OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

April 22, 2011

DEBORAH M. GIANNONI-JACKSON
VICE PRESIDENT, EMPLOYEE RESOURCE MANAGEMENT

SUBJECT: Management Advisory – Retirement for U.S. Postal Service Employees on Workers' Compensation (Report Number HR-MA-11-001)

This report presents the results of our review of Retirement for U.S. Postal Service Employees on Workers' Compensation (Project Number 10YR001SA001). Our objective was to determine the monetary impact to the Postal Service if the Federal Employees Compensation Act (FECA) was reformed to reduce compensation benefits for disabled employees on the periodic roll when they reach retirement age. This review was self-initiated as a result of the Postal Service's rising workers' compensation cost and long term liabilities. The review addresses financial risk. See Appendix A for additional information about this review.

Postal Service employees are covered by FECA. Enacted in 1916, FECA provides four basic types of benefits to civilian federal employees who sustain injuries including occupational disease as a result of their employment. FECA also provides monetary benefits to qualified survivors if a work-related injury or disease causes an employee's death. FECA compensation benefits are tax-free. The base rate is 66 2/3 percent of the injured employees salary if there are no dependents or 75 percent if there is at least one dependent.[1] FECA does not have age or time limits on benefits. Benefits are payable as long as a physician certifies the condition or disability continues.

Disabled retirement-eligible employees have a choice between FECA benefits and federal retirement benefits. Most employees choose FECA because it results in a higher payment and FECA benefits are tax-free. However, employees receiving FECA compensation benefits generally do not earn years-of-service credits, and the Postal Service does not contribute to their retirement, thrift savings plan, or Social Security accounts. Employees can switch between the two choices if it results in a benefit to the employee.

The Department of Labor (DOL) Office of Workers' Compensation Programs (OWCP) administers FECA and makes all decisions regarding injured workers' eligibility for benefits. DOL provides direct compensation to providers, claimants, and beneficiaries. In testimony before congress, the director of OWCP has expressed concerns with FECA providing disincentives for employees to return to work. As a result, DOL is

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[1] The wage loss component of the FECA has not been significantly amended since 1974.

proposing the following amendments to FECA[2] regarding disabilities occurring on or after the date of enactment:

- Changing the basic rate of compensation for total disability to 70 percent of the employee's monthly pay.

- Converting benefits to 50 percent of monthly pay when the employee reaches retirement age,[3] or 1 year after the employee begins receiving compensation, whichever is later.

Additionally, Senator Susan Collins introduced related legislation[4] to reform FECA, requiring disabled employees receiving workers' compensation to retire under their applicable retirement program when they reach full-retirement age, as defined by the Social Security Act. See Appendix B for our review of proposed legislative reforms to FECA.

Currently, the Postal Service reimburses DOL for all workers' compensation claims and pays an administrative fee to DOL for administering the program for Postal Service employees. The Postal Service's workers' compensation costs for chargeback year[5] 2010 were over $1 billion, and administrative fees were approximately $61 million.

Conclusion

If FECA were reformed to convert compensation benefits to 50 percent of the employee's monthly pay when they reach retirement age, the Postal Service can save approximately $37.8 million annually or $378 million over 10 years.[6] See Appendix C for impact.

Retirement Age Employees Receiving Workers' Compensation Benefits

We determined there were approximately 14,900[7] employees on the periodic roll,[8] which included 8,336 ages 55 and over, 2,798 ages 65 and over, 705 ages 80 and over, and three that were age 98. Additionally, 82 percent (2,290 of 2,798) of the employees on the periodic roll age 65 and over were classified as having no reemployment potential or permanent or prolonged disabilities. However, they continue to receive workers' compensation benefits, which are more than what they would generally receive from federal retirement benefits.

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[2] DOL's draft proposal titled *Federal Injured Employees' Reemployment Act of 2010.*
[3] The bill uses retirement age as defined by the Social Security Administration, which is between the ages of 65 and 67.
[4] *Federal Employees' Compensation Reform Act of 2011*, dated February 2, 2011.
[5] The OWCP bills employing agencies for work related injuries and death benefits paid to employees on their behalf, from July 1 through June 30 each year. This period is considered the chargeback year.
[6] The cost savings includes current employees on the periodic rolls and projections for new claimants.
[7] Figure as of September 2010.
[8] Employees receiving workers compensation benefits who have disabilities that are expected to be permanent or prolonged (60-90 days).

