United States Government Accountability Office

Report to Congressional Requesters

July 2020

FEDERAL EMPLOYEES' COMPENSATION ACT

Comparisons of Benefits in Retirement and Actions Needed to Help Injured Workers Choose Best Option

GAO-20-523

GAO Highlights

Highlights of GAO-20-523, a report to congressional requesters

Why GAO Did This Study

The President's budgets for fiscal years 2019-2021 have proposed several FECA reforms, including reducing disability compensation at retirement age. In a series of reports published in 2012, GAO analyzed the effects of similar proposed revisions to FECA compensation. GAO was asked to update its FECA and FERS benefit comparisons.

This report examines (1) how FERS and total disability FECA benefits at retirement age compare under current and previously proposed reduced FECA compensation rates, and (2) the extent to which FECA recipients have access to information to compare their FECA and FERS benefits options. GAO compared the FERS benefits selected retirees received in 2018 with the hypothetical total disability FECA benefits they would have received from simulated injuries. GAO reviewed agency documents and interviewed officials from DOL, SSA, and other federal agencies.

What GAO Recommends

GAO is recommending that DOL remind FECA recipients as they approach retirement to obtain FERS benefit estimates for comparisons with FECA, and that DOL and SSA take steps to modernize and improve their process for calculating and providing information on certain FECA benefits in retirement that would enable recipients to make complete comparisons of retirement options. DOL and SSA concurred with all three recommendations.

View GAO-20-523. For more information, contact Cindy Brown Barnes at (202) 512-7215 or brownbarnesc@gao.gov.

July 2020

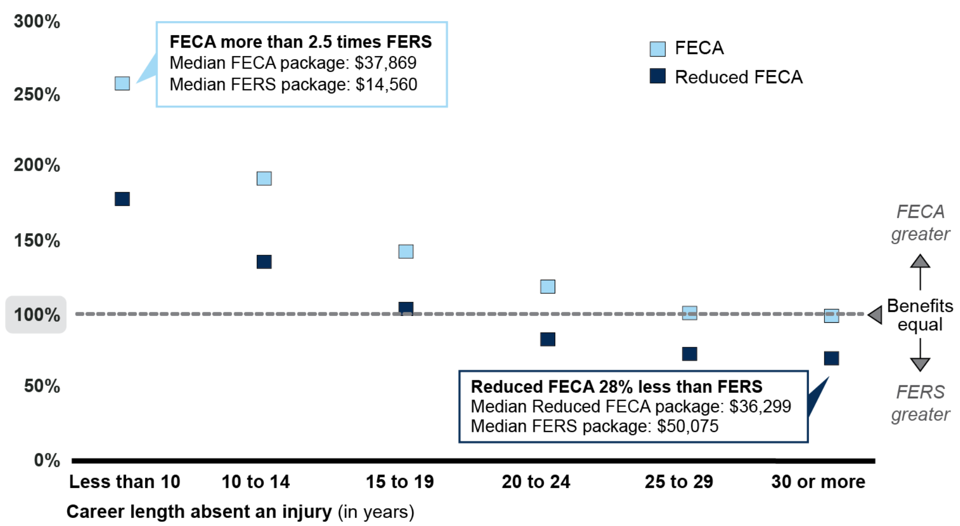
FEDERAL EMPLOYEES' COMPENSATION ACT

Comparisons of Benefits in Retirement and Actions Needed to Help Injured Workers Choose Best Option

What GAO Found

Factors such as the timing of an injury in a career affect how Federal Employees' Compensation Act (FECA) total disability benefits compare to income security from typical federal retirement. The FECA program compensates federal employees for lost wages from work-related injuries, among other benefits. FECA recipients can receive this compensation for as long as their disability continues. At retirement age, they can remain on FECA or, instead, choose to receive their benefits from the Federal Employees Retirement System (FERS). Thus, FECA benefits represent a significant portion of retirement income for some injured federal employees. Through simulations, GAO found that factors such as the length of retirees' careers absent injury affected how similar their hypothetical FECA benefits packages were to their FERS packages in 2018. FERS benefits increase substantially the longer a federal employee works. As a result, median current and reduced FECA packages were greater than the FERS median for retirees with shorter careers absent injury. However, median FECA packages were similar to or less than FERS for retirees with longer careers (see figure).

Median FECA Benefits as a Percentage of FERS Benefits by Career Length Absent an Injury



Source: GAO comparison of hypothetical Federal Employees' Compensation Act (FECA) total disability benefits with actual Federal Employees Retirement System (FERS) benefits in 2018 for non-U.S. Postal Service workers. | GAO-20-523

For FECA recipients who choose to compare their FECA and FERS benefit options at retirement, estimates for most components of those benefits packages are available. However, the Department of Labor (DOL) does not routinely remind recipients to compare benefits, so they may be unaware of their options or how to consider them. In addition, DOL and the Social Security Administration (SSA) use a manual and highly complex process to calculate one key component of a FECA recipient's compensation in retirement related to Social Security benefits. As a result, estimates of FECA benefits in retirement that include this component are not readily available prior to retirement. These challenges hinder recipients' ability to accurately compare their options and may result in some recipients not choosing their best option at retirement.

Contents

Figures

Abbreviations

DOL	Department of Labor
EHRI	Enterprise Human Resources Integration
FECA	Federal Employees' Compensation Act
FERS	Federal Employees Retirement System
FRTIB	Federal Retirement Thrift Investment Board
iFECS	integrated Federal Employees' Compensation System
OPM	Office of Personnel Management
OWCP	Office of Workers' Compensation Programs
PIA	primary insurance amount
SSA	Social Security Administration
TSP	Thrift Savings Plan
USPS	United States Postal Service

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July 23, 2020

The Honorable Robert C. “Bobby” Scott
Chairman
Committee on Education and Labor
House of Representatives

The Honorable Alma S. Adams
Chairwoman
Subcommittee on Workforce Protections
Committee on Education and Labor
House of Representatives

The Honorable Mark Takano
House of Representatives

The Federal Employees’ Compensation Act (FECA) program provides compensation and other benefits to federal employees who have sustained work-related injuries or illnesses.[1] For individuals with disabling injuries or illnesses, FECA compensation may represent a significant portion of income during their working age years and in retirement. The FECA program provided over $3 billion in benefits in fiscal year 2019, according to the Department of Labor (DOL).[2] These benefits included about $2 billion in monetary compensation for lost wages, most of which is generally paid to individuals with long-term disabilities.[3] The receipt of FECA compensation is generally the exclusive remedy for federal work-related injuries, and recipients are not entitled to sue the United States or recover damages under any other law.[4] The President’s budgets for fiscal years 2019-2021 have included proposals to reduce FECA disability compensation at retirement age for all recipients and to reduce

[1]FECA is administered by the Department of Labor’s Division of Federal Employees’ Compensation in the Office of Workers’ Compensation Programs (OWCP).

[2]The FECA program year runs July 1 through June 30.

[3]We refer to long-term disability recipients as those who are receiving wage-loss compensation and are expected to be disabled for more than 60-90 days, based on medical evidence (i.e., those on FECA’s “periodic roll”).

[4]5 U.S.C. § 8116(c). U.S. Department of Labor, Office of Workers’ Compensation Programs, Division of Federal Employees’ Compensation (DFEC), DFEC Procedure Manual, FECA Part 0, Chapter 0-0100.2.

compensation prior to retirement age for some individuals.[5] The budget proposals contend that FECA benefits typically exceed federal retirement benefits and that the current level of FECA compensation entices individuals to remain on FECA in retirement.

In response to previous proposals to reduce FECA compensation, we published a series of three reports in late 2012 in which we explored questions of benefit equity and adequacy.[6] We analyzed the extent to which FECA compensation and other benefits made up for income that was lost—both before and in retirement—due to a disabling injury. Because we focused on workers covered under the Federal Employees Retirement System (FERS)—which had been in place for 26 years as of the 2010 data we used—the retirees we analyzed had shorter federal careers, on average, than might be expected. Employees under FERS generally need at least 30 years of federal service to retire at the minimum retirement age with a full annuity.[7] In fiscal year 2010, about 10 percent of new FERS voluntary retirees had 30 or more years of federal service, according to the Office of Personnel Management (OPM). As of 2018, FERS had been in place 34 years, allowing analysis of more retirees with lengthy careers. For example, about 31 percent of new FERS voluntary retirees in fiscal year 2018 had 30 or more years of federal service, according to OPM.[8] As career length affects the amount

[5]The President's budgets have proposed several reforms to the FECA program, including converting FECA compensation to an "annuity-level benefit" at retirement age. The President's budgets have also proposed a single compensation rate for new injuries at 66-2/3 percent of the injured worker's pay at injury, which would reduce compensation before retirement age for FECA recipients with a dependent, as they currently receive compensation at a rate of 75 percent of pay at injury.

[6]See GAO, *Federal Employees' Compensation Act: Analysis of Proposed Program Changes*, GAO-13-108 (Washington, D.C.: October 26, 2012); GAO, *Federal Employees' Compensation Act: Analysis of Proposed Changes on USPS Beneficiaries*, GAO-13-142R (Washington, D.C.: November 26, 2012); and GAO, *Federal Employees' Compensation Act: Effects of Proposed Changes on Partial Disability Beneficiaries Depend on Employment After Injury*, GAO-13-143R (Washington, D.C.: December 7, 2012).

[7]FERS generally covers employees initially hired in 1984 or later. 5 U.S.C. § 8401(11). Depending on an employee's year of birth, the minimum retirement age ranges between 55 and 57. See 5 U.S.C. § 8412(h). Eligible employees retiring at their minimum retirement age with fewer than 30 years of service generally receive a reduced FERS annuity. For more information, see Office of Personnel Management, *CSRS and FERS Handbook for Personnel and Payroll Offices*, chapters 41-42 (Washington, D.C.: April 1998; chapter 41 revised June 2015).

[8]In addition, among FERS voluntary retirements in the first half of fiscal year 2019, about 34 percent had 30 or more years of federal service.

of FERS retirement benefits received by federal employees, we were asked to update our comparisons of FECA and FERS benefits. This report examines (1) how FERS and total disability FECA benefits at retirement age compare under current and previously proposed reduced FECA compensation rates, and (2) the extent to which FECA recipients have access to information to compare their FECA and FERS benefits options.

To compare FECA and FERS benefits at retirement age, our primary analysis includes employees at most Executive Branch and some Legislative Branch agencies.[9] We used separate methods to examine the circumstances of United States Postal Service (USPS) workers (postal workers)—who comprise a sizable proportion of FECA recipients—because of changes to USPS pay scales for new hires since late 2010.

For non-postal workers, consistent with our prior reports, we compared:

- FERS benefits in 2018 for selected FERS retirees; and
- hypothetical total disability FECA benefits these retirees would have received from a simulated injury.[10]

To select FERS retirees who are representative of FECA recipients, we matched actual total disability FECA recipients who were near retirement age to similar FERS retirees without disabling work-related injuries or conditions.[11] We based the match on several characteristics, including, but not limited to: employing agency; occupation type; year federal employment began; age when federal employment began; age in 2018; and minimum, maximum, and median salary prior to the injury. We then simulated total disability injuries for the FERS retirees and compared the

[9]The Enterprise Human Resources Integration data we used for federal work histories covers federal civilian employees at most Executive Branch agencies and some Legislative Branch agencies. Among the agencies excluded are USPS; the Central Intelligence Agency and other intelligence organizations; the Tennessee Valley Authority; and the White House. See appendix I for more information about the data we used.

[10]We did not compare actual FECA benefits to hypothetical FERS benefits for FECA recipients because we cannot observe the career they would have worked absent their injury.

[11]FECA recipients we matched were actively receiving FECA total disability compensation as of June 30, 2018, were injured after 2000, and were 55 and older in 2018 (i.e., near retirement age). Among FERS retirees, we excluded atypical retirees, such as those with FERS disability retirements and involuntary retirements.

hypothetical FECA benefits from their simulated injuries with their FERS benefits in 2018.

As shown in figure 1, we combined various benefit components to compile each retiree's FERS and hypothetical FECA benefits packages.[12] To estimate each retiree's FERS benefits package as of June 30, 2018, we combined three components: the individual's actual FERS annuity in 2018, a Thrift Savings Plan (TSP) annuity based on their estimated account balance at retirement, and an estimated Social Security benefit based solely on their federal service.[13] We subtracted estimated federal and state income taxes from the entire FERS benefits package. To estimate the hypothetical FECA benefits package each FERS retiree would have received as of June 30, 2018 had they been totally disabled, we combined two components: the individual's FECA compensation from the simulated total disability injury and a TSP annuity based on the matched FECA recipient's account balance at the time of the injury.[14] We subtracted taxes from the TSP annuity only, as FECA compensation is not subject to federal taxation.[15]

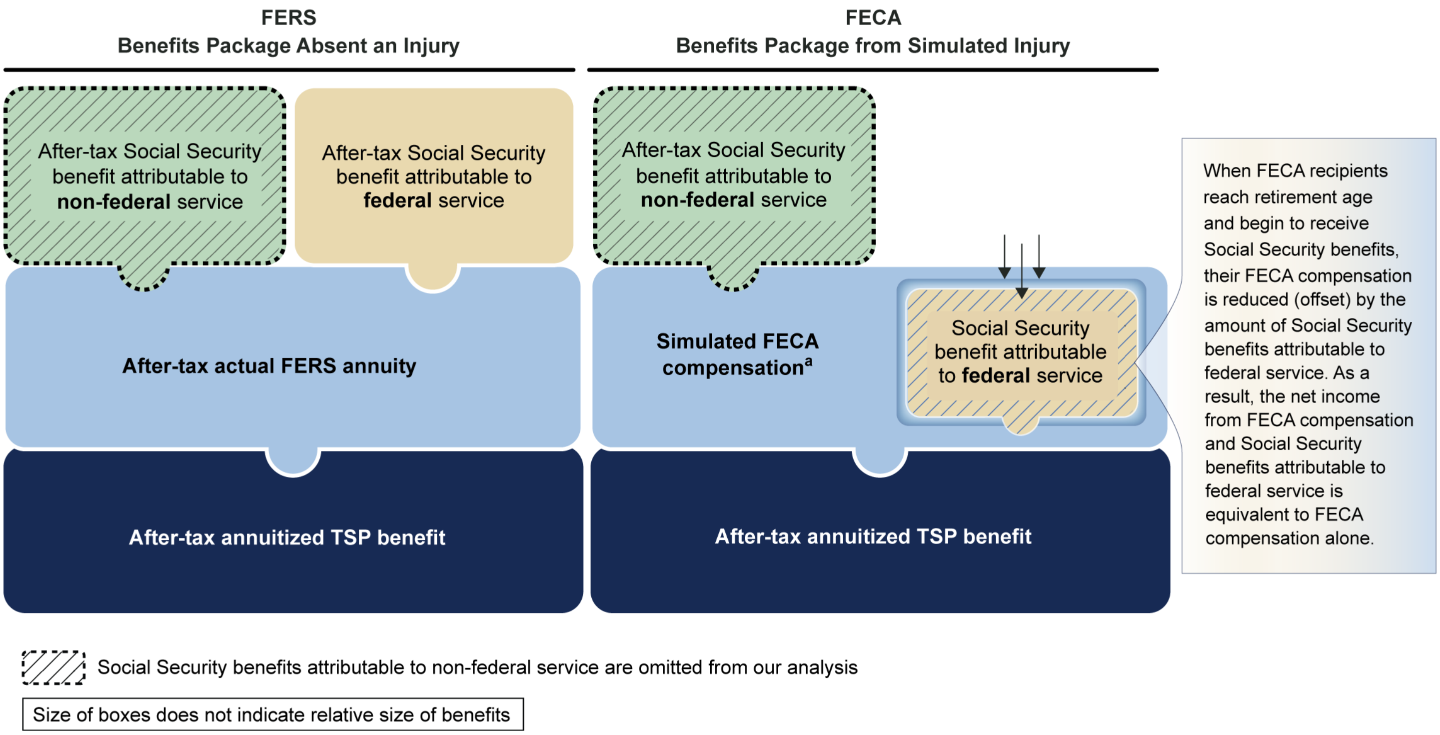
[12]For purposes of this report, we use the terms FERS benefits package and FECA benefits package to refer to the combined retirement income components an individual would receive in 2018, without or with a total disability injury, respectively. See appendix I for more information about what is included in the packages. DOL officials told us they do not consider income from Thrift Savings Plan accounts or Social Security to be FECA benefits.

[13]Our analyses are intended to consider benefits received from federal service and thus generally do not include income from retirement accounts outside the TSP. In addition, our estimates of Social Security benefits exclude the portion of benefits attributable to employment outside the federal government. The exclusion of this portion of Social Security benefits differs from the methods in our prior reports and is intended to refine one of the assumptions we discussed in that work. In GAO-13-108, we noted that we assumed Social Security benefits were attributable to federal service and that this assumption resulted in an underestimate of FECA benefits packages relative to FERS.

[14]FECA recipients may receive Social Security, but the portion of those benefits attributable to federal service are offset from FECA compensation amounts. As a result, the net income from FECA compensation and Social Security benefits attributable to federal service is equivalent to FECA compensation alone. We thus include only FECA compensation and TSP benefits in the FECA package for our benefits comparisons.

[15]26 U.S.C. § 104(a)(1).

Figure 1: FERS and FECA Benefits Package Components



Source: GAO analysis of Federal Employees' Compensation Act (FECA) and Federal Employees Retirement System (FERS) benefits package structure. | GAO-20-523

Notes: The FERS annuity is based on an employee's length of service and the average of the highest 3 consecutive years of pay. Thrift Savings Plan (TSP) accounts are defined contribution retirement accounts available to federal workers, similar to 401(k) accounts.

[a]Calculated for two scenarios: (1) current FECA compensation specifications (i.e., 75 percent or 66-2/3 percent of gross pay at time of injury, depending on the presence of dependents), and (2) reduced FECA compensation at retirement age (i.e., 50 percent of gross pay at time of injury, regardless of the presence of dependents).

We calculated FECA benefits packages under current compensation rates and under the same previously proposed reduction we analyzed in our prior work (referred to throughout this report as reduced FECA)—to convert FECA compensation to 50 percent of pay at the time of injury, adjusted for inflation, once recipients reach full Social Security retirement age.[16]

As we did in our prior reports, we calculated benefit ratios for groups of retirees—their median hypothetical FECA package as a proportion of their median FERS package. Benefit ratios are a measure of the extent to which FECA benefits offer income security in retirement relative to what a group of retirees would have had absent an injury. Our benefits comparisons relied on several key assumptions.[17] In recognition of this, we primarily analyze median benefits to summarize the variation of individual circumstances. Our analyses do not consider cumulative effects of a reduction in FECA on retirement income over time, but rather present a snapshot comparison as of 2018. In addition, our analyses do not consider the aggregate effects of an injury on lifetime income.

