MEMORANDUM FOR CHIEF FINANCIAL OFFICERS OF EXECUTIVE DEPARTMENTS AND AGENCIES SUBJECT TO THE CHIEF FINANCIAL OFFICERS ACT AND THE GOVERNMENT MANAGEMENT REFORM ACT OF 1994

FROM: SAMUEL T. MOK
Chief Financial Officer

SUBJECT: Federal Employees' Compensation Act Liabilities

This memorandum transmits Federal agencies' unaudited estimated actuarial liability for Future Workers' Compensation (FWC) benefits for the fiscal year ended September 30, 2005. For comparative purposes, FY 2004 amounts are also presented. The Department's Office of Inspector General expects to issue the results of their audit of the FWC liability by mid October 2005.

Per Office of Management and Budget (OMB) guidance, each reporting entity preparing financial statements under the Chief Financial Officers (CFO) Act and the Government Management Reform Act (GMRA) should include its respective portion of the actuarial liability for workers' compensation benefits as a liability in its financial statements, if such amounts are material.

The amounts presented in the attachment were developed by the Department of Labor's (DOL) Employment Standards Administration (ESA). A description of the methodology used to estimate the actuarial liability is also included in the attachment. In addition to the amounts reported for CFO Act agencies, amounts are presented for the Agency for International Development, the National Science Foundation, the Nuclear Regulatory Commission, the Office of Personnel Management, and the Small Business Administration to facilitate implementation of GMRA requirements. Agencies not specifically listed are included in the "Other" category. DOL/ESA is unable to estimate the actuarial liability for individual agencies comprising the "Other" category.

This guidance is for the purpose of financial statement presentation only and is not intended for use as a standard for incorporating actuarial liabilities in fees, prices, and reimbursements. Federal entities should comply with laws and regulations related to pricing policies in general and for specific types of goods and services. Additional guidance on recording this actuarial liability is contained in the Federal Intragovernmental Transactions Accounting Policies Guide, at http://www.fms.treas.gov/irri/ on the internet.

Attachment

United States Department of Labor

Estimates of Total FECA Future Liabilities, as of September 30, 2005 and 2004 [3]

(Thousands of Dollars)

Agency	2005	2004
United States Postal Service	$ 8,663,963	$ 8,379,832
Department of the Navy	2,725,371	2,744,041
Department of the Army	1,950,173	1,937,819
Department of Veterans' Affairs	1,776,459	1,752,895
Department of the Air Force	1,399,314	1,418,832
Department of Transportation	1,007,910	1,020,500
Department of Homeland Security	1,473,295	1,398,161
All Other Defense	844,007	858,146
Department of Agriculture	834,415	836,341
Department of Justice	926,336	829,336
Department of the Treasury	644,620	678,273
Department of the Interior	689,306	664,856
Tennessee Valley Authority	580,506	594,461
Social Security Administration	284,589	288,158
Department of Health and Human Services	270,354	266,389
Department of Labor (1)	233,651	236,560
Department of Commerce	173,415	179,186
General Services Administration	170,113	176,351
Department of Energy	98,479	95,184
Dept. of Housing and Urban Development	81,613	78,622
Natl. Aeronautics & Space Administration	62,430	68,876
Department of State	60,288	59,984
Environmental Protection Agency	39,380	40,281
Small Business Administration	28,967	28,436
Agency for International Development	23,726	24,523
Department of Education	18,082	19,882
Office of Personnel Management	25,653	13,077
Nuclear Regulatory Commission	8,417	8,114
National Science Foundation	1,381	1,465
Other (2)	641,224	643,656
Totals	$ 25,737,437	$ 25,342,238

(1) Excludes FECA benefits not chargeable to other Federal agencies payable by DOL's Federal Employees' Compensation Act Special Benefit Fund and FECA benefits due to eligible workers of the Panama Canal Commission Compensation fund.
(2) "Other" is defined as all agencies not specifically identified above receiving annual FECA bills.
(3) All the above figures are unaudited.

The liability for future workers' compensation (FWC) benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

<u>2005</u>
4.528% in Year 1
5.020% in Year 2
and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2005 were also used to adjust the methodology's historical payments to current year constant dollars.

The compensation COLAs and CPIMs used in the projections for various charge back years (CBY) were as follows:

CBY	**COLA**	**CPIM**
2005	2.20%	4.33%
2006	3.33%	4.09%
2007	2.93%	4.01%
2008	2.40%	4.01%
2009+	2.40%	4.01%

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on three tests: (1) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual payments; (2) a comparison of the ratio of the estimated liability to the actual payment of the beginning year calculated for the current projection to the liability-payment ratio calculated for the prior projection; and (3) a comparison of the incremental paid losses (the medical component in particular) in CBY 2005 (by injury cohort) to the average pattern observed during the prior three charge back years.