March 21, 2003

SUZANNE F. MEDVIDOVICH
SENIOR VICE PRESIDENT, HUMAN RESOURCES

SUBJECT: Management Advisory – Retirement Eligible Postal Service Employees on the Workers' Compensation Periodic Rolls (Report Number HK-MA-03-001)

This report presents the results of our self-initiated review of Retirement Eligible Postal Service Employees on the Workers' Compensation Periodic Rolls (Project Number 03YR001HK000).

Results in Brief

Our review disclosed that Postal Service employees age 55 and older make up 49 percent (6,500) of the approximately 13,400 employees on the periodic rolls.[1] Further, 70 percent (9,345) of the employees on the periodic rolls are totally disabled (with little or no future reemployment potential) or reemployment has not been determined.

The Postal Service administrative fees have increased 137 percent from $19 million in fiscal year (FY) 1997 to $45 million in FY 2002. Because the Postal Service's administrative fees continue to increase, the Postal Service should pursue whether congressional assistance should be sought to pay administrative fees to the Office of Workers' Compensation Programs.

Legislative reform of the Federal Employees Compensation Act (act) is needed to address concerns that the act has become, in effect, a retirement system for some workers' compensation beneficiaries. Since the Postal Service

[1] Employees on the periodic rolls have permanent disabilities or injuries that have lasted or are expected to last for prolonged periods (over 1 year).

workers' compensation costs accounts for 35 percent of the total program costs, legislative reform would give the Postal Service financial relief and should include:

- Requiring employees that are totally disabled or whose reemployment capacity is not determined, to retire either on medical disability or voluntary retirement under their applicable retirement program.
- Converting future employees age 65 and older on the periodic rolls to the proposed Federal Employees' Compensation Act annuity.[2]

These reforms, if implemented, would decrease the number of employees on the periodic rolls, and would reduce compensation and medical costs.

This report made one recommendation addressing these issues. Management agreed with our recommendation indicating they have supported efforts to change the Federal Employees Compensation Act, which would alter the program's structure. Management further stated that although legislation has not yet been introduced in the 108th Congress, the administration states in its 2004 budget that it intends to propose legislation to strengthen program integrity and to make the act more equitable and easier to administer. Management's comments are responsive to our recommendation and our evaluation of these comments is included in this report. Management's comments, in their entirety, are included in Appendix B of this report.

Background

The Federal Employees' Compensation Act, enacted in 1916, is a comprehensive workers' compensation law designed to provide medical and death benefits, income replacement, and other services to employees with work-related injuries. The Federal Employees' Compensation Act was not intended to serve as a retirement program and places no age or time limitation on an injured worker's receipt of workers' compensation benefits. Employees who fully or partially recover from their injuries are expected to return to work.

[2] The Department of Labor proposed an amendment in its FY 2003 budget to convert new beneficiaries at age 65 to a benefit comparable to what they would receive in a federal retirement program.

The Department of Labor, Office of Workers' Compensation Programs, is responsible for the adjudication of claims and payment of compensation, medical, and death benefits for injured federal workers. The benefits are paid from the Department of Labor's Employees' Compensation Fund.

The Office of Workers' Compensation Programs bills[3] each agency annually for compensation paid to individuals for work-related injuries. It is the responsibility of each agency to reimburse the Employees' Compensation Fund for expenses paid from the fund for their injured workers. Each federal agency includes the reimbursement in its appropriation request. Also, federal agencies do not pay administrative fees. Non-appropriated agencies, such as the Postal Service and the Tennessee Valley Authority, pay compensation for work-related injuries and death, and also pay administrative fees from their operating revenues.

Employees eligible for Federal Employees' Compensation Act benefits receive 66 2/3 percent or 75[4] percent of their basic salary tax-free, until they return to work. This amount also includes an annual cost of living adjustment. In FY 2002, the program provided all injured federal workers over $2.2 billion in benefit compensation, with $1.61 billion for wage loss compensation and the remaining for medical and death benefits.

