United States Government Accountability Office
Washington, DC 20548

December 7, 2012

The Honorable George Miller
Ranking Member
Committee on Education and the Workforce
United States House of Representatives

The Honorable Lynn Woolsey
Ranking Member
Subcommittee on Workforce Protections
Committee on Education and the Workforce
United States House of Representatives

Subject: *Federal Employees' Compensation Act: Effects of Proposed Changes on Partial Disability Beneficiaries Depend on Employment After Injury*

In 2010, the Federal Employees' Compensation Act (FECA) program paid $1.9 billion in cash benefits to federal workers who sustained injuries or illnesses while performing federal duties.[1] The U.S. Department of Labor (Labor) administers the program and bases FECA benefits on an employee's wages at time of injury, his or her ability to work after the injury, and whether he or she has eligible dependents. Specifically, beneficiaries unable to return to work—total disability beneficiaries—who have an eligible dependent are compensated at 75 percent of gross wages at the time of injury and those without an eligible dependent are compensated at 66-2/3 percent. Beneficiaries who Labor determines have the ability to return to work after their injury—partial disability beneficiaries—are similarly compensated at 75 percent or 66-2/3 percent of the difference between wages at the time of injury and post-injury wage earning capacity (either based on actual earnings or Labor's estimate of what a beneficiary could earn in a suitable job—constructed earnings). FECA benefits for all beneficiaries are adjusted for inflation and are not taxed or subject to age restrictions, and thus some policymakers are concerned about the level of FECA benefits.

[1] The receipt of FECA benefits is generally the exclusive remedy for being injured on the job and a federal employee is prohibited from suing his or her employer or recovering damages for such injury under another statute.

We recently reported on the effects of a proposal by Labor to revise FECA benefits for future total and partial disability beneficiaries by, among other things:[2]

- setting initial FECA benefits at a single rate (70 percent of applicable wages at time of injury), regardless of whether the beneficiary has eligible dependents; and
- converting FECA benefits to 50 percent of applicable wages at time of injury—adjusted for inflation—once beneficiaries reach full Social Security retirement age.

After our work was under way, the Senate passed a revision to FECA similar to Labor's proposal, with some exceptions, including setting initial FECA benefits at a different single rate (66-2/3 percent of applicable wages at time of injury), regardless of whether the beneficiary has eligible dependents.[3]

Because our previous work focused on how the Labor proposal affected total disability beneficiaries, you asked us to us to answer the following questions:[4]

(1) What would be the effects of compensating all total disability FECA beneficiaries at the single rate of 66-2/3 percent?

(2) What is known about partial disability FECA beneficiaries and how they may fare under proposed FECA revisions?

To consider the effect of compensating total disability FECA beneficiaries at the single rate of 66-2/3 percent, we used the same methods as in our prior FECA reports that analyzed Labor's proposal for non-postal and postal beneficiaries covered under the Federal Employees Retirement System (FERS). To place our findings in context, this report presents results for the 66-2/3 percent compensation rate alongside our prior results for the

[2] Department of Labor, "Federal Injured Employees' Reemployment Act of 2010," technical assistance discussion draft, January 13, 2011. We analyzed Labor's proposal in two separate reports: the first covered non-postal beneficiaries and the second covered postal beneficiaries. See GAO, *Federal Employees' Compensation Act: Analysis of Proposed Program Changes*, GAO-13-108 (Washington, D.C.: October 26, 2012), and GAO, *Federal Employees' Compensation Act: Analysis of Proposed Changes on USPS Beneficiaries*, GAO-13-142R (Washington, D.C.: November 26, 2012).

[3] S. 1789, 112th Cong., tit. III (2012). Another significant difference between the two proposals is that Labor's revisions would not affect current beneficiaries whereas the Senate proposal would reduce benefits for some current FECA beneficiaries. To conduct our analysis of both proposals, we used available data on current FECA beneficiaries. In addition, our work does not examine whether S. 1789 would result in any cost savings. The Congressional Budget Office (CBO) estimated that S. 1789 would reduce gross FECA outlays by $1.2 billion over the 2012-2022 period. CBO, *Cost Estimate: S. 1789 21st Century Postal Service Act of 2011*, (Washington, D.C.: January 26, 2012).

[4] Both the Labor and Senate proposals include the revision to convert FECA benefits at retirement age to 50 percent of applicable wages at time of injury, adjusted for inflation; see GAO-13-108 and GAO-13-142R for analyses of its effects on total disability beneficiaries.

70 percent compensation rate (Labor's proposal). We describe our basic methodology below; however, for a complete description, see appendix II of GAO-13-108 for details specific to non-postal beneficiaries and see enclosure I of GAO-13-142R for details specific to postal beneficiaries. We conducted a simulation that compared the extent to which benefits under FECA and the proposed revision would replace a beneficiary's pre-injury take-home pay. FECA benefits were not designed to increase at a rate comparable to pay increases an individual could have received through step increases or promotions (career growth) if he or she had never been injured. However, our analysis factors in career growth to provide a comparison between FECA benefits and the take-home pay the beneficiary could have received, absent an injury.

Since we cannot observe a FECA beneficiary's missed career path and missed wages, we analyzed sets of non-postal and postal federal workers who had never been injured and who were employed at the end of fiscal year 2010. We matched recent total disability FECA beneficiaries to these federal workers in order to ensure the sets were similar. Our match was based on work-related characteristics, such as the employing agency and blue collar versus white collar classification. We also included personal characteristics that may be important in terms of career and wage growth, such as the date and age when the employees started their federal careers, as well as their wage histories prior to the injury.[5] Once we matched the two sets, we simulated injuries on the uninjured federal workers, timed to coincide with the corresponding FECA beneficiary's injury. From that point forward, we only considered the matched set of federal workers—and not the FECA beneficiaries—in our analysis. Based on the federal workers' actual wages at the time of the simulated injury, we calculated their hypothetical benefits under FECA and the proposed revision, which we simulated based on gross wages at the time of injury. We applied cost of living adjustments to project the initial benefits to 2010.[6] Having determined the 2010 FECA benefits (simulated) and 2010 earnings (actual) for each of these federal workers, we were able to calculate the proportion of 2010 take-home pay replaced by the simulated FECA benefit—the wage replacement rate.[7] We considered certain subgroups, including those based on the presence of a dependent and the extent of missed income growth.

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[5] Characteristics used to match were slightly different for non-postal and postal beneficiaries due to different source data. For more on the methodology and the similarity of the matched sets of FECA beneficiaries and federal workers, including distributions of income and other characteristics within the samples used for matching, see appendix II of GAO-13-108 for non-postal beneficiaries and enclosure I of GAO-13-142R for postal beneficiaries.

[6] Our analyses were based on snapshots in 2010 and did not consider any cumulative effects of the proposed FECA revisions on lifetime income.

[7] Policymakers can target wage replacement rates; however, there is no consensus on the appropriate wage replacement rate for workers' compensation programs, such as FECA. Such

By using 2010 take-home pay, we factor missed career growth into the wage replacement rates we calculate. Although, as mentioned above, FECA was not designed to compensate for missed career growth, we used a matching methodology that allows us to measure the adequacy of benefits with respect to the counterfactual. Specifically, we capture the extent to which FECA beneficiaries are able to maintain the standard of living they would have had absent an injury. Alternatively, one could use a method that does not account for missed career growth. For instance, our 1998 FECA report calculated wage replacement rates by comparing FECA benefits to take-home pay at the time of injury, adjusted for inflation. That approach measured the degree to which beneficiaries were able to maintain the standard of living they would have had at the time of injury.[8] The availability of additional data and the improved methods employed in our current analysis allow us to present an assessment of the adequacy of benefits that includes career growth.[9]

To conduct our simulations we used 2010 data from the Integrated Federal Employees' Compensation System (iFECS), 1988-2010 data from the Central Personnel Data Files (CPDF),[10] and 1995-2010 data from the U.S. Postal Service (USPS or Postal) Human Capital Enterprise System (HCES). We conducted separate simulations for non-postal and postal beneficiaries because their data were organized differently in separate databases.

Due to differently structured benefits and data limitations, we used different methods to analyze partial disability beneficiaries and how they may fare under proposed FECA revisions.[11] We examined data from Labor about partial disability beneficiaries who began receiving benefits in 2000-2011, and the different types of decisions Labor made regarding

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decisions involve balancing the goals of benefit adequacy and incentives to return to work. In 1972, the National Commission on State Workmen's Compensation Laws endorsed a move towards 80 percent of spendable pay or take-home pay. A 1998 GAO report on FECA also cited this 80 percent benchmark; see GAO, *Federal Employees' Compensation Act: Percentages of Take-Home Pay Replaced by Compensation Benefits*, GAO/GGD-98-174 (Washington, D.C.: August 1998). In 2004, a report by the National Academy of Social Insurance used two-thirds of gross wages as a target replacement rate for workers' compensation programs. See H. Allan Hunt, editor, *Adequacy of Earnings Replacement in Workers' Compensation Programs, A Report of the Study Panel on Benefit Adequacy of the NASI Workers' Compensation Steering Committee* (Washington D.C.: 2004).

