



Employee Benefits Security Administration

Performance Audit of the Thrift Savings Plan Annuity Process

November 30, 2015

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EXECUTIVE SUMMARY

Members of the Federal Retirement Thrift Investment Board
Washington, D.C.

Ian Dingwall Chief Accountant
U.S. Department of Labor, Employee Benefits Security Administration Washington, D.C.

As part of the U.S. Department of Labor Employee Benefits Security Administration (EBSA) Fiduciary Oversight Program, we conducted a performance audit of the Thrift Savings Plan (TSP) annuity process. We performed our fieldwork from March 9 through June 11, 2015, primarily at Metropolitan Life Insurance Company (Metropolitan Life) in Alpharetta, Georgia. Our scope period for testing was January 1, 2014, through December 31, 2014.

We conducted this performance audit in accordance with the performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate audit evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives. Criteria used for this audit are defined in the EBSA's *Thrift Savings Plan Fiduciary Oversight Program*, which includes United States Code (USC) Title 5, Chapter 84 and the Code of Federal Regulations (CFR) Title 5, Chapter VI.

The objectives of our audit over the TSP annuity process were to:

- Determine whether the Federal Retirement Thrift Investment Board's Staff (Agency) implemented certain procedures to (1) process annuity payments and payments to beneficiaries promptly and accurately; (2) provide the annuity options prescribed under 5 USC 8434(a)(1) and 5 CFR 1650.14(d); (3) perform due diligence reviews of the annuity vendor's financial condition and evaluated the financial stability of the annuity vendor at time of contract award and in subsequent years as prescribed under 5 USC 8434(d)(4).



- Test compliance of the TSP annuity process in accordance with 5 USC, Sections 8434(a)(1), 8434(d)(2), 8434(d)(3), and 8434(d)(4) (hereinafter referred to as FERSA) and 5 CFR 1650.14(d) (hereinafter referred to as Agency Regulations);
- Determine the status of the prior EBSA TSP open recommendations reported in *Performance Audit of the Thrift Savings Plan Annuity Process as of August 1, 2011*.

The scope of this engagement excluded testing of TSP withdrawal-related procedures performed prior to the purchase of an annuity.

Our audit resulted in one new finding and recommendation related to other controls over the TSP annuity operations. Fundamental control recommendations address significant procedures or processes that have been designed and operated to reduce the risk that material intentional or unintentional processing errors could occur without timely detection or that assets are inadequately safeguarded against loss. Other control recommendations address procedures or processes that are less significant than fundamental controls. Section III.C presents the details that support the current year finding and recommendation.

Based upon the performance audit procedures conducted and the results obtained, we have met our audit objectives. We conclude that for the period January 1, 2014 through December 31, 2014, the Agency implemented certain procedures to (1) process annuity payments and payments to beneficiaries promptly and accurately; (2) provide the annuity options prescribed under 5 USC 8434(a)(1); and (3) perform due diligence reviews of the annuity vendor's financial condition and evaluate the financial stability of the annuity vendor at time of contract award and in subsequent years. However, as a result of our procedures, we noted an internal control deficiency at the Agency related to the review of new annuitant payment calculations. As a result of our compliance testing, we did not identify any instances of noncompliance with FERSA or Agency Regulations in the TSP annuity process.

We also reviewed one prior EBSA recommendation related to the TSP annuity process to determine its current status. This prior year recommendation was reported in *Performance Audit of the Thrift Savings Plan Annuity Process as of August 1, 2011*. Section III.B documents the status of this prior recommendation. In summary, the recommendation has been implemented and closed.



This performance audit did not constitute an audit of the TSP's financial statements in accordance with *Government Auditing Standards*. KPMG was not engaged to, and did not render an opinion on the Agency's internal controls over financial reporting or over financial management systems. KPMG cautions that projecting the results of this audit to future periods is subject to the risks that controls may become inadequate because of changes in conditions or because compliance with controls may deteriorate.