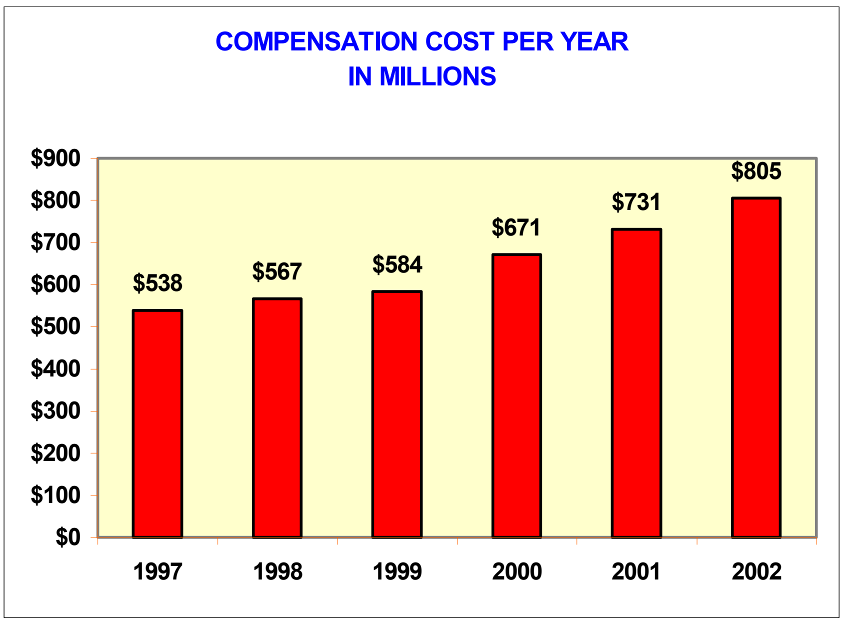
In the past, concerns have been raised that the Federal Employees' Compensation Act has become, in effect, a retirement system for some workers' compensation employees. In a 1996 report, the General Accounting Office (GAO) stated that worker's compensation benefits are not granted for a lifetime. Nevertheless, the act places no age or time limitation on injured worker's receipt of benefits. In October 2000, the acting inspector general for the Department of Labor testified, before the House Committee on Education and the Workforce, Subcommittee on Workforce Protections. The acting inspector general

[3] The Office of Workers' Compensation Programs Chargeback System is the mechanism by which the cost of compensation for work-related injuries and death are billed annually to employing agencies for benefits paid on their behalf, from July 1 through June 30 each year.
[4] Only employees with dependents receive 75 percent of their basic salary.

expressed a concern that the "Federal Employees' Compensation Act beneficiaries are not required to 'retire' at any age. Consequently, some beneficiaries may remain on the disability rolls until they die."

In FY 2002, the Postal Service paid over $805 million in workers' compensation benefits and administrative fees to the Office of Workers' Compensation Programs. The Postal Service's FY 2002 workers' compensation costs accounted for 35 percent[5] of total workers' compensation program expenditures. The Postal Service's costs include some cases that originated over 25 years ago.

From FYs 1997 to 2002, the Postal Service's workers' compensation costs have increased from $538 million to $805 million, as shown in the following chart.[6]



Objectives, Scope, and Methodology

Our objectives were to provide detailed information on employees age 55 and older who are on the Postal Service workers' compensation periodic rolls[7] and identify matters

[5] The percentage is based on workers' compensation benefits paid, excluding administrative fees.
[6] Data is for chargeback years 1997 through 2002.
[7] Also included in our review were employees on the daily rolls (less than 1 year), because the data showed that the average length of time on the daily roll was 6 years.

for legislative consideration, which could help the Postal Service in its efforts to manage workers' compensation costs.

To identify employees on the periodic rolls, we obtained and reviewed data from the Postal Injury Compensation System, which consists of weekly data from the Office of Workers' Compensation Programs. The weekly data contains compensation and medical payments for each injured Postal Service employee. We did not attempt to assess the reliability of the data from this system as part of our review objectives. We performed limited analysis of the data only to show the status of employees on the periodic rolls. We also interviewed Postal Service officials in the Office of Health and Resource Management to obtain additional data regarding employees on the periodic rolls.

To review legislative matters, we reviewed administrative fees for the period FYs 1997 through 2002 using statements of employee compensation and medical benefits from the Office of Workers' Compensation Programs. We also reviewed the proposed legislative changes to the Federal Employees' Compensation Act and its possible effect on the Postal Service.

This review was conducted from November 2002 through March 2003, in accordance with the President's Council on Integrity and Efficiency, Quality Standards for Inspections. We discussed our conclusions and observations with appropriate management officials and included their comments, where appropriate.

Prior Report Coverage

We did not identify any prior audits or reviews related to the objectives of our review.