To analyze FECA and FERS benefits at retirement age for postal workers—who make up a sizable proportion of FECA recipients—we developed illustrative examples of how changes to USPS pay scales could affect benefit ratios.[18] From late 2010 through early 2013, USPS implemented new pay scales under which new employees start at lower salaries. Because the majority of current postal retirees worked under the old pay scales, an updated benefits comparison for current retirees, similar to our analysis for non-postal workers, may not accurately reflect future postal retirees' benefits. Instead, we developed models of 30-year careers for city carriers and postal clerks hired under the old and new pay scales. We simulated injuries at 7 and 15 years into the careers and

[16]Full Social Security retirement age is between 65 and 67, based on an individual's birth year. See 42 U.S.C. § 416(l). To increase the size of the analysis population, we simulated benefit reductions for all retirees, regardless of age. See GAO-13-108 for prior work on the previously proposed reduction to FECA compensation at retirement age. In April 2020, DOL provided us with additional details about the FECA reduction mentioned in the President's budgets for fiscal years 2019-2021. Although the published budgets state that the proposal is to "convert retirement-age beneficiaries to a retirement annuity-level benefit," without additional details, DOL clarified that the reduction would be on a sliding scale, based on an individual's age at injury. As an update to our prior work, our report focuses on analyzing a uniform FECA reduction and does not analyze the additional details provided by DOL.

[17]See appendix I for more information about the key assumptions in our analyses and their effects, as well as sensitivity analyses we conducted to examine the robustness of our results.

[18]See appendix I for more information about how we modeled USPS careers and calculated benefits.

estimated FERS and FECA benefits packages to present illustrative examples of how the USPS pay scale changes affect benefits comparisons.

We primarily used 2018 FECA data from DOL's integrated Federal Employees' Compensation System; 1988-2018 federal employee data from OPM's Enterprise Human Resources Integration system; 2018 FERS retiree data from OPM; and 2000-2018 TSP data from the Federal Retirement Thrift Investment Board.[19] We reviewed documentation for these datasets, interviewed or obtained information from officials responsible for the data, and tested data for inaccuracies. We determined the data were sufficiently reliable for the purposes of this report.

For our second objective, to determine the extent to which FECA recipients have access to information to facilitate their comparison of benefits options and the choice to remain on FECA or elect FERS in retirement, we reviewed agency documents and publicly available online resources, and interviewed officials from DOL, OPM, the Social Security Administration (SSA), and USPS. We selected USPS as an illustrative example of how employing agencies are involved in providing information to FECA recipients. The information provided by USPS does not represent all employing agencies. However, more than half of FECA long-term total disability recipients in June 2018 who were injured after 2000 worked at USPS when injured.[20] Thus, USPS officials have substantial experience in this area. In addition, we reviewed relevant federal laws and regulations related to all of the objectives of this study. See appendix I for more detailed information about our scope and methodology.

We conducted this performance audit from March 2019 to July 2020 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 and conclusions 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.

[19]To conduct sensitivity analysis, we also used data from the Social Security Administration's Master Beneficiary Record, a data source with information about retirees' actual Social Security benefits.

[20]For more information about postal worker injuries, see GAO, *U.S. Postal Service: Information on Workforce Injuries Arising During Mail Delivery*, GAO-13-847R (Washington, D.C.: September 26, 2013).

Background

FECA Program and Compensation

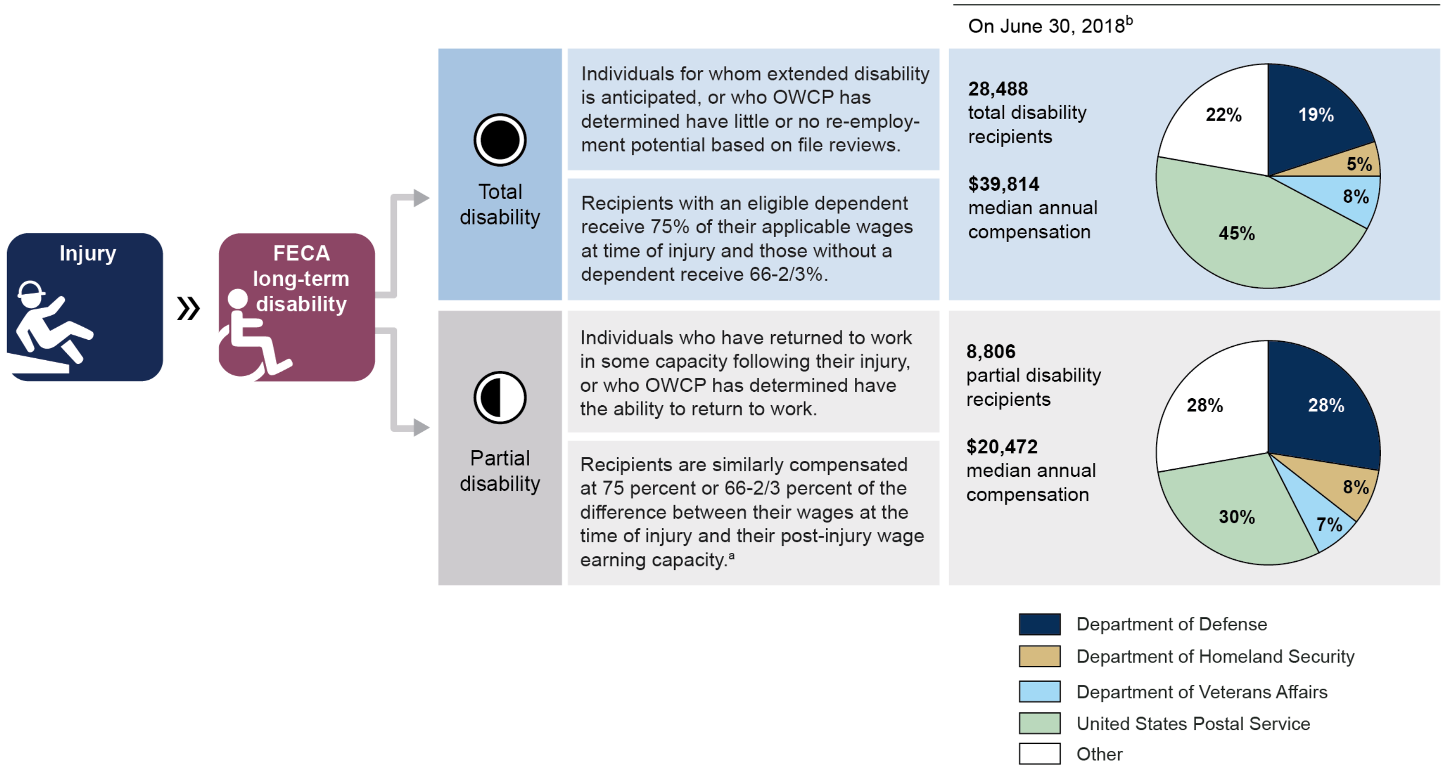
DOL's Office of Workers' Compensation Programs (OWCP) administers the FECA program with the goal of claimants recovering and returning to work following an injury. FECA long-term disability recipients primarily fall into two groups—total disability and partial disability—which differ in employment potential and compensation (see fig. 2). Total disability recipients include individuals whom OWCP has determined have little or no re-employment potential, and those for whom extended disability is anticipated (these individuals receive total disability compensation while OWCP evaluates the potential for re-employment). Partial disability recipients include individuals who have returned to work in some capacity following their injury, and those whom OWCP has determined have the ability to return to work. FECA long-term disability compensates recipients with a dependent at 75 percent of their gross pay at time of injury (or lost wage earning capacity for partial disability) and compensates those without a dependent at 66-2/3 percent.[21] FECA long-term disability compensation is adjusted annually for inflation and is not subject to federal taxation.

FECA recipients in 2018: At the end of the 2018 FECA program year, 28,488 out of 37,294 long-term disability recipients were receiving total disability compensation. More than 3/4 of these total disability recipients worked for one of four agencies when they were injured, with USPS employing the largest percentage (45.2 percent; see fig. 2).[22] In addition, about 37 percent of total disability recipients were injured between ages 40 and 49.

[21]5 U.S.C. §§ 8105(a), 8106(a), 8110(b).

[22]USPS workers also accounted for more than half of total disability recipients injured between 2000 and 2018.

Figure 2: FECA Long-Term Disability Recipients, by Type and Employing Agency



Source: GAO analysis of Federal Employees' Compensation Act (FECA) procedure manual and Integrated Federal Employees' Compensation System data on FECA recipients. | GAO-20-523

Note: We refer to long-term disability recipients as those who are receiving wage-loss compensation and are expected to be disabled for more than 60-90 days, based on medical evidence.

[a]For partial disability recipients who are employed, the Department of Labor's Office of Workers' Compensation Programs (OWCP) bases FECA compensation on the difference between their pre-injury wages and their actual post-injury earnings. For partial disability recipients who are not employed in a position OWCP determines to be commensurate with their wage earning capacity, OWCP constructs FECA compensation based on the difference between pre-injury wages and OWCP's estimate of what the FECA recipient could earn in an appropriate job placement.

[b]Although some individuals receive simultaneous benefits for multiple, separate injuries, we counted FECA recipients only once.

FECA compensation in working age years: In our prior reports, we analyzed the extent to which FECA compensation from a simulated injury would replace the take-home pay federal employees received during their working years absent an injury (i.e., before retirement age).[23] We found that, at the medians, FECA compensation replaced 81.2 percent of take-home pay in 2010 for non-postal workers with a dependent and 77.7 percent for those without a dependent. We also found that wage replacement rates were lower for individuals who would have experienced greater income growth absent the simulated injury.[24] In addition, in one of our prior reports, we compared pre-retirement wage replacement rates under a proposed revision to FECA similar to the one in the President's budgets—to compensate all recipients at 66-2/3 percent of pay at the time of injury, regardless of the presence of dependents. Under the proposed revision, at the medians, FECA compensation replaced 72.2 percent of take-home pay for individuals with a dependent and 77.7 percent for individuals without a dependent.[25]

FERS and FECA benefits in retirement age years: FERS is the retirement system that generally covers federal employees initially hired in 1984 or later. FERS benefits consist of three components: a FERS annuity, a TSP account, and Social Security benefits. The FERS annuity is based on an employee's years of service and average of the highest 3 consecutive years of pay. In general, employees with 20 or more years of federal service who retire at the age of 62 or later receive an annuity benefit equal to 1.1 percent of their highest 3-year average pay for each year of service; most other eligible employees receive an annuity benefit equal to 1 percent for each year of service.[26] TSP accounts are defined contribution retirement accounts available to federal workers, similar to 401(k) accounts.

[23]We calculated wage replacement rates that accounted for missed career growth and thus measured the extent to which FECA compensation allowed recipients to maintain the standard of living they would have had absent an injury. See GAO-13-108, GAO-13-142R, and GAO-13-143R.

[24]For example, at the median, FECA compensation replaced 51.8 percent of take-home pay for non-postal workers who would have experienced at least 60 percent income growth from the time of the simulated injury through 2010. See GAO-13-108.

[25]See GAO-13-143R.

[26]5 U.S.C. §§ 8415(a), 8421.

FECA compensation is not subject to age restrictions, and thus long-term disability recipients can remain on FECA in perpetuity. FECA recipients keep their TSP account balances accrued from contributions made prior to their injuries—they are generally unable to contribute to their TSP while on FECA—and may also receive Social Security benefits, though the portion of those benefits attributable to federal service are offset from FECA compensation amounts.[27]

FECA recipients can instead elect to receive their FERS benefits and give up their FECA compensation at any time they meet FERS eligibility requirements. FECA recipients cannot receive both FECA compensation and FERS benefits simultaneously, though they can change their choice at any time.[28] Some FECA recipients who elect FERS benefits are eligible to receive a 1 percentage point enhancement to their FERS annuity (i.e., 2 percent applied for the period of total disability instead of 1 percent) to make up for not contributing to TSP or increasing their Social Security earnings credit during that time. This enhancement applies to FECA recipients who eventually return to work in federal service and earn entitlement to a FERS annuity.[29]

Postal Service Career Path Changes

From late 2010 through early 2013, USPS implemented new pay scales that had been negotiated with the unions covering most of its career positions.[30] Under the new pay scales, new employees have lower starting salaries than they would have had under the old pay scales. Some of the new pay scales maintain the same maximum salary as the prior pay scales. Most USPS workers remain in a single pay track

[27] 5 U.S.C. § 8116(d)(2). An employee must be in a pay status to make TSP contributions.

[28] 5 U.S.C. § 8116(a).

[29] The enhanced annuity is available to employees whose final separation for retirement was on or after October 3, 2003 and is applicable for certain qualifying periods of absence, totaling 2 months or more, in which the individual was receiving FECA compensation. Pub. L. No. 108-92, 117 Stat. 1160 (2003) (adding 5 U.S.C § 8415(n)).

[30] The new pay scales generally apply to career employees hired on or after effective dates negotiated with the postal worker unions (shown in parentheses): National Rural Letter Carriers' Association (November 2010); American Postal Workers Union, which covers postal clerks, vehicle operators, and maintenance employees, among others (May 2011); National Association of Letter Carriers, which covers city carriers (January 2013); and National Postal Mail Handlers Union (February 2013). American Postal Workers Union positions vary by salary grade level, and pay scales for new hires above grade 8 did not change.

throughout their careers, within which they proceed through salary step increases, according to USPS officials.

In addition, USPS is now hiring more non-career employees who, according to USPS, are not eligible for FERS benefits. Between 2011 and 2013, USPS created three new non-career employee positions—city carrier assistants, postal support employees, and mail handler assistants—and also raised the caps on the use of non-career employees.[31] For USPS jobs with a comparable non-career position, the typical career track currently is to be hired as a non-career employee and then, after a period of time and when a job opens, to be converted into a career employee (beginning at the lowest pay step of the position), according to USPS officials.[32]

[31]In addition to the new non-career positions, the non-career position of rural carrier associate was created in 1987. There is no cap on the number of workers in this position.

[32]According to USPS officials, non-career employees wait an average of 2 years before converting to career positions, though this varies; rural carriers, for example, remain in non-career positions longer, on average.

Career Length and Other Circumstances Affect How Similar FECA Benefits Are to FERS Benefits Absent an Injury

FECA Benefits Compare Less Favorably with FERS for Individuals Who Missed More Years of Federal Service and Income Growth Due to Injury

Benefits Comparisons for Individuals With and Without a Dependent

Currently, FECA compensates recipients with a dependent at 75 percent of their gross pay when injured and those without a dependent at 66-2/3 percent. The compensation rate at retirement age under the previously proposed reduction is 50 percent of gross pay at injury for everyone.

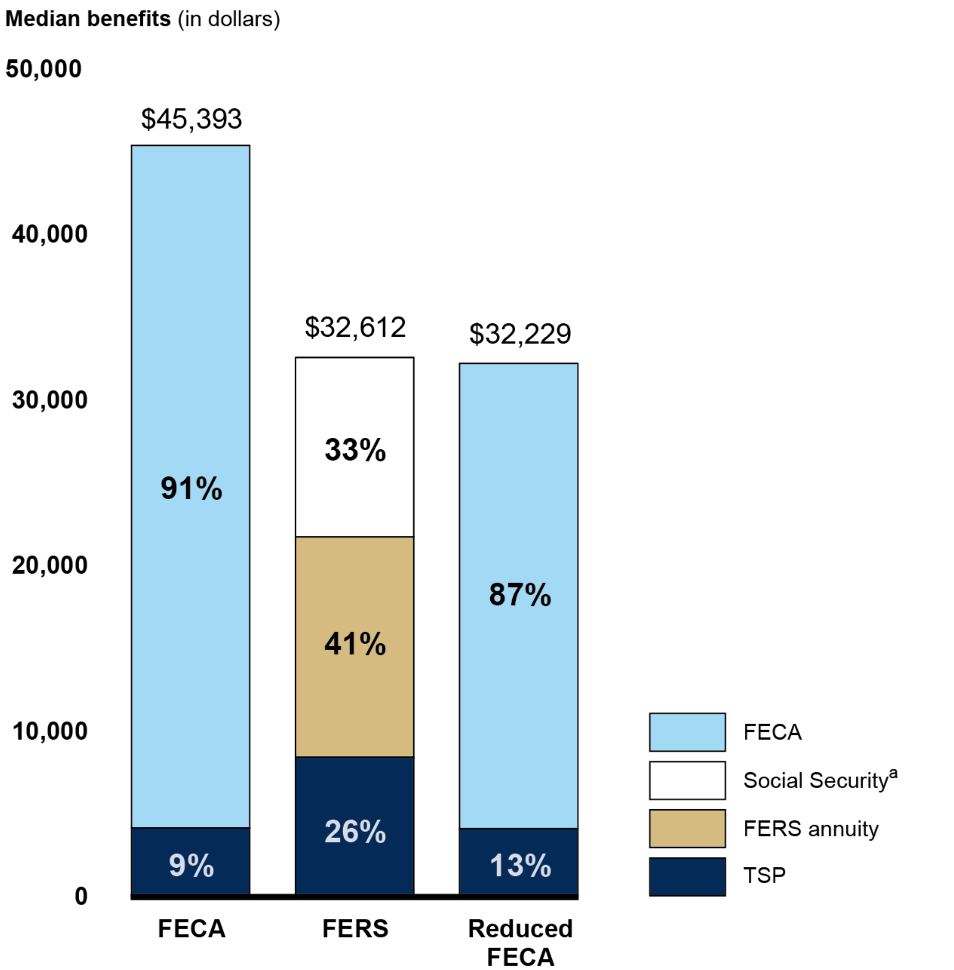
As a result, the FECA reduction would affect individuals with a dependent more than those without. About 2/3 of the retirees in our analysis have a dependent.

Source: GAO analysis of simulation results using data on Federal Employees' Compensation Act (FECA) recipients and Federal Employees Retirement System (FERS) retirees. | GAO-20-523

Our analysis of non-postal federal retirees found that individual circumstances, such as how a career would have progressed absent an injury, significantly affected FECA and FERS benefits comparisons. Looking across all FERS retirees in our analysis, we found that the median current FECA benefits package individuals would have received with a simulated total disability injury was 39 percent greater than the median FERS package retirees received in 2018 absent the injuries (see fig. 3). Under the previously proposed reduction to FECA compensation, which affects those with a dependent more than those without (see sidebar), we found the overall median FECA package was about equal to the FERS median.[33] However, overall median benefits comparisons do not tell a complete story. Individual characteristics—such as career longevity and salary growth absent an injury, and an individual's age when the simulated injury occurred—greatly affected benefit comparisons.

[33]As previously discussed, the reduction we analyzed—to convert FECA compensation to 50 percent of gross pay at the time of injury, adjusted for inflation, once recipients reach their full Social Security retirement age—is the same as in our prior work. Benefit ratios based on overall median benefits packages in 2018 are slightly higher than the comparisons for 2010 in our prior report (see GAO-13-108). This slight increase is the net result of two contrasting factors. On the one hand, because the FERS system has been in place longer, retirees we analyzed in 2018 averaged longer federal careers (median of 20 years) than the population we analyzed in 2010 (median of 16 years), which increases median FERS benefits relative to FECA, on average. On the other hand, for this report, to refine one of the assumptions in our prior work, we included Social Security benefits attributable solely to federal service, which decreases median FERS benefits relative to FECA, on average.

Figure 3: Median Benefits Packages for FECA, FERS, and Reduced FECA



Source: GAO analysis of simulation results using data on FECA recipients and FERS retirees from the Department of Labor, Federal Retirement Thrift Investment Board, and Office of Personnel Management. | GAO-20-523

Notes: Benefits shown represent the median benefits package received in 2018 by non-postal retirees under the Federal Employees Retirement System (FERS) and the median benefits package for the same retirees given a simulated total disability injury under the Federal Employees' Compensation Act (FECA). Reduced FECA measures the benefits package after converting FECA compensation to 50 percent of applicable wages at the time of injury, adjusted for inflation. Benefit component percentages represent the pre-tax benefit component (e.g., Thrift Savings Plan, or TSP) divided by the mean benefits package under FERS or FECA.

