

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: GEOFFREY KENYON
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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, 2015. For comparative purposes, FY 2014 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 2015.

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 2015, DOL refined the approach for selecting the COLA factors, CPIM factors, and discount rate estimates to reflect historical trends; the refinement did not affect amounts previously reported for FY 2014.

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, 2015 and 2014	
	(Data evaluated as of June 30, 2015)	
	(Thousands of Dollars)	
Agency	2015	2014
Agency for International Development	\$24,731.1	\$26,519.6
Corp. for National and Community Service	8,328.2	9,254.9
Department of Agriculture	893,121.1	954,752.8
Department of Commerce	209,304.0	226,371.2
Department of Education	14,549.1	16,327.7
Department of Energy	95,809.6	102,200.1
Department of Health and Human Services	271,197.9	288,214.2
Department of Homeland Security	2,506,659.6	2,539,845.8
Department of Justice	1,654,318.8	1,679,244.3
Department of Labor	218,055.4	234,974.3
Department of State	88,176.2	96,053.9
Department of the Air Force	1,286,626.9	1,395,203.5
Department of the Army	1,749,103.4	1,866,670.4
Department of the Interior	774,798.2	821,633.2
Department of the Navy	2,217,153.1	2,412,365.2
Department of the Treasury	587,144.1	615,138.7
Department of Transportation	934,143.8	999,991.3
Department of Veterans' Affairs	2,243,606.0	2,263,351.3
Dept. of Housing and Urban Development	68,657.0	74,364.6
Environmental Protection Agency	46,165.5	49,060.3
Executive Office of the President	6,945.7	7,489.1
Federal Judiciary	88,388.5	97,240.7
General Services Administration	121,817.8	132,816.8
National Science Foundation	1,215.0	1,329.8
Natl. Aeronautics & Space Administration	43,072.2	47,599.9
Nuclear Regulatory Commission	6,040.1	6,668.7
Office of Peace Corps	4,600.7	5,030.0
Office of Personnel Management	22,824.6	25,691.6
Panama Canal Commission	38,084.9	43,090.0
Peace Corps Enrollees	141,355.6	144,077.0
Small Business Administration	31,690.5	34,626.5
Smithsonian Institution	58,933.4	66,294.1
Social Security Administration	329,398.7	348,538.3
Tennessee Valley Authority	387,274.5	427,366.7
United States Postal Service	15,736,693.4	16,022,491.7
US Government Printing Office	61,212.6	66,876.4
All Other Defense	803,781.7	856,734.3
Other Identified Establishments	335,695.9	327,539.1
Totals	\$34,110,674.8	\$35,333,038.0

(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 2015, DOL refined the approach for selecting the COLA factors, CPIM factors, and discount rate by averaging the COLA rates, CPIM 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. In FY 2014, DOL selected the COLA and CPIM factors based on one year. 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. For FY 2015, discount rates were based on averaging the TNC Yield Curves for the current and prior four years; for FY 2014, discount rates were based on the TNC Yield Curve for one year. Interest rate assumptions utilized for FY 2015 discounting were as follows:

Discount Rates

For wage benefits:
 3.134% in year 1
 3.134% in year 2 and thereafter;
 For medical benefits:
 2.496% in year 1
 2.496% 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) 2015 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:

CBY	COLA	CPIM
2015	N/A	N/A
2016	1.64%	2.94%
2017	1.47%	2.98%
2018	1.33%	3.09%
2019	1.43%	3.39%
2020	1.65%	3.69%

[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 2015 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 2015 projection to the average pattern for the projections of the most recent three projections.