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 actuarial liability for an unlisted entity.

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 for medical expenses and compensation. Both types of payments can be found in the chargeback reports that are issued quarterly by FECA.

This average is then multiplied by the liability to benefits paid ratios (LBP) for the whole FECA program for 2004, 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, the relative weight of medical versus compensation payments, 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 high ratio of medical to compensation payments might select the low estimate as the most reasonable, while an agency with a high proportion of compensation 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.

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 an alternative, 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.

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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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Acc't	Report	Period	Medical	Compens.	Total	Percent of average	Agency LBP
1415	Summary Chargeback	FYE 6/30/02	100	100	200		
1415	Summary Chargeback	FYE 6/30/03	110	105	215		
1415	Summary Chargeback	FYE 6/30/04	112	104	216		
	Total charges		322	309	631		
	Number of quarters included		12	12	12		
	Annualized average payments	Benefits paid	107	103	210		
	Liability to benefits paid ratio:						
	Highest Group	Times	9.3	13.4			
	Liability premised on LBP		998	1,380	2,378	14%	11.3
	Overall model:	Times	8.0	11.9			
	Liability premised on LBP		859	1,226	2,084	100%	9.9
	Lowest Group	Times	6.9	11.5			
	Liability premised on LBP		741	1,185	1,925	-8%	9.2

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