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SUBJECT: White Paper on Postal Service Participation in the Department of Labor's
Office of Workers' Compensation Programs
(Product Number HM-OT-06-001)

This white paper presents the results of the Postal Service Office of Inspector General's (OIG) review of the Postal Service's Participation in the Department of Labor's (DOL) Office of Workers' Compensation Programs (OWCP) (Project Number 05YG008HM000). We are providing this white paper for informational purposes only and for use when considering whether the DOL's OWCP could be replaced with a less costly program.

Our overall objective was to analyze positive and negative issues concerning the Postal Service's participation in the DOL's OWCP. We focused on whether the OWCP program currently utilized by the Postal Service could be replaced with a less costly workers' compensation program by analyzing issues and benchmarking with private companies and nonfederal government agencies.

On the positive side, savings would most likely occur if the Postal Service had its own workers' compensation program. These savings would be in the areas of Continuation of Pay (COP) elimination and a 3-day waiting period, reduced OWCP administrative fees and Postal Service third-party administrators, physician selection, buyout options, mandatory retirements, compensation limits and dependency status, and accountability controls.

A negative issue was potential resistance by the Postal Service's four major employee unions¹ if employee compensation benefits are reduced. In addition, separating the Postal Service from OWCP would require legislative change.

¹The four major Postal Service employee unions are the American Postal Workers Union, the National Association of Letter Carriers, the National Postal Mail Handlers Union, and the National Rural Letter Carriers' Union.

Although we had no recommendations for management, management provided comments. Management stated the report was informative, thorough, and a well written review of a complex program that has evolved significantly since the early 1970s. Management also clarified issues related to COP, the 3-day waiting period, and compensation limits. Management's comments have been incorporated into the report. Management's comments, in their entirety, are included in Appendix N of this report.

We appreciate the cooperation and courtesies provided by your staff. If you have questions or need additional information, please contact Chris Nicoloff, Director, Human Capital, or me at (703) 248-2300.

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Abbreviations

CBY	Chargeback Year
COLA	Cost-of-Living Adjustment
COP	Continuation of Pay
CY	Calendar Year
DOL	Department of Labor
DOT	Department of Transportation
FECA	Federal Employees' Compensation Act
FHG	First Health Group
FY	Fiscal Year
GAO	Government Accountability Office
LLP	Limited Liability Partnership
NIST	National Institute of Standards and Technology
NTIS	National Technical Information Service
OIG	Office of Inspector General
OWCP	Office of Workers' Compensation Programs
USPS	United States Postal Service
TPA	Third-Party Administrator
TVA	Tennessee Valley Authority
U.S.	United States

INTRODUCTION

The Office of Inspector General (OIG) analyzed major issues concerning the Postal Service's participation in the Department of Labor's (DOL) Office of Workers' Compensation Programs (OWCP). This self-initiated review focused on whether the OWCP program currently utilized by the Postal Service could be replaced with a less costly workers' compensation program by analyzing issues and benchmarking with private companies and nonfederal government agencies.

OBJECTIVES, SCOPE, AND METHODOLOGY

We discuss our objectives, scope, and methodology in Appendix A.

PRIOR AUDIT COVERAGE

We list prior audit coverage in Appendix B.

BACKGROUND

Federal Employees' Compensation Act

The Federal Employees' Compensation Act (FECA), enacted in 1916, provides disability benefits to civilian federal employees who are injured in the course of federal employment. OWCP administers FECA through 12 district offices across the United States (U.S.). The law requires the Postal Service to participate in the OWCP and ensure coverage for injured employees.² Changing the Postal Service's participation in the OWCP would require an amendment to this law by Congress.

OWCP

OWCP adjudicates claims and pays compensation, medical, and death benefits for injured federal workers, including Postal Service employees. FECA covers all medical care that an employee needs to recover from the effects of a work-related injury, including hospitalization, nursing services, prosthetic appliances, and the services of an attendant when required for severe injuries.³ Payments for medical services are subject to a schedule of maximum allowable amounts.⁴ These benefits are paid from the OWCP Employees' Compensation Fund.

²U. S. Code 39, sec. 1005(c).

³Source: 2004 Federal Employee Almanac, Medical Care Benefits, page 189.

⁴Medical costs are limited to \$1,500 per month. Source: 2004 Federal Personnel Guide, Medical Benefits, page 157.

Postal Service Workers' Compensation Costs

The Postal Service was the largest participant in OWCP in chargeback year (CBY)⁵ 2004, representing about 30 percent of the total federal workforce that participated. It was also the largest payee to OWCP with approximately \$830.1 million in payments for the same year, or about 36 percent of the \$2.3 billion in total federal workers' compensation payments. In addition to the \$830.1 million, the Postal Service paid chargeback billing costs for the old Post Office Department⁶ of \$22.9 million and an administrative fee⁷ of \$44.5 million. This brings the total CBY 2004 costs to \$897.4 million, as shown in Table 1.

Table 1. Postal Service's Total Workers' Compensation, Medical Costs, and Administrative Fees for CBY 2004

Type of Cost	CBY 2004 (millions)
Postal Service's Workers' Compensation and Medical Costs	\$830.1
Post Office Department Workers' Compensation and Medical Costs	22.9
Administrative Fee	44.5
Total	\$897.5

Source: OWCP Chargeback Billing Summary

As shown in Table 2, for CBYs 2002 through 2004, the Postal Service accounted for about 36 percent of the total workers' compensation costs for each year. For the same period, the four agencies with the next highest workers' compensation costs were the Departments of the Navy, Army, Air Force, and Veterans' Affairs.

⁵OWCP's Chargeback System is the mechanism by which they bill the costs of compensation for work-related injuries and death annually to employing agencies. The chargeback billing period is from July 1 in one year to June 30 the following year.

⁶The Post Office Department incurred compensation claims before the Postal Reorganization in 1971. The U.S. government remained responsible for paying all workers' compensation claims the Post Office Department incurred before July 1, 1971, until the Balance Budget Act of 1997 was passed. Then the remaining liability for these claims was transferred to the Postal Service.

⁷Administrative fees represent the amount OWCP assesses for managing workers' compensation claims. The amount paid is approximately 5 percent of the Postal Service's medical and compensation costs. The OWCP does not assess administrative fees for managing FECA claims classified as Post Office Department claims. See footnote 6 for a description of Post Office Department cases. The Postal Service's administrative fees increased 35.3 percent, from \$32.9 million in CBY 2000 to \$44.5 million in CBY 2004.

Table 2. Postal Service's Workers' Compensation Costs (the highest) Compared to Federal Agencies with the Next Highest Costs for CBYs 2002 through 2004

CBY	Postal Service and All Other Federal Agencies	Total Workers' Compensation Costs	
		Total	Percent of Total
2004	Postal Service	\$852,945,268 ⁸	36
	Department of Navy	245,145,141	10
	Department of Army	177,250,299	8
	Department of Veterans' Affairs	155,391,237	7
	Department of Air Force	129,228,862	6
	All Other Agencies	779,821,626	33
	Total	\$2,339,782,433	100
2003	Postal Service	\$846,876,059	36
	Department of Navy	245,461,122	10
	Department of Army	181,298,121	8
	Department of Veterans' Affairs	157,315,278	7
	Department of Air Force	135,508,846	6
	All Other Agencies	756,828,564	33
	Total	\$2,323,287,990	100
2002	Postal Service	\$785,198,990	35
	Department of Navy	248,250,399	11
	Department of Army	174,832,090	8
	Department of Veterans' Affairs	151,611,682	7
	Department of Air Force	132,538,462	6
	All Other Agencies	727,016,264	33
	Total	\$2,219,447,887	100

Source: OWCP Chargeback Billing Summaries

Note: For CBY 2003, rounded percents totaled 101. Therefore, we rounded down the Department of Navy's percent (10.57 percent to 10 percent) so that the total percent would equal 100.

Table 3 shows the average cost per compensation and medical case for the Postal Service and the ranges from low to high for other federal agencies for CBYs 2002 through 2004. The Postal Service did not have the highest average cost per case when compared to other federal agencies for CBYs 2002 through 2004. For example, in CBY 2004, the average medical costs per case ranged from \$1,567 for the Corporation for National and Community Service to \$5,446 for the Executive Office of the President. For the same year, the Postal Service averaged \$2,485 per case.

⁸The amounts for the Postal Service in CBYs 2002 through 2004 include workers' compensation and medical costs for the Post Office Department. The amounts do not include the administrative fees.

Table 3. Average Costs per Case for the Postal Service and Other Federal Agencies' Workers' Compensation Cases (Ranging from Low to High) For CBYs 2002 through 2004

CBY	Postal Service and Other Federal Agencies	Medical - Average Cost per Case		Compensation - Average Cost per Case (Non-fatal)		Compensation - Average Cost per Case (Fatal)	
2004	Postal Service	\$2,485		\$14,951		\$22,283	
	Other Agencies	Lowest	Highest	Lowest	Highest	Lowest	Highest
		Corporation for National and Community Service	Executive Office of the President	Department of Homeland Security	Executive Office of the President	Executive Office of the President	Environmental Protection Agency
		\$1,567	\$5,446	\$15,702	\$48,058	0	\$52,377
2003	Postal Service	\$2,465		\$15,466		\$21,636	
	Other Agencies	Lowest	Highest	Lowest	Highest	Lowest	Highest
		Government Printing Office	Executive Office of the President	Peace Corps	Department of Transportation	Executive Office of the President	Department of Education
		\$1,681	\$8,965	\$15,029	\$41,807	0	\$40,084
2002	Postal Service	\$2,310		\$14,091		\$21,867	
	Other Agencies	Lowest	Highest	Lowest	Highest	Lowest	Highest
		Government Printing Office	Corporation for National and Community Service	Department of Commerce	Executive Office of the President	Executive Office of the President	Federal Judiciary
		\$1,922	\$7,012	\$14,240	\$47,055	0	\$42,678

Source: OWCP Chargeback Billing Summaries

Appendices C, D, and E show the average total workers' compensation costs and numbers of medical and compensation cases for CBYs 2002 through 2004 for all agencies whose workers' compensation programs are administered by OWCP.

Administrative Fees Paid to OWCP

The Postal Service is one of 18 non-appropriated agencies that pay OWCP an annual administrative fee for managing FECA claims for their employees. (See Appendix F.)

Table 4 shows that during CBYs 2002 to 2004, the Postal Service paid over 90 percent of the total administrative fees assessed to federal agencies that paid fees.

