

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: DOUGLAS W. WEBSTER
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 September 30, 2008. For comparative purposes, FY 2007 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 2008.

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 September 30, 2008 and 2007
(Data Evaluated as of June 30, 2008)

(Thousands of Dollars)

Agency	2008	2007
United States Postal Service	\$9,543,799	\$8,923,407
Department of the Navy	2,685,911	2,694,074
Department of the Army	1,980,257	1,977,872
Department of Veterans' Affairs	1,905,472	1,826,564
Department of the Air Force	1,395,449	1,381,158
Department of Transportation	985,336	949,465
Department of Homeland Security	1,795,351	1,683,569
All Other Defense	800,883	777,041
Department of Agriculture	832,013	775,281
Department of Justice	1,136,570	1,046,480
Department of Treasury	593,196	573,038
Department of Interior	692,389	659,333
Tennessee Valley Authority	532,499	538,096
Social Security Administration	297,932	271,981
Department of Health and Human Services	282,517	275,776
Department of Labor (1)	235,383	237,920
Department of Commerce	169,580	164,416
General Services Administration	163,826	164,883
Department of Energy	104,734	105,231
Dept. of Housing and Urban Development	84,529	81,779
Natl. Aeronautics & Space Administration	63,977	64,060
Department of State	68,892	68,078
Environmental Protection Agency	44,615	39,786
Small Business Administration	27,061	26,321
Agency for International Development	23,137	23,528
Department of Education	16,554	16,186
Office of Personnel Management	22,139	21,020
Nuclear Regulatory Commission	7,059	6,833
National Science Foundation	1,198	1,182
Other (2)	623,483	585,408
Totals	\$27,115,742	\$25,959,766

(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:

Discount Rates
 4.368% in Year 1
 4.770% 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) 2008 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>
2008	N/A	N/A
2009	3.87%	4.01%
2010	2.73%	3.86%
2011	2.20%	3.87%
2012	2.23%	3.93%
2013+	2.30%	3.93%

and thereafter

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 2008 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 2008 projection to the average pattern for the projections for the most recent three years.