United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, D.C. 20240

NOV 18 1999

Financial Statement Guidance Memorandum 99-02

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.

For FY1999 reporting, each bureau should record the **change** in the actuarial liability. The entry to recognize this information will be recorded as an expense as illustrated in Attachment B. Additional guidance on recording this actuarial liability and accrued liability is provided in Attachment C which is Part IV of the Intragovernmental Fiduciary Transactions Accounting Guide located at Treasury's website: www.fms.treas.gov/cfs/dev/99guide.pdf.

Attachments

cc: Financial Statement Guidance Team

U.S. :epartment of Labor

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

NOV 9 1999

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 Bresnahan
KENNETH 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 1999. For comparative purposes, FY 1998 amounts are also presented. By January 2000 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 on the Attachment 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 the Attachment. 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 the Intragovernmental Fiduciary Transactions Accounting Guide, at the following address www.fms.treas.gov/cfs/dev/99guide on the internet.

Attachment A

Attachment

ACTUARIAL LIABILITY ESTIMATES FOR FUTURE WORKERS' COMPENSATION BENEFITS

	(Dollars in thousands)	
	1999	1998
U.S. Postal Service	4,873,454	4,621,367
Department of the Navy	2,411,211	2,390,148
Department of the Army	1,515,120	1,442,824
Department of Veterans Affairs	1,220,390	1,310,572
Department of the Air Force	1,214,836	1,199,504
Department of Transportation	1,108,951	1,061,978
Department of the Treasury	746,108	717,026
Department of Labor (1) (3)	166,476	114,222
Department of Defense, Other	682,108	638,300
Tennessee Valley Authority	609,085	627,733
Department of Agriculture	582,116	587,834
Department of Justice	681,897	608,799
Department of the Interior	453,790	428,526
Department of Health and Human Services	179,527	180,571
Social Security Administration	185,234	188,374
General Services Administration	167,943	161,704
Department of Commerce	109,064	110,373
Department of Energy	66,445	56,245
Department of State	60,874	46,881
Department of Housing and Urban Development (3)	64,398	56,869
Department of Education (3)	8,582	5,533
National Aeronautics and Space Administration (3)	61,690	51,455
Environmental Protection Agency (3)	35,115	18,974
National Science Foundation	1,245	726
Small Business Administration	16,585	15,372
Office of Personnel Management (3)	6,558	4,718
Nuclear Regulatory Commission	3,885	4,795
Agency for International Development	37,873	35,005
Federal Emergency Management Agency (3)	14,498	6,418
Other (2)	441,686	298,940

(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.

(3) Figures for these agencies are still under review by the Office of Inspector General and may be revised prior to issuance of the final audited figures.

Attachment
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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:

1999	1998
5.50 % in year 1, 5.50 % in year 2, 5.55 % in year 3, 5.60 % in year 4, and thereafter	5.60 % in year 1, 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 %	2.76 %
1999	1.53 %	3.51 %
2000	1.83 %	3.66 %
2001	2.33 %	3.99 %
2002	2.40 %	4.02 %
2003	2.43 %	4.08 %
2004+	2.50 %	4.08 %

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.

FY1999 ESTIMATED ACTUARIALS BY BUREAU FOR FECA ACTUARIAL LIABILITY | **JOURNAL ENTRY**

Bureau	Actual Payment	Percent by Bureau	Actuarial FY99	Actuarial FY98	Change		Changes in Actuarial Liability Account 7600N [DR (CR)]	Actuarial Liability Account 2690N [DR (CR)]
OS	1,417,885	3.15%	14,307,196	5,737,420	8,569,776		8,569,776	(8,569,776)
BOR	6,921,937	15.39%	69,845,939	64,602,241	5,243,698		5,243,698	(5,243,698)
NPS	15,754,325	35.03%	158,969,322	148,816,332	10,152,990		10,152,990	(10,152,990)
USGS	2,527,069	5.62%	25,499,439	35,016,318	(9,516,879)	*	(9,516,879)	9,516,879
BLM	5,155,047	11.46%	52,017,102	52,478,302	(461,200)	*	(461,200)	461,200
FWS	3,806,366	8.46%	38,408,210	34,002,377	4,405,833		4,405,833	(4,405,833)
MMS	512,530	1.14%	5,171,694	5,675,394	(503,700)	*	(503,700)	503,700
OSM	257,986	0.57%	2,603,213	1,621,130	982,083		982,083	(982,083)
BIA	8,618,772	19.16%	86,967,886	80,576,487	6,391,399		6,391,399	(6,391,399)
Total	**44,971,917**	**100.00%**	**453,790,000**	**428,526,001**	**25,263,999**			

* **Note 1**: Although some Bureaus have a negative change, it is still required to be posted as an expense.