While we understand that this report may be used to make the results of our performance audit available to the public in accordance with *Government Auditing Standards*, this report is intended for the information and use of the U.S. Department of Labor Employee Benefit Security Administration, Members of the Federal Retirement Thrift Investment Board, and Agency management. The report is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

November 30, 2015

I. BACKGROUND OF THE TSP AND ANNUITY OPERATIONS

A. The Thrift Savings Plan

Public Law 99-335, the Federal Employees' Retirement System Act of 1986 (FERSA), as amended, established the Thrift Savings Plan (TSP). The TSP is the basic component of the Federal Employees' Retirement System (FERS) and provides a Federal (and, in certain cases, state) income tax deferral on employee contributions and related earnings. The TSP is available to Federal and Postal employees, members of Congress and certain Congressional employees, and members of the uniformed services. The TSP began accepting contributions on April 1, 1987, and as of December 31, 2014, had approximately \$440 billion in assets and more than 4.7 million participants.¹

The FERSA also established the Federal Retirement Thrift Investment Board (the Board) and the position of Executive Director. The Executive Director manages the TSP for its participants and beneficiaries. The Board's Staff (the Agency) is responsible for administering TSP operations.

B. The Metropolitan Life Insurance Company

The Board's Executive Director is required under FERSA to purchase annuity contracts on behalf of separated participants who have elected this withdrawal option. Metropolitan Life Insurance Company (Metropolitan Life) has been contracted by the Agency as the annuity vendor for the TSP. Metropolitan Life is responsible for establishing the account record and for making monthly annuity payments to the annuitant or beneficiary, as applicable. Metropolitan Life is required to provide each annuitant with annual tax information regarding his or her annuity.

The Master Annuity Contract dated January 17, 2006, including applicable modifications, and the most recent Master Annuity Contract dated May 12, 2014, between the Agency and Metropolitan Life specifies the following monthly and annual reports for Metropolitan Life to submit to the Agency:

Summary Report - monthly report of the number of annuity purchases by annuity option and a breakdown of the amount of single premiums by annuity option.

Detailed Annuity Report - monthly report listing annuity purchases, including annuitant's (1) name, (2) social security number, (3) address, (4) gender, (5) joint annuitant's (if applicable) age at

¹ Source: Minutes of the June 25, 2015 Board Meeting, posted on the Board's website at <http://frtib.gov/MeetingMinutes/2015/2015Jun.pdf>.

date of purchase, (6) date of purchase, (7) amount of single premium, (8) annuity option selected, (9) initial monthly benefit, and (10) initial payment date.

Change Listing Report - monthly detail listing of changes made to annuities or in the status of annuitants including (1) death of annuitant or joint annuitant, (2) CPI adjustments, (3) corrections of annuities incorrectly issued or reported, and (4) adjustments after the fact to annuity purchases (as in the case of Agency error in the purchase of the annuity).

Annual Report - summary of annuity activity during the year and a detailed listing of current information regarding all annuities purchased under the TSP Master Annuity Contract. Specifically, this report includes: (1) types of annuities purchased, (2) ages of annuitants at purchase dates, (3) ages of joint annuitants relative to their spouses, (4) data on ages upon death, and (5) age of surviving annuitants.

The Agency reviews these reports to ensure that annuities are initiated and processed in accordance with the Master Annuity Contract and are in compliance with applicable regulations.

Operations at Metropolitan Life are audited by:

- New York State Department of Financial Services (DFS);
- Deloitte & Touche LLP (Metropolitan Life's independent accountants); and
- Metropolitan Life's Internal Audit Department (Internal Audit).

The DFS examines all insurance companies registered in New York State. The DFS's examination focuses on market conduct, financial operations, contract compliance, and reserve analysis. DFS's last Metropolitan Life report was issued on June 30, 2011, and covered the period 2004 through 2008. Although this report did not impact the current scope period, we did review it as part of our planning procedures.

As part of our performance audit, we reviewed Metropolitan Life's financial statement audit report for the fiscal years ended December 31, 2014 and 2013, issued by Deloitte & Touche LLP, Metropolitan Life's statutory financial statements for the fiscal years ended December 31, 2014 and 2013, presented in accordance with the National Association of Insurance Commissioners Accounting Practices and Procedures; and the Type II Statement on Standards for Attestation Engagements No. 16 (SSAE 16) reports, issued by (Deloitte & Touche, LLP), titled *Report on MetLife, Inc.'s Global Technology and Operations: Description of its System and on the Sustainability of the Design and Operating Effectiveness of its Controls*, and *Report on MetLife, Inc.'s Income Annuities Operations: Description of its System and on the Sustainability of the Design*

and Operating Effectiveness of its Controls, for the period October 1, 2013 through September 30, 2014, and the related bridge letters for the period October 1, 2014 through December 31, 2014. No matters were noted during our review of these documents that would impact our conclusions on the performance audit objectives listed in Section II.A of this report.

