## M. ACTUARIAL LIABILITES AND ASSOCIATED EXPENSES

OPM reports three "actuarial liabilities" and associated expenses in accordance with Statement of Federal Financial Accounting Standards (SFFAS) Number 5 -- *Accounting for Liabilities of the Federal Government.*

The actuarial liabilities are measured as of the first day of the year, with a "roll-forward" or projection to the end of the year, in accordance with SFFAS Interpretation Number 3 -- *Measurement Date for Pension and Retirement Health Care Liabilities*. The "roll-forward" considers all major factors that affect the measurement occurring during the reporting year, including pay raises, cost of living allowances, and material changes in the numbers of covered employees.

## N. EARNED REVENUES AND OTHER FINANCING SOURCES

### 1. Earned Revenues

#### a. Contributions by and for Benefit Program Participants

CSRS. Generally, the law fixes the contributions by and for most participants at a combined 15.91 percent of basic pay in 2000. [P.L. 106-346, signed into law on October 23, 2000, will reduce this to 15.51 percent of basic pay, effective on January 1, 2001]. The service cost of providing benefits to most CSRS employees is 24.2 percent, which represents the percentage of basic pay that should be contributed by and for employees over their working careers to meet their projected retirement benefits. Thus, contributions by and for participants do not cover the service cost of the CSRS.

FERS. The service cost of providing benefits to most FERS employees is 11.5 percent of basic pay. The service cost is generally fully funded by the contributions made by and for participants.

Health Benefits Program. The Health Benefits Program is contributory, with both the covered participant and his/her employer or retirement system required to make contributions. Participants and their applicable employing agency or retirement system contribute to the Program at approximately a two-thirds, one-third ratio, respectively. The "employer" share for participating Retirement Program retirees and survivors is drawn from an appropriation account.

Life Insurance Program. The Life Insurance Program is contributory, with both the covered participant and his/her employer or retirement system required to make contributions. Participant contributions for Basic life insurance are twice that of the non-Postal employing agency or retirement system. For participating annuitants, the "employer" contribution for Basic life insurance is drawn from an appropriation account. For optional coverages, the entire contribution is borne by the participant.

#### b. Earnings on Investments

SFFAS Number 7 – *Accounting for Revenue and Other Financing Sources* -- requires that OPM's earnings on its investments be classified in the same way as its predominant source of revenue. Since all of OPM's revenues are classified as exchange revenues, interest revenue is also classified as exchange revenue.

2. Other Financing Sources

Transfer-in. The law requires that the Treasury transfer annually from the General Fund of the U.S. Government to the Retirement Program an amount to provide for (1) interest on the unfunded actuarial liability; (2) a payment to amortize over a 30-year period the increase in the actuarial liability resulting from new or liberalized benefits; and (3) reimbursement for the cost incurred by the Program to provide credit for military service and certain survivor benefits. According to SFFAS Number 7, an inflow of resources that does not require reimbursement from the recipient is a "subsidy" of the recipient. Thus, the inflow of resources from the General Fund is not revenue, but an "other financing source" to OPM.

Appropriations used. OPM receives appropriations to support its operations. A financing source, "appropriations used," is recognized to the extent the appropriated resources have been consumed. Appropriations used are recognized as a financing source as expenses are incurred.

## NOTE 2. INVESTMENTS, NET

The following table presents OPM's investments and related information as of September 30, 2000:

| Program | Cost | Amortized Discount/ (Premium) | Investments, Net | Market Value |
|---|---|---|---|---|
| Retirement | $512,037 | 0 | $512,037 | $512,080 |
| Health Benefits | 5,984 | $7 | 5,991 | 5,997 |
| Life Insurance | 22,426 | (157) | 22,269 | 22,547 |
| Total | $540,447 | $(150) | $540,297 | $540,624 |

## NOTE 3. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

With minor exception, budgetary resources are available to liquidate all of OPM's non-actuarial liabilities; these liabilities are considered to be "covered by budgetary resources." Since no budget authority has been provided to liquidate any portion of the actuarial liabilities [Pension, Postretirement Health Benefits, and the Actuarial Life Insurance Liability, see Notes 4, 5 and 6], they are considered to be "not covered by budgetary resources" in their entirety.