**Table 4. Postal Service's Administrative Fee Compared to Other
Nonappropriated Federal Agencies for CBYs 2002 Through 2004**

CBY	Postal Service and Other Nonappropriated Federal Agencies	Compensation (in millions)	Administrative Fee (in millions)	Postal Service's Percentage of Total Administrative Fee
2004	Postal Service	\$830.1	\$44.5	92.1
	Other Nonappropriated Federal Agencies	71.7	3.8	7.9
	Totals	\$901.8	\$48.3	100.0
2003	Postal Service	\$822.7 ⁹	\$44.5	91.7
	Other Nonappropriated Federal Agencies	74.4	4.0	8.3
	Totals	\$897.1	\$48.5	100.0
2002	Postal Service	\$759.8	\$45.2	92.2
	Other Nonappropriated Federal Agencies	76.1	3.8	7.8
	Totals	\$835.9	\$49.0	100.0

Source: OWCP

Compared to other federal agencies that pay administrative fees, the Postal Service pays an equitable share at a rate of approximately 5 percent of its medical claims and compensation costs. This is the same percentage paid by the other agencies. For example, the Postal Service paid \$44.5 million in administrative fees for CBY 2004, or about 5 percent of the \$830 million it paid in chargeback costs. Appendix F shows the administrative fees paid by the Postal Service and each participating federal agency for CBYs 2002 through 2004.

Strategies and Accomplishments in Postal Service Transformation Plan

In the April 2002 Transformation Plan, the Postal Service stated it would implement a number of strategies to "push business effectiveness and operational efficiency." One of the strategies outlined, performance strategy 10, was to reduce workers' compensation costs by working with DOL on new initiatives and regulatory changes.¹⁰

In the November 2004 Transformation Plan Progress Report, the Postal Service charted five strategies to reduce workers' compensation costs and provided its results to date, as Table 5 shows.

⁹This amount does not include the Post Office Department claims because administrative fees are not assessed for managing those claims.

¹⁰U. S. Postal Service Transformation Plan, Appendix O, Performance-Based Strategies, April 4, 2002.

Table 5: Transformation Plan Progress Report 2004: Strategies to Reduce Workers’ Compensation Costs

Strategies	In Progress/Under Development	Completed
Expand Preferred Provider Organization Program with First Health Group (FHG) and OWCP		X
Move all FECA recipients to FECA annuity at age 65	X	
Encourage OWCP to revise current regulations to allow direct contact with treating physician	X	
Private sector outplacement of injured Postal Service employees and creation of new internal positions to accommodate injured workers		X
Interagency work cooperation to attain organizational objectives		X

The partnership with FHG has been successful, as the Postal Service has realized about \$2.2 million in savings over a 4-year period.¹¹ In addition, from May 2002 through January 2005, the Postal Service placed a total of 112 employees with new employers under the OWCP’s Vocational Rehabilitation Program.

President’s Commission on the U.S. Postal Service

In December 2002, the President created the President’s Commission on the U. S. Postal Service (Commission). A key objective of the Commission was to determine the flexibility the Postal Service should have to control costs in response to financial, competitive, and market pressures. The July 2003 Commission report stated that since the Postal Service has a unique businesslike charter, the agency should be given relief from provisions of FECA that create costly unintended consequences.

Review Results

We analyzed issues related to the Postal Service having its own workers’ compensation program separate from the DOL OWCP, and benchmarked with 11 organizations – five private companies and six nonfederal agencies. Of the five private companies, four were Fortune 500 companies.¹² See Appendix G for profiles of the 11 organizations.

We identified positive and negative issues that may affect savings if the Postal Service has its own workers’ compensation program. Our analysis suggested that savings and a positive impact would most likely occur in the areas of:

¹¹The FHG reviews medical bills for injury compensation.

¹²The Fortune 500 is a ranking of the top 500 United States corporations as measured by gross revenue.

- COP elimination and a 3-day waiting period
- Reduced OWCP administrative fees and Postal Service third-party administrators (TPAs)
- Physician selection
- Buyout options
- Mandatory retirement
- Compensation limits and dependency status
- Accountability controls

The negative issues that may affect a compensation program for Postal Service workers are the potential for resistance by the Postal Service's four major employee unions¹³ if employee compensation benefits are reduced. In addition, separating the Postal Service from OWCP would require legislative change.

We identified the positive and negative issues through analyses of three selected reports addressing significant workers' compensation issues – a Postal Service internal draft proposal,¹⁴ a Deloitte & Touche study,¹⁵ and an Ernst & Young Limited Liability Partnership (LLP) report.¹⁶ Appendix H summarizes the reports. We also held discussions with Postal Service officials, reviewed other reports and testimonies, and conducted benchmarking studies.

Positive Issues Regarding a Postal Service Workers' Compensation Program

We identified a number of issues that could positively affect the Postal Service if it had its own workers' compensation program. All of the issues identified, however, require legislative changes to FECA and must be enacted by Congress. These issues are discussed below.

COP Elimination and 3-day Waiting Period

Under FECA, COP¹⁷ is a benefit where an employer continues regular pay for up to 45 calendar days for a federal employee who has sustained a traumatic injury.¹⁸ During this period there is no charge to the employee's sick or annual leave. If the disability continues for more than 45 days, workers' compensation replaces regular pay. According to the Postal Service's internal draft proposal to move Postal Service workers' compensation coverage to its own program,¹⁹ legislative changes to FECA

¹³The four major Postal Service employee unions are the American Postal Workers Union, the National Association of Letter Carriers, the National Postal Mail Handlers Union, and the National Rural Letter Carriers' Union.

¹⁴Proposal to Move Postal Workers' Compensation Coverage to a Postal Service Workers' Compensation Act is an October 2003 Postal Service internal document.

¹⁵USPS Workers' Compensation – Options Available to Assist the U. S. Postal Service for Improving Delivery of Workers' Compensation Benefits, Reducing Costs, and Strengthening Accountability.

¹⁶U. S. Postal Service, Analysis of Potential Savings: FECA vs. State Act Coverage of Workers' Compensation.

¹⁷COP is deducted immediately from the Postal Service budget because it is a continuation of the employee's regular pay.

¹⁸A traumatic injury is defined as a wound or other condition of the body caused by external force, including stress or strain. It must be caused by a specific event or incident or series of events or incidents in a single day or work shift.

¹⁹The proposed new program would be the U. S. Postal Service Workers' Compensation Act (USPS Act).

would eliminate COP when an employee reports an injury and would institute a 3-day waiting period before workers' compensation begins. Under this proposal, an employee could use sick or annual leave or leave without pay during the 3-day waiting period. The proposed changes would save the Postal Service substantial funds each year. Specifically, a Postal Service official stated that imposing a waiting period before granting an injured worker compensation may encourage the employee to return to work sooner.

In addition, responses to our benchmarking study showed that two of the six nonfederal government agencies have a program similar to FECA's COP program. Specifically, one agency's program is modeled after FECA's program. The other agency's employees (full time permanent) are paid the first week of disability which is 100 percent of the employee's salary. The four remaining agencies require a 3- to 7-day waiting period before compensation benefits begin.

Reduced OWCP Administrative Fees and Postal Service TPA

As previously stated, the Postal Service is 1 of 18 nonappropriated agencies that pay OWCP an annual administrative fee for managing FECA claims for their employees. The rate these agencies (including the Postal Service) pay is about 5 percent of the agency's total annual chargeback costs. Postal Service officials agreed with the OIG that a possible method of reducing administrative fees would be if the OWCP calculated fees for older cases (which take less time to manage) at a lower rate (or on a sliding scale).²⁰

The Postal Service's draft proposal and the Deloitte & Touche study indicate that the Postal Service could reduce administrative fees by contracting with TPAs instead of using the OWCP to process and manage injury claims. For example, a Postal Service official explained that the TPAs generate savings by discounting medical claims. These discounted claims would be paid to contracted physicians, and the resulting gain share²¹ would be divided between the Postal Service and the TPAs.

The Deloitte & Touche study suggested the Postal Service use a TPA in place of the OWCP to provide better control over claims administration, benefits delivery systems, and cost containment, potentially reducing administrative costs. Our benchmarking data showed that two of the six nonfederal government agencies and all five private companies use TPAs. Further, one private company indicated that its economic analysis showed savings by using TPAs versus in-house staff, in addition to cost savings from a technological aspect. Specifically, the TPAs had the software necessary to process claims.

²⁰The OIG plans to review DOL's calculation of the administrative fees assessed to the Postal Service.

²¹A gain share is a contractual term that describes the percentage of savings divided between a TPA and the company to which it provides its services. The contract usually predetermines the percentage of split.

Physician Selection

Postal Service employees on OWCP are allowed to select their attending physicians, which is different than some of our benchmarking organizations allow. Specifically, all five private companies (guided by statutory regulations) and four of the six nonfederal government agencies select the physicians for their injured employees. This, as well as the Postal Service's internal draft proposal, suggests that employer selection of treating physicians would enhance injury case management, and therefore potentially reduce workers' compensation costs. For example, allowing the Postal Service to choose the physician and actively manage the case with the physician, including discussions of the employee's status, could result in the employee returning more rapidly to productive work, with or without restrictions.

Buyout Options

OWCP regulations do not allow the Postal Service to offer its injured employees buyout options.²² According to the Postal Service internal draft proposal, if buyouts were offered, workers' compensation claims could be settled. Further, when a mutual agreement is reached, an injured employee could be asked to resign under a buyout option, saving additional costs.

All five of the private companies and three of the six nonfederal government agencies we benchmarked with, offered their injured employees buyouts. Some offers included the employee's resignation from the organization. One private company realized an estimated savings of \$9 million over a 3-year period (calendar year [CY] 2001 to 2003) by offering buyouts to 766 injured employees who accepted the offers.

Mandatory Retirements

Federal employees receiving workers' compensation and reaching retirement age are not required to retire, and often stay on the workers' compensation rolls indefinitely, receiving a higher pay than might be received from a normal retirement.

The OIG issued two reports²³ in 2003 which supported legislative reform that would help reduce the current number of employees on the periodic rolls.²⁴ The March 2003 report stated that legislative reform is needed to address concerns that FECA has become a retirement system for injured workers. The report stated that for CBY 2002, Postal Service employees age 55 and older made up 49 percent (6,500) of the approximately 13,400 employees on the periodic rolls. Since the Postal Service's workers' compensation costs accounted for 35 percent of the total program costs for FY 2002,

²²A buyout option is when an employee is offered a one-time lump sum payment in place of payments over a period of time. Postal Service officials stated that a buyout could consist of an amount offered to an injured employee to settle a workers' compensation claim, and could also include the employee's resignation from the agency.

²³Retirement Eligible Postal Service Employees on the Workers' Compensation Periodic Rolls (Report Number HK-MA-03-001, March 21, 2003); and Comparison of Retirement Benefits to Workers' Compensation Benefits for Employees on the Periodic Rolls (Report Number HM-AR-04-001, December 12, 2003).

