

MEMORANDUM FOR CHIEF FINANCIAL OFFICERS OF EXECUTIVE DEPARTMENTS
AND AGENCIES SUBJECT TO THE CHIEF FINANCIAL
OFFICERS ACT OF 1990 AND THE GOVERNMENT
MANAGEMENT REFORM ACT OF 1994

FROM: LISA FIELY
Acting Chief Financial Officer

SUBJECT: Estimated Actuarial Liability for Future Workers' Compensation
Benefits

This memorandum transmits Federal agencies' unaudited estimated actuarial liability for Future Workers' Compensation (FWC) benefits as of June 30, 2007. For comparative purposes, FY 2006 amounts are also presented. The Department of Labor's Office of Inspector General expects to issue the results of its audit of overall FWC liability by mid-October 2007.

Per Office of Management and Budget (OMB) guidance, each reporting entity preparing financial statements under the Chief Financial Officers (CFO) Act and the Government Management Reform Act (GMRA) should include its respective portion of the actuarial liability for workers' compensation benefits as a liability in its financial statements, if such amounts are material.

The amounts presented in the attachment were developed by DOL's Employment Standards Administration (ESA). A description of the methodology used to estimate the actuarial liability is also included in the attachment. In addition to the amounts reported for CFO Act agencies, amounts are presented for the Agency for International Development, the National Science Foundation, the Nuclear Regulatory Commission, the Office of Personnel Management, and the Small Business Administration to facilitate implementation of GMRA requirements. Agencies not specifically listed are included in the "Other" category. DOL/ESA is unable to estimate the actuarial liability for individual agencies comprising the "Other" category.

This guidance is for the purpose of financial statement presentation only and is not intended for use as a standard for incorporating actuarial liabilities in fees, prices, and reimbursements. Federal entities should comply with laws and regulations related to pricing policies in general and for specific types of goods and services. Additional guidance on recording this actuarial liability is contained in the Federal Intragovernmental Transactions Accounting Policies Guide, available at Treasury's Intragovernmental Reconciliation Resources and Initiatives Web site, at <http://www.fms.treas.gov/irri/>.

Attachment

United States Department of Labor		
Estimates of Total FECA Future Liabilities, as of June 30, 2007 and 2006		
(Thousand of Dollars)		
Agency	2007	2006
United States Postal Service	\$8,923,407	\$8,662,714
Department of the Navy	2,694,074	2,698,683
Department of the Army	1,977,872	1,973,869
Department of Veterans' Affairs	1,826,564	1,811,947
Department of the Air Force	1,381,158	1,369,905
Department of Transportation	949,465	952,969
Department of Homeland Security	1,683,569	1,519,329
All Other Defense	777,041	813,532
Department of Agriculture	775,281	807,652
Department of Justice	1,046,480	991,560
Department of Treasury	573,038	600,737
Department of Interior	659,333	678,923
Tennessee Valley Authority	538,096	553,322
Social Security Administration	271,981	274,763
Department of Health and Human Services	275,776	273,374
Department of Labor (1)	237,920	242,525
Department of Commerce	164,416	170,164
General Services Administration	164,883	165,051
Department of Energy	105,231	96,386
Dept. of Housing and Urban Development	81,779	79,873
Natl. Aeronautics & Space Administration	64,060	60,217
Department of State	68,078	62,669
Environmental Protection Agency	39,786	39,408
Small Business Administration	26,321	27,045
Agency for International Development	23,528	23,438
Department of Education	16,186	16,952
Office of Personnel Management	21,020	20,448
Nuclear Regulatory Commission	6,833	7,434
National Science Foundation	1,182	1,287
Other (2)	585,408	605,150
Totals	\$25,959,766	\$25,601,326

(1) Excludes FECA benefits not chargeable to other Federal agencies payable by DOL's Federal Employees' Compensation Act Special Benefit Fund and FECA benefits due to eligible workers of the Panama Canal Commission Compensation Fund.

(2) "Other" is defined as all agencies not specifically identified above receiving annual FECA bills.

(3) All the above figures are unaudited.

The FWC benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

2007
 4.930% in Year 1
 5.078% in Year 2
 and thereafter

To provide more specifically for the effects of inflation on the liability for FWC benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIM) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2007 were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAs and CPIMs used in the projections for various charge back years (CBY) were as follows:

<u>CBY</u>	<u>COLA</u>	<u>CPIM</u>
2007	N/A	N/A
2008	2.63%	3.74%
2009	2.90%	4.04%
2010	2.47%	4.00%
2011	2.37%	3.94%
2012+	2.30%	3.94%

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model to economic assumptions; (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments; (3) a comparison of the incremental paid loses per case (a measure of case-severity) in CBY 2007 to the average pattern observed during the most current three charge back years; and (4) a comparison of the estimated liability per case in the 2007 projection to the average pattern for the projections for the most recent three years.