

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 L. TAYLOR
Chief Financial Officer

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

This memorandum transmits Federal agencies' unaudited estimated actuarial liability for Future Workers' Compensation (FWC) benefits as of September 30, 2013. For comparative purposes, FY 2012 amounts are also presented. The Department of Labor's Office of Inspector General expects to issue the results of its audit of overall FWC liability by October 2013.

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. In FY 2013, the fund effected a change in accounting estimate to refine the methodology used for selecting the interest rate assumptions and enhance matching of the interest rates to the projected cash flows; the change in accounting estimate did not affect amounts previously reported for FY 2012.

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/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, 2013 and 2012
(Data evaluated as of June 30, 2013)****(Thousands of Dollars)**

Agency	2013	2012
Agency for International Development	\$26,047.1	\$23,582.3
Corp. for National and Community Service	9,701.6	9,782.9
Department of Agriculture	986,317.7	944,352.8
Department of Commerce	242,690.6	227,989.5
Department of Education	17,575.1	16,640.9
Department of Energy	101,333.2	93,349.5
Department of Health and Human Services	292,875.3	273,371.9
Department of Homeland Security	2,507,228.7	2,229,502.7
Department of Justice	1,632,706.0	1,474,279.1
Department of Labor	243,612.1	231,995.2
Department of State	88,426.2	78,940.7
Department of the Air Force	1,441,960.2	1,383,962.9
Department of the Army	1,927,282.2	1,882,561.2
Department of the Interior	846,633.8	802,554.6
Department of the Navy	2,492,678.3	2,427,697.3
Department of the Treasury	618,602.8	576,308.4
Department of Transportation	1,047,454.4	1,017,770.2
Department of Veterans' Affairs	2,220,398.7	2,014,107.7
Dept. of Housing and Urban Development	76,903.2	75,576.8
Environmental Protection Agency	51,817.6	46,904.7
Executive Office of the President	7,257.0	6,522.6
Federal Judiciary	100,349.4	98,939.2
General Services Administration	138,657.0	132,802.3
National Science Foundation	1,424.5	1,366.0
Natl. Aeronautics & Space Administration	50,821.7	50,389.2
Nuclear Regulatory Commission	7,023.1	7,224.1
Office of Peace Corps	5,305.3	5,015.2
Office of Personnel Management	24,750.2	23,290.5
Panama Canal Commission	46,423.3	47,836.8
Peace Corps Enrollees	148,092.2	134,516.4
Small Business Administration	33,702.5	31,590.7
Smithsonian Institution	67,395.6	66,397.0
Social Security Administration	368,218.2	350,328.9
Tennessee Valley Authority	460,475.1	456,908.3
United States Postal Service	15,824,912.0	14,404,031.0
US Government Printing Office	72,522.0	70,523.9
All Other Defense	888,494.2	847,081.7
Other Identified Establishments	346,426.2	295,975.3
Totals	\$35,464,494.3	\$32,861,970.6

(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 2013, the fund effected a change in accounting estimate to refine the methodology used for selecting the interest rate assumptions and enhance matching between the timing of cash flows and interest rates. For FY 2013, projected annual payments were discounted to present value based on Office of Management and Budget's (OMB's) interest rate assumptions which were interpolated to reflect the average duration in years for income payments and medical payments. In FY 2012 and prior years, these projected annual benefit payments were discounted to present value using OMB's economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for FY 2013 discounting were as follows:

Discount Rates

For wage benefits:

2.727% in year 1

3.127% in year 2 and thereafter;

For medical benefits:

2.334% in year 1

2.860% 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) 2013 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 CBY were as follows:

<u>CBY</u>	<u>COLA</u>	<u>CPIM</u>
2013	N/A	N/A
2014	1.67%	3.46%
2015	1.80%	3.82%
2016	2.20%	3.83%
2017	2.20%	3.82%
2018	2.20%	3.82%

[and thereafter]

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model to economic assumptions, (2) a comparison of the percentage change in the liability amount to the percentage change in the actual incremental payments, (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2013 to the average pattern observed during the most current three charge back years, and (4) a comparison of the estimated liability per case in the 2013 projection to the average pattern for the projections of the most recent three projections.