

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

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POSTAL RATE AND FEE CHANGES, 1997

POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY  
Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS MACDONALD TO INTERROGATORY OF  
THE OFFICE OF THE CONSUMER ADVOCATE  
(OCA/USPS-T10-1)

The United States Postal Service hereby provides the response of witness Macdonald to the following interrogatory of the Office of the Consumer Advocate: OCA/USPS-T10-1, filed on August 6, 1997.

The interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking



Scott L. Reiter

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-2999; Fax -5402  
August 20, 1997

OCA/USPS-T10-1. At the August 1997 Board of Governors' meeting, Mr. Riley mentioned the possibility of the Postal Service having a charge to earnings for the old Post Office Department workers' compensation liabilities. Please provide the Postal Service's current estimates of the amount of workers' compensation liability for the Post Office Department likely to be charged to the FY 1997 and FY 1998 earnings. Your response should show the derivation of and cites for all calculated figures. If no estimates are available, please explain why none are available.

We estimate that the present value of all future payments currently associated with Post Office Department (POD) claimants is approximately \$240 million.

This estimate is based on a regression analysis of DOL payments to/for POD claimants in Chargeback Years 1990 through 1996. The actual calculation is attached. Since this provision became law in the current fiscal year, this figure in its entirety will be recorded in FY 1997, consistent with Generally Accepted Accounting Principles (GAAP). The actual amount booked may vary slightly from the \$240 million since it is contingent on the receipt and analysis of Department of Labor Chargeback Year 1997 payment data for these claimants. Ignoring the effect of payments on the liability, changes in the liability in years subsequent to FY 1997 will be the result of 1) changes in the amounts of estimated future payments based on new DOL payment data, and 2) the decrease in the number of future periods discounted. Currently, we estimate FY 1998 charge to be about \$14.3 million, attributable exclusively to the second factor cited above. It is the intent of Postal Service management to record the workers' compensation liability attributable to non-Postal Service claimants separately from that arising from injuries suffered by our employees.

Post Office Department  
 Estimated Workers' Compensation Paid Claims & Payments  
 Calendar Year for FY 1997 & Subsequent Years

Chargeback FY	Appropriation FY	Total Caseload	Total Payments	Average Payment	Inflation			
1990	1992	2,500	40,575,049 *	16,230		Actual		
1991	1993	2,405	38,614,008 *	16,056	-1.074%	Actual		
1992	1994	2,295	38,802,520 *	16,907	5.305%	Actual		
1993	1995	2,192	37,775,509 *	17,233	1.928%	Actual		
1994	1996	2,035	36,828,102 *	18,097	5.014%	Actual		
1995	1997	1,915	35,535,543 *	18,556	2.537%	Actual		
1996	1998	1,828	34,850,155	19,065	2.739%	Actual		
1997	1999	1,702	33,337,488	19,587	2.741%	Estimate		
1998	2000	1,586	31,911,193	20,124	2.741%	Estimate		
1999	2001	1,469	30,381,651	20,676	2.741%	Estimate		
2000	2002	1,353	28,744,272	21,243	2.741%	Estimate		
2001	2003	1,237	26,994,296	21,825	2.741%	Estimate		
2002	2004	1,121	25,126,777	22,423	2.741%	Estimate	Regression Output:	
2003	2005	1,004	23,136,588	23,038	2.741%	Estimate	Constant	2632.28571
2004	2006	888	21,018,406	23,669	2.741%	Estimate	Std Err of Y Est	18.786013
2005	2007	772	18,766,710	24,318	2.741%	Estimate	R Squared	0.99536116
2006	2008	655	16,375,771	24,985	2.741%	Estimate	No. of Observations	7
2007	2009	539	13,839,648	25,670	2.741%	Estimate	Degrees of Freedom	5
2008	2010	423	11,152,177	26,373	2.741%	Estimate		
2009	2011	307	8,306,966	27,096	2.741%	Estimate	X Coefficient(s)	-116.285714
2010	2012	190	5,297,387	27,839	2.741%	Estimate	Std Err of Coef.	3.55022276
2011	2013	74	2,116,567	28,602	2.741%	Estimate		

Total Outlays Chargeback Years 1996 -2011:  
**331,356,052**

**Present Value All Outlays  
 for Chargeback Years 1996 - 2011 (ignores payments):**

**\$ 253,897,428 FY 1998**  
**\$ 239,567,233 FY 1997**  
**\$ 14,330,195 Increase Attributable to FY 1998.**

\* = Indicated amounts have been appropriated to the USPS and transferred by the USPS to the Department of Labor.

**Assumptions for estimation of payments for Chargeback Years 1997 - 2011:**

- 1) Chargeback Year is period of July 1 through June 30. Historically, appropriation for Post Office Department claims has been received in October of subsequent calendar year. For example, Chargeback Year 1995 ended June 30, 1995; the appropriation for Chargeback Year 1995 was received in October, 1996, at the beginning of FY 1997.
- 2) Estimated caseload is based on a regression on total caseload for Chargeback Years 1990 - 1996. "Total" caseload includes both medical and compensation claims.
- 3) Estimated future average payments per claim are based on averaged percentage increase in average cost per claim (2.741%) during Chargeback Years 1990 - 1996. Average payments include both compensation and medical payments.
- 4) Total payments for Chargeback Years 1997 - 2011 are derived by multiplying estimated average payments by estimated total caseload. These numbers are presented undiscounted.
- 5) The \$240 million total for Chargeback Years 1996 - 2011 is the sum of the Chargeback Year 1996 actual plus the present value of the estimated payments for Chargeback Years 1997 through 2011. Consistent with valuation of the CSRS liability, a discount factor of 7% is used for the Chargeback Year 1997 through 2011 payment stream.

**DECLARATION**

I, R. Timothy Macdonald, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

R. Timothy Macdonald

Dated: 8/20/97

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.



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Scott L. Reiter

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Washington, D.C. 20260-1137  
August 20, 1997