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Briefing Report to Congressional Requesters

August 1996

FEDERAL EMPLOYEES' COMPENSATION ACT

Issues Associated With Changing Benefits for Older Beneficiaries

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The Honorable Robert C. Byrd
Ranking Minority Member
Committee on Appropriations
United States Senate

The Honorable Bob Livingston
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As requested by the conferees on the fiscal year 1996 appropriations bill for the Department of Transportation (DOT) and Related Agencies (House Report 104-286), we reviewed issues related to possible changes to the Federal Employees' Compensation Act (FECA). Currently, FECA allows the receipt of workers' compensation benefits by beneficiaries who are at or beyond retirement age; possible changes could reduce benefits they receive.

This briefing report serves to formalize the information presented to staff from the Appropriations' Transportation subcommittees on May 9 and August 5, 1996. Specifically, the report provides (1) a profile of beneficiaries on the long-term FECA rolls,[1] with information on beneficiaries' ages and time on the rolls; (2) views of proponents and opponents of changing FECA benefits for older beneficiaries; and (3) questions and issues that the Congress might consider if crafting benefit changes.

Results in Brief

Older FECA beneficiaries make up a high percentage of cases on the long-term rolls and account for a substantial portion of the FECA benefits paid for long-term compensation. Sixty percent of the approximately 44,000 long-term beneficiaries receiving compensation benefits in June 1995 were 55 years of age or older; 37 percent were age 65 or older. Of the $1.28 billion in compensation benefits paid in 1995, $947 million went to long-term beneficiaries who would most likely be affected by a

[1]Injured workers on FECA's long-term (or periodic) rolls are those with permanent disabilities or with injuries that have lasted or are expected to last for prolonged periods (over 1 year).

change in benefits for older beneficiaries. About $611 million (64 percent) of the compensation benefits paid to these beneficiaries went to those age 55 and over. (See br. section II.)

Since actual retirement eligibility information is not readily available, the extent to which older beneficiaries might be considered of retirement age depends upon the criteria used. For example, some federal employees are currently eligible for retirement with unreduced benefits at age 55 with 30 years of service; however, for many workers, unreduced Social Security benefits are currently available at age 65. (See br. section II.)

Widely divergent views are held by the proponents and opponents of changing benefits for older FECA beneficiaries. Among the views held by proponents of change are that "lifetime" wage/salary replacement under FECA is too generous because it does not reflect the normal progression to lower income that typically occurs with retirement. Proponents also see the government's FECA cost as being too high, thus putting a strain on agencies' program budgets. (See br. section III.)

Opponents of change, in contrast, believe that benefits that replace wages lost because of a work-related injury are justified because these benefits have traditionally been considered substitutes for tort action under the workers' compensation approach for compensating for work-related injuries.[2] Also, they say that reducing benefits for older beneficiaries could be considered age discrimination, and reductions could cause beneficiaries economic hardships. To the extent that opponents would agree that FECA is costly, they believe that other cost-saving measures may be more appropriate, such as keeping people off the rolls by implementing better safety programs to prevent injuries and by more effectively returning injured employees to productive employment. (See br. section III.)

We identified the following questions, and associated issues, that we believe would merit consideration by anyone crafting legislation to change wage compensation benefits for older beneficiaries:

- What type of changed benefits would be provided? Converting beneficiaries from FECA to retirement benefits or providing beneficiaries with a FECA annuity are the two main options proposed in the past.

[2]Under the workers' compensation approach, employers are generally liable for complete medical coverage and the replacement of a substantial portion of injured employees' wages regardless of fault. Employees, in exchange for guaranteed benefits, give up rights to sue for recovery of damages based on employers' negligence. Employees also give up rights to recover for pain and suffering.

- How would benefits be computed? Integrating FECA and retirement benefits may involve adjustments for calculating retirement benefits. Calculating a separate FECA annuity would be relatively simple.
- Which FECA beneficiaries would be affected? That is, would change affect all beneficiaries, including those who do not participate in a federal retirement plan? Would change only affect workers injured after the effective date of change, or would it also affect beneficiaries who are currently receiving compensation benefits?
- What criteria would initiate changed benefits? Would age or retirement eligibility alone trigger the change, or would secondary criteria need to be considered to protect some employees from economic adversity?
- How would other benefits be treated? The administration of benefits, such as medical benefits and survivor annuities, may need clarification.
- How would benefits be funded? If beneficiaries were converted from FECA to retirement benefits, alternatives for funding these benefits may have to be developed. (See br. section IV.)

Background

The Compensation Act of 1916 provided workers' compensation coverage to federal workers for work-related injuries. Although this act addressed the problem of providing compensation for injured workers and their dependents, concerns were raised about the adequacy of the compensation, the adverse effect on the federal budget, and whether high levels of benefits would act as a disincentive for employees to return to work. As Members of Congress debated the act's provisions in 1916 and 1923, some Members were concerned that broad interpretations threatened to make the act, in effect, a general pension scheme.

Although compensation benefits were not necessarily granted for a lifetime, the 1916 act placed no age limit on those receiving compensation for lost wages. The 1916 act did allow for reduced compensation when an employee's earning capacity declined as a result of old age. Amendments to FECA in 1949 established 70 as the age at which compensation benefits could be prospectively reduced. Citing burdens to the injured worker and to the Department of Labor in administering this provision, as well as issues of age discrimination, a 1974 FECA amendment eliminated this age provision.

Although no authority exists currently to reduce FECA benefits based on age, two types of changes have been proposed to reduce FECA benefits when employees reach a point in time when retirement normally occurs. One type of change would convert injured workers from FECA benefits to

retirement benefits at retirement age. For example, in 1981 the Reagan administration proposed comprehensive FECA reform, including a provision to convert FECA benefits to retirement benefits at age 65. A House bill modeled after the administration's proposal did not become law.

Another type of change, based on similar proposals developed by several agencies in the early 1990s, would have converted FECA wage-loss compensation benefits to a FECA annuity benefit. The proposed annuity would have reduced FECA benefits by a set percentage 2 years after beneficiaries reached civil service retirement eligibility.

Scope and Methodology

To develop a profile of beneficiaries who received long-term FECA benefits, we analyzed Labor's periodic-roll data for information on beneficiaries' ages, lengths of time on the rolls, and compensation benefits. We used the information for the FECA "chargeback year," which ended on June 30, 1995. A chargeback year is the FECA billing year for which accumulated benefit outlays are billed to employing agencies for whom injured employees once worked.

To identify questions and associated issues in crafting benefit changes, we analyzed previous studies and legislative proposals that would have changed benefits for older FECA beneficiaries. We also solicited views from selected federal agencies—the Departments of Labor, Transportation, and Defense; the Office of Personnel Management (OPM); and the Postal Service—and employee groups. We also researched the history of federal workers' compensation and other pertinent laws.

We did not verify the data on FECA beneficiaries provided by Labor. However, the amount of time beneficiaries were on the long-term FECA rolls was likely underestimated because the information provided was based generally on dates employees were most recently placed in a long-term compensation pay status. Therefore, our analysis would not have included beneficiaries' time on the rolls before these dates. For example, injured employees who had been on the long-term rolls may have recovered and gone back to work and then suffered a reoccurrence of their injury and returned to the long-term rolls. Also, we were unable to profile the retirement eligibility information for FECA beneficiaries because FECA records do not include data on years of service, a necessary component for determining the age at which employees could retire.

As agreed with the Subcommittees, we did not develop a change proposal. Instead, we identified questions and issues that might merit consideration if Congress were to draft legislation changing FECA benefits for older beneficiaries. We also did not examine the issue of possible agency-by-agency changes because our mandate was to study this issue on a governmentwide basis. Also, given the relatively short time frame for this study and the many possible variations for change, we did not prepare cost/savings estimates or verify those prepared by others. Finally, we did not evaluate proposals for change or cost-reduction alternatives that did not concentrate on older beneficiaries. For example, we did not evaluate a proposal to model FECA benefits after those found in various state workers' compensation programs.

In addition to the above information, appendix I contains information on other federal disability programs, namely OPM's disability retirement programs and the Social Security Administration's disability insurance program—which might provide benefits to federal employees whose disabilities were not work related; appendix II discusses Labor's specific initiative to manage long-term disability cases; and appendix III presents profile information on FECA beneficiaries who had been employed by the Federal Aviation Administration (FAA) and compares that information to that for other governmental units.

We performed our review from January 1996 through July 1996 in accordance with generally accepted government auditing standards.

Program Officials' Comments

In May 1996, we provided a preliminary briefing to knowledgeable workers' compensation program officials from the Departments of Labor, Transportation, and Defense; OPM; and the Postal Service to obtain comments on the facts and observations from our work. Overall, those officials agreed that our briefing presentation was accurate and comprehensive. After finalizing the text of this report, we provided copies of the report text to these same officials on July 2, 1996. These officials agreed that overall the information presented was accurate and comprehensive. Where appropriate, we made changes to incorporate technical comments provided by these program officials.

We are sending copies of this briefing report to interested congressional committees, the Secretaries of the Departments of Labor, Transportation, and Defense; the Director, OPM; the Postmaster General; and the Director,

Office of Management and Budget. Copies will be made available to others upon request.

Major contributors to this report are listed in appendix IV. Please contact me at (202) 512-8676 if you have any questions concerning this briefing report.