Note 2: These are the amounts prorated based on the actual DOI Workers' Compensation payments for FY 1999 by bureau. Please refer to Memorandum from DOL Acting CFO, dated 11/9/99. Subject: Federal Employee's Compensation Act Liabilities
Source: National Business Center 11/16/99. (Dee Huitt)

IV. Transactions with the Department of Labor relating to the Federal Employees' Compensation Act

A. Nature of transactions

The Federal Employees' Compensation Special Benefit Fund was established under the authority of the Federal Employees' Compensation Act (FECA). The FECA Special Benefits Fund pays for income lost and medical costs for federal civilian employees injured on the job, employees who have incurred a work-related occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease.

Accrued FECA liability: The FECA Special Benefits Fund pays benefits on behalf of federal entities as costs are incurred and bills (charges back) the federal entity annually (August 15) for the costs incurred during the previous fiscal year ended June 30 (July 1 – June 30). Federal entities fund the FECA payments through appropriations or operating revenues. For appropriated funds, the payment is due at the beginning of the second fiscal year after receipt of the bill (approximately 15 months). These liabilities due to the FECA Special Benefits Fund are recorded by the federal entities as unfunded (if annual appropriations are used) at the time of receipt of the bill.

FECA actuarial liability: Annually, federal entities are allocated the portion of the long term FECA actuarial liability attributable to the entity. The liability is calculated to estimate the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases. The liability amounts and the calculation methodologies are provided by DOL to the federal entities by October 31 for the previous fiscal year ended September 30.

B. Recognition and Measurement Criteria

Accrued FECA liability: Federal entities with annual appropriations should recognize the unfunded liability for the chargebacks at the time of receipt of the bill. The amount recorded should equal the amount billed by DOL. Generally, Federal entities with no-year appropriations should recognize a funded liability and the funding availability at the time of the receipt of the chargeback from DOL.

On or before August 15 of each year DOL submits a yearly billing (chargeback) report to federal entities. The report is entitled Notification of Workers' Compensation Cost Incurred on Your Behalf (annual chargeback report) and covers the preceding July 1 through June 30 fiscal year. Additionally, each entity receives a quarterly Detailed Chargeback Report. The quarterly report provides a detailed listing of amounts paid by the FECA fund during the previous quarter. The current year FECA expense and total liability will be calculated using information contained in these reports. In general, the FECA expense and liability will be calculated as follows:

Accrued FECA liability:

The amount of accrued FECA liability (unfunded) for the year ended September 30, 19X2 should equal:

Add: Annual FECA Chargeback Report for the period July 1, 19X0 through June 30, 19X1.
Add: Annual FECA Chargeback Report for the period July 1, 19X1 through June 30, 19X2.
Add: Quarterly FECA Chargeback Report for the quarter ended September 30, 19X2.

<u>FECA expense:</u>

The current year expense should equal:

Add: Annual FECA Chargeback Report for the period July 1, 19X1 through June 30, 19X2.
Add: Quarterly FECA Chargeback Report for the quarter ended September 30, 19X2.
Less: Quarterly FECA Chargeback Report for the quarter ended September 30, 19X1.

When the federal agencies receive budgetary authority to pay DOL for the accrued FECA costs, the unfunded FECA liability should be reclassified to funded liability. The funded liability will be reduced when the payment of the chargeback is made to DOL-FECA. Federal entities with no year appropriations should record a funded liability upon receipt of the billing from DOL.

FECA actuarial liability: Each federal entity should record its portion of the FECA actuarial liability based on amounts provided by DOL. Each year, Federal entities should record the change in the actuarial liability. The entity's actuarial liability balance should equal the amounts provided by DOL. The expense incurred for the year should equal the difference between the current year's liability and the liability for the previous year.

The following series of SGL accounts are used for recording these transactions.