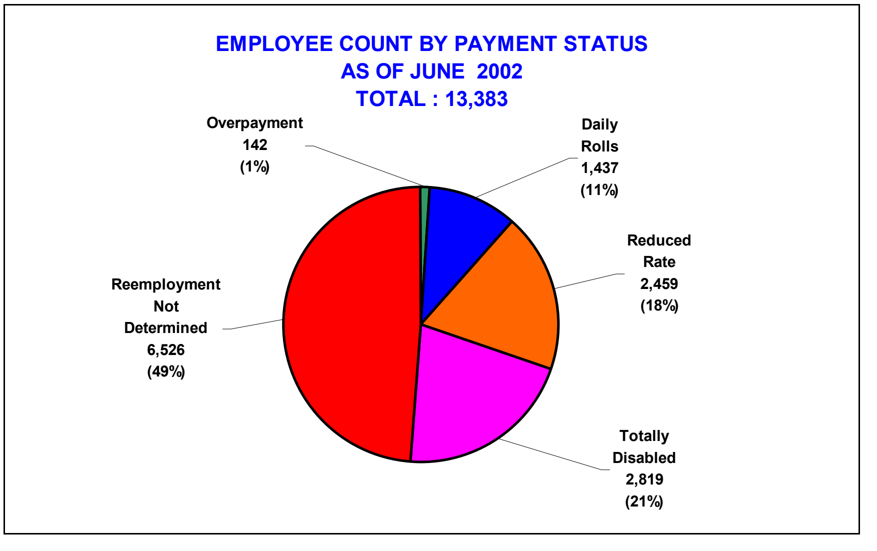
Postal Service Employees on the Periodic Rolls

The Office of Workers' Compensation Programs classifies injured employees on the periodic rolls in several categories. These categories include:

- Totally disabled (no wage-earning capacity or reemployment potential for indefinite future) (Code PN).

- Reemployment or earning capacity not determined (Code PR).
- Overpayment (Code OP).
- Reduced rate reflecting a partial wage-earning capacity (Code PW).
- Prolonged disability not indicated (disability not to exceed 1 year) (Code DR).

As of June 2002, the Postal Service periodic rolls consisted of approximately 13,400 employees. According to Department of Labor data, the average length of time these employees were on the periodic rolls and have not returned to work is 13 years. The following chart illustrates the number of employees on the periodic rolls and payment status.



Many Employees are Age 55 and Older

Forty-nine percent (6,500) of the approximately 13,400 employees receiving compensation are at least age 55, the age at which some federal employees are eligible for voluntary retirement. Of those, 3,543 (55 percent) are at least 65 years old.

Retirement eligibility depends on minimum retirement age and years of service. For example, federal employees under the Civil Service Retirement System are currently eligible at age 55 with 30 years of service, age 60 with 20 years, or age 62 with 5 years of service. In addition, for eligible employees, the Social Security Administration provides reduced retirement benefits at age 62, for most workers. However, age 65 is the age at which they can retire with full social security benefits. Further, employees age 65 and older may be eligible to retire under the Department of Labor's proposed Federal Employees' Compensation Act annuity. (See Appendix A for more information on federal retirement programs.)

Many Employees on the Periodic Rolls are Totally Disabled or Reemployment Not Determined

Our analysis showed that of the approximately 13,400[8] Postal Service employees on the periodic rolls, according to Department of Labor data, 9,345 (70 percent) are totally disabled or reemployment has not been determined. We consider the 9,345 employees in a potential high-risk category for not returning to work.

Specifically, the data showed the following:

<u>Totally Disabled</u>: Twenty-one percent (2,819) of the employees on the periodic rolls are totally disabled and have little or no future reemployment potential.

<u>Reemployment Not Determined</u>: For 49 percent (6,526) of the employees on the periodic rolls, their ability to return to work has not been determined as shown in the chart below. Further, our analysis showed that of the 6,526 employees, 3,900 have been on the rolls more than 5 years. For example one employee has been on the periodic rolls for 45 years. The following chart illustrates the time period and number of years of employees with no reemployment determination.