## NOTE 4. PENSION LIABILITY AND EXPENSE

In computing the Pension Liability and Expense, OPM's pension actuary has applied economic assumptions to historical cost information in order to estimate the Federal government's future cost of retirement benefits for current and future retirees. This estimate is adjusted by the time value of money (a weighted discount rate of seven percent) and the probability of having to pay benefits due to assumed decrements for mortality, morbidity, and terminations. In addition, a four percent rate of inflation is assumed as well as a 4.25 percent increase in projected salaries.

For fiscal year 2000, OPM's pension actuary has calculated the Pension Expense to be $88,406, which is classified in the following table by its three cost components (in $ billions):

| | CSRS | FERS | TOTAL |
|---|---|---|---|
| Service Cost | $12.7 | $8.7 | $21.4 |
| Interest Cost | 60.9 | 7.4 | 68.3 |
| Actuarial (Gain) Loss | (3.2) | 1.9 | (1.3) |
| Total Pension Expense | $70.4 | $18.0 | $88.4 |

The following table presents the Pension Liability at September 30, 2000 (in $ billions):

| | CSRS | FERS | TOTAL |
|---|---|---|---|
| Pension Liability at October 1, 1999 | $886.2 | $101.8 | $988.0 |
| Plus: Pension Expense | 70.4 | 18.0 | 88.4 |
| Less: Operating Costs Applied to Pension Liability | 44.1 | 1.2 | 45.3 |
| Pension Liability at September 30, 2000 | $912.5 | $118.6 | $1,031.1 |

In accordance with SFFAS Number 5, the Pension Liability has been reduced by the total operating costs incurred by the Retirement Program during fiscal year 2000. The operating costs applied to the Pension Liability are:

| | |
|---|---|
| Annuities | $44,849 |
| Refunds of Contributions | 333 |
| Administrative and Other Expenses | 124 |
| Operating Costs Applied to Pension Liability | $45,306 |

## NOTE 5. POSTRETIREMENT HEALTH BENEFITS LIABILITY AND EXPENSE

In computing the Postretirement Health Benefits Liability and associated expense, OPM's actuary has applied economic assumptions to historical cost information in order to estimate the Federal government's future cost of providing postretirement health benefits for current employees and retirees. This estimate is adjusted by the time value of money (a weighted discount rate of seven percent) and the probability of having to pay benefits due to assumed decrements for mortality, morbidity, and terminations. In addition, a seven percent composite annual rate of increase in the per capita cost of covered health care benefits is assumed, which approximates current experience.

For fiscal year 2000, OPM's actuary has calculated the Postretirement Health Benefits Expense to be $23,761, which is classified in the following table by its three cost components:

| | |
|---|---|
| Service Cost | $ 6,370 |
| Interest Cost | 12,610 |
| Actuarial Loss | 4,781 |
| Total Postretirement Health Benefits Expense | $23,761 |

The Service Cost component is computed by multiplying an estimate of the enrollment in the Health Benefits Program by a factor of $2,803 per participant. Since neither the employing agency nor participating employees make contributions for postretirement health benefits, employing agencies must recognize the entire cost as an imputed cost.

The following table presents the computation of the Postretirement Health Benefits Liability at September 30, 2000:

| | |
|---|---|
| Postretirement Health Benefits Liability at October 1, 1999 | $175,365 |
| Plus: Postretirement Health Benefits Expense | 23,761 |
| Less: Operating Costs Applied to Postretirement Health Benefits Liability | 6,909 |
| Postretirement Health Benefits Liability at September 30, 2000 | $192,217 |

In accordance with SFFAS Number 5, the Postretirement Health Benefits Liability has been reduced by certain operating costs incurred by the Health Benefits Program during fiscal year 2000. The operating costs applied to the Postretirement Health Benefits Liability are:

| | |
|---|---|
| Current Benefits | 5,158 |
| Premiums | 1,171 |
| Administrative and Other | 580 |
| Operating Costs Applied to Postretirement Health Benefits Liability | $6,909 |

The assumed health care cost trend rate has a significant effect on the amounts reported as the Postretirement Health Benefits Liability and associated expense. A one-percentage-point change in the assumed health care cost trend rates would have the following effects:

| | 8.0% [One Percent Increase] | 6.0% [One Percent Decrease] |
|---|---|---|
| Interest Cost Component | $14,422 | $11,087 |
| Service Cost Component | $8,078 | $5,046 |
| Postretirement Health Benefits Liability | $221,577 | $167,665 |

## NOTE 6. ACTUARIAL LIFE INSURANCE LIABILITY AND ASSOCIATED EXPENSE

The Actuarial Life Insurance Liability is the expected present value of future benefits to be paid to, or on behalf of, existing Program participants, less the expected present value of future contributions to be collected from those participants. In calculating the Actuarial Life Insurance Liability, OPM's actuary uses assumptions that are consistent with those used in computing the Pension Liability [Note 4].

