MEMORANDUM FOR CHIEF FINANCIAL OFFICERS OF EXECUTIVE DEPARTMENTS AND AGENCIES SUBJECT TO THE CHIEF FINANCIAL OFFICERS ACT OF 1990 AND THE GOVERNMENT MANAGEMENT REFORM ACT OF 1994

FROM: JAMES E. WILLIAMS
Chief Financial Officer

SUBJECT: Estimated Actuarial Liability for Future Workers' Compensation Benefits under the Federal Employees' Compensation Act (Unaudited)

This memorandum transmits Federal agencies' unaudited estimated actuarial liability for Future Workers' Compensation (FWC) benefits as of September 30, 2020. For comparative purposes, FY 2019 amounts are also presented. We anticipate that the Department of Labor's Office of Inspector General will issue the results of its audit of overall FWC liability in October 2020.

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 DOL's Office of Workers' Compensation Programs (OWCP). A description of the methodology used to estimate the actuarial liability is also included in the attachment.

Amounts are reported for CFO Act agencies, including amounts 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/OWCP 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 guidance issued by the U.S. Department of the Treasury.

Attachment

Attachment

United States Department of Labor
Estimates of Total FECA Future Liabilities,
As of September 30, 2020 and 2019
(Data evaluated as of June 30, 2020)
(Thousands of Dollars) UNAUDITED

Agency	2020	2019
Agency for International Development	$ 27,585.5	$ 21,806.6
Corp. for National and Community Service	7,497.1	6,817.0
Department of Agriculture	678,903.3	782,565.6
Department of Commerce	146,325.0	168,014.1
Department of Education	13,421.8	11,148.0
Department of Energy	99,497.0	96,848.6
Department of Health and Human Services	283,394.3	276,458.1
Department of Homeland Security	2,494,936.1	3,094,706.1
Department of Justice	1,653,280.6	1,811,347.4
Department of Labor (1)	172,132.0	230,312.3
Department of State	97,657.4	90,957.8
Department of the Air Force	1,184,393.6	1,249,038.3
Department of the Army	1,593,860.4	1,724,789.5
Department of the Interior	575,023.7	682,867.4
Department of the Navy	1,916,557.6	2,101,745.2
Department of the Treasury	572,757.2	566,994.9
Department of Transportation	789,773.5	854,159.3
Department of Veterans' Affairs	2,463,980.7	2,387,421.7
Dept. of Housing and Urban Development	65,795.8	60,515.0
Environmental Protection Agency	50,451.4	42,043.8
Executive Office of the President	4,684.6	5,455.4
Federal Judiciary	93,242.6	93,181.4
General Services Administration	123,745.8	115,732.4
National Science Foundation	1,218.9	1,388.6
Natl. Aeronautics & Space Administration	29,747.0	38,710.7
Nuclear Regulatory Commission	4,572.6	4,607.0
Office of Peace Corps	4,085.9	3,886.6
Office of Personnel Management	7,118.3	22,574.8
Panama Canal Commission	46,108.2	33,150.3
Peace Corps Enrollees	134,340.1	127,789.9
Small Business Administration	30,575.8	28,794.3
Smithsonian Institution	41,457.1	56,322.0
Social Security Administration	280,438.3	299,725.2
Tennessee Valley Authority	343,840.0	330,004.1
United States Postal Service	15,744,757.5	16,370,282.3
US Government Publishing Office	50,776.2	52,150.3
All Other Defense	642,812.8	711,315.1
Other Identified Establishments (2)	285,205.4	279,875.5
Totals	$ 32,755,951.1	$ 34,835,502.6

(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 Identified Establishments" includes all other agencies receiving annual FECA bills that are not specifically listed in the above table.

In FY 2020, the methodology for billable projected liabilities was revised to include, among other things: (1) an algorithmic model that relies on individual case characteristics and benefit payments (the FECA Case Reserve Model) and (2) incurred but not reported claims were estimated using the patterns of incurred benefit liabilities in addition to those of payments. The FY 2019 methodology used a traditional paid loss development method with the FECA Case Reserve Model run concurrently to, among other things, test the validity of the FECA Case Reserve Model.

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 CPI-Ms) were applied to the calculation of projected future benefits.

DOL selected the COLA factors, CPI-M factors, and discount rate by averaging the COLA rates, CPI-M rates, and interest rates for the current and prior four years. Using averaging renders estimates that reflect historical trends over five years instead of conditions that exist in one year.

The FY 2020 and FY 2019 methodologies for averaging the COLA rates used OMB-provided rates for the current and prior four years; the FY 2020 methodology also considered updated information for the current year that was provided by program staff. The FY 2020 and FY 2019 methodologies for averaging the CPI-M rates used OMB-provided rates for the current and prior four years; the FY 2020 methodology also considered updated information for the current year that program staff obtained from the Bureau of Labor Statistics public releases for CPI.

The actual rates for these factors for the charge back year (CBY) 2020 were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAs and CPI-Ms used in the projections for various CBY were as follows:

CBY	COLA	CPI-M
2020	N/A	N/A
2021	1.87%	3.21%
2022	2.14%	3.23%
2023	2.19%	3.60%
2024	2.23%	4.01%
2025	2.30%	3.94%

[and thereafter]

DOL selected the interest rate assumptions whereby projected annual payments were discounted to present value based on interest rate assumptions on the U.S. Department of the Treasury's Yield Curve for Treasury Nominal Coupon Issues (the TNC Yield Curve) to reflect the average duration of income payments and medical payments. Discount rates were based on averaging the TNC Yield Curves for the current and prior four years for FY 2020 and FY 2019, respectively. Interest rate assumptions utilized for FY 2020 discounting were as follows:

Discount Rates

For wage benefits:
2.414% in year 1 and years thereafter;
For medical benefits:
2.303% in year 1 and years thereafter.

To test the reliability of the model, comparisons were made between projected payments in the last year to actual amounts, by agency. Changes in the liability from last year's analysis to this year's analysis were also examined by agency, with any significant differences by agency inspected in greater detail. The model has been stable and has projected the actual payments by agency reasonably well.

The DOL Office of Inspector General issued in July 2020 a report that found that most OWCP programs are experiencing or expecting delays and resource management issues as a result of increasing claims and social distancing mandates brought on by the COVID-19 pandemic. In general, there have been downward trends in the number of open claims and closed claims and payments; based on the average of the prior five chargeback CBYs, the number of open claims has decreased about 7 percent, the number of closed claims has decreased about 16 percent, and payments have decreased an estimated 19 percent. Federal employees who contract COVID-19 while in the performance of their federal duties are entitled to workers' compensation coverage pursuant to FECA, which could affect future claims and payments.