Government Accountability Office (GAO) Study Shows FECA savings from US DOL Proposal

On November 27th the Government Accountability Office (GAO) released the results of its study of the costs of the US DOL proposal to reform the Federal Employees Compensation Act (FECA) disability and the Federal Employee Retirement System (FERS) retirement plans http://www.gao.gov/products/GAO-13-108 . The fact that the US DOL is proposing cuts in FECA demonstrates the need to reevaluate and reform the system. Legislation sponsored by a bi-partisan group led by Senator Collins and Senator Lieberman (S 1789) included FECA reforms, passed the Senate earlier this year and is currently sitting with the House for potential consideration see http://www.gpo.gov/fdsys/pkg/BILLS-112s1789es/pdf/BILLS-112s1789es.pdf.

In 2010, the Federal Employees' Compensation Act (FECA) program paid $1.9 billion in cash benefits to federal workers who sustained injuries or illnesses while performing federal duties. The U.S. Department of Labor (Labor) administers FECA and bases FECA benefits on an employee's wages at time of injury and whether the employee has eligible dependents. In addition, consideration is given to the beneficiary's ability to work after the injury. Specifically, beneficiaries unable to return to work--total disability beneficiaries--who have an eligible dependent are compensated at 75 percent of gross wages at the time of injury and those without an eligible dependent are compensated at 66-2/3 percent. These benefits are adjusted for inflation and are not subject to age restrictions. Some policymakers are concerned about the level of FECA benefits, especially compared to the retirement benefits under the Federal Employees Retirement System (FERS), which generally covers employees first hired in 1984 or later.

A proposal by Labor to revise FECA includes the following changes to the benefits for future total and partial disability beneficiaries:

- Set initial FECA benefits at a single rate (70 percent of applicable wages at time of injury), regardless of whether the beneficiary has eligible dependents.
- Convert FECA benefits to 50 percent of applicable wages at time of injury--adjusted for inflation--once beneficiaries reach the full Social Security retirement age.

To consider the effects of these proposed changes on USPS FECA beneficiaries, GAO evaluated (1) What would be the effect of compensating total disability USPS FECA beneficiaries at a single rate regardless of having dependents, as proposed by Labor? and (2) How would FERS and total disability FECA benefits in retirement compare for USPS beneficiaries under current FECA and Labor's proposed FECA revision?

With regard to Labor's proposal to reduce FECA benefits at Social Security retirement age, GAO found that in 2010, the median FECA benefit package (FECA and TSP) was 32 percent greater than the median current

FERS benefit package (FERS, TSP, and Social Security) and that Labor's proposal would result in the reduced FECA package being 6 percent less than the FERS package. The GAO simulation of a mature FERS system--intended to reflect future benefits of federal workers with 30-year careers--found that the median FECA benefit package was on par or 10 percent less than the median FERS retirement benefit package, depending on TSP contributions. Under the mature FERS simulation, the median reduced FECA benefit package was 31 or 35 percent less than the median FERS benefit package, again depending on TSP contributions.

The fact that the Labor proposal is a net savings for the federal budget makes it more likely in the current tight budget and deficit situation that some parts of S 1789 will be considered in legislative action later this year. US DOL's willingness to propose net cuts in FECA benefits may also indicate a willingness in the longer term to examine cost drivers in the Longshore statute.