Federal Agency	DOL
1010 Fund Balance with Treasury 2190G Other Accrued Liabilities 2220G Accrued Unfunded Liabilities 2690N Actuarial Liabilities 6400G Benefit Expense 6800G Future Funded Expenses 7600N Changes in Actuarial Liability	1010 Fund Balance with Treasury 1310G Accounts Receivable 5400G Benefit Program Revenue

C. <u>Illustrative Entries, Trial Balances and Financial Statements</u>

Example transaction data: The Department of Justice (DOJ) received the following reports/information from DOL:

I. Quarterly FECA Chargeback Report:

July 1, 1998 - September 30, 1998	$4,000,000
July 1, 1999 - September 30, 1999	$3,000,000

II. Notification of Workers Compensation Cost Incurred on Your Behalf by DOL Employment Standard Administration Report (Annual FECA Chargeback Report):

July 1, 1996 – June 30, 1997	$15,000,000
July 1, 1997 – June 30, 1998	$18,000,000
July 1, 1998 – June 30, 1999	$20,000,000

III. Accrued FECA liability for fiscal year 1998 (prior year trial balance) $37,000,000

IV. DOL Actuarial Liability Estimates for Future Workers' Compensation Benefits Report:

Fiscal year 1998	$140,000,000
Fiscal year 1999	$160,000,000

The following sections provide the fiscal year 1999 beginning trial balance, accounting entries, preclosing trial balance and financial statements for the DOJ (partner code 15) and the DOL (partner code 16) based on the above information.

1. Accrued FECA Liability and Expense: Federal entities receive FECA chargeback reports from the DOL and record accruals for the unfunded FECA liability and expense incurred during the current fiscal year. (If the federal entity has no year appropriations, the FECA liability would be funded).

Department of Justice Example:

The DOJ unfunded FECA liability and FECA expense for fiscal year 1999 is calculated as follows:

Annual FECA Chargeback for 7/1/97 - 6/30/98	$18,000,000
Annual FECA Chargeback for 7/1/98 - 6/30/99	20,000,000
Quarterly FECA Chargeback for 7/1/99 - 9/30/99	3,000,000
Unfunded FECA liability for fiscal year 1999	**41,000,000**
Unfunded FECA liability for fiscal year 1998	(37,000,000)
Fiscal Year 1999 Unfunded FECA expense	**$4,000,000**
Annual FECA Chargeback for 7/1/98 – 6/30/99	$20,000,000
Quarterly FECA Chargeback for 7/1/98 – 9/30/98	(4,000,000)
Quarterly FECA Chargeback for 7/1/99 – 9/30/99	3,000,000
Fiscal Year 1999 total FECA expense	**$19,000,000**

Beginning Trial Balance 10/1/98:

3310 Cumulative Results of Operations	$37,000,000	
2220G (16) Accrued Unfunded Liability		$37,000,000

Accounting Transactions for Fiscal Year 1999:

- **Entry to realize, apportion, and allot the appropriation for the Annual FECA Chargeback 7/1/96 – 6/30/97:**

1010 Fund Balance with Treasury	$15,000,000	
3100 Unexpended Appropriation		$15,000,000

- **Entry to reclassify unfunded accrued FECA liability and expense to funded accrued FECA liability and expense for the Annual FECA Chargeback 7/1/96 – 6/30/97:**

2220G (16) Accrued Unfunded Liability	$15,000,000	
2190G (16) Other Accrued Liability		$15,000,000
6400G (16) Benefit Expense	$15,000,000	
6800G (16) Future Funded Expense		$15,000,000
3100 Unexpended Appropriation	$15,000,000	
5700 Appropriations Used		$15,000,000

- **Entry to record DOJ payment to DOL for Annual FECA Chargeback 7/1/96 – 6/30/97:**

2190G (16) Other Accrued Liabilities	$15,000,000	
1010 Fund Balance with Treasury		$15,000,000

- **Entry to record DOJ accrued FECA expense for fiscal year 1999:**

6800G (16) Future Funded Expense	$19,000,000	
2220G (16) Accrued Unfunded Liability		$19,000,000

Preclosing Trial Balance 9/30/99:

2220G (16) Accrued Unfunded Liability		$41,000,000
3310 Cumulative Results of Operations	$37,000,000	
5700 Appropriated Capital Used		$15,000,000
6400G (16) Benefit Expense	$15,000,000	
6800G (16) Future Funded Expenses	$4,000,000	

Fiscal Year 1999 DOL Financial Statement Presentation:

Balance sheet:

Liabilities	
Liabilities Not Covered by Budgetary Resources	
Intragovernmental liabilities	
Other	$41,000,000
Net Position	
Cumulative Results of Operations	($41,000,000)

Statement of Net Cost:

Intragovernmental	
Program Expenses	$19,000,000
Net Cost of Operations	$19,000,000

Statement of Changes in Net Position:

Net Cost of Operations	($19,000,000)

