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United States Government Accountability Office
Washington, DC 20548

November 26, 2012

The Honorable John Kline
Chairman
The Honorable George Miller
Ranking Member
Committee on Education and the Workforce
United States House of Representatives

The Honorable Tim Walberg
Chairman
The Honorable Lynn Woolsey
Ranking Member
Subcommittee on Workforce Protections
Committee on Education and the Workforce
United States House of Representatives

Subject: *Federal Employees' Compensation Act: Analysis of Proposed Changes on USPS Beneficiaries*

In 2010, the Federal Employees' Compensation Act (FECA) program paid $1.9 billion in cash benefits to federal workers who sustained injuries or illnesses while performing federal duties.[1] The U.S. Department of Labor (Labor) administers FECA and bases FECA benefits on an employee's wages at the time of injury and whether the employee has eligible dependents. In addition, consideration is given to the beneficiary's ability to work after the injury.[2] Specifically, beneficiaries unable to return to work—total disability beneficiaries—who have an eligible dependent are compensated at 75 percent of gross wages at the time of injury and those without an eligible dependent are compensated at 66-2/3 percent. These benefits are adjusted for inflation and are not taxed nor subject to age restrictions. Some policymakers have raised questions about the level of FECA benefits, especially compared to the retirement benefits under the Federal Employees Retirement System (FERS), which generally covers employees first hired in 1984 or later.

[1] The receipt of FECA benefits is generally the exclusive remedy for being injured on the job and a federal employee is prohibited from suing his or her employer or recovering damages for such injury under another statute.

[2] Beneficiaries who are determined to have some wage earning capacity—partial disability beneficiaries—are compensated based on the difference between wages at the time of injury and wages that Labor determines they are able to earn. Those with a dependent are compensated at 75 percent of this difference and those without an eligible dependent at 66-2/3 percent of the difference.

A proposal by Labor to revise FECA includes the following changes to the benefits for future total and partial disability beneficiaries:[3]

- Set initial FECA benefits at a single rate (70 percent of applicable wages at time of injury), regardless of whether the beneficiary has eligible dependents.[4]
- Convert FECA benefits to 50 percent of applicable wages at time of injury—adjusted for inflation—once beneficiaries reach the full Social Security retirement age.

A large proportion of FECA beneficiaries were employed by the U.S. Postal Service (USPS) at the time of their injury—43 percent of 2010 FECA beneficiaries were USPS employees. To consider the effects of these proposed changes on USPS FECA beneficiaries, we evaluated (1) What would be the effect of compensating total disability USPS FECA beneficiaries at a single rate regardless of having dependents, as proposed by Labor? and (2) How would FERS and total disability FECA benefits in retirement compare for USPS beneficiaries under current FECA and Labor's proposed FECA revision?

Scope and Methodology

This report uses the same methods as our October 2012 FECA report, which addressed the same objectives for non-postal FECA beneficiaries.[5] We describe our methodology below; however, for a complete description of our methodology for both objectives, see appendix II of GAO-13-108. For details specific to the USPS analysis see enclosure I of this report.

To address our objectives, we conducted simulations to compare FECA benefits with (1) actual take-home pay[6] in 2010, and (2) actual FERS benefits in 2010.[7] We limited the analysis in this report to FECA beneficiaries who were employed by USPS at the time of injury, USPS workers, and USPS annuitants covered under FERS.[8] We examined the effects of the proposed FECA revisions on those FECA beneficiaries who were considered to be totally disabled, i.e., they had no wage earning capacity. FECA benefits were not designed to increase at a rate comparable to pay increases an individual could have received through step increases or promotions (career growth) if he or she had never been injured. However, our analysis factors in career growth to provide a comparison between FECA benefits and the take-home pay the beneficiary could have received, absent an injury. We considered how these effects varied across certain subgroups of employees, including those based on the presence of a dependent, the extent of missed income, and years of service. To conduct our simulations, we used data from the 2010 Integrated Federal Employees' Compensation System (iFECS); 1995-2010 USPS Human Capital Enterprise System (HCES); 2010 FERS annuitant data; 2000-2012 Thrift Savings Plan (TSP) data; and Social Security benefit data from the Master Beneficiary Record (MBR). We determined that the data we used were sufficiently

[3] The proposal analyzed is Labor's "Federal Injured Employees' Reemployment Act of 2010" technical assistance discussion draft, January 13, 2011. The proposed changes would not affect the benefits of current FECA recipients.
[4] Generally, the proposal decreases benefits for beneficiaries with dependents and increases benefits for those without dependents compared to the current program.
[5] GAO, *Federal Employees' Compensation Act: Analysis of Proposed Program Changes*, GAO-13-108 (Washington, D.C.: October 26, 2012).
[6] We defined take-home pay as gross wages reduced by mandatory retirement contributions and federal and state income taxes (assuming a single dependent) and did not take discretionary deductions into account.
[7] The analyses were based on snapshots in 2010 and did not consider any cumulative effects of the proposed FECA revisions on lifetime income.
[8] Partial disability beneficiaries—who have some capacity to earn wages— were beyond the scope of this work, in part because Labor does not keep data about their total income (including any earnings) in an electronic database.

reliable for the purposes of the report.

To consider the effect of compensating total disability USPS FECA beneficiaries at the single rate of 70 percent —which we refer to as “revised FECA”—we conducted a simulation that compared the extent to which FECA and the proposed revision would replace a USPS beneficiary’s take-home pay. Since we cannot observe a beneficiary’s missed career path and missed wages, we analyzed a set of USPS employees who had never been injured and who were employed at the end of fiscal year 2010. We matched recent total disability USPS FECA beneficiaries to these USPS employees in order to ensure the two groups of individuals were similar.[9] Our match was based on work-related characteristics, such as whether an employee was characterized by USPS as having a blue-collar or white-collar occupation. We also included personal characteristics that may be important in terms of career and wage growth, such as the date and age when the employees started their federal careers, as well as their wage histories prior to the injury. Once we matched the two sets, we simulated injuries on the uninjured USPS workers, timed to coincide with the corresponding FECA beneficiary’s injury. From that point forward, we only considered the matched set of USPS employees—and not the FECA beneficiaries—in our analysis.[10] Based on the USPS employees’ actual wages at the time of the simulated injury, we calculated their hypothetical FECA and revised FECA benefits, which we simulated based on gross wages at the time of injury. We applied cost-of-living adjustments to project the initial benefits to 2010. Having determined the 2010 FECA benefits (simulated) and 2010 earnings (actual) for each of these USPS employees, we were able to calculate the proportion of 2010 take-home pay replaced by the simulated FECA benefit, or wage replacement rate.[11]

By using 2010 take-home pay, we factor missed career growth into the wage replacement rates we calculate. Although, as mentioned above, FECA was not designed to compensate for missed career growth, we used a matching methodology that allows us to measure the adequacy of benefits with respect to the counterfactual. Specifically, we capture the extent to which FECA beneficiaries are able to maintain the standard of living they would have had absent an injury. Alternatively, one could use a method that does not account for missed career growth. For instance, our 1998 FECA report calculated wage replacement rates by comparing FECA benefits to take-home pay at the time of injury, adjusted for inflation. That approach measured the degree to which beneficiaries were able to maintain the standard of living they would have had at the time of injury.[12] The

[9] For more details on the similarity of the matched sets of FECA beneficiaries and USPS employees, see enclosure I.

[10] We focus solely on the USPS worker—rather than the USPS FECA beneficiary—because doing so is more precise than comparing the benefit of the FECA beneficiary to the earnings of the matched USPS worker. By considering only the USPS worker, we are able to capture the wage replacement rate, the proportion of take-home pay replaced by FECA, in a way that meaningfully accounts for career growth while avoiding undue imprecision in wage replacement rates that could be attributed to salary differences between the USPS worker and the matched FECA beneficiary.

