United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, D.C. 20240

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Financial Statement Guidance Memorandum 98-04

To: Bureau Finance Officers

From: R. Schuyler Lesher
Deputy Chief Financial Officer

Subject: Recognition of Federal Employees' Compensation Act Actuarial Liabilities (FECA)

The Office of Management and Budget has issued guidance regarding the presentation of FECA actuarial liabilities for workers' compensation benefits as a liability on the financial statements. This actuarial liability is in addition to current actual workers' compensation expenses that The Department of Labor (DOL) previously communicated to budget offices. The FECA actuarial liability includes the expected future liability for death, disability, medical, and other approved costs relating to current compensation act claims. The DOL memorandum (Attachment A) is provided for your information.

In 1997, this actuarial liability information was received too late in the year for inclusion in bureau audited financial statements. It was recognized at the consolidated department level only. In 1998, a decrease occurred between FY97 and FY98 actuarial liabilities resulting in a negative expense. Consequently, based on conversations with auditors, the entry to recognize this information will be recorded as a liability and prior period adjustment as illustrated in Attachment B, with $0 expense recognized in fiscal year 1998.

Attachment B provides the 1998 estimated FECA actuarial liability by bureau and associated journal entry.

If you have any questions, please contact Donna McKethan on (202) 208-5224.

Attachments

cc: Financial Statement Guidance Team
Charlotte Olson, Curtis Crider-OIG

U.S. Department of Labor

Office of the Chief Financial Officer
Washington, D.C. 20210

OCT 15 1998

MEMORANDUM FOR CHIEF FINANCIAL OFFICERS OF EXECUTIVE DEPARTMENTS AND AGENCIES SUBJECT TO THE CHIEF FINANCIAL OFFICERS ACT AND THE GOVERNMENT MANAGEMENT REFORM ACT OF 1994

FROM: Kenneth H Bresnahan
KENNETH M. BRESNAHAN
Acting Chief Financial Officer

SUBJECT: Federal Employees' Compensation Act Liabilities

This transmits Federal agencies' unaudited estimated actuarial liability for future workers' compensation (FWC) benefits for the fiscal year ended 1998. For comparative purposes, FY 1997 amounts are also presented. By January 1999 the Department's Office of Inspector General will issue the results of their audit of the FWC liability.

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 statement, if such amounts are material.

The amounts presented at Attachment A were developed by the Department of Labor's (DOL) Employment Standards Administration (ESA). A description of the methodology used to estimate the actuarial liability is also included in Attachment A. In addition to the amounts reported for CFO Act agencies, amounts are presented for the Agency for International Development, Federal Emergency Management Agency, National Science Foundation, 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 the 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 Attachment B.

Attachments

Attachment A

Attachment A

ACTUARIAL LIABILITY ESTIMATES FOR FUTURE WORKERS' COMPENSATION BENEFITS

	(Dollars in thousands)	
	1998	1997
U.S. Postal Service	4,621,367	4,959,618
Department of the Navy	2,390,148	2,636,526
Department of the Army	1,442,824	1,610,945
Department of Veterans Affairs	1,310,572	1,431,279
Department of the Air Force	1,199,504	1,240,718
Department of Transportation	1,061,978	1,140,383
Department of Treasury	717,026	775,516
Department of Labor (1)	114,220	124,025
Department of Defense, Other	638,300	693,852
Tennessee Valley Authority	627,733	653,365
Department of Agriculture	587,834	623,140
Department of Justice	608,799	628,698
Department of Interior	428,526	446,611
Department of Health and Human Services	180,571	180,589
Social Security Administration	188,374	195,095
General Services Administration	161,704	183,667
Department of Commerce	110,373	116,560
Department of Energy	56,245	59,643
Department of State	46,881	43,620
Department of Housing and Urban Development	56,869	57,127
Department of Education	5,533	5,003
National Aeronautics and Space Administration	51,455	56,891
Environmental Protection Agency	18,974	17,332
National Science Foundation	726	805
Small Business Administration	15,372	17,125
Office of Personnel Management	4,718	7,070
Nuclear Regulatory Commission	4,795	9,029
Agency for International Development	35,005	38,741
Federal Emergency Management Agency	6,418	6,038
Other (2)	298,940	316,063

(1) Excludes amounts not chargeable to other Federal agencies and estimates for the Panama Canal Commission Compensation Fund.

(2) Other is defined as all agencies not specifically identified above receiving annual FECA bills.

The liability for future workers' compensation (FWC) benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. 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:

1998	1997
5.60 % in year 1, and thereafter	6.24 % in year 1, 5.82 % in year 2, 5.60 % in year 3, 5.45 % in year 4, 5.40 % in year 5, 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) are applied to the calculation of projected future benefits. These factors are also used to adjust the methodology's historical payments to current year constant dollars. The methodology also includes a discounting formula to recognize the timing of compensation payments as thirteen payments per year instead of one lump sum per year. The projected number of years of benefit payments is 37 years.

The compensation COLAs and CPIMs used in the projections were as follows:

FY	COLA	CPIm
1989	4.47 %	6.98 %
1990	4.43 %	8.40 %
1991	5.03 %	9.36 %
1992	5.00 %	7.96 %
1993	2.83 %	6.61 %
1994	2.77 %	5.27 %
1995	2.57 %	4.72 %
1996	2.63 %	4.00 %
1997	2.77 %	3.11 %
1998	2.70 %	2.77 %
1999	1.50 %	3.56 %
2000	1.70 %	3.81 %
2001	2.17 %	3.93 %
2002+	2.30 %	3.93 %

The model's resulting projections were analyzed to insure that the amounts were reliable. The analysis is based on three tests; (1) a comparison of the current year projections to the prior year projections, (2) a comparison of the prior year projected payments to the current year actual payments, excluding any new case payments that had arisen during the current year, and (3) a comparison of the current year actual payment data to the prior year actual payment data. Based on the outcome of this analysis, ad hoc adjustments were made to correct any anomalies in the projections.