The following table presents the computation of the Actuarial Life Insurance Liability, as of September 30, 2000:

| | |
|---|---|
| Expected Present Value of Future Benefits | $49,979 |
| Expected Present Value of Future Contributions by Participants | 25,317 |
| Actuarial Life Insurance Liability | $24,662 |

The change in the Actuarial Liability from the beginning of the fiscal year is classified as "Future Life Insurance Benefits Expense" and is computed, as follows:

| | |
|---|---|
| Actuarial Life Insurance Liability at September 30, 2000 | $24,662 |
| Less: Actuarial Life Insurance Liability at October 1, 1999 | 23,575 |
| Future Life Insurance Benefits Expense | $ 1,087 |

The Life Insurance Program is funded by means of a level premium -- that is, the premium paid by and for enrollees remains fixed until age 65. The premium is set at a level that overcharges participants during early years of coverage to compensate for higher rates of benefit outflows at later years of coverage. The contributions to the Program, when accumulated over the years with interest, are expected to be sufficient to provide for the net outflows during the later years of coverage. The Actuarial Life Insurance Liability includes the long-term obligation for both pre-retirement and post-retirement benefits; though inseparable, the Program's Future Benefits Expense for fiscal year 2000 can be approximated to be .02 percent of the basic pay of each participating employee.

## NOTE 7. CONCENTRATION OF VENDOR SERVICES - HEALTH BENEFITS AND LIFE INSURANCE PROGRAMS

Approximately 44 percent of the Health Benefits Program's claims are administered by the Blue Cross and Blue Shield Association, an experience-rated plan. Virtually all of the Life Insurance Program's benefits are administered by the principal life insurance carrier, Metropolitan Life Insurance Company.

## NOTE 8. CONTINGENCIES

OPM is a defendant in legal proceedings in which some Health Benefits Program carriers are seeking relief for discrepancies in the premium payments they have received. In addition, OPM is a defendant in a class action suit involving potential back pay, interest and enhanced retirement benefits for present and former employees whose positions were subject to special pay rates in the 1980s. Settlements in these suits are paid from the Treasury Judgement Fund. While it is not feasible to predict or determine the ultimate outcome of these matters, it is the opinion of management that the outcome will not have a material adverse effect on OPM's financial position or results of operations.

On September 19, 2000, the President signed the Federal Erroneous Retirement Coverage Corrections Act (FERCCA). FERCCA prescribes corrective actions in cases where individuals hired after 1983 were placed in the wrong Retirement Program pension plan. In some cases, such individuals have separated from the Federal service with incorrect retirement benefits or refunds of contributions. FERCCA requires, as part of the correction process, that OPM refund excess contributions to participants and transfer monies representing Social Security taxes that should have been paid from the CSRDF to the General Fund of the Treasury. Although OPM's management is unable to predict or determine the losses that will be incurred by the CSRDF, management estimates that such losses will not have a material adverse effect on OPM's financial position or results of operations.

OPM is often involved in legal and administrative proceedings that arise in the ordinary course of business. OPM management, based upon the opinion of its General Counsel, believes that the combined outcome of all such proceedings, both pending or known to be threatened, will not have a material adverse effect on OPM's financial position or results of operations.