²⁴Employees on the periodic rolls have permanent disabilities or injuries that have lasted or are expected to last for prolonged periods (over 1 year).

legislative reform to reduce the number of employees on the periodic rolls would reduce compensation costs and give the Postal Service financial relief.

The OIG's December 2003 report stated 55 is the age at which most employees are first eligible for voluntary retirement. However, there is no requirement to remove an employee who has reached retirement age from the periodic rolls. The report stated the Postal Service could save \$19 million over a 10-year period if it required 255 totally disabled employees to retire under the applicable retirement system.

The Postal Service's internal draft proposal also suggests retirement for eligible injured employees on the workers' compensation rolls, as did the Ernst & Young LLP report, which addresses legislative changes and FECA reform when retirement is mandated for claimants reaching retirement age.

Responses to our benchmarking survey showed that none of the organizations required injured employees to retire when eligible. Further, two benchmarked organizations acknowledged that injured employees have an advantage when staying on workers' compensation. Specifically, one cited the tax-exempt benefit and the other cited the potentially higher workers' compensation benefits compared to retirement annuities.

Compensation Limits and Dependency Status

The OWCP provides injured Postal Service employees without dependents 66 $\frac{2}{3}$ percent of their salary (tax-free) as compensation and allows 75 percent for injured employees with dependents. The Postal Service's internal draft proposal recommends that the maximum rate of compensation be reduced to 66 $\frac{2}{3}$ percent of salary for all injured employees, which would result in substantial savings to the Postal Service.

Our benchmarking showed that all five of the private companies' and five of the six nonfederal government agencies' wage compensation was limited to, generally between 66 $\frac{2}{3}$ and 70 percent, depending on statutory limits. One organization had the same limits as the Postal Service.

Accountability Controls

The Postal Service has limited accountability over the claims processing of its workers' compensation cases. One Postal Service official told us it is difficult to manage cases when the Postal Service is limited to starting the paperwork, and everything else associated with the case is managed at and by the OWCP. For example, the official said that to obtain a copy of the case file, the Postal Service must request it from OWCP.

The Postal Service's internal draft proposal and a Postal Service official indicated that tighter accountability over its workers' compensation program is needed and could result in savings. For example, a contracted TPA who participates in a gain share program with the Postal Service and provides immediate case management would most likely be motivated to ensure that overpayments are decreased and third party

recoveries are pursued. The Deloitte & Touche study also suggested that the Postal Service could model the private sector by obtaining a TPA to replace OWCP for tighter accountability over claims management, and thus could reduce costs.

Negative Issues Regarding the Postal Service Workers' Compensation Program

We found two issues that may cause a negative situation if the Postal Service pursues having its own workers' compensation program.

Unions' Reactions

The Postal Service's workers' compensation program, under current FECA guidelines, is one of the most generous compensation programs nationwide. The Postal Service's internal draft proposal indicates that if changes to FECA were proposed and the Postal Service developed its own workers' compensation program and implemented cost-saving measures, the unions may resist these changes. For example, if injury costs were reduced by 20 to 25 percent each year, and disability compensation costs and days off were reduced, the unions may perceive this as a reduction in employee benefits and object to proposed changes in FECA legislation and subsequent changes to Postal Service workers' compensation program.

Legislative Change

The law mandates that the Postal Service participate in the OWCP. All the sources we researched acknowledged that legislative change would be the primary challenge in separating the Postal Service from the OWCP.

In addition, our sources encouraged further study of the quality and cost-effectiveness of any services the Postal Service receives in comparison to other federal and nonfederal government entities and the private sector, with emphasis on industry best practices. We believe this white paper provides a good start for any additional work in this area.

Additional Data Comparisons with Benchmarking Organizations

In addition to the information we obtained from the 11 benchmarked organizations discussed in this report, we obtained additional data on workers' compensation programs to make comparisons with the Postal Service's current program. Those comparisons are discussed below.

- The DOL provides annual increases to injured employees' compensation in the form of cost of living adjustments (COLAs), while most benchmarked organizations do not. These annual increases are included in the costs billed annually to the Postal Service. (See Appendix I.)

- The Postal Service's workers' compensation program is similar in some respects to those of the 11 benchmarked organizations. For example, the number of benefit weeks generally is not limited for compensation or medical payments. In addition, 10 of the organizations do not require injured employees to retire when eligible. (See Appendix J.)
- The Postal Service's average workers' compensation expense was more than that of six of the 11 organizations that provided information.²⁵ Specifically, the average cost for the 10 organizations ranged from \$2,362 to \$16,952, with the Postal Service averaging \$6,453. For some organizations, the average was based per case and for some per employee. In addition, the information for some organizations was based on FY 2003 and for others on CY 2003. (See Appendix K.)

We asked the 11 organizations for data concerning the numbers of accidents and injuries (by ratio or average) to compare them to the Postal Service. However, the organizations did not track the data separately per year, and therefore very little information was provided. Appendix L shows some data for accidents and injuries.

Draft Legislation

As outlined in this white paper, proposed legislative changes to FECA affecting the areas of COP, administrative fees, physician selection, buyout options, mandatory retirements, and compensation limits may provide savings to the Postal Service. For example, current legislation under consideration by the senate (S.662) would change OWCP regulations by requiring a 3-day waiting period before workers begin to receive COP, unless the disability exceeds 14 days or becomes permanent. S.662 also requires injured eligible employees on the rolls of OWCP to convert to a retirement annuity or have their compensation benefits reduced once they reach retirement age.

The DOL is also considering some changes to FECA, as outlined in a March 14, 2005, draft bill titled Federal Employees' Compensation Act Amendments of 2005. Specifically, the draft bill contains the following:

COP – Waiting Period

Section 107, Waiting Period, would amend Sections 8117 and 8118 of the FECA to place the 3-day waiting period immediately after an employment injury. Prior to the 1974 amendments, the FECA had a 3-day waiting period at the beginning of compensation entitlement. However, with the advent of COP in the 1974 amendments, the 3-day waiting period was placed after the 45-day COP period, so that the waiting period had no

²⁵The Postal Service's and two companies' average expense was determined by dividing the total expense for 2003 by the number of **cases**. For the Postal Service and these companies, some employees may have more than one "**case**." The average expense for eight other companies was determined by dividing the total expense by the number of **employees**. The remaining company did not provide information regarding its number of employees or cases.

effect in the majority of cases. This amendment is intended to reinvigorate the effectiveness of the 3-day waiting period. If the temporary disability exceeds 14 days or is followed by permanent disability, the first 3 days of temporary disability will be converted to COP.

Retirement

Section 101, Conversion Entitlement and Reporting Requirements, Subsection (d) would amend Section 8105 of the FECA. Benefits for total disability recipients (called conversion entitlement) would be reduced to 50 percent of a claimant's monthly wages when the injured employee reaches retirement age, as defined in Section 216 of the Social Security Act, or 1 year after the employee began receiving compensation, whichever is later.

Dependency Status

Section 103, Augmented Compensation for Dependents, would remove the entitlement to augmented compensation for any injury occurring on or after the date of enactment, and for any new claim for a period of disability beginning on or after the date of enactment. For such injuries and claims, the basic compensation rate would be 70 percent of monthly pay, as provided by Sections 8105(c) and 8106(b), respectively, and there would be no increased entitlement to augmented compensation on the basis of dependents.

We are encouraged by the potential changes to legislation and believe that, if enacted, they will result in savings for the Postal Service and other federal agencies. However, according to an official with the DOL's Office of the Solicitor, as of May 26, 2005, the legislative package had not been transmitted to Capitol Hill because DOL had not found a sponsor for the legislation.

Conclusion

The Postal Service is required by law to participate in the OWCP, however, aggressive proposals for legislative change to FECA may be viable and appropriate if they provide employees with compensation program elements equivalent to other nationwide companies and government agencies. In addition, changes to FECA guidelines may provide the Postal Service with substantial savings. For example, a Postal Service official estimated that an in-house workers' compensation program could result in approximately \$146 million a year in savings to the Postal Service in some areas. This official also believes the Postal Service could realize an additional \$45 million over a 5-year period, if they made retirement mandatory and reduced compensation payments to 70 percent.

The information provided in this white paper is for use by Postal Service managers, for their consideration in determining the options available for the Postal Service to meet its workers' compensation needs. Any consideration of the Postal Service moving from the

OWCP to a less costly program of its own should include an in-depth review of all costs to fully validate the savings that can be realized. The savings validation and a detailed workers' compensation plan could then be presented to Congress for its consideration in making legislative changes.

Although the benchmarking data provided in this report cannot be verified by the OIG, the data can be used as indicators of private sector and nonfederal government agency workers' compensation program costs and best practices.²⁶

Management's Comments

Management stated the report was informative, thorough, and a well written review of a complex program that has evolved significantly since the early 1970s. Management also provided the following clarifications to issues related to COP, the 3-day waiting period, and compensation limits:

- Every state workers' compensation program has a waiting period of 3 days (22 states) or 7 days (22 states) with the remaining states having a 4- or 5-day waiting period. The FECA COP does not have a waiting period until the employee has completed 45 days in a COP status. This is a significant difference between the state programs and FECA.
- The only program with 100 percent of salary paid is the FECA COP. Forty-seven state programs pay 67 percent or less, or the equivalent of 70 to 80 percent of post-tax income. The other three states pay 70 percent of income – which is still less than the 75 percent FECA allows for employees with dependents. The FECA benefit is by far the most generous in the United States and gives an incentive to employees to remain on compensation instead of working to return to their pre-injury positions.
- The potential for 75 percent of a person's salary tax-free is too generous, especially when coupled with the potential COLAs that can occur in a given year. Management stated, over the last 33 years, the annual COLA averaged 4.6 percent, with 4 years that had double digit adjustments and 5 years with more than one COLA. Although the COLAs for the last 5 years have been less than average, the potential for double-digit increases still exists.

Management's comments, in their entirety, are included in Appendix N of this report.

²⁶The American Productivity and Quality Center Benchmarking Terms state, "There is no single 'best practice' because best is not best for everyone. Every organization is different in some way. What is meant by 'best' are those practices that have been shown to produce superior results, selected by a systematic process, and judged as exemplary, good, or successfully demonstrated. Best practices are then adapted to fit a particular organization."

APPENDIX A. OBJECTIVES, SCOPE, AND METHODOLOGY

Our overall objective was to analyze positive and negative issues concerning the Postal Service's participation in the OWCP, in particular whether or not they can replace the program with a less costly one. Our sub-objectives were to:

1. Analyze issues pertaining to the Postal Service having a program separate from the DOL's OWCP.
2. Research and benchmark with private companies and other nonfederal government agencies that have their own workers' compensation programs and determine the related costs.

