

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: LISA FIELY
Acting 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, 2009. For comparative purposes, FY 2008 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 2009.

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

Attachment

United States Department of Labor		
Estimates of Total FECA Future Liabilities		
As of September 30, 2009 and 2008		
(Data Evaluated as of June 30, 2009)		
(Thousands of Dollars)		
<u>Agency</u>	<u>2009</u>	<u>2008</u>
Agency for International Development	26,885	23,137
Corp. for National and Community Service	9,711	8,994
Department of Agriculture	845,995	832,013
Department of Commerce	171,187	169,580
Department of Education	16,199	16,554
Department of Energy	95,897	104,734
Department of Health and Human Services	253,312	282,517
Department of Homeland Security	1,826,221	1,795,351
Department of Justice	1,233,899	1,136,570
Department of Labor (1)	216,793	235,383
Department of State	71,621	68,892
Department of the Air Force	1,286,935	1,395,449
Department of the Army	1,790,270	1,980,257
Department of the Interior	697,210	692,389
Department of the Navy	2,425,587	2,685,911
Department of the Treasury	525,430	593,196
Department of Transportation	970,738	985,336
Department of Veterans' Affairs	1,734,929	1,905,472
Department of Housing and Urban Development	69,058	84,529
Environmental Protection Agency	44,122	44,615
Executive Office of the President	4,965	4,503
Federal Judiciary	75,985	70,240
General Services Administration	135,953	163,826
National Science Foundation	1,319	1,198
National Aeronautics & Space Administration	56,912	63,977
Nuclear Regulatory Commission	7,628	7,059
Office of Peace Corps	4,844	4,651
Office of Personnel Management	21,695	22,139
Panama Canal Commission	55,925	53,562
Peace Corps Enrollees	117,058	114,651
Small Business Administration	29,640	27,061
Smithsonian Institution	57,774	53,737
Social Security Administration	310,636	297,932
Tennessee Valley Authority	505,491	532,499
United States Postal Service	9,507,251	9,543,798
US Government Printing Office	71,174	67,067
All Other Defense (2)	815,854	800,883
Other Identified Establishments	245,058	246,079
<i>Totals</i>	26,337,163	27,115,742

(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.

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

4.223% in Year 1
4.715% 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) 2009 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>
2009	N/A	N/A
2010	0.47%	3.42%
2011	1.40%	3.29%
2012	1.50%	3.48%
2013	1.80%	3.71%
2014	2.00%	3.71%
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 loses per case (a measure of case-severity) in CBY 2009 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 2009 projection to the average pattern for the projections of the most recent three projections.