L. Nye Stevens
Director
Federal Management
and Workforce Issues

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Abbreviations

ADEA	Age Discrimination in Employment Act
CSRS	Civil Service Retirement System
DOT	Department of Transportation
FAA	Federal Aviation Administration
FECA	Federal Employees' Compensation Act
FERS	Federal Employees' Retirement System
OPM	Office of Personnel Management
OWCP	Office of Workers' Compensation Programs
PRM	Periodic Roll Management
SSDI	Social Security Disability Insurance
USPS	United States Postal Service
WEC	Wage Earning Capacity

Background

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Objectives

Develop a profile of FECA beneficiaries on the long-term compensation rolls

Provide views of proponents and opponents toward changes in FECA benefits for older beneficiaries

Provide questions for Congress to consider if crafting legislation to change benefits

Objectives, Scope, and Methodology

Our objectives were to (1) develop a profile of long-term FECA beneficiaries, (2) identify views of proponents and opponents of changes to FECA benefits for older beneficiaries, and (3) identify questions and issues Congress might consider if crafting legislation to change benefits.

For the first objective, we developed a profile of the beneficiaries who were receiving long-term compensation benefits. Because previous reform proposals did not appear to be directed toward those who suffered temporary disabilities and were expected to receive compensation benefits for relatively short periods, we did not profile these cases. Based on available FECA data such as age and time on the rolls, the profile provides some indication of the extent to which FECA rolls include beneficiaries who are older and less likely to return to work.

For the second and third objectives, we interviewed officials from selected federal agencies—the Departments of Labor, Transportation, and Defense; OPM; and the Postal Service—and employee groups. We also analyzed previous studies and legislative proposals to change FECA benefits. The views, questions, and issues identified provide the reasoning that could shape the debate on changing benefits and that might affect choices in pursuing changes or in developing specific benefit provisions.

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Background: Relevant Legislative History

Provision to allow reductions in benefits for older beneficiaries

- included in 1916 Compensation Act
- modified and then eliminated in subsequent amendments
- absent from current FECA law

With the passage of the Compensation Act of 1916 (39 Stat. 743), Members of Congress raised concerns about levels of benefits and potential costs of establishing a program for injured federal employees. Some legislators were concerned that the new program would result in a budget-threatening program of fraud and abuse. Workers and their representatives worried that the program would not provide adequate compensation for injuries or death. Others were worried whether the

program would maintain work incentives.[1] As Congress debated the act's provisions in 1916 and again in 1923, some Members were concerned that a broad interpretation threatened to make the workers' compensation program, in effect, a general pension scheme.

The 1916 Act granted benefits to federal workers for work-related injuries. These benefits were not necessarily granted for a lifetime; they could be suspended or terminated under certain conditions. Nevertheless, the act placed no age or time limitations on injured workers' receipt of wage compensation. The act did contain a provision allowing the reduction of benefits to older beneficiaries stating that when the wage-earning capacity of the disabled employee would probably have decreased on account of old age, irrespective of the injury, compensation benefits could be adjusted on the basis of this probable reduction in wage-earning capacity.

While the 1916 Act had not specified the age at which compensation benefits could be reduced, the 1949 FECA amendments (63 Stat. 858) established 70 as the age at which a review could occur to determine if an individual's benefits should be reduced. In 1974, Congress again amended FECA (Public Law 93-416), this time eliminating the "old-age provision." According to Senate Report 93-1081, the Committee on Labor and Public Welfare stated that (1) the provision requiring the review of compensation was an unnecessary burden on both the injured employees and the Secretary of Labor (who had the authority to conduct the review), (2) age 70 has no bearing on one's entitlement to benefits, and (3) such a provision was discriminatory. FECA currently does not include a provision to change benefits based on old age.

[1] Nordlund, Willis A History of the Federal Employees' Compensation Program (U.S. Department of Labor, Apr. 1992, pp. 36-37).

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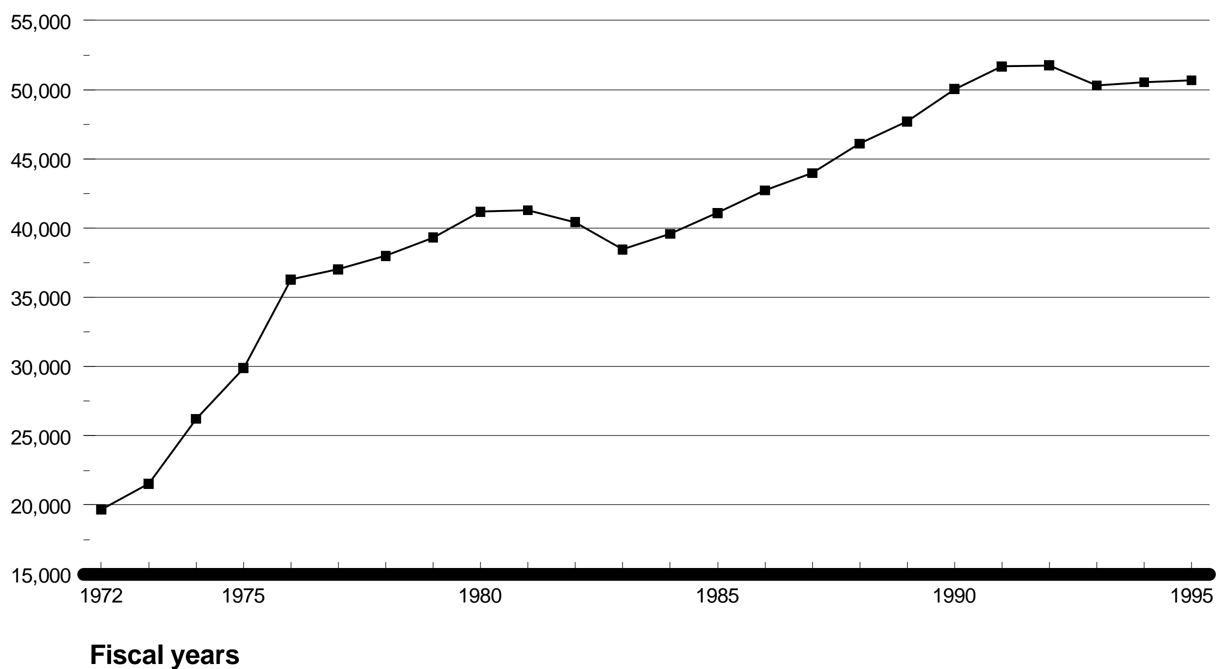
Background: Growth of FECA Long-Term Rolls Has Varied

Number of beneficiaries on long-term rolls (excluding death rolls)



Source: GAO analysis of Labor data.

Long-Term Rolls Have Increased in Past Decades

Calls for reform in the 1980s—including a proposal to change benefits for older FECA beneficiaries—followed rapid growth in the 1970s of FECA costs and numbers of long-term beneficiaries. As shown, from 1972 through 1980, the number of long-term beneficiaries more than doubled from 19,674 to 41,190. In a 1981 report,[2] we noted that increasing numbers of long-term disabled beneficiaries, along with increased benefits and changes in economic conditions, caused program costs to increase sharply. Between 1970 and 1979, the program costs for beneficiaries with long-term disabilities rose from $54.5 million to $463.6 million.

As reported in our 1981 report, Labor officials estimated that 30,000 of the 46,000 beneficiaries on the long-term disability roll would receive compensation benefits for the remainder of their lives. According to these officials, many of those beneficiaries entered the FECA system late in their careers and have received benefits well beyond the age that they could have been expected to retire.

The number of long-term beneficiaries increased at a slower rate through the 1980s than it did in the 1970s. Nevertheless, the periodic rolls grew by approximately 8,000 cases over that decade.

Present concerns may be heightened more by current cost than by current growth. The number of long-term cases seems to have reached a plateau in recent years. From 1990 through 1995, as shown, the number of long-term cases (excluding survivor benefit cases) has fluctuated between about 50,000 and 52,000. (See app. II for details of a recent Labor effort to better manage FECA long-term roll cases.)

[2] Federal Employee's Compensation Act: Benefit Adjustments Needed to Encourage Reemployment and Reduce Costs, (GAO/HRD 81-19, Mar. 9, 1981).