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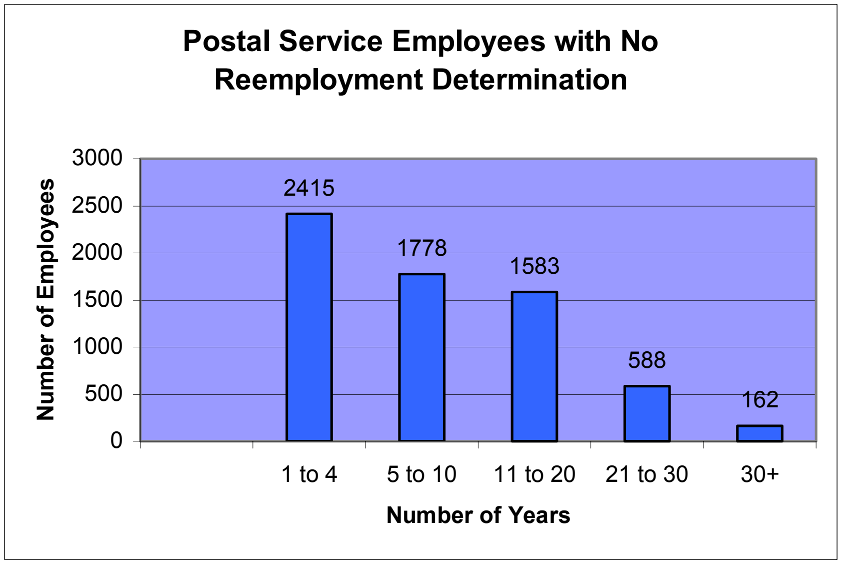
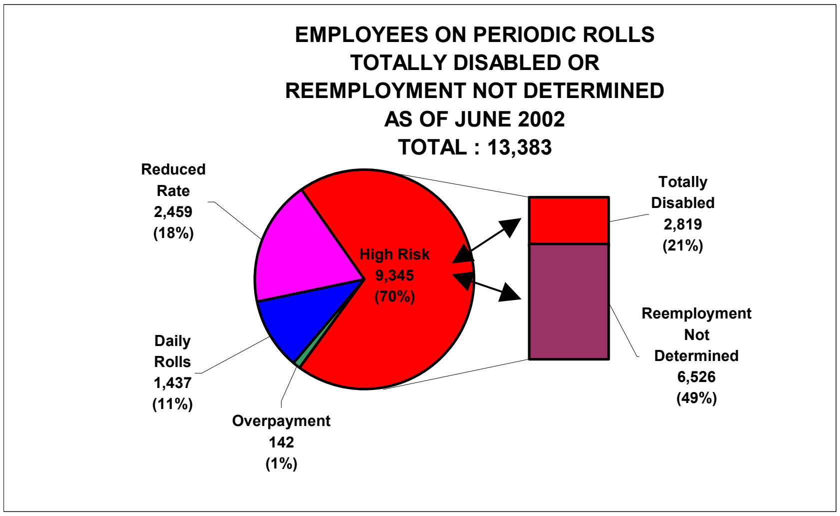
[8] Our analysis excluded scheduled award cases (payments over a set period for the loss of, or partial loss of, a body part or function), rehabilitation cases, and death cases in which benefits are paid to survivors.



<u>High-Risk of Not Returning to Work</u>: It is our view that the 9,345 employees currently represent a high-risk category. The Postal Service is paying workers' compensation costs for these employees. However, the Office of Workers' Compensation Programs has classified these employees as totally disabled or a determination has not been made whether they can return to work.

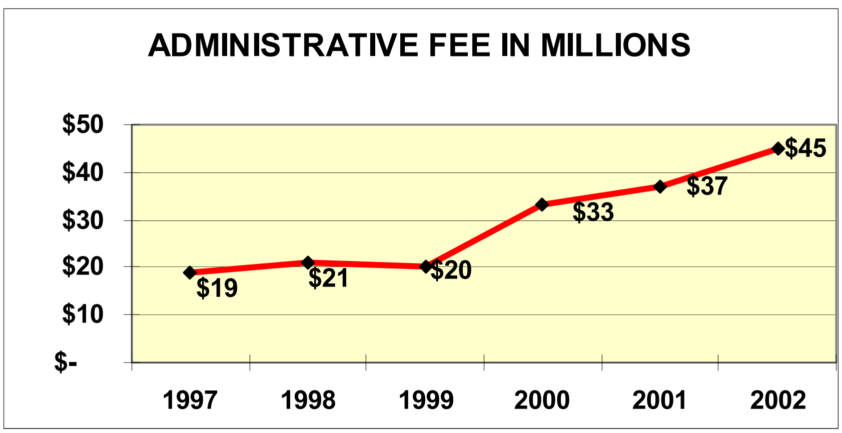
Additionally, we believe that this risk will continue until the Federal Employee Compensation Act is changed to require totally disabled employees and those with no reemployment determination to retire under the appropriate federal retirement system. Therefore, these employees will remain on the periodic rolls and continue to receive tax-free workers' compensation payments that are greater than taxable retirement benefits, which may be a disincentive to return to work. The following chart illustrates the number of employees considered as a high risk.