[11] Policymakers can target wage replacement rates; however, there is no consensus on the appropriate wage replacement rate for workers’ compensation programs, such as FECA. Such decisions involve balancing the goals of benefit adequacy and incentives to return to work. In 1972, the National Commission on State Workmen’s Compensation Laws endorsed a move towards 80 percent of spendable pay or take-home pay. A 1998 GAO report on FECA also cited this 80 percent benchmark; see GAO, *Federal Employees’ Compensation Act: Percentages of Take-Home Pay Replaced by Compensation Benefits*, GAO/GGD-98-174 (Washington, D.C.: August 1998). In 2004, a report by the National Academy of Social Insurance used two-thirds of gross wages as a target replacement rate for workers’ compensation programs. See H. Allan Hunt, editor, *Adequacy of Earnings Replacement in Workers’ Compensation Programs, A Report of the Study Panel on Benefit Adequacy of the NASI Workers’ Compensation Steering Committee* (Washington D.C.: 2004).

[12] See GAO/GGD-98-174. In part because of the data available at the time of the report, GAO/GGD-98-174 calculated wage replacement rates that did not account for missed career growth; instead, it accounted for cost of living adjustments for federal workers and FECA beneficiaries. The report found that, on average, FECA benefits replaced over 95 percent of wages at the time of injury for beneficiaries, including both postal and non-postal beneficiaries.

availability of additional data and the improved methods employed in our current analysis allow us to present an assessment of the adequacy of benefits that includes career growth.[13]

Similarly, to compare FERS to total disability FECA benefits for those injured while working for USPS, we again relied on a matching technique, and conducted our analysis for both current FECA and the proposal to reduce benefits at retirement age, which we refer to as “reduced FECA.” Since we cannot observe the FERS benefits a FECA beneficiary would have received absent an injury, we matched recent total disability USPS FECA beneficiaries with similar FERS annuitants who retired from USPS to compare outcomes.[14] This approach captures retirement benefits in the counterfactual case of having never been injured and is consistent with the approach we used in the first objective of this report and in our February 2012 FECA report, which compared FECA benefits to retirement benefits under the Civil Service Retirement System.[15] As before, we simulated injuries for the matched set of USPS FERS annuitants and calculated their hypothetical FECA benefits—at current FECA compensation rates and the proposed reduction to 50 percent of applicable wages, once a beneficiary reaches retirement age. We projected these simulated FECA benefits to 2010 and compared these FECA benefits, supplemented by a TSP annuity, to the actual FERS benefit packages.[16] The FERS benefit package includes the FERS annuity, Social Security benefits, and TSP annuities.[17] However, FERS had only been in place 26 years in 2010, so we do not capture a fully mature system.[18] Over time, FERS benefits would likely increase as some annuitants would have longer federal careers, so our calculation likely understates future FERS benefits. Since Labor’s proposal would only affect future FECA beneficiaries, we conducted a final simulation to account for a mature FERS. In this simulation, we examined the effects of missing part of a 30-year career due to injury. Specifically, we used the same USPS annuitants as above and extended their work histories to cover a 30-year period, which allowed us to estimate retirement benefits based on a 30-year career given their wage histories. Again we simulated injuries and calculated hypothetical FECA and reduced FECA benefits.[19]

We conducted this performance audit from October to November 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Summary of Findings

Under our simulation, compensating all USPS FECA beneficiaries at 70 percent of wages at the time of injury reduced the overall median wage replacement rate—the percentage of take-home pay

[13]For additional discussion of the merits of accounting for missed career growth in assessing the adequacy of benefits, see Hunt, 2004.
[14] For details on the match and subsequent analysis, see enclosure I of this document and appendix II of GAO-13-108.
[15]See GAO, *Federal Employees’ Compensation Act: Benefits for Retirement-Age Beneficiaries* GAO-12-309R (Washington, D.C.: February 6, 2012).
[16] FECA beneficiaries cannot receive FECA benefits concurrently with the FERS annuity. Further, Social Security benefits attributable to federal service are offset by FECA after retirement.
[17] We assumed that individuals chose a single life TSP annuity that was not adjusted for inflation.
[18] By mature FERS, we mean a retirement system in place at least 30 years to give a full range of income levels and investment growth. Our current data has limited observations on FERS annuitants with more than 25 years of service. Without taking account of the mature system, we understate the future FERS benefit.
[19] We then simulated different scenarios by varying the percentage an individual contributed to the TSP and the rate of growth for TSP balances. Please see appendix II of GAO-13-108 for more details about our simulation of a mature FERS.

replaced by FECA—from 88 to 84 percent.[20] In comparing wage replacement rates of those beneficiaries with and without a dependent, we found that beneficiaries with an eligible dependent had a median wage replacement rate that was 3 percentage points greater than that of beneficiaries without a dependent under current FECA. The proposed revision increased the magnitude and reversed the direction of this difference. Beneficiaries with an eligible dependent had a median wage replacement rate that was 8 percentage points less than that of beneficiaries without a dependent.

With regard to Labor's proposal to reduce FECA benefits at Social Security retirement age, we found that in 2010, the median FECA benefit package (FECA and TSP) was 37 percent higher than the median current FERS benefit package (FERS, TSP, and Social Security) and that Labor's proposal would result in the reduced FECA package being roughly equal to the FERS package for 2010 USPS annuitants.[21] Our final simulation of a mature FERS system—intended to reflect future benefits of federal workers with 30-year careers—found that the median FECA benefit package was 13 percent greater or 4 percent less than the median FERS retirement benefit package, depending on TSP contributions. Under the mature FERS simulation, the median reduced FECA benefit was 22 or 29 percent less than the median FERS benefit package, again depending on TSP contributions.

Background

FECA provides cash benefits to eligible federal employees who suffer temporary or permanent disabilities resulting from work-related injuries or diseases. Labor's Division of Federal Employees' Compensation in the Office of Workers' Compensation Programs (OWCP) administers the FECA program and charges agencies for whom injured employees worked for benefits provided. These agencies subsequently reimburse Labor's Employees' Compensation Fund from their next annual appropriation. FECA benefits for total disability beneficiaries are set at 75 or 66-2/3 percent of their wages at the time of injury, for those with and without eligible dependents respectively. These benefits are adjusted annually for cost-of-living increases and are neither subject to age restrictions nor taxed.

One way to measure the adequacy of FECA benefits is to consider wage replacement rates, which are the proportion of pre-injury wages that are replaced by FECA. Wage replacement rates that do not account for missed career growth capture the degree to which a beneficiary is able to maintain his or her pre-injury standard of living. However, FECA and other workers' compensation programs were not designed to account for missed income due to career growth. Wage replacement rates that account for missed income growth capture the degree to which a beneficiary is able to maintain his or her foregone standard of living. Data limitations can preclude calculating wage replacement rates that account for missed income growth; however, doing so provides a more complete story of the comparison between an injured worker and his or her counter-factual of having never been

[20] Median wage replacement rates for USPS FECA beneficiaries were generally higher than those of other non-USPS beneficiaries discussed in GAO-13-108. In that report, Labor's proposed revision reduced the median wage replacement rate from 80 to 77 percent. USPS FECA beneficiaries have a higher wage replacement rates because USPS workers generally experienced less income growth than the non-USPS workers discussed in GAO-13-108.

[21] In general, FECA benefits for USPS annuitants compared more favorably to FERS than did FECA benefits for other federal workers that we analyzed in GAO-13-108. Specifically, in that report we found that in 2010 the median FECA benefit package was about 32 percent greater than the median FERS benefit package.

injured. Wage replacement rates can be targeted by policy-makers; however, there is no consensus on what wage replacement rate policies should target.[22]

FECA beneficiaries receive different retirement benefits than their retired counterparts. Specifically, under FERS, federal retirees have a benefit package comprised of three components: the FERS annuity, which is based on years of service; the TSP, which is similar to a 401(k); and Social Security benefits.[23] FECA benefits do not change at retirement age and beneficiaries cannot receive a FERS annuity and FECA benefits simultaneously. In addition, FECA beneficiaries cannot contribute to their TSP accounts post-injury, but they can receive benefits accrued from contributions made to their TSP accounts prior to being injured. In addition, Social Security benefits attributable to federal service are offset by FECA.