We analyzed selected issues related to the Postal Service having a program separate from the OWCP by reviewing three reports that addressed significant workers' compensation issues that may arise if the Postal Service has its own program. The three reports we analyzed are:

- Proposal to Move Postal Workers' Compensation Coverage to a Postal Service Workers' Compensation Act, Postal Service internal draft proposal, October 2003.
- USPS Workers' Compensation – Options Available to Assist the U. S. Postal Service for Improving Delivery of Workers' Compensation Benefits, Reducing Costs, and Strengthening Accountability, Deloitte & Touche, June 2003.²⁷
- U. S. Postal Service, Analysis of Potential Savings: FECA vs. State Act Coverage of Workers' Compensation, Ernst & Young LLP, November 1995.²⁸

Appendix H gives summaries of the reports. We also reviewed other reports and testimony related to our review subject and held discussions with Postal Service officials. Appendix B lists the other reports and testimony.

During the audit planning stage, we determined that 10 to 15 organizations (both private and state) would be selected for benchmarking, knowing that some would decline to participate. The rationale we used to choose a judgmental sample of organizations we benchmarked with is as follows.

We researched 29 private companies and nonfederal government agencies²⁹ and identified them as our universe. We then contacted the companies and requested their assistance with our benchmarking project. In response, 11 of the 29 organizations (5 private and 6 nonfederal) with workers' compensation programs agreed to participate

²⁷Deloitte & Touche conducted this study at the request of the President's Commission on the United States Postal Service.

²⁸This study was conducted by Ernst & Young LLP and contracted for by the Postal Service.

²⁹The 29 organizations consisted of 19 private companies and 10 nonfederal government agencies.

and return completed questionnaires to us. In order to make the comparisons, the Postal Service agreed to complete one of our benchmarking questionnaires.

Data specific to the 11 organizations are shown in a random, generically labeled manner (Company A, Company B, etc.) so as not to disclose any proprietary information. (See Appendices I, K, and L.)

We reduced our initial universe of 29 organizations to benchmark with because only 11 organizations agreed to participate.

To conduct our benchmarking, we worked with the OIG statistician and used a judgmental sample to benchmark with external organizations. We identified the organizations through team brainstorming efforts and input from Postal Service officials. Initially, we referred to the U.S. Chamber of Commerce's 2004 booklet titled Analysis of Workers' Compensation Laws to research state information. To make a selection, we reviewed private companies' and states' information regarding workers' compensation programs, if available (including percentages of compensation entitlements). We considered the following information:

- Industry type.
- Size of organization.
- Type of workers' compensation program (if mentioned on Web sites and in other research materials).
- Costs of administering the program.
- Location of the organization's headquarters, point of contact, and Web site address.

We selected large private companies and both large and small nonfederal governmental organizations. We selected companies and states from different sections of the country. Based on this information, we selected five private companies and identified six³⁰ nonfederal governmental agencies. We judgmentally selected the latter six based on size and the type of workers' compensation programs currently in place.

The benchmarking questionnaire we developed covered topics including size of the workers' compensation program, costs, and administration issues. We discussed our questionnaire with Postal Service officials before administering it to the organizations and incorporated their comments, as appropriate. Through this benchmarking effort, we

³⁰Five of the nonfederal governmental agencies agreed to participate in our benchmarking efforts. During our entrance conference, Postal Service officials asked the audit team to add four state agencies to the list for potential benchmarking efforts; however, only one of the four states participated.

identified external workers' compensation programs for comparison to the Postal Service's OWCP program. Our benchmarking initiatives were intended to determine how organizations were managing workers' compensation programs, and to determine whether the Postal Service could implement similar programs or program elements. We compiled the data obtained from the benchmarked organizations and found numerous similarities between the responses received from the Postal Service and the 11 organizations. (See Appendix J.)

We also reviewed a report published by the American Productivity Quality Center on benchmarking to ensure that we were following current business practices in our approach to benchmarking.

This review was conducted from November 2004 through October 2005. We discussed our conclusions and observations with management officials and included their comments where appropriate.

Data Reliability Testing

We relied on data from the benchmarking questionnaires, and we concluded that the data were sufficiently reliable to be used in meeting the objectives of this white paper. The information is based on data received from our benchmarking clients, and therefore cannot be verified by the OIG. Specifically, the American Productivity and Quality Center Benchmarking Terms state:

There is no single 'best practice' because best is not best for everyone. Every organization is different in some way. What is meant by 'best' are those practices that have been shown to produce superior results, selected by a systematic process, and judged as exemplary, good, or successfully demonstrated. Best practices are then adapted to fit a particular organization.

APPENDIX B. PRIOR AUDIT COVERAGE

Reports

Verification of the Anticipated and Realized Medical Cost Savings Resulting From the Postal Service's Contracts With First Health Group Corporation (Report Number HM-AR-05-005, May 9, 2005). The report stated the Postal Service was successful and realized \$2.2 million in savings over a 4-year period. Although this was not the \$30 million annual savings the Postal Service anticipated, it is working with the DOL and FHG to improve the savings. The report also stated the OIG determined that four of the five recommendations in the previous OIG report were implemented and, although recommendation 2 was not fully implemented, there was no effect on the current contract. Further, the report stated the current FHG contract needed no modifications.

Fee Schedule Impact of Office of Workers' Compensation Programs Medical Fee Schedule on Postal Service Medical Costs (Report Number HM-AR-05-002, March 29, 2005). The report concluded that overall, the medical fee schedule for physicians' professional services had a positive impact on the Postal Service's medical costs. Specifically, for those charges that had a maximum allowable amount established, OWCP paid medical providers about \$939 million less than the maximum allowable amounts for CBYs 1997 to 2003. In addition, OWCP paid medical providers about \$528 million less than the amount providers billed for CBYs 1997 to 2003. Further, although some medical charges did not have maximum allowable amounts established, OWCP independently reviewed the charges, resulting in payments made at or below what the providers billed.

Comparison of Retirement Benefits to Workers' Compensation Benefits for Employees on the Periodic Rolls (Report Number HM-AR-04-001, December 12, 2003). This report stated 55 as the age at which most employees become eligible for voluntary retirement. However, there is no requirement to remove an employee who has reached retirement age from the periodic rolls. The audit found the Postal Service could save \$19 million over a 10-year period if it required 255 totally disabled employees to retire under their applicable retirement system.

Retirement-Eligible Postal Service Employees on the Workers' Compensation Periodic Rolls (Report Number HK-MA-03-001, March 21, 2003). This report disclosed Postal Service employees age 55 and older make up 49 percent (6,500) of the approximately 13,400 employees on the periodic rolls. Further, 70 percent (9,345) of the employees on the periodic rolls are totally disabled with little or no future reemployment potential, or reemployment has not been determined. Reform of the FECA is needed to address concerns that the act has become a retirement system for some workers' compensation beneficiaries. These reforms, if implemented, would decrease the number of employees on the periodic rolls and would reduce compensation costs.

Postal Service's Increased Workers' Compensation Costs (Report Number OIG/HK-OT-02-001, August 29, 2002). This white paper summarized the reasons why

the Postal Service's workers' compensation costs have increased. The report stated that FECA required the Postal Service to be part of the DOL's OWCP.

Workers' Compensation: Selected Comparisons of Federal and State Laws (Report Number GAO³¹/GGD-96-76, April 1996). The report presented factual comparisons of benefits and other provisions of federal and state workers' compensation laws.

FECA: Issues Associated With Changing Benefits for Older Beneficiaries (Report Number GAO/GGD-96-138BR, August 1996). The report provided a profile of beneficiaries on the long-term FECA rolls, with information on their ages, time on the rolls, and amounts paid; the pros and cons of changing FECA benefits for older beneficiaries; and questions and issues the Congress might consider if crafting benefit changes.

Testimonies

Recent GAO Reports on FECA, September 1997, Testimony (GAO/T-GGD-97-187). The testimony summarized some reports GAO completed regarding FECA. The reports addressed the recovery of COP benefits in cases where third parties were liable for injuries; selected comparisons of FECA provisions with provisions of other federal and state workers' compensation laws; and issues associated with changing benefits for older FECA beneficiaries.

Workers' Compensation Claims and the Federal Employees' Compensation Act, April 2003, Testimony. The testimony provided by William P. Tayman, Jr., Postal Service, Manager, Corporate Financial Planning, to The President's Commission on the U. S. Postal Service gave an overview of the magnitude of workers' compensation costs to the Postal Service and provided comments on legislative reform opportunities.

³¹Government Accountability Office.

APPENDIX C. AVERAGE COST AND NUMBERS OF WORKERS' COMPENSATION MEDICAL AND COMPENSATION CASES (NONFATAL AND FATAL) FOR FEDERAL GOVERNMENT AGENCIES PARTICIPATING IN OWCP FOR CBY 2004

Agency	Medical Cases			Compensation Cases (Nonfatal)			Compensation Cases (Fatal)			Total Costs	Percentage of Total Paid
	Cases	Payments	Average Cost per Case	Cases	Payments	Average Cost per Case	Cases	Payments	Average Cost per Case		
Postal Service	124,648	\$309,766,695	\$2,485	35,274	\$527,380,053	\$14,951	709	\$15,798,519	\$22,283	\$852,945,268	36.45
Corporation for National and Community Service	49	76,767	1,567	41	694,751	16,945	1	38,741	38,741	810,259	0.03
Department of Agriculture	6,855	19,342,359	2,822	2,448	43,113,976	17,612	280	6,788,506	24,2445	69,244,840	2.96
Department of Commerce	1,088	3,309,221	3,042	552	9,381,347	16,995	49	1,225,050	25,001	13,915,618	0.59
Department of Defense	4,876	13,387,931	2,746	2,467	47,552,379	19,275	101	2,875,355	28,469	63,815,665	2.73
Department of Education	83	158,054	1,904	39	1,086,585	27,861	4	160,821	40,205	1,405,459	0.06
Department of Energy	603	1,600,611	2,654	236	6,464,994	27,394	29	892,065	30,761	8,957,670	0.38
Department of Health and Human Services	1,464	3,938,188	2,690	701	17,528,165	25,005	31	1,073,584	34,632	22,539,934	0.96
Department of Homeland Security	25,146	49,689,452	1,976	4,303	67,565,493	15,702	123	3,833,907	31,170	121,088,852	5.18
Department of Justice	7,564	19,202,602	2,539	1,974	50,212,427	25,437	134	4,595,940	34,298	74,010,969	3.16
Department of Labor	1,249	4,540,584	3,635	570	12,920,207	22,667	64	1,881,720	29,402	19,342,511	0.83
Department of State	242	1,204,657	4,978	95	2,704,482	28,468	109	2,878,026	26,404	6,787,164	0.29
Department of Transportation	2,974	8,182,246	2,751	1,783	75,494,829	42,341	236	8,981,620	38,058	92,658,695	3.96
Department of Air Force	9,531	28,674,853	3,009	4,431	93,064,699	21,003	273	7,489,310	27,433	129,228,862	5.52
Department of Army	13,581	39,227,493	2,888	6,213	126,763,381	20,403	451	11,259,424	24,965	177,250,299	7.58
Department of the Interior	7,056	16,374,805	2,321	1,877	35,737,914	19,040	198	4,972,723	25,115	57,085,441	2.44
Department of Navy	16,264	49,646,189	3,053	8,560	176,308,382	20,597	850	19,190,570	22,577	245,145,141	10.48
Department of the Treasury	3,850	11,235,346	2,919	1,670	36,630,863	21,935	79	2,919,552	36,956	50,785,761	2.17
Environmental Protection Agency	258	700,925	2,717	85	2,694,802	31,704	7	366,642	52,377	3,762,369	0.16

