

MEMORANDUM FOR CHIEF FINANCIAL OFFICERS OF EXECUTIVE DEPARTMENTS
AND AGENCIES SUBJECT TO THE CHIEF FINANCIAL
OFFICERS ACT 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 for the fiscal year ended September 30, 2004. For comparative purposes, FY 2003 amounts are also presented. The Department's Office of Inspector General expects to issue the results of their audit of the FWC liability by October 15, 2004.

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 Department of Labor's (DOL) 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, at <http://www.fms.treas.gov/factsi/finalguide.pdf> on the internet.

Attachment

United States Department of Labor
2004 Estimates of Total FECA Future Liabilities, as of June 30, 2004
(Thousands of Dollars)

<u>Agency</u>	<u>2004</u>	<u>2003</u>
United States Postal Service	8,379,832	8,729,029
Department of the Navy	2,744,041	2,999,824
Department of the Army	1,937,819	2,081,971
Department of Veterans' Affairs	1,752,895	1,887,701
Department of the Air Force	1,418,832	1,558,355
Department of Transportation	1,020,500	1,114,602
Department of Homeland Security	1,398,161	1,103,401
All Other Defense	858,146	955,952
Department of Agriculture	836,341	939,818
Department of Justice	829,336	839,748
Department of the Treasury (3)	678,273	782,903
Department of the Interior	664,856	711,565
Tennessee Valley Authority	594,461	664,669
Social Security Administration	288,158	305,289
Department of Health and Human Services	266,389	296,315
Department of Labor (1)	236,560	280,398
Department of Commerce	179,186	200,056
General Services Administration	176,351	195,552
Department of Energy	95,184	102,553
Dept. of Housing and Urban Development	78,622	84,240
Natl. Aeronautics & Space Administration	68,876	69,446
Department of State (3)	59,984	61,628
Environmental Protection Agency	40,281	44,096
Small Business Administration (3)	28,436	31,822
Agency for International Development (3)	24,523	27,400
Department of Education (3)	19,882	22,265
Office of Personnel Management (3)	13,077	14,397
Nuclear Regulatory Commission	8,114	9,073
National Science Foundation	1,465	1,649
Federal Emergency Management Agency	-	-
Other (2)	643,656	696,697
Totals	25,342,238	26,812,414

(1) Excludes amounts not chargeable to other Federal agencies.

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

(3) All the above figures are unaudited. With the exception of the figures for these agencies, the audited numbers will not vary materially from the amounts depicted above. While we believe the figures for these agencies will not change materially, we cannot provide the same level of assurance.

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:

2004

4.883% in Year 1

5.235% 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. These factors 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>
2005	2.03%	4.14%
2006	2.73%	3.96%
2007	2.40%	3.98%
2008	2.40%	3.99%
2009+	2.40%	4.02%

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on two tests: (1) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual payments, and (2) a comparison of the ratio of the estimated liability to the actual payment of the beginning year calculated for the current projection to the liability-payment ratio calculated for the prior projection.