Compensating USPS FECA Beneficiaries at the Single Rate of 70 Percent Would Reduce Wage Replacement Rates Overall and Across Many Subgroups

Compensating USPS FECA Beneficiaries at 70 Percent of Wages Would Decrease the Median Wage Replacement Rate and Increase Differences in These Rates between Beneficiaries with and without Dependents

According to our simulation, compensating all total disability FECA beneficiaries at the revised rate of 70 percent of wages at the time of injury resulted in an overall reduction in the median wage replacement rate—the percentage of take-home pay replaced by FECA. As shown in figure 1,under the current program, FECA replaced 88 percent of 2010 take-home pay and, under the revision, FECA replaced 84 percent in our simulation.

Median wage replacement rates for USPS FECA beneficiaries were generally higher than those of non-USPS beneficiaries discussed in GAO-13-108. In both cases, the wage replacement rates account for missed income growth, as they are simulated based on 2010 take-home pay. All else equal, FECA beneficiaries who would have experienced more income growth—from the time of injury through 2010—had lower wage replacement rates than did those beneficiaries who would have experienced less income growth absent their injury. In general, USPS FECA beneficiaries missed less income growth due to their injury than did non-USPS FECA beneficiaries. Consequentially, USPS FECA beneficiaries had higher wage replacement rates than non-USPS FECA beneficiaries. For example, 4 out of 5 USPS beneficiaries in our sample would have had less than 10 percent income growth had they never been injured. In contrast, 2 out of 5 non-USPS FECA beneficiaries would have had less than 10 percent income growth, absent an injury.

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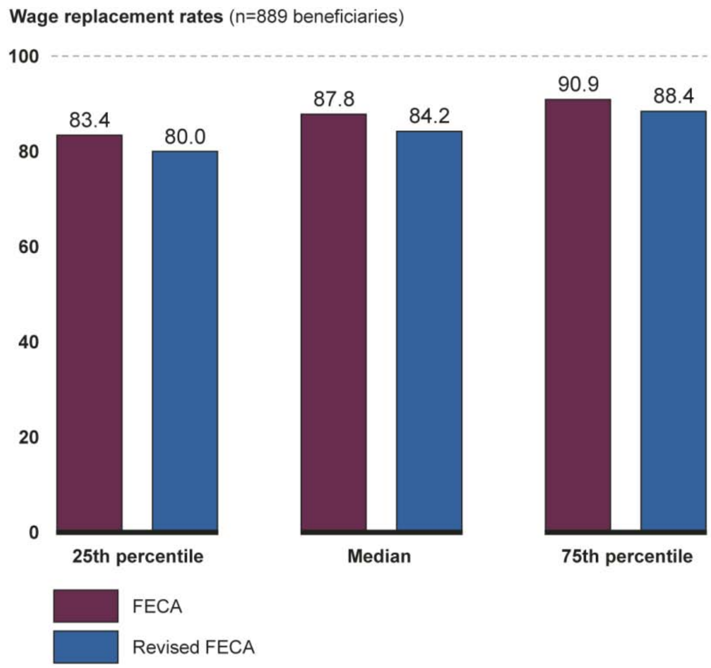
[22] H. Allan Hunt, editor, *Adequacy of Earnings Replacement in Workers' Compensation Programs, a Report of the Study Panel on Benefit Adequacy of the NASI Workers' Compensation Steering Committee* (Washington, D.C.: 2004).

[23] FERS, which generally covers employees first hired in 1984 or later, replaced the Civil Service Retirement System (CSRS). According to OPM about 80 percent of federal annuitants that were on the OPM's roll in 2011 were CSRS annuitants. Among those CSRS annuitants, the average years of federal service was almost 30 years.

Figure 1: 2010 USPS Wage Replacement Rates under FECA and Labor's Proposed Revision[a]



Source: GAO analysis of simulation results.

Note:

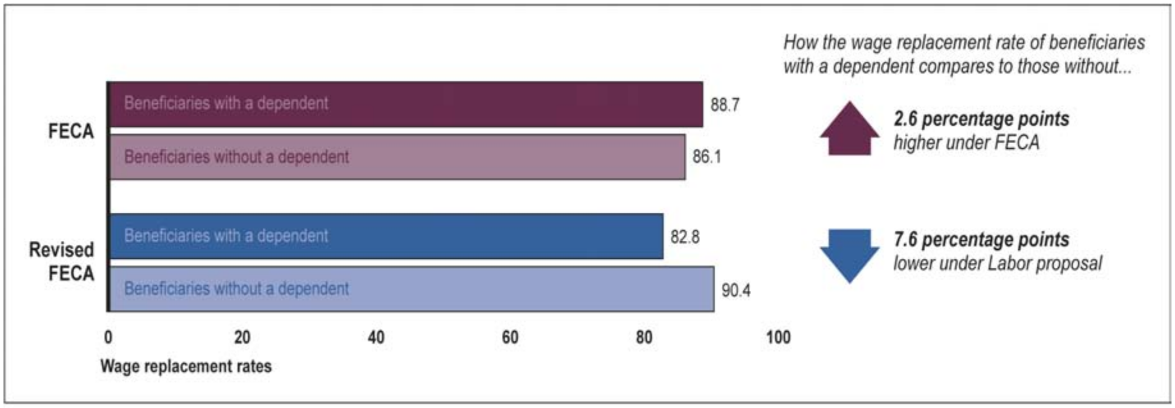
[a] Wage replacement rates are calculated based on 2010 take-home pay and account for missed income growth.

We also considered the effect of the proposal on beneficiaries with eligible dependents in comparison to those without, as the proposal equalizes their compensation rates. As shown in figure 2, current FECA, which compensates beneficiaries with a dependent at a higher rate than those without a dependent (75 versus 66-2/3 percent), replaces 89 and 86 percent of take-home pay for beneficiaries with or without a dependent, respectively. This 3 percentage point difference in median wage replacement rates is less than the difference in current compensation rates in part because FECA benefits are not taxed, whereas wages are. Thus, a worker with dependents would have more tax deductions and greater take-home pay—the augmented FECA compensation accounts for this difference to some extent.

Equalizing FECA compensation rates does not account for these tax-related differences in take-home pay. Equalizing FECA compensation rates at 70 percent regardless of eligible dependents increased the magnitude and reversed the direction of the difference in median wage replacement rates between beneficiaries with and without eligible dependents. As shown in figure 2, Labor's proposal more than doubled the difference in median wage replacement rates—to 8 percentage points—between beneficiaries with and without an eligible dependent. The median wage replacement rates under Labor's proposal were 83 and 90 percent, respectively.[24]

[24] Because actual wage replacement rates for beneficiaries with a dependent may be lower than simulated due to our assumption of a single dependent, the difference in median wage replacement rates between those with and without a dependent may be smaller under FECA and larger under the proposed revision.

Figure 2: 2010 Median Wage Replacement Rates for USPS Beneficiaries with and without a Dependent[a]



Source: GAO analysis of simulation results.