**APPENDIX C. AVERAGE COST AND NUMBERS OF WORKERS' COMPENSATION MEDICAL AND
COMPENSATION CASES (NONFATAL AND FATAL) FOR FEDERAL GOVERNMENT AGENCIES
PARTICIPATING IN OWCP FOR CBY 2004 (CONTINUED)**

Agency	Medical Cases			Compensation Cases (Nonfatal)			Compensation Cases (Fatal)			Total Costs	Percentage of Total Paid
	Cases	Payments	Average Cost per Case	Cases	Payments	Average Cost per Case	Cases	Payments	Average Cost per Case		
Executive Office of the President	16	87,131	5,446	6	288,346	48,058	0	0.00	0.00	375,477	0.02
Federal Judiciary	626	1,446,676	2,311	169	3,974,452	23,517	7	274,940	39,277	5,696,069	0.24
General Services Administration	673	2,304,625	3,424	500	12,140,382	24,281	31	781,407	25,207	15,226,414	0.65
Government Printing Office	364	763,039	2,096	202	5,411,775	26,791	2	67,162	33,581	6,241,975	0.27
Department of Housing and Urban Development	301	1,055,441	3,506	177	5,319,030	30,051	43	1,323,306	30,775	7,697,778	0.33
National Aeronautics and Space Administration	295	1,028,787	3,487	150	4,909,289	32,729	33	1,264,083	38,306	7,202,159	0.31
Other Establishments	2,055	5,002,402	2,434	961	23,879,149	24,848	144	5,165,469	35,871	34,047,020	1.46
Peace Corps	1,374	4,930,734	3,589	313	5,301,497	16,938	25	468,459	18,738	10,700,690	0.46
Smithsonian Institution	332	1,237,666	3,728	160	3,383,106	21,144	4	114,198	28,550	4,734,970	0.20
Social Security Administration	1,888	5,029,353	2,664	824	17,874,236	21,692	21	645,958	30,760	23,549,547	1.01
Tennessee Valley Authority	2,167	6,000,081	2,769	2,248	49,301,915	21,931	122	2,836,325	23,249	58,138,320	2.48
Department of Veterans' Affairs	13,315	40,717,044	3,058	6,475	110,399,084	17,050	135	4,275,109	31,667	155,391,237	6.64
TOTAL FOR CBY 2004³²	250,787	\$649,861,957	\$2,591	85,504	\$1,575,481,990	\$18,425	4,295	\$114,438,491	\$26,644	\$2,339,782,433	100.00

Source: Data obtained from OWCP Chargeback Billing Summary
OIG staff calculated average cost per case and percentage of total paid

³²Numbers may vary slightly when compared to the Chargeback Report due to dropping of cents and rounding up.

**APPENDIX D. AVERAGE COST AND NUMBERS OF WORKERS' COMPENSATION MEDICAL AND COMPENSATION CASES
(NONFATAL AND FATAL) FOR FEDERAL GOVERNMENT AGENCIES PARTICIPATING IN OWCP FOR CBY 2003**

Agency	Medical Cases			Compensation Cases (Nonfatal)			Compensation Cases (Fatal)			Total Costs	Percentage of Total Paid
	Cases	Payments	Average Cost per Case	Cases	Payments	Average Cost per Case	Cases	Payments	Average Cost per Case		
Postal Service	132,470	\$326,554,873	\$2,465	32,624	\$504,548,295	\$15,466	729	\$15,772,890	\$21,636	\$846,876,059	36.45
Corporation for National and Community Service	44	303,323	6,894	38	807,574	21,252	1	37,640	37,640	1,148,536	0.05
Department of Agriculture	7,562	21,487,224	2,841	2,608	43,836,141	16,808	288	6,988,588	24,266	72,311,953	3.11
Department of Commerce	1,341	4,957,664	3,697	565	9,763,505	17,281	47	1,082,213	23,026	15,803,382	0.68
Department of Defense	5,405	16,189,083	2,995	2,502	46,347,259	18,524	102	2,892,559	28,358	65,428,902	2.82
Department of Education	91	246,814	2,712	40	1,050,573	26,264	4	160,336	40,084	1,457,723	0.06
Department of Energy	661	1,471,558	2,226	243	6,456,095	26,568	29	867,752	29,922	8,795,405	0.38
Department of Health and Human Services	1,587	4,221,383	2,660	724	17,358,050	23,975	31	1,115,807	35,994	22,695,240	0.98
Department of Homeland Security	14,660	30,525,690	2,082	2,376	49,383,020	20,784	118	4,066,771	34,464	83,975,481	3.61
Department of Justice	7,736	19,322,418	2,498	1,762	42,979,885	24,393	112	3,829,046	34,188	66,131,349	2.85
Department of Labor	1,401	6,686,008	4,772	642	13,958,045	21,742	64	1,885,512	29,461	22,529,565	0.97
Department of State	263	1,622,453	6,169	81	2,761,559	34,093	98	2,807,320	28,646	7,191,331	0.31
Department of Transportation	3,277	10,380,647	3,168	1,813	75,795,754	41,807	238	8,505,559	35,738	94,681,960	4.08
Department of Air Force	10,456	34,263,007	3,277	4,623	93,697,697	20,268	276	7,548,142	27,348	135,508,846	5.83
Department of Army	14,957	45,065,330	3,013	6,413	124,934,417	19,481	463	11,298,373	24,403	181,298,121	7.80
Department of the Interior	7,877	17,431,972	2,213	1,854	34,359,215	18,532	202	4,902,712	24,271	56,693,898	2.44
Department of Navy	17,435	53,024,362	3,041	8,664	172,736,491	19,937	891	19,700,269	22,110	245,461,122	10.57
Department of the Treasury	4,799	13,464,424	2,806	1,817	43,092,601	23,716	106	3,604,873	34,008	60,161,897	2.59
Environmental Protection Agency	265	1,222,674	4,614	82	2,397,701	29,240	6	166,112	27,685	3,786,487	0.16
Executive Office of the President	16	143,434	8,965	7	286,381	40,912	0	0.00	0.00	429,815	0.02

**APPENDIX D. AVERAGE COST AND NUMBERS OF WORKERS' COMPENSATION MEDICAL AND COMPENSATION CASES
(NONFATAL AND FATAL) FOR FEDERAL GOVERNMENT AGENCIES PARTICIPATING IN OWCP FOR CBY 2003 (CONTINUED)**

Agency	Medical Cases			Compensation Cases (Nonfatal)			Compensation Cases (Fatal)			Total Costs	Percentage of Total Paid
	Cases	Payments	Average Cost per Case	Cases	Payments	Average Cost per Case	Cases	Payments	Average Cost per Case		
Federal Judiciary	611	1,637,641	2,680	164	3,544,586	21,613	7	250,855	35,836	5,433,082	0.23
General Services Administration	825	2,362,856	2,864	543	12,583,157	23,173	34	802,769	23,611	15,748,781	0.68
Government Printing Office	458	769,774	1,681	219	5,511,621	25,167	2	65,354	32,677	6,346,750	0.27
Department of Housing and Urban Development	311	1,275,801	4,102	176	4,825,879	27,420	47	1,407,709	29,951	7,509,388	0.32
National Aeronautics and Space Administration	320	751,416	2,348	147	4,717,830	32,094	33	1,217,453	36,893	6,686,699	0.29
Other Establishments	2,223	5,450,629	2,452	959	23,324,579	24,322	147	5,482,547	37,296	34,257,755	1.47
Peace Corps	1,241	5,293,605	4,266	314	4,719,185	15,029	24	468,759	19,532	10,481,548	0.45
Smithsonian Institution	361	942,352	2,610	143	3,059,132	21,393	4	111,162	27,791	4,112,646	0.18
Social Security Administration	2,075	5,187,165	2,500	761	16,626,276	21,848	22	665,667	30,258	22,479,108	0.97
Tennessee Valley Authority	2,350	6,832,843	2,908	2,361	50,869,295	21,546	127	2,847,745	22,423	60,549,883	2.61
Department of Veterans' Affairs	13,884	44,470,733	3,203	6,536	107,774,864	16,489	139	5,069,681	36,473	157,315,278	6.77
TOTAL FOR CBY 2003³³	256,962	\$683,559,156	\$2,660	81,801	\$1,524,106,662	\$18,631	4,391	\$115,622,175	\$26,331	\$2,323,287,990	100.00

Source: Data obtained from OWCP Chargeback Billing Summary
OIG Staff calculated average cost per case and percentage of total paid.

³³Numbers may vary slightly when compared to the Chargeback Report due to dropping of cents and rounding up.