Although not intended, worker's compensation has become a retirement system for many disabled retirement age Postal Service employees, resulting in loss of productivity and higher workers' compensation costs. Generally, federal employees are eligible for retirement with full Social Security benefits between the ages of 65 and 67 depending on the year of birth. See Appendix D for Social Security retirement ages. However, as currently structured, FECA does not have age or time limits on workers' compensation benefits, and employees can choose between tax–free workers' compensation benefits and taxable federal retirement benefits. See Appendix E for a summary of federal retirement system benefits.

The disparity between retirement benefits and workers' compensation benefits provide incentives for employees to remain on the periodic roll for life. Therefore, FECA reform to reduce compensation benefits for retirement age employees is needed, and would result in significant cost savings to the Postal Service.

We recommend the vice president, Employee Resource Management:

1. Continue to pursue legislative change to reform the Federal Employees' Compensation Act to reduce workers' compensation benefits for retirement age employees.

Management's Comments

Management indicated agreement with the finding, recommendation, and monetary impact and stated the report supports actions already underway through Employee Resource Management to support legislative changes to the FECA. Additionally, management stated the findings of the audit will substantially reduce the Postal Service's future liabilities associated with on–the-job injuries. Management stated that these matters must be addressed through Congress; therefore they cannot provide a firm implementation date. See Appendix G for management's comments in their entirety.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendation and the planned corrective actions should resolve the issues identified in the report.

The OIG considers the recommendation significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action is completed. This recommendation should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Andrea Deadwyler, director, Human Resources and Security, or me at 703-248-2100.

Mark W. Duda
Deputy Assistant Inspector General
for Support Operations

Attachments

cc: Anthony J. Vegliante
Corporate Audit and Response Management

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

Enacted in 1916, FECA provides comprehensive federal workers' compensation coverage to civilian federal employees who sustain injuries as a result of their employment. The four types of benefits provided are medical, compensation, death, and nursing and rehabilitation services. FECA also provides compensation benefits to qualified survivors if a work-related injury or disease causes an employee's death.

As one of the largest workers' compensation systems in the world, FECA covers 2.7 million federal employees. Its fundamental purpose is to provide compensation for wage loss and medical care, facilitate return to work for employees who have recovered from their injuries, and pay benefits to survivors. Compensation benefits are tax-free, and the base rate is 66 2/3 percent of the injured employees salary or 75 percent if there is a least one dependent. More than 70 percent of FECA claimants are paid at the 75 percent rate. The Postal Service is the largest FECA participant, paying more than $1 billion in benefits and $61 million in administrative fees annually. See Appendix F for Postal Service's workers' compensation costs.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to determine the monetary impact to the Postal Service if the FECA was reformed to reduce compensation benefits for disabled employees on the periodic roll when they reach retirement age.

We reviewed the Postal Service's worker's compensation program and identified opportunities to reduce cost. To accomplish our objective, we interviewed Postal Service officials to gain an understanding of their roles and responsibilities for the workers' compensation program. We reviewed applicable policies and procedures.

We also identified proposed legislative changes regarding FECA, to include the *Federal Employees Compensation Reform Act of 2011*, proposed by Senator Susan Collins, and DOL's draft proposal *Federal Injured Employees Reemployment Act of 2010*.

We analyzed workers' compensation data from the Postal Service Injury Compensation Performance Analysis System (ICPAS) for Postal Service employees on the periodic roll as of September 2010. We assessed the impact to the Postal Service if FECA were reformed to convert compensation benefits to 50 percent for retirement age employees on the periodic roll.

We conducted this review from December 2010 through April 2011 in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for*

Inspection and Evaluation. We discussed our observations and conclusions with management on March 31, 2011, and included their comments where appropriate.