Note:

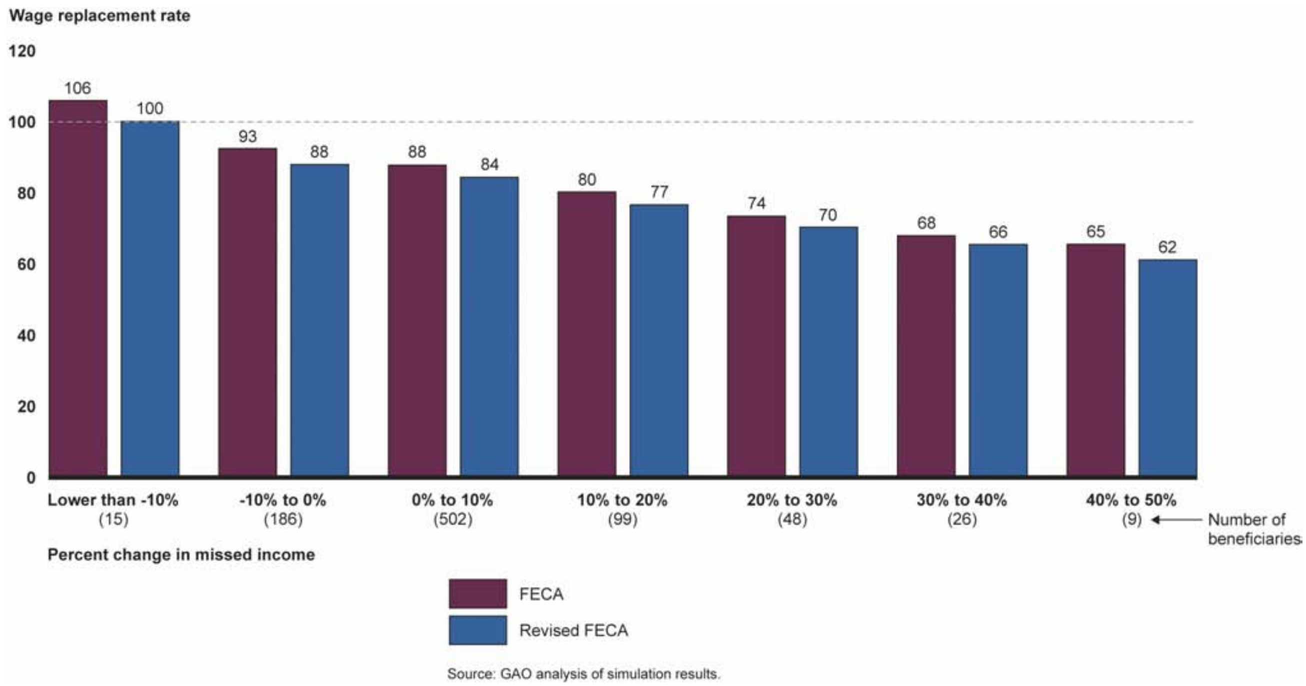
[a] Wage replacement rates are calculated based on 2010 take-home pay and account for missed income growth.

Missed Income Growth and Lower Income at the Time of Injury Were Associated with Lower Wage Replacement Rates under FECA and the Proposed Revision

We examined the effects of this proposal on various subgroups and found that compensating all beneficiaries at 70 percent of wages at the time of injury generally reduced median wage replacement rates. We found no reductions in any one subgroup that were disproportionate to the overall revision. We did see variation in the proportion of take-home pay replaced by FECA (and the proposed revision) within subgroups.

Beneficiaries who missed substantial income growth because of their injury had lower median wage replacement rates than those who missed relatively little career and income growth. Specifically, under FECA, the median wage replacement rate was 66 percent for beneficiaries whose income would have increased by 40 to 49 percent absent an injury. In contrast, the median wage replacement rate was 88 percent for those beneficiaries whose income would have increased between 0 and 9 percent. These differences were also present under revised FECA (see fig. 3). As beneficiaries missed out on more income growth, FECA replaced a smaller proportion of their 2010 take-home pay because the FECA cost-of-living adjustments do not keep pace with missed salary increases and promotions. However, FECA was not designed to account for such increases.

Figure 3: 2010 USPS Median Wage Replacement Rates by Missed Income Growth[a,b]



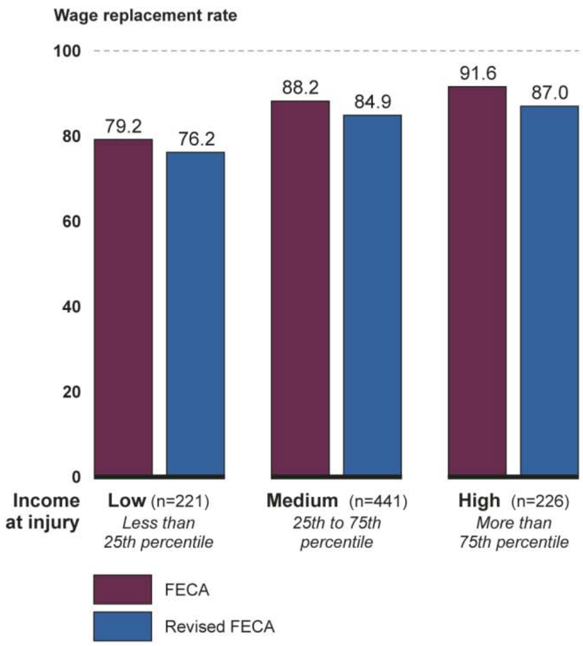
Note:

[a] Wage replacement rates are calculated based on 2010 take-home pay and account for missed income growth.

[b] Intervals do not include upper endpoints.

In addition, having lower wages at the time of injury was also associated with lower wage replacement rates under FECA and revised FECA. As shown in figure 4, the median FECA wage replacement rate for beneficiaries with low income at the time of injury was 12 percentage points less than that of beneficiaries with relatively high income. The magnitude of the difference was similar under revised FECA.

Figure 4: 2010 USPS Median Wage Replacement Rates by Income Grouping at Time of Injury



Source: GAO analysis of simulation results.

Note:

[a] Wage replacement rates are calculated based on 2010 take-home pay and account for missed income growth.

Years of Service Play a Key Role in the Comparison between FECA and FERS Benefits

Labor's Proposal Would Roughly Equalize FECA and FERS Benefit Packages for 2010 USPS Annuitants

According to our retirement simulation comparing current FECA benefits to FERS benefits, we found that the overall median USPS FECA benefit package (FECA benefits and TSP annuity) was 37 percent greater than the current median FERS retirement benefit package (FERS annuity, TSP annuity, and Social Security), as shown in figure 5.[25] This implies that in retirement, USPS FECA beneficiaries generally had greater income from FECA and their TSP in comparison to the FERS benefits they would have received absent an injury. However, because FERS had only been in place for 26 years in 2010, we are not capturing the "mature" FERS benefit that an annuitant could accrue with more years of service. Consequently, it is likely that we are understating the potential FERS benefit when we consider 2010 benefit levels.[26]

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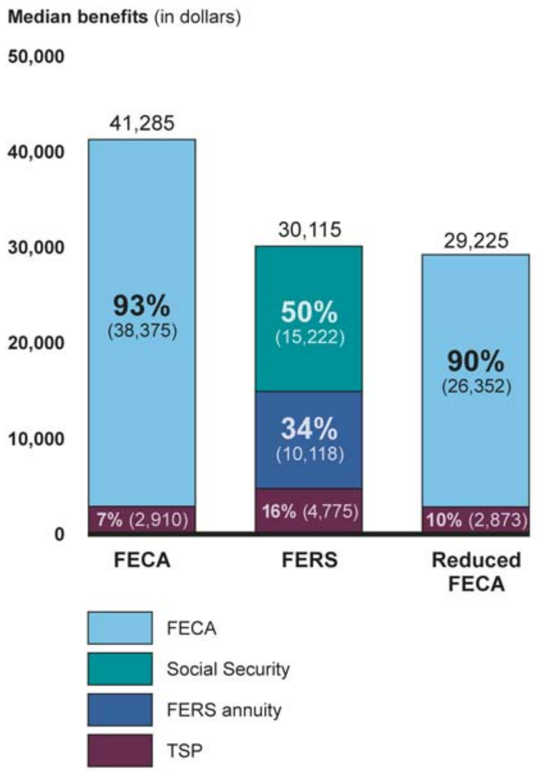
[25] In our dataset, the median years of service was 18 years for the 2010 USPS annuitants.

[26] Because few people in our dataset had more than 25 years of federal service at the time of retirement, we do not capture those who would choose to work 30 or more years in the federal government before retiring.