[8] See GAO/GGD-98-174.In part because of the data available at the time of the report, GAO/GGD-98-174 calculated wage replacement rates that did not account for missed career growth; instead, it accounted for cost of living adjustments for federal workers and FECA beneficiaries. The report found that, on average, FECA benefits replaced over 95 percent of wages at the time of injury for beneficiaries, including both postal and non-postal beneficiaries.

[9] For additional discussion of the merits of accounting for missed career growth in assessing the adequacy of benefits, see Hunt, 2004.

[10] The CPDF does not cover all civilian federal workers.

[11] Data limitations preclude conducting a wage replacement rate or retirement benefit simulation for partial disability beneficiaries similar to those conducted for total disability beneficiaries. Labor's electronic beneficiary database (iFECS) does not track beneficiaries' continuing post-injury employment status, work income, retirement elections, or other critical data. This individualized information is needed to control for factors that affect how FECA benefits for partial disability beneficiaries would compare to their wages and retirement benefits had they never been injured.

their wage earning capacities, as well as the reasons other partial disability beneficiaries stopped receiving benefits in 2005-2011. We also reviewed partial disability beneficiary case files to examine how their post-injury employment outcomes varied (e.g., re-employed by the federal government, re-employed in the private sector, unemployed) and changed over time; we selected 7 beneficiaries to present as case studies.[12] We used data from the case studies to analyze how the experiences of partial disability beneficiaries affected their FECA benefits and total income as compared to their pre-injury income,[13] and how their experiences affected their FECA benefits as compared to their potential FERS benefits at retirement age. The results from these case studies are not generalizable to all partial disability beneficiaries.

We determined that the data we used were sufficiently reliable for the purposes of this report. We conducted this performance audit from October to December 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Summary of Findings

Compensating total disability FECA beneficiaries at the single rate of 66-2/3 percent of wages at the time of injury, regardless of the presence of dependents, produced similar results to our previous analyses of compensating them at the single rate of 70 percent.[14] Both proposals reduced median wage replacement rates—the percentage of take-home pay replaced by FECA—and the 66-2/3 percent proposal resulted in somewhat larger reductions. Both proposals altered the relative equality in wage replacement rates between beneficiaries with and without a dependent, resulting in relatively lower median wage replacement rates for beneficiaries with a dependent. Additionally, under current FECA policy and both proposals, wage replacement rates for some beneficiaries, such as those

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[12] We selected the 7 case studies to show variation in wage earning capacity and post-injury job outcomes, including 4 beneficiaries who returned to work (2 to federal service and 2 to private sector jobs) and whose wage earning capacity was based on their actual wages, and 3 beneficiaries whose wage earning capacity was based on constructed earnings.

[13] This comparison is not the same as the wage replacement rate used for total disability beneficiaries in our prior work and in the analysis of the Senate proposal in this report.

[14] Median wage replacement rates for total disability postal beneficiaries were generally higher than those for other non-postal beneficiaries. As discussed in GAO-13-142R, this is because postal workers in our sample (examined in GAO-13-142R) generally experienced less income growth than non-postal workers in our sample (examined in GAO-13-108).

who missed out on substantial income growth, were substantially lower than the overall median.

How partial disability beneficiaries fare under the proposed FECA revisions affecting benefits prior to, and in retirement depends on a few key factors, including their post-injury earning capacity as determined by Labor, ability to find work and have actual earnings, and total years of federal service. In our case studies of seven partial disability beneficiaries, we found that under current policy and the proposed revisions to benefits prior to retirement, beneficiaries with constructed earnings—Labor's estimate of what a beneficiary could earn in a suitable job—had substantially lower post-injury total incomes (FECA benefits plus work earnings at the time their benefits were set) relative to their wages at injury, than did those with actual earnings. Since the workforce participation of partial disability beneficiaries can change over time, how they might fare under the proposals can also vary over their post-injury careers. With regard to the effects of the proposed reduction of FECA benefits at retirement age, the earning capacity of partial disability beneficiaries also plays a key role in determining how they may fare. In our seven case studies, beneficiaries with high earning capacities had potential FERS benefit packages that were substantially higher than both their current or reduced FECA benefit levels and thus would likely not be affected by the proposals due to their election of retirement under FERS. These beneficiaries had relatively lower FECA benefits prior to retirement than did those with low earning capacities. The beneficiaries with low earning capacities would generally be likely to choose to continue receiving FECA benefits past retirement age. Partial disability beneficiaries who choose to remain on FECA past retirement age currently receive lower benefits in retirement than otherwise identical total disability beneficiaries, and their FECA benefits would be reduced under the proposals.

Background

FECA

FECA provides cash benefits to eligible federal employees who suffer temporary or permanent disabilities resulting from work-related injuries or diseases. Labor's Division of Federal Employees' Compensation in the Office of Workers' Compensation Programs (OWCP) administers the FECA program and charges agencies for whom injured employees worked for benefits provided. These agencies subsequently reimburse Labor's Employees' Compensation Fund from their next annual appropriation. FECA benefits for all beneficiaries are not subject to age restrictions, but beneficiaries cannot receive both FECA wage-loss compensation benefits and OPM retirement benefits, such as under FERS.

Total and Partial Disability Beneficiaries

According to Labor officials and the FECA Procedure Manual, OWCP administers FECA with the goal of having beneficiaries recover and return to work in a sustained capacity following their injuries. When a federal employee suffers an injury that results in extended disability, he or she receives FECA wage-loss compensation at the rate of 75 percent or 66-2/3 percent of wages at injury, depending on the presence of a dependent. After a period of rehabilitation for the beneficiary, when medical conditions have stabilized and are not projected to change, OWCP reviews the beneficiary's records and evaluates his or her potential to return to work. Throughout this evaluation and recovery process, beneficiaries continue to receive FECA benefits as a proportion of their wages at injury.

If an individual has an extended disability and no current capacity to work, OWCP determines that he or she is a total disability beneficiary and calculates long-term FECA benefits as a proportion of the beneficiary's entire income at the time of injury.[15] In 2010, 31,880 FECA beneficiaries received long-term total disability cash benefits.[16]

Alternatively, if an individual recovers sufficiently to return to work in some capacity, OWCP determines that he or she is a partial disability beneficiary and reduces his or her FECA benefits from the total disability amount. For such partial disability beneficiaries, OWCP calculates long-term benefits based on any loss of wage earning capacity, as compared to their pre-injury wages.[17] In 2010, 10,594 FECA beneficiaries received long-term partial disability cash benefits.[18]

According to the procedure manual, OWCP makes every reasonable effort, taking medical conditions into account, to arrange for employment of partial disability beneficiaries with their original agency, or with a new employer. OWCP's efforts include an evaluation of beneficiaries' functional capacities and re-employment potential, consideration of job modification options, plans to resolve barriers to re-employment, and the provision of

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[15] The amount of time a beneficiary receives these long-term total disability benefits varies depending on the extent and speed of recovery.
[16] See GAO, *Federal Employees' Compensation Act: Benefits for Retirement-Age Beneficiaries*, GAO-12-309R (Washington, D.C.: February 6, 2012) for more information on the number and types of FECA beneficiaries in 2010.
[17] We use the term "pre-injury wages" for clarity. OWCP calculates long-term benefits based on the current pay rate—at the time of this calculation—of the job the beneficiary held at the time of injury.
[18] See GAO-12-309R for more information on the number and types of FECA beneficiaries in 2010.

vocational rehabilitation services. Additionally, to incentivize employers' hiring of FECA beneficiaries, both proposals to revise FECA include provisions that would enable Labor to reimburse employers for some or all of the salary of an employed beneficiary for up to three years in a position other than that held at the time of injury. Some partial disability beneficiaries are able to return to the job they held prior to injury (or to a job with a new employer) at the same capacity—with no difference in earnings before and after the injury. OWCP determines that such beneficiaries have "no loss of wage earning capacity," at which point they stop receiving FECA cash benefits.[19]

Some partial disability beneficiaries return to their employing agency or obtain a new job elsewhere at a reduced capacity—with lower earnings than they had prior to the injury. OWCP determines that such beneficiaries have some "loss of wage earning capacity" (LWEC) and calculates their long-term partial disability benefits based on their LWECs. The LWEC is the difference between wages at the time of injury and post-injury wage earning capacity. For instance, if a partial disability beneficiary finds employment in a position that OWCP determines to be commensurate with their rehabilitation, then OWCP bases the LWEC on the difference between their pre-injury wages and their actual post-injury earnings. Alternatively, partial disability beneficiaries may not find employment in a position that OWCP determines to be commensurate with their wage earning capacity. In such cases, OWCP constructs a beneficiary's LWEC based on the difference between pre-injury wages and OWCP's estimate of what the FECA beneficiary could earn in an appropriate job placement.