We assessed the reliability of data from the ICPAS by performing electronic testing for obvious errors in accuracy and completeness. When we found anomalies in the data, we discussed these with Postal Service officials to determine how to handle the data in our analysis. We determined that the data was sufficiently reliable for the purpose of this report.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Report Results
Workers' Compensation Liability Estimate	FT-MA-11-002	12/23/2010	OIG found the Postal Service workers' compensation liability was significantly larger than that of comparable private sector companies. Management could improve the workers' compensation model by ensuring that personnel who develop the liability estimate better understand the model, including the assumptions made, the analyses conducted, and the rationale for the methods used, The OIG provided 3 recommendations regarding improvements to the model. Management agreed to consider further alternatives for calculating the liability.
OWCP's Jacksonville and New York District Offices Need to Improve Monitoring of Re-employment Status of Claimants	04-09-004-04-431	9/29/2009	DOL OIG found that OWCP needs to improve its process for monitoring claimants in the "re-employment status not yet determined." In 11 percent (13 of 119) of the cases, claims examiners did not perform critical required activities such as referring claimants for nursing or vocational rehabilitation services. Also, claims examiners did not make necessary referrals or conduct proper follow-up for medical examinations in 45 percent (54 of 119) of the cases reviewed. Untimely case management was attributed to insufficient supervisory oversight. Management agreed to both recommendations to improve case management.
Federal Workers' Compensation: Better Data and Management Strategies Would Strengthen Efforts to Prevent and Address Improper Payments	GAO-08-284	2/2008	The GAO found OWCP lacked an effective strategy for managing the risks of improper payments because it has not emphasized preventing, detecting, and recovering improper payments or collected information needed to assess the program's risk of improper payments. None of the agency's performance goals for the FECA program addressed improper payments. GAO issued four recommendations to strengthen OWCP efforts to prevent and address improper FECA payments. DOL disagreed with many of GAO's findings and conclusions; however, the agency described several actions being taken that were consistent with the recommendations.

APPENDIX B: PROPOSED LEGISLATIVE REFORMS

To address concerns that workers' compensation benefits provide disincentives for employees on the periodic rolls to return to productive work, the DOL has drafted a proposal to amend FECA. The proposal titled *Federal Injured Employees' Reemployment Act of 2010* includes the following amendments regarding disabilities occurring on or after the date of enactment:

- Change the basic rate of compensation for total disability to 70 percent of the employee's monthly pay.

- Convert benefits to 50 percent of monthly pay when the employee reaches retirement age, or 1 year after the employee begins receiving compensation whichever is later.

Additionally, Senator Susan Collins introduced a bill titled *Federal Employees' Compensation Reform Act of 2011*, dated February 2, 2011, requiring disabled employees receiving workers' compensation to retire under their applicable retirement program when they reach retirement age and are eligible for an annuity under the Civil Service Retirement System or the Federal Employees Retirement System.

We reviewed DOL's draft proposal which would convert compensation benefits to 50 percent of the employees' monthly pay when they reach retirement age. However, the proposal is only applicable to new injuries occurring on or after the date of enactment. Therefore, we believe if enacted, this proposal would create missed opportunities for the Postal Service and federal government to realize significant cost savings regarding employees currently on the periodic rolls.

We also reviewed the *Federal Employees' Compensation Reform Act of 2011*. However, we could not assess the impact to the Postal Service because we were unable to ascertain what provisions would be made to cover years-of-service credits and employer contributions which had not been made while the employee was receiving workers' compensation.

APPENDIX C: MONETARY BENEFITS METHODOLOGY AND CALCULATIONS

The Postal Service could save $378 million over the next 10 years if FECA were reformed to convert compensation benefits to 50 percent for totally disabled employees on the periodic roll when they reach retirement age. To determine the potential cost savings, we analyzed workers' compensation data from the Postal Service ICPAS for employees on the periodic roll as of September 2010.

To identify the universe of recipients that were at retirement age or would reach retirement age within the next 10 years, we determined the full retirement age and life expectancy for each recipient.

To determine the cost saving to the Postal Service, we performed our monetary calculations in two separate parts:

1. We calculated the savings for all OWCP recipients on the periodic roll as of September 2010 that will reach full retirement age sometime within the next 10 years.

2. We calculated the savings for the number of individuals we estimate will come onto the periodic roll over each of the next 10 years, and who will also reach full retirement age sometime within the next 10 years.

To determine the cost savings, we prepared a 10 year discounted cash flow and used Postal Service labor escalation rate of 1.7 percent per year. We used a discount rate of 3.875 percent, which is the Postal Service's current cost of borrowing.

We estimate $377,936,529 in funds put to better use if FECA were reformed to convert compensation benefits to 50 percent of the employee's monthly pay when they reach retirement age.