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Background: Two Types of Change Proposals

Two types of change proposals emerged over the years:

- 1980s - Conversion to retirement benefits
- 1990s - Creation of a FECA annuity

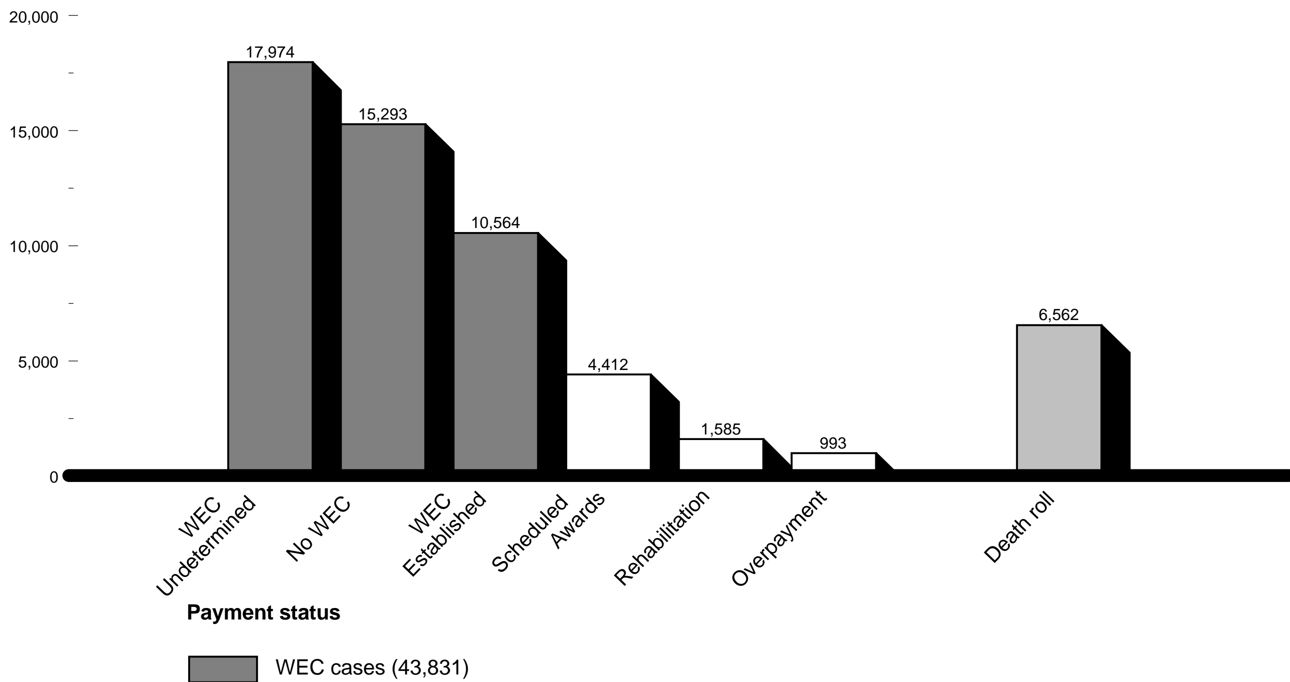
Two Proposals for Changing Benefits for Older Beneficiaries

Since the early 1980s, the perception that many beneficiaries are, in effect, "retired on FECA" has resulted in two types of change proposals. Although not specifically agreeing on the point in time to change benefits, both types of proposals would have changed FECA benefits when beneficiaries reach a point in time when retirement normally occurs.

One type proposed converting FECA benefits to retirement benefits. In 1981, the Reagan administration proposed comprehensive FECA reform, including a provision to convert FECA benefits to retirement benefits at age 65. The proposal included certain employee protections, one of which was calculating retirement benefits on the basis of the employee's pay at time of injury (with adjustments for regular federal pay increases). A House bill (H.R. 4388), modeled after the administration's proposal, was introduced in August 1981 but did not become law. Similarly, legislation proposed in 1995 to end workers' compensation for DOT employees at retirement age also did not become law.

Another type of proposal suggested changing FECA wage compensation benefits to a FECA annuity benefit. In the early 1990s, several federal agencies developed similar proposals for a FECA annuity. A Department of Defense version, for example, proposed an annuity that would reduce FECA benefits by one-third when beneficiaries were 2 years beyond their retirement eligibility date. A key feature of the FECA annuity approach was that it would have kept the changed benefit within the FECA program, thereby avoiding the complexities inherent in any proposal to convert FECA benefits to retirement benefits. For example, converting to retirement benefits could be difficult for some employees who currently are not participating in a federal retirement plan. Also, the funding of future retirement benefits could be a problem if current retirement funding contributions have not been made.

Profile of Beneficiaries on Long-Term FECA Rolls



Source: GAO analysis of Labor data.

As of June 30, 1995, the long-term rolls consisted of about 44,000 cases in 3 wage-earning capacity (WEC) categories. These cases, which make up 76 percent of the total cases on the periodic rolls, are for individuals who are receiving long-term compensation benefits. These categories include individuals who most likely would be affected by changes in compensation benefits based on retirement eligibility criteria, particularly if a

time-on-rolls criterion for initiating changed benefits applied. Under FECA, injured employees receive compensation relative to the extent of their disability (total or partial) and their capacity to earn income.

For purposes of our analyses, we considered no-WEC and WEC-undetermined cases to represent long-term, total disability cases.

- No WEC: Generally for totally disabled individuals who have little or no future reemployment potential. These cases receive full compensation benefits.
- WEC undetermined: These individuals have temporary total disabilities and are similar to "no WEC" cases in that they receive full compensation benefits. Labor's procedures call for it to review the status of these cases once a year.

We considered WEC-established cases to represent long-term, partially disabled cases.

- WEC established: Using a formula that takes actual or potential earnings into consideration, partially disabled employees who earn less than their preinjury earnings would have their compensation benefits reduced according to their WEC percentage. Not all individuals among WEC-established cases fit the image of "retired" because some may be employed.

Our analysis excludes the following categories of long-term cases: (1) schedule awards (payments over a set period for the loss of, or partial loss of, a body part or function), (2) rehabilitation cases, (3) overpayment cases, and (4) death cases in which benefits are paid to survivors. It is unclear as to whether the first three categories of cases would be affected by change. Death cases are excluded because the proposals we examined would not have changed benefits for survivors. Profile information is also presented without the "WEC established" cases.

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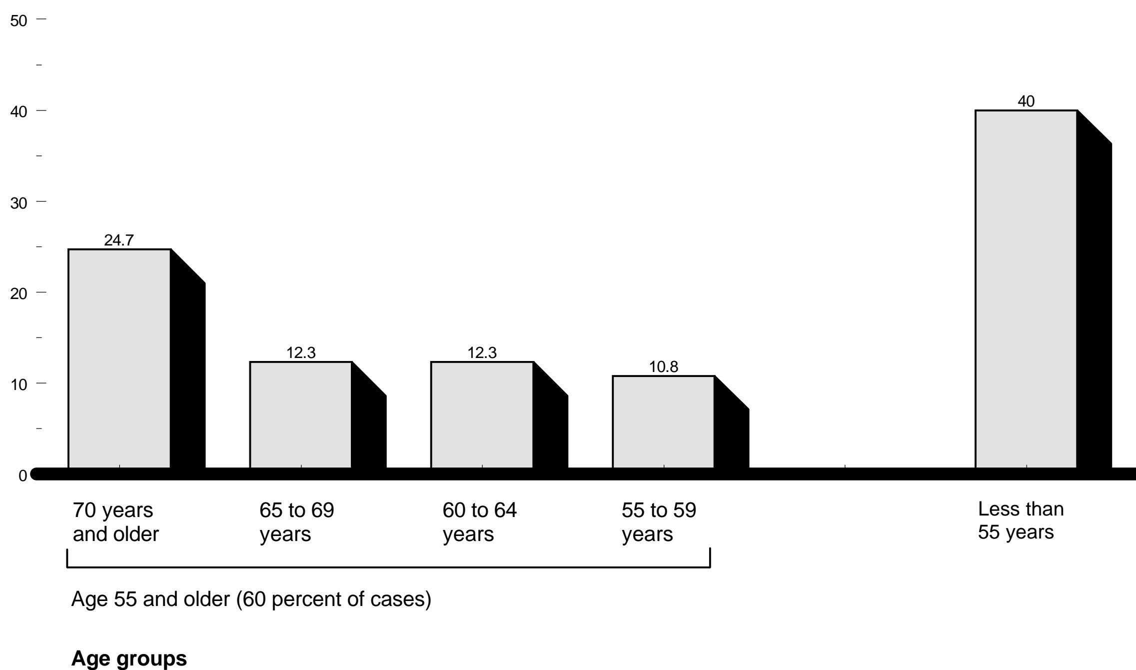
60 Percent of Long-Term WEC Cases Are Age 55 or Older



Source: GAO analysis of Labor data.

Many Beneficiaries Have Reached Normal Retirement Age

Substantial proportions of the long-term beneficiaries of wage compensation may have reached retirement age. Sixty percent of the approximately 44,000 long-term cases receiving compensation are at least age 55, the age at which some federal employees are eligible for optional retirement with unreduced benefits. Actual eligibility depends upon sufficient years of service; federal employees under CSRS are currently eligible at age 55 with 30 years of service, age 60 with 20 years, or age 62 with 5 years of service.[3] Data on FECA beneficiaries' years of service (and thus their actual retirement eligibility age) is not readily available from workers' compensation case files. Thus, the number of beneficiaries who are actually eligible for retirement is unknown.

Social Security retirement ages provide another benchmark for establishing a retirement age for beneficiaries who are receiving FECA benefits in retirement years. Social Security allows retirement with 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. Thirty-seven percent of the FECA beneficiaries were 65 years or older.

If those with "WECs established" are not considered, 64 percent of the 33,000 beneficiaries who received long-term compensation in the chargeback year ending in June 1995, rather than 60 percent, were age 55 or older.

[3]Earlier optional retirement is available in some federal occupations such as air-traffic controller, law enforcement, and fire fighting.