Worker's compensation programs attempt to balance the goals of providing adequate wage loss benefits and promoting a return to work, thus minimizing the need for, and the magnitude of continuing payments. FECA's reduction of benefits for partial disability beneficiaries represents such an incentive. Since benefits will be reduced based on wage earning capacity—whether a beneficiary finds a job or not—there is an incentive to find work that meets his or her work capabilities; thus maximizing total income.

OWCP makes its formal LWEC decision and reduces FECA benefits only after determining that a beneficiary is suitable for reemployment, has completed any necessary vocational rehabilitation, and has obtained or has had sufficient time to seek a job. At that point, OWCP calculates partial disability benefits as a proportion of a beneficiary's LWEC; those with dependents receive 75 percent of their LWEC and those without dependents receive 66-2/3 percent.

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[19] Even if a beneficiary has no loss of wage earning capacity, OWCP may still consider him or her a partial disability beneficiary if he or she requires medical or other benefits through the FECA program.

Over time, OWCP can modify beneficiaries' LWECs and corresponding benefits, but only in specific situations, such as when an original rating was in error, a beneficiary's medical condition materially changed (i.e., the injury-related condition improved or worsened), or a beneficiary was retrained or otherwise vocationally rehabilitated.[20] However, according to Labor officials, such modification is rare.

Proposed Revisions Would Reduce Median Wage Replacement Rates and Alter the Relative Equality between Beneficiaries with and without a Dependent

Our simulations of the effects of compensating non-postal and postal total disability beneficiaries at the single rate of 66-2/3 percent of wages at injury, regardless of the presence of dependents, produced similar results to our previous analyses of compensating them at the single rate of 70 percent. While the median wage replacement rates overall, and within the subgroups we examined, were generally lower under the 66-2/3 percent compensation proposal, the patterns that emerged were the same. For further discussion of policy implications related to those patterns and additional wage replacement rate analyses on total disability beneficiaries, see our prior work in GAO-13-108 and GAO-13-142R.

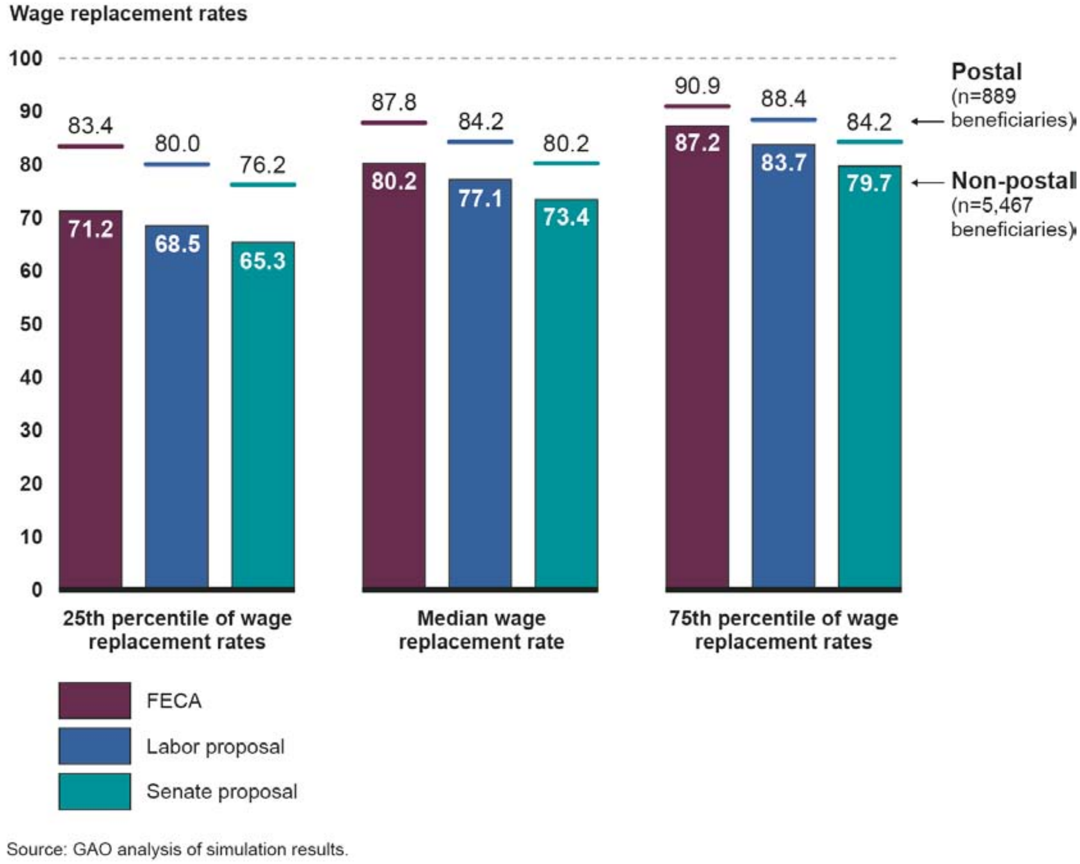
Both proposals reduced 2010 median wage replacement rates for total disability non-postal and postal beneficiaries, as shown in figure 1. The decreases in the overall median wage replacement rates were due to the greater proportion of beneficiaries who had a dependent—73 percent of non-postal beneficiaries and 71 percent of postal beneficiaries. Beneficiaries with a dependent received lower compensation under both proposals whereas beneficiaries without a dependent saw their compensation increase or stay the same.

Median wage replacement rates for postal beneficiaries were generally higher than those for non-postal beneficiaries. In both cases, the wage replacement rates account for missed income growth, as they are simulated based on 2010 take-home pay. All else equal, FECA beneficiaries who would have experienced more income growth—from the time of injury through 2010—had lower wage replacement rates than did those beneficiaries who would have experienced less income growth absent their injury. In general, postal beneficiaries missed less income growth due to their injury than did non-postal beneficiaries. Consequentially, postal beneficiaries had higher wage replacement rates than non-postal beneficiaries. For example, 4 out of 5 postal beneficiaries in our sample would have had less than 10 percent income growth had they never been injured. In contrast, 2 out of 5

[20] According to the FECA Procedure Manual, vocational rehabilitation through retraining can be demonstrated by an increase in earnings of more than 25 percent.

non-postal beneficiaries would have had less than 10 percent income growth, absent an injury.

Figure 1: 2010 Wage Replacement Rates under FECA and the Proposed Revisions



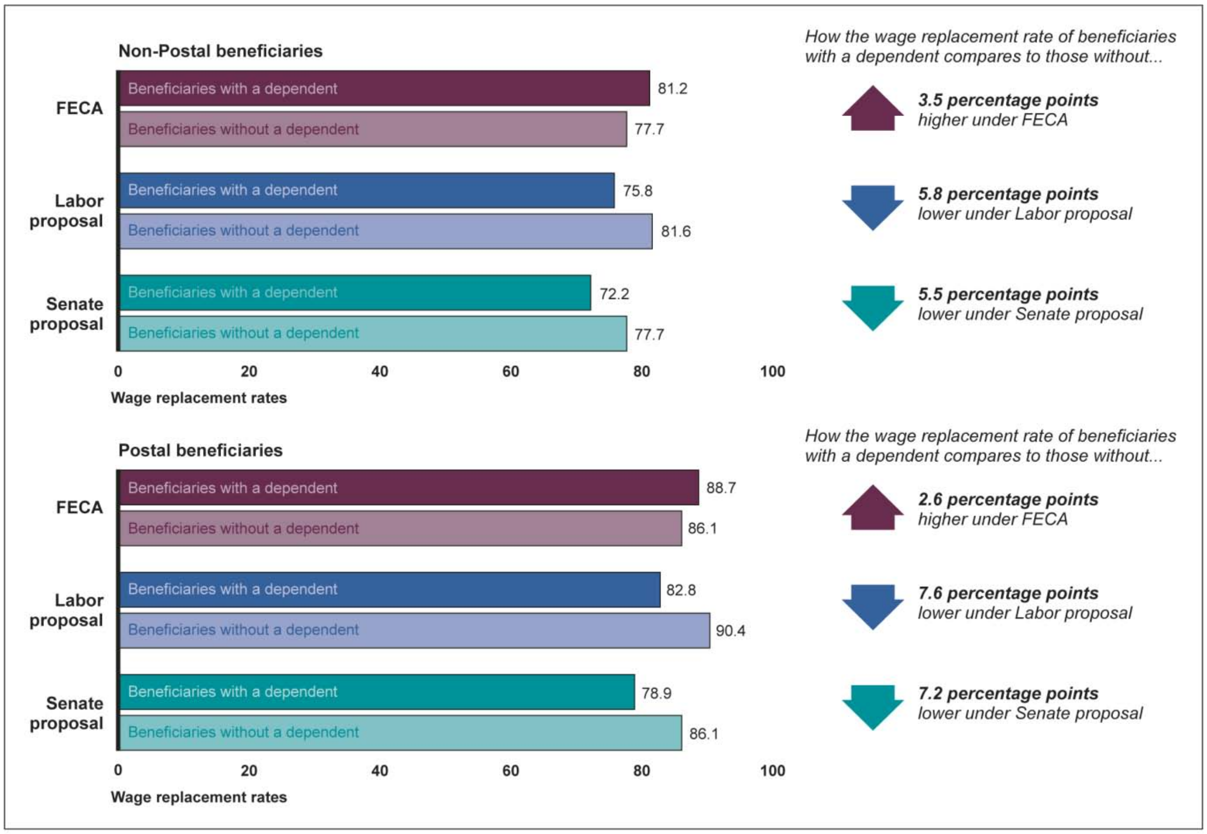
Source: GAO analysis of simulation results.

