

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, 2003. For comparative purposes, FY 2002 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, 2003.

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 Federal Emergency Management Agency, 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
2003 Estimates of Total FECA Future Liabilities, as of June 30, 2003
(Thousands of Dollars)

<u>Agency</u>	<u>2003</u>	<u>2002</u>
United States Postal Service	8,729,029	7,653,191
Department of the Navy	2,999,824	2,872,301
Department of the Army	2,081,971	1,929,082
Department of Veterans' Affairs	1,887,701	1,762,577
Department of the Air Force	1,558,355	1,476,884
Department of Transportation (3)	1,114,602	1,151,854
Department of Homeland Security (3)	1,103,401	-
All Other Defense (3)	955,952	904,925
Department of Agriculture	939,818	861,620
Department of Justice (3)	839,748	1,204,284
Department of the Treasury (3)	782,903	1,076,954
Department of the Interior	711,565	658,501
Tennessee Valley Authority	664,669	652,098
Social Security Administration	305,289	280,549
Department of Health and Human Services	296,315	276,699
Department of Labor (1)	280,398	272,977
Department of Commerce	200,056	190,687
General Services Administration	195,552	191,324
Department of Energy	102,553	92,442
Dept. of Housing and Urban Development	84,240	80,994
Natl. Aeronautics & Space Administration	69,446	67,280
Department of State	61,628	56,259
Environmental Protection Agency	44,096	39,457
Small Business Administration (3)	31,822	31,487
Agency for International Development (3)	27,400	28,251
Department of Education (3)	22,265	21,665
Office of Personnel Management	14,397	13,285
Nuclear Regulatory Commission	9,073	9,062
National Science Foundation	1,649	1,637
Federal Emergency Management Agency	-	28,661
Other (2)	696,697	666,170
Totals	26,812,414	24,553,157

(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. We are confident that 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:

2003

3.84% in Year 1

4.35% 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>
2004	2.3%	3.21%
2005	2.00%	3.54%
2006	1.83%	3.64%
2007	1.97%	3.80%
2008+	2.17%	3.92%

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.