

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: KAREN TEKLEBERHAN  
Acting 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, 2014. For comparative purposes, FY 2013 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 2014.

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 2014, the fund effected a further refinement to the methodology used for selecting the interest rate assumptions and enhance matching of the interest rates to the projected cash flows; the further refinement did not affect amounts previously reported for FY 2013.

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

<b>Attachment</b>	<b>United States Department of Labor</b>	
	<b>Estimates of Total FECA Future Liabilities,</b>	
	<b>as of September 30, 2014 and 2013</b>	
	<b>(Data evaluated as of June 30, 2014)</b>	
	<b>(Thousands of Dollars)</b>	
<b>Agency</b>	<b>2014</b>	<b>2013</b>
Agency for International Development	\$26,519.6	\$26,047.1
Corp. for National and Community Service	9,254.9	9,701.6
Department of Agriculture	954,752.8	986,317.7
Department of Commerce	226,371.2	242,690.6
Department of Education	16,327.7	17,575.1
Department of Energy	102,200.1	101,333.2
Department of Health and Human Services	288,214.2	292,875.3
Department of Homeland Security	2,539,845.8	2,507,228.7
Department of Justice	1,679,244.3	1,632,706.0
Department of Labor	234,974.3	243,612.1
Department of State	96,053.9	88,426.2
Department of the Air Force	1,395,203.5	1,441,960.2
Department of the Army	1,866,670.4	1,927,282.2
Department of the Interior	821,633.2	846,633.8
Department of the Navy	2,412,365.2	2,492,678.3
Department of the Treasury	615,138.7	618,602.8
Department of Transportation	999,991.3	1,047,454.4
Department of Veterans' Affairs	2,263,351.3	2,220,398.7
Dept. of Housing and Urban Development	74,364.6	76,903.2
Environmental Protection Agency	49,060.3	51,817.6
Executive Office of the President	7,489.1	7,257.0
Federal Judiciary	97,240.7	100,349.4
General Services Administration	132,816.8	138,657.0
National Science Foundation	1,329.8	1,424.5
Natl. Aeronautics & Space Administration	47,599.9	50,821.7
Nuclear Regulatory Commission	6,668.7	7,023.1
Office of Peace Corps	5,030.0	5,305.3
Office of Personnel Management	25,691.6	24,750.2
Panama Canal Commission	43,090.0	46,423.3
Peace Corps Enrollees	144,077.0	148,092.2
Small Business Administration	34,626.5	33,702.5
Smithsonian Institution	66,294.1	67,395.6
Social Security Administration	348,538.3	368,218.2
Tennessee Valley Authority	427,366.7	460,475.1
United States Postal Service	16,022,491.7	15,824,912.0
US Government Printing Office	66,876.4	72,522.0
All Other Defense	856,734.3	888,494.2
Other Identified Establishments	327,539.1	346,426.2
<b>Totals</b>	<b>\$35,333,038.0</b>	<b>\$35,464,494.3</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 Identified Establishments" includes all other agencies receiving annual FECA bills that are not specifically listed in the above table.

In FY 2014, the fund effected a further refinement to the methodology used for selecting the interest rate assumptions and enhance matching between the timing of cash flows and interest rates. For FY 2014, projected annual payments were discounted to present value based on the U.S. Department of the Treasury’s Yield Curve for Treasury Nominal Coupon Issues to reflect the average duration in years for income payments and medical payments. In FY 2013, these projected annual benefit payments were discounted to present value using the Office of Management and Budget’s interest rate assumptions which were interpolated to reflect the average duration in years for income payments and medical payments. Interest rate assumptions utilized for FY 2014 discounting were as follows:

Discount Rates

For wage benefits:

3.455% in year 1

3.455% in year 2 and thereafter;

For medical benefits:

2.855% in year 1

2.855% 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) 2014 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>
2014	N/A	N/A
2015	1.73%	2.93%
2016	2.17%	3.76%
2017	2.13%	3.86%
2018	2.23%	3.90%
2019	2.30%	3.90%

[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 2014 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 2014 projection to the average pattern for the projections of the most recent three projections.