Metropolitan Life's Internal Audit function performs annual Sarbanes-Oxley walkthrough procedures, evaluates the status of internal controls, and tests a representative sample of transactions. Based on an annual risk analysis and other criteria, Internal Audit tests significant operational areas and accounting systems on a three to four year cycle, while less risky operational areas will be audited every five to six years. Metropolitan Life indicated that the benefit payment program is audited approximately every three to four years.

The last internal audit covering the TSP annuity payment contracts occurred in 2011 and did not identify any findings specific to TSP annuities. The Internal Audit Manager indicated Internal Audit will perform its next audit over TSP annuities in December 2015.

C. Other TSP Service Providers

Several other organizations provide significant TSP services for the Agency under a Memorandum of Understanding (MOU) or contract. One of these organizations provides a variety of services which primarily address the processing of TSP data in support of the Agency and Metropolitan Life, including the processing and review of all hard-copy withdrawal requests submitted by TSP participants. The TSP system performs edit and validity checks to ensure the completeness, accuracy, and validity of the withdrawals data and interfaces with Metropolitan Life's Vantage system to submit successfully processed annuity data to Metropolitan Life.

D. The Federal Agencies and Uniformed Services

Federal agencies and the uniformed services have a responsibility to provide timely and accurate participant account information to the TSP. As part of this responsibility, agencies and services provide, receive, and process participant contribution election forms. Federal agencies and services calculate employee and agency contributions and process deductions from employees' pay for contributions and loan repayments. Information for all active, recently separated, and transferred participants is submitted primarily electronically to the TSP each payroll period.

Federal agency payroll offices and uniformed services are also required to submit an Employee Data Record (06-Record) containing an appropriate separation code and date to the TSP when an employee or member separates from government service. The separation code and date provides the

TSP system with information necessary to complete the processing of TSP withdrawals. Federal agency personnel offices and uniformed services are also responsible for distributing withdrawal forms or information to participants. Participants can also obtain forms and publications from the TSP website, ThriftLine, or a TSP Participant Support Representative.

E. TSP Annuity Requirements²

Eligibility

Separated TSP participants with account balances of \$200 or more can elect any withdrawal option, regardless of eligibility for retirement benefits. All separated participants can elect to purchase an annuity if the TSP participant account balance is at least \$3,500 when the annuity is purchased. If a mixed withdrawal (e.g., annuity and single payment) is elected, the portion elected for the purchase of the annuity must equal at least \$3,500 of the participant's vested account balance.

Spouses' Rights

FERS and Uniformed Service participants. For married FERS and uniformed service participants (even if the participant is separated from the spouse), the spouse is entitled to a survivor annuity unless he or she waives that right. Section III of Form TSP-70, Request for Full Withdrawal, must be signed and notarized if the participant elects an annuity other than a joint life annuity with a 50 percent survivor (spouse) benefit, level payments, and no other features. If a married participant is unable to locate his or her spouse or if exceptional circumstances make it impossible or inappropriate for the spouse to sign a waiver, the participant must request an exception from this requirement of the spouse benefit. To request an exception, the participant must complete Form TSP-16 (or Form TSP-U-16), *Exception to Spousal Requirements*, and provide supporting documentation as described on that form.

CSRS participants. For married Civil Service Retirement System (CSRS) participants (even if the participant is separated from the spouse), the TSP must send a notice to the participant's spouse before the withdrawal is processed. If a married CSRS participant cannot provide the spouse's address, the participant may receive an exception based on whereabouts unknown (not exceptional circumstances). To request an exception, the participant must complete Form TSP-16 and provide supporting documentation as described on that form.

² Source: *Withdrawing Your TSP Account After Leaving Federal Service*, March 2014.

All participants. If the Agency has received a valid court order that awards a portion of the participant's TSP account to a former spouse or separated spouse or a valid order that requires payment for enforcement of child support or alimony obligations, the annuity request will not be accepted until the court order has been settled.

F. TSP Annuity Options²

Five types of annuities are available to TSP participants. Within these five broad types of annuities, TSP participants can select among 18 different options.

The five broad types of TSP annuities are:

- Single life annuities, with level payments, or increasing payments,
- Joint life annuities with spouse, with level payments, or increasing payments, and
- Joint life annuities with other survivor, with level payments.

Exhibit I-1 summarizes the 18 annuity options available to TSP participants. These annuity options include (1) 50 percent survivor annuity, (2) 100 percent survivor annuity, (3) cash refund, and (4) 10-year certain annuity.