## NOTE 9. COST AND EARNED REVENUE BY BUDGET FUNCTION

The following table presents OPM's cost and associated earned revenue by budget function. For fiscal year 2000, the cost and associated earned revenue of the Retirement and Life Insurance Programs are classified as "Employee Retirement and Disability" in the President's budget; the Health Benefits Program as "Health Care Services;" and the Revolving Fund Programs and Salaries and Expenses as "General Government."

| Budget Function | Budget Function Code | Cost | Earned Revenue | Net Cost |
|---|---|---|---|---|
| Employee Retirement and Disability | 602 | $91,343 | $57,807 | $33,536 |
| Health Care Services | 551 | 36,553 | 14,643 | 21,910 |
| General Government | 805 | 359 | 242 | 117 |
| Total | | $128,255 | $72,692 | $55,563 |

## NOTE 10. RESTATEMENT OF UNOBLIGATED BALANCE AT BEGINNING OF THE YEAR

The unobligated balance of budgetary resources for the Health Benefits and Life Insurance Programs at October 1, 1999 has been restated to correct a misstatement. The misstatement was first established at October 1, 1997, the initial year of reporting in accordance with OMB Bulletin No. 97-01. The correction affects the amount of budgetary resources that are unavailable to OPM. Both Programs realize sufficient budgetary resources during the year to cover all incurred obligations.

The cumulative effect of the adjustment is reflected as a $998 decrease in the unobligated balance at the beginning of the year on the accompanying Statement of Budgetary Resources, as follows:

| | Health Benefits Program | Life Insurance Program | Revolving Fund Programs & Salaries and Expenses | Total |
|---|---|---|---|---|
| Unobligated balance, October 1, as previously reported | $4,233 | $21,246 | 60 | $25,539 |
| Prior period adjustment | (177) | (821) | 0 | (998) |
| Unobligated balance, October 1, as adjusted | $4,056 | $20,425 | 60 | $24,541 |

A similar correction to the unobligated balance of budgetary resources for the Retirement Program at October 1, 1999 is not reflected on the accompanying Statement of Budgetary Resources. Unlike the Health Benefits and Life Insurance Programs, the budgetary resources of the Retirement Program do not include unobligated balances at the beginning of the year. Rather, budgetary resources are included as the increase in the balance of temporarily unavailable appropriated receipts during the year; temporarily unavailable appropriated receipts are Program collections for the year in excess of obligations incurred. As reported in the accompanying Statement of Budgetary Resources, the balance of temporarily unavailable appropriated receipts increased in fiscal year 2000 by $30,634.

The error has been corrected by increasing the Retirement Program's balance of temporarily unavailable appropriated receipts at October 1, 1999 by $537:

| | |
|---|---|
| Temporarily unavailable appropriated receipts, October 1, as originally stated | $ 476,932 |
| Prior period adjustment | 537 |
| Temporarily unavailable appropriated receipts, October 1, 1999, as adjusted | 477,469 |
| Increase in temporarily unavailable appropriated receipts | 30,634 |
| Temporarily unavailable appropriated receipts, September 30, 2000 | $508,103 |

# CONSOLIDATING FINANCIAL STATEMENTS
# (SCHEDULES 1 – 5)

# U.S. OFFICE OF PERSONNEL MANAGEMENT
## SCHEDULE 1 - CONSOLIDATING BALANCE SHEET
### As of September 30, 2000
*(Dollars in Millions)*

