GAO Highlights

Highlights of GAO-13-730T, a testimony before the Subcommittee on Workforce Protections, Committee on Education and the Workforce, U.S. House of Representatives

July 10, 2013

FEDERAL EMPLOYEES' COMPENSATION ACT

Analysis of Benefits Under Proposed Program Changes

Why GAO Did This Study

In 2012, the FECA program provided more than $2.1 billion in wage-loss compensation to federal workers who sustained injuries or illnesses while performing federal duties. Total-disability beneficiaries with an eligible dependent are compensated at 75 percent of gross wages at the time of injury and those without are compensated at 66-2/3 percent. Benefits are adjusted for inflation and are not taxed nor subject to age restrictions. Some policymakers have raised questions about the level of FECA benefits, especially compared to federal retirement benefits. Proposals to revise FECA for future total- and partial- disability beneficiaries include: setting initial FECA benefits at a single rate (66-2/3 or 70 percent of applicable wages at time of injury), regardless of whether the beneficiary has eligible dependents; and converting FECA benefits to 50 percent of applicable wages at time of injury—adjusted for inflation—once beneficiaries reach full Social Security retirement age.

This testimony presents results of GAO's four recent reports on FECA issues. It summarizes (1) potential effects of the proposals to compensate total-disability FECA beneficiaries at a single rate; (2) potential effects of the proposal to reduce FECA benefits to 50 percent of applicable wages at full Social Security retirement age for total-disability beneficiaries; and (3) how partial disability beneficiaries might fare under the proposed changes. To do this work, GAO conducted simulations comparing FECA benefits to income (take-home pay or retirement benefits) a beneficiary would have had absent an injury, and conducted seven case studies of partial disability beneficiaries.

View GAO-13-730T. For more information, contact Andrew Sherrill at (202) 512-7215 or sherrilla@gao.gov

What GAO Found

GAO's simulation found that under the current Federal Employees' Compensation Act (FECA) program, the median wage replacement rate—the percentage of take-home pay replaced by FECA—for total-disability beneficiaries was 88 percent for U.S. Postal Service (USPS) beneficiaries and 80 percent for non-USPS beneficiaries in 2010. GAO also found that proposals to set initial FECA benefits at a single compensation rate would reduce these replacement rates by 3 to 4 percentage points under the 70-percent option and 7 to 8 percentage points under the 66-2/3 percent option. Beneficiaries with dependents would receive reduced FECA benefits under both options. The decreases in wage replacement rates were due to the greater proportion of beneficiaries who had a dependent—over 70 percent of both USPS and non-USPS beneficiaries.

In GAO's simulation comparing FECA benefits to retirement benefits, GAO found that under the current FECA program, the median FECA benefit package for total-disability retirement-age beneficiaries was 37 and 32 percent greater than the median 2010 retirement benefit package for USPS and non-USPS beneficiaries, respectively. This analysis focused on individuals covered under the Federal Employees Retirement System (FERS), which generally covers employees first hired in 1984 or later, and covered about 85 percent of the federal workforce in 2009. GAO also found that the proposal to reduce FECA benefits at the full Social Security retirement age would result in a median FECA package roughly equal to the median FERS retirement package in 2010. However, the median years of service for the FERS annuitants GAO analyzed was about 16 to 18 years, so these simulations did not capture a fully mature retirement system and likely understated the future FERS benefit level. Consequently, GAO also simulated a mature FERS system—intended to reflect future benefits of workers with 30-year careers—and found that the median FECA benefit package under the proposed change would be from 22 to 35 percent less than the median FERS retirement package.

Partial-disability beneficiaries are fundamentally different from total-disability beneficiaries, as they receive reduced FECA benefits based on a determination of their earning capacity. GAO's seven case studies of partial-disability beneficiaries showed that how they might fare under the proposed FECA changes can vary considerably based on their individual circumstances, such as their earning capacity and actual levels of earnings. For example, among GAO's case studies, those beneficiaries with high earning capacities may elect to retire under FERS and would likely not be affected by the proposed FECA reduction at retirement age because their potential retirement benefits were substantially higher than their current or proposed reduced FECA benefit levels. In contrast, those beneficiaries with low earning capacities had potential retirement benefits that were lower than their current FECA benefits and the proposed FECA reduction at retirement age would reduce their FECA benefits.