[a]Social Security includes only the portion of benefits attributable to federal employment.

The extent to which FECA benefits from a simulated injury were similar to the FERS retirement income non-postal retirees received in 2018 varied substantially depending on career length absent the injury. FERS benefits increase substantially the longer a federal employee works, leading to wide variation in the size of FERS retirement packages, which in turn affects benefits comparisons. While FECA compensation is based on a constant percentage of pay, under FERS, each additional year of federal service increases the FERS annuity percentage (e.g., a retiree with a 10-year career receives a 10 percent FERS annuity and a retiree with a 30-year career receives a 33 percent FERS annuity). Additional years of service also provide more years of TSP contributions.

Benefit Ratios

Benefit ratios are a measure of the extent to which FECA benefits offer income security in retirement relative to what a group of retirees would have had absent an injury. The ratios measure a group's median hypothetical FECA benefits package as a proportion of their median FERS package. A benefit ratio of 100 indicates FECA and FERS benefits packages are equal. A ratio of 130, for example, means the FECA package is 30 percent greater than FERS, and a ratio of 90 means the FECA package is 10 percent less than FERS.

Source: GAO analysis of simulation methods using data on Federal Employees' Compensation Act (FECA) recipients and Federal Employees Retirement System (FERS) retirees. | GAO 20 523

In our analysis, benefit ratios reflect the relative cost to retirees of a total disability on 1 year of federal retirement income (see sidebar). The pattern of benefit ratios (see fig. 4) indicates that the:

- FECA packages are relatively generous for individuals who would have had short federal careers absent an injury; and
- FECA cost-of-living increases do not keep pace with the missed (and accelerating) accumulation of FERS benefits that occurs over longer careers absent an injury.

For the group of retirees with at least 30-year federal careers absent an injury, median current FECA and FERS packages were about equal. Under the previously proposed reduction to FECA compensation, the median FECA package was about 28 percent less than the median FERS package.[34] For the group of retirees with federal careers shorter than 10 years absent an injury, the median current FECA package (about $38,000) was about 160 percent greater than the FERS package, and the median reduced FECA package (about $26,000) was about 81 percent

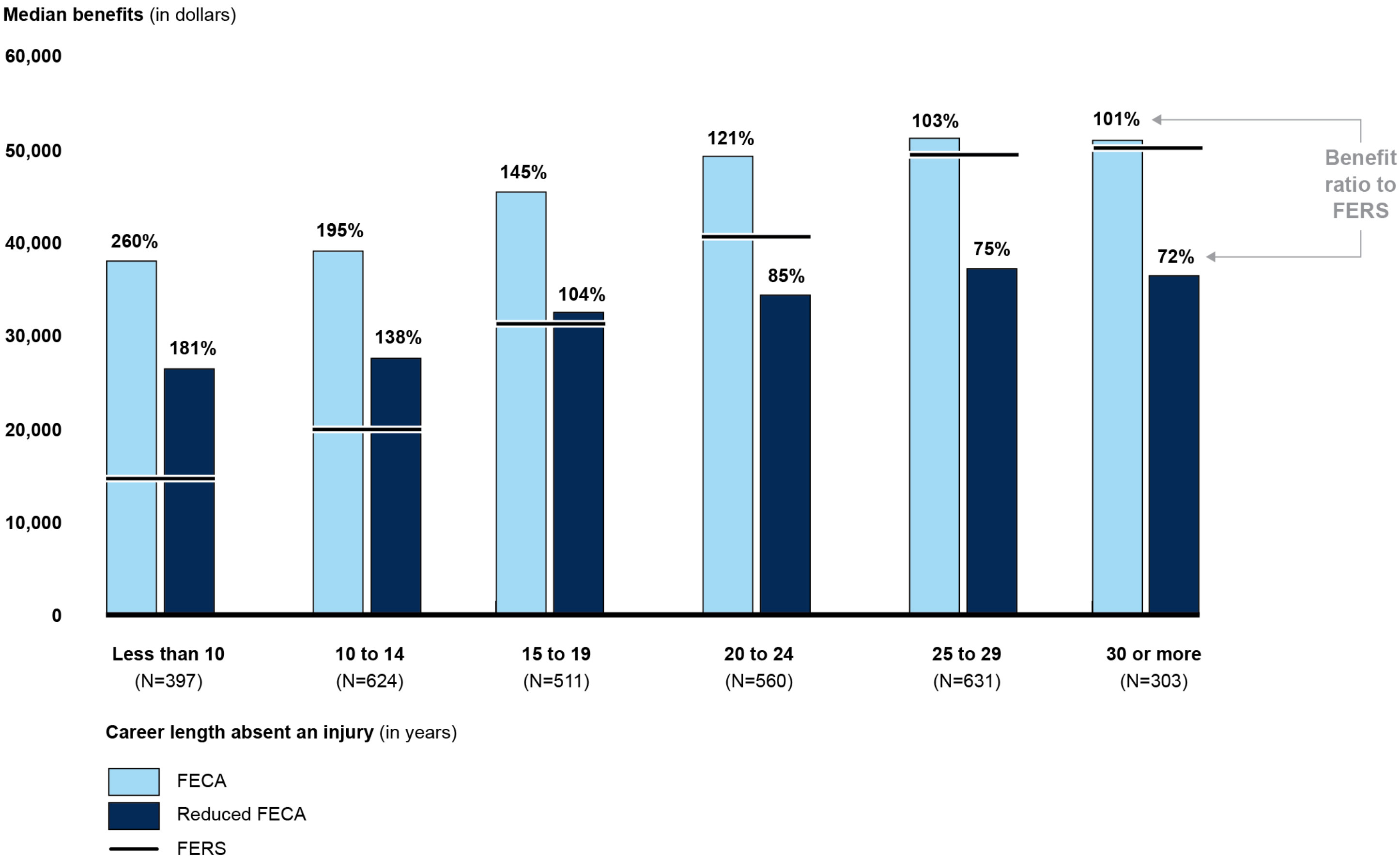
[34]The individuals in our analysis who retired under FERS with at least 30-year careers are among the first to do so, and they retired during a period characterized by substantial stock market growth. We examined whether our results for the 30-year career retirees were highly dependent on this cohort's retirement timing by reducing their TSP annuities by 30 percent and then recalculating benefit ratios. The resulting changes in median benefits comparisons were modest, and the findings remained consistent with our main analysis. See appendix I for more details.

greater than FERS.[35] However, because our analysis is not designed to account for non-federal employment, for some retirees with shorter federal careers, the benefit ratios we calculated overstate the extent to which FECA makes up for lost retirement income. Specifically, if federal service was early in the career, a total disability injury would have precluded subsequent non-federal work, and any eventual retirement income associated with that work.[36] In contrast, a non-disabled individual with a short federal career could have a subsequent non-federal career and accumulate additional retirement income.

[35]Most individuals in our analysis retired prior to full retirement age, so we reduced their estimated Social Security benefits accordingly. To examine the effects of these reductions, we also compared benefits by career length absent an injury, assuming all individuals waited to receive their Social Security benefits until full retirement age. As expected, benefit ratios went down, as the median FERS packages increased relative to the median FECA packages due to fewer Social Security benefit reductions. However, the results were consistent with the findings from our main analysis (see app. I). In addition, in our prior report (see GAO-13-108), we assumed full Social Security benefits were attributable to federal service. This assumption resulted in an underestimate of FECA benefits packages relative to FERS (i.e., lower benefit ratios) because Social Security benefits from non-federal work were included in the FERS benefits package but not included (i.e., assumed to be entirely offset) in the FECA benefits package. The underestimate was greater for those individuals whose federal service represented a smaller proportion of their working careers. For this report, we refined our methodology by estimating Social Security benefits attributable to only federal service for FERS packages—excluding the portion attributable to non-federal employment. We compared our estimated Social Security benefits attributable to federal service and benefits attributable to full careers (federal and non-federal). As expected, at the medians, our estimated federal benefits were substantially lower than the full-career benefits for individuals with less than 10 years of federal service, and similar to the full-career benefits for individuals with at least 35 years of federal service (see app. I).

[36]Among retirees in our analysis with federal careers shorter than 20 years absent an injury, about 9 percent were younger than age 35 when they began their federal employment. These individuals could have had non-federal employment after their federal careers that would have been precluded by a disability from a federal work injury.

Figure 4: Median Benefits Packages for FECA, Reduced FECA, and FERS by Retiree Career Length Absent the Simulated Injury



Source: GAO analysis of simulation results using data on FECA recipients and FERS retirees from the Department of Labor, Federal Retirement Thrift Investment Board, and Office of Personnel Management. | GAO-20-523

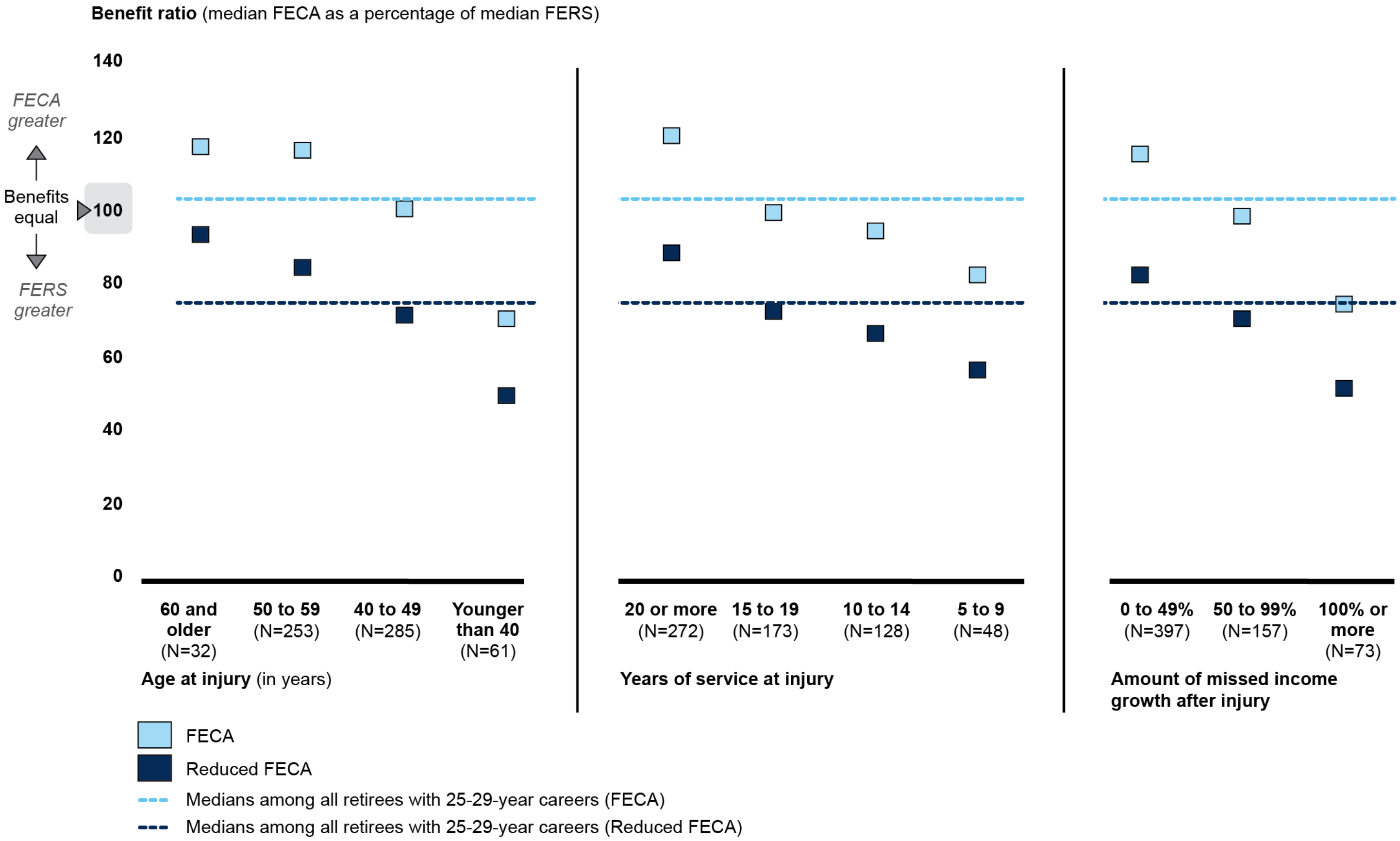
Notes: Benefit ratios represent the median benefits package given a simulated total disability injury under the Federal Employees' Compensation Act (FECA) divided by the median package received by non-postal retirees under the Federal Employees Retirement System (FERS) in 2018. Reduced FECA measures the benefits package after converting FECA compensation to 50 percent of applicable wages at the time of injury, adjusted for inflation.

Other circumstances, such as an individual's age and the point in their career when the injury occurred, also have substantial effects on benefits comparisons. For example, for those who retired with 25-29 years of service (see fig. 5), we found that, as a group:

- workers injured at younger ages had substantially lower benefit ratios than those injured at older ages;

- workers injured near the beginning of their career had substantially lower benefit ratios than those injured near the end of their career; and
- workers whose simulated injury caused them to miss out on more income growth (i.e., salary increases) before retirement had substantially lower benefit ratios than those who would have experienced less income growth between the time of injury and retirement.

Figure 5: Benefit Ratios among Retirees with 25 to 29-Year Careers Absent the Simulated Injuries, by Age and Years of Service at Injury, and by Amount of Missed Income Growth after Injury



Source: GAO analysis of simulation results using data on FECA recipients and FERS retirees from the Department of Labor, Federal Retirement Thrift Investment Board, and Office of Personnel Management. | GAO-20-523

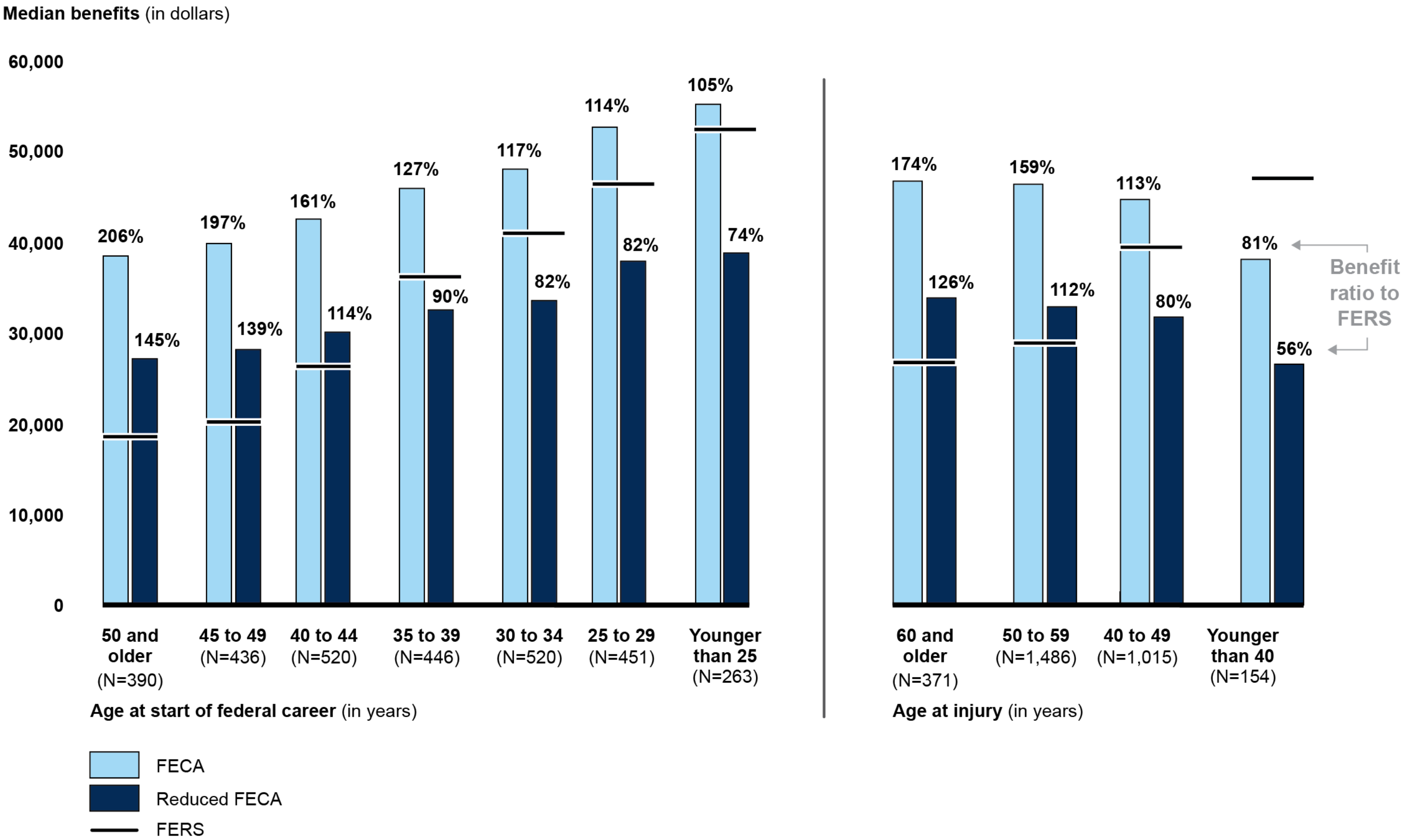
Notes: Benefit ratios represent the median benefits package given a simulated total disability injury under the Federal Employees' Compensation Act (FECA) divided by the median package received by non-postal retirees under the Federal Employees Retirement System (FERS) in 2018. Reduced FECA measures the benefits package after converting FECA compensation to 50 percent of applicable wages at the time of injury, adjusted for inflation. Due to small sample size, the subgroups with less than 5 years of service at injury and with negative income growth are not shown.

Although this group of retirees had relatively lengthy careers absent injury (25-29 years) and thus, overall, had a median current FECA benefits package that was similar to the FERS median, we found important differences based on individual circumstances. For example, individuals whose simulated injuries occurred at age 60 or older, or 20 or more years into their career, had median current FECA packages close to 20 percent greater than FERS. The previously proposed reduction to FECA compensation resulted in the median FECA package being close to 10 percent less than FERS (see fig. 5 above). For these subgroups, although their relatively lengthy federal careers were interrupted by simulated injuries, the interruption occurred after they had accrued more years of TSP contributions and pay raises than those injured younger or earlier in a career, both of which increased their FECA packages relative to FERS.

However, other subgroups, such as those whose simulated injuries occurred when they were younger than age 40 or fewer than 10 years into their career, and those whose pay would have doubled from the time of their simulated injury to their retirement (i.e., income growth of 100 percent or more), had median current FECA packages that were already less than FERS. Under the previously proposed reduction to FECA compensation, the median FECA packages for these groups made up about half of the income they would have received from FERS absent the injury (see fig. 5 above). For these subgroups, FECA benefits provided a fraction of the income security in retirement that FERS would have provided absent the injuries because of the combined effects of the simulated injuries interrupting what would have been relatively lengthy careers, and the timing of injuries meaning that much of those careers was missed.