Attachment B

I. ACCOUNTING FOR UNFUNDED ITEMS (FECA ACTUARIAL LIABILITY)[1] Reported by the agencies

1. **To record FECA Actuarial Liability received from Department of Labor.**

proprietary

7600(N)	Change in Actuarial Liability (Unfunded)	26,215,000	
2690(N)	Other Actuarial Liabilities		26,215,000

budgetary

None

2. **To close unfunded actuarial expenses.**

proprietary

3310	Cumulative Results of Operations	26,215,000	
7600 (N)	Change in Actuarial Liability (Unfunded)		26,215,000

budgetary

None

Note: The FECA actuarial liability recorded by the agencies is a liability to the public.

3. **FECA Actuarial Liability Example:**

In this example, the actuarial liability for FECA at fiscal year end is as follows:

FY 1997	$138,680,000
FY 1998	$164,895,000

Calculation of FECA actuarial and expense for FY 1998:

FY 1998 actuarial liability	$164,895,000
FY 1997 actuarial liability	(138,680,000)
FY 1998 actuarial expense	$ 26,215,000

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[1] The **FECA actuarial liability** includes the expected liability for death, disability, medical, and other approved costs. It is estimated using the paid-loss extrapolation method. This method uses historical benefit payment patterns related to a specific incurred period to predict the entire payments related to that period. The payments are discounted to present value.

II. ACCOUNTING FOR UNFUNDED ITEMS (FECA ACCRUED LIABILITY)
Reported by the agencies

1. To record change in unfunded FECA liability[2].

proprietary

6400(G)	Benefit Program Expense (Unfunded)	2,615,271	
2220(G)	Accrued Unfunded Liabilities		2,615,271

budgetary
None

2. To close unfunded expenses.

proprietary

3310	Cumulative Results of Operations	2,615,271	
6400(G)	Benefit Program Expense (Unfunded)		2,615,271

budgetary
None

3. FECA Accrued Liability Example:

In this example the FECA Accrued Liability for 1997 was $35,500,579.

The FECA bills for an agency are as follows:

1995-1996	$15,387,260
1996-1997	$16,086,105
1997-1998	$17,865,647

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[2] From an agency or fund perspective, the **accrued FECA liability** is the difference between the FECA benefits paid by the FECA Special Benefits Fund and the agency's actual cash payments to the Fund. For example. the Special Benefits Fund will pay benefits on behalf of an agency or fund through the current year. However, most agencies' actual cash payments to the FECA Special Benefit Fund for the current FY will reimburse the Fund for benefits paid through a prior fiscal year. The difference between these two amounts -- benefits paid by the Fund and reimbursements made by the agencies -- is the accrued FECA liability.

3. FECA Accrued Liability Example, continued:

The liabilities for quarter ended September 30 are as follows:

1997 $4,027,214
1998 $4,164,098

Calculation of the unfunded FECA Expense FY 1998 is as follows:

Chargeback bill for the period ending 6/30/98	$17,865,647
Liability for the quarter ending 9/30/97	(4,027,214)
Liability for the quarter ending 9/30/98	4,164,098
FY 1998 total FECA expense	18,002,531
1995-1996 FECA bill paid in 1998	(15,387,260)
FY 1998 unfunded FECA expense	$ 2,615,271

Accrued FECA Liability FY 1998:

Chargeback year ended 6/30/97	$16,086,105
Chargeback year ended 6/30/98	17,865,647
Liability for the quarter ending 9/30/98	4,164,098
FY 1998 accrued FECA liability	38,115,852
FY 1997 accrued FECA liability	(35,500,579)
FY 1998 unfunded FECA expense	$ 2,615,271

Attachment B

FY 1998 ESTIMATED ACTUARIALS BY BUREAU FOR FECA ACTUARIAL LIABILITY					JOURNAL ENTRIES	
					Prior Period	Other Actuarial
	Actual	Percent			Adjustment	Liability
Bureau	Payment	by Bureau	Actuarial - FY98	Actuarial - FY97	Account 740A (DR)	Account 2690 (CR)
BLM	5,562,092	12.25%	52,478,302	54,693,034	52,478,302	(52,478,302)
MMS	601,526	1.32%	5,675,394	5,914,911	5,675,394	(5,675,394)
OSM	171,821	0.38%	1,621,130	1,689,546	1,621,130	(1,621,130)
BOR	6,847,089	15.08%	64,602,241	67,328,636	64,602,241	(64,602,241)
USGS	2,708,464	5.96%	25,554,340	26,632,805	25,554,340	(25,554,340)
BOM	1,002,860	2.21%	9,461,978	9,861,300	9,461,978	(9,461,978)
FWS	3,603,858	7.93%	34,002,377	35,437,373	34,002,377	(34,002,377)
NPS	15,772,807	34.73%	148,816,332	155,096,799	148,816,332	(148,816,332)
BIA	8,540,174	18.80%	80,576,487	83,977,040	80,576,487	(80,576,487)
OS	608,100	1.34%	5,737,420	5,979,555	5,737,420	(5,737,420)
	45,418,791	100.00%	428,526,000	446,611,000		

These are the amounts prorated based on the actual DOI workers compensation payments for FY 1998 by bureau. Please refer to Memorandum from DOL Acting CFO, dated 10/15/98