Congressional Research Service (CRS)

GAO Today

- GAO is led by the Comptroller General of the United States
 - 15-year term
 - Appointed by the President from a list of candidates selected by a bipartisan Congressional commission, and subject to Senate confirmation
 - Current CG: Gene Dodaro, eighth CG
 - Confirmed December 2010; was Acting CG since 2008
 - Most recent predecessor: David Walker
- CG Dodaro made presentation to American Academy of Actuaries Board of Directors, May 8, 2013 (<http://www.gao.gov/products/GAO-13-584CG>)

GAO Today

- GAO staff
 - About 2,900 employees
 - About 70 percent in Washington, DC headquarters, others in 11 field offices
 - Includes economists, social scientists, accountants, public policy analysts, attorneys, scientists, computer experts, and other specialists in fields ranging from foreign policy to health care

Role of the Actuary at GAO

- Most employees are in one of 14 “mission teams,” organized largely by subject area
- Chief Actuary reports to CG and is housed in Applied Research and Methods team, along with other “chiefs”
 - Chief Economist, Chief Accountant, Chief Scientist, Chief Technologist, Chief Statistician (vacant)
- Frank Todisco is GAO’s 2nd Chief Actuary (succeeded Joe Applebaum)

Role of the Actuary at GAO

- Roles include:
 - Expert consultant to mission teams
 - Includes assisting with structure of research, methodology, analysis, interviewing external experts
 - Review / edit / draft relevant parts of reports
 - Peer review / technical review sign-off authority
 - Sign reports where appropriate
 - Represent GAO externally
 - Testify before Congress

Role of the Actuary at GAO

- Actuarial issues in GAO work span all practice areas
 - Role of actuary will vary depending on specialized expertise
 - Contributed to about 65 reports in 2013
- GAO expecting to post to hire additional actuaries this year

Role of the Actuary at GAO

- The American Academy of Actuaries has been a source of valuable external expertise for GAO
 - In all practice areas
 - Via Academy publications and interviews with Academy experts



Selected Areas of GAO Work

GAO's High-Risk List

- Focuses on areas most in need of reform or transformation, or most vulnerable to fraud, waste, abuse, and mismanagement
- 30 areas currently on the list
- Helps focus attention of agencies and Congress
- Began in the 1990s. Issued with each new Congress, most recent in February, 2013.

For the full list of areas on the High-Risk List see www.gao.gov/highrisk

Examples from GAO's High-Risk List

- Limiting the Federal Government's Fiscal Exposure by Better Managing Climate Change Risks (added in 2013)
- National Flood Insurance Program (2006)
- Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability (2009)
- Pension Benefit Guaranty Corporation Insurance Programs (2003)
- Modernizing the U.S. Financial Regulatory System and Federal Role in Housing Finance (2009)

Consolidated Financial Statements of the U.S. Government

- U.S. government issues an annual GAAP financial report (GAO-14-319R)
 - Produced by Treasury, audited by GAO
 - Distinct from budget and budget deficit
- Relevant accounting standards are those of the Federal Accounting Standards Advisory Board (FASAB)

Consolidated Financial Statements of the U.S. Government

- Includes:
 - Statements of Operations, Balance Sheets
 - Statements of Social Insurance (SOSI)
 - Required supplementary information on long-term fiscal projections and sustainability of fiscal policy
 - Liabilities for federal civilian and military pension and retiree health benefits and veterans benefits
 - Explanations of actuarial aspects of these amounts and changes in these amounts

Restructuring the U.S. Postal Service (USPS) to Achieve Sustainable Financial Viability

- USPS's financial situation is deteriorating
 - Insufficient revenues to cover expenses and financial obligations.
 - Unfunded liabilities and debt totaling \$100 billion at the end of fiscal year 2013
 - Failure to make \$17 billion in mandated payments to prefund retiree health benefits
 - Has reached its \$15 billion borrowing limit
 - Declining mail volume—particularly profitable first-class mail
 - Faces a critical shortage of liquidity
- Congress needs to approve a comprehensive package of actions to improve the USPS's financial viability