Although a retiree's career length and income growth absent an injury are two primary drivers of benefits comparisons, in reality an individual's continued career progression cannot be known at the time they sustain a disabling injury. However, other characteristics that can be known at the time of injury can serve to approximate career progression. Specifically, our analysis suggests that an individual's age when hired and age when injured approximate the effects of career progression absent an injury. For example, those who began their federal career at a younger age—or were injured at a younger age—had lower benefit ratios, which indicates that their median FECA package made up for a smaller proportion of FERS (see fig. 6). This pattern mirrors the results for career length, and generally occurs because younger individuals have more time available absent the injury to accrue years of service under FERS and salary increases, which would increase FERS benefits relative to FECA (all else equal). As previously discussed, DOL told us in April 2020 that the FECA reduction mentioned in the President's recent budgets would be on a sliding scale, based on an individual's age at injury.[37] This report does not analyze the effects of this sliding scale reduction, and the results of such an analysis would be driven by the specific details of any proposal.

Figure 6: Median Benefits Packages for FECA, Reduced FECA, and FERS by Retiree Age at Entry into Federal Service and Age at Injury



Source: GAO analysis of simulation results using data on FECA recipients and FERS retirees from the Department of Labor, Federal Retirement Thrift Investment Board, and Office of Personnel Management. | GAO-20-523

Notes: Benefit ratios represent the median benefits package given a simulated total disability injury under the Federal Employees' Compensation Act (FECA) divided by the median package received by non-postal retirees under the Federal Employees Retirement System (FERS) in 2018. Reduced

[37]The published budgets characterize the proposed benefit reduction as a proposal to "convert retirement-age beneficiaries to a retirement annuity-level benefit," without any additional details.

FECA measures the benefits package after converting FECA compensation to 50 percent of applicable wages at the time of injury, adjusted for inflation.

Changes to Pay Scales for Postal Workers May Affect Future FECA and FERS Benefits Comparisons, Depending in Part on When Injuries Occur

Recent changes to postal worker pay scales and career tracks will affect comparisons of FECA and FERS benefits once those hired under the new pay scales reach retirement.[38] Lower starting salaries under the new pay scales mean that workers injured earlier in their careers will generally receive lower FECA compensation than they would have under the old pay scales. Current and future postal retirees hired under the new pay scales will also receive lower FERS benefits than those retiring under the old pay scales because of lower career earnings affecting TSP account balances and Social Security benefits (all else equal) and, for some, lower maximum salaries affecting FERS annuities.[39] In addition, average years of service under FERS for current and future postal workers—which greatly affects annuity amounts—could differ from retirees in 2018 because most new career positions are filled by non-career conversions, according to USPS officials, and time spent in a non-career position does not count towards FERS.[40] The new pay scales might also affect workers' career choices, such as whether to leave USPS or when to retire.[41]

The pay scale changes reduce expected FERS and FECA benefits to varying extents, depending on whether a position's maximum salary changed and when a total disability injury occurs, according to our analysis of modeled workers with 30-year careers absent an injury. Figure 7 depicts 30-year careers for modeled city carriers and postal clerks

[38]As previously discussed, the new pay scales cover most USPS career positions, and workers in these positions are eligible for FERS benefits. FECA and FERS benefits for the current USPS workforce may differ from what we found in our prior work and what we would observe for retirees in 2018, most of whom were likely hired under the old pay scales.

[39]Career earnings and FERS benefits will be lower in constant dollar terms and holding all else equal, such as the size of cost-of-living wage increases and the number of overtime hours worked. As previously noted, FERS annuities are based, in part, on the average of the highest 3 consecutive years of pay.

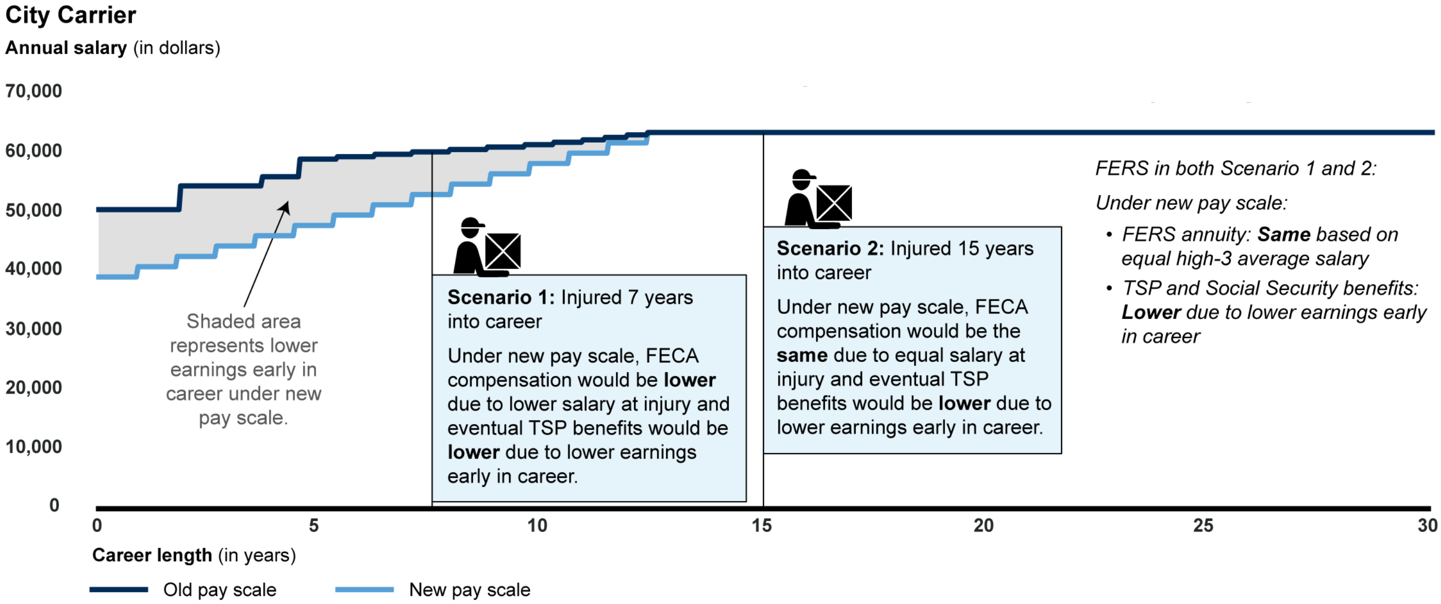
[40]According to USPS officials, non-career employees wait an average of 2 years before converting to career positions, though this varies. If a retiree had a 30-year career but spent 2 years in a non-career position, then their FERS years of service would be 28 instead of 30.

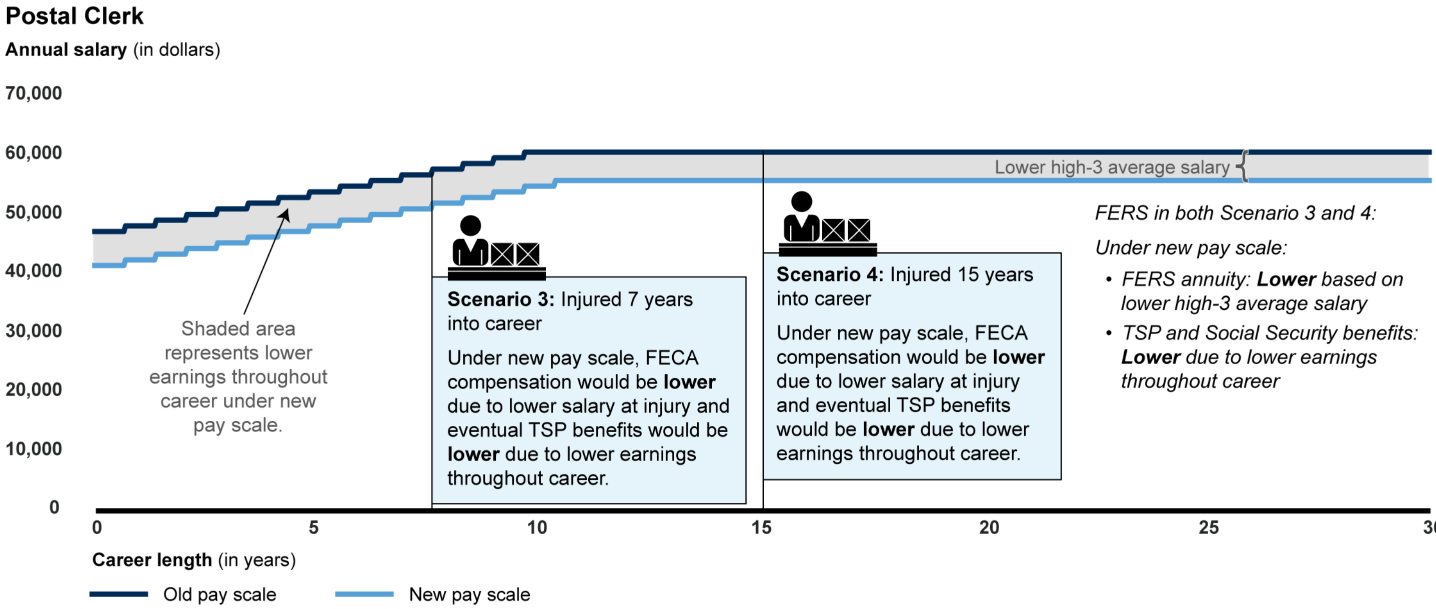
[41]According to USPS officials, more than a third of non-career employees quit voluntarily in 2019.

under the old and new pay scales, along with injury scenarios.[42] The FERS package at retirement age for the modeled city carrier was about 4 percent (about $2,500) lower in the first year of retirement under the new pay scale than the old due to lower TSP and Social Security benefits. Had the modeled city carrier been injured 7 years into their career, they would have received a FECA package about 15 percent (about $7,500) lower at retirement age under the new pay scale than the old, largely due to their lower salary when injured. However, if the total disability injury occurred 15 years into their career, they would have received a FECA package about 3 percent (about $1,500) lower at retirement age under the new pay scale than the old. In this scenario, FECA compensation under the new and old pay scales would have been the same, though the TSP annuity would have been lower. Because the modeled postal clerk had lower salaries throughout their career under the new pay scale, their FERS package was about 8 percent (about $5,000) lower at retirement age, and their FECA packages given injuries at 7 and 15 years into their career were about 10 percent (about $5,000) and about 8 percent (about $5,000) lower, respectively, as compared to the old pay scale.

[42]We assumed the modeled postal workers retired at age 67 after 30-year careers in the positions and salary grades in which they were hired, receiving all salary step increases per the pay scales. A 30-year career may or may not be typical of current and future workers. If we were to model shorter careers, benefit ratios would be greater, all else equal, but the changes caused by the new pay scales would likely be similar. Salaries and benefits are in constant 2018 dollars. Where we present dollar amount results, we round to the nearest $500. See appendix I for additional details about our modeling of example careers and benefits estimates.

Figure 7: Examples of City Carrier and Postal Clerk 30-Year Careers under Old and New Pay Scales



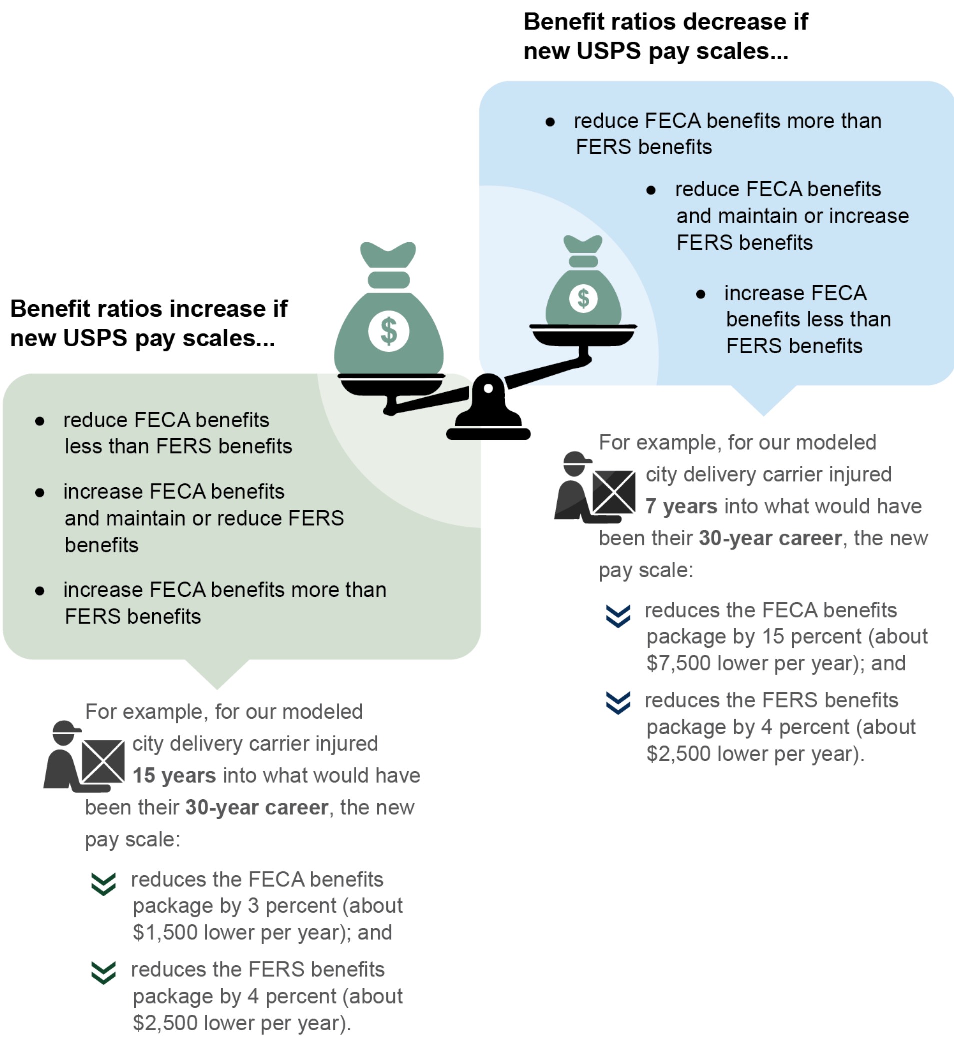


Source: GAO analysis of Federal Employees' Compensation Act (FECA) and Federal Employees Retirement System (FERS) benefits package calculations for example careers under old and new United States Postal Service (USPS) pay scales. | GAO 20-523

Notes: Figures depict pay scales in effect as of September 2018 in constant 2018 dollars. The modeled postal clerk is assumed to be in salary grade 6 under the American Postal Workers Union old and new pay scales. According to USPS officials, most postal clerk positions are salary grade 6.

The effects of the pay scale changes on benefit ratios also vary according to how the new pay scales affect FECA benefits relative to FERS. For example, the modeled city carrier injured 15 years into their career would have a larger benefit ratio under the new pay scale because the percentage decline of their FECA package was less than that of their FERS package. However, if the modeled city carrier was injured 7 years into their career, they would have a smaller benefit ratio under the new pay scale because the percentage decline of their FECA package was more than that of their FERS package (see fig. 8).

Figure 8: Factors That Can Lead to Benefit Ratios Increasing or Decreasing under New U.S. Postal Service Pay Scales, Assuming a 30-Year Career if Never Injured



Source: GAO analysis of benefit ratio formulas, and Federal Employees' Compensation Act (FECA) and Federal Employees Retirement System (FERS) benefits package calculations for example careers under old and new United States Postal Service (USPS) pay scales. | GAO-20-523

Notes: Benefit ratios are a measure of the extent to which FECA benefits offer income security in retirement relative to what an individual would have had absent an injury. The ratio is the percentage of an individual's FERS benefits package replaced by their FECA compensation and Thrift Savings Plan benefits at retirement age had they been totally disabled during their career. The bulleted examples of how benefit ratios could change refer to percentage increases or reductions; for example, "reduce FECA benefits less than FERS benefits" means that, on average, the percentage reduction in FECA packages was less than that of FERS packages.

In the future, overall benefit ratios for postal and non-postal federal workers may be more similar than we found in our prior work if the relative benefit advantage tilts more towards FERS under the new USPS pay scales (i.e., benefit ratios decrease).[43] This could happen if, for example, on average, postal workers:

- sustain total disability injuries early in their careers; or
- contribute a larger proportion of their income to their TSP accounts over their careers.

However, benefit ratio differences between postal and non-postal workers may grow if the relative benefit advantage tilts more towards FECA (i.e., benefit ratios increase). This could happen if, for example, on average, postal workers:

- have fewer years of service creditable to their FERS annuities due to years spent as non-career employees; or
- contribute a smaller proportion of their income to their TSP accounts over their careers.

[43]In our prior work, USPS total disability FECA recipients were injured about 11.5 years into their careers, at the median, and the median FECA-to-FERS benefit ratio generally advantaged FECA more for postal workers than for non-postal workers. For example, among workers with simulated 30-year careers, the median current FECA package given a simulated injury replaced about 96 percent of the median FERS package that postal retirees would have received if never injured, and replaced about 90 percent of the median FERS package for non-postal retirees. See GAO-13-108 and GAO-13-142R.

FECA Recipients Have Access to Some Benefit Option Information, but May Face Challenges Comparing FERS and FECA at Retirement

Information DOL Provides FECA Recipients May Not Prepare Them to Compare Their Benefits Options at Retirement

FECA recipients have the right to elect the more advantageous benefits package when eligible for both FECA and FERS, according to the FECA Procedure Manual.[44] To make informed decisions, FECA recipients need to be aware of, and able to compare, their potential benefits. OWCP officials said FECA benefits are usually greater than FERS, and remaining on FECA is the default if FECA recipients take no action at retirement age. FECA recipients can elect to receive their FERS benefits at any time when eligible, and can also change their choice at a later time.

In certain circumstances it may not be readily apparent which benefits package would be more advantageous.[45] For example, in our prior work, we analyzed several partial disability cases and found that a few recipients' potential FERS benefits exceeded their FECA benefits.[46] Each recipient faces a unique comparison of benefits, depending on factors such as years of federal service at injury, whether they have an eligible dependent, and their wages after injury if they went back to work in a partial capacity. In addition, FECA recipients who return to work at some point following their injury are eligible for an enhanced FERS annuity for

[44]DFEC Procedure Manual, FECA Part 2, Group 2, Chapter 2-1000.4.

[45]As previously noted, FECA compensation is not subject to age restrictions, and thus recipients can remain on FECA in perpetuity.

[46]These were non-generalizable case studies. We analyzed seven partial disability cases and found that three recipients' potential FERS benefits exceeded their FECA benefits. See GAO-13-143R.

time spent on FECA while totally disabled.[47] The enhanced FERS annuity may result in the FERS benefits package being more advantageous than FECA for some recipients, such as those who returned to work in a partial capacity after a lengthy recovery from total disability.

Despite the possibility that FERS benefits may be more advantageous than FECA in some cases, FECA recipients may be unaware that it could be in their best interest financially to compare their benefits options. As FECA recipients approach retirement age, OWCP provides forms and other documents that might alert or remind recipients about the existence of their options. However, this information does not explicitly advise recipients to obtain estimates of and consider their potential FERS benefits. For example, as FECA recipients approach age 62, OWCP automatically sends a letter that includes information about receiving FECA compensation and Social Security retirement benefits concurrently.[48] While this letter does not mention other benefits options, it does give the FECA recipient information about remaining on FECA into retirement. OWCP also annually requires FECA recipients to complete a form documenting any earnings, including whether they are receiving any FERS retirement benefits.[49] This form may remind recipients about the existence of their FERS benefits, but does not state explicitly that an individual has benefits options at retirement. Lastly, the FECA Procedure Manual, which is available for a FECA recipient to consult at any time,

[47]As previously mentioned, the enhanced FERS annuity is intended to make up for not contributing to TSP nor increasing Social Security earnings credit during time on FECA. The FERS annuity is generally set at 1 percentage point for each year of service times the average of the highest 3 consecutive years of pay (high-3 pay). Thus, for a retiree with a 15-year federal career, the annuity would be 15 percent of their high-3 pay. If the individual spent 5 years of applicable time on FECA in the middle of their career before returning to work, they would receive 2 percentage points towards their FERS annuity for each of those years on FECA; as a result, their FERS annuity would be 20 percent of their high-3 pay (5 years on FECA at 2 percentage points and 10 years working at 1 percentage point).