Note: Wage replacement rates are calculated based on 2010 take-home pay and account for missed income growth.

Both proposals altered the relative equality in wage replacement rates between beneficiaries with and without a dependent, increasing the magnitude and reversing the direction of the difference in median wage replacement rates, as shown in figure 2. Had we been able to account for the actual number of dependents, beneficiaries with dependents would have had lower wage replacement rates and thus the difference between median wage replacement rates would have been smaller under FECA and larger under both proposals.[21]

[21] Our data did not include information on the number of dependents, so we assumed a single dependent. All else equal, having more dependents would generally increase take-home pay (because of smaller tax liabilities) and therefore result in lower wage replacement rates. For more information, see GAO-13-108.

Figure 2: 2010 Median Wage Replacement Rates for Beneficiaries with and without a Dependent



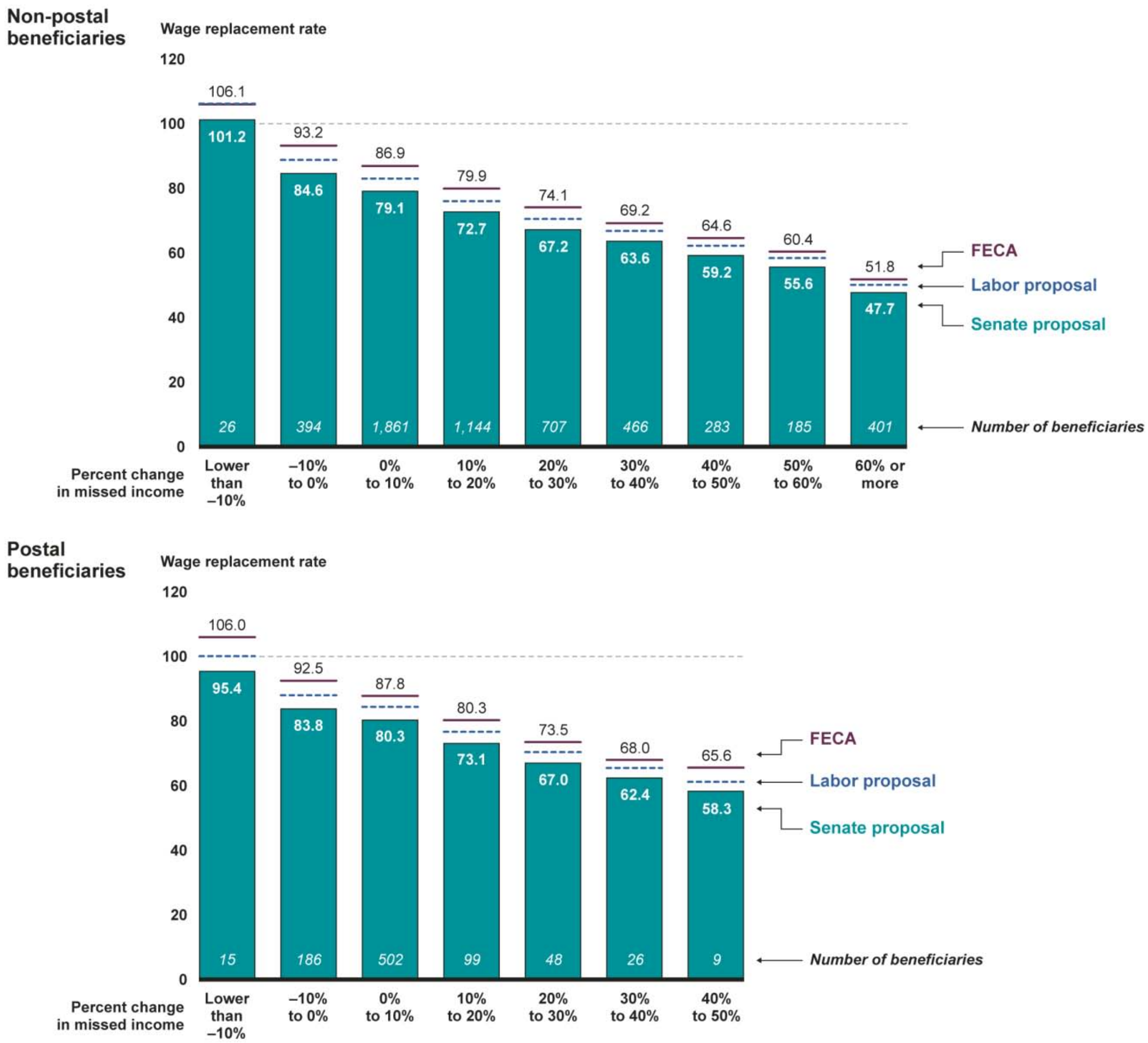
Source: GAO analysis of simulation results.

Note: Wage replacement rates are calculated based on 2010 take-home pay and account for missed income growth.

For other beneficiary subgroups we examined, the proposals did not reduce wage replacement rates disproportionately to the reduction in the overall median.[22] However, under current FECA policy and both proposals, wage replacement rates for some beneficiaries, such as those who missed out on substantial income growth, were substantially lower than the overall median. FECA was not designed to account for missed income growth and thus total disability beneficiaries who missed substantial income growth had lower wage replacement rates—outweighing the cumulative effect of FECA's annual cost of living adjustments—as shown in figure 3.

[22] We examined subgroups of beneficiaries by state tax rates, GS level at injury and GS level growth (non-postal), and income percentile category at injury (postal).

Figure 3: 2010 Median Wage Replacement Rates by Missed Income Growth



Source: GAO analysis of simulation results.

Note: Intervals do not include the upper endpoints. In addition, not enough postal beneficiaries had missed income growth over 50% to report their wage replacement rates. Wage replacement rates are calculated based on 2010 take-home pay and account for missed income growth.

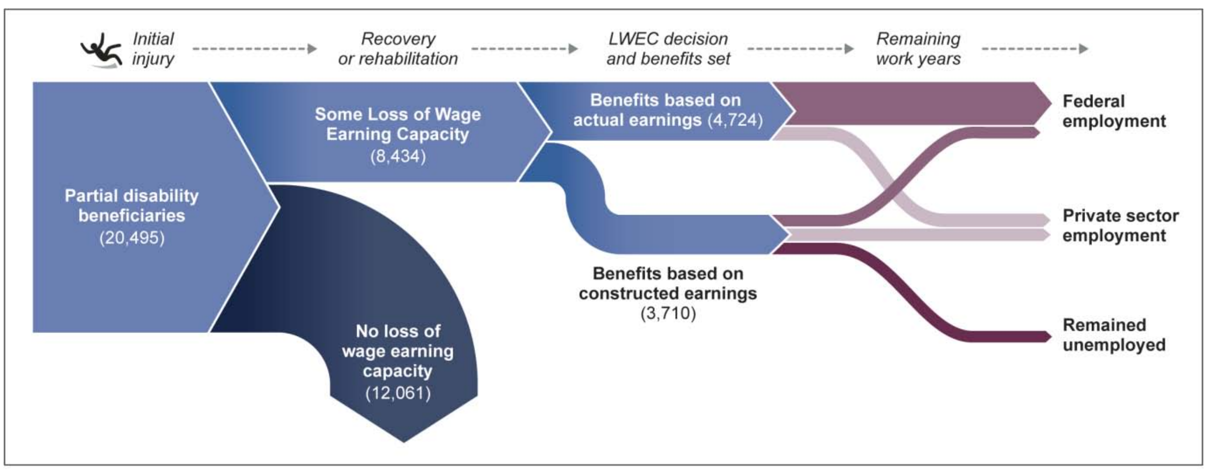
Effects of Proposed FECA Revisions on Partial Disability Beneficiaries Depend on Post-Injury Earning Capacity and Employment Over Time

Partial disability beneficiaries are fundamentally different from total disability beneficiaries, as they receive reduced benefits based on their potential to be re-employed and have work earnings. However, there is limited information available about the overall population of partial disability beneficiaries. They do not all find work and their participation in the workforce may change over time. Their individual experiences determine how they would fare under the proposed revisions.

The Proportion of New Partial Disability Beneficiaries with Constructed Earnings Has Increased in Recent Years

Partial disability beneficiaries with constructed earnings LWECs have less total income at the time of their LWEC decisions than do similar beneficiaries with actual earnings LWECs. Of those new partial disability beneficiaries who began receiving FECA benefits in 2000-2011 and had some loss of wage earning capacity, more than half had actual earnings LWECs (see fig. 4). Their total income consisted of their work earnings and their FECA benefit, which was calculated based on those earnings.[23] Beneficiaries who began receiving benefits based on constructed earnings were either unemployed or employed in a position that had lower wages than a job OWCP determined would accurately reflect their wage earning capacity. Those beneficiaries had less total income than otherwise identical partial disability beneficiaries with actual earnings LWECs, and as a result FECA benefits made up a relatively greater proportion of their total income.