Exhibit I-1

Summary of Annuity Options

Single Life	
1. Level Payments a) with no additional features or b) with cash refund feature or c) with 10-year certain feature	2. Increasing Payments a) with no additional features or b) with cash refund feature or c) with 10-year certain feature
Joint Life with Spouse	
3. Level Payments a) 100% survivor or b) 50% survivor or c) 100% survivor with cash refund or d) 50% survivor with cash refund	4. Increasing Payments a) 100% survivor or b) 50% survivor or c) 100% survivor with cash refund or d) 50% survivor with cash refund

Joint Life with Other Survivor

5. Level Payments
- a) 100% survivor
 - or**
 - b) 50% survivor
 - or**
 - c) 100% survivor with cash refund
 - or**
 - d) 50% survivor with cash refund

The monthly annuity payment is affected by the following factors:

- The annuity option and feature chosen;
- The participant's age when the annuity is purchased (and the age of the spouse or other joint annuitant, if a joint life annuity is purchased);
- The amount used to purchase the annuity; and
- The interest rate index when the annuity is purchased.

The annuitant receives the first monthly payment approximately 30 days after purchase of the annuity. After purchasing an annuity, the annuitant is no longer a TSP participant. The annuitant's further communications concerning his or her annuity will be with the annuity vendor, Metropolitan Life.

G. TSP Annuity Process

Federal Agencies and Uniformed Services

When a TSP participant leaves the government or uniformed services, the participant's agency or service must inform the TSP that the participant has separated by submitting a TSP separation code and the date of the separation. The participant's annuity request cannot be processed until the TSP has received the separation information.

TSP and the Agency

To request an annuity, a participant must submit a Form TSP-70 to the TSP through another vendor's processing center. Vendor personnel enter the form into the TSP system and verify the joint annuitant's date of birth, if applicable. Annuity plan participants may download the form online but must complete and mail all withdrawal requests, including annuities, manually. Once the form

has been submitted, the TSP system checks the form for completeness. At the end of every business day, all annuitant data processed in the TSP system that day is batch processed and transmitted via system interface to Metropolitan Life's Vantage system.

The Agency is responsible for calculating the monthly annuity interest rate index. The interest rate is based on the 8-week average of the 10-year interest rate swaps (source at <http://www.federalreserve.gov/releases/h15/data.htm>) preceding the purchase of the annuity in accordance with the Master Annuity Contract signed between the Agency and Metropolitan Life on January 17, 2006, including applicable modifications, and the most recent Master Annuity Contract dated May 12, 2014. The interest rate is initially calculated by the Agency and then confirmed by Metropolitan Life, in writing.

On a monthly basis, the Agency reconciles total disbursements and number of annuities purchased to the Summary Report furnished by Metropolitan Life. The Agency also reviews reports submitted by Metropolitan Life, described in Section I.B, to ensure that annuity processing complies with TSP regulations and guidelines outlined in the Master Annuity Contract.

Annuity Vendor

Upon receipt of annuitant information from the TSP, Metropolitan Life's Actuarial Division monitors and inputs certain variable information (e.g., monthly interest rate) into the Vantage system, which then calculates the monthly annuity payment for annuities purchased during that month.

Once Metropolitan Life staff receives a new annuitant Transmission Report from the Vantage system, the staff sends the TSP participant a "Welcome Letter", an annuity certificate, Banking Agreement for Direct Deposit of Annuity Payments, and the tax form W4-P for Federal tax withholdings. The Welcome Letter indicates the amount used to purchase the annuity (i.e., the amount received from the TSP), the calculated monthly annuity payment, and the approximate date on which the annuitant will receive the first annuity payment. The Welcome Letter also includes a toll-free telephone number that the participant can call to request changes to his/her address and federal and state tax withholding allowances, and for answers to other questions regarding his or her annuity. The initial monthly annuity payment is sent to the individual approximately 30 days after the purchase of the annuity.

On an ongoing basis, Metropolitan Life is responsible for paying timely monthly annuities, processing administrative changes such as addresses or beneficiaries, and communicating required tax information. Metropolitan Life also adjusts monthly annuities on an annual basis for increases

in the Consumer Price Index (CPI; applicable to annuities with the increasing payments option) and for the death of joint annuitants.