| | Retirement Program | Health Benefits Program | Life Insurance Program | Revolving Fund Programs | Salaries and Expenses | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | |
| Intragovernmental: | | | | | | | |
| Fund Balance with Treasury | $11 | $449 | $6 | $61 | $17 | 0 | $544 |
| Investments, Net [Note 2] | 512,037 | 5,991 | 22,269 | 0 | 0 | 0 | 540,297 |
| Accounts Receivable, Net: | | | | | | | |
| Benefit Contributions for Participants | 596 | 375 | 12 | 0 | 0 | 0 | 983 |
| Interest on Investments | 8,520 | 37 | 386 | 0 | 0 | 0 | 8,943 |
| Other Receivables | 0 | 0 | 0 | 83 | 27 | (10) | 100 |
| Total Intragovernmental | 521,164 | 6,852 | 22,673 | 144 | 44 | (10) | 550,867 |
| Accounts Receivable, Net: | | | | | | | |
| Benefit Contributions by Participants | 191 | 345 | 81 | 0 | 0 | 0 | 617 |
| Other Receivables | 102 | 71 | 0 | 13 | 0 | 0 | 186 |
| Assets Held by Insurance Carriers | 0 | 86 | 355 | 0 | 0 | 0 | 441 |
| Property and Equipment | 0 | 0 | 0 | 3 | 7 | 0 | 10 |
| TOTAL ASSETS | 521,457 | 7,354 | 23,109 | 160 | 51 | (10) | 552,121 |
| LIABILITIES | | | | | | | |
| Intragovernmental | 1 | 7 | 1 | 142 | 8 | (10) | 149 |
| Benefits Due and Payable | 3,598 | 1,990 | 484 | 0 | 0 | 0 | 6,072 |
| Premiums Due and Payable | 0 | 410 | 0 | 0 | 0 | 0 | 410 |
| Actuarial Liabilities: | | | | | | | |
| Pension Liability [Note 4] | 1,031,100 | | 0 | 0 | 0 | 0 | 1,031,100 |
| Postretirement Health Benefits Liability [Note 5] | 0 | 192,217 | 0 | 0 | 0 | 0 | 192,217 |
| Actuarial Life Insurance Liability [Note 6] | 0 | 0 | 24,662 | 0 | 0 | 0 | 24,662 |
| Other | 358 | 544 | 0 | 13 | 24 | 0 | 939 |
| Total Liabilities | 1,035,057 | 195,168 | 25,147 | 155 | 32 | (10) | 1,255,549 |
| Net Position: | | | | | | | |
| Unexpended Appropriations | 0 | 0 | 0 | 0 | 13 | 0 | 13 |
| Cumulative Results of Operations | (513,600) | (187,814) | (2,038) | 5 | 6 | 0 | (703,441) |
| Total Net Position | (513,600) | (187,814) | (2,038) | 5 | 19 | 0 | (703,428) |
| TOTAL LIABILITIES AND NET POSITION | $521,457 | $7,354 | $23,109 | $160 | $51 | ($10) | $552,121 |

*The accompanying notes are an integral part of the financial statements.*

# U.S. OFFICE OF PERSONNEL MANAGEMENT

## SCHEDULE 2 - CONSOLIDATING STATEMENT OF NET COST

For the Year Ended September 30, 2000

*(Dollars in Millions)*

| | CSRS | FERS | Total Retirement Program | Health Benefits Program | Life Insurance Program | Revolving Fund Programs | Salaries and Expenses | Elim. | Consolidated |
|---|---|---|---|---|---|---|---|---|---|
| COST TO PROVIDE BENEFITS AND SERVICES | | | | | | | | | |
| Pension Expense [Note 4] | $ 70,417 | $ 17,989 | $88,406 | 0 | 0 | 0 | 0 | 0 | $88,406 |
| Postretirement Health Benefits Expense [Note 5] | 0 | 0 | 0 | $23,761 | 0 | 0 | 0 | 0 | 23,761 |
| Future Life Insurance Benefits [Note 6] | 0 | 0 | 0 | 0 | $1,087 | 0 | 0 | 0 | 1,087 |
| Current Benefits and Premiums | 0 | 0 | 0 | 12,312 | 1,831 | 0 | 0 | 0 | 14,143 |
| Other | 0 | 0 | 0 | 480 | 19 | $254 | $255 | ($150) | 858 |
| Total Cost to Provide Benefits and Services | 70,417 | 17,989 | 88,406 | 36,553 | 2,937 | 254 | 255 | (150) | 128,255 |
| EARNED REVENUES | | | | | | | | | |
| Employer Contributions | 7,956 | 8,005 | 15,961 | 8,956 | 363 | 0 | 0 | 0 | 25,280 |
| Participant Contributions | 3,838 | 865 | 4,703 | 5,335 | 1,430 | 0 | 0 | 0 | 11,468 |
| Earnings on Investments | 25,740 | 8,236 | 33,976 | 352 | 1,374 | 0 | 0 | 0 | 35,702 |
| Other | 0 | 0 | 0 | 0 | 0 | 251 | 141 | (150) | 242 |
| Total Earned Revenues | 37,534 | 17,106 | 54,640 | 14,643 | 3,167 | 251 | 141 | (150) | 72,692 |
| Net Cost of Operations (Excess of Earned Revenues Over Cost) | $32,883 | $883 | $33,766 | $21,910 | ($230) | $3 | $114 | $0 | $55,563 |

*The accompanying notes are an integral part of the financial statements.*