[48]Specifically, the letter notifies FECA recipients that they must report receipt of Social Security benefits so that their FECA compensation can be reduced based on their age and federal service. This letter does not provide an estimate of what that reduction will be.

[49]OWCP provides FECA recipients with Form EN-1032 for this self-reporting of earnings. If FERS benefits are reported, OWCP will contact OPM to verify the benefits and notify the recipient that they cannot receive both FERS and FECA benefits concurrently and must make an election.

contains a chapter on dual benefits that outlines the process for electing FECA or FERS benefits.[50]

OWCP also provides a letter to some FECA recipients that serves as a more direct reminder of benefits options and that may help those recipients begin to make comparisons, though in a narrow way. Specifically, if OWCP receives indication that a FECA recipient is also receiving FERS benefits, according to officials, OWCP sends a letter notifying the recipient that they cannot receive FECA and FERS benefits concurrently. In addition, according to officials, a FECA recipient, their legal representative, or their employing agency may also request the letter or directly notify OWCP that the recipient is considering FERS retirement, though this is not common.[51] OWCP does not provide this additional information automatically to FECA recipients who are approaching retirement age, and thus it may not necessarily reach those for whom FERS retirement is more advantageous.

In addition to serving as a reminder, the letter also includes the monthly equivalent of the recipient's current FECA compensation to facilitate—in a narrow way—a comparison with FERS benefit amounts or estimates.[52] The letter does not include estimates of any other benefits, such as components of FERS (i.e., FERS annuity, TSP, and Social Security), nor does it encourage recipients to obtain estimates from their employing agency or another source.[53] Further, the letter does not include information about the enhanced annuity for which some FECA recipients may be eligible, but about which they may be unaware. Recipients

[50]DFEC Procedure Manual, FECA Part 2, Group 2, Chapter 2-1000.

[51]OWCP may also receive information from OPM indicating that the recipient has made a claim for FERS benefits.

[52]Unlike the monthly FERS annuity, FECA compensation is generally paid on a 4-week basis.

[53]OWCP officials said providing estimates of FERS benefits is the responsibility of OPM or employing agencies, and OWCP does not have information needed to calculate and provide accurate estimates, such as recipients' service and eligibility requirements, and creditable time. OWCP officials said that OPM and employing agencies have this information and are thus better equipped to assist recipients who may be considering electing FERS retirement.

receiving the letter are instructed to select one benefits option—FECA or FERS—using the attached election of benefits form.[54]

OWCP's lack of communication to FECA recipients on obtaining and comparing FECA and FERS benefits estimates is not consistent with the FECA Procedure Manual. The manual emphasizes the importance of effective and efficient communication and routine customer service throughout the duration of a FECA case.[55] However, according to officials, OWCP does not provide advice to FECA recipients because the agency does not want to appear to be steering FECA recipients toward electing FERS benefits. Informing recipients to fully explore available options is compatible with the need to provide effective and efficient communication and should not be viewed as steering recipients toward a predetermined outcome. Without doing so, some recipients for whom it could be advantageous to elect FERS benefits at retirement age, such as certain partial disability recipients, may not have, or know how to obtain, the information needed to make the appropriate comparisons.

Given the possibility that some FECA recipients could be better off electing FERS, it is important that recipients have complete information at their disposal to compare all their benefits options and make an informed decision. Without the necessary information, some recipients may receive less advantageous benefits than they are entitled to because they are not fully aware of their options.

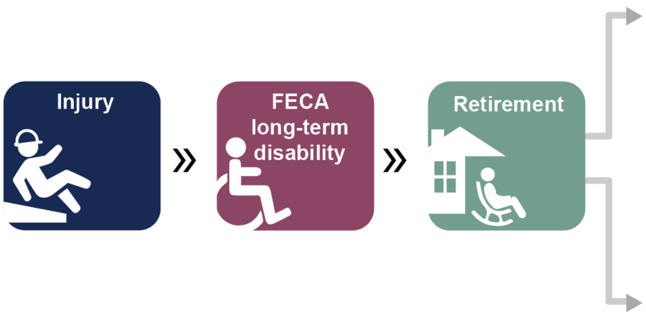
DOL and SSA's Manual Process for Calculating One Component of FECA Benefits at Retirement Age Hinders FECA Recipients' Benefits Comparisons

FECA recipients who are aware of their benefits options and want to determine their best option at retirement age face challenges making informed decisions without reasonable estimates of each component of the FECA and FERS benefits packages. The FECA benefits package includes FECA compensation, which the recipient has already been receiving prior to retirement; TSP and Social Security benefits, which can be estimated with online tools; and a FECA compensation reduction to offset Social Security benefits attributable to federal service, which cannot be easily or reliably estimated (see fig. 9).

[54]Form CA-1105.

[55]DFEC Procedure Manual, FECA Part 2, Chapter 2-0600.6.

Figure 9: FECA Benefits Package Components and Availability of Estimates



Benefits option	Components	Estimate available	How it's accessed
FECA Benefits Package	• FECA compensation	✓	• Amount indicated by benefits being received
	• TSP benefits	✓	• Online estimator tools
	• Social Security benefits	✓	• Online estimator tools
	• FECA compensation Social Security offset	✗	• Estimate is not readily available
FERS Benefits Package	• FERS annuity		
	• TSP benefits		
	• Social Security benefits		

Source: GAO analysis of interviews with officials from the Department of Labor, Office of Personnel Management, Social Security Administration, and United States Postal Service, online resources to estimate Thrift Savings Plan (TSP) and Social Security benefits, procedure manuals, and program documentation for the Federal Employees' Compensation Act (FECA) and Federal Employees Retirement System (FERS). | GAO-20-523

- **FECA compensation:** Because FECA recipients are currently receiving compensation, they should be aware of the amount. In addition, if OWCP receives indication that a FECA recipient is considering or already receiving FERS benefits, the agency will convert the recipient's FECA compensation to a monthly benefit amount for ease of comparison with any FERS retirement benefit estimate they may have received, or will receive, from another entity.
- **TSP benefits:** A FECA recipient can access their TSP balance at any time via their online account. Using this information, they can estimate their TSP benefit options using TSP's online tools. For example, the TSP Payment and Annuity Calculator estimates how a given account balance might translate into monthly income through installment payments or a lifetime annuity. In addition, because recipients own their TSP accounts regardless of whether they choose FECA or FERS in retirement, this benefit information is not critical for FECA recipients trying to make a benefits election decision (i.e., the same income will be received from TSP under FECA and FERS).
- **Social Security benefits:** The SSA website has tools a FECA recipient can use to obtain an estimate of their Social Security benefits. For example, the Retirement Estimator requests some basic

pieces of personal information—such as name, Social Security number, date of birth, and last year's earnings—to access a recipient's earnings record and provide a benefit estimate.

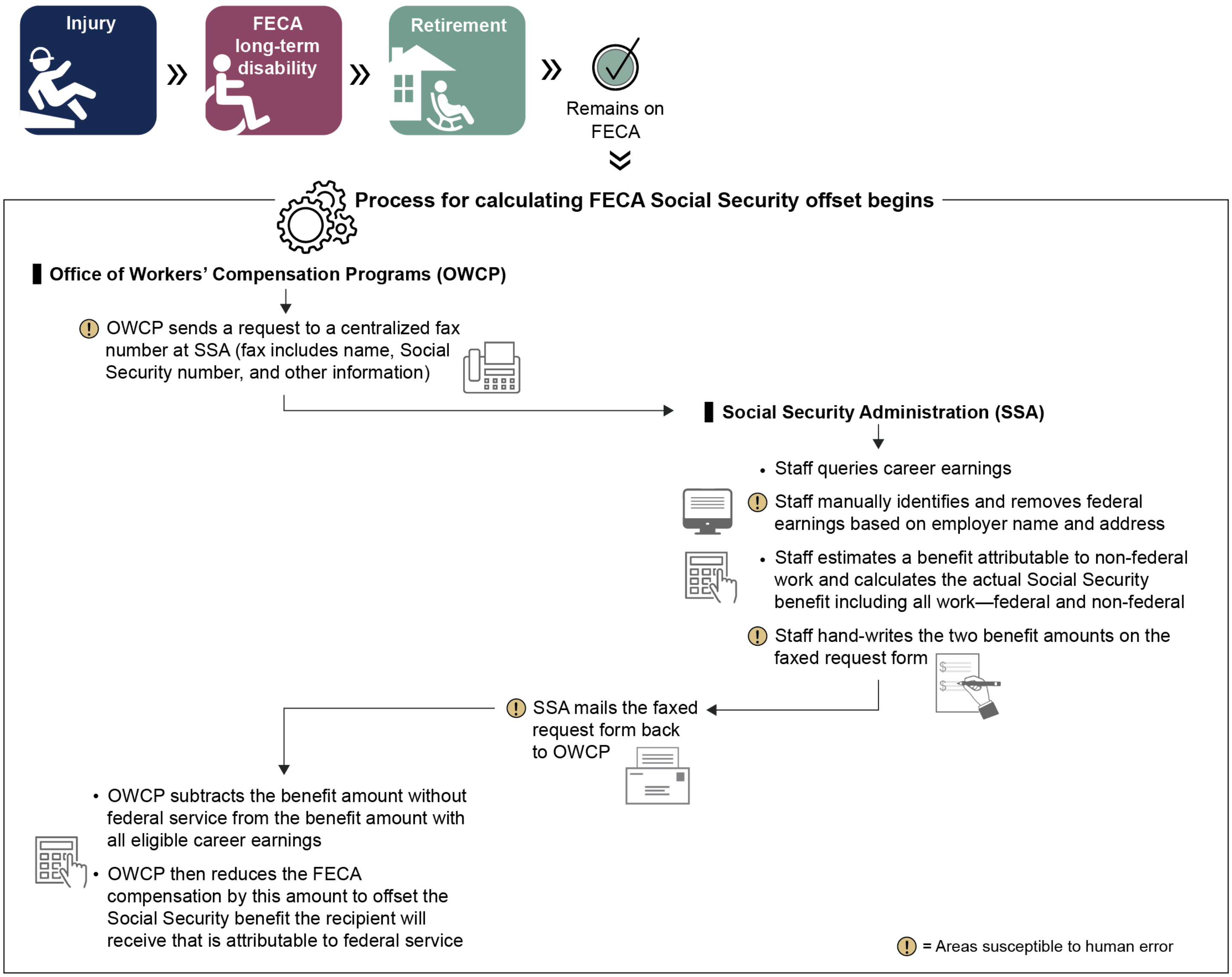
- **FECA compensation Social Security offset:** OWCP notifies FECA recipients that their FECA compensation will be reduced based on their age and federal service to offset Social Security benefits. However, currently FECA recipients are unable to obtain an estimate of the amount of this offset or an estimate of their Social Security benefits for non-federal work (i.e., their net income after the offset) prior to the offset taking effect.[56]

  OWCP and SSA calculate and implement the Social Security offset through a manual and highly complex process (see fig. 10). For example, after OWCP faxes information to identify a FECA recipient, SSA staff estimate a benefit attributable to only their non-federal work.[57] To do this, SSA staff query the FECA recipient's career earnings. They manually identify which earnings are attributable to federal service based on employer name and address and remove those earnings for each year. According to SSA, this is done manually because the data system has no way of automatically identifying federal employers or federal earnings. SSA staff then calculate an estimated benefit amount with these federal earnings excluded. They hand-write the FECA recipient's estimated benefit amount and their actual Social Security benefit—including all earnings—onto the original faxed request and mail it back to OWCP. The transmittal SSA sends back to OWCP includes only the amounts OWCP needs to calculate the offset; it does not include any calculations used to arrive at the benefit amounts or any other explanation from SSA. Once the form is received, OWCP subtracts the benefit estimate for non-federal work from the benefit estimate for all eligible career earnings. The difference is the Social Security benefit attributable to federal service, which OWCP then uses to reduce FECA compensation on a dollar-for-dollar basis.

[56]A FECA recipient whose entire career was in the federal government would have this information because their Social Security benefits for non-federal work would simply be zero.

[57]Social Security Administration, *Program Operations Manual System (POMS)*, RS 00605.320 (May 2013).

Figure 10: FECA Social Security Offset Calculation and Implementation Process



Source: GAO analysis of SSA procedure manual and interviews with officials from SSA and OWCP related to the Federal Employees' Compensation Act (FECA) Social Security offset. | GAO-20-523

Due to the labor-intensive and cumbersome nature of the process, SSA officials said it would be challenging to provide FECA recipients with offset estimates in advance of retirement.[58] Access to offset estimates would enable complete benefits comparisons. In addition, the manual nature of the offset calculation process also leaves certain steps susceptible to human error, as indicated in figure 10, elevating the risk of offsets being applied inaccurately. For example, an SSA employee could write the wrong offset amount on the faxed request form, or write the correct amount in a manner that OWCP could unknowingly misread. One component of SSA's strategic plan is to improve the way it does business by using data and modern methods to evaluate its policies and processes and to reinforce efficient and effective service.[59] In addition, federal standards for internal control state that management should process data into quality information that is complete, accurate, and readily available to the intended audience when needed, among other things.[60] The inability of FECA recipients to obtain offset estimates and the potential for offset inaccuracies once applied both hinder recipients' ability to make accurate comparisons and informed decisions about whether to choose FECA or FERS benefits packages at retirement.

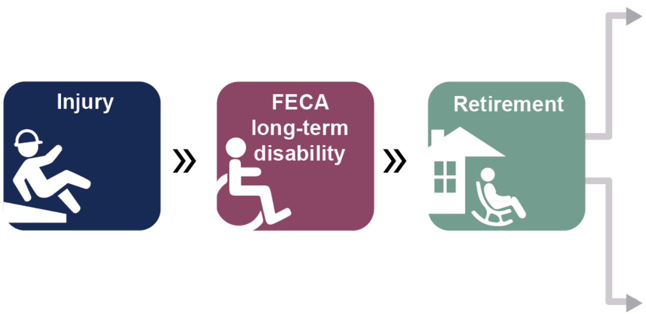
In comparison to the FECA benefits package, the FERS benefits package includes the FERS annuity, TSP benefits, and Social Security benefits, and FECA recipients generally have access to information needed to estimate each component (see fig. 11).

[58]SSA also holds the information needed for the offset calculations and does not make this information available to OWCP to produce its own estimates. According to SSA officials, the agency does not have the authority to disclose earnings information used for the calculations to OWCP because it is considered federal tax return information under the Internal Revenue Code.

[59]Social Security Administration, *Fiscal Years 2018-2022 Agency Strategic Plan* (Baltimore, MD: February 12, 2018).

[60]See GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: September 2014).

Figure 11: FERS Benefits Package Components and Availability of Estimates



Benefits option	*Components*	*Estimate available*	*How it's accessed*
FECA Benefits Package	• FECA compensation	✓	• Amount indicated by benefits being received
	• TSP benefits	✓	• Online estimator tools
	• Social Security benefits	✓	• Online estimator tools
	• FECA compensation Social Security offset	✕	• Estimate is not readily available
FERS Benefits Package	• FERS annuity	✓	• Employing agency generates upon request
	• TSP benefits	✓	• Online estimator tools
	• Social Security benefits	✓	• Online estimator tools

Source: GAO analysis of interviews with officials from the Department of Labor, Office of Personnel Management, Social Security Administration, and United States Postal Service, online resources to estimate Thrift Savings Plan (TSP) and Social Security benefits, procedure manuals, and program documentation for the Federal Employees' Compensation Act (FECA) and Federal Employees Retirement System (FERS). | GAO-20-523

- **FERS annuity:** FECA recipients can obtain FERS annuity estimates from their employing agencies. Officials from OPM and OWCP emphasized the importance of the employing agency's role in guiding FECA recipients considering retirement, including by providing estimates (see text box). OPM's website directs federal workers to their employing agencies to obtain FERS annuity estimates.[61] In addition, FECA recipients can access resources online to estimate their FERS annuity.

[61]Some FECA recipients may have received a FERS annuity estimate nearer to the time of their injury. OPM guidance directs agencies to encourage injured workers to apply for FERS disability retirement benefits if and when they officially separate from their employing agency due to injury. FERS disability retirement differs from typical end-of-career FERS retirement, such as by removing minimum age requirements, according to OPM. OPM guidance to employing agencies is to encourage injured workers to apply for FERS disability retirement benefits at the same time as their separation due to injury to preserve their rights under FERS, such as survivor benefits. Office of Personnel Management, Benefits Administration Letter 04-105 (December 7, 2004).

Example of How One Employing Agency Provides FERS Annuity Estimates to FECA Recipients

Officials from USPS—the employing agency of a sizable proportion of long-term disability FECA recipients—said injured workers may request estimates of their FERS annuity and automatically receive estimates as they near retirement age.

To protect confidentiality, the USPS retirement office that provides FERS estimates is generally not aware of which employees are receiving FECA compensation. In addition, officials said they do not want to be seen as encouraging one benefits option over another to minimize litigation risk. Like any USPS employee, a FECA recipient can request a FERS annuity estimate.

In addition, USPS sends an automatically-generated FERS annuity estimate every year to all employees who are eligible to retire. These do not include estimates of individuals' full Social Security or Thrift Savings Plan benefits, or any annuity enhancements for which some FECA recipients are eligible but may be unaware.

Source: GAO analysis of interviews with officials from the U.S. Postal Service (USPS) about Federal Employees Retirement System (FERS) benefits information provided to Federal Employees' Compensation Act (FECA) recipients, and analysis of FECA program data. | GAO-20-523

Notes: The information provided by USPS does not represent all employing agencies. However, more than half of FECA long-term total disability recipients who were injured from 2000 through June 2018 worked at USPS when injured. Thus, USPS officials have substantial experience in this area.

- **TSP and Social Security benefits:** FECA recipients have access to multiple online resources to help them estimate what their TSP and Social Security benefits will be during retirement. Their TSP and Social Security benefits will be the same regardless of their choice of FECA or FERS benefits. However, as previously noted, FECA compensation is offset by Social Security benefits attributable to federal service, and FECA recipients may face challenges estimating that offset.

Conclusions

FECA serves a vital role in providing equitable compensation to federal employees who have sustained work-related injuries or illnesses, and FECA may represent a significant portion of income in retirement, especially for those receiving total disability compensation. To the extent policymakers expect total disability benefits to provide income security in retirement similar to what federal employees would have had absent an injury—including the cumulative effects of income missed due to injury before and after retirement age—it is important to consider the variation and complexity of FECA recipients' situations. Whether FECA or reduced FECA benefits make up for the income an individual would have received in retirement if never injured depends greatly on factors such as the career longevity and salary growth they would have had absent an injury.