The Postal Service Should Pursue Relief from Administrative Fees

As the Postal Service workers' compensation costs continue to increase, the Postal Service needs relief from the administrative fees paid annually to the Office of Workers' Compensation Programs. The Postal Service is self-insured for workers' compensation, and costs associated with injured Postal Service employees are recorded as operating expenses. At the end of each year, a liability is estimated for Postal Service workers who are or may become injured in the next fiscal year.

From FYs 1997 to 2002, the Postal Service has paid administrative fees totaling approximately $175 million. As shown in the chart[9] below, the fees have escalated by approximately 137 percent -- from $19 million in FY 1997 to $45 million in FY 2002.



[9] Data is represented by chargeback years.

The Postal Service accounts for the majority of claims submitted for benefits. For example, in FY 2000, Postal Service employees submitted about 85,000 claims, which represented approximately one-half of all claims for new work-related injuries. Postal Service officials are aware of the increasing administrative fees and requested an explanation from the Office of Workers' Compensation Programs.

Recommendation

We recommend the senior vice president, Human Resources:

1. Pursue whether congressional assistance should be sought to pay administrative fees to the Office of Workers' Compensation Programs.

Management's Comments

Management agreed with our recommendation indicating they have supported efforts to change the Federal Employees Compensation Act, which would alter the program's structure. Management further stated that although legislation has not yet been introduced in the 108th Congress, the administration states in its 2004 budget that it intends to propose legislation to strengthen program integrity and to make the act more equitable and easier to administer.

Evaluation of Management's Comments

Management's comments are responsive to the recommendation and the actions taken and planned address the issues identified in the report.

Matters for Legislative Consideration

The Postal Service's workers' compensation costs have dramatically increased from $538 million in FY 1997 to $805 million in FY 2002. These costs account for 35 percent of total workers' compensation program costs incurred in 2002. Legislative action such as reform of the Federal Employees' Compensation Act could give the Postal Service financial relief.

According to Postal Service officials, with the continued deployment of automation equipment, the number of positions available for injured and noninjured employees are being reduced. As a result, the Postal Service is quickly approaching a condition where they will no longer have positions available to internally accommodate their injured employees.

In the past, concerns have been raised that the Federal Employees' Compensation Act has become, in effect, a retirement system for some employees receiving workers' compensation benefits. As stated above, 49 percent (6,500) of the employees on the periodic rolls are at least age 55. Of those, 3,543 (55 percent) are at least 65 years old. We also believe that 70 percent (9,345) of the employees on the periodic rolls who are classified as totally disabled or with no reemployment determination represent a high risk.

Therefore, legislative reform of the Federal Employees' Compensation Act is needed to require these employees to elect one of the retirement options. Some employees could elect medical disability or voluntary retirement (see Appendix A) or retire on the proposed Federal Employees' Compensation Act annuity. This would recognize that the act was intended to serve as an injury compensation program, not a retirement program. Such changes, if enacted, would help the Postal Service, as well as other government agencies, reduce the number of employees on the periodic rolls and decrease workers' compensation costs.

We appreciate the cooperation and courtesies provided by your staff during the review. If you have any questions or need additional information, please contact Erica Blackman, acting director, Health Care Audits, at (703) 248-2100 or me at (703) 248-2300.

B. Wayne Goleski
Assistant Inspector General
for Core Operations

Attachment

cc: DeWitt O. Harris
Ronald E. Henderson
Susan M. Duchek

APPENDIX A

COMPARISON OF FEDERAL RETIREMENT PROGRAMS (MEDICAL DISABILITY AND VOLUNTARY)