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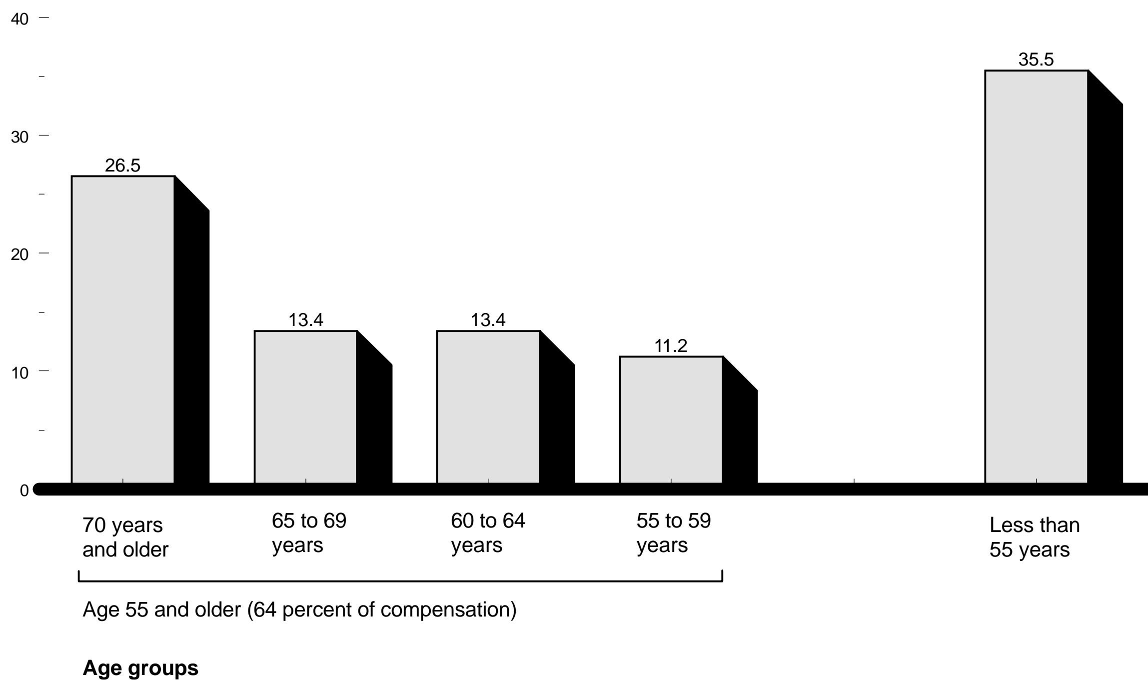
64 Percent of Compensation Is Paid to Beneficiaries Age 55 or Older



Source: GAO analysis of Labor data.

Older Beneficiaries Account for Much of the Wage Compensation Costs

Almost two-thirds of the wage compensation costs of the long-term FECA rolls is associated with older beneficiaries. During chargeback year 1995, 64.5 percent of the wage compensation paid to long-term beneficiaries (about $611 million of a total of $947 million) was paid to those age 55 and older. Slightly over 26 percent of the total wage-compensation paid to long-term beneficiaries was paid to those age 70 or older; 40 percent was paid to those age 65 or older.

Almost the same distribution applies if those with WECs established were excluded from the analysis. Wage compensation benefits for beneficiaries age 55 and over who received unreduced long-term compensation benefits were 66 percent of the total long-term compensation cost ($531 million of $804 million). Eighty-five percent of the long-term wage compensation ($804 million of $947 million) was paid to those with no WECs or with undetermined WECs.

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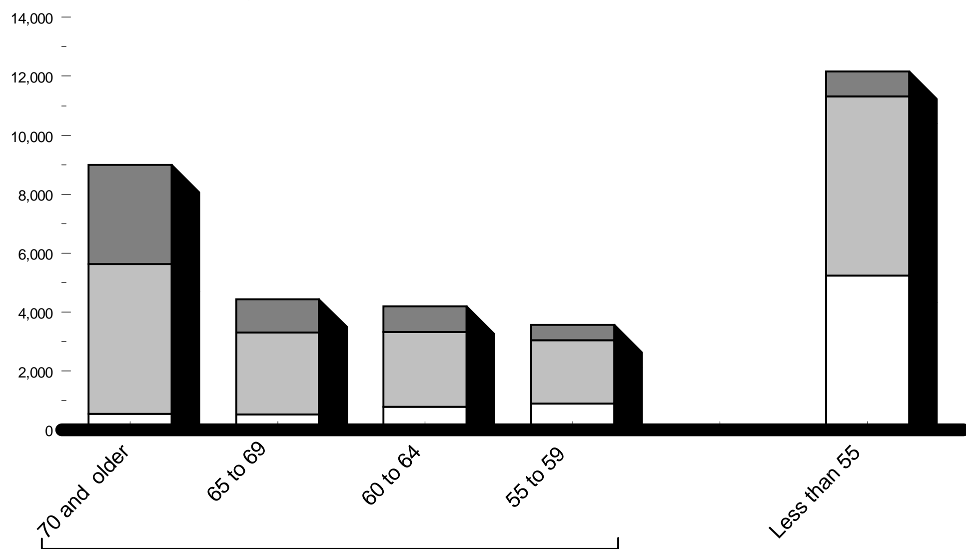
Many Older, Totally Disabled Have Been on the Rolls for 3 or More Years



Source: GAO analysis of Labor data.

Indication That Many Older Beneficiaries Are Unlikely to Return to Work

From our profile analysis, we cannot determine the extent to which older beneficiaries may, or may not, return to work. Nevertheless, the profile can provide some indication of the likelihood of older and totally disabled beneficiaries' returning to work.[4] In our 1981 report, we cited experts' general agreement that the older a person is and the longer he or she remains disabled and out of the workforce, the less likely he or she is to return to work.

If the likelihood of returning to work was low based on FECA beneficiaries being age 55 and over with 3 or more years on the long-term rolls, then 87 percent of those who received compensation benefits for total disability in the 1995 chargeback year would have had a low likelihood of returning to work. A more conservative measure of likelihood might be 10 or more years on the rolls. About 28 percent of the totally disabled beneficiaries who were age 55 or older had been on the long-term rolls for 10 or more years.

[4]Those with partial disabilities are excluded from this analysis because some may have already returned to work.

Proponents' and Opponents' Views on Changes to FECA

GAO **Views of Proponents of Changing FECA Benefits**

"Lifetime" wage/salary replacement through FECA benefits would be inappropriate because it would

- create work disincentives
- ignore the normal progression to retirement benefits
- be too costly, and
- strain agencies' budgets

Conversion to retirement would allow broader survivor benefits

The proponents of changing benefits for older FECA beneficiaries argue that FECA benefits should not, in effect, be a substitute for retirement benefits. First, the essential replacement of take-home income provided to some FECA beneficiaries can create disincentives for them to return-to-work. In other words, it creates an incentive for some beneficiaries to "retire" on the FECA rolls. Second, the lifetime levels of FECA benefits are unrealistic and inappropriate because they do not reflect the normal progression toward lower income that is typically provided by

retirement benefits. The FECA benefits are theoretically for wage loss, but this is an inappropriate benefit for those who are into their retirement years. An inequity is thus created between those federal workers who retire normally and those who, in effect, retire on FECA benefits. Finally, as a result of being too generous, the lifetime benefit levels create a long-term, costly liability for the government. Proponents believe that changes should reduce the generous benefits for older beneficiaries to more closely approximate normal retirement income, thereby lessening government costs.

According to proponents, change may improve agencies' operations. Agencies' discretionary budgets are reduced by FECA costs. Thus, by changing FECA compensation benefits to retirement benefits for "normal" retirement years, agencies could reduce the strain on their discretionary accounts. Secondarily, by shifting beneficiaries from the FECA rolls to OPM's retirement rolls, Labor (which administers the FECA program) could better manage newly filed cases and existing caseloads of younger injured workers.

In addition to arguing that retirement benefits are more appropriate, in principle, for older FECA beneficiaries, conversion proponents cite an advantage for these beneficiaries. Survivor benefits under federal retirement are not limited to deaths related to compensable injuries, but they are so limited under FECA. Coverage under OPM's retirement systems could provide better survivor benefit coverage.

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Views of Opponents of Changing FECA Benefits

Reducing benefits for older beneficiaries would

- cause economic hardships
- create inequitable benefits
- break the FECA promise
- discriminate based on age, and
- reduce incentives for managing FECA cases and improving safety

Other steps are more appropriate to reduce FECA costs

Opponents argue that benefit reductions would cause older beneficiaries economic hardships. For example, a criticism of the 1995 proposal for conversion to retirement benefits was that in some cases these benefits would be only 5 percent of FECA benefits because service credit for retirement purposes would not be provided for the time spent on FECA rolls. Hardships resulting from conversion to retirement benefits may not

be shared equally.[5] Without protections, injured employees with few years of service or ineligible for retirement might suffer large reductions in benefits. In some cases, employees injured early in their careers may have lost promotion and other advancement potential, thereby making any retirement income based on their salary at the date of injury artificially low. Those eligible for retirement under FERS might also be disadvantaged because contributions to their thrift savings plan and the Social Security portion of their retirement plan would be discontinued while on the FECA rolls.

Opponents also view reduced benefits as breaking the workers' compensation promise. Injured workers have historically exchanged their right to tort claims for promised benefits. From this perspective, benefits that approximate predisability take-home income are justified. Reducing FECA benefits would undermine this exchange. Conversion to retirement benefits breaks this promise; benefits typically would be reduced, taxable, and partly funded by employees' contributions. Since only older beneficiaries' benefits would change, opponents also see this as age discrimination.

Agencies' anticipation of reduced workers' compensation costs could result in fewer incentives to manage claims and to develop safer working environments. The current practice of charging the cost of FECA benefits to agencies may act as an incentive by encouraging agencies to operate in accordance with FECA objectives.