**APPENDIX E. AVERAGE COST AND NUMBERS OF WORKERS' COMPENSATION MEDICAL AND COMPENSATION CASES
(NONFATAL AND FATAL) FOR FEDERAL GOVERNMENT AGENCIES PARTICIPATING IN OWCP FOR CBY 2002**

Agency	Medical Cases			Compensation Cases (Nonfatal)			Compensation Cases (Fatal)			Total Costs	Percentage of Total Paid
	Cases	Payments	Average Cost per Case	Cases	Payments	Average Cost per Case	Cases	Payments	Average Cost per Case		
Postal Service	131,856	\$304,601,310	\$2,310	32,966	\$464,525,299	\$14,091	735	\$16,072,380	\$21,867	\$785,198,990	35.38
Corporation for National and Community Service	45	315,527	7,012	39	788,929	20,229	2	44,437	22,219	1,148,892	0.05
Department of Agriculture	7,417	21,007,226	2,832	2,606	41,530,212	15,936	302	7,025,949	23,265	69,563,387	3.13
Department of Commerce	1,731	5,103,618	2,948	651	9,270,831	14,241	48	1,265,807	26,371	15,640,257	0.70
Department of Defense	5,524	15,817,637	2,863	2,688	45,264,791	16,840	101	2,805,502	27,777	63,887,930	2.88
Department of Education	104	202,492	1,947	42	1,219,214	29,029	5	177,154	35,431	1,598,860	0.07
Department of Energy	641	1,335,655	2,084	259	6,442,969	24,876	27	861,689	31,914	8,640,313	0.39
Department of Health and Human Services	1,670	3,822,623	2,289	730	16,953,701	23,224	34	1,266,477	37,249	22,042,801	0.99
Department of Justice	13,842	33,646,021	2,431	2,835	56,934,395	20,083	161	5,039,329	31,300	95,619,745	4.31
Department of Labor	1,459	5,200,538	3,564	656	14,355,792	21,884	63	1,698,755	26,964	21,255,085	0.96
Department of State	197	1,306,606	6,633	84	2,373,018	28,250	98	2,605,412	26,586	6,285,036	0.28
Department of Transportation	4,009	11,000,526	2,744	2,190	82,017,044	37,451	254	8,698,040	34,244	101,715,610	4.58
Department of Air Force	11,040	31,930,070	2,892	4,866	93,117,777	19,136	285	7,490,614	26,283	132,538,462	5.97
Department of Army	15,137	42,258,167	2,792	6,707	121,614,549	18,132	471	10,959,374	23,268	174,832,090	7.88
Department of the Interior	7,508	15,003,834	1,998	1,843	32,722,284	17,755	208	4,892,119	23,520	52,618,238	2.37
Department of Navy	17,683	53,631,102	3,033	9,357	174,150,825	18,612	935	20,468,472	21,891	248,250,399	11.19
Department of the Treasury	8,741	21,429,869	2,452	2,650	61,129,507	23,068	163	5,513,850	33,827	88,073,226	3.97
Environmental Protection Agency	249	764,810	3,072	85	2,335,724	27,479	7	163,437	23,348	3,263,971	0.15
Executive Office of the President	15	80,428	5,362	6	282,329	47,055	0	0.00	0.00	362,757	0.02

APPENDIX E. AVERAGE COST AND NUMBERS OF WORKERS' COMPENSATION MEDICAL AND COMPENSATION CASES (NONFATAL AND FATAL) FOR FEDERAL GOVERNMENT AGENCIES PARTICIPATING IN OWCP FOR CBY 2002 (CONTINUED)

Agency	Medical Cases			Compensation Cases (Nonfatal)			Compensation Cases (Fatal)			Total Costs	Percentage of Total Paid
	Cases	Payments	Average Cost per Case	Cases	Payments	Average Cost per Case	Cases	Payments	Average Cost per Case		
Federal Emergency Management Agency	298	935,789	3,140	76	1,667,124	21,936	3	89,336	29,779	2,692,249	0.12
Federal Judiciary	549	1,319,802	2,404	156	3,276,644	21,004	7	298,743	42,678	4,895,189	0.22
General Services Administration	847	2,469,237	2,915	568	12,573,044	22,136	36	826,258	22,952	15,868,540	0.71
Government Printing Office	420	807,380	1,922	219	5,278,766	24,104	2	64,111	32,056	6,150,256	0.28
Department of Housing and Urban Development	339	1,343,371	3,963	184	5,000,272	27,175	47	1,410,679	30,014	7,754,323	0.35
National Aeronautics and Space Administration	293	771,056	2,632	154	4,703,734	30,544	32	1,186,722	37,085	6,661,511	0.30
Other Establishments	2,174	5,548,289	2,552	999	22,436,321	22,459	149	5,245,999	35,208	33,230,609	1.50
Peace Corps	1,152	5,547,950	4,816	343	4,914,793	14,329	25	460,488	18,420	10,923,230	0.49
Smithsonian Institution	319	682,267	2,139	142	2,806,939	19,767	4	109,021	27,255	3,598,228	0.16
Social Security Administration	1,984	5,063,087	2,552	789	15,596,853	19,768	22	646,794	29,400	21,306,733	0.96
Tennessee Valley Authority	2,425	6,394,844	2,637	2,491	52,739,763	21,172	130	3,084,683	23,728	62,219,290	2.80
Department of Veterans' Affairs	13,846	41,224,404	2,977	6,886	106,462,045	15,461	134	3,925,233	29,293	151,611,682	6.83
TOTAL FOR CBY 2002³⁴	253,514	\$640,565,535	\$2,526	84,267	\$1,464,485,488	\$17,379	4490	\$114,396,864	\$25,478	\$2,219,447,889	100.00

Source: Data obtained from OWCP Chargeback Billing Summary
OIG staff calculated average cost per case and percentage of total paid.

³⁴Numbers may vary slightly when compared to the Chargeback Report due to dropping of cents and rounding up.

**APPENDIX F. DOL'S OWCP ADMINISTRATIVE FEES FOR THE POSTAL
SERVICE AND PARTICIPATING NONAPPROPRIATED FEDERAL AGENCIES
FOR
CBYS 2002 THROUGH 2004**

Agency	CBY 2002		CBY 2003		CBY 2004	
	Medical and Wage Compensation Amount	Administrative Fee ³⁵	Medical and Wage Compensation Amount	Administrative Fee	Medical and Wage Compensation Amount	Administrative Fee
Postal Service	\$759,784,476	\$45,271,616	\$822,697,801	\$44,507,951	\$830,088,798	\$44,492,760
Agriculture – Risk Management Agency	No Data ³⁶	No Data	228,026	12,336	223,324	11,970
Agriculture – Federal Crop Insurance Program	203,902	10,195	No Data	No Data	No Data	No Data
Board of Governors – Federal Reserve	305,640	15,282	440,115	23,810	No Data	No Data
Commerce – Bureau of Census	2,506,234	125,312	2,220,791	120,145	1,782,896	95,563
Commerce – NIST ³⁷	308,215	15,411	332,866	18,008	390,639	20,938
Commerce – NTIS ³⁸	49,057	2,453	45,551	2,464	44,597	2,390
Department of Transportation Saint Lawrence Seaway	148,630	7,431	No Data	No Data	No Data	No Data
Department of Energy – Bonneville Power Administration	2,954,393	147,720	3,028,269	163,829	3,139,301	168,267
Export-Import Bank	627	31	225	12	No Data	No Data
Federal Deposit Insurance Corporation	2,605,927	130,296	2,148,506	116,234	2,318,625	124,278
Federal Housing Finance Board	No Data	No Data	No Data	No Data	452	24
Federal Reserve	No Data	No Data	No Data	No Data	389,024	20,852
Justice – Federal Prison Industries	608,374	30,419	713,992	38,627	783,117	41,975
Justice – Federal Prison System, Revolving Fund	63,291	3,165	49,117	2,657	77,887	4,175
National Credit Union Administration	145,716	7,286	254,901	13,790	207,015	11,096
Office of Thrift Supervision	298,565	14,928	353,400	19,119	310,759	16,657
Overseas Private Investment Corporation	No Data	No Data	No Data	No Data	121	6
Pension Benefit Guaranty Corporation	859	43	77	4	No Data	No Data
Resolution Trust Corporation	342,322	17,116	327,860	17,737	313,752	16,817
Saint Lawrence Seaway Development Corporation	No Data	No Data	175,761	9,509	294,764	15,799
Small Business Administration	2,320,491	116,025	2,481,751	134,263	2,110,446	113,120
Tennessee Valley Authority (TVA) – Appropriated Portion ³⁹	8,213,235	410,662	8,213,775	444,365	7,998,060	428,696
TVA – Nonappropriated Portion	54,006,055	2,700,303	52,336,108	2,831,383	50,140,260	2,687,518
Department of Veterans' Affairs – Canteen Service	1,026,119	51,306	1,124,303	60,825	1,224,916	65,656
TOTAL (Excluding the Postal Service)	76,107,652	3,805,384	74,475,394	4,029,117	71,749,955	3,845,797
TOTAL Postal Service	759,784,476	45,271,616	822,697,801	44,507,951	830,088,798	44,492,760
TOTAL ALL	\$835,892,128	\$49,077,000	\$897,173,195	\$48,537,068	\$901,838,753	\$48,338,557

Source: OWCP

³⁵This column is 5 percent of the medical and wage compensation amount column.

³⁶No data refers to those time periods when the agency was not listed on OWCP chargeback reports.

³⁷National Institute of Standards and Technology.

³⁸National Technical Information Service.

³⁹According to a DOL representative, TVA shows appropriated and nonappropriated fees because both entities earn a profit.

APPENDIX G. PROFILE OF THE POSTAL SERVICE AND BENCHMARKED ORGANIZATIONS

Company	Type of Workers' Compensation Program
1. Postal Service	FECA ⁴⁰
2. Company A	Self-insured ⁴¹
3. Company B	Self-insured
4. Company C	Self-Insured
5. Company D	Combination of self-insurance and private insurance
6. Company E	Self-insured in Ohio, Washington, and Nevada; high-deductible program in all other states
Nonfederal Government Agency	Type of Workers' Compensation Program
7. Company F	Self-insured
8. Company G	Self-insured
9. Company H	Private insurance
10. Company I	Self-insured
11. Company J	State monopolistic fund
12. Company K	Self-insured

⁴⁰FECA is administered by the OWCP which manages the Postal Service workers' compensation program. The OWCP calculates and receives program chargeback costs and administrative fees from the Postal Service.

⁴¹Self-insured: Large corporations prefer to assume liability for workers' compensation and avoid administrative costs associated with insurance policies. Self-insurance is permitted in most U.S. states.

APPENDIX H. ANALYSIS OF PRIOR REPORTS ADDRESSING POSTAL SERVICE PARTICIPATION IN THE DOL'S OWCP

Three significant reports addressed the positive and negative issues concerning the Postal Service's participation in OWCP, compared to having its own program. These reports are:

- Proposal to Move Postal Workers' Compensation Coverage to a Postal Service Workers' Compensation Act, Postal Service's internal draft proposal, October 2003.
- USPS Workers' Compensation – Options Available to Assist the U. S. Postal Service for Improving Delivery of Workers' Compensation Benefits, Reducing Costs, and Strengthening Accountability, Deloitte & Touche, June 2003.
- U. S. Postal Service, Analysis of Potential Savings: FECA vs. State Act Coverage of Workers' Compensation, Ernst & Young LLP, November 1995.

The reports discussed the initiatives the Postal Service should undertake to develop a workers' compensation program separate from OWCP that would be positive and cost-reducing. Below are synopses of each of the three reports reviewed.

Postal Service's Internal Draft Proposal

The Postal Service's internal draft proposal identified the positive and negative issues of the Postal Service having its own program. The proposal discussed moving the Postal Service's workers' compensation coverage from FECA to a new program called the USPS Act.

The Postal Service does not receive appropriations for workers' compensation as other federal agencies do. The proposed program would retain DOL's OWCP oversight but not management. A number of the provisions in the proposed legislation mirror provisions of the Longshore and Harbor Workers' Compensation Act, but are modifications specific to the Postal Service. The following are some cost-saving proposals of the USPS Act:

- No Continuation of Pay (COP) unless the claim exceeds 14 days. If the claim is less than 14 days, the employee will receive workers' compensation after a 3-day waiting period, and no COP.
- Limit maximum compensation to 66⅔ percent of the injured employee's salary for all employees, regardless of dependents (FECA currently allows up to 75 percent).
- Offer reasonable buyouts.