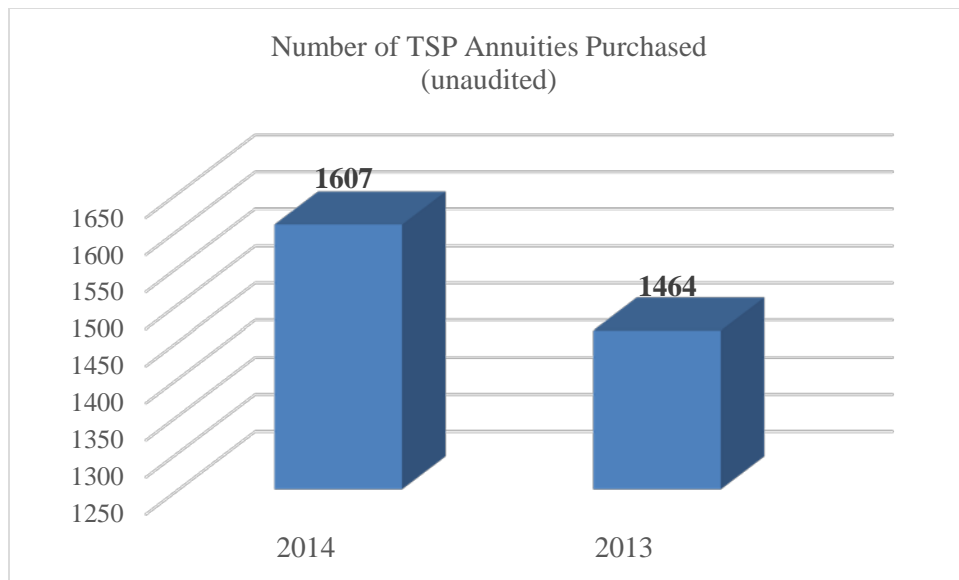
The CPI factor, calculated annually by Metropolitan Life, is confirmed by the Agency and is applicable to all increasing annuities on their anniversary (or “commencement”) date in the upcoming calendar year. The annuity adjustment is calculated as the lesser of 3.00 percent or the CPI factor, as calculated by Metropolitan Life. An annuity adjustment of 1.49 percent was made in 2014.

As described in Section I.B, Metropolitan Life prepares reports, on a monthly and annual basis, that summarize annuity purchases during the period. Metropolitan Life sends these reports to the Agency, as required by the Master Annuity Contract.

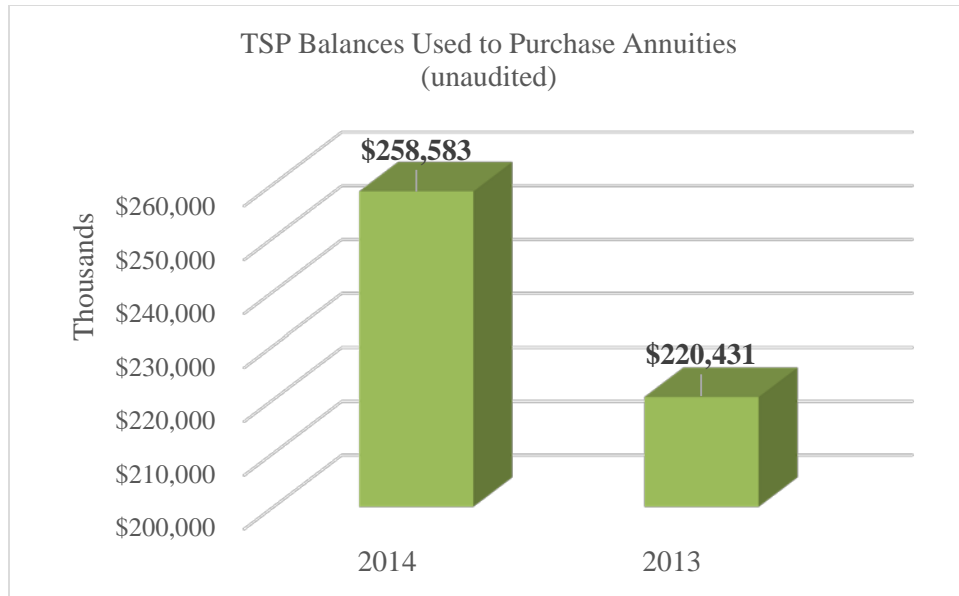
H. TSP Annuity Statistics³

Exhibits I-2 and I-3, respectively, illustrate the total number of annuities and the original dollar amounts that were purchased for TSP participants in calendar years 2014 and 2013.