Finally, opponents believe FECA costs and numbers of beneficiaries could be reduced by making work environments safer and by rehabilitating and reemploying injured workers. Also, if FECA beneficiaries are inappropriately included on the rolls, then more effective claims monitoring should take place. Furthermore, opponents believe that proposed changes would unfairly penalize those who truly have no prospect of recovery and returning to work.

[5]FECA annuities would not raise an equity issue because all annuitants would typically receive the same percentage of their previously paid FECA benefit. However, "grandfathering" current beneficiaries and changing benefits only for new beneficiaries would create unequal benefits among them.

Questions and Issues to Consider If Crafting Changes

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Questions to Consider If Crafting Benefit Change Legislation

- What type of changed benefit would be provided?
- How would benefits be computed?
- Which beneficiaries would be affected?
- What criteria would initiate changed benefits?
- How would other benefits be treated?
- How would benefits be funded?

Questions to Consider

The questions presented below reflect technical issues that Congress might consider if it were to change benefits for older FECA beneficiaries. Although we are presenting these questions as separate technical issues, these issues are often interrelated. For example, decisions about how changed benefits would be computed may raise issues about how these benefits would be funded. The questions are:

- What type of changed benefit would be provided?
- How would benefits be computed?
- Would all FECA beneficiaries be affected?
- What criteria would initiate changed benefits?
- How would other benefits, such as FECA medical benefits or survivor benefits, be treated?
- How would benefits, particularly retirement benefits, be funded?

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What Type of Changed Benefit Would Be Provided?

Past proposals suggested two approaches for reducing FECA costs:

- Convert FECA benefits to retirement benefits
- Change FECA wage-loss benefits to a newly established FECA annuity

Types of Changed Benefit

Two alternatives have been previously proposed to change the benefits for older FECA beneficiaries. One would have converted FECA benefits to retirement benefits. This alternative was based on the assumption that these older beneficiaries would typically have federal retirement benefits available. A second alternative would have changed FECA wage-loss compensation benefits to a newly established FECA annuity. The annuity alternative would have kept the changed benefit under the FECA program; it made no assumption about the availability or adequacy of retirement benefits. In some cases, eligible employees might have opted for retirement benefits rather than for the reduced FECA benefit available through the FECA annuity.

Past proposals for both alternatives have been designed to reduce FECA costs, but the approaches are different. With the conversion alternative, savings result from removing older beneficiaries from the FECA program. In contrast, savings from the FECA annuity alternative result from reducing FECA benefits for older beneficiaries by a specified percentage.

Any net savings to the government would have to take into account additional costs (or savings) with respect to providing (or not providing) federal retirement benefits. Because retirement benefits may result in federal income-tax revenue, additional savings to the government may result. As noted in the scope, we did not estimate cost/savings implications for the various proposals for change, or validate past cost/savings estimates.

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What Type of Changed Benefit Would Be Provided? (cont.)

Issues raised in conversion of FECA benefits to retirement benefits:

- requires integrating two complex systems of benefits
- allows varying retirement benefits
- changes benefits to taxable income
- creates pressure for worker protections, and
- results in widely varying savings depending on provisions

Issues for the Conversion Alternative

The retirement conversion alternative, which seeks to integrate FECA and retirement benefits, raises complex issues. The complexity arises in part from the fact that conversion could result in varying retirement benefits, depending on conversion provisions, retirement systems, and individual circumstances. Conversion to retirement benefits could also change benefits received from being tax-free to being subject to tax.

Although a conversion proposal could be written without protecting injured employees' incomes, the potential for large decreases in benefits (including no federal retirement benefit in some cases) creates pressure for protections. Designing these protections leads to considering FECA beneficiaries under many different circumstances that affect retirement eligibility and benefit levels.

In considering the conversion alternative, cost savings can vary widely, depending on conversion provisions. An Air Force sponsored study in 1992 projected net savings for a variety of conversion scenarios with differing ages of conversion and employee protections for time on the FECA rolls.[6] (The study considered only CSRS conversions.) Projected net savings ranged from 0 to about 20 percent. For the various provisions considered in that study, the older the employee when converting and the more generous the projected salary growth, the less the net savings.

[6]Terry, Mary Beth; Sharp, Jay; and Smith, Dr. David; Cost Analysis of Worker's Compensation Programs. Systems Research and Applications Corporation (Arlington, VA., Feb. 1992).

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What Type of Changed Benefit Would Be Provided? (cont.)

FECA annuity may be a simpler alternative because it:

- avoids integration of different benefit systems (FECA and retirement)
- provides consistent benefits, and
- allows benefits to remain tax free

Issues raised by changing from long-term FECA benefits to a FECA annuity:

- fixed benefits not subject to review, or
- benefits subject to adjustment

FECA Annuity Alternative

In comparison to the conversion alternative, the FECA annuity alternative would avoid issues arising from an attempt to integrate FECA and retirement benefits. Because benefits remain under the FECA system, a FECA annuity would avoid issues of unfunded liabilities for retirement systems or equity issues with respect to benefits provided by various retirement plans. Also, a FECA annuity could allow benefits to remain tax free, while approximating a taxable retirement benefit.

One issue concerning the FECA annuity is its permanence, once set. This would imply a nonreviewed, permanent benefit. One proposal would cease (1) case development, (2) rehabilitation efforts, and (3) requirements for medical examinations to prove continued disability. Another option might be an adjustable annuity based on continuing FECA reviews. The FECA proposal that implies a nonreviewed benefit also provides for 5 years of compensation before providing the FECA annuity. This might ensure a certain degree of permanence in the injury before providing a permanent annuity. Whether adjustable or not, the FECA annuity could be terminated by a beneficiary. An individual might elect retirement benefits in lieu of a reduced FECA annuity.

Making the FECA annuity permanent might have some administrative advantage. By substantially reducing the number of FECA cases that Labor must actively manage, Labor could focus more of its resources on the remaining beneficiaries who are more likely to return to work.

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What Type of Changed Benefit Would Be Provided? (cont.)

Legal issues for both retirement conversion and FECA annuity proposals

- Age discrimination is a possible legal challenge
- Statutory language may be needed to overcome provisions in other laws

Possible Legal Challenges

For both proposals, the appearance of forcing an individual into accepting retirement benefits or a reduced annuity at a specific age might be challenged as constituting age discrimination. To avoid the appearance of mandating retirement, conversion proposals have been written to “cease” FECA benefits, rather than to directly convert FECA benefits to retirement benefits. Initiating changed benefits on the basis of a retirement eligibility date rather than age might also help to avoid the appearance of age discrimination.

Either proposal might face legal challenges on the basis of alleged age discrimination. It could be argued that changing benefits for older beneficiaries violates protections against age discrimination contained in the Age Discrimination in Employment Act (ADEA). Accordingly, if Congress amends FECA to reduce injured workers’ rights and benefits once they become retirement eligible, it might consider language providing that such amendments take precedence over any otherwise inconsistent provisions of law. For example, a provision “notwithstanding any other provision of law” could be included in the amendment. The inclusion of such a provision would reduce the likelihood of successful legal challenges to reduce or eliminate FECA benefits for retirement eligible individuals on the basis of age discrimination.

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How Would Benefits Be Computed?

Options for retirement benefit computations:

- Benefits not adjusted for time on FECA rolls or
- Benefits adjusted for time on FECA rolls by
  - crediting time for retirement
  - increasing salary base, and
  - adjusting for forgone contributions to Thrift Savings Plan and Social Security for FERS employees

Computing Retirement Benefits After Conversion

Under the retirement conversion alternative, two major options for computing retirement benefits would involve either adjusting or not adjusting these benefits. The unadjusted option would allow for retirement benefits as provided by current law.[7] The adjusted option would typically ensure that time on the FECA rolls was treated as if the beneficiary had continued to work. This adjustment could (1) credit time on FECA for years of service or (2) increase the salary base (for example, increasing salary from the time of injury by either an index of wage increases or inflation, assigning the current pay of the position, or providing for merit increases and possible promotions missed due to the injury).

The conversion alternative was originally designed at a time when CSRS was the principal federal retirement system. The subsequent advent of FERS—a three-tiered retirement system of pension annuity, thrift savings plan, and Social Security benefits—raises the issue of additional possible adjustments. For those eligible for FERS benefits, adjustments to the basic annuity might be designed to reflect forgone contributions to the thrift savings plan and Social Security during time on the FECA rolls. Continuing contributions to FERS could be another option to prevent lower retirement benefits due to time on the FECA rolls.

Adjustments raise the issue of funding enhanced retirement benefits beyond those for which contributions have been made. This issue is addressed on page 54.

[7]Current law generally requires reemployment in order to receive retirement credit for the period for which FECA benefits were received. Those who remained on their agencies' rolls in a leave-without-pay status while receiving FECA benefits are an exception; they can receive credit without reemployment.

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How Would Benefits Be Computed? (cont.)

Options for FECA annuity computations:

- Annuity could be computed as a percentage of FECA benefits
- Special provisions allowed to adjust calculations (e.g., for the partially disabled)
- Formula could be targeted toward some benchmark

Computing the FECA Annuity

Under the FECA annuity alternative, proposed computations would be relatively simple. The FECA annuity would be a percentage of FECA benefits at the time the beneficiary became eligible for the annuity. The annuity has typically been proposed to be two-thirds of the previous FECA compensation benefits.