- Schedule awards for permanent disabilities at 40 percent less than FECA payments.
- Impose mandatory retirement.
- Eliminate the OWCP administrative fee.
- Let Postal Service staff of 100 manage contracts and act as liaison for contractor (current staff is 476).
- Allow the Postal Service to choose the physician for an injured employee
- Direct contact with treating physicians to enhance case management of injuries.
- Allow the agency to contract out program administration to a third-party administrator (TPA) or insurance companies.
- Reduce staff through outsourcing.
- Allow a TPA to manage the program for substantial savings.

The negative issues address union resistance to injury and disability compensation benefits and the fact that implementing the proposal would be contingent on congressional sponsorship and legislative changes.

Deloitte & Touche Study

The Deloitte & Touche study, requested by the President's Commission on the U. S. Postal Service, provides potential solutions to improve the workers' compensation program. The study identified three areas affecting delivery of workers' compensation benefits and rising costs that warrant improvement: cost per claim, benefit structures compared to private industry, and standards of performance (accountability) in the claims adjudication process.

Deloitte & Touche provided two options to the President's Commission. The first option suggests that the Postal Service model its program after the private sector by obtaining a TPA to replace OWCP. This option would provide better control over claims administration, give tighter accountability over benefits delivery systems and cost containment, and potentially reduce administrative costs. This option would also require legislative change for the Postal Service to opt out of OWCP.

The second option would provide for collaboration between the Postal Service and OWCP and a mandate to implement best practices within a reasonable timeframe. Independent consultants would lead and facilitate the process to control turf issues, provide cost-benefit analyses of alternatives, report impartially on progress, and ensure that specific timelines are developed for completion of required actions.

Deloitte & Touche also recommended that the Commission review the quality of the Postal Service's workers' compensation program and analyze the best practice gap in detail. This study was to be accomplished by independent and objective professionals who help resolve workers' compensation issues.⁴²

Ernst & Young LLP Report

The Ernst & Young LLP report (requested by the Postal Service) analyzed potential savings with respect to FECA versus state coverage of workers' compensation. They determined that significant potential savings could be derived from the Postal Service switching to state coverage.

The report showed, however, that these savings would depend on several variables, such as the Postal Service treating return-to-work salaries as part of overall costs. The report also estimated that for every \$1,000 paid in return-to-work salary, \$3,093, is saved in benefits, for an efficiency rating of 3.093. In addition, claimants may be unwilling to accept limited-duty positions when there is no threat of losing benefits, unless state compensation does not escalate as annual salaries would.

The report also addressed legislative changes and FECA reform when retirement is mandated for claimants reaching retirement age. The report also suggested minimizing other associated costs such as loss adjustment expenses, state premium taxes, second injury fund assessments, and the potential need to assist in bailing out bankrupt state workers' compensation systems.

All three reports encouraged further study of the quality and cost-effectiveness of services the Postal Service receives, in comparison to other federal and nonfederal government entities and the private sector.

⁴²The Deputy Assistant Secretary for Government Financial Policy, DOT, told the OIG he did not believe a study had been conducted when the Commission was disbanded in July 2003.

APPENDIX I. ANNUAL COMPENSATION FOR INJURED EMPLOYEES

ORGANIZATION	Benchmarking Question: Please provide wage compensation amounts (for a five-year period from January 1, 1999, through December 31, 2003) that an injured employee would receive his or her regular salary was \$30,000 in 1999. Please do not include health benefits deductions, life insurance premiums, etc.						
	Year	1999	2000	2001	2002	2003	TOTAL
Postal Service							
Without Dependent		\$20,317	\$20,866	\$21,575	\$21,855	\$22,380	\$106,993
With Dependent		22,860	23,477	24,275	24,591	25,181	120,384
Company A	Year	1999	2000	2001	2002	2003	TOTAL
Without Dependent		17,851	17,908	17,908	17,908	17,908	89,483
With Dependent		19,543	19,606	19,606	19,606	19,606	97,967
Company B	Year	1999	2000	2001	2002	2003	TOTAL
Without Dependent		20,000	20,000	20,000	20,000	20,000	100,000
With Dependent		20,000	20,000	20,000	20,000	20,000	100,000
Company C	Year	1999	2000	2001	2002	2003	TOTAL
Without Dependent		20,000	20,000	20,000	20,000	20,000	100,000
With Dependent		20,000	20,000	20,000	20,000	20,000	100,000
Company D	Year	1999	2000	2001	2002	2003	TOTAL
Without Dependent		20,800	20,800	20,800	20,800	20,800	104,000
With Dependent		20,800	20,800	20,800	20,800	20,800	104,000
Company E	Year	1999	2000	2001	2002	2003	TOTAL
Without Dependent		N/AV ⁴³	N/AV	N/AV	N/AV	N/AV	N/AV
With Dependent		N/AV	N/AV	N/AV	N/AV	N/AV	N/AV
Company F	Year	1999	2000	2001	2002	2003	TOTAL
Without Dependent		21,000	21,000	20,758	19,200	19,200	101,158
With Dependent		21,000	21,000	20,758	19,200	19,200	101,158
Company G	Year	1999	2000	2001	2002	2003	TOTAL
Without Dependent		2/3 of the average weekly wage	2/3 of the average weekly wage	2/3 of the average weekly wage	2/3 of the average weekly wage	2/3 of the average weekly wage	N/A ⁴⁴
With Dependent		Same	Same	Same	Same	Same	N/A
Company H	Year	1999	2000	2001	2002	2003	TOTAL
Without Dependent		20,000	20,000	20,000	20,000	20,000	100,000
With Dependent		20,000	20,000	20,000	20,000	20,000	100,000
Company I	Year	1999	2000	2001	2002	2003	TOTAL
Without Dependent		20,000	20,000	20,000	20,000	20,400	100,400
With Dependent		20,000	20,000	20,000	20,000	20,400	100,400
Company J	Year	1999	2000	2001	2002	2003	TOTAL
Without Dependent		16,260	16,260	16,260	16,260	16,260	81,300
With Dependent		16,260	16,260	16,260	16,260	16,260	81,300
Company K	Year	1999	2000	2001	2002	2003	TOTAL
Without Dependent		19,980	19,980	19,980	19,980	19,980	99,900
		19,980	+ COLA	+ COLA	+ COLA	+ COLA	+ COLA
With Dependent		22,500	22,500	22,500	22,500	22,500	112,500
		22,500	+ COLA	+ COLA	+ COLA	+ COLA	+ COLA

Source: Responses to Benchmarking Questionnaire

⁴³N/AV is defined as the data were not available and/or could not be provided by the organization for the requested categories.

⁴⁴N/A is defined as the organization indicated not applicable.

APPENDIX J. SIMILARITIES (HIGHLIGHTED) AND DIFFERENCES BETWEEN THE POSTAL SERVICE AND OTHER BENCHMARKED ORGANIZATIONS

Questionnaire Item	Private Companies	Nonfederal Government Agencies	Postal Service
Type of program – self-Insured	4 of 5 – Yes	4 of 6 – Yes	FECA
Has third party administrator (TPA)	5 of 5 - Yes	2 of 6 – Yes	No
Number of benefit weeks limitation/compensation	4 of 5 – No	2 of 6 – No	No
Number of benefit weeks limitation/medical	4 of 5 – No	6 of 6 – No	No
Limit on compensation dollar amount	5 of 5 – Yes	6 of 6 – Yes	No
Organization selects physician	Depends on statutory regulations	4 of 6 – Yes	No
Program similar to COP	5 of 5 – Yes, (4 – salaried employees only; 1 – Yes, all employees)	2 of 6 – Yes	Yes
Waiting period for temporary compensation	4 of 5 – No	1 of 6 – Yes	No
Requirement to retire when eligible	4 of 5 – No ⁴⁵	6 of 6 – No	No
Advantage to stay on workers’ compensation	2 of 5 – Yes	5 of 6 – Yes	Yes
Permanently disabled employee on workers’ compensation indefinitely	3 of 5 – Yes	6 of 6 – Yes	Yes
Buyouts offered	5 of 5 – Yes	3 of 6 – Yes	No
Loss of body part – pay ⁴⁶	5 of 5 – Depends on state	2-Percentage 1-Standard 3-None	Percentage
Legal actions possible	5 of 5 – Yes ⁴⁷	2 of 6 – Yes ⁴⁸	No
Unionized	4 of 5 – Yes	3 of 6 – Yes	Yes
Union buy-in to assist organization in controlling workers’ compensation costs	3 of 4 – Yes	1 of 3 – Yes	Sometimes ⁴⁹

Source: Responses to Benchmarking Questionnaire

⁴⁵This question was not applicable to one company that indicated they do not have a retirement program.

⁴⁶Office of Workers’ Compensation Programs’ Schedule Award Payments to Postal Service Employees in the Pacific Area – Report II (Report Number HM-AR-05-11, dated September 29, 2005). We used a statistical sample to project that the Postal Service was overcharged about \$291,200 and undercharged about \$251,200 for schedule awards in the Pacific Area, in CBY 2004. Although the amounts were not significant when compared to the total schedule award payments made, they highlighted the fact that some employees did not receive benefits they were entitled to, while others received more.

⁴⁷These private organizations responded “Yes” when asked if legal action was possible, but stated that this was the answer in cases of gross negligence only.

⁴⁸These agencies responded “Yes” when asked if legal action was possible, but stated only in cases when culpable negligence is proven or employer failed to provide workers’ compensation coverage.

⁴⁹Postal Service officials indicated that unions sometimes buy in to assist in controlling workers’ compensation costs; buy-in depends on Postal Service Headquarters program initiatives.

