



Situation Analysis June 28, 2017

NARFE has recently taken critical steps to evolve into an association more relevant and responsive to both current and prospective members and an Executive Director has been hired to provide professional headquarters leadership.

At the 2016 bi-annual convention, delegates recognized the recruitment and retention obstacle that a mandatory chapter membership model had become and voted to make membership in a local chapter optional. At the same convention, delegates voted to adopt a One Member, One Vote policy, allowing each member a say in the Association's governance.

Recognizing that years of budget cuts had left federal employees with limited access to human resource staff and that federal retirees faced unacceptable wait times when phoning or emailing OPM NARFE developed and expanded the NARFE Federal Benefits Institute, offering webinars and creating an online home for materials that address critical and complex benefit issues. Although a successful recruitment and retention tool, the Institute must be expanded and enhanced. As capacity at OPM and agency human resource departments diminishes, NARFE's ability to serve members at a local level has also declined. Less than half of all chapters have filled the Service Officer position and only thirty Service Centers, located in sixteen of fifty-four federations, are open for business. With most Service Officers having retired under CSRS and many not willing and/or able to use online tools, highly informed and efficient service is extremely limited.

NARFE has hired a professional Executive Director, effective May 15, 2017. The intent from the National Executive Board was to provide a level of professionalism and continuity that had been difficult to achieve in a governance model led by elected officers who frequently had no experience with managing a nonprofit corporation. The NARFE President, as a distinguished member of the federal community, has now extended the role as the face of NARFE, focusing on representing that community on Capitol Hill and with the association's important coalition partners. The President will also take the lead on special projects, such as chapter development, that are best suited for an individual elected by the membership. Duties typically associated with a CEO have been delegated to the Executive Director, including overall management of all NARFE operations and resources, including leadership of the headquarters staff.

While these changes enhance NARFE's ability to face challenges, the federal community faces greater threats than ever. The membership decline, although slowing, continues. NARFE's multi-layered field infrastructure drains resources. And the association remains in a highly vulnerable financial position.

Active and Retired Federal Employees Face Unprecedented Threats with Potential for Catastrophic Outcomes

While NARFE successfully fought off \$318 billion in cuts to federal pay and benefits proposed in the fiscal year 2016 House budget as well \$170 billion proposed by the Senate, the Association faces even greater challenges with a new Administration. Emboldened by an electorate that wants drastic action on cost savings and federal debt reduction as well as a congressional leadership team that has shown in the past an intent to reduce the federal deficit and national debt, the legislative threats to active and retired federal employees have greatly intensified. Additionally, the first budget from President Trump introduced new threats to the financial security of federal retirees. Proposals currently under consideration would:

- Require federal employees and retirees to pay a larger portion of their health benefits premiums through the Federal Employees Health Benefits Program (FEHBP).
- Implement a voucher plan for the FEHBP, in which beneficiaries would receive financial support to buy insurance instead of the current formula. This "support" would not keep pace with the rising cost of health care.
- Decrease or eliminate cost-of-living adjustments (COLAs) for both current and future federal retirees.
- Eliminate retiree health benefits for new hires.
- Lower the Thrift Savings Plan's (TSP) Government Securities (G) Fund rate of return to near zero, eliminating real returns on this investment and lowering retirees' purchasing power as the rate of return would be lower than inflation.
- Raise retirement contributions for current employees by as much as 6 percent without increasing benefits, which is essentially a thinly veiled pay cut.
- Eliminate the Federal Employees Retirement System (FERS) federal annuity for new hires entirely.
- Freeze pay or limit pay increases for federal employees.
- Severely limit merit service due process protections for federal employees.
- Reduce cost-of-living adjustments to Social Security benefits and federal retirement annuities by using the draconian Chained CPI to measure changes in consumer prices.
- Require Medicare enrollment for postal retirees or risk forfeiting earned retiree health benefits through the FEHBP.

NARFE's legislative program needs increased support from membership, especially at the grassroots level, where ongoing positive contact between local NARFE members and congressional district offices is essential to preventing these cuts from becoming law. NARFE-PAC experienced significant growth in the last two years, but it needs to continue to grow to support those who will stand up for the

federal community. The lobbying efforts by NARFE have thwarted aggressive efforts to date, but the likelihood of these proposals receiving serious consideration is far greater and therefore the outlook is far more dire.

Recruitment and Retention Strategies Reduce Pace of Membership Decline, but Tough Challenges Remain for Membership Growth

NARFE's 2016 year-end total membership was 215,760, down 9,798 or 4% from the close of 2015, an improvement from 5% at the close of 2015 and 7% for 2014. This continued and consistent decline in membership loss has been seen each month since January 2014. Despite this progress, significant challenges remain.

All active federal employees are potential NARFE members, but accessing these prospective members presents a growing challenge. Additionally, a new generation of prospective members has shown little interest in advocacy, a far greater interest in information and guidance and far higher propensity to simply engage online. NARFE has responded with a digital strategy. NARFE field recruiters once had access to local agency buildings and opportunity to engage with active federal employees within them. Agencies no longer allow NARFE members into many federal work locations. Where we can no longer literally open the door to these buildings, NARFE now enters virtually with online marketing targeted directly to the active federal employee, offering products specific to their federal benefit needs via the NARFE Federal Benefits Institute.

Resources must be directed to expand both our marketing outreach to active employees and to grow the portfolio of products and services to meet their needs.

Further Growth of Non-Dues Revenue is Essential

While over the course of the last two years greater emphases have been placed on non-dues revenue and significant growth has been recognized, the organization continues to be far too dependent on dues. The current 60% dues revenue model is unsustainable. The Association must achieve the lowest dues/non-dues ratio possible with an outcome certainly no more than 50%.