Figure 5: Composition of Median Benefits for FECA, FERS, and Reduced FECA (USPS)



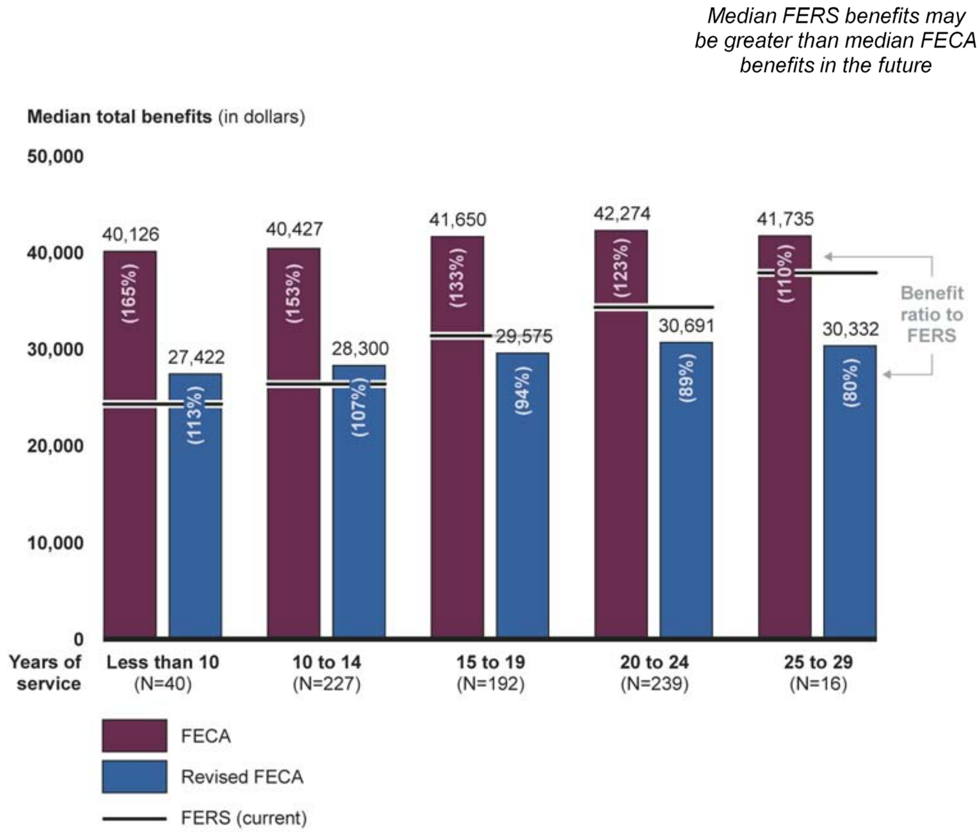
Source: GAO analysis of simulation results.

Labor's proposal to reduce FECA benefits once beneficiaries reach retirement age to 50 percent of wages at the time of injury would result in an overall median for the reduced FECA benefit package (reduced FECA plus the TSP) that is approximately equal to the median 2010 FERS benefit package for USPS annuitants. This implies that under the proposed reduction, USPS FECA beneficiaries would have similar income from their FECA benefit package in comparison to their foregone FERS benefit. Again, these results reflect current FERS and do not capture a "mature" FERS benefit.

Increased Years of Service Were Associated with Increased FERS Benefits Relative to FECA Benefits for 2010 USPS Annuitants

Although the overall median FECA benefit was substantially higher than the median FERS benefit for 2010 USPS annuitants, the difference between the two varies based on years of service. Median FECA benefit packages were consistently greater than median FERS benefit packages across varying years of service; however, the gap between the two benefits narrowed as years of service increased (see fig. 6). This occurred in large part because FERS benefits increase substantially with additional years of service. For example, beneficiaries whose total federal career would have spanned less than 10 years had a median FECA benefit that was about 65 percent greater than the corresponding FERS benefit. In contrast, beneficiaries whose total federal career would have spanned between 20 and 24 years had a median FECA benefit that was 23 percent greater than the corresponding FERS benefit. It is worth noting that these results do not capture a "mature" FERS benefit and suggest that in the future, the overall difference between FECA and FERS benefit packages would be less than reflected in our analysis, when individuals have the opportunity to work a full 30-year career.

Figure 6: Median FECA and FERS Benefit Packages by Years of Service in 2010 (USPS)



Source: GAO analysis of simulation results.

In addition, reduced FECA benefits were similar or less than FERS benefits across varying years of service.[27] However, as years of service increase, the gap between the two benefits widened. For example, beneficiaries whose total federal career would have spanned less than 10 years had a median reduced FECA benefit that was about 13 percent greater than the corresponding FERS benefit. In contrast, beneficiaries whose total federal career would have spanned 25 to 29 years had a median reduced FECA benefit that was 20 percent less than the corresponding FERS benefit.[28]

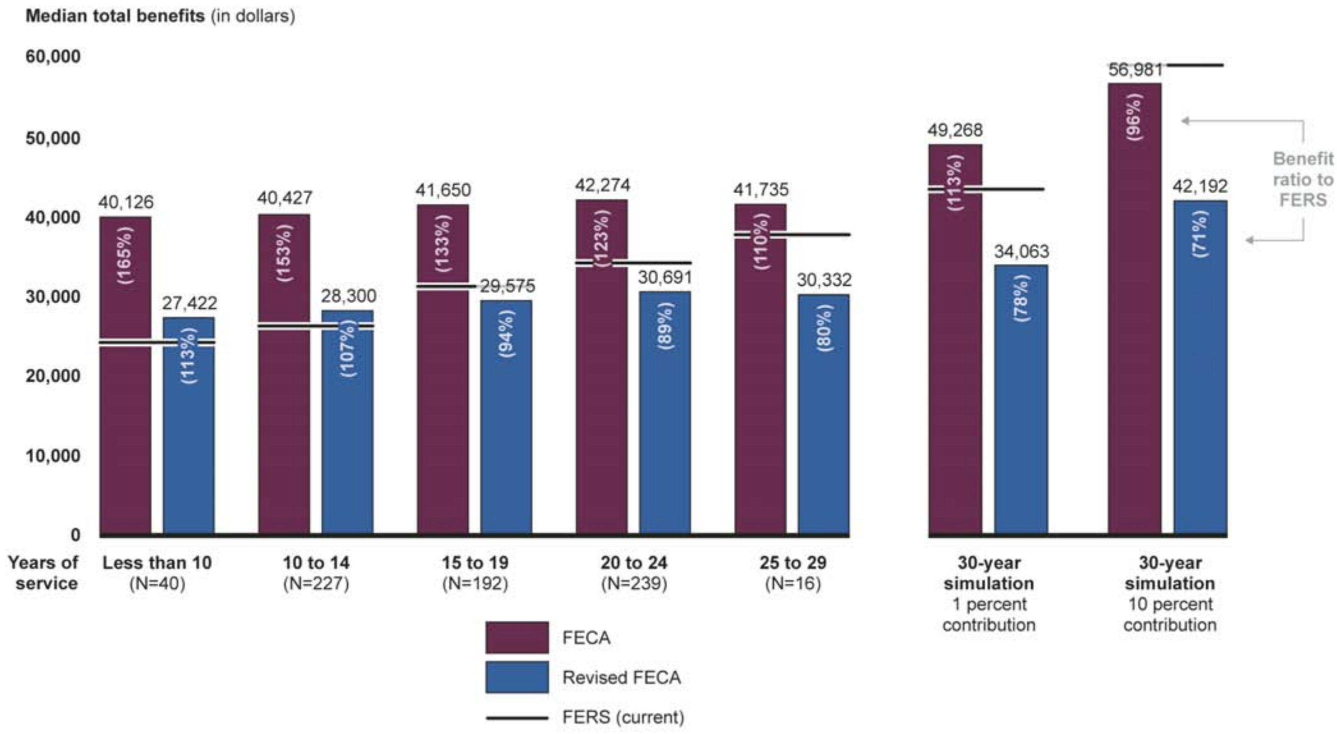
Median Reduced FECA Benefit Packages Would Likely Be Less Than Median FERS Benefit Packages for USPS Annuitants with 30-Year Careers