Figure 4: New Partial Disability Beneficiaries (2000-2011)



Source: GAO analysis of Labor data on partial disability beneficiaries.

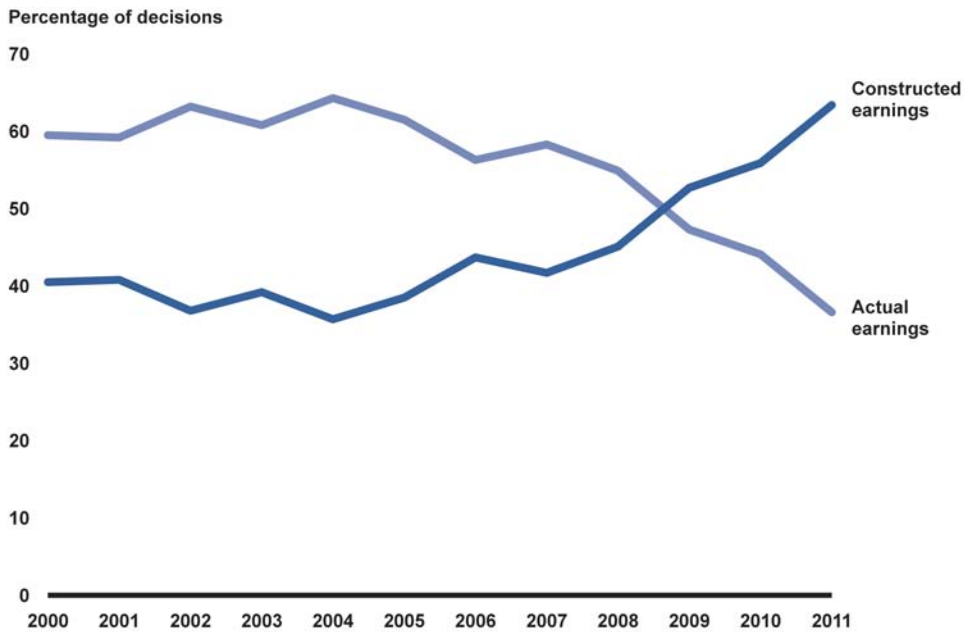
Note: Private sector employment is presented as an example of non-federal employment.

The percentage of new partial disability beneficiaries receiving benefits based on constructed earnings rose from 36 percent in 2004 to 63 percent in 2011, as shown in figure 5. Beginning in 2009, the percentage of new beneficiaries receiving benefits based on

[23] FECA benefits are calculated as 75 percent or 66-2/3 percent of the LWEC—the difference between wages at the time of injury and post-injury wage earning capacity—for those with or without a dependent.

constructed earnings exceeded those receiving benefits based on actual earnings. Various factors may have contributed to this shift, such as the economic downturn, workforce trends, individual choices, or agency policies that affect the hiring or re-employment of FECA beneficiaries. However, the extent to which any one factor or combination of such factors contributed to the rise of LWEC decisions based on constructed earnings from 2004 to 2011 is currently unknown.

Figure 5: Percent of LWEC Decisions Based on Actual or Constructed Earnings



Source: GAO analysis of Labor data on partial disability beneficiaries.

Total Income Comparisons for Partial Disability Beneficiaries Depend on the Extent to Which Each Is Reemployed

Partial disability beneficiaries in the case studies we examined fared differently under both FECA and the proposed revisions to pre-retirement compensation, depending on the extent to which they had work earnings in addition to their FECA benefits. To consider this larger context, we conducted total income comparisons for the partial disability case studies we examined. We define the post-injury total income comparison to be the sum of post-injury FECA benefits and any gross earnings from employment at the time of the LWEC decision, as a percentage of pre-injury gross income.[24]

[24] This total income comparison is not the same as the wage replacement rate used in our prior work and in the analysis of the Senate proposal in this report. Total income includes FECA benefits and

Among the seven partial disability case studies we examined, those beneficiaries with constructed earnings LWECs had post-injury total income comparisons that were substantially less than those with actual earnings LWECs. As shown in table 1, the beneficiaries in case studies 5-7 had constructed earnings LWECs and had post-injury total incomes that ranged from 29 to 65 percent of their pre-injury income under current FECA policy. This range was substantially lower than the total income comparisons for the beneficiaries in case studies 1-4 with actual earnings LWECs (77-96 percent). By definition, at the time of their LWEC decision, those beneficiaries with constructed earnings LWECs earned less than the income OWCP used to calculate their LWECs. Consequently, their total income comparisons—FECA benefits plus earnings, as a percentage of pre-injury wages—are necessarily lower than those with actual earnings LWECs.

Table 1: Case Studies: Total Income Comparisons at Time of LWEC Decision

						Total Income Comparisons Under: [c]		
Case Study	**Has a Dependent**	**Wages @ Injury** [a]	**Wages Post-Injury @ LWEC**	**Post-Injury Earning Capacity** [b]	**FECA Benefit @ Injury**	**Current FECA Benefit Structure (pre-retirement)**	**Labor Proposal (pre-retirement compensation)**	**Senate Proposal (pre-retirement compensation)**
1 - Returned to Agency	Yes	$52,684	$16,472	26%	$29,240	81.5%	77.8%	75.3%
2 - Returned to Agency	No	$28,691	$25,829	88%	$2,295	96.0%	96.4%	96.0%
3 - Private Sector Job	Yes	$75,724	$8,320	9%	$51,682	77.3%	72.7%	69.7%
4 - Private Sector Job	No	$38,675	$33,097	82%	$4,641	94.0%	94.6%	94.0%
5 - Constructed LWEC	Yes	$58,033	$5,383	26%	$32,208	64.5%	60.8%	58.3%
6 - Constructed LWEC	Yes	$35,082	$0	49%	$13,419	38.3%	35.7%	34.0%
7 - Constructed LWEC	No	$34,936	$0	56%	$10,248	29.3%	30.8%	29.3%

Source: GAO analysis of partial disability case studies.

[a] The dollar amounts for wages and benefits are in nominal terms from the year of the injury or OWCP's LWEC decision; they are thus not comparable for each beneficiary or across beneficiaries. Dollars are standardized in the income comparisons and are thus comparable across beneficiaries (see enclosure I for details on the methodology).

[b] Post-injury earning capacity represents OWCP's determination of a beneficiary's potential to earn wages. For instance, OWCP determined that the beneficiary in case study 1 had the potential to earn 26 percent of her wages at the time of injury.

[c] Total income comparisons represent each beneficiary's post-injury FECA benefits plus any gross earnings from employment at the time of the LWEC decision, as a percentage of his or her pre-injury gross income, under current FECA policy and the proposed revisions to pre-retirement benefits.

any gross earnings from work (not accounting for taxes). Post-injury earnings and FECA benefits are deflated to the time of injury to conduct a consistent comparison at a single point in time. For further details on the methodology, see enclosure I.

Beneficiaries in our case studies were affected differently by the proposed revisions to pre-retirement benefits. As expected, the beneficiaries who did not have a dependent (case studies 2, 4, and 7) experienced either slight increases or no change in their post-injury total income comparisons under the proposed revisions to pre-retirement benefits. Under both proposals, the beneficiaries in our case studies who had a dependent (case studies 1, 3, 5, and 6) experienced declines in their post-injury total income comparisons.[25] However, these decreases in total income comparisons were relatively small compared to the impact of not having actual earnings. For instance, the beneficiary with a constructed earnings LWEC in case study 6 experienced declines in his total income comparisons of about 3 to 4 percentage points between current FECA policy and the proposals. However, his total income comparisons under current FECA policy and the proposals were over 30 percentage points lower than those of the beneficiary in case study 3 who had the lowest total income comparisons of those beneficiaries with actual earnings LWECs.

Due to the importance of actual work earnings on partial disability beneficiaries' situations, a snapshot of post-injury total income comparisons is insufficient to predict how beneficiaries fare over the remainder of their post-injury careers. Employment at the time of OWCP's LWEC decision does not necessarily imply stable employment over time, as beneficiaries can find, change, or lose jobs over time. A more detailed look at our case studies illustrates how changes in workforce participation over time can affect total income comparisons over a beneficiary's post-injury career. For instance, as shown in figure 6, even though the beneficiary in case study 1 was re-employed at her agency and was able to earn about 82 percent of her pre-injury income with her FECA benefit and new earnings, she later stopped working due to pain and her total income became substantially lower.[26] Similarly, the beneficiary in case study 7 was in and out of work after OWCP made the LWEC decision based on constructed earnings, and his total income situation fluctuated accordingly from year to year depending on his work earnings. The beneficiary in case study 5 experienced the opposite; although he was unable to find work initially and had an LWEC based on constructed earnings, his initially low total income comparison later improved substantially when he obtained full-time employment.