FECA recipients approaching retirement have a choice between future benefits options, yet they currently face challenges making an informed decision. Comparing benefits requires that FECA recipients be aware that retirement options exist and be proactive in obtaining estimates for the components of the FERS and FECA benefits packages. However, OWCP does not remind all FECA recipients to explore their options at retirement age. For FECA recipients who try to compare their benefits options, estimates of one key component—a Social Security offset—are not readily or reliably available. OWCP and SSA's manual and highly complex process for calculating the offsets are time-consuming and increase risks associated with human error, which hinders their ability to produce estimates upon request and could lead to inaccuracies. These challenges hamper FECA recipients' ability to fully compare benefits options and may result in some recipients continuing to receive FECA benefits in retirement even when FERS may be their more advantageous option.

Recommendations for Executive Action

We are making the following three recommendations to the Department of Labor and the Social Security Administration, respectively:

The Director of the Office of Workers' Compensation Programs should direct the Division of Federal Employees' Compensation to send a reminder to all FECA recipients as they approach retirement that they may want to obtain FERS retirement benefits estimates for comparisons with FECA, including annuity estimates from their employing agencies and estimates of their Thrift Savings Plan and Social Security benefits. (Recommendation 1)

The Director of the Office of Workers' Compensation Programs should direct the Division of Federal Employees' Compensation to coordinate with the Social Security Administration to take steps to modernize and improve the process of manually generating benefit amounts with and without federal earnings and exchanging information between the agencies to enable the provision of offset estimates to FECA recipients upon request and to reduce the potential for human error in applying offsets. (Recommendation 2)

The Commissioner of Social Security should direct the Office of Earnings and International Operations to coordinate with the Division of Federal Employees' Compensation to take steps to modernize and improve the process of manually generating benefit amounts with and without federal earnings and exchanging information between the agencies to enable the provision of offset estimates to FECA recipients upon request and to reduce the potential for human error in applying offsets. (Recommendation 3)

Agency Comments and Our Evaluation

We provided a draft of this report to DOL, the Federal Retirement Thrift Investment Board, OPM, SSA, and USPS for review and comment. We received written comments from DOL and SSA that are reproduced in appendixes II and III and summarized below. USPS provided technical comments, which we incorporated as appropriate. FRTIB and OPM told us that they had no comments on the draft report.

DOL agreed with both of our recommendations. DOL stated that its Office of Workers' Compensation Programs will update its existing election letter to all disabled claimants approaching age 62 to include additional language to remind FECA recipients that they may want to consider obtaining estimates of their federal retirement benefits. To modernize and improve the process of generating and providing offset estimates to FECA recipients, DOL plans to continue its ongoing discussions with SSA on the feasibility of a data match agreement and the potential to streamline and electronically provide to DOL the information SSA currently produces manually. DOL also stated that the agency appreciates our work highlighting the potential differences in FECA and FERS benefits packages, and that the President's current proposal to reduce FECA compensation addresses many of the issues we highlighted in our first findings section. However, as noted in our report, we did not analyze the President's current proposal; therefore, it is not clear the extent to which the proposal would address our findings. As we noted in our findings, individual characteristics, such as career longevity and salary growth absent an injury, greatly affect benefits comparisons and would need to be analyzed under any proposal.

SSA also agreed with our recommendation to modernize and improve the process of generating and providing offset estimates to FECA recipients. SSA stated that the agency will work with DOL on options for improving the current process and disclosing appropriate data to DOL.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the appropriate congressional committees, the Secretary of Labor, the Executive Director of the Federal Retirement Thrift Investment Board, the Acting Director of the Office of Personnel Management, the Commissioner of the Social Security Administration, the Postmaster General, and other interested parties. In addition, the report is available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions concerning this report, please contact me at (202) 512-7215 or brownbarnesc@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix IV.

Cindy S. Barnes

Cindy Brown Barnes, Director
Education, Workforce, and Income Security Issues

Appendix I: Objectives, Scope, and Methodology

To compare benefits received under the Federal Employees' Compensation Act (FECA) program with those provided by the Federal Employees Retirement System (FERS), and assess the effects of a previously proposed reduction to FECA compensation on that comparison, we examined: (1) how FERS and total disability FECA benefits at retirement age compare under current and previously proposed reduced FECA compensation rates, and (2) the extent to which FECA recipients have access to information to compare their FECA and FERS benefits options.

To determine the extent to which FECA recipients have access to information and guidance to facilitate their comparison of benefits options and the choice to remain on FECA or elect FERS retirement, we reviewed agency documents and publicly available online resources, and interviewed officials from the Department of Labor (DOL), Office of Personnel Management (OPM), Social Security Administration (SSA), and U.S. Postal Service (USPS). We selected USPS as an illustrative example of how employing agencies are involved in providing information to FECA recipients. The information provided by USPS does not represent all employing agencies. However, more than half of FECA long-term total disability recipients in June 2018 who were injured after 2000 worked at USPS when injured. Thus, USPS officials have substantial experience in this area. In addition, for both objectives, we reviewed relevant federal laws and regulations related to this study.

The remainder of this appendix provides detailed information about the data and quantitative analysis methods we used to compare FERS and total disability FECA benefits at retirement age under current and previously proposed reduced FECA compensation rates. Our primary analysis covered non-USPS workers. We analyzed postal workers separately using different methods because they experienced relatively recent changes to pay scales. The appendix is structured as follows:

- Section 1: Data sources analyzed
- Section 2: Quantitative analysis methods used to compare FERS and total disability FECA benefits for non-postal workers
- Section 3: Quantitative analysis methods used to analyze FERS and total disability FECA benefits for postal workers

Section 1: Data Sources Analyzed

We used administrative data on two populations: FECA recipients and FERS retirees. These data came from four federal agencies: DOL, OPM, the Federal Retirement Thrift Investment Board (FRTIB), and SSA. Table 1 provides an overview of each of these data files. This section provides a description of each data source and the steps we took to determine their reliability.

Table 1: Data Sources Used in Analysis

Data file	Federal agency responsible	Population covered	Type of information in file	Years of data analyzed
Integrated Federal Employees' Compensation System (iFECS)	DOL	FECA recipients	Injury and benefits information	2018
Enterprise Human Resources Integration (EHRI)	OPM	FERS retirees and FECA recipients	Employment and pay history; worker characteristics	1988-2018
Federal Employees Retirement System (FERS) retiree data	OPM	FERS retirees	Annuity amounts	2018
Thrift Savings Plan (TSP) data	FRTIB	FERS retirees and FECA recipients	TSP balances and withdrawals	2000-2018
Social Security Master Beneficiary Record	SSA	FERS retirees	Social Security benefit information	2018

Source: GAO analysis of data from the Department of Labor (DOL), the Office of Personnel Management (OPM), the Federal Retirement Thrift Investment Board (FRTIB), and the Social Security Administration (SSA). | GAO-20-523

Integrated Federal Employees' Compensation System Data

To obtain information on the work-related injuries and benefits of FECA recipients, we used data from DOL's integrated Federal Employees' Compensation System (iFECS), the FECA program's claimant database. We used data for program year 2018, which covered the period July 1, 2017 through June 30, 2018.[1] Specifically, we used information on case status (such as whether the case was closed, or the recipient was receiving total or partial disability compensation or medical benefits as of June 30, 2018); injury date; employing agency; the amount of compensation received during the program year; and whether the recipient had a dependent. We used the FECA compensation rate to determine whether a recipient had dependents (a compensation rate of 75 percent of pay at time of injury) or had no dependents (a compensation rate of 66-2/3 percent of pay at time of injury).

[1]OWCP charges each employing agency for benefits provided to their injured workers. These agencies subsequently reimburse DOL's Employees' Compensation Fund from their next annual appropriation. 5 U.S.C. § 8147(b). DOL's chargeback year for FECA agency billing purposes ends on June 30.

In addition to using iFECS as a data source for our benefits comparisons, we used the data to summarize key information about the FECA recipient population for background context. This included identifying total program benefits paid during the program year, counting the number of long-term total and partial disability recipients as of June 30, 2018 overall, by agency, and by age at injury, and calculating median wage-loss compensation amounts received. The iFECS data are structured at the benefit case level and some FECA recipients may have multiple active case records as of the June 30, 2018 reference date (e.g., records for both medical benefits and wage-loss compensation). In addition, some individuals receive simultaneous benefits for multiple, separate injuries. To analyze total program benefits paid, we aggregated across all case records. However, to analyze summary information about the FECA long-term disability recipient population, we converted the data to the individual recipient level. To avoid double counting, we considered individuals who had a mix of total and partial disability compensation records as total disability recipients and not as partial disability recipients.

Enterprise Human Resources Integration Data and FERS Retiree Data

To obtain information on the work histories and salaries of FERS retirees and FECA recipients, we used data from the Enterprise Human Resources Integration (EHRI). EHRI is maintained by the Office of Personnel Management and represents the primary source of information on federal workers' employment and pay. We used information from EHRI's annual status files from 1988 through 2018. The status files consist of data elements on all employees who were present in the federal workforce in September of each year, with some notable exclusions.[2] These data elements include information on adjusted base pay, employing agency, date of birth, education level, and occupation. We

[2]Due to known data reliability concerns with the September 2018 status file, we used data from the May 2018 status file to represent 2018 employment and pay information for our populations. According to OPM officials, the data reliability issues with the September 2018 status file have been corrected. However, this occurred after we obtained data for our analyses. EHRI covers federal civilian employees at most Executive Branch agencies and some Legislative Branch agencies. Executive Branch agencies excluded from EHRI are: Board of Governors of the Federal Reserve, Central Intelligence Agency, Defense Intelligence Agency, Foreign Service personnel at the State Department (included until March 2006), National Geospatial-Intelligence Agency, National Security Agency, Office of the Director of National Intelligence, Office of the Vice President, Postal Regulatory Commission, Tennessee Valley Authority, U.S. Postal Service, and White House Office. Also excluded are: foreign nationals overseas, Public Health Service's Commissioned Officer Corps, and non-appropriated fund employees. EHRI coverage of the Legislative Branch is limited to the Government Printing Office, the U.S. Tax Court, and selected commissions.

used multiple years of data to build work histories for FERS retirees and FECA recipients in our analyses.

We also used FERS retiree data for 2018 from the Office of Personnel Management. Specifically, we used the annuity amount received by FERS retirees and the annuity commencement date.

Thrift Savings Plan Data

To obtain information on Thrift Savings Plan (TSP) balances for FERS retirees and FECA recipients, we used TSP data from 2000 to 2018. These data are maintained by the Federal Retirement Thrift Investment Board. Specifically, to calculate the balance at the date of separation from federal service, we used information on the TSP balance as of December 2018, the history of withdrawals from the TSP account from 2000 to 2018, whether the account had any non-TSP funds rolled into it and, if so, when these occurred.

Social Security Master Beneficiary Record

To obtain information related to the Social Security benefits of FERS retirees, we used data from the 2018 Master Beneficiary Record, an administrative Social Security Administration data file. Specifically, we used information on the retiree’s primary insurance amount (PIA), which is used to calculate an individual’s Social Security benefits.

Data Reliability

For the datasets described above, we completed 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 we used from the data we reviewed were sufficiently reliable for the purposes of this report.

Section 2: Quantitative Analysis Methods Used to Compare FERS and Total Disability FECA Benefits for Non-postal Workers

To compare FERS and total disability FECA benefits under current and previously proposed reduced FECA compensation rates, we computed benefit ratios, consistent with our prior reports.[3] Benefit ratios are a measure of the extent to which FECA benefits offer income security in retirement relative to what a group of retirees would have had absent an injury. The ratios are the percentage of a group's median FERS benefits package replaced by the median FECA benefits package they would have received had they been totally disabled at some point in their career (i.e., total benefits under FECA as a proportion of total benefits under FERS). This ratio measures the extent to which median FECA benefits may or may not exceed median FERS benefits for the group under current program specifications and the previously proposed reduction to FECA compensation. If the median FECA package is greater than the median FERS package, the benefit ratio is greater than 100; if the FECA package is less than the FERS package, the benefit ratio is less than 100. For example, a benefit ratio of 130 means the FECA package is 30 percent greater than FERS, and a ratio of 90 means the FECA package is 10 percent less than FERS. The ratio facilitates comparisons for subpopulations that may have different benefit levels.

Our analyses are intended to consider benefits received from federal service and thus generally do not include income from retirement accounts outside the TSP (e.g., from employment outside the federal government or from other savings decisions, such as investments in individual retirement accounts).[4] For example, we excluded non-TSP funds that FERS retirees and FECA recipients rolled into their TSP accounts after their separation from service. In addition, the estimates of Social Security benefits included in our analyses exclude the portion of benefits attributable to employment outside of the federal government. The exclusion of this portion of Social Security benefits differs from the

[3]We did not include partial disability recipients in the analysis of benefit ratios because their circumstances differ substantially from total disability recipients. See GAO-13-108, GAO-13-142R, and GAO-13-143R.

[4]Our analyses are not intended to account for a disability's effects on non-federal retirement income. For example, an individual could have additional private sector employment after retiring from federal service, which a disability would have prevented.

methods in our prior reports and is intended to refine one of the assumptions in that work.[5]

Because we cannot observe the career a FECA recipient would have worked absent their injury, we simulated injuries for FERS retirees who were similar to FECA recipients and then compared their hypothetical current and reduced total disability FECA benefits with their FERS benefits in 2018.[6] To do this, we identified a population of FERS retirees who were similar to recently injured FECA recipients near retirement age through a matching process.

Matching Methods

To select a set of FERS retirees in 2018 who are representative of FECA recipients, we performed a matching process that consisted of a few steps. First, consistent with our prior reports, we identified a subset of total disability FECA recipients covered under FERS who were injured recently (after 2000) and were near retirement age (55 and older).[7] Second, we identified a subset of typical FERS retirees, which included voluntary retirees and a public safety group of voluntary retirees.[8] Third, we used a multivariate matching technique to identify FERS retirees who were similar to our population of FECA recipients. Specifically, we used a computer algorithm that selected the single closest 2018 retiree (among the more than 450,000 in the matching pool) for each of the 3,546 total

[5]In GAO-13-108, we noted that we assumed Social Security benefits were attributable to federal service, and that this assumption resulted in an underestimate of FECA benefits packages relative to FERS. The underestimate is greater for those individuals whose federal service represented smaller percentages of their working careers.

[6]Our analyses do not consider any cumulative effects of the previously proposed FECA reduction on retirement income over time, but rather present a snapshot comparison as of 2018.

[7]We used age 55 because it is the earliest age at which the oldest employees eligible for FERS can retire (those born before Jan. 1, 1948). See 5 U.S.C. § 8412(h).

[8]This excludes atypical retirements, such as FERS disability retirees, involuntary retirees, and other atypical retirees (e.g., mandatory retirements). This exclusion is intended to ensure that our analysis population represents the desired counterfactual of a typical FERS retiree who was never injured compared to their experience had they been injured. The public safety group of voluntary retirees includes law enforcement, firefighter, and U.S. Customs and Border Protection Officer retirees whose benefits or careers may differ from typical FERS retirees. We also limited the FERS retiree matching pool to those retirees for whom we had work history data and other key information. For example, as previously noted, the work history data we used does not include postal workers.

disability FECA recipients in our population of interest.[9] The set of characteristics we considered to determine similarity included: employing agency, whether the individual's occupation was blue-collar, first year of employment, age in the first year of employment, number of employment spells, years of service at the injury date, age at the injury date, age in 2018, salary prior to the injury date (minimum, median, and maximum), education, and sex.[10]

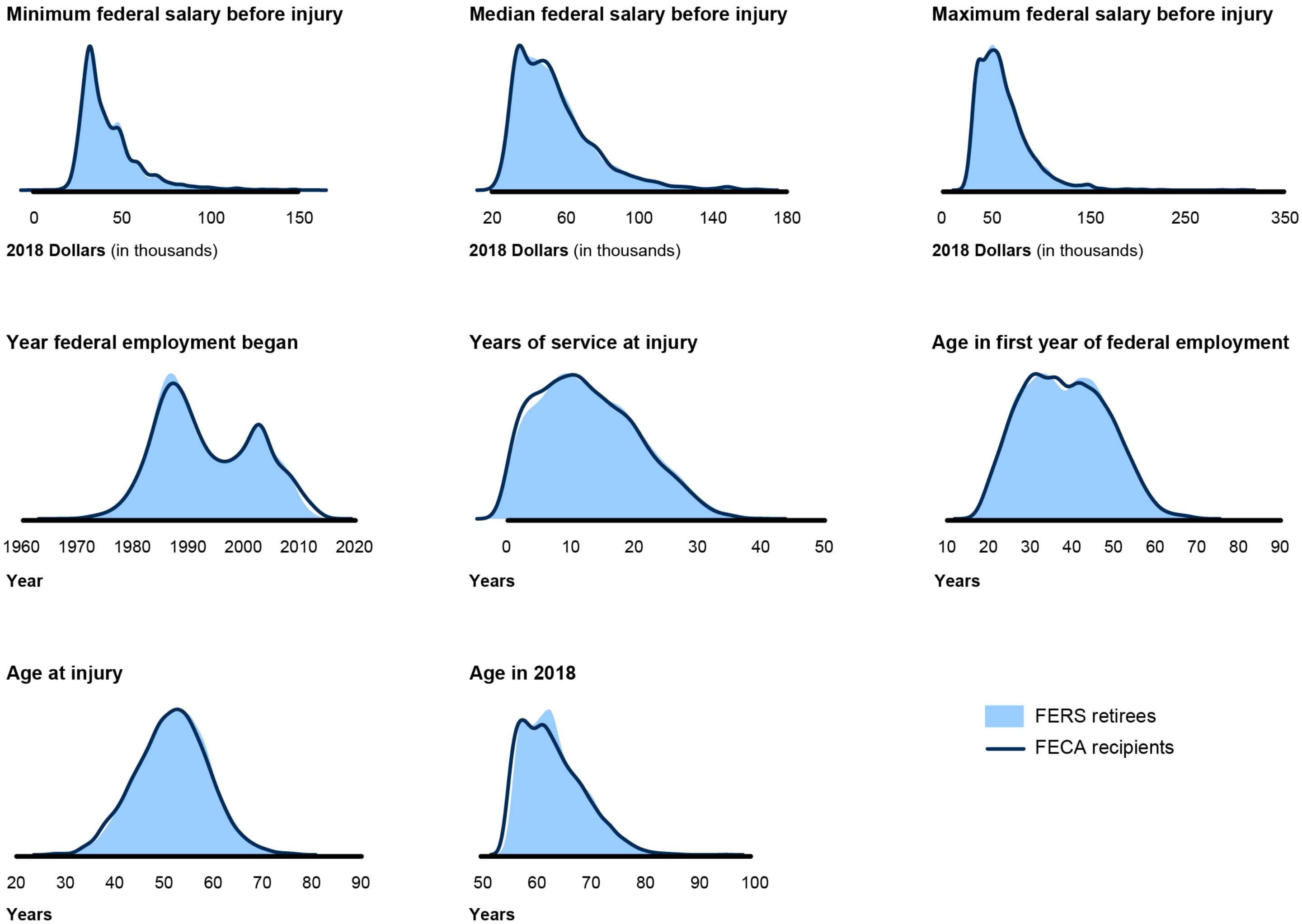
Our matching process resulted in an analysis population of 3,026 individuals.[11] To ensure that the matched retirees were sufficiently similar to the FECA recipients, we compared the distributions of these characteristics for the two groups. Figure 12 and table 2 present distributions and descriptive statistics for some of these characteristics after matching the populations.