In our simulation of a “mature” FERS coupled with the assumption that individuals have 30-year USPS careers, we found that the median current FECA benefit packages were either greater than or on par with median FERS benefit packages—depending on the amount an individual contributes toward their TSP account for retirement. As shown in figure 7, under the default scenario where there is no employee contribution and USPS contributes 1 percent to TSP, the median FECA benefit package is about 13 percent greater than the median FERS benefit package for USPS annuitants. However, under a scenario where each employee contributes 5 percent—and receives

[27] In other words, under the proposed reduced FECA, beneficiaries would have similar or less income in retirement than they would have had absent an injury.
[28] Again, these results do not capture a “mature” FERS benefit and seem to suggest that the median reduced FECA benefit package would be less than the median FERS benefit package in the future.

a 5 percent agency match—the median FECA benefit package is about 4 percent less than the median FERS benefit package for USPS annuitants.

Figure 7: Median FECA and FERS Benefit Packages by Years of Service (USPS)



Source: GAO analysis of simulation results.

Our simulation also found that the median reduced FECA benefit package was less than the median FERS benefit package—regardless of the simulated contributions to TSP accounts.[29] Specifically, under a scenario where there is no employee contribution—and a 1 percent USPS contribution—the median reduced FECA benefit package is about 22 percent less than the median FERS benefit package for USPS annuitants. Under a scenario where each employee contributes 5 percent—and receives a 5 percent agency match—the median reduced FECA benefit package is about 29 percent less than the FERS benefit package for USPS annuitants.

Concluding Observations

FECA continues to play a vital role in providing compensation to federal employees, including USPS employees, who are unable to work because of injuries sustained while performing their

[29] While our simulation assumes 30 years of federal service and captures the effects of being injured at some point within a 30-year federal career, it does not reflect the actual federal workforce, where careers may not span 30 years. To the extent that federal workers work less than 30 years, we overestimate the FERS benefit package. To the extent that they work more than 30 years, we underestimate the FERS benefit package. On balance, with some working more and some working less, it is uncertain whether our results underestimate or over estimate the actual outcome.

federal duties. Although there are questions about the level of FECA benefits, reducing those benefits could have implications for the adequacy of benefits, both during a beneficiary's foregone working years and after the beneficiary reaches retirement age.[30]

Equalizing FECA compensation rates between those with and without eligible dependents could reduce benefits for some beneficiaries; however, doing so results in disparity in the degree to which beneficiaries with dependents can maintain their standard of living relative to those without an eligible dependent. This disparity is attributable to differences in tax deductions for dependents and would be compounded over time for both USPS and other FECA beneficiaries. An alternative approach might be an across-the-board reduction in FECA compensation, which could keep replacement rates relatively equal between beneficiaries with and without dependents. Yet this type of approach could adversely affect the adequacy of benefits for those with relatively low wage replacement rates, such as beneficiaries who missed substantial career growth. However, the FECA benefit structure was not designed to take missed career growth into account.

Once FECA beneficiaries reach retirement age, their FECA benefit package (FECA benefit and TSP annuity) may be greater than the current FERS benefit package—and reducing FECA at retirement as Labor has proposed would bring FECA more in line with current FERS. However, as any changes to FECA would affect beneficiaries in the future, it is important to note that as FERS matures over time, our analysis suggests that differences between the median FECA benefit package and the FERS benefit package diminish. Specifically, our simulation showed that the FECA benefit package may be on par or less than the FERS benefit package, and the reduced FECA benefit package would be substantially less than FERS. A clearer picture of how FECA and FERS will actually differ will be possible as FERS matures.

Our analyses demonstrated that there are policy levers that can be adjusted in order to achieve change. However, consideration needs to be given to the impact the change will have on the adequacy of benefits and the ensuing fairness across beneficiaries, both at the time of injury and over the lifetime of the beneficiary. Reducing FECA benefits could have a substantial impact over time on individuals who cannot work and may have limited options to replace income in response to benefit reductions.

We provided a draft of this report to the Department of Labor and the United States Postal Service and they did not have any comments.

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We are sending copies of this report to relevant congressional committees, the Secretary of Labor, the Postmaster General, and other interested parties. In addition, the report will be made available at no charge on the GAO web-site at http://www.gao.gov.

If you or your staffs have any questions about this report, please contact me at (202) 512-7215 or sherrilla@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may

[30] The results of our analysis for USPS FECA beneficiaries were similar to the results for non-USPS FECA beneficiaries discussed in GAO-13-108.

be found on the last page of this report. GAO staff who made key contributions to this report are listed in enclosure II.

Andrew Sherrill

Andrew Sherrill
Director, Education, Workforce, and
Income Security Issues

ENCLOSURE I: OBJECTIVE, SCOPE, AND METHODS

To analyze the effects of a proposed revision to the Federal Employees' Compensation Act (FECA) program on employees in U.S. Postal Service (USPS), we answered two key questions: (1) what would be the effect of compensating total disability FECA beneficiaries at a single rate regardless of having dependents, and (2) how would the Federal Employee Retirement System (FERS) and total disability FECA benefits in retirement compare under the current FECA benefit structure and a proposed FECA reduction at the time of retirement? To answer these questions, we used methods nearly identical to those in our prior report, which addressed the same objectives for non-postal federal employees.[31] Specifically, for this report, we conducted simulations to compare (1) FECA benefits with actual take-home pay of postal workers in 2010 and (2) FECA benefits with actual FERS benefits received by retired postal workers in 2010. This enclosure describes the methods we used to answer these questions only to the extent that they differ from those in our prior analysis. Section 1 describes the key data sources and Section 2 highlights aspects of the analysis that differ from our simulations for non-postal employees in GAO-13-108.

SECTION 1: DATA SOURCES

To answer our key questions, we used administrative data on three populations: 2010 postal employees, FECA beneficiaries, and FERS annuitants. These data came from five federal agencies: the Department of Labor (Labor), USPS, the Office of Personnel Management (OPM), the Federal Retirement Thrift Investment Board (FRTIB), and the Social Security Administration (SSA). Table 1 provides an overview of each of these data files. This section provides a description of the USPS data.[32]

Table 1: Data Sources Used in Analysis

Data file	Federal agency responsible	Population covered	Type of information in file	Years of data analyzed	Data used for question
Integrated Federal Employees' Compensation System (iFECS)	Labor	FECA beneficiaries	Benefits and characteristics	2010	1 & 2
Human Capital Enterprise System	USPS	Postal employees	Data on pay and other characteristics	1995-2010	1 & 2
FERS annuitant data	OPM	FERS annuitants	Annuity data	2010	2
Thrift Savings Plan (TSP) data	FRTIB	FERS annuitants and FECA beneficiaries	TSP balances and withdrawals	2000-2010	2
Master Beneficiary Record	SSA	FERS annuitants	Social Security benefit-related data	2010	2

Source: GAO.

[31]For details on the methods used in the prior report, see GAO, *Federal Employees' Compensation Act: Analysis of Proposed Program Changes,* GAO-13-108 (Washington, D.C.: October 2012), p 53-74.
[32]The other four datasets are described in detail in GAO-13-108.

Note: [1]This analysis will only cover total disability beneficiaries. Lack of data prevents a similar analysis of those beneficiaries with some wage earning capacity.

Human Capital Enterprise System

To obtain information on the salaries and work histories of former and current postal employees, we used data from the USPS Human Capital Enterprise System from 1995 to 2010. The data prior to 1995 were not sufficiently reliable for the purposes of our report. We obtained the following information on postal employees from this database: date of birth, state of residence, retirement system (FERS vs. CSRS), occupation code, spells of employment, wage history, and dates of service.

