

Estimated Actuarial Liability for Worker's Compensation
for Non-CFO Act Entities FY 2020
(Unaudited)

In FY 2020, the methodology for billable projected liabilities was revised to include, among other things: (1) an algorithmic model that relies on individual case characteristics and benefit payments (the FECA Case Reserve Model) and (2) incurred but not reported claims were estimated using the patterns of incurred benefit liabilities in addition to those of payments. The FY 2019 methodology used a traditional paid loss development method with the FECA Case Reserve Model run concurrently to, among other things, test the validity of the FECA Case Reserve Model.

Attached is a calculator for estimating a FECA actuarial liability (unaudited) for an entity not specifically listed in the results of the FECA actuarial model, based on an extrapolation from the actual charges experienced recently by the Agency. This procedure is not an allocation of a listed liability amount – the total liabilities calculated for an agency's sub agencies would not necessarily add to the amount listed for the Agency as a whole. It is, however, a way to calculate a reasonable estimate of liability for an unlisted entity.

For both compensation and medical, the calculation takes the amount of benefit payments for the entity over the last 12 quarters, and calculates the annual average of payments. Compensation and medical payments can be found in the chargeback reports that are issued quarterly to the agencies by FECA.

The two average payment amounts are then multiplied by the respective compensation and medical liability to benefits paid ratios (LBP) from the whole FECA program for the past three years, which have been entered into the spreadsheet already. These ratios vary from year to year as a result of economic assumptions and other factors but, roughly speaking, the model calculates a liability of about 12.64 times the annual payments. For your reference, we have provided the calculations for how the LPR of 12.64 was derived. [See Table: Calculation of Liability to Payment Ratios (LPRs)]

To reflect the variability of the situations at different agencies, each agency should exercise judgment in selecting the amount to record as its actuarial liability, whether it is the amount from the model based on 100 percent of LPR, the amount based on LPR decreased by 10 percent, or the amount based on LPR increased by 10 percent. Factors to consider include: the trend of payments over the past few years and any known recent variations in the incidence or nature of new FECA claims. Thus, an agency with a history of declining payments or a declining number of employees might select a lower estimate as the most reasonable, while an agency with an unusually increasing amount of payments might select a higher estimate as most appropriate. Similarly, an agency that has had a recent increase in new claims might use a higher estimate. Young agencies will often fall into the latter two categories and should choose the higher estimate.

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This model is intended for situations where the FECA actuarial liability is immaterial to the agency's financial statements. If that is not the case, management should consider adopting a more exhaustive actuarial model approach to estimating this liability.

As a last resort, for agencies with very small numbers of claims, a census driven methodology may be more appropriate. For instance, management might evaluate each claim: consider the nature of the injury, the age of the claimant, estimated duration, and other data to arrive at an estimate of expected payments by case. Management would then have to consider whether the claims history is sufficient to provide a basis by which to measure incurred but unreported claims. As a rule, this should not be done without first considering the estimate using this model.

The DOL Office of Inspector General issued in July 2020 a report that found that most OWCP programs are experiencing or expecting delays and resource management issues as a result of increasing claims and social distancing mandates brought on by the COVID-19 pandemic. In general, there have been downward trends in the number of open claims and closed claims and payments; based on the average of the prior five chargeback CBYs, the number of open claims has decreased about 7 percent, the number of closed claims has decreased about 16 percent, and payments have decreased an estimated 19 percent. Federal employees who contract COVID-19 while in the performance of their federal duties are entitled to workers' compensation coverage pursuant to FECA, which could affect future claims and payments.

Procedure for using the attached estimation model:

1. Enter the medical and benefit payment totals for the agency from the quarterly or annual chargeback reports received from FECA.
2. Change the print heading to show the Agency name (page setup).
3. Print out the model.
4. Evaluate the payment and case history of the agency to choose the appropriate liability estimate to record as the Agency liability.
5. Document the decision process in step 4 with appropriate memos and analysis.
6. Record the liability.

Workers Compensation Liability Calculator for 2020

Template for User Input Data

Users enter benefit payment data in the green shaded cells below

Parameters used in the calculation are displayed in the purple shaded cells

TYPICAL DATA SOURCE	PERIOD	MEDICAL BENEFIT AMOUNT	COMPENSATION BENEFIT AMOUNT	TOTAL BENEFIT AMOUNT (COMP. + MED.)
Summary Chargeback Report	FY 2018	\$ 110,000.00	\$ 250,000.00	\$ 360,000.00
Summary Chargeback Report	FY 2019	\$ 120,000.00	\$ 260,000.00	\$ 380,000.00
Summary Chargeback Report	FY 2020	\$ 130,000.00	\$ 270,000.00	\$ 400,000.00
Total charges		\$ 360,000.00	\$ 780,000.00	\$ 1,140,000.00
Number of data quarters included		12	12	12
Average of annual benefit payments		\$ 120,000.00	\$ 260,000.00	\$ 380,000.00

LIABILITY DETERMINATION UTILIZING FECA ACTUARIAL MODEL LIABILITY TO BENEFITS PAID RATIO

Calculated liability estimates are displayed in the blue-gray shaded cells below

		MEDICAL LIABILITY	COMPENSATION LIABILITY	TOTAL LIABILITY (COMP. + MED.)	PERCENT CHANGE FROM OVERALL
Upper estimate					10%
Liability-to-Payment Ratios		12.64	14.51		
Liability		\$ 1,517,179.85	\$ 3,773,136.74	\$ 5,290,316.59	
Overall model estimate (Primary):					100%
Liability-to-Payment Ratios		11.49	13.19	12.64	
Liability		\$ 1,379,254.41	\$ 3,430,124.31	\$ 4,809,378.72	
Lower estimate					-10%
Liability-to-Payment Ratios		10.34	11.87		
Liability		\$ 1,241,328.97	\$ 3,087,111.88	\$ 4,328,440.85	

Calculation of Liability to Payment Ratios (LPRs)

CBY	Medical Benefits	Medical Liability	Medical LPR	Comp. Benefits	Comp. Liability	Comp. LPR	Overall LPR
2018	943,323,143	11,702,785,600	12.41	1,837,578,640	23,585,065,400	12.83	12.69
2019	898,733,422	10,597,154,800	11.79	1,833,086,668	24,238,347,800	13.22	12.75
2020	788,469,027	7,934,759,721	10.06	1,835,723,296	24,821,192,293	13.52	12.48
Summary	2,630,525,592	30,234,700,121	11.49	5,506,388,604	72,644,605,493	13.19	12.64

Benefit amounts are in current dollars from billable claims

Liability amounts are in discounted current dollars for billable claims