APPENDIX D: SOCIAL SECURITY RETIREMENT AGES

SOCIAL SECURITY ACT FULL RETIREMENT AGE	
YEAR of BIRTH	**FULL RETIREMENT AGE**
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

APPENDIX E: SUMMARY OF RETIREMENT SYSTEMS

<table>
<tr><th colspan="2">DISABILITY RETIREMENT</th></tr>
<tr><td colspan="2"></td></tr>
<tr><th>Civil Service Retirement System
(CSRS)</th><th>Federal Employees Retirement System
(FERS)</th></tr>
<tr><th colspan="2">ELIGIBILITY</th></tr>
<tr><td>▪ Employee's disability expected to last for 1 year.
▪ Employee must have 5 years of creditable service.</td><td>▪ Employee disability expected to last for 1 year.
▪ Employee must have 18 months of creditable service.</td></tr>
<tr><th colspan="2">BENEFITS</th></tr>
<tr><td>▪ 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</td><td>First 12 months:
▪ Employee receives 60 percent of high-3 average pay minus 100 percent of Social Security benefit for any month, in which they were entitled.
After first 12 months:
▪ Employee receives 40 percent of high-3 average pay minus 60 percent of Social Security benefit for any month, in which they were entitled.</td></tr>
<tr><th colspan="2">VOLUNTARY RETIREMENT</th></tr>
<tr><th>Civil Service Retirement System
(CSRS)</th><th>Federal Employees Retirement System
(FERS)</th></tr>
<tr><th colspan="2">ELIGIBILITY</th></tr>
<tr><td>▪ Age 55 and 30 years of service.
▪ Age 60 and 20 years of service.
▪ Age 62 and 5 years of service</td><td>▪ Minimum retirement age and 30 years of service.
▪ Age 60 and 20 years of service.
▪ Age 62 and 5 years of service.</td></tr>
<tr><th colspan="2">BENEFITS</th></tr>
<tr><td>▪ Employee benefit is based on high-3 average pay over any 3 consecutive years of creditable service plus credit for unused sick leave.</td><td>▪ Employee benefit is based on high-3 average pay over and 3 consecutive years of creditable service.</td></tr>
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APPENDIX F: POSTAL SERVICE WORKERS' COMPENSATION COST

Postal Service Workers' Compensation Cost[9]			
Chargeback Year	**DOL Charge**	**Administrative Fees**	**Total**
2008	$958,858,402	$52,879,796	$1,011,738,199
2009	$1,051,297,408	$55,512,947	$1,106,810,355
2010	$1,083,656,736	$61,457,855	$1,145,114,591

[9] Figures do not include fees paid for Postal Office Department injuries occurring before July 1, 1971, which were about $52 million for the combined chargeback years.

APPENDIX G: MANAGEMENT'S COMMENTS

Director
Safety & Health

UNITED STATES POSTAL SERVICE

April 5, 2011

Lucine Willis
Director, Audit Operations
Office of Inspector General
1735 North Lynn Street
Arlington, VA 22209-2020

SUBJECT: Draft Audit Report – Retirement for US Postal Service Employees on Workers' Compensation (Report Number SA-MA-XX-Draft

This memorandum responds to the subject audit report dated April 4, 2011. The audit report represents a well documented and detailed understanding of the US Postal Service injury compensation program and the financial risks associated with disincentives currently in the Federal Employees' Compensation Act (FECA) for returning injured employees to work.

<u>Recommendation:</u>

> That the Vice President of Employee Resource Management continue to pursue legislative change to reform the Federal Employees' Compensation Act to reduce workers' compensation benefits for retirement age employees.

<u>Management Response / Action Plan:</u>

The report supports the actions already underway, through Employee Resource Management, to support legislative changes that would convert FECA entitlement at retirement age. The findings of the audit establish that the US Postal Service stands to substantially reduce its future liability associated with on the job injuries. Safety and Health will continue to provide timely response and subject matter knowledge to Government Relations as requested.

<u>Target Implementation Date:</u>

As this is a matter that must be addressed through Congress, no firm implementation date can be established.

<u>Responsible Official:</u>

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Safety and Health

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This report and management's response do not contain information that may be exempt from disclosure under the FOIA.

Sincerely,

Linda DeCarlo

Linda DeCarlo

Cc: Deborah Giannoni-Jackson
Sally Haring
Dolores Gentry