Exhibit I-2



³ Source: Metropolitan Life’s “Summary Report” for TSP participant annuities; January 2013 through December 2014



In calendar year 2014, the total number of TSP annuity purchases increased 10 percent and the total dollar amount used to purchase them increased 17 percent, as compared to 2013. According to the Agency, the increase in TSP annuity purchases from 2013 to 2014 is due to such factors as the aging of the TSP participant population and the related increase in the number of retirees, and overall growth in TSP account balances.

II. OBJECTIVE, SCOPE AND METHODOLOGY

A. Objectives

The U.S. Department of Labor (DOL), Employee Benefits Security Administration (EBSA), engaged KPMG LLP (KPMG) to conduct a performance audit of the Thrift Savings Plan (TSP) annuity process.

The objectives of our performance audit over the TSP annuity process were to:

- Determine whether the Board's Staff (Agency) implemented certain procedures to (1) process annuity payments and payments to beneficiaries promptly and accurately; (2) provide the annuity options prescribed under 5 United States Code (USC) 8434(a)(1) and 5 CFR 1650.14(d); (3) perform due diligence reviews of the annuity vendor's financial condition and evaluated the financial stability of the annuity vendor at time of contract award and in subsequent years as prescribed under 5 USC 8434(d)(4).
- Test compliance of the TSP annuity process in accordance with 5 USC, Sections 8434(d)(2) and 8434(d)(3) (hereinafter referred to as FERSA);
- Determine the status of the prior EBSA TSP open recommendations reported in Performance Audit of the Thrift Savings Plan Annuity Process as of August 1, 2011.

B. Scope and Methodology

We conducted this performance audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States using EBSA's *Thrift Savings Plan Fiduciary Oversight Program*. Our scope period for testing was January 1, 2014 through December 31, 2014. We performed the audit in four phases: (1) planning, (2) arranging for the engagement with the Agency, (3) testing and interviewing, and (4) report writing.

The planning phase was designed to assist team members to develop a collective understanding of the activities and controls associated with the applications, processes, and personnel involved with the TSP annuities process. Arranging the engagement included contacting the Agency Metropolitan Life and agreeing on the timing of detailed testing procedures.

During the testing and interviewing phase, we conducted interviews, collected and inspected auditee-

provided documentation and evidence, participated in process walkthroughs, and designed and performed tests of controls and compliance. We conducted these test procedures primarily at the Metropolitan Life's headquarters in Alpharetta, GA. In Appendix B, we identify the key documentation provided by Agency personnel that we reviewed during our performance audit.

Our performance audit procedures included selecting a statistical sample using random attribute sampling to select specific TSP annuity transactions, which we used to determine if the Agency processed annuity transactions in a manner that complied with FERSA. We selected the following sample in this manner:

- New annuities, to determine that annuity payments were processed in a timely manner, all necessary documentation was present and valid before an annuity was made, the annuity payment made was properly calculated per the annuity option selected, and the annuity payments were disbursed to the proper payee.
- Changed annuity payments, to determine that annuity changes were processed in a timely manner, all necessary documentation was present and valid before an annuity was changed, and the annuity change made was properly calculated.
- Deceased annuitants, to determine that deceased annuity transactions were processed in a timely manner, payments were timely and appropriately issued to the beneficiaries, and Metropolitan Life was properly reimbursed for overpayments to the annuitant, if applicable.

We excluded from this audit the consideration of the TSP withdrawal-related procedures performed prior to the purchase of an annuity. These procedures are addressed separately within the overall *EBSA Thrift Savings Plan Fiduciary Oversight Program*.

The report writing phase entailed drafting a preliminary report, conducting an exit conference, providing a formal draft report to the Agency for comment, and preparing and issuing the final report.

III. FINDINGS AND RECOMMENDATIONS

A. Introduction

We performed procedures related to Thrift Savings Plan (TSP) annuity operations while conducting a performance audit primarily at Metropolitan Life Insurance Company (Metropolitan Life). Our scope period for testing was January 1, 2014 through December 31, 2014. This performance audit consisted of reviewing applicable policies and procedures and testing manual and automated processes and controls, which included interviewing key personnel, reviewing key reports and documentation (Appendix B), and observing selected procedures.