Financing Sources:	
Appropriations Used	15,000,000
Net Results of Operations	(4,000,000)
Net Position – Beginning of Period	(37,000,000)
Net Position – End of Period	$(41,000,000)

Department of Labor Example:

Beginning Trial Balance 10/1/98:

1010 Fund Balance with Treasury	$ 8,000,000	
1310G (15) Accounts Receivable (unfunded)	$37,000,000	
3310 Cumulative Results of Operations		$45,000,000

Accounting Transactions for Fiscal Year 1999:

- **Entry to record availability for DOJ reimbursement to DOL for 7/1/96 – 6/30/97 Annual Chargeback:**

1310G (15) Accounts Receivable (funded)	$15,000,000	
1310G (15) Accounts Receivable (unfunded)		$15,000,000
5400G (15) Benefit Program Revenue (unfunded)	$15,000,000	
5400G (15) Benefit Program Revenue (funded)		$15,000,000

- **Entry to record DOJ payment to DOL for 7/1/96 – 6/30/97 Annual Chargeback:**

1010 Fund Balance with Treasury	$15,000,000	
1310G (15) Accounts Receivable (funded)		$15,000,000

- **Entry to record DOL payment of FECA claims on behalf of DOJ:**

6400N Benefit Expense	$19,000,000	
1010 Fund Balance with Treasury		$19,000,000

- **Entry to record DOJ portion of fiscal year 1999 FECA revenue:**

1310G (15) Accounts Receivable (unfunded)	$19,000,000	
5400G (15) Benefit Program Revenue (unfunded)		$19,000,000

Preclosing Trial Balance 9/30/99:

1010 Fund Balance with Treasury	$ 4,000,000	
1310G (15) Accounts Receivable (unfunded)	$41,000,000	
3310 Cumulative Results of Operations		$45,000,000
5400G (15) Benefit Program Revenue (funded)		$15,000,000
5400G (15) Benefit Program Revenue (unfunded)		$ 4,000,000
6400N Benefit Expense	$19,000,000	

Fiscal Year 1999 Financial Statement Presentation:

Balance sheet:	
Assets	
Entity	
Intragovernmental	
Fund Balance with Treasury	$ 4,000,000
Accounts Receivable, net	41,000,000
Total Assets	$45,000,000
Net Position	
Cumulative Results of Operations	$45,000,000
Statement of Net Cost:	
Program Costs	$19,000,000
Less Earned Revenues	(19,000,000)
Net Cost of Operations	$ 0
Statement of Changes in Net Position:	
Net Cost of Operations	$ 0
Net Position – Beginning of Period	45,000,000
Net Position – End of Period	$45,000,000

2. **Actuarial FECA Liability:** Federal entities record the change in the FECA actuarial liability to adjust the liability to equal the amount provided by DOL on the Actuarial Liability Estimates for Future Workers Compensation Benefits Report. Actuarial liabilities for future benefits should be recorded in federal entity records as N transactions. **The DOL does not record a corresponding entry. Additionally, budgetary accounting is not required when recording transactions related to the actuarial liability.**

Department of Justice Example:

The DOJ change in the FECA actuarial liability is calculated as follows:

Fiscal Year 1999	$160,000,000
Fiscal Year 1998	(140,000,000)
Fiscal Year 1999 Actuarial expense	$ 20,000,000

Beginning Trial Balance 10/1/98:

	Debit	Credit
2690N Actuarial Liability		$140,000,000
3310 Cumulative Results of Operations	$140,000,000	

Accounting Transactions for Fiscal Year 1999:

- **Entry to record the change in the FECA actuarial liability:**

7600N Changes in Actuarial Liability	$20,000,000	
2690N Actuarial Liability		$20,000,000

Preclosing Trial Balance 9/30/99:

2690N Actuarial Liability		$160,000,000
3310 Cumulative Results of Operations	$140,000,000	
7600N Changes in Actuarial Liability	$20,000,000	

Fiscal Year 1999 Financial Statement Presentation:

Balance sheet:	
Liabilities	
Liabilities Not Covered by Budgetary Resources	
Other	$160,000,000
Net Position	
Cumulative Results of Operations	($160,000,000)
Statement of Net Cost:	
With the Public	
Future Funded Expenses	$20,000,000
Net Cost of Operations	$20,000,000
Statement of Changes in Net Position:	
Net Cost of Operations	($20,000,000)
Net Position – Beginning of Period	(140,000,000)
Net Position – End of Period	($160,000,000)