APPENDIX K. TOTAL WORKERS' COMPENSATION PROGRAM COSTS FOR THE POSTAL SERVICE AND BENCHMARKED ORGANIZATIONS

Private Organization	Expense	2001	2002	2003	2003 ⁵⁰
					Average Program Expense per Case or Employee ⁵¹ (2003 Total Expense Divided by Number of Cases or Employees)
Postal Service	Medical claims	\$720,517,633	\$304,601,310	\$326,554,873	
	Compensation/income	Included in Medical	480,597,679	520,321,185	
	Scheduled injuries/loss of body parts	Included in Medical	Included in Compensation	Included in Compensation	
	Administration	37,117,095	45,271,616	44,507,951	
	TOTAL	\$757,634,728⁵²	\$830,470,605	\$891,384,009	\$6,453
Company A	Medical claims	\$27,000,000	\$26,000,000	\$29,000,000	
	Compensation/Income	41,000,000	32,000,000	33,000,000	
	Scheduled injuries/loss of body parts	Included in compensation	Included in compensation	Included in compensation	
	Administration	20,000,000	20,000,000	23,000,000	
	TOTAL	\$88,000,000	\$78,000,000	\$85,000,000	\$3,765
Company B	Medical claims	\$14,821,156	\$17,671,795	\$26,433,623	
	Compensation/income	8,707,389	10,338,148	13,473,889	
	Scheduled injuries/loss of body parts	5,803,960	5,949,328	8,014,262	
	Administration	2,500,000	3,500,000	5,000,000	
	Other (legal, investigations, case management, audit fees)	1,789,842	2,942,288	6,540,085	
	TOTAL	\$33,622,347	\$40,401,559	\$59,461,859	\$13,440
Company C	Medical claims	\$10,595,000	\$8,515,000	\$6,240,000	
	Compensation/income	5,705,000	4,585,000	3,360,000	
	Scheduled injuries/loss of body parts	Included in compensation	Included in compensation	Included in compensation	
	Administration	5,200,000	5,200,000	5,200,000	
	TOTAL	\$21,500,000	\$18,300,000	\$14,800,000	\$2,362
Company D	Medical claims	\$24,700,000	\$24,700,000	\$25,500,000	
	Compensation/income	\$42,600,000	\$31,700,000	\$33,100,000	
	Scheduled injuries/loss of body parts	Included in compensation	Included in compensation	Included in compensation	
	Administration	5,100,000	5,400,000	5,400,000	
	TOTAL	\$72,400,000	\$61,800,000	\$64,000,000	\$9,910
Company E	Medical claims	\$17,012,916	\$18,730,646	\$18,625,239	
	Compensation/income	12,026,344	10,600,842	9,863,724	
	Scheduled injuries/loss of body parts	3,365,431	4,714,339	6,006,913	
	Administration	5,237,605	5,150,410	6,345,512	
	Other (allocated expense)	2,405,365	2,580,114	2,816,313	
	TOTAL	\$40,047,661	\$41,776,351	\$43,657,701	\$6,080

Source: Responses to Benchmarking Questionnaire

⁵⁰We accepted information from benchmarked organizations for a 12-month period for 2003. Some organizations provided data for CY 2003 and some provided information for FY 2003.

⁵¹The Postal Service's, Companies E's and G's average expense was determined by dividing the total expense for 2003 by the number of **cases**. For the Postal Service and these companies, some employees may have more than one "case." The average expense for Companies A, B, C, D, F, H, I, and J was determined by dividing the total expense by the number of **employees**. Company K did not provide information regarding its number of employees or cases.

⁵²The amounts for the Postal Service include the workers' compensation and medical costs for the Post Office Department.

**APPENDIX K. TOTAL WORKERS' COMPENSATION PROGRAM COSTS FOR THE
POSTAL SERVICE AND BENCHMARKED ORGANIZATIONS (CONTINUED)**

Nonfederal Organization	Expense	2001	2002	2003	2003 ⁵⁰ Average Program Expense per Employee ⁵¹ (2003 Total Expense Divided by Number of Cases or Employees)
Company F	Medical claims	\$40,408,926	\$44,795,673	\$37,563,474	
	Compensation/income	17,437,742	18,686,923	17,280,908	
	Scheduled injuries/loss of body parts	9,529,674	9,945,866	9,507,029	
	Administration	4,530,266	4,734,796	4,515,617	
	TOTAL	\$71,906,608	\$78,163,258	\$68,867,028	\$5,487
Company G	Medical claims	\$43,780,293	\$49,167,154	\$50,149,138	
	Compensation/income	36,632,490	40,317,066	38,349,341	
	Scheduled injuries/loss of body parts	N/A ⁵³	N/A	N/A	
	Administration	8,934,753	8,850,087	9,833,164	
	TOTAL	\$89,347,536	\$98,334,307	\$98,331,643	\$6,773
Company H	Medical claims	\$3,617,552	\$2,996,569	\$2,201,854	
	Compensation/income	3,236,899	2,229,297	815,453	
	Scheduled injuries/Loss of body parts	Included in compensation	Included in compensation	Included in compensation	
	Administration	850,000	850,000	1,150,000	
	TOTAL	\$7,704,451	\$6,075,866	\$4,167,307	\$3,698
Company I	Medical claims	\$5,785,149	\$6,557,075	\$7,261,858	
	Compensation/income	6,645,482	6,477,723	6,309,611	
	Scheduled injuries/loss of body parts	851,089	671,577	657,015	
	Administration	2,731,295	2,735,971	2,936,763	
	Other (certified managed care plan)	1,107,378	1,187,015	1,145,848	
	Special assessments (to fund uninsured employees)	1,284,252	1,110,971	2,221,019	
	Reinsurance	242,048	338,101	318,800	
	Employee attorney fees	428,357	480,132	527,350	
	Vocational rehabilitation	1,194,332	881,068	934,692	
	TOTAL	\$20,269,382	\$20,439,633	\$22,312,956	\$5,689
Company J	Medical claims	N/AV ⁵⁴	N/AV	N/AV	
	Compensation/income	N/AV	N/AV	N/AV	
	Scheduled injuries/loss of body parts	N/AV	N/AV	N/AV	
	Administration	N/AV	N/AV	N/AV	
	TOTAL	N/AV	N/AV	N/AV	Unknown
Company K	Medical claims	N/AV	\$4,133,200	\$4,970,352	
	Compensation/income	N/AV	18,795,252	20,235,884	
	Scheduled injuries/loss of body parts	N/AV	Included in compensation	Included in compensation	
	Administration	N/AV	8,321,149	5,374,650	
	TOTAL	N/AV	\$31,249,601	\$30,580,886	\$16,952

Source: Responses to Benchmarking Questionnaire

⁵³N/A is defined as the organization indicated not applicable.

⁵⁴N/AV is defined as data were not available and/or could not be provided by the organization for the requested categories.

APPENDIX L. TOTAL NUMBERS OF ACCIDENTS AND INJURIES FOR THE POSTAL SERVICE AND BENCHMARKED ORGANIZATIONS

Organization	CY	2001	2002	2003	TOTAL
Postal Service	Accidents	145,855	126,423	120,536	392,814
	Injuries	70,830	61,587	54,060	186,477
	Total number of employees involved	N/AV ⁵⁵	N/AV	N/AV	N/AV
Company A	Accidents/Injuries	N/AV	N/AV	N/AV	N/AV
	Total number of employees involved	N/AV	N/AV	N/AV	N/AV
Company B	Accidents	N/A ⁵⁶	N/A	N/A	N/A
	Injuries	4,226	5,597	4,424	14,247
	Total number of employees involved	N/AV	N/AV	N/AV	N/AV
Company C	Accidents	N/A	N/A	N/A	N/A
	Injuries	7,363	6,796	6,266	20,425
	Total number of employees involved	7,363	6,796	6,266	20,425
Company D	Accidents	N/A	N/A	N/A	N/A
	Injuries	7,271	6,227	6,458	19,956
	Total number of employees involved	7,271	6,227	6,458	19,956
Company E	Accidents	7,663	7,389	7,181	22,233
	Injuries	5,553	4,636	4,428	14,617
	Total number of employees involved	N/AV	N/AV	N/AV	N/AV
Company F	Accidents	N/AV	N/AV	N/AV	N/AV
	Injuries	8,011	8,293	7,105	23,409
	Total number of employees involved	7,462	7,626	6,616	21,704
Company G	Accidents/Injuries	15,076	14,859	13,620	43,555
	Total number of employees involved	N/AV	N/AV	N/AV	N/AV
Company H	Accidents/injuries	1,414	1,269	1,181	3,864
	Total number of employees involved	N/AV	N/AV	N/AV	N/AV
Company I	Accidents	3,315	3,118	2,636	9,069
	Injuries	2256	2148	1840	6244
	Total number of employees involved	N/AV	N/AV	N/AV	N/AV
Company J	Accidents/Injuries	N/AV	N/AV	N/AV	N/AV
	Total number of employees involved	N/AV	N/AV	N/AV	N/AV
Company K	Accidents	N/AV	N/AV	N/AV	N/AV
	Injuries	N/AV	2351	1804	4155
	Total number of employees involved	N/AV	2351	1804	4155

Source: Responses to Benchmarking Questionnaire

⁵⁵N/AV is defined as data were not available and/or could not be provided by the organization for the requested categories.

⁵⁶N/A is defined as the organization indicated not applicable.

APPENDIX M. MANAGEMENT'S COMMENTS

DEWITT O. HARRIS
VICE PRESIDENT
EMPLOYEE RESOURCE MANAGEMENT



September 23, 2005

KIM H. STROUD

SUBJECT: Postal Service Participation in the Department of Labor's Office of Workers' Compensation Programs

The Office of Inspector General's report on the Postal Service's participation in the Department of Labor's Office of Workers' Compensation Programs (OWCP) was reviewed by the appropriate staff members. This report is informative, thorough, and a well-written review of a complex program that has evolved significantly since the early 1970s. There are two components in the report that require further clarification.

On page 12, paragraph two, it is noted that "...seven organizations with similar programs responded that covered employees are paid 100 percent of their salary, and 5 of the 7 organizations responded there is no waiting period for their program to start after an injury." It appears that there may be some confusion to the comparison being made and the information that the survey was trying to uncover. Every state workers' compensation program has a waiting period of 3 days (22 states) or 7 days (22 states) with the remaining states at either 4- or 5-day waiting periods. The OWCP Continuation of Pay (COP) does not have a waiting period until the individual has first completed 45 days in a continuation of pay status. This is a significant difference between state programs and Federal Employees' Compensation Act (FECA). The only program with 100 percent of salary paid is the FECA COP program; 47 state programs pay 67 percent or less (2 at 60 percent) or the equivalent (70-80 percent of post-tax income). The other three states pay 70 percent of income—still less than the 75 percent possible under FECA. The FECA benefit is by far the most generous in the United States and gives an incentive to employees to remain on compensation instead of working to return to their pre-injury position.

The second comment is on page 14 concerning the "compensation limits and dependency status." As noted in the paragraph above, the potential for 75 percent of a person's salary tax-free is too generous, especially when coupled with the potential cost of living adjustments (COLA) that can occur in a given year. Over the last 33 years, the annual COLAs averaged 4.6 percent, with four years that had double digit adjustments and five years with more than one COLA. Although the COLAs for the last five years have been less than the average, the potential for double-digit increases still exists.

If you have any questions or concerns on this response, please contact Ron Henderson at 202-268-3587.

A handwritten signature in black ink, appearing to read "DeWitt O. Harris".

DeWitt O. Harris

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Ref:OIGFECAPAPER