

Estimation of the FECA Actuarial Liability for Agencies Not Specified in the FECA Model

Attached is a model for estimating a FECA actuarial liability for an entity not specifically listed in the results of the FECA actuarial model, based on an extrapolation from the actual charges experienced recently by the Agency. This procedure is not an allocation of a listed liability amount – the total liabilities calculated for an agency's sub agencies would not necessarily add to the amount listed for the Agency as a whole. It is, however, a way to calculate a reasonable estimate of liability for an unlisted entity.

For both compensation and medical, the calculation takes the amount of benefit payments for the entity over the last 9 to 12 quarters, and calculates the annual average of payments. Compensation and medical payments can be found in the chargeback reports that are issued quarterly to the agencies by FECA.

The two average payment amounts are then multiplied by the respective compensation and medical liability to benefits paid ratios (LBP) from the whole FECA program for 2007, which have been entered into the spreadsheet already. These ratios vary from year to year as a result of economic assumptions and other factors but, roughly speaking, the model calculates a liability around 11 times the annual payments.

To reflect the variability of the situations at different agencies, the model calculates the liability using three sets of LBP ratios from the FECA actuarial model itself: the highest group LBP ratio, the overall average LBP, and the lowest group LBP ratio. Most agencies should be able to record the overall average estimate of the liability; however, each agency will have to exercise some judgment in selecting the amount to record as its actuarial liability. Factors to consider include: the trend of payments over the past few years and any known recent variations in the incidence or nature of new FECA claims. Thus, an agency with a history of declining payments or a declining number of employees might select the low estimate as the most reasonable, while an agency with unusually increasing amount of payments might select the high estimate as most appropriate. Similarly, an agency that has had a recent increase in new claims might use the higher estimate. Young agencies will often fall into the latter two categories and should choose the higher estimated LBP ratios.

This methodology is intended for situations where the FECA actuarial liability is immaterial to the agency's financial statements. If that is not the case, management should consider adopting a more exhaustive actuarial model approach to estimating this liability. This process has been used as a reasonableness test by the FECA auditors for several years, and has generally been a reliable rough estimate of CFO agency actuarial liabilities.

As a last resort, for agencies with very small numbers of claims, a census-driven methodology may be more appropriate. For instance, management might evaluate each claim: consider the nature of the injury, the age of the claimant, estimated duration, and other data to arrive at an estimate of expected payments by case. Management would then have to consider whether the claims history is sufficient to provide a basis by which to measure incurred but unreported claims. As a rule, this should not be done without first considering the estimate using this model.

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Procedure for using the attached estimation model:

1. Enter the medical and benefit payment totals for the agency from the quarterly or annual chargeback reports received from FECA.
2. Enter the number of quarters included in the payments entered in step 1
3. Change the print heading to show the Agency name (page setup)
4. Print out the model
5. Evaluate the payment and case history of the agency to choose the appropriate model result to record as the Agency liability.
6. Document the decision process in step 5 with appropriate memos and analysis.
7. Record the liability.

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<u>Acc't</u>	<u>Report</u>	<u>Period</u>	<u>Medical</u>	<u>Compens.</u>	<u>Total</u>		
1415 Summary Chargeback		FYE 6/30/05	110	105	215		
1415 Summary Chargeback		FYE 6/30/06	112	104	216		
1415 Summary Chargeback		FYE 6/30/07	112	104	216		
Total charges			334	313	647		
Number of quarters included			12	12	12		
Annualized average payments	Benefits paid		111	104	216		
Liability to benefits paid ratio:						Percent	Agency
Highest Group	Times		9.5	12.2		of average	<u>LBP</u>
Liability premised on LBP			1,058	1,273	2,331	10%	10.8
Overall model:	Times		8.0	11.8			
Liability premised on LBP			891	1,231	2,122	100%	9.8
Lowest Group	Times		7.2	11.5			
Liability premised on LBP			802	1,200	2,001	-6%	9.3

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final result