Data reliability

For each of the datasets used in this report, we conducted a data reliability assessment of selected variables by conducting electronic data tests for completeness and accuracy, reviewing documentation on the dataset, and interviewing knowledgeable officials about how the data were collected and maintained and their appropriate uses. We determined that the variables that we used from the data we reviewed were reliable for the purposes of this report.

SECTION 2: AN OVERVIEW OF KEY DIFFERENCES IN METHODS

The analysis in this report largely follows the methods we used to analyze non-postal workers as described in GAO-13-108. This section describes the key differences between these two sets of analyses.

Study group

The analysis in this report examines postal workers rather than non-postal workers. Correspondingly, we used data on FECA beneficiaries who were employed by USPS at the time of their injury, USPS workers in 2010, and USPS annuitants covered under FERS. We restricted our analysis to postal workers who were classified as full-time career employees for at least 9 out of the 15 years we analyzed.[33]

Computation of the wage replacement rate and benefit ratio

We used the same methods to compute wage replacement rates as in the prior report, with one exception.[34] In our computation of take-home pay, we used the employee's basic pay rate rather than the adjusted pay rate. Unlike the Central Personnel Data File, from which we obtained wage information on non-postal federal employees for our prior report, the postal data did not have information on adjusted pay because, with only a few exceptions, postal employees do not receive locality pay. In addition, many USPS employees worked part-time for at least 1 year for which we had data. To account for years of part-time employment, we followed guidance from USPS to convert hourly wages to annual income levels.[35] This ensured that the wage replacement rates

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[33]By doing so, we reduced the number of employees for whom we had to annualize part-time earnings data as described below.
[34] As in the prior report, we deducted payroll, federal, and state taxes using the assumption that there was no spousal income; the dependent, when present, was a spouse; and the spouse was over the age of 65 if the worker was over the age of 65. We did not account for other discretionary deductions such as for health and life insurance payments or TSP contributions. To determine federal and state income taxes, we used the National Bureau of Economic Research's (NBER) TAXSIM. TAXSIM is NBER's FORTRAN program for calculating liabilities under U.S. federal and state income tax laws from individual data. The TAXSIM Model (http://www.nber.org/taxsim) simulates the U.S. federal and state income tax rules.
[35]Specifically, to make this conversion, we multiplied the hourly wage by 2,080 hours in a work-year.

were based on full-time employment. Annualizing part-time wages was necessary due to a lack of data on hours and yearly earnings.

Annualizing the hourly wages of part-time employees likely overestimated the income used to simulate FECA benefits. This is because part-time employees might not have worked the full-time equivalent schedule that annualization assumes. Consequently, our estimated ratios of FECA benefits to take-home pay and immature FERS benefits are somewhat over-estimated for part-time workers. This limitation does not affect our ratios of FECA benefits to mature FERS benefits, however, because our simulation of the mature retirement system assumes that all employees work full-time for 30 years.

Methods for selecting matched analysis samples

We used the same multivariate matching technique used in the prior report to select samples of 2010 postal employees and FERS annuitants who were similar to FECA beneficiaries, with several exceptions.

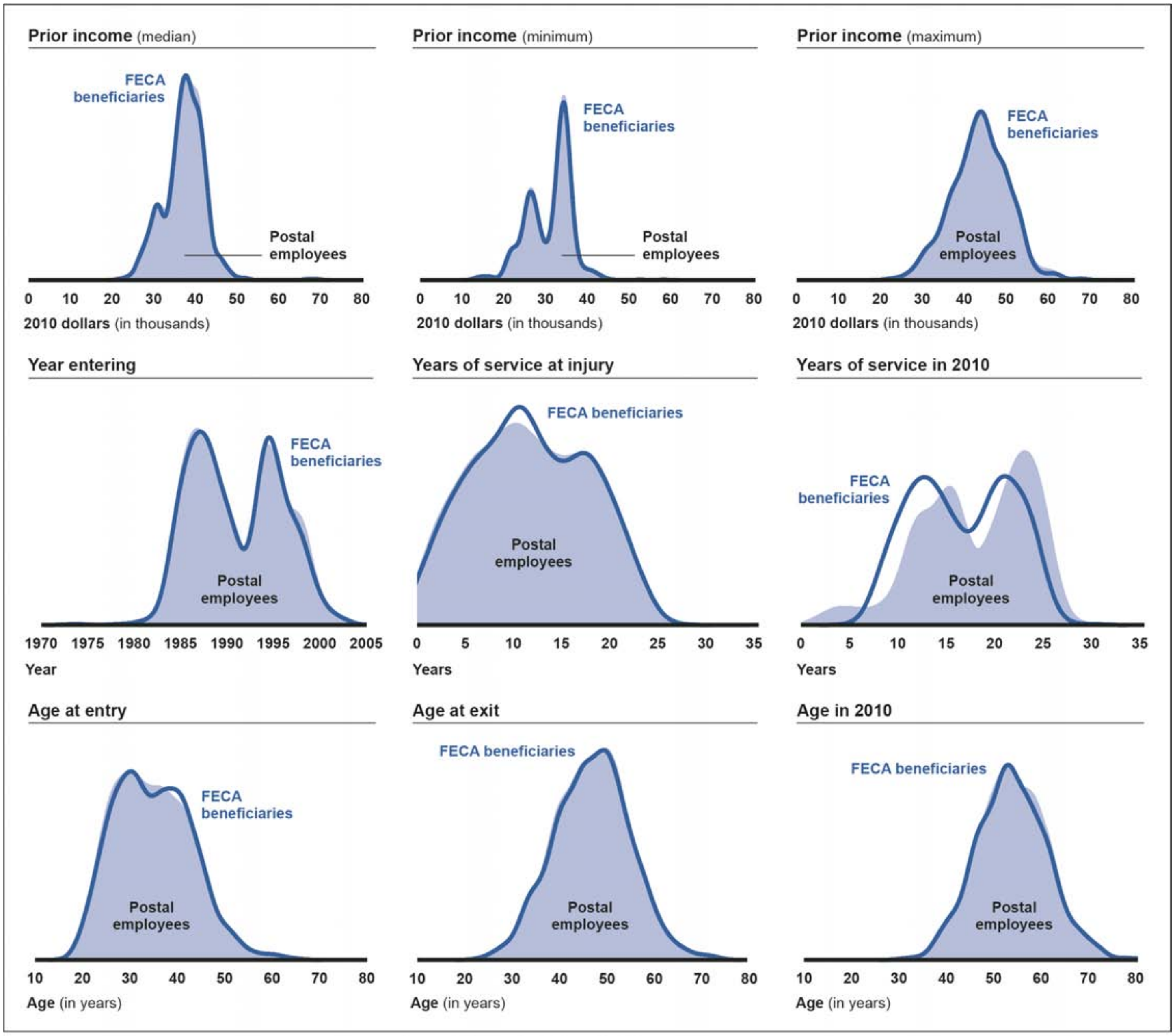
The characteristics we used to select the samples differed slightly from those used in the prior report. Specifically, we could not use information on the employee's education level because the postal data did not include this information. In addition, we did not use the employee's agency in our matching process, because all of the employees had worked for the postal service. Finally, the postal data did not include the OPM definition of "blue-collar" and "white-collar" occupations, which we used in the prior report. To create these categories, we followed the guidance provided to us by USPS.

We selected the matched sample of 2010 postal employees for the wage replacement analysis using an 80 percent simple random sample. The prior report used a 10 percent sample, due to the larger population of non-postal employees.

Lastly, we selected the closest two FERS annuitants for each FECA recipient. The 2:1 matching ratio ensured that the sample sizes for calculating benefit ratios for postal and non-postal workers were similar. The looser matching criterion did not cause the similarity of the groups to decline materially, as shown below.