[9]The closest retiree was determined based on Mahalanobis distance, which is a function of multiple characteristics of the retirees and FECA recipients. Each 2018 retiree could match with multiple FECA recipients. Collectively, these methods are known as one-to-one Mahalanobis matching with replacement. This is different from another method—probability propensity score matching—that can also be used to select matched samples. The Mahalanobis measure avoids the potential drawback of the probability propensity score because computing the Mahalanobis distance does not require estimating the probability of injury for each retiree and FECA recipient. For more information on these matching techniques, see GAO-12-309R, pages 17-18.

[10]We also matched the public safety group of retirees to similar FECA recipients in this same public safety group. This is intended to ensure that these retirees—who may be somewhat unique—are not matched to FECA recipients whose typical careers and FERS benefits may be different.

[11]Our match process initially resulted in 3,401 individuals due to some FECA recipients in our population of interest missing data for the matching characteristics. We excluded an additional 375 individuals due to missing data for key variables related to the benefits comparisons (e.g., missing TSP data), so our final matched analysis population consisted of 3,026 individuals.

Figure 12: Distributions of Key Characteristics of Matched FERS Retirees and FECA Recipients



Source: GAO analysis of the matched Federal Employees Retirement System (FERS) retirees and Federal Employees' Compensation Act (FECA) recipients in the simulation analysis population, identified using data from the Department of Labor and Office of Personnel Management. | GAO-20-523

Table 2: Characteristics of Matched FERS Retirees and FECA Recipients

	FERS retirees (n=3,026)				FECA recipients (n=3,026)			
	1st quartile	Median	Mean	3rd quartile	1st quartile	Median	Mean	3rd quartile
Minimum federal salary before injury (2018 dollars)	31,710	38,464	42,886	48,881	31,632	37,929	42,950	49,088
Median federal salary before injury (2018 dollars)	38,328	49,418	53,901	63,201	37,934	49,196	53,894	63,520
Maximum federal salary before injury (2018 dollars)	43,111	55,922	61,483	73,295	42,876	56,058	61,366	72,722
Year federal employment began	1986	1991	1993	2001	1986	1992	1993	2002
Years of service at injury	6.9	12.3	13.0	18.5	6.3	11.8	12.6	18.2
Age when federal employment began	30.3	37.8	38.2	45.7	30.2	37.6	38.2	45.8
Age at injury	47.2	52.1	51.9	56.9	46.6	51.8	51.5	56.5
Age in 2018	59.2	62.7	63.6	67.0	58.5	62.2	63.2	66.9
Number of employment spells	1.0	1.0	1.2	1.0	1.0	1.0	1.2	1.0
% Male			52.1				51.5	
% No high school degree			10.7				10.7	
% High school degree			41.8				41.8	
% Some college			26.6				26.6	
% College degree			11.3				11.3	
% Graduate degree			9.6				9.6	
% Blue collar occupation			25.8				25.8	

Source: GAO analysis of the matched Federal Employees Retirement System (FERS) retirees and Federal Employees' Compensation Act (FECA) recipients in the simulation analysis population, identified using data from the Department of Labor and Office of Personnel Management. | GAO-20-523

Because FERS annuities are based on federal career length, one of the focus areas for our analysis of subpopulations was to compare benefit ratios for retirees by career length groupings. We examined the characteristics of retirees in these groupings as context for our findings (see table 3).

Table 3: Characteristics of Matched FERS Retirees by Federal Career Length at Retirement (Absent an Injury)

Career length at retirement (absent an injury)	Less than 10 years	10-14 years	15-19 years	20-24 years	25-29 years	30 years and longer
Number of matched retirees (n=3,026)	397	624	511	560	631	303
Median first year of employment	2007	2003	1995	1990	1986	1983
Median age in first year of employment	51.5	45.7	40.4	35.4	29.8	24.6
Median year of retirement	2015	2016	2015	2014	2015	2016
Median age at retirement	60.8	59.3	59.5	59.1	58.5	56.7

Source: GAO analysis of the matched Federal Employees Retirement System (FERS) retirees in the simulation analysis population, identified using data from the Department of Labor and Office of Personnel Management. | GAO-20-523

Our matched population allowed us to simulate injuries for FERS retirees and compare the counterfactual of an individual's benefits in retirement with or without injury. We did not estimate the FERS benefits that FECA recipients might have earned if they had never been injured because that would have required making assumptions about their career paths and resulting salary trajectories, as well as TSP contribution choices. Instead, we used the actual career information and TSP account balances for the FERS retirees whom we matched to the FECA recipients. This method implicitly assumes that the FECA recipients would have continued on the same career path and made the same TSP contributions that their matched retirees did in reality. This is a reasonable assumption, given that the matched retirees resembled the FECA recipients on key characteristics at all times prior to the FECA recipients' injuries, including federal employment tenure and salary.

Computing Benefit Ratios

Once we matched the FERS and FECA populations, we considered the FERS and hypothetical FECA benefits packages for the retirees in our analyses.

To estimate each retiree's FERS benefits package as of June 30, 2018, we added three components: (1) the individual's actual FERS annuity in 2018, (2) a TSP annuity based on their estimated account balance at retirement, and (3) an estimated Social Security benefit based solely on their federal service. Computing the components required several steps, which are summarized below.

First, we obtained the monthly FERS annuity payment as of June 30, 2018 from OPM's FERS retiree data and converted it to an annual benefit by multiplying by 12.

Second, we added a TSP annuity to the FERS benefits package. We had data on each retiree's actual TSP balance as of year-end 2018. We estimated their balances at retirement by recreating a balance history from the 2018 balance going back to their date of separation from federal service (i.e., retirement date).[12] Using the constructed TSP balance, we computed an annual TSP annuity benefit using the same formula used by the TSP program, assuming that the retiree elected a level single life annuity without additional features, consistent with our prior reports.[13]

Third, we added an estimate of Social Security benefits attributable to federal service. As previously noted, our analyses are intended to consider benefits received from federal service and thus do not include Social Security benefits from employment outside the federal government. The consideration of only those Social Security benefits attributable to federal service differs from the methods in our prior reports

[12]We created a balance for each year by beginning with the balance in 2018, adding withdrawals taken in each year back into the balance, subtracting any non-TSP funds rolled into the TSP account, and adjusting for growth by dividing by 1+ the growth rate for the year. We followed the same algorithm going back in time, beginning with an estimated balance at time t, adding withdrawals and subtracting roll-in funds at time t-1 and adjusting for growth by dividing by (1+ growth rate for time t-1). This results in an estimated balance at time t-1. We repeated these steps back in time to the separation year (i.e., retirement year), based on the final year of employment observed in the EHRI federal personnel data. We adjusted this method to account for working a partial year in the year of separation, as appropriate. We estimated the balances using the historical growth rates from the TSP G fund, to be consistent with our prior reports. Because our analyses are intended to consider benefits received from federal service, we subtracted non-TSP funds rolled into the TSP accounts after separation from federal service. Although we did not subtract non-TSP funds rolled into TSP accounts prior to separation, we investigated the sensitivity of our results by examining median benefits comparisons for these retirees with pre-separation roll-ins. We found that our results were consistent whether these individuals were included or excluded, largely due to how few individuals in our analysis population had pre-separation roll-ins (about 2 percent of the population). In addition, our data does not allow distinction between the proportions of the TSP balance attributable to the employee’s contribution versus that of the government; as a result, some of the retirement benefits described are financed by voluntarily reduced consumption during working years.

[13]We followed the methodology specified in the contract the FRTIB uses to establish life annuities for TSP participants and beneficiaries. We assumed the level single life annuity was purchased in the year of separation, using annuity formula inputs for interest rates and purchaser age based on each individual’s year of separation. The simplifying assumption to use a level single life annuity without additional features, consistent with our prior reports, results in TSP benefits that are greater than other TSP annuity options (at the time the annuity is purchased), such as joint-life benefits or annuities that increase each year. In addition, some FERS retirees might choose not to annuitize their TSP balances, in which case their TSP benefits could be higher or lower depending on their investment choices, market conditions, and the rate at which they draw down their account balances. See GAO-13-108 and GAO-13-142R.

and is intended to refine one of the assumptions in that work.[14] To simplify our analyses, we calculated a Social Security benefit based on the individual's primary insurance amount (PIA) as opposed to accounting for additional benefits (e.g., spousal) and other individual circumstances.[15] Because PIAs calculated by SSA include earnings from both federal and non-federal employment, we constructed estimated PIAs that accounted for only earnings from federal employment. To do this, we constructed federal earnings histories in constant 2018 dollars for each retiree using OPM's EHRI data, then divided total federal earnings by 420 to calculate an average monthly earnings amount over a 35-year lookback period.[16]

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[14]As previously noted, in GAO-13-108, we assumed full Social Security benefits were attributable to federal service. This assumption resulted in an underestimate of FECA benefits packages relative to FERS (i.e., lower benefit ratios) because Social Security benefits from non-federal work were included in FERS benefits packages but not included (i.e., assumed to be entirely offset) in FECA benefits packages. The underestimate was greater for those whose federal service represented smaller proportions of their working careers.

[15]The PIA is the monthly benefit individuals receive if they elect to begin receiving benefits at their full Social Security retirement age.

[16]We set each year's earnings as the lower of the observed salary in constant 2018 dollars or the maximum allowable wage under Social Security for 2018. The EHRI data we used for information about federal employment began in 1988. For any retirees who began their federal service prior to 1988, we assumed that their unknown salaries in years prior to 1988 were equal to their salary in 1988, reduced by 3 percent per year to account for annual federal salary step increases (all measured in constant 2018 dollars). This back-filling of salaries results in an approximation of unobserved federal pay and was used only to estimate Social Security benefits attributable to federal service; this did not affect any other part of our analyses. According to SSA, Social Security retirement benefits are typically computed by summarizing up to 35 years of a worker's highest earnings, adjusted using a wage index to account for inflation over a worker's career. Because the federal earnings histories we constructed were all in constant 2018 dollars, we did not index earnings further. If an individual had more than 35 years of federal earnings, we included only the 35 years of highest salaries. If an individual has fewer than 35 years of earnings, SSA considers those years as zeros when summarizing earnings; thus, in practice, SSA divides the sum of the highest 35 years of indexed earnings by the 420 months in the 35-year lookback period. In our analyses, because we were estimating Social Security benefits attributable to federal employment, if an individual had fewer than 35 years of federal service, we treated any years of non-federal employment up to 35 years of total employment as years of zero earnings.

We then used SSA's formula and published bend points for 2018 to calculate each retiree's PIA attributable to federal employment.[17] We assumed that all retirees began drawing Social Security at retirement, using the FERS annuity commencement date to represent the retirement date. To calculate annual Social Security benefits, we reduced the PIA if an individual retired prior to full Social Security retirement age and increased the PIA if an individual delayed retirement beyond full Social Security retirement age, and then multiplied the monthly benefit by 12 months.[18]

[17]The PIA is the sum of 3 separate percentages of portions of the average indexed monthly earnings. According to SSA, the percentages in the formula are fixed by law, but the dollar amounts (called bend points) change annually. Using the 2018 bend points, we calculated PIAs as the sum of: (a) 90 percent of the first $895 of average monthly earnings, plus (b) 32 percent of average monthly earnings over $895 and through $5,397, plus (c) 15 percent of average monthly earnings over $5,397.

[18]Specifically, we computed the number of early retirement months by subtracting the age at retirement from the full Social Security retirement age. We then adjusted the benefit by 0.555 percent for each month before SSA full retirement age, up to 36 months and by an additional 0.416 percent per month for each month exceeding 36 months. In other words, if early retirement months were greater than 36, we calculated the benefit reduction as: $(0.00555 \times 36) + (0.00416 \times (\text{early retirement months} - 36))$. We calculated the monthly benefit as: PIA - (PIA × benefit reduction). If the individual retired or separated from government service prior to age 62, we computed their Social Security benefits as if they were 62. If the individual retired or separated from government service after full Social Security retirement age, we computed the number of delayed retirement months by subtracting the full Social Security retirement age from the age at retirement (capped at age 70). We then adjusted the benefit by the percentage set by SSA for each month after SSA full retirement age. For example, for an individual born in 1943 or later, we calculated the benefit augmentation as: $0.00667 \times \text{delayed retirement months}$. We calculated the monthly benefit as: PIA + (PIA × benefit augmentation). Augmentation percentages vary by year of birth. For simplicity, we used the augmentation percentage for dates of birth in 1937-1938 for any eligible retiree who was born in 1938 or earlier (this affected less than 1 percent of our population).

We estimated and subtracted federal and state income taxes from the combined benefit components discussed above.[19]

To estimate the hypothetical FECA benefits package each FERS retiree would have received as of June 30, 2018 had they been totally disabled, we added two components: (1) FECA compensation from the simulated total disability injury, and (2) a TSP annuity based on the matched FECA recipient's estimated account balance at the time of the injury.[20] FECA recipients who continue to receive FECA compensation beyond retirement age may also receive Social Security benefits, but the portion of those benefits attributable to federal service are offset from FECA compensation amounts.[21] As a result, the net income from FECA compensation and Social Security benefits attributable to federal service is equivalent to FECA compensation alone. Thus, we include only FECA compensation and TSP benefits in the FECA benefits package. Computing the components required several steps, which are summarized below.

First, we simulated a total disability injury for each FERS retiree and determined their hypothetical annual FECA compensation. We timed each injury to coincide with the injury date for each retiree's matched FECA recipient. We also assumed FERS retirees had dependents if their

[19]We deducted federal and state income taxes using the assumptions that the dependent, when present, was a spouse; the spouse was the same age as the retiree (e.g., the spouse was age 65 if the retiree was age 65); and there was no spousal income. We did not account for other discretionary deductions, such as for health insurance payments or mortgage interest payments. To determine federal and state income taxes, we used the National Bureau of Economic Research's TAXSIM. TAXSIM is a FORTRAN program for calculating liabilities under U.S. federal and state income tax laws from individual data. To identify tax liabilities, we created a dataset of modeled individuals with income, age, dependent status, and state of residence characteristics to represent the variation observed in our analysis population. We then ran this created population through the TAXSIM model to generate state and federal tax liabilities. We assigned these generated tax liabilities to each individual in our analysis population based on the modeled individual they most closely resembled. If an individual did not have state data present (e.g., resided in a U.S. territory), we applied federal tax liabilities only.

[20]FECA recipients can receive returns from any TSP balances accrued prior to injury.

[21]As previously noted, our analyses are intended to consider benefits received from federal service and thus generally do not include retirement income or Social Security benefits from employment outside the federal government.

matched FECA recipient had dependents.[22] We then used adjusted base pay from the EHRI data to compute each individual's hypothetical FECA compensation at the time of their simulated injury under two compensation scenarios: (1) current FECA compensation specifications, and (2) reduced compensation at retirement age.[23]

Under current FECA compensation specifications:

FECA benefit = 0.75 × adjusted base pay at time of injury for individuals with dependents

FECA benefit = 0.6667 × adjusted base pay at time of injury for individuals without dependents

Under reduced FECA compensation specifications:

FECA benefit = 0.50 × adjusted base pay at time of injury for all individuals

We then projected the FECA compensation amounts under each scenario from the time of the simulated injury to June 2018, increasing them using FECA's published annual cost-of-living adjustments throughout the period. Because total disability FECA compensation is not subject to federal taxation, we did not reduce these compensation amounts.

Second, we added a TSP annuity to the FECA benefits package. Because estimating the TSP balance for each FERS retiree at the time of their simulated injury would require assumptions about contribution decisions, we used the TSP balance of their matched FECA recipient as an approximation. Consistent with our methods for calculating the TSP portion of the FERS benefits package, we estimated TSP balances of the

[22]Consistent with our prior reports, we assigned only one dependent per worker with dependents because the data do not indicate the number of dependents. Accounting for additional dependents would likely lower tax liabilities, all else equal.

[23]Adjusted base pay is most representative of a worker's gross pay, which DOL uses to compute FECA compensation. We analyzed the same previously proposed FECA reduction as in our prior report: converting FECA compensation to 50 percent of applicable wages at the time of injury, adjusted for inflation, once recipients reach their full Social Security retirement age. Full Social Security retirement age is between 65 and 67 years of age, based on an individual's birth year. To increase the size of the analysis population, we simulated benefit reductions for all retirees, regardless of age. See GAO-13-108. As previously discussed, FERS had been in place 34 years as of the 2018 data we used for this report, as opposed to 26 years as of the 2010 data we used in our prior report, which allows analysis of more retirees with longer careers.

matched FECA recipients at time of injury by recreating a balance history from their 2018 balance going back to their date of separation from federal service (i.e., separation due to injury).[24] Using the matched FECA recipient's constructed TSP balance, we computed an annual TSP annuity benefit using the same formula used by the TSP program, assuming that the retiree elected a level single life annuity without additional features, commencing at the time of injury. We then subtracted estimated taxes from the TSP annuity benefit.[25]

After building the FERS and FECA benefits packages, we determined the median benefits for various groups of retirees, and divided median FECA benefit amounts by median FERS benefit amounts to calculate benefit ratios under each of the two FECA compensation scenarios. As previously noted, the benefit ratio is the percentage of a group's median FERS benefits package replaced by the median FECA benefits package they would have received had they been totally disabled at some point in their careers. To understand how the previously proposed reduction to FECA benefits at retirement age would affect certain groups, we compared benefit ratios of subgroup medians based on a number of characteristics, including: whether retirees had dependents, income growth between the date of the simulated injury and retirement, years of service at the time of the simulated injury, age at the time of the simulated injury, and retirees' career length absent the simulated injury.

Key Assumptions in Our Analyses and Their Effects

Our benefits comparisons relied on several key assumptions. First, the assumptions we made in calculating Social Security and TSP benefits approximate and may not reflect reality for any given FECA recipient or FERS retiree. For example, we made assumptions about how funds were invested that do not account for differences in individual investment choices. However, our assumptions were based on sound logic and

[24]Consistent with our methods for calculating the TSP portion of the FERS benefits package, we began with the balance in 2018, added withdrawals taken in each year, subtracted any non-TSP funds rolled into the TSP account, and adjusted for growth by dividing by 1+ the growth rate for the year. We repeated these steps back in time to the separation year (i.e., separation due to injury), based on the final year of employment observed in the EHRI federal personnel data.

[25]We applied the same assumptions used for deducting federal and state income taxes from the FERS benefits package, including not accounting for discretionary deductions. We again used the National Bureau of Economic Research's TAXSIM program for calculating tax liabilities, similarly assigning generated tax liabilities to each individual in our analysis population based on the generic individual they most closely resembled (see details above).

account for available data, as demonstrated above. Second, we lacked data on other retirement accounts that FECA recipients or FERS retirees may have. For example, some FECA recipients could have invested their FECA compensation in other retirement accounts, which might have produced greater income at retirement for FECA recipients. However, federal workers who were not receiving FECA benefits could also have chosen to invest wages in other retirement accounts, such as individual retirement accounts, thus potentially offsetting this limitation. Third, the assumptions we made to simulate federal and state tax liabilities (such as the number of dependents and other deductions) affected our estimates of benefits. For example, due to data limitations, we assumed one dependent in instances in which there might have been more than one dependent. Accounting for additional dependents would have likely lowered tax liabilities, all else equal. However, we lacked data on the particular circumstances of each matched retiree. Fourth, we assumed that the career paths and retirement choices of the retirees we analyzed accurately reflected those of their matched FECA recipients had they not been injured. Although it is reasonable to assume that employees having nearly identical career histories prior to injury would have had approximately similar career outcomes after injury, this may not precisely reflect reality for any given FECA recipient.[26] In recognition of the effects of these and other assumptions, we primarily analyzed median benefits to summarize the variation of individual circumstances.