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[25] The proposals to compensate FECA beneficiaries at the single rate of 70 percent or 66-2/3 percent of wages at injury, regardless of the presence of dependents, would reduce pre-retirement FECA benefits for partial disability beneficiaries with a dependent and would increase or have no effect on pre-retirement FECA benefits for those without a dependent, respectively.

[26] OWCP can modify beneficiaries' LWECs and corresponding benefits, but only in certain circumstances, such as when a beneficiary's injury-related condition improves or worsens, and the evidence must clearly support the modification (as OWCP determined was not the case for the beneficiary in case study 1). According to Labor officials, such modification is rare.

Figure 6: Case Studies: Total Income Comparisons Over Time

Case study 1

The beneficiary was employed as a nurse for the Veteran's Administration and sustained a back injury in 2003 resulting from the frequent lifting, pushing, and pulling of patients.

After rehabilitation efforts, she found work as an information receptionist in 2005, and was able to work for 4 hours per day. Her earnings as a receptionist combined with her FECA benefits comprised about 82 percent of her pre-injury income.

However, less than a year later, in 2006, she elected to stop working due to pain. In October she filed a claim that her disability had recurred, but OWCP found that the factual and medical evidence provided did not establish that the claimed recurrence resulted from the work injury. Her FECA benefits thus remained the same, reducing her income to about 55 percent of pre-injury income.

She returned to work briefly in 2010, but again elected to stop working, citing difficulties.

Case study 5

The beneficiary was employed as a mechanic by the Army and injured his back from a fall in 2004.A rehabilitation counselor facilitated training for job placement as a bookkeeper or receptionist.

He obtained part-time work as a bus driver in 2006.

However, since his work was part-time and his hours varied, Labor determined that his actual earnings did not fairly and reasonably represent his wage earning capacity. Labor thus set his FECA benefits based on the position of bookkeeper.

In 2007, he obtained full-time work as a security officer for Nevada, and earned about $41,000-$44,000 per year from 2007 through 2011.

Case study 7

The beneficiary injured his back in 1999 while working for the Navy.

A rehabilitation counselor facilitated training for job placement as an architectural drafter, but the beneficiary did not obtain employment.

Over the next several years, he found intermittent employment:

- In 2006, he earned almost $3,000 as a self-employed handyman, and worked for a few months in construction.
- In 2008, he earned about $5,000 as a bus driver for 6 months.
- In 2011, he earned about $3,000 as a painter's helper for 3 months.

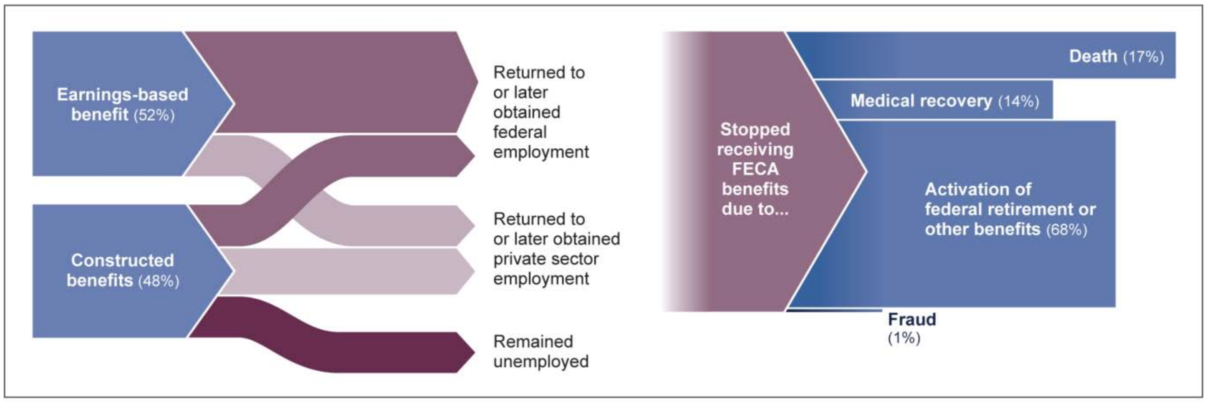
Source: GAO analysis of partial disability case studies.

Effects of Proposals to Reduce FECA at Retirement Age Depend on Whether Partial Disability Beneficiaries Remain on FECA or Elect OPM Retirement Benefits

The proposals to reduce FECA benefits at retirement age would primarily affect those partial disability beneficiaries who continue to receive FECA benefits past retirement age. As shown in figure 7, 68 percent of partial disability beneficiaries who stopped receiving FECA benefits in 2005-2011 did so due to their election of OPM retirement or other benefits, such as Veterans Affairs disability benefits. Labor officials stated that because many variables affect retirement benefits, they cannot predict why partial disability beneficiaries would potentially choose to retire instead of continuing to receive FECA benefits. Only 17 percent of partial disability beneficiaries who stopped receiving FECA benefits were beneficiaries who died (i.e., received benefits from injury until death). These aggregate numbers do not track individual beneficiaries' decisions to elect retirement or to continue receiving FECA benefits past retirement age, but they suggest that there is a substantial percentage of partial disability beneficiaries that elects other benefits instead of FECA at some point post-injury.[27]

[27] While those beneficiaries who elect OPM retirement would not be affected by the proposals, they would receive lower retirement benefits than they would have had they never been injured, all else equal. Their federal careers were either shortened or they returned to federal employment at a reduced capacity—both of which would reduce their FERS annuities and Social Security benefits attributable to federal service.

Figure 7: Reasons Partial Disability Beneficiaries Stopped Receiving FECA Benefits (2005-2011)



Source: GAO analysis of Labor data on partial disability beneficiaries.

Note: Private sector employment is presented as an example of non-federal employment.

Since those beneficiaries who elect FERS retirement would not be affected by the proposed revisions to FECA compensation at retirement age, the overall effects of the proposals on partial disability beneficiaries should be considered in the larger context of retirement options. To do so, we used data from the seven partial disability case studies to simulate and compare FERS and FECA benefits and to highlight various retirement options these partial disability beneficiaries may face.[28] As shown in table 2, we found:

- The beneficiaries in case studies 2, 4, and 6 had potential FERS benefit packages that were **higher** than their FECA benefits under current policy and the proposed revision—they would likely not be affected by the proposed revision.
- The beneficiaries in case studies 1, 3, and 7 had potential FERS benefit packages that were **lower** than their FECA benefits under current policy and the proposed

[28] We compared potential FERS and FECA benefits for each beneficiary in the case studies at age 62—a common decision point for electing to retire and also consistent with our prior work—which measures what each beneficiary would actually receive though the beneficiaries were not actually retired. This comparison is thus not the same as the retirement counter-factual analysis conducted in our prior work that compared FECA benefits to retirement benefits if never injured. Although the proposed reduction would only go into effect once a beneficiary reaches full Social Security retirement age, we simulated the benefit reduction for all case studies, regardless of age. We did so to be consistent with our prior work, to present the comparison under each compensation rate, and to avoid imputing additional unknown years of service. Had we conducted the comparison at full Social Security retirement age, FECA benefits would have been larger due to additional cost of living adjustments and FERS benefits may have been larger due to additional years of service. We did not include Thrift Savings Plan (TSP) benefits or Social Security benefits attributable to non-federal service in the comparison because each beneficiary would have received those benefits whether they elected FERS retirement or chose to remain on FECA. For further details on the methodology, see enclosure I.

revision—they would likely face a reduction in FECA benefits in retirement under the proposed revision.

- The beneficiary in case study 5 had a potential FERS benefit package that was **lower** than his FECA benefits under current policy, but **higher** than his benefits under the proposed FECA reduction—he would likely face a reduction in FECA benefits in retirement under the proposed revision.

Table 2: Case Studies: Benefits Comparisons at Retirement

						Total Benefits in Retirement Under: [d]		
Case Study	**Has a Dependent**	**Wages @ Injury** [a]	**Wages Post-Injury @ LWEC**	**Post-Injury Earning Capacity** [b]	**Years of Federal Service** [c]	**Potential FERS Retirement Package**	**Current FECA Benefit Structure**	**Labor and Senate Proposals to Reduce FECA**
1 - Returned to Agency	Yes	$52,684	$16,472	26%	14	$15,823	**$34,554**	**$23,023**
2 - Returned to Agency	No	$28,691	$25,829	88%	29	**$24,410**	$3,575	$2,678
3 - Private Sector Job	Yes	$75,724	$8,320	9%	17	$19,843	**$75,023**	**$50,011**
4 - Private Sector Job	No	$38,675	$33,097	82%	17	**$13,513**	$6,318	$4,758
5 - Constructed LWEC	Yes	$58,033	$5,383	26%	23	$25,518	**$38,077**	$25,376
6 - Constructed LWEC	Yes	$35,082	$0	49%	20	**$17,132**	$16,536	$11,011
7 - Constructed LWEC	No	$34,936	$0	56%	6	$7,905	**$15,808**	**$11,830**

Source: GAO analysis of partial disability case studies.

