

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

This memorandum transmits Federal agencies' unaudited estimated actuarial liability for Future Workers' Compensation (FWC) benefits as of September 30, 2010. For comparative purposes, FY 2009 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 mid-October 2010.

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 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 the Federal Intragovernmental Transactions Accounting Policies Guide, available at Treasury's Intragovernmental Reconciliation Resources and Initiatives Web site, at <http://www.fms.treas.gov/irri/>.

Attachment

<b>United States Department of Labor</b>		
<b>Estimates of Total FECA Future Liabilities</b>		
<b>As of September 30, 2010 and 2009</b>		
<b>(Data Evaluated as of June 30, 2009)</b>		
<b>(Thousands of Dollars)</b>		
<b><u>Agency</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>
Agency for International Development	26,035	26,885
Corp. for National and Community Service	9,990	9,711
Department of Agriculture	881,453	845,995
Department of Commerce	210,235	171,187
Department of Education	17,603	16,199
Department of Energy	93,317	95,897
Department of Health and Human Services	259,500	253,312
Department of Homeland Security	1,937,837	1,826,221
Department of Justice	1,314,107	1,233,899
Department of Labor (1)	226,491	216,793
Department of State	71,997	71,621
Department of the Air Force	1,321,451	1,286,935
Department of the Army	1,813,932	1,790,270
Department of the Interior	723,131	697,210
Department of the Navy	2,463,087	2,425,587
Department of the Treasury	544,345	525,430
Department of Transportation	976,753	970,738
Department of Veterans' Affairs	1,862,265	1,734,929
Department of Housing and Urban Development	72,289	69,058
Environmental Protection Agency	44,938	44,122
Executive Office of the President	5,264	4,965
Federal Judiciary	80,039	75,985
General Services Administration	135,331	135,953
National Science Foundation	1,356	1,319
National Aeronautics & Space Administration	55,402	56,912
Nuclear Regulatory Commission	7,575	7,628
Office of Peace Corps	4,892	4,844
Office of Personnel Management	22,043	21,695
Panama Canal Commission	54,534	55,925
Peace Corps Enrollees	133,265	117,058
Small Business Administration	29,960	29,640
Smithsonian Institution	60,149	57,774
Social Security Administration	319,295	310,636
Tennessee Valley Authority	499,357	505,491
United States Postal Service	10,597,448	9,507,251
United States Government Printing Office	70,884	71,174
All Other Defense (2)	820,707	815,854
Other Identified Establishments	257,158	245,058
<b><i>Totals</i></b>	<b>28,025,415</b>	<b>26,337,163</b>

(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.

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The estimate 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:

**Discount Rates**

3.653% in Year 1  
4.300% 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) 2010 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:

<b><u>CBY</u></b>	<b><u>COLA</u></b>	<b><u>CPIM</u></b>
<b>2010</b>	N/A	N/A
<b>2011</b>	2.23%	3.45%
<b>2012</b>	1.13%	3.43%
<b>2013</b>	1.70%	3.64%
<b>2014</b>	1.90%	3.66%
<b>2015</b>	1.93%	3.73%
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 2010 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 2010 projection to the average pattern for the projections of the most recent three projections.