Figure 8 presents the distributions of these characteristics for the postal FECA beneficiaries and the 2010 employees after matching. Table 2 provides descriptive statistics for all characteristics. Figure 9 and table 3 present equivalent results for the postal FECA beneficiaries and the FERS annuitants after matching. The large number of 2010 employees and FERS annuitants allowed us to select employees with career histories that closely resembled those of the postal FECA beneficiaries before they were injured.

Figure 8: Distributions of Key Characteristics of Matched FECA Beneficiaries and Postal Employees



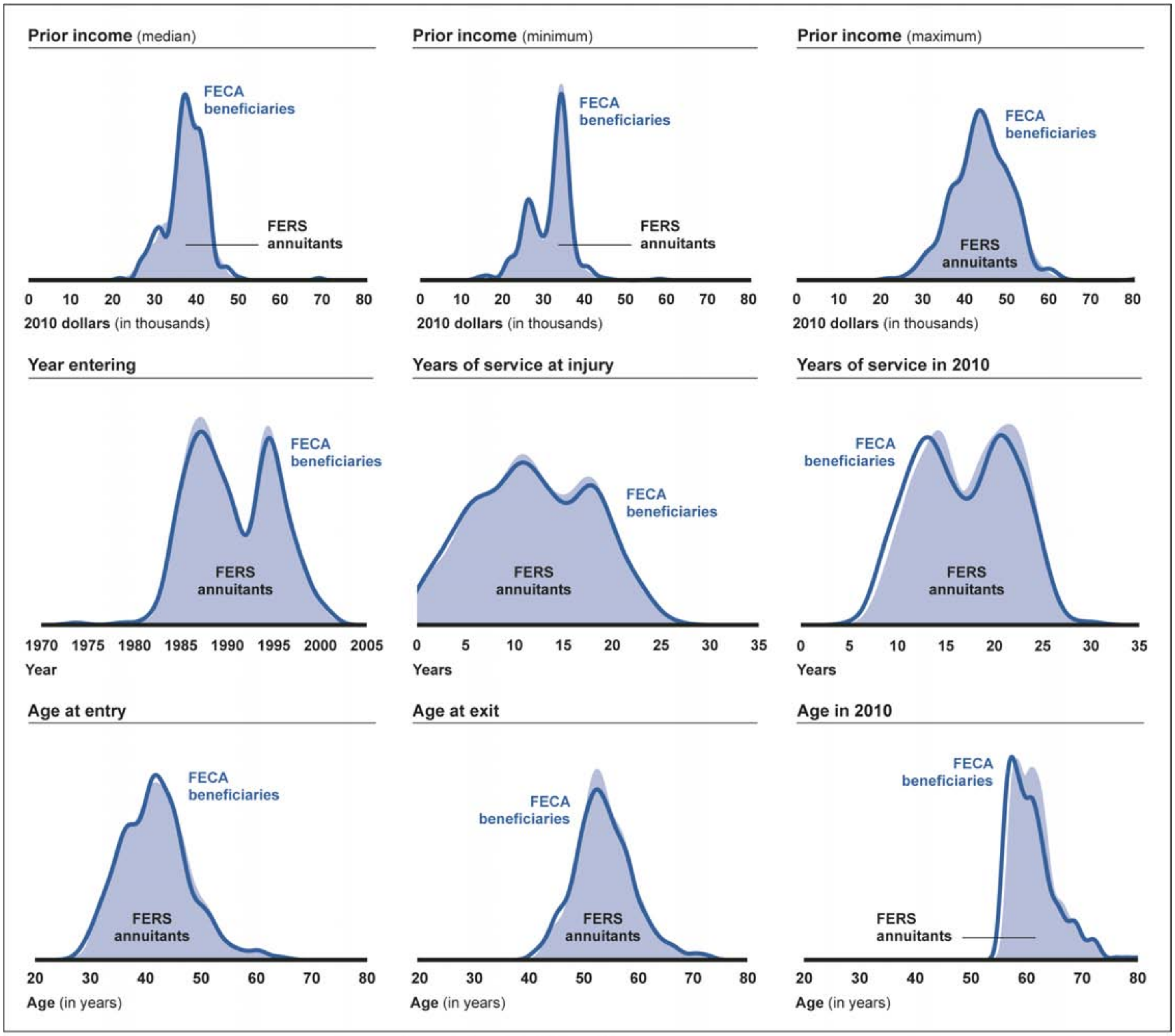
Source: GAO analysis of DOL and OPM data.

Table 2: Distributions of Covariates in Matched Sample of Postal Employees and FECA Beneficiaries

	Matched postal employees				FECA beneficiaries			
	1st Quartile	Median	Mean	3rd Quartile	1st Quartile	Median	Mean	3rd Quartile
Minimum income before injury (2010 dollars)	26770	33186	31103	34719	26778	33063	31097	34756
Median career income before injury (2010 dollars)	34836	37788	37299	40472	34805	37822	37359	40581
Maximum career income before injury (2010 dollars)	39557	44154	43895	48562	39692	44185	44101	49217
First year working	1987	1990	1991	1995	1987	1990	1991	1995
Years of service at injury	6.8	11.3	11.7	16.8	7.2	11.4	11.8	16.8
Age in first year of work (years)	28.3	34.3	34.7	40.5	28.7	34.6	35	40.8
Age in last year of work (years)	41.1	46.9	46.5	51.9	41.3	47.1	46.9	52.2
Age in 2010 (years)	49.2	53.7	54	58.9	49	54	53.9	59
Number of employment spells	1	1	0.9	1	1	1	0.9	1
% Male			40.3				40.3	
% USPS white collar occupation			2.4				2.4	
% USPS blue collar occupation			67				67	
% USPS temporary / non-career occupation			15.2				15.2	
% Other / not available occupation			15.4				15.4	

Source: GAO analysis of USPS and Labor data.

Figure 9: Distributions of Key Characteristics of Matched FECA Beneficiaries and FERS Annuitants



Source: GAO analysis of DOL and OPM data.

Table 3: Distributions of Covariates in Matched Sample of FERS Annuitants and FECA Beneficiaries

	FERS annuitants				FECA beneficiaries			
	1st Quartile	Median	Mean	3rd Quartile	1st Quartile	Median	Mean	3rd Quartile
Minimum income before injury (2010 dollars)	27619	33627	31800	34879	27438	33592	31645	34756
Median career income before injury (2010 dollars)	35435	37881	37680	40712	35409	37831	37658	40712
Maximum career income before injury (2010 dollars)	39665	44181	43957	49005	39983	44154	44108	49219
First year working	1987	1990	1991	1994	1987	1990	1991	1995
Years of service at injury	7.4	11.7	12	16.9	7.1	11.6	11.9	17.1
Age in first year of work (years)	37.3	41.7	41.9	45.6	37.2	41.5	41.7	45.1
Age in last year of work (years)	50.8	53.3	54	56.9	50.1	53.3	53.8	57.1
Age in 2010 (years)	58.7	61	61.7	63.5	58	60	61	63
Number of employment spells	1	1	1	1			1	
% Male			45.4				45.1	
% USPS white collar occupation			2.2				2.2	
% USPS blue collar occupation			61.6				61.6	
% USPS temporary / non-career occupation			22.1				22.1	
% Other / not available occupation			14				14	

Source: GAO analysis of USPS and Labor data.

Enclosure II: GAO Contacts and Staff Acknowledgments

GAO Contacts

Andrew Sherrill at (202) 512-7215 or sherrilla@gao.gov.

Staff Acknowledgments

In addition to the contact named above, key contributors to this report were Michael J. Collins, Assistant Director; Melinda Cordero, Nagla'a El-Hodiri, Erin M. Godtland, Michael Kniss, Jeff Tessin, and Walter Vance. In addition, James Bennett, Jessica Botsford, Holly Dye, Jennifer Gregory, Gene Kuehneman, Kathy Leslie, Sheila McCoy, Rhiannon Patterson, and James Rebbe contributed to the report.

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