[a] The dollar amounts for wages are in nominal terms from the year of the injury or OWCP's LWEC decision; they are thus not comparable for each beneficiary or across beneficiaries. Benefit comparison dollars are in nominal terms, but as of the same year for each individual; FERS and FECA benefits are thus comparable for each beneficiary, but not across beneficiaries (see enclosure I for details on the methodology).

[b] Post-injury earning capacity represents OWCP's determination of a beneficiary's potential to earn wages. For instance, OWCP determined that the beneficiary in case study 1 had the potential to earn 26 percent of her wages at the time of injury.

[c] Years of federal service includes any additional years of service added to advance beneficiaries who were not yet 62 to age 62—the point of benefit comparison. See enclosure I for additional details on the methodology.

[d] Total benefits in retirement compares the potential FERS retirement package if a beneficiary elects OPM retirement, FECA benefits under current FECA policy, and FECA benefits under the Labor and Senate proposals. Social Security benefits not attributable to federal service and TSP benefits were not included in the analysis because they cancel out on both sides of the comparison; whatever TSP balance and Social Security benefits attributable to non-federal employment a beneficiary had accrued would be theirs whether they elected FECA benefits or FERS retirement.

The differences in retirement options that individual beneficiaries face stem from two key factors: (1) OWCP's determination of their earning capacities, and (2) their total years of federal service. Partial disability beneficiaries with greater potential for earnings from work receive relatively lower FECA benefits to account for their relatively lower loss of wage earning capacity, all else equal. In table 2, beneficiaries with:

- low earning capacities post-injury (case studies 1, 3, and 5) had FECA benefits that were more favorable than FERS benefits;
- high earning capacities post-injury (case studies 2 and 4) had FECA benefits that were less favorable than FERS benefits; and
- mid-range earning capacities post-injury (case studies 6 and 7) had FECA benefits whose favorability depended on their total years of federal service. Fewer years of federal service resulted in a lower FERS annuity and lower Social Security benefits attributable to federal service, all else equal.

Partial disability beneficiaries who choose to remain on FECA past retirement age currently face lower FECA benefits in retirement as compared with total disability beneficiaries, and would experience a reduction in benefits under the proposals. Partial disability beneficiaries receive FECA benefits that are lower than those of otherwise identical total disability beneficiaries to account for their potential for work earnings. As long as they work, their income is comprised of their earnings and their FECA benefits. However, once they choose to retire, partial disability beneficiaries who choose to stay on FECA likely no longer have any work earnings and are not eligible to simultaneously receive their FERS annuity.[29] Thus, because of the way FECA benefits are currently calculated, such partial disability beneficiaries may have less income in retirement than otherwise identical total disability beneficiaries, and the proposals would reduce benefits in retirement without differentiating between partial and total disability beneficiaries.[30] The proposed reduction may serve as a long-term incentive for partial disability beneficiaries to return to work,[31] particularly because their initial FECA benefits are lower than those of total disability beneficiaries.[32]

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[29] Eligible total and partial disability FECA beneficiaries may elect OPM retirement, such as under FERS, in lieu of FECA benefits.

[30] Those partial disability beneficiaries who were re-employed in non-federal jobs (e.g., in the private sector) can remain on FECA and receive any non-federal retirement benefits they may have accrued; similarly, those who were re-employed in federal jobs and remain on FECA in retirement may receive greater TSP benefits from any additional contributions during their re-employment.

[31] For example, by returning to work, partial disability beneficiaries would be able to increase their potential FERS benefits with additional years of federal service and contributions to TSP, or obtain non-federal retirement benefits through other employment that could supplement their lower FERS or FECA benefits (depending on their retirement elections). Not all partial disability beneficiaries return to work.

[32] Labor's proposed FECA revisions only apply to future claimants, which according to Labor, is in recognition of the fact that such return-to-work incentives take time and planning for beneficiaries.

Concluding Observations

FECA provides wage-loss compensation for workers injured while performing their federal duties. Since wage replacement rates for total disability beneficiaries are a measure of adequacy of benefits, it may be desirable to have similar wage replacement rates across beneficiaries. Any proposal to reduce and equalize compensation rates would disproportionately affect beneficiaries with dependents relative to those without dependents. An alternative approach might be an across-the-board reduction in FECA compensation, which could keep wage replacement rates relatively equal between total disability beneficiaries with and without dependents.[33] However, such a change may have a large impact on the adequacy of benefits for those beneficiaries with relatively low wage replacement rates, such as those who missed substantial income growth.

FECA attempts to balance benefit adequacy with the goal of having beneficiaries recover and return to work. Basing FECA benefits for partial disability beneficiaries on their wage earning capacities lowers their benefits relative to otherwise identical total disability beneficiaries and provides an incentive for them to return to work. However, not all beneficiaries return to work, and even for those who do, work situations may change over time. For those beneficiaries who remain unemployed, experience spells of unemployment, or work at a position that provides less income than their OWCP-determined "earning capacity"—due to choice or other extenuating economic or medical circumstances—FECA constitutes a large proportion of their total income. Policy implications of the proposed revisions for pre-retirement total income depend on individual beneficiaries' circumstances and work earnings over time, neither of which can be determined in the aggregate.

While the absence of work earnings prior to retirement may be due to choice or extenuating circumstances, in retirement the absence of such work earnings is not a choice but an expectation. Despite work earnings no longer being relevant in retirement, those partial disability beneficiaries who remain on FECA past retirement age continue to receive FECA benefits that account for their pre-retirement wage earning capacity. The proposals reduce FECA benefits at retirement age without differentiating between partial and total disability beneficiaries, and thus may substantially affect partial disability beneficiaries due to their lower initial FECA benefits.

Partial disability beneficiaries and total disability beneficiaries are fundamentally different due to the former's ability to work and earn income in addition to their FECA benefits. However, the proposed revisions apply the same compensation rate reductions to both

[33] For further discussion of policy implications related to proposed wage replacement rate revisions, see GAO-13-108.

populations. Treating the two beneficiary types the same may have different policy implications for beneficiaries related to the adequacy of benefits prior to, and upon reaching retirement. As reforms to the FECA program are considered, the need to balance the goals of adequacy of benefits and return to work become even more important, especially for partial disability beneficiaries.

Agency Comments

We provided a draft of this report to the Department of Labor and the United States Postal Service. Labor provided technical comments, which we incorporated in the report as appropriate. USPS had no comments.

We are sending copies of this report to relevant congressional committees, the Secretary of Labor, the Postmaster General, and other interested parties. In addition, the report will be made available at no charge on the GAO web-site at http://www.gao.gov.

If you or your staffs have any questions about this report, please contact me at (202) 512-7215 or sherrilla@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in enclosure II.

Andrew Sherrill

Andrew Sherrill
Director, Education, Workforce, and Income Security Issues

Enclosures: 2

To analyze the proposal to compensate FECA beneficiaries at the single rate of 66-2/3 percent and to examine what is known about partial disability beneficiaries and how the Labor and Senate proposals may affect them, we answered two key questions: (1) what would be the effects of compensating all total disability FECA beneficiaries at the single rate of 66-2/3 percent; and (2) what is known about partial disability FECA beneficiaries and how they may fare under proposed FECA revisions? This enclosure describes the methods we used to answer these questions. Section 1 describes the key data sources, Section 2 highlights aspects of the analysis for question 1 that differ from our other analyses,[34] and Section 3 details methods used to examine partial disability beneficiaries.

Section 1: Data Sources

To answer our key questions, we used administrative data on three populations: recent non-postal employees, recent postal employees, and FECA beneficiaries. We also used case files on partial disability beneficiaries. These data came from three federal agencies: Labor, OPM, and USPS. Table 1 provides an overview of each of these data files; the FECA beneficiary case files are discussed in more detail below.[35]

Table 3: Data Sources Used in Analysis

Data file	Federal agency responsible	Population covered	Type of information in file	Years of data analyzed	Data used for question
Integrated Federal Employees' Compensation System (iFECS)	Labor	FECA beneficiaries	Benefits and characteristics	2010	1 & 2
FECA Beneficiary Case Files	Labor	FECA partial disability beneficiaries	Benefits and characteristics	Case file document dates vary	2
Central Personnel Data File (CPDF)	OPM	Non-postal employees	Data on pay and other characteristics	1988-2010	1 & 2
Human Capital Enterprise System (HCES)	USPS	Postal employees	Data on pay and other characteristics	1995-2010	1

Source: GAO summary of data sources.

[34] Prior analyses of non-postal beneficiaries may be found in GAO-13-108 and postal beneficiaries in GAO-13-142R.
[35] The iFECS, CPDF, and HCES data sources are described in more detail in GAO-13-108 and GAO-13-142R.

FECA beneficiary case files

To select the case files we examined, we identified partial disability beneficiaries in Labor's iFECS database who were also present in the CPDF database (i.e., with federal work earnings data).[36] We extracted samples of beneficiaries who (1) returned to federal employment (i.e., were present in the CPDF prior to their injury date and after their LWEC decision date); and (2) who did not return to federal employment and thus either obtained non-federal jobs (e.g., in the private sector) or had LWECs based on constructed earnings (i.e., were present in the CPDF prior to their injury date, but not after their LWEC decision date).