Efforts to right-size this ratio will be aided as we continue to add new, active employee members with greater disposable income.

Partnerships & Coalitions Hold Opportunity for NARFE

Especially for active federal employees, there are other organizations that compete with NARFE for membership. Unions and other associations provide income protections and some benefits for employees, but do not provide the in-depth benefit services NARFE provides for employees and retirees. For the 50+ segment of the federal community, NARFE competes with AARP. While AARP does not focus on Federal employee issues and does not provide Federal income or benefits advice, it does compete for our target market by offering significant membership discounts, advocacy on behalf of older Americans and a national magazine.

Other organizations with similar agendas to serve federal employee and retiree constituencies are both potential partners and competitors with NARFE. Where collaboration results in added value for NARFE and our members, relationships should be pursued. As NARFE considers partnerships and

coalitions, a primary criterion that will be considered is how the relationship might benefit NARFE and its members, such as cross-promotion for membership recruitment. NARFE has a powerful brand and highly respected subject matter expertise that provides leverage in these relationships.

Business Model Begins to Shift

Two common barriers to changing the way NARFE conducts business include self-imposed procedures and concerns from leaders and volunteers about change. Streamlining and simplifying policies and processes within NARFE can result in fewer resources needed without sacrificing efficiencies or service. NARFE stakeholders (members and leaders) need clear, easy to comprehend facts and coaching to understand and accept that changes to streamlined, simplified processes benefit everyone across all levels in NARFE.

There has been progress made within the past year including One Member, One Vote, and further adoption of technology. Such examples demonstrate fewer resources need to be directed to administration, allowing NARFE to refocus on core mission.

Time has Come to Rethink the Goals and Activities of Federations

The universe of federations, 54 in number, is very diverse. One federation has 53 congressional districts while others have one. Some federations are small with many highways that can be driven top to bottom in an hour while in other federations that journey could take days or can't be completed by auto. About 43% of NARFE federations have a total membership that is below seventeen hundred members, several with only three or four chapters. These small federations may request up to \$1,000 from HQ to supplement their budgets and may also request an additional \$500 to permit attendance at special events such as the Legislative Conference. Travel distances and cost as well as other budget parameters should drive the appropriate structure of a Federation. One approach does not fit all.

NARFE should strive to provide the maximum fulfillment of member needs at a reasonable cost with the minimum amount of bureaucracy. The goals of every NARFE federation include organizing effective communication with all elected officials on matters that affect our members, supporting the human resource benefits needs of members, and helping NARFE grow through recruiting of new members.

Leadership Challenges Have Led to Accelerated Chapter Closings and Vulnerability Among Federations

Local chapter closings continue to accelerate with no evidence the trend will reverse. Between December 2015 and May 2017, 99 chapters were shut down. A lack of members willing and/or able to take on chapter leadership roles has been the sole reason for closures. Now NARFE faces a similar, growing vulnerability at the federation level. Three federations have approached their Regional Vice Presidents and headquarters over the course of the last year about difficulties keeping the federations in operation prompting extraordinary effort to avoid shut down.

With dated, labor intensive and/or volunteer roles requiring extensive travel and fewer NARFE loyal officers willing and/or able to continue in officer roles NARFE finds itself with a serious shortage of leaders.

Recruitment of new leaders will require a reassessment of the minimum roles and responsibilities required, well-articulated national guidance and leadership development programs.

NARFE Financial Outlook Demands Change

The ultimate financial measure of an association's health is the maintenance or growth of its net assets. Operating surpluses over expenses are added to net assets, and shortfalls decrease net assets. Despite its difficulty in raising revenue, NARFE has managed to come close to matching expenses to revenues over the last ten years, but has had operating shortfalls in six of the last ten years. The combined long-term effect of operating shortfalls and periodically disappointing investment returns has been a decline in net assets. There has been improvement over the last 4 years however the current level is still well below the peak of \$9,253,199 achieved in 2006.

Although the pace of membership decline has slowed, driving the forecast for NARFE is the expected continued decline in membership. Sadly, the number of new members joining the organization and paying dues is lower than the number of members lost through attrition, including deaths (currently 24 per day, on average).

NARFE continues to face an increasingly challenging future. There is continued dependency on dues revenue with non-dues revenue growing, but only contributing 39% at the present time to our budget.

Continuing business as usual entails the net reduction of 14,400 members per year, which would reduce net revenue by \$510,000 each year after distribution of 10% federation funds. For forecasting purposes, a blended rate of about \$35.40 average annual dues per member was used. This rate considers various membership levels, the discounts for dues withholding and multi-year memberships, and incentive pricing programs. (These rates are all lower than the standard one year \$40 rate.) This approach has proven to be useful in simplifying our forecasting and has produced accurate results.

Slowing the decline in membership has neutralized the financial situation for 2017. With no increases in revenue from other sources and the current expense budget in place (escalated by a modest 1.5%), the loss of members will cause a \$343,296 operating loss in 2018 that will have to be covered by reducing reserves. A tipping point will be reached in 2020 with a cumulative loss of \$2,050,966, when NARFE will be dipping into the contingency reserves. In 2021, the cumulative loss will be \$3,910,842. Our reserves will have been depleted as a result of covering the cumulative annual losses. If that happens, NARFE will be technically insolvent and likely forced to shut down sometime in 2022, or may delay it slightly by attempting to sell the building and relocate. This is predicated on historical average declines in membership.