Restructuring the U.S. Postal Service (USPS) to Achieve Sustainable Financial Viability

- GAO has analyzed consequences and made recommendations on key USPS benefit liabilities
 - Allocation between USPS and rest of federal government of responsibility for pension benefits
 - Issues re accessing pension surplus
 - Support prefunding retiree health, with 100% funding target, and switch to actuarial approach
 - Support USPS-specific actuarial assumptions
 - USPS proposal to pull out of federal health care program and run its own – Potential benefits, costs, and risks
 - Identify unfunded workers' compensation liability

Restructuring the U.S. Postal Service (USPS) to Achieve Sustainable Financial Viability

- Three reports, two Congressional testimonies
 - GAO-12-146, GAO-13-112, GAO-13-658
 - Senate testimony, 9/26/13, GAO-13-872T
 - House testimony 3/13/14, GAO-14-398T

National Flood Insurance Program

- Placed on High Risk List in 2006 due to losses from the 2005 hurricanes and the financial exposure the program creates for the federal government.
- Currently \$24 billion in debt to the Treasury, including funds borrowed to pay claims from Superstorm Sandy.
- Financial condition highlights weaknesses in how the program has been structured, primarily inadequate premium rates.
- FEMA has begun to implement provisions in the 2012 Biggert-Waters Flood Insurance Reform Act of 2012 aimed at strengthening NFIP's financial stability, and has taken steps to address management weaknesses in areas such as acquisition management and contractor oversight.
- The recently passed Homeowner Flood Insurance Affordability Act of 2014 repeals or alters portions of the Biggert-Waters Act. For example, it reinstates certain subsidized premiums and restores grandfathered rates removed by the Biggert-Waters Act but contains new surcharges.

National Flood Insurance Program

What Remains to Be Done

- Fully implement remaining requirements in the Biggert-Waters Act and address changes required by the 2014 act:
 - Build a catastrophic loss fund (Biggert-Waters)
 - Develop a plan for repaying the current debt to Treasury (Biggert-Waters)
 - Reinstate certain subsidies (2014 act)
 - Implement new premium surcharges (2014 act)
- Continue to address management and operational weaknesses identified by GAO including:
 - strategic and human capital planning, acquisition management, policy and claims management systems, financial management, collaboration, and records management

National Flood Insurance Program

- Recent GAO work has addressed:
 - Overview of ongoing challenges and potential additional program changes (GAO-13-858T)
 - Privatization options (GAO-14-127)
 - Subsidized premiums (GAO-13-607)
 - Increasing coverage limits (GAO-13-568)
 - “All-perils” homeowner’s policies (GAO-14-179)
 - Program management (GAO-11-297)
- Much more ongoing work – including looking at rate-setting methodology

Limiting the Federal Government's Fiscal Exposure by Better Managing Climate Change Risks

- GAO-14-364T and work in progress
- GAO has recommended establishment of strategic government-wide approach to climate change, including roles and responsibilities of key federal entities.
 - Federal government would be better positioned to respond to risks posed by climate change if federal efforts were more coordinated and directed toward common goals.
- Climate change creates significant financial risks for the federal government in 4 areas:
 1. Owner of Property (e.g., defense facilities)
 2. Insurer (e.g., National Flood Insurance Program)
 3. Provider of Technical Assistance to state and local officials
 4. Provider of Disaster Aid

Limiting the Federal Government's Fiscal Exposure by Better Managing Climate Change Risks

Government wide strategic approach is necessary.