Provisions to adjust calculations for certain categories of beneficiaries also have been proposed. Partially disabled individuals receiving reduced compensation would receive the lesser of the FECA annuity or the current reduced benefit. Since this FECA annuity would be calculated based on 66-2/3 percent of gross FECA compensation, this proposal would reduce benefits only for those whose FECA compensation had not already been reduced to less than 66-2/3 percent as a result of a WEC determination. For partially disabled beneficiaries whose benefits have already been reduced, but not below 66-2/3 percent, further reductions would have a floor of 66-2/3 percent of gross FECA compensation. Under one proposal, actively employed federal employees with partial disabilities would be excluded from any change in FECA benefits.

FECA annuity computations could be devised to achieve certain benchmarks. For example, the formula for a FECA annuity could be designed to approximate a taxable retirement annuity. A FECA annuity of 66-2/3 percent of FECA compensation benefits has been justified as approximating the income replacement rate as a taxable retirement benefit.

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Which Categories of Beneficiaries Would Be Affected By Changes?

If converted to retirement benefits, exempted categories might be:

- Injured workers ineligible for federal retirement benefits
- Participants in specialized federal retirement systems

Other exempted categories might be:

- Partially disabled
- Current versus future FECA beneficiaries

Under previous proposals, conversion to retirement benefits might not have affected participants in every federal retirement system. For example, a 1981 proposal allowed disabled employees who were under retirement systems dissimilar to CSRS to remain on FECA, at comparable CSRS benefit levels, pending a study of long-term solutions. In effect, this would have constituted conversion for some beneficiaries and FECA annuity-like benefits for others. Since FERS covers most employees hired after 1983, any current conversion proposal might have to consider the

treatment of FERS participants, in light of differences between CSRS and FERS.

One conversion decision concerns whether to exempt injured workers who are ineligible for federal retirement benefits. Ineligible workers include, for instance, those without 5 years of federal service under CSRS, those who have withdrawn retirement contributions, temporary workers, and state and local police covered under special FECA provisions. The Reagan administration's 1981 proposal, for example, excluded state and local police from changed benefits.

Provisions might be devised to make individuals eligible for retirement conversion benefits. For example, those who have insufficient years of service to be vested might be given credit for time on the FECA rolls until vested. Those who have withdrawn their retirement contributions might, or might not, be required to repay them.[8]

Another option would be exempting partially disabled FECA beneficiaries. One proposal for a FECA annuity excluded the partially disabled from changed benefits while they were active federal employees; other proposals did not include this exemption. Past proposals have differed as to whether changes might affect both current or only new FECA beneficiaries.

Exempting current beneficiaries delays receipt of full savings from FECA cost reductions to the future. Another option might be a transition period for current beneficiaries. For example, current beneficiaries could be given notice that their benefits would be changed after a certain number of years.

[8]Future FECA beneficiaries might be prohibited from withdrawing contributions to foreclose this source of ineligibility.

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What Criteria Would Initiate Changed Benefits?

Past proposals have set primary criterion of either

- Age or
- Retirement eligibility

Issues for primary criterion include

- ensuring retirement eligibility criteria covers all FECA beneficiaries and
- setting a benchmark to target the criterion

Defining the Point of Changed Benefits

Past proposals have used either age or retirement eligibility as the primary criterion for changing benefits. Secondary criteria—criteria that would modify the time of changed benefits from that indicated by the primary criterion—have also been proposed.

With regard to the primary criterion, if retirement eligibility is used, consideration must be given to establishing eligibility for those who might otherwise not become retirement eligible. For example, at least for the purposes of initiating the changed benefit, time on the FECA rolls might be treated as if it counted for service time toward retirement eligibility. This same solution might also be needed in the case of the FECA annuity option when retirement eligibility dates would be used as the criterion for changing benefits.

Benchmarks might be developed to guide the establishment of primary criterion based on either age or retirement eligibility dates. For example, age criterion might be benchmarked against the average age of retirement for federal employees or the average age of retirement for all employees. One argument for using retirement age of nonfederal workers as a criterion states that many federal employees take jobs in the private sector after leaving federal jobs and, therefore, retire at ages more typical of the private sector. One past proposal used a benchmark relative to individual retirement eligibility—that is, 2 years after retirement eligibility—based on research indicating that most federal employees retire by that point.

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What Criteria Would Initiate Changed Benefits? (cont.)

Secondary criteria could modify the date of initiating changed benefits, for example:

- Time on FECA rolls treated as service time to make beneficiaries retirement eligible
- Average retirement age of federal employees or all employees used as a benchmark

Possible Secondary Criteria to Initiate Changed Benefits

Some past proposals have included secondary criteria to delay changed benefits for those who would immediately or shortly meet the primary criterion at the time of injury. For example, one proposal would change benefits after the primary criterion of age was met or after 5 years of FECA benefits, whichever was later. The intent of such a delay was evidently to ensure that the employee has an opportunity to recover and return to work before changing benefits. Without such a protection, under the retirement conversion alternative, an older injured person might face conversion to retirement benefits even when recovery and return to work is almost assured. For the FECA annuity option, delaying an otherwise immediate annuity might better ensure that the annuity reflected a more permanent disabling condition.

Secondary criteria could also provide for earlier changed benefits. One proposal has been to commence changed benefits when the FECA beneficiary receives other benefits, such as Social Security, which are based on age. If these conditions were met, this secondary criterion would take precedence over the primary criterion. The apparent rationale is that this secondary criterion reinforces the presumption that the person would be retired from the federal service but for the injury.

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How Would Other Benefits Be Treated?

Would FECA medical and other nonwage loss benefits continue?

What survivor benefits would be provided?

Which agency or agencies would administer these other benefits?

Treatment of Other Benefits

In addition to changing FECA compensation benefits, consideration should be given to whether to change other FECA benefits, such as medical benefits or survivor benefits.

For example, the 1981 administration proposal would have ended survivor benefits under FECA for those beneficiaries whose benefits were converted to the retirement system. Survivor annuities under the federal retirement system are not contingent on the cause of death, whereas survivor benefits under FECA are only available when the death is related to compensable injuries. Thus, the coverage of survivor benefits would have changed if this proposal had become law.

Other options involve administering the benefits. OPM now administers retirement annuity benefits for federal employees; Labor administers FECA benefits. Assuming that beneficiaries remain eligible for noncompensation benefits arising from the injury; under a conversion to retirement benefits, which agency or agencies would administer these benefits? Although it might be advantageous to consolidate case management in one agency, such as OPM if the retirement conversion alternative were selected, the agency chosen to manage the case might have to develop an expertise it does not currently possess. For instance, OPM might have to develop an expertise in medical fee schedules to control workers' compensation medical costs.

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How Would Changed Benefits Be Funded?

For conversions, retirement fund shortfalls could be funded through:

- Lump-sum payment at conversion
- Pay-as-you-go after conversion
- Contributions before conversion

Several sources might pay for funding

Continued retirement contributions might be appropriate, even under the FECA annuity approach

For the retirement conversion alternative, another issue is the funding of any retirement benefit shortfall. Currently, agencies and individuals do not pay retirement contributions based on FECA benefits; thus if retirement benefits exceed those for which contributions have been made, retirement funding shortfalls would occur.

Retirement funding shortfalls could be financed through at least three general options: First, lump-sum payments could be made by agencies at

the time of the conversion. This option has been criticized because the start-up cost was considered too high. Second, shortfalls could be covered on a pay-as-you-go basis after conversion. For example, agencies might make annual payments to cover the shortfall resulting from the conversions. Third, agencies' and employees' contributions to the retirement fund could continue before conversion, preventing shortfalls at conversion.

Another consideration relates to which agency would pay for the changed benefit. Possible sources include the agency that last employed the FECA beneficiaries or the agency (or agencies) administering the benefit. Considerations of the impact on agencies' budgets and agencies' incentives to control and manage safety and injury cases might help to shape choices between sources of funding.

Some conversion proposals would have FECA beneficiaries continue their retirement contributions. A transition issue becomes whether current beneficiaries would be required to make up retirement contributions for their time on FECA rolls. Another funding issue is whether FECA beneficiaries would be required to repay withdrawn contributions from the retirement fund.[9]

Proposals for the FECA annuity alternative typically keep funding under the current FECA chargeback system. This is an annual pay-as-you go system, with agencies paying for the previous year's FECA costs.

[9] In the 1981 proposal, for example, agencies would pay for any shortfalls for current FECA beneficiaries, but only for the agencies' share of contributions for new beneficiaries. Past withdrawals of contributions would be forgiven; withdrawals after enactment would be prohibited for the totally disabled; and withdrawals by those partially disabled would be allowed with the loss of associated future retirement benefits.

Programs That Provide Income Benefits to Disabled Federal Workers

Under FECA, eligible employees who are injured on the job or who suffer job-related illnesses are entitled to workers' compensation benefits.[1] Individuals who are unable to perform useful and efficient service as a result of nonjob-related injuries or illnesses or who are unable to return to the job they held before their work-related injury may be eligible for benefits from other federal programs. Some of the more common benefits these employees may be eligible for include (1) disability retirement benefits under either the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS) or (2) SSDI benefits. Descriptions of these programs, their eligibility requirements, and how their benefits are coordinated are described below.

FECA

Under FECA, workers' compensation benefits are authorized for employees who suffer temporary or permanent disabilities resulting from work-related injuries or diseases. FECA is administered by Labor's Office of Workers' Compensation Programs (OWCP). FECA benefits include payments for (1) loss of wages when employees cannot work because of work-related disabilities due to traumatic injuries or occupational diseases, (2) schedule awards for loss of, or loss of use of, a body part or function, (3) vocational rehabilitation, (4) death benefits for survivors, (5) burial allowances, and (6) medical care for injured workers.