Based upon the performance audit procedures conducted and results obtained, we have met our audit objectives. We determined for the period January 1, 2014 through December 31, 2014, the Federal Retirement Thrift Investment Board's Staff (Agency) implemented certain procedures to monitor Metropolitan Life's financial position and stability as prescribed in United States Code (USC) Title 5, Section 8423(d)(4). In addition, we determined that for the period January 1, 2014 through December 31, 2014, Metropolitan Life implemented certain procedures to (1) process annuity payments and payments to beneficiaries accurately and timely and (2) provide the annuity options prescribed under the 5 USC 8434(a)(1) and Code of Federal Regulations Title 5, Part 1650.14(d). As a result of our compliance testing, we did not identify any instances of noncompliance with 5 USC Sections 8434(a)(1), 8434(d)(2), 8434(d)(3), and 8434(d)(4) (FERSA) and 5 CFR 1650.14(d) (Agency Regulations) in the TSP annuity operations. However, we noted an internal control deficiency at the Agency related to the review of new annuitant payment calculations.

Accordingly, we present one new recommendation addressing other controls over TSP annuity operations. Fundamental control recommendations address significant procedures or processes that have been designed and operated to reduce the risk that material intentional or unintentional processing errors could occur without timely detection or that assets are inadequately safeguarded against loss. Other control recommendations address procedures or processes that are less significant than fundamental controls. This recommendation is intended to strengthen the TSP annuity process and the Agency should review and consider it for timely implementation. The Agency's response to this recommendation is included as an appendix within this report (Appendix A).

We also reviewed one prior U.S. Department of Labor Employee Benefits Security Administration (EBSA) TSP recommendation, identified in Section III.B, to determine its current status. This prior year recommendation was reported in the *Performance Audit of the Thrift Savings Plan Annuity Process, as of August 1, 2011*. Section III.B documents the status of this prior recommendation. In summary, the recommendation has been implemented and closed.

Subsection III.C presents the new findings and recommendations from this performance audit. Section III.D summarizes each open recommendation.

B. Findings and Recommendations from Prior Reports

The finding and recommendation from the prior report that required follow-up is presented in this section. The discussion below includes the current status of the recommendation.

2010 Recommendation No. 1

Original Recommendation: The Agency should ensure the Metropolitan Life strengthens its policies and procedures over its deceased annuitants process to include periodic supervisory review of transactions or summary data.

Reason for Recommendation: During our 2010 procedures over a sample of 58 deceased annuitants, we identified the following two errors: Metropolitan Life incorrectly stopped annuity payments to an annuitant who was not deceased (1 of 43 applicable sample items), and Metropolitan Life failed to send an overpayment recovery letter related to an annuitant who was overpaid after the date of death (1 of 39 applicable sample items). We determined that the errors indicated a lack of supervisory review over deceased annuitant transactions.

Status: **Implemented.**
We noted that Metropolitan Life strengthened its policies and procedures over its deceased annuitant's process by implementing additional controls over its Death Administration Database and the related deceased annuitant transactions. The operating effectiveness of these controls were tested by Metropolitan Life's independent service auditor in 2014 as part of the Statement on Standards of Attestation Engagements No. 16 examination. We reviewed the Independent Service Auditors' Report and verified that no exceptions were identified.

In addition, we tested a sample of 58 deceased annuitants during our current performance audit and did not identify any exceptions.

Disposition: **Recommendation Closed.**

C. 2015 Findings and Recommendations

While conducting our performance audit over TSP annuity operations, we identified one new finding and developed a related recommendation. The Employee Benefits Security Administration requests appropriate and timely action for this recommendation.

OTHER CONTROL RECOMMENDATION

Supervisory Review of New Annuitant Payment Calculations

During our 2014 procedures to recalculate the monthly benefit payment for a sample of 58 new annuitants, we identified 15 instances in which the related annuity payment amount did not agree to the amount we recalculated. Although the differences were not significant (i.e., the differences were all \$1.09 or less), we noted they all occurred subsequent to an income annuity factor adjustment that was implemented in the TSP system in June 2014 as per the annuity contract dated May 12, 2014. Further, we did not identify any differences in our sample for items that occurred prior to the income annuity factor adjustment.

The Agency informed us that they perform periodic reviews of annuity payments, but they did not investigate these differences because they were not significant. However, the Agency did not have formal policies and procedures documented related to the review performed over annuity payment calculations, including the threshold for identifying significant differences that would be investigated.