- Strong leadership for more focus and coordination at the federal level to set priorities.
- Develop and incorporate climate information into flood and crop insurance.
 - Develop the information needed to consider sea level rise and long-term erosion when updating flood maps.
- Provide technical assistance to state and local governments.
 - Translate best available climate-related data for making state and local decisions.
- Disaster aid decision making.
 - Improve criteria to assess jurisdiction's capacity for response.
 - Better track and report on all disaster spending and budget adequately for disasters.
 - Better apply lessons from past experience when developing disaster cost estimates so decision makers have a comprehensive view of overall funding claims and trade-offs.

Other Property and Casualty-Related Work

- Crop insurance – work in progress
- Terrorism insurance – work in progress
- Space launch insurance (GAO-12-767T)
- Federal fiscal exposures (GAO-14-28) – Improving cost recognition in the federal budget
- Mortgage insurance – Financial condition of Federal Housing Administration programs (GAO-13-722 and GAO-13-682)
- Analysis of proposed changes to federal workers' compensation program (GAO-13-730T and several related reports)

Pension Benefit Guaranty Corporation Insurance Programs

GAO designated PBGC's programs high risk because:

- Governance and funding structure pose long-term challenges.
- Net accumulated financial deficit = \$36 billion (end of FY 2013).
- Financial risk for potential terminations = \$329 billion (estimate).

Recent GAO reports have addressed PBGC's investment policy (GAO-11-271), risk-based premium options (GAO-13-58), and the threat of insolvency of the multiemployer trust fund (GAO-13-240).

July 2012 and December 2013 legislation included provisions to increase premium rates.

PBGC steps to address areas of weakness identified by GAO include:

- adopting a new investment policy statement,
- implementing new practices to strengthen contract management, and
- modeling more risk-based premium options.

Pension Benefit Guaranty Corporation Insurance Programs

Financial future continues to be uncertain due to:

- ongoing threat of losses from the termination of underfunded plans
- steady decline in the sources of revenue to finance future claims.

To improve the stability of PBGC's insurance programs, further congressional action that might be considered includes:

- Expand and diversify PBGC's Board of Directors;
- Redesign PBGC's premium structure (one option is risk-based premiums); and
- Develop a strategy for PBGC's long-term financial solvency.

Successful implementation of these proposed actions will require actuarial expertise integrated throughout the process.

Additional Retirement-Related Work

- Pension discount rate controversy – this Spring
- Impact of pension de-risking (annuity buy-outs and lump sums)

Additional Retirement-Related Work

- Financial literacy – CG Forum (GAO-12-299SP)
- Lifetime income – lessons from other countries (GAO-14-9)
- Guaranteed lifetime withdrawal benefits and contingent annuities (GAO-13-75)
- Lifetime income (GAO-11-400)
- Auto-IRA proposal (GAO-13-699)
- 401(k) rollovers (GAO-13-30)
- DC tax incentives and distribution of benefits (GAO-11-333)

Additional Retirement-Related Work

- Unemployed older workers (GAO-12-445)
- Women and retirement security (GAO-12-699)
- Impact of trends in marriage on retirement security (GAO-14-272T and forthcoming report)
- Characteristics of early retirees – in progress
- Plan sponsorship by small employers (GAO-12-326)
- Multiple-employer plans (GAO-12-665)

Additional Retirement-Related Work

- DOD contractor pension costs (GAO-13-158)
- DOE contractor pension costs (GAO-11-378)
- Delphi pensions (GAO-13-854T)
- Analyses of total compensation of various organizations – requires measures of value of retirement benefits

Additional Health Care-Related Work

- Early experience of health insurance exchanges
 - Multiple works in progress, including on premiums, medical loss ratios, small business exchanges, insurer participation / market concentration, risk mitigation provisions
- Medicare Advantage plans – estimated vs. actual costs (GAO-14-148)
- Childrens' health insurance program (CHIP) (GAO-14-40)
- Pre-Medicare insurance coverage (GAO-14-53)
- Allocation of Medicaid funding (GAO-13-434)
- Federal long-term care insurance program (GAO-11-630)



Questions?