	MEDICAL DISABILITY RETIREMENT	
Civil Service Retirement System (CSRS)	Federal Employees Retirement System (FERS)	Civil Service Retirement System (CSRS) Offset Retirement
	ELIGIBILITY	
• Employee's disability expected to last for 1 year. • Employees must have 5 years of service. • Employing agency must certify that they cannot accommodate the injured employee.	• Employee's disability expected to last for 1 year. • Employees must have 18 months of service. • Employing agency must certify that they cannot accommodate the injured employee.	• Employee's disability expected to last for 1 year. • Employees must have 5 years of service. • Employing agency must certify that they cannot accommodate the injured employee.
	DISABILITY RETIREMENT BENEFITS	
• Employee receives benefits equal to the projected benefit at age 60, or 40 percent of the employee's high-3 average salary, whichever is less. • If the employee has more than 22 years of service when declared disabled, accrued benefits cannot exceed 40 percent of salary. • Employees' disability benefit is offset by qualified social security benefits. • Cost of living adjustment matched at full rate of inflation. • Survivors' benefits.	• Employee receives benefits equal to 60 percent of high-3 average pay minus 100 percent of entitled social security benefit. • After the first year until age 62, the employee receives 40 percent of their high-3 average pay. • Employee's disability benefit is offset by qualified social security benefit. • No cost of living adjustment during the first year; up to 2 percent after first year. • Disability benefit will be recomputed at age 62. • Survivors' benefits.	• Employee receives benefits equal to the projected benefit at age 60, or 40 percent of the employee's high-3 average salary, whichever is less. • Employees' disability benefit is offset by qualified social security benefits. • Cost of living adjustment matched at full rate of inflation. • Survivors' benefits.

APPENDIX A. CONTINUED

	VOLUNTARY RETIREMENT	
Civil Service Retirement System (CSRS)	Federal Employees Retirement System (FERS)	Civil Service Retirement System (CSRS) Offset Retirement
	ELIGIBILITY	
• Age 55 and 30 years of service. • Age 60 and 20 years of service. • Age 62 and 5 years of service.	• Minimum Retirement Age and 30 years of service. • Age 60 and 20 years of service. • Age 62 and 5 years of service.	• Age 55 and 30 years of service. • Age 60 and 20 years of service. • Age 62 and 5 years of service.
	RETIREMENT BENEFITS	
• Employee benefit is based on "high-3 average pay" over any 3 consecutive years of creditable service plus credit for unused sick leave. • Retirement annuity cannot exceed 80 percent of high-3 average pay, unless the amount over 80 percent is due to crediting unused sick leave. • Survivors' benefits.	• Employee benefit is based on "high-3 average pay" over any 3 consecutive years of creditable service. • Retirement benefit is equal to 1 percent of employees' high-3 average pay times years of creditable service. • If employee retires at age 62 or later with at least 20 years of service, a factor of 1.1 percent is used rather than 1 percent. • Survivors' benefits.	• Employee benefit is based on "high-3 average pay" over any 3 consecutive years of creditable service plus credit for unused sick leave. • Retirement annuity cannot exceed 80 percent of high-3 average pay, unless the amount over 80 percent is due to crediting unused sick leave. • Survivors' benefits.

APPENDIX B. MANAGEMENT'S COMMENTS

SUZANNE F. MEDVIDOVICH
SENIOR VICE PRESIDENT
HUMAN RESOURCES

UNITED STATES
POSTAL SERVICE

March 3, 2003

B. WAYNE GOLESKI

SUBJECT: Draft Management Advisory—Retirement Eligible
Postal Service Employees on the Workers' Compensation
Periodic Rolls (Report Number HC-MA-03-DRAFT)

This responds to your February 12 memorandum regarding retirement eligible Postal Service employees on the workers' compensation periodic rolls.

For several years, the Postal Service has supported efforts to change the Federal Employees Compensation Act (FECA), which would alter the program's structure. While legislation has not yet been introduced in the 108th Congress, the Administration states in its 2004 budget that it intends to propose legislation to strengthen program integrity and to make the Act more equitable and easier to administer. We look forward to reviewing that legislation when the language becomes available.

As you have stated in your audit, it is the responsibility of each agency to reimburse the Employees' Compensation Fund for expenses paid from the fund for their injured workers. As you know, the Postal Service pays compensation for work-related injuries and death. The Postal Service also pays fees to the Department of Labor to handle the administrative review of this program. In the 2004 budget, the Administration has included an amendment to FECA that would allow the Department of Labor to add an administrative surcharge to the amount billed to federal agencies for their FECA compensation costs. Based upon the review of this language, it appears that all appropriated and non-approved federal agencies will be required to pay administrative fees based upon their program usage.

Material relating to OWCP issues has been submitted to the President's Commission. I am agreeable to revisiting this issue again when we receive the final report from the Commission.

By copies of this memorandum to the senior vice president, Government Relations, and the chief financial officer, I am apprising both Mr. Moden and Mr. Strasser of your management advisory. Thank you for the opportunity to comment on this matter.

Suzanne F. Medvidovich

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cc: Ralph Moden
Dick Strasser
DeWitt Harris
Susan Duchek

475 L'ENFANT PLAZA SW
WASHINGTON DC 20260-4000
202-268-4000
FAX: 202-268-4009
www.usps.com