Memorandum

U.S. Department of Transportation
Office of the Secretary of Transportation
Office of Inspector General

Subject: INFORMATION: Report on Actuarial Estimates for Retired Pay and Medical Benefits, U.S. Coast Guard
FI-2002-079

Date: February 25, 2002

From: Alexis M. Stefani
Assistant Inspector General for Auditing

Reply To Attn Of: Meche:x61496

To: Chief of Staff
U.S. Coast Guard

INTRODUCTION

This report provides the study results of the U.S. Coast Guard actuarial model for estimating liabilities for retired pay and medical benefits. The study was conducted by the Hay Group, under contract with the Office of Inspector General, as part of our audit of the Department of Transportation Fiscal Year (FY) 2001 Consolidated Financial Statements.

The principal objective of the study was to determine whether the methodology the Coast Guard contractor used to calculate liabilities and annual actuarial activity of the Coast Guard military retirement system was reasonable and reliable as of September 30, 2000. FY 2000 data are used because the data represent the most current full year of financial data for estimating the FY 2001 military retirement liabilities totaling $27.6 billion.

RESULTS

The Hay Group concluded liabilities and annual actuarial activity of the Coast Guard were reasonable and reliable as of September 30, 2000. The Coast Guard properly reported military retirement liabilities of $27.6 billion as of September 30, 2001. The Coast Guard reported two types of benefit liabilities: $16.1 billion for retirement and survivor pension benefits; and $11.5 billion for retirement and survivor post-retirement medical benefits.

The Coast Guard liability for retirement and survivor post-retirement medical benefits increased from the FY 2000 reported value by $6.9 billion, from $4.6 billion to $11.5 billion. Changes in the reported liability are expected and are caused each year by the normal cost from the actuarial model, interest expense, and actuarial gains and losses from changes in both the population and estimates used for the projection.

The primary cause of the $6.9 billion liability increase was a change in the medical benefits program included in the FY 2001 National Defense Authorization Act. The Hay Group recommended that the Coast Guard incorporate the new Department of Defense assumptions when calculating the next valuation of actual retired pay and medical benefits liabilities. The Coast Guard and its actuary concurred with this recommendation.

ACTION REQUIRED

No response to this report is required. The study documents are voluminous and will be provided upon request.

We sincerely appreciate the assistance and cooperation of Coast Guard and contractor representatives. If you have questions, please call me at (202) 366-1992, or John Meche at (202) 366-1496.

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