



OCT 2 2002

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:

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SUBJECT: Federal Employees' Compensation Act Liabilities

This transmits Federal agencies' **unaudited estimated actuarial liability for Future Workers' Compensation (FWC)** benefits for the fiscal year ended September 30, 2002. For comparative purposes, FY 2001 amounts are also presented. By November 2002, the Department's Office of Inspector General will issue the results of their audit of the FWC liability.

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 Federal Emergency Management Agency, 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/factsi/regulations.html> on the internet.

Attachment

ACTUARIAL LIABILITY ESTIMATES FOR  
FUTURE WORKERS' COMPENSATION BENEFITS

	<u>Dollars in thousands</u>	
	<u>2002</u>	<u>2001</u>
United States Postal Service	7,653,191	7,399,470
Department of the Navy	2,872,301	2,968,541
Department of the Army	1,929,082	1,955,183
Department of Veterans' Affairs	1,762,577	1,812,675
Department of the Air Force	1,476,884	1,529,893
Department of Transportation	1,151,854	1,202,987
Department of Justice	1,204,284	1,193,590
Department of the Treasury	1,076,954	1,076,106
Department of Defense, Other (3)	904,925	954,116
Department of Agriculture	861,620	878,963
Tennessee Valley Authority	652,098	657,530
Department of the Interior	658,501	663,471
Department of Health and Human Services	276,699	293,355
Social Security Administration (3)	280,549	278,345
Department of Labor (1) (3)	272,977	250,278
General Services Administration	191,324	198,853
Department of Commerce	190,687	223,716
Department of Energy	92,442	95,748
Dept. of Housing and Urban Development (3)	80,994	84,758
Natl. Aeronautics & Space Administration	67,280	69,672
Department of State (3)	56,259	56,645
Environmental Protection Agency	39,457	39,633
Small Business Administration (3)	31,487	32,255
Agency for International Development	28,251	30,905
Federal Emergency Management Agency	28,661	25,241
Department of Education (3)	21,665	22,723
Office of Personnel Management	13,285	13,752
Nuclear Regulatory Commission	9,062	10,849
National Science Foundation (3)	1,637	1,806
Other (2)	666,170	711,564
Totals	<u>\$24,553,157</u>	<u>\$24,732,623</u>

(1) Excludes amounts not chargeable to other Federal agencies.

(2) "Other" is defined as all agencies not specifically identified above receiving annual FECA bills.

(3) All the above figures are unaudited. We are confident that with the exception of the figures for these agencies, the audited numbers will not vary materially from the amounts depicted above. While we believe the figures for these agencies will not change materially, we cannot provide the same level of assurance.

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:

2002  
 5.20% in Year 1  
 5.20% 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. These factors were also used to adjust the methodology's historical payments to current year constant dollars.

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

<u>CBY</u>	<u>COLA</u>	<u>CPIM</u>
2003	1.80%	4.31%
2004	2.67%	4.01%
2005	2.40%	4.01%
2006+	2.40%	4.01%

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on two tests: (1) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual payments, and (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.