- 1. The Agency should formally document the processes for reviewing annuity payment calculations, including a threshold for which identified differences should be investigated.**

Formally documenting the review over new annuitant payment calculations would help ensure the control is consistently performed and that significant differences are resolved, which would increase the accuracy of annuity payments.

D. Summary of Open Recommendation

2015 RECOMMENDATION:

OTHER CONTROL RECOMMENDATION

1. The Agency should formally document the processes for reviewing annuity payment calculations, including a threshold for which identified differences should be investigated.



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
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November 30, 2015

Mr. Ian Dingwall
Chief Accountant
Employee Benefits Security Administration
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Dear Ian:

This is in response to KPMG's email of November 12, 2015, transmitting the KPMG LLP report entitled Employee Benefits Security Administration Performance Audit of the Thrift Savings Plan Annuity Process November 2015. My comments with respect to this report are enclosed.

Thank you once again for the constructive approach that the Department of Labor and its contractors are taking in conducting the various audits of the TSP. The information and recommendations that are developed as a result of your reviews are useful to the continued improvement of the Thrift Savings Plan.

Very truly yours,



Gregory T. Long

Enclosure

Executive Director's Staff Formal Comments on the
Employee Benefits Security Administration's Performance of the
Thrift Savings Plan – Annuity Process

2015 RECOMMENDATION

RECOMMENDATION TO ADDRESS OTHER CONTROLS

1. Supervisory Review of New Annuitant Payment Calculations

The Agency should formally document the processes for reviewing annuity payment calculations, including a threshold for which identified differences should be investigated.

Response

The Agency concurs with the recommendation for adding a formal control to review the annuity monthly payment calculations and instituting a threshold for identified differences. The annuity payment differences were due to Metropolitan Life using annuity factors with four decimal places while two digit factors, which are generally used by participants for estimation purposes, were used in the audit. When using the four digit factors provided by Metropolitan Life the Agency's independent calculations matched the payment amounts calculated by Metropolitan Life. The Agency will develop formal procedures for a regular review of annuity payment calculations including a threshold for payments that do not match. If the payment amount falls outside of the threshold, the Agency will investigate the difference.

KEY DOCUMENTATION AND REPORTS REVIEWED

Documents

- Contract (including subsequent contract modifications) between the Federal Retirement Thrift Investment Board and Metropolitan Life dated January 17, 2006; May 14, 2014.
- *Withdrawing Your TSP Account After Leaving Federal Service*, March 2014
- Federal Retirement Thrift Investment Board's Standards of Conduct, dated 2014
- Federal Retirement Thrift Investment Board's Staff's (Agency) Reconciliation of Annuity Disbursements and Purchases, January 2014, June 2014, and October 2014
- Letter to Metropolitan Life Insurance Company, regarding the Federal Thrift Plan Cost of Living Increase Worksheet for calendar year 2014
- Monthly Annuity Interest Rate Index Calculation prepared by the Agency and Metropolitan Life for January 2014, July 2014, and October 2014

Reports

- "Consolidated Financial Statements for the Years Ended December 31, 2014 and Independent Auditor's Reports of the Metropolitan Life Insurance Company", issued by the independent accounting firm of Deloitte & Touche LLP
- Metropolitan Life, U.S. Business, Report on Controls Placed in Operation and Tests of Operating Effectiveness Relating to Pension Operations for the period January 1, 2014 through September 30, 2014.
- Metropolitan Life, U.S. Business, Bridge Letter for Type II SAS 70 Report for the period October 1, 2014 through December 31, 2014.
- Metropolitan Life's "Summary Report" for TSP participant annuities; January 2014 through December 2014
- Metropolitan Life's "Summary Report" for TSP participant annuities; January 2014 through December 2014
- Metropolitan Life's "Detailed Annuity Report" for TSP participants; January 2014 through December 2014
- Metropolitan Life's "Change Listing Report" for TSP participants; January 2014 through December 2014
- Metropolitan Life's "Death Listing Report" for TSP participants; January 2014 through December 2014

KEY DOCUMENTATION AND REPORTS REVIEWED

- Federal Reserve Bank's monthly annuity interest rate based on the 8-week average on 10-year interest rate swaps for calendar year 2014
- Federal Thrift Monthly Detail Report Query – New Annuitant Listing; January 2014 through December 2014
- Federal Thrift Monthly Detail Report Query – Change Listing; January 2014 through December 2014
- Federal Thrift Monthly Detail Report Query – Death Listing; January 2014 through December 2014