Wage-loss benefits for eligible workers' with temporary or permanent total disabilities are generally equal to either 66-2/3 percent of salary for a worker with no spouse/dependent or 75 percent of salary for a worker with a spouse/dependent. Wage-loss benefits can be reduced based on employees' wage-earning capacities when injured workers are capable of working.

CSRS and FERS

In addition to employees becoming disabled as a result of work-related injuries, employees may also suffer nonemployment related injuries or illnesses that prevent them from performing useful and efficient service. In either case, employees may be entitled to disability retirement benefits under either CSRS or FERS.[2] The Office of Personnel Management (OPM) is responsible for administering benefits under these systems.

[1]For more information on workers' compensation programs, see our report entitled Workers' Compensation: Selected Comparisons of Federal and State Laws, (GAO/GGD-96-76, Apr. 3, 1996)

[2]Employees who recover from work-related injuries, but are unable to perform useful and efficient service may also be eligible for CSRS or FERS disability retirement benefits.

Employees covered by CSRS must have completed at least 5 years of federal civil service to be eligible for disability annuities. A claim for disability retirement must include information that establishes the following:

- a deficiency in service with respect to performance, conduct, or attendance, or in the absence of a deficiency, a showing that the medical condition is incompatible with either useful service or retention in the position;
- a medical condition defined as a disease or injury that caused the service deficiency;
- a medical condition that will in all probability, continue for at least 1 year;
- the inability to provide useful and efficient service that arose while serving under CSRS;
- the inability of the employing agency to make a reasonable accommodation to the medical condition; and
- the absence of another position, within the employing agency or commuting area, at the same grade or pay level and tenure, to which the employee is qualified for reassignment.

Up to the age of 60, OPM may require individuals to undergo periodic medical reevaluations to determine whether their disabling conditions continue to exist. OPM also monitors individuals' earnings to determine if they have restored earning capacities. Earning capacity is considered restored if, in any calendar year, income from wages or self-employment or both equals at least 80 percent of the current rate of pay for the position occupied immediately before the disability retirement.

Under CSRS, eligible individuals receive disability retirement benefits that are the higher of (1) the amount of their earned annuity based on a percentage of their highest 3-years average salary[3] or (2) the lower of 40 percent of the highest 3-years average salary or the earned annuity if the individuals' length of service was extended to age 60.

Under FERS, employees must have at least 18 months of creditable service to qualify for disability benefits and generally must meet the same conditions as those cited above for CSRS disability benefits. In the first year of disability under FERS, eligible individuals would receive 60 percent of their high-3 average pay minus 100 percent of any Social Security disability benefits they receive. After the first year and until age 62, benefits would be 40 percent of the high-3 average pay reduced by 60 percent of the Social

[3]In effect, this amount would be the equivalent of an employee's regular retirement benefit without age reduction.

Security disability benefits received. If an individual's earned annuity (1 percent times high-3 average pay times years of service) was higher than the above amounts, the individual would receive the higher amount. Eligible employees' benefits are recomputed at age 62 as if they had continued working until age 62 and also take into consideration all FERS cost-of-living adjustments that took effect while they were receiving disability benefits. Under both FERS and CSRS, survivor benefits would be available for eligible claimants.

SSDI

Some individuals who are unable to do any kind of work for which they are suited and whose disabilities are expected to last at least 1 year may be eligible for SSDI benefits. Injuries or illnesses causing these disabilities may or may not be work related. Unlike some individuals who may receive either FECA, CSRS, or FERS benefits when they are partially disabled, individuals with partial disabilities are not eligible for SSDI benefits. The Social Security Administration is responsible for administering the SSDI program.

To qualify for SSDI, employees must have worked long enough and recently enough in employment covered by Social Security. Generally, individuals need to accumulate 20 work credits[4] in the last 10 years to qualify for SSDI benefits; younger workers can qualify with fewer credits. Individuals' monthly SSDI benefits are based on their lifetime average earnings covered by Social Security. After receiving SSDI benefits for 2 years, individuals are automatically entitled to Medicare benefits. At age 65, individuals are switched from SSDI benefits to Social Security retirement benefits in the same amount.

Coordination of Benefits

Employees eligible for FECA benefits could also be eligible for CSRS or FERS disability benefits from OPM or SSDI benefits from the Social Security Administration. Depending on which benefits employees are entitled to, employees might have to make an election between them. In many cases in which individuals receive benefits from different programs simultaneously, one benefit would likely be offset against the other.

Disabled individuals who are eligible must make an election between FECA wage-loss benefits and either CSRS or FERS disability benefits, since as a

[4]Individuals can earn up to 4 credits a year. The amount of earnings required to earn a credit increases each year as general wage levels increase.

general rule,[5] they may not receive both benefits at the same time. This election is not irrevocable. Individuals have the right to elect the monetary benefit that is the most advantageous. FECA benefits may be more advantageous because they are not subject to federal income taxes and, therefore, could result in take-home income that could approximate an employee's preinjury, after-tax income.

Eligible injured employees covered by FERS or their survivors who qualified for social security old age benefits or Social Security survivor benefits would have their FECA benefits offset by the amount of Social Security benefits attributed to the employee's federal service. Other FECA beneficiaries (e.g., employees covered under CSRS) who qualify for SSDI benefits would have a portion of these benefits offset by the amount of FECA benefits received.

FECA benefits and SSDI benefits cannot exceed 80 percent of an individual's average current earnings before becoming disabled.

[5]The exception to the rule being FECA schedule award benefits for the loss of, or loss of use of, a body part or function. Individuals can generally receive benefits from other programs and FECA schedule award benefits at the same time.

Long-Term Disability Cases and Periodic Roll Management Project

OWCP places employees with permanent disabilities or injuries that have lasted or are expected to last for prolonged periods (over 1 year) on the periodic rolls.[1] By placing individuals with long-term compensable disabilities on the periodic roll, OWCP can better ensure that they receive regular payments of workers' compensation benefits. In addition to adjudicating new FECA claims, OWCP's claims examiners are responsible for reviewing periodic roll cases to ensure that payments are correct and that individuals continue to be entitled to benefits.

To address the growth in the number of periodic roll cases and the rise in workers' compensation costs that occurred between 1980 and 1991, OWCP instituted the Periodic Roll Management (PRM) project in 1992 to assist its permanent staff in managing its long-term roll cases. For the PRM project, experienced claims examiners direct teams of other examiners and support staff working under 4-year term appointments. PRM staff are responsible for screening long-term disability cases for those needing medical examinations, medical and vocational rehabilitation, and placement assistance. Permanent staff, relieved of labor-intensive roll maintenance, are able to devote increased attention to the management of new FECA disability cases, according to an OWCP official.

In fiscal year 1992, OWCP initiated the PRM project in four of its district offices. In fiscal year 1995, the project was expanded to five additional district offices. Budget reductions in fiscal year 1996 caused OWCP to terminate the fiscal year 1992 teams short of their terms. The administration's budget calls for the PRM project to be expanded to the remaining district offices in fiscal year 1997. Of the approximately 50,000 periodic roll cases scheduled for review under this project, PRM teams had reviewed about 33,000 of them through March 1996. Benefits have been adjusted or terminated in 9,748 cases. Total estimated savings through fiscal year 1996 for the 9 offices that have implemented the PRM project are $182 million.

[1]Periodic roll cases are sometimes referred to as long-term roll cases.

Information on Federal Aviation Administration's FECA Beneficiaries

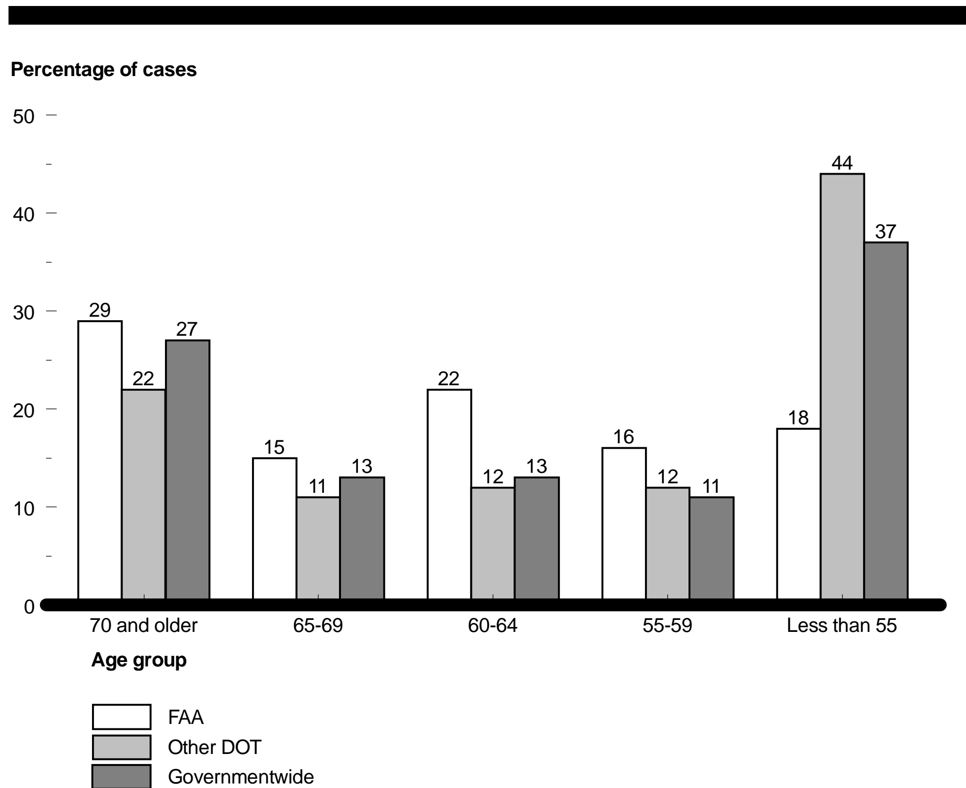
The mandate for our study arose from a concern that the federal workers' compensation program has become, in effect, a retirement system for some workers' compensation beneficiaries. This concern arose during deliberations on the fiscal year 1996 appropriations for DOT and the Federal Aviation Administration (FAA). Since the situation for DOT and FAA may be somewhat unique compared with the federal government as a whole, we agreed with subcommittee staff to study this issue on a governmentwide basis and to provide some comparative information on FAA and DOT.

