

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: SAMUEL T. MOK  
Chief Financial Officer

SUBJECT: Federal Employees' Compensation Act Liabilities

This memorandum transmits Federal agencies' unaudited estimated actuarial liability for Future Workers' Compensation (FWC) benefits as of June 30, 2006. For comparative purposes, FY 2005 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 2006.

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 the 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 Website, at <http://www.fms.treas.gov/irri/>.

Attachment

**United States Department of Labor**  
**Estimates of Total FECA Future Liabilities, as of June 30, 2006 and 2005 <sup>3</sup>**  
**(Thousands of Dollars)**

<u>Agency</u>	<u>2006</u>	<u>2005</u>
United States Postal Service	\$ 8,662,714	\$ 8,663,963
Department of the Navy	2,698,683	2,725,371
Department of the Army	1,973,869	1,950,173
Department of Veterans' Affairs	1,811,947	1,776,459
Department of the Air Force	1,369,905	1,399,314
Department of Transportation	952,969	1,007,910
Department of Homeland Security	1,519,329	1,473,295
All Other Defense	813,532	844,007
Department of Agriculture	807,652	834,415
Department of Justice	991,560	926,336
Department of the Treasury	600,737	644,620
Department of the Interior	678,923	689,306
Tennessee Valley Authority	553,322	580,506
Social Security Administration	274,763	284,589
Department of Health and Human Services	273,374	270,354
Department of Labor (1)	242,525	233,651
Department of Commerce	170,164	173,415
General Services Administration	165,051	170,113
Department of Energy	96,386	98,479
Dept. of Housing and Urban Development	79,873	81,613
Natl. Aeronautics & Space Administration	60,217	62,430
Department of State	62,669	60,288
Environmental Protection Agency	39,408	39,380
Small Business Administration	27,045	28,967
Agency for International Development	23,438	23,726
Department of Education	16,952	18,082
Office of Personnel Management	20,448	25,653
Nuclear Regulatory Commission	7,434	8,417
National Science Foundation	1,287	1,381
Other (2)	605,150	641,224
<b>Totals</b>	<u>\$ 25,601,326</u>	<u>\$ 25,737,437</u>

(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.

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The liability for future workers' compensation (FWC) benefits includes 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:

2006  
 5.170% in Year 1  
 5.313% in Year 2  
 and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2006 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>
<b>2006</b>	3.50%	4.00%
<b>2007</b>	3.13%	4.01%
<b>2008</b>	2.40%	4.01%
<b>2009</b>	2.40%	4.013%
<b>2010+</b>	2.43%	4.09%

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 2006 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 2006 projection to the average pattern for the projections of the most recent three years.