Sensitivity Analyses

Benefit ratio analysis with reduced TSP annuity benefits for retirees with 30-year careers: The individuals in our analysis who retired under FERS with at least 30-year careers, absent an injury, are among the first to do so. Most of these individuals retired from 2015 through 2018, after several years of significant stock market growth (beginning in early 2009). In addition, TSP annuity amounts from a level single life annuity without additional features will generally differ from the amounts provided by other annuity options. For example, if an individual instead purchases an annuity with survivor benefits or an annuity that increases annually, their annuity payments in the early years will be lower than if they purchase a level single life annuity without additional features (which is what we used in our analyses). To examine the sensitivity of our results to lower TSP

[26]Specifically, FECA recipients may have unobserved characteristics, such as a propensity to take risk, which affect their likelihood of becoming disabled. If these characteristics also affect labor market decisions, then using non-disabled federal retirees as matches may not accurately reflect the career trajectories of FECA recipients had they never been injured.

annuity payments, we re-ran the benefit ratio formulas assuming lower TSP benefits. We reduced the TSP annuity benefit for each retiree by 30 percent, and then recalculated the median benefits packages and benefit ratios.[27] As expected, benefit ratios went up, as median FERS packages declined relative to median FECA packages (see table 4). However, the changes in benefits comparisons were relatively modest, and the findings remained consistent with our main analysis. For example, the current FECA benefit ratio increased from 101.4 to 104.9 after reducing TSP annuity amounts by 30 percent. Similarly, the reduced FECA benefit ratio increased from 72.5 to 74.6.

Table 4: FECA and FERS Benefits Comparison Results Before and After Reducing TSP Annuity Amounts by 30 Percent, by Career Length Absent an Injury

Benefit ratios (median FECA package as a percentage of median FERS package)	0-9 year career absent an injury	10-14 year career absent an injury	15-19 year career absent an injury	20-24 year career absent an injury	25-29 year career absent an injury	30 year career or longer absent an injury
Current FECA benefit ratio						
Using annuity calculated from estimated TSP balances	260.1	195.1	145.4	121.3	103.4	101.4
After reducing annuity amount by 30 percent	268.3	207.2	157.2	127.4	109.9	104.9
Difference	-8.2	-12.1	-11.8	-6.1	-6.5	-3.5
Reduced FECA benefit ratio						
Using annuity calculated from estimated TSP balances	180.8	137.6	104.0	84.6	75.1	72.5
After reducing annuity amount by 30 percent	188.5	147.0	111.2	89.2	78.0	74.6
Difference	-7.7	-9.4	-7.2	-4.6	-2.9	-2.1

Source: GAO analysis of simulation results using data on Federal Employees' Compensation Act (FECA) recipients and Federal Employees Retirement System (FERS) retirees from the Department of Labor, Federal Retirement Thrift Investment Board, and Office of Personnel Management. | GAO-20-523

Notes: We estimated Thrift Savings Plan (TSP) balances and computed annual TSP annuity benefits using the same formula used by the TSP program, assuming that retirees elected level single life annuities without additional features. Negative differences indicate that using the reduced TSP annuity amount results in higher benefit ratios, which means that median FERS benefits had greater relative declines than the changes in median FECA benefits. Reduced FECA measures the benefits package after converting FECA compensation to 50 percent of applicable wages at the time of injury, adjusted for inflation.

[27]For simplicity, we reduced the TSP annuity benefit right before the final benefit ratio calculation; thus, tax liabilities and other assumptions were applied before the reduction.

Benefit ratio analysis without adjusting Social Security benefits based on age at retirement: About 89 percent of the FERS retirees in our analysis retired prior to reaching their full Social Security age and thus received reduced Social Security benefits based on our methods for estimating Social Security for our benefits comparisons. In reality, some of these individuals may have started receiving their Social Security benefit when they retired from federal service. However, some may have delayed receipt until they reached full Social Security retirement age to avoid the reduction to their benefit. To examine the sensitivity of our results to the assumption that retirees began receiving Social Security immediately upon retirement, we re-ran the benefit ratio formulas using each individual's primary insurance amount in place of their age-adjusted Social Security benefit. As previously noted, the PIA is the monthly benefit individuals receive if they elect to begin receiving benefits at their full Social Security retirement age. As expected, benefit ratios went down as the median FERS package increased relative to the median FECA package due to fewer Social Security benefit reductions. While the changes in median benefits comparisons ranged in magnitude (see table 5), the results were consistent with the findings from our main analysis. For example, median current and reduced FECA packages were considerably larger than FERS (i.e., benefit ratios well above 100) for individuals who would have had short federal careers absent an injury (i.e., less than 15 years) whether using the age-adjusted or non-age-adjusted Social Security benefits. Also consistent with the findings from our main analysis, retirees with at least 30-year federal careers absent an injury had median current FECA and FERS packages that were close to equal, and reduced FECA packages that were close to 30 percent less than FERS, whether using the age-adjusted or non-age-adjusted Social Security benefits.

Table 5: FECA and FERS Benefits Comparison Results Using Age-Adjusted and Non-Age-Adjusted Social Security Benefits, by Career Length Absent an Injury

Benefit ratios (median FECA package as a percentage of median FERS package)	0-9 year career absent an injury	10-14 year career absent an injury	15-19 year career absent an injury	20-24 year career absent an injury	25-29 year career absent an injury	30 year career or longer absent an injury
Current FECA benefit ratio						
Using age-adjusted Social Security benefit	260.1	195.1	145.4	121.3	103.4	101.4
Using non-age-adjusted Social Security benefit	226.0	173.1	133.6	112.5	95.5	91.8
Difference	34.1	22.0	11.8	8.8	7.9	9.6
Reduced FECA benefit ratio						
Using age-adjusted Social Security benefit	180.8	137.6	104.0	84.6	75.1	72.5
Using non-age-adjusted Social Security benefit	157.1	122.1	95.5	78.4	69.4	65.6
Difference	23.7	15.5	8.5	6.2	5.7	6.9

Source: GAO analysis of simulation results using data on Federal Employees' Compensation Act (FECA) recipients and Federal Employees Retirement System (FERS) retirees from the Department of Labor, Federal Retirement Thrift Investment Board, and Office of Personnel Management. | GAO-20-523

Notes: The non-age-adjusted results use individuals' Social Security primary insurance amount, which is the monthly benefit individuals receive if they elect to begin receiving benefits at their full Social Security retirement age. Positive differences indicate that using the non-age-adjusted Social Security benefit results in lower benefit ratios, which means that median FERS benefits had greater relative increases than the changes in median FECA benefits. Reduced FECA measures the benefits package after converting FECA compensation to 50 percent of applicable wages at the time of injury, adjusted for inflation.

Comparison of estimated PIA attributable to federal service and Social Security-provided PIA: As previously discussed, because PIAs calculated by SSA include earnings from both federal and non-federal employment, we constructed estimated PIAs that accounted for only federal employment. To examine the reliability of these estimated PIAs, we analyzed how different they were from the full-career PIAs provided by SSA for each individual with Social Security data available. This analysis included 1,802 individuals because not all of our matched retirees had begun drawing on their Social Security benefits, which meant they were not present in SSA's data. Table 6 shows the average percentage difference between our estimated PIAs for federal service only and the full-career PIAs. SSA's benefit formula summarizes up to 35 years of a worker's highest annual indexed earnings. Thus, as expected, there was a small difference between the two measures, on average, for retirees with 35 or more years of federal service. Differences were larger for retirees with fewer years of federal service because they likely had more extensive non-federal employment that contributed to their full-career PIA.

Table 6: Comparison of Social Security Primary Insurance Amounts (PIAs) Attributable to Full Careers and Estimated PIAs Attributable to Federal Employment, by Years of Federal Service

Percentage difference between estimated PIA attributable to federal service and full-career PIA provided by SSA	0-9 years of federal service[a]	10-14 years of federal service	15-19 years of federal service	20-24 years of federal service	25-29 years of federal service	30-34 years of federal service	35 and more years of federal service
25th percentile	51.7%	34.6%	23.5%	16.9%	12.2%	5.8%	1.9%
Median	60.6%	44.3%	32.8%	23.2%	16.5%	11.3%	6.5%
75th percentile	69.9%	51.4%	39.6%	30.3%	22.9%	16.4%	10.0%

Source: GAO analysis of federal employment and retiree information from the Enterprise Human Resources Integration and Federal Employees Retirement System retiree data, primary insurance amount (PIA) data from the Social Security Master Beneficiary Record data, and Social Security Administration (SSA) guidance for calculating Social Security benefits. | GAO-20-523

Notes: We compared PIA values for the 1,802 retirees who were present in the SSA data. For example, retirees who had not yet begun drawing on their Social Security benefits did not have a full-career PIA available in the SSA data. The percentage differences shown in the table represent how much higher the full-career PIA from SSA is than the estimated federal-career PIA (i.e., (full-career PIA from SSA - estimated federal-career PIA) ÷ full-career PIA from SSA).

[a]Years of service categories 0-4 and 5-9 are combined due to the small number of individuals with less than 5 years of service.

Section 3: Quantitative Analysis Methods Used to Analyze FERS and Total Disability FECA Benefits for Postal Workers

To analyze FECA and FERS benefits at retirement age for postal workers—who make up a sizable proportion of FECA recipients—we developed illustrative examples of how changes to USPS pay scales could affect benefit ratios. From late 2010 through early 2013, USPS implemented new pay scales under which new employees start at lower salaries. Because these changes apply exclusively to new hires, the majority of current postal retirees worked under the old pay scales. As a result, an updated retirement benefits comparison for current retirees, similar to what we conducted for non-postal workers, may not accurately reflect future postal retirees’ benefits, and thus would have limited value. Instead, we analyzed the changes to the pay scales and developed illustrative examples of how those changes might affect benefit ratios.

Modeling Careers and Estimating Benefits

For consistency with our analyses of non-postal retirees, we used pay scales that were in effect as of September 2018 to develop models of 30-year careers for city carriers and postal clerks hired under the old and new USPS pay scales.[28] We assumed the modeled postal workers retired at age 67 after 30-year careers in the same positions and salary grades in

[28]We assumed the postal clerk was in salary grade 6 under the American Postal Workers Union (APWU) pay scales. According to USPS officials, the majority of APWU-covered positions are postal clerks and most postal clerks hold positions in salary grade 6.

which they were hired, receiving salary step increases per the pay scales to proceed from the lowest step in the grade to the highest step. Although in reality, some workers may apply for positions at higher grade levels—e.g., supervisory positions—that is not typical or expected career progression, according to USPS officials. We modeled the careers in constant 2018 dollars and did not adjust pay to include annual cost-of-living increases. We made similar assumptions when calculating FERS and FECA benefits to ensure consistency of comparisons.

We estimated FERS benefits packages for the modeled postal workers by adding three components: estimated FERS annuity, estimated TSP annuity, and estimated Social Security benefit. For simplicity, and because this analysis was intended to produce illustrative examples only, we did not reduce overall benefit amounts to account for tax liabilities.

- **FERS annuity:** We assumed the postal workers retired at age 67, and thus calculated their FERS annuity as 1.1 percent of the average of their highest 3 consecutive salaries times 30 years of service.
- **TSP annuity:** We assumed the postal workers contributed 5 percent of their earnings into their TSP account each pay period (for a total of 10 percent of their salary with agency matching contributions added) and their TSP account grew at a real rate of 3 percent annually (i.e., 6 percent nominal growth annually minus assumed annual inflation of 3 percent).[29] Consistent with our analysis of FECA and FERS benefits for non-postal retirees, we assumed the postal workers purchased a level single life annuity without additional features (see additional methods details above), and that the annuity was purchased at retirement at age 67.[30]

[29]While individuals could contribute more or less to their TSP account in any pay period, we assumed 5 percent contribution to maximize agency matching contributions. This is a logical assumption, given the value of maximizing the agency match. In addition, according to a TSP program analysis of participant behavior, about 68 percent of program participants in 2016 contributed at least 5 percent to maximize the agency match. See Federal Retirement Thrift Investment Board, “Thrift Savings Plan, Participant Behavior and Demographics, Analysis of 2012-2016,” accessed 5/6/2020, https://www.frtib.gov/ReadingRoom/. Assumptions of 6 percent nominal growth annually and 3 percent annual inflation are consistent with estimations of TSP benefits produced by the Congressional Research Service. For simplicity, we calculated the growth rate in each pay period as 3 percent real growth annually divided by 26 biweekly pay periods.

[30]Consistent with our analysis of FECA and FERS benefits for non-postal retirees, we followed the methodology specified in the contract the FRTIB uses to establish life annuities for TSP participants and beneficiaries.

- **Social Security benefit:** We calculated Social Security benefits based on only federal service, consistent with our analysis of FECA and FERS benefits for non-postal retirees. We assumed the postal workers retired and began receiving the benefit at full Social Security retirement age (e.g., age 67) and thus did not reduce the benefit amount for early retirement.[31]

We estimated FECA benefits packages for the modeled postal workers by adding two components: estimated FECA compensation under two simulated total disability injury scenarios, and estimated TSP annuity based on account balance at the time of each simulated injury.[32] FECA benefits are not subject to federal taxation. Although TSP benefits are taxable, we did not account for tax liabilities, consistent with our FERS estimates for postal retirees.

- **FECA compensation:** We simulated injuries for the postal workers at 7 years and 15 years into their careers.[33] For simplicity, we assumed the postal workers had a dependent. We thus calculated their FECA compensation as 0.75 × salary at injury (in constant 2018 dollars). Because salaries throughout the careers were in constant 2018 dollars (and the FERS benefits were based on those constant dollar amounts), we did not inflate FECA compensation by annual cost-of-living adjustments.
- **TSP annuity:** We applied the same assumptions and formulas to calculate TSP annuity benefits given the simulated injuries as when

[31]Consistent with our analysis of FECA and FERS benefits for non-postal retirees, we calculated the modeled postal workers' average monthly earnings by dividing the sum of the 30 years of federal earnings in constant 2018 dollars by the 420 months in the 35-year lookback period. Because the federal earnings histories we constructed were in constant 2018 dollars, we did not index earnings further. Also consistent with our other analyses, because we were estimating Social Security benefits attributable to federal employment, any years of non-federal service were treated as years of zero earnings. Using the 2018 bend points, we calculated PIAs as the sum of: (a) 90 percent of the first $895 of average monthly earnings, plus (b) 32 percent of average monthly earnings over $895 and through $5,397, plus (c) 15 percent of average monthly earnings over $5,397.

[32]As previously discussed, FECA recipients may receive Social Security benefits, but the portion of those benefits attributable to federal service are offset from FECA compensation amounts. As a result, the net income from FECA compensation and Social Security benefits attributable to federal service is equivalent to FECA compensation alone. Thus, consistent with our other analyses, we included only FECA compensation and TSP benefits in the FECA benefits package.

[33]Although we ran simulations of injuries at every biweekly point in the modeled postal workers' careers, for simplicity we only report the illustrative examples of injuries at 7 years and 15 years into the modeled careers.

we estimated the FERS benefits package. The only difference is that starting at the point of each simulated injury, the postal workers made no more contributions to their TSP accounts. From that point on, their TSP account balances grew only at the assumed 3 percent real growth rate until the point of retirement and annuity purchase.

We calculated FERS and FECA benefits packages under both simulated injury scenarios (injured at 7 and 15 years into the career) and under both the old and new pay scales. We used these estimates to present illustrative examples of how the USPS pay scale changes affect benefits comparisons and potential benefit ratios. Because this analysis was intended to produce illustrative examples only and because we applied several significant assumptions, where we present dollar amount results, we rounded benefits estimates to the nearest $500.

We conducted this performance audit from March 2019 to July 2020 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 and conclusions 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.

Appendix II: Comments from the Department of Labor

U.S. Department of Labor

Office of Workers' Compensation Programs
Washington, DC 20210

File Number:

June 24, 2020

Cindy Brown Barnes
Director
Education, Workforce, and Income Security
U.S. Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Ms. Brown-Barnes:

Thank you for the opportunity to review and comment on the Government Accountability Office's (GAO) draft report titled, Federal Employees' Compensation Act: Comparisons of Benefits in Retirements and Actions Needed to Help Injured Workers Choose Best Option (GAO-20-523, job code 103137).

The Department of Labor (DOL) appreciates GAO's work to highlight the potential differences in various "benefit package" scenarios using a prior legislative proposal. As you noted on page eight of your draft report, those scenarios do not contemplate the President's current proposal to amend the FECA, which addresses many of the issues you highlight in pages 8 through 20.

DOL also appreciates your analysis of possible challenges injured workers may have in choosing the best option for retirement. DOL agrees with GAO's recommendation that injured workers may benefit from an additional or more detailed reminder that they may want to consider obtaining estimates of their FERS, Thrift Savings Plan and Social Security benefits. OWCP will update its existing election letter to all disabled claimants approaching age 62 to include additional language.

Finally, DOL agrees that discussions with the Social Security Administration (SSA) about modernizing the FERS offset process are necessary. Because a continuous dialogue between DOL and SSA has been occurring for well over a year, DOL looks forward to Congress's response to the FECA legislative proposal it transmitted to both chambers of Congress in April 2020, which contains a provision to facilitate exchanges of information between our two agencies. Until then, OWCP will continue its ongoing discussions with SSA on the feasibility of a data match agreement and the possibility that SSA can streamline and electronically provide to DOL the information it currently produces manually and submits to DOL in paper.

Thank you for the opportunity to respond.

Sincerely,

NANCY GRISWOLD

Digitally signed by NANCY GRISWOLD
Date: 2020.06.24 11:30:21 -04'00'

for Julia Hearthway
Director
Office of Workers' Compensation Programs

Appendix III: Comments from the Social Security Administration

SOCIAL SECURITY
Office of the Commissioner

June 30, 2020

Ms. Cindy Brown Barnes
Director, Education, Workforce, and Income Security Issues
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Brown Barnes:

Thank you for the opportunity to review the draft report "FEDERAL EMPLOYEES' COMPENSATION ACT: Comparisons of Benefits in Retirement and Actions Needed to Help Injured Workers Choose Best Option" (GAO-20-523).

We agree with the recommendation, and we will work with the Department of Labor (DoL) on options for improving the current process. In doing so, we will work within the limits of the Privacy Act, the Social Security Act, and the Internal Revenue Code to disclose appropriate data to DoL.

If you have any questions, please contact Trae Sommer, Director of the Audit Liaison Staff, at (410) 965-9102.

Sincerely,

Stephanie Hall

Stephanie Hall
Chief of Staff

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Appendix IV: GAO Contact and Staff Acknowledgments

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Staff Acknowledgments

In addition to the contact named above, Nagla'a El-Hodiri (Assistant Director), Michael Kniss (Analyst-in-Charge), and Sara Rizik made key contributions to this report. Also contributing to this report were Susan Aschoff, Benjamin Bolitzer, Melinda Cordero, Robert Letzler, Sheila R. McCoy, James Rebbe, Joseph Silvestri, Almeta Spencer, Curtia Taylor, Jeff Tessin, and Walter Vance.

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