We also constrained the samples to only contain beneficiaries:

- eligible under FERS, so as to be representative of future federal workers and FECA beneficiaries; and
- between ages 56 and 62, so as to be close to retirement age with a relatively complete federal work history.

We used demographic and work history data for these beneficiaries from the CPDF, iFECS, and individual case files to conduct our analyses of partial disability beneficiaries.

We pulled case files from Labor's electronic kiosk for beneficiaries who had relatively complete work history data in our data sources and who had relatively complete case file paperwork, including documentation of their LWEC decision and calculations of benefits. We additionally collected the form on which beneficiaries self-report their annual earnings outside of their FECA benefits (CA-1032) for the beneficiaries we ultimately selected as case studies.

We reviewed the case files and judgmentally selected seven beneficiaries to analyze in greater depth and to present as case studies. We selected the seven beneficiaries based on the completeness of their work history data, their income at injury being within the equivalent of GS 9-12 at the time of injury (since most FECA beneficiaries in our prior work were in that income range),[37] and to capture some variation in their LWEC decision type, wage earning capacity, and years of service. Among the seven beneficiaries:

- two returned to federal employment, two obtained private sector jobs, and three had LWECs based on constructed earnings;

[36] The CPDF does not cover all civilian federal workers, such as postal employees, but was suitable for obtaining a sample of partial disability beneficiaries to examine as case studies.
[37] GS level 9-12 established as an individual having annual income of at least $41,563 and less than $71,674. For more on distribution of FECA beneficiaries by GS level range, see GAO-13-108.

- wage earning capacity ranged from 9 percent to 88 percent, with three beneficiaries in the bottom third of wage earning capacity, two in the middle third, and two in the highest third; and
- years of service ranged from 6 to 25 years in 2010, with one beneficiary at the extreme low end (less than 10 years), three in the teens, and three in the twenties.

Data reliability

For each of the datasets used in this report, we conducted a data reliability assessment of selected variables, including conducting electronic data tests for completeness and accuracy, reviewing documentation on the dataset, and interviewing knowledgeable officials about how the data were collected and maintained and their appropriate uses. We determined that the variables we used from the data we reviewed were reliable for the purposes of this report.

Section 2: Overview of Key Differences in Methods for Question 1

To answer the first question, we used nearly identical methods to those in our prior reports that addressed the same objective for non-postal federal workers (GAO-13-108) and postal workers (GAO-13-142R). Specifically, we conducted simulations to compare FECA benefits with actual take-home pay for non-postal and postal beneficiaries in 2010.

The only key differences in analysis methods for question 1 in this report as compared to our prior work include:

- The analysis in this report examines both non-postal and postal beneficiaries, and as such, uses the methods for matching and calculating benefits applicable to each of those populations.[38]
- The analysis in this report focuses on the Senate proposal to revise FECA. We thus set benefits for comparison using the single compensation rate of 66-2/3 percent of applicable wages at time of injury, regardless of whether the beneficiary has eligible dependents, as detailed in S. 1789. We then compared those results to the results

[38] For details on the methods used for non-postal employees, see GAO-13-108. For details on the methods used for postal employees, see GAO-13-142R. As in our prior work, to determine federal and state income taxes, we used the National Bureau of Economic Research's (NBER) TAXSIM. TAXSIM is NBER's FORTRAN program for calculating liabilities under U.S. federal and state income tax laws from individual data. The TAXSIM Model (http://www.nber.org/taxsim) simulates the U.S. federal and state income tax rules.

from our prior work that focused on Labor's proposal to set compensation at the singe rate of 70 percent of applicable wages.

Section 3: Methods Used to Examine Partial Disability Beneficiaries

To answer the second question, we examined data from Labor about the different types of partial disability beneficiaries that began receiving benefits in 2000-2011 and the reasons others stopped receiving benefits in 2005-2011. We also conducted case studies of selected partial disability beneficiaries to examine how their post-injury employment outcomes varied (e.g., re-employed by the federal government, re-employed in the private sector or other non-federal work, or unemployed) and changed over time.

We used data from the case studies to analyze how the experiences of partial disability beneficiaries determined how the proposed FECA revisions would affect them.

To analyze the proposed revisions' pre-retirement effects, the total income analysis compared each beneficiary's pre-injury gross income to their post-injury partial disability FECA benefit (set using the applicable compensation rates under current FECA policy and the proposed revisions) combined with any gross earnings from post-injury employment at the time of the LWEC decision. This analysis considered gross incomes and did not account for taxes. We deflated FECA benefits and earnings post-injury to the time of injury to calculate the total income comparison at a consistent point in time, but the comparison represents the beneficiary's situation post-injury at the time of their LWEC decision. For instance, we calculated a beneficiary's total income comparison as:

[partial disability FECA benefit at injury

(i.e., LWEC x applicable compensation rate)

+

any post-injury earnings at time of LWEC decision deflated to the time of injury]

(i.e., earning capacity based on post-injury earnings x wages at injury)

÷

wages at injury

This total income analysis is related to, but not the same as the wage replacement analysis conducted in our prior work and in the analysis of the effects of the Senate proposal on full disability beneficiaries in this report. Although the results of the total income analysis were in the form of income replacement percentages, this comparison is not the same as a "wage replacement rate." This analysis is a snapshot comparison of a beneficiary's total income at the time of the LWEC decision (calculated for dollar standardization as of the time of injury), and not a comparison of FECA benefits if injured with income if never injured, which would account for career growth, cost of living increases, and other factors. Additionally, the wage replacement analysis for total disability beneficiaries is representative of all similar FECA recipients (with respect to the matched characteristics), whereas the analysis of the case studies is not generalizable.

To analyze the proposed revisions' retirement effects, the retirement options analysis measured what a beneficiary's potential benefits would be at age 62 if deciding between electing FERS retirement or partial disability FECA benefits. The analysis compared the potential gross FERS benefit package, including the gross FERS annuity and any gross Social Security benefits attributable to federal service, with the partial disability FECA benefits under current policy and under the proposed reduction to 50 percent compensation at time of injury, adjusted for inflation; the analysis considered gross incomes and did not account for taxes.[39] Social Security benefits not attributable to federal service and TSP benefits were not included in the analysis because they cancel out on both sides of the comparison; whatever TSP balance and Social Security benefits attributable to non-federal employment a beneficiary had accrued would be theirs whether they elected FECA benefits or FERS retirement. Beneficiaries who were not yet 62 were advanced to age 62—the point of benefit comparison—by imputing their applicable earnings and/or benefits from additional years of federal service or other employment. We calculated benefits consistent with our prior work.[40] To calculate the:

- FECA benefits, we increased initial FECA benefits by applicable cost of living adjustments until each beneficiary reached age 62;
- FERS annuity, we imputed any missing years of earnings data from federal service by using the average salary growth rate over each beneficiary's observed career,[41] and multiplied the average of their highest three consecutive salaries by the

[39] Although the proposed FECA revision reduces benefits once a beneficiary reaches full Social Security retirement age, to be consistent with the scope of our prior work, the reduction was applied to all beneficiaries though the comparison was conducted at age 62.
[40] For further details on the methodologies, see GAO-13-108.
[41] We imputed missing years of earnings data consistent with our prior work; see GAO-13-108.

applicable annuity percentage,[42] and by the years of federal service each beneficiary had acquired at age 62; and

- Social Security benefits attributable to federal service, we imputed any missing years of earnings data from federal service by using the average salary growth rate over each beneficiary's observed career, and applied the same methodology used in our prior work to calculate each beneficiary's primary insurance amount and monthly benefit.[43]

Using the benefit components for each beneficiary, we compared their potential FERS benefit package to their FECA benefits at age 62.

This retirement options analysis is related to, but not the same as the retirement analysis conducted in our prior work. This analysis is a snapshot comparison of a beneficiary's potential retirement benefits at age 62 and not a comparison of FECA benefits if injured with retirement benefits if never injured, which would account for career growth, cost of living increases, and other factors. Additionally, the wage replacement analysis for total disability beneficiaries is representative of all similar FECA recipients (with respect to the matched characteristics), whereas the analysis of the case studies is not generalizable.

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[42] Individuals retiring at age 62 with at least 20 years of service receive annuity compensation at 1.1 percent, those with less than 20 years of service receive 1 percent.
[43] For details on the methodology for calculating Social Security benefits, see GAO-13-108.

Enclosure II: GAO Contact and Staff Acknowledgments

GAO Contact

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Staff Acknowledgments

In addition to the contact named above, key contributors to this report were Michael J. Collins, Assistant Director; Melinda Cordero, Nagla'a El-Hodiri, Michael Kniss, Jeff Tessin, and Walter Vance. In addition, James Bennett, Jessica Botsford, Holly Dye, Jennifer Gregory, Gene Kuehneman, Kathy Leslie, and James Rebbe contributed to the report.

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