According to a DOT official, the high costs for wage compensation for air traffic controllers in FAA—due to their relatively high salary bases—make DOT's FECA profile somewhat unusual. This official suggested that statistical averages may be somewhat misleading about current trends because the averages reflect a large number of FAA claimants who were added to the rolls in the 1970s. This official told us that increases in FECA costs for FAA have been below governmentwide averages for the last 10 years.

FAA's long-term FECA beneficiaries were unique when compared to beneficiaries from all other DOT agencies or all other government agencies. FAA's FECA beneficiaries tended to be older, had higher average compensation, and were more likely to have suffered from certain occupational diseases and injuries.

As shown in figure III.1, the percentage of long-term, totally disabled FAA FECA beneficiaries in every older age category exceeded the respective percentages of totally disabled beneficiaries from other DOT agencies or from other government agencies. Only 18 percent of FAA's 1,048 FECA beneficiaries were under 55 years of age, compared to 44 percent for the 198 other DOT beneficiaries and 37 percent of the other 33,375 government beneficiaries. Beneficiaries from the rest of DOT tended to be somewhat younger than beneficiaries from other government agencies. If partial disability cases were included, 19 percent of FAA's FECA beneficiaries were under age 55 compared to 40 percent for all FECA beneficiaries.

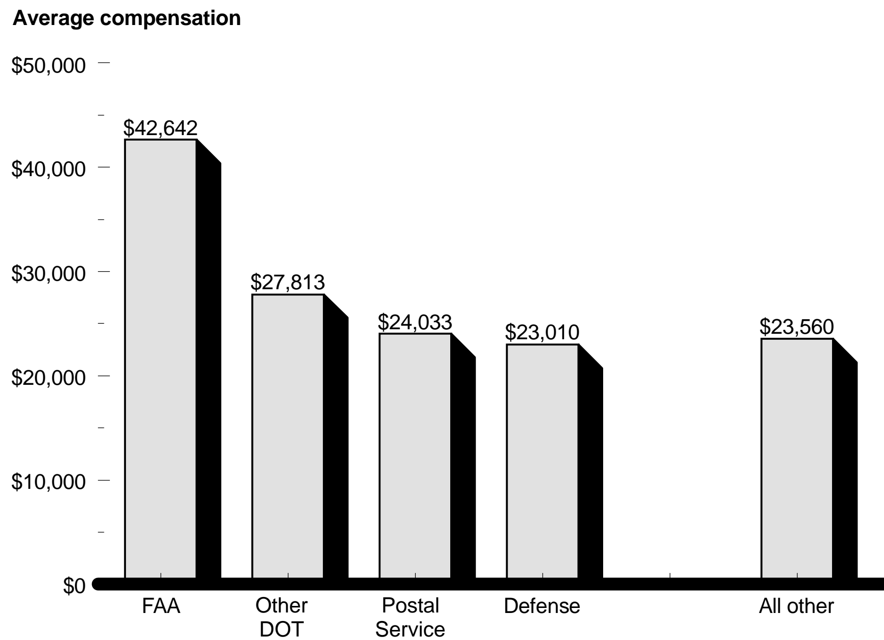
Figure III.1: Percentage of Total Disability Cases on Periodic Rolls by Age for Selected Governmental Units, (Year Ending June 30, 1995)



Source: GAO analysis of Labor data.

As shown in figure III.2, the average compensation for long-term, total disability cases was considerably higher for FAA's FECA beneficiaries than beneficiaries elsewhere in the government. At $42,642, it exceeded the average for beneficiaries from the rest of DOT by about $14,800. The governmentwide average of $24,103 (not shown in figure) was 57 percent of that amount. (Including long-term, partially disabled beneficiaries in the analysis reduces the average to $39,919 for FAA beneficiaries; the corresponding governmentwide average of $21,490 was 54 percent of the FAA average.)

Figure III.2: Average Compensation for Total Disability Cases on the Periodic Rolls by Selected Governmental Units, (Year Ending June 30, 1995)

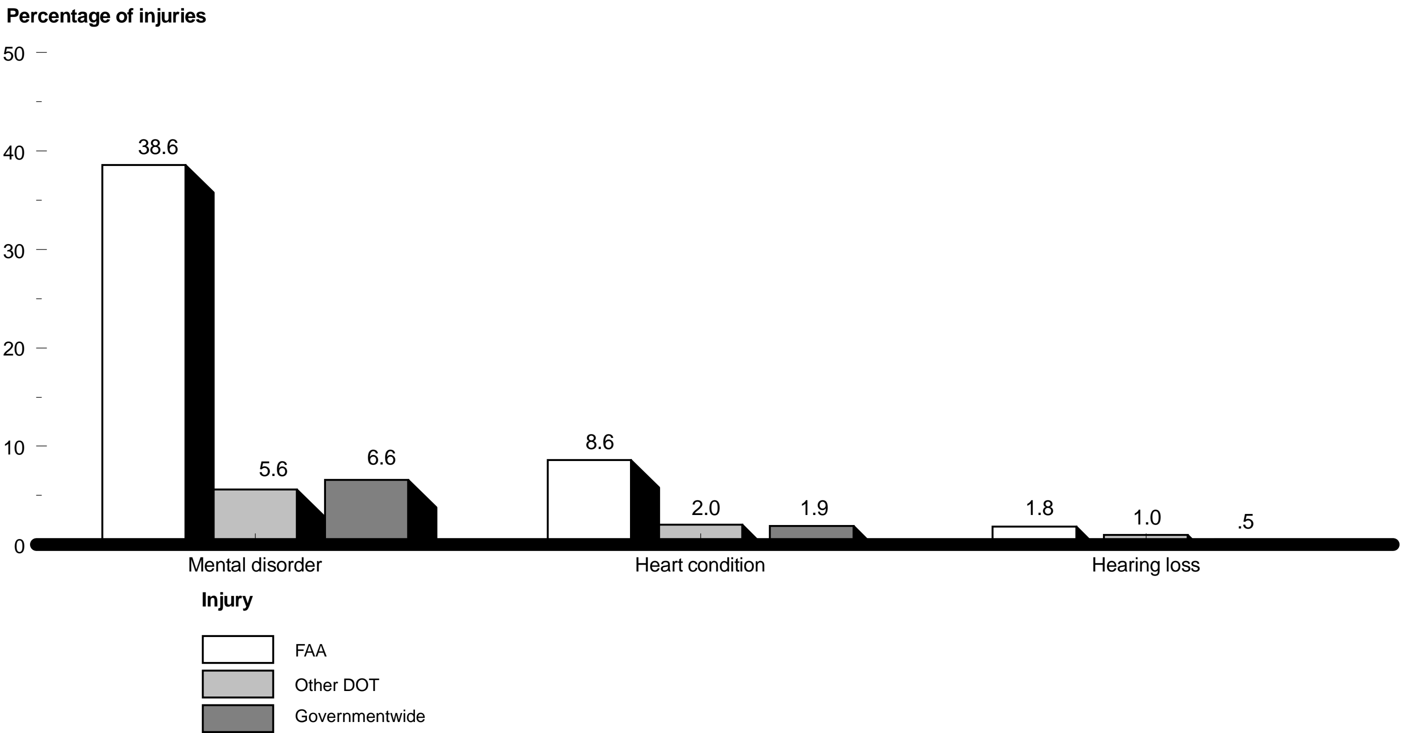


Source: GAO analysis of Labor data.

FAA's FECA beneficiaries with total disabilities were more likely to be on the rolls with certain injuries—mental disorders, heart conditions, and hearing loss—than were other beneficiaries. Figure III.3 shows, for example, that FAA's FECA beneficiaries were over five times as likely as governmentwide beneficiaries to be on the rolls for a mental disorder. The distribution for beneficiaries from the rest of DOT was more similar to the governmentwide distribution than that for FAA's FECA beneficiaries.[1]

[1]However, the relatively small number (198) of beneficiaries analyzed from the rest of DOT may make the small percent comparisons sensitive to the presence or absence of a single case.

Figure III.3: Percentage of Total Disability Cases on the Periodic Rolls by Selected Injuries and Governmental Units, (Year Ending June 30, 1995)



Source: GAO analysis of Labor data.

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