



Department of Veterans Affairs

Financial Policy

Volume VI

Liabilities

Chapter 7

Federal Employees' and Veterans' Benefits Liabilities

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0701 Overview

This chapter establishes the Department of Veterans Affairs' (VA) financial policies for recording and reporting Federal Employees' and Veterans' Benefits Liabilities.

Key points covered in this chapter:

- VA will recognize its share of the costs for providing health, life insurance, and pension benefits to employees;
- VA will record a liability for estimated and actual future payments to be made for workers' compensation pursuant to FECA;
- VA will contribute to the CSRS or the FERS defined benefit pension plans for employees according to each plan's requirements;
- VA will account for employee annual leave that has been earned but not yet taken; and
- VA will record and disclose Veteran's benefits liability for compensation, burial, education, and VR&E in accordance Statement of Federal Financial Accounting Standards (SFFAS) 5, Accounting for Liabilities of the Federal Government and SFFAS 33, Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates.

0702 Revisions

Section	Revision	Office	Reason for Change	Effective Date
Various	Reformatted to new policy format and completed comprehensive full update	OFP (047G)	Reorganized chapter layout	November 2022
0703 Definitions	Updated definitions-added, removed, and reworded definitions as needed	OFP (047G)	Definitions updated to ensure relevance and consistency across policies	November 2022
0704 Roles and Responsibilities	Updated roles to include actuaries who produce the actuarial liabilities through modeling	OFP (047G)	Potential financial liability computed by VA actuaries using various future assumptions	November 2022

Section	Revision	Office	Reason for Change	Effective Date
0705 Policies	Reorganized and revised policy statements for clarity and to address deficiencies	OFP (047G)	To ensure policy statements are clear and accurate based on current authoritative guidance	November 2022
070503 Veterans Benefits	Added policy for Community Care Medical Claims and actuarial calculation of Incurred But Not Reported liabilities	OFP (047G)	Support for estimated liability recognizing the cost of community care services received by Veterans but not yet paid for hospital care or medical services furnished at non-Departmental facilities	November 2022
0706 Authorities and References	Updated authorities and references	OFP (047G)	To ensure policy guidance aligns with current authoritative documents and sources	November 2022
Appendix A	Added Actuarial Assumptions for Compensation, Burial, and Education Benefits	OFP (047G)	Variable actuarial assumption considerations for liability calculations	November 2022
0701 Overview	Added education and VR&E benefits programs to Chapter	OFP (047G)	NFR 19-17	July 2020
0702 Policies	Added education and VR&E benefits programs to Chapter	OFP (047G)	NFR 19-17	July 2020
0705 Procedures	Added education and VR&E benefits programs to Chapter	OFP (047G)	NFR 19-17	July 2020

Section	Revision	Office	Reason for Change	Effective Date
0706 Definitions	Addition of educational program terminology to Chapter	OFP (047G)	NFR 19-17	July 2020
0701 Overview	Clarified reporting of liabilities	APS	NFR 16-5/16-8	January 2017
070102 Veterans Benefits	Added SFFAS 33 guidance as to differing pension plans	APS	NFR 16-5/16-8	January 2017

0703 Definitions

Accrued FECA Liability – This accrual represents the money owed by VA to Department of Labor (DOL) for claims paid by DOL on behalf of VA through the current fiscal year.

Actuarial FECA Liability – The liability for future workers' compensation benefits includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases and for potential cases related to injuries incurred but not reported.

Actuarial Assumptions – Estimated values for variables made for the purposes of calculating future benefits. Possible variables include life expectancy, return on investments and interest rates.

Annual Leave – Official time off from work. The amount of time (hours and dollars) accrued biweekly, in general, is determined by an employee's time in Federal service.

Burial Benefits – The deceased Veterans' beneficiaries are provided with burial flags, headstones/markers and grave liners for burial in a VA national cemetery or are provided a plot allowance for burial in a private cemetery. These benefits are provided in recognition of a Veterans' military service.

Civil Service Retirement System (CSRS) – The defined benefit contributory retirement system created for Federal employees in 1920. Employees covered under CSRS are excluded from Old Age, Survivors and Disability Insurance (OASDI) taxes (i.e., social security). The Federal Government has phased out CSRS for newly hired employees. All retirement-eligible employees first hired on or after January 1, 1984, participate in FERS.

Community Care – Hospital care, medical services, and extended care services to covered Veterans and family members delivered by community providers.

Dependents Educational Assistance (DEA) – Education program authorized by Congress under 38 U.S.C. § 3531. Education and training program offered to eligible dependents of Veterans who are permanently and totally disabled due to a service-related condition or of Veterans who died while on active duty or as a result of a service-related condition.

Expense – Refers to the outflow or other using up of assets or incurrence of liabilities (or a combination of both) during a period from providing goods, rendering services or carrying out other activities related to an entity's programs and missions, the benefits from which do not extend beyond the present operating period.

Event – A happening of financial consequence that is important or significant to an entity.

Federal Employees' Compensation Act (FECA) – Provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases.

Federal Employees Retirement System (FERS) – FERS is a three-tiered system based on OASDI (Social Security) with a defined benefit, contributory retirement benefit plan, and a Thrift Savings Plan (TSP) retirement savings program. FERS Revised Annuity Employee (FERS RAE) and FERS Further Revised Annuity Employee (FERS FRAE) are variations of the FERS retirement plan with different contribution rates.

Government Contribution – FERS – Each agency will contribute to the FERS Fund an amount equal to the sum of the product of the normal-cost percentage, as determined for employees, multiplied by the aggregate amount of basic pay made by the agency to the employees who are within such agency, for the period involved.

Health Benefits – Refers to a group insurance policy or contract, medical or hospital service agreement, membership or subscription contract or similar group arrangements provided by a carrier for the purpose of providing, paying for or reimbursing expenses for health benefits for Federal employees.

Imputed Financing-Expenses Paid by Administrative Entity – Refers to the amount being financed directly through the pension plan's administrative entity to cover the annual expense for the employer entity's employees. Imputed financing covers the difference between the employer entity's contribution transferred to the administrative entity pursuant to law (exclusive of the employees' contributions) and the employer's pension expense calculated on the basis of information received from the administrative entity.

Incurred But Not Reported (IBNR) – An estimate used to recognize the cost of services rendered but not yet approved for payment of hospital care or medical services obtained at non-Departmental facilities. Currently used to account for Office of Integrated Veteran Care (OIVC) program expenditures subject to obligation at claim approval authority based on Public Law 116-260, the Consolidated Appropriations Act, 2021.

Liability – A probable future outflow or other sacrifice of resources as a result of past transactions or events. A liability can represent assets owed for goods received, services received, assets acquired, construction performed (regardless of whether invoices have been received), amounts received but not yet earned, or other expenses incurred but not paid.

Life Insurance Benefits – Refers to the policy or policies of group life and accidental death and dismemberment insurance that the Office of Personnel Management (OPM) may purchase to provide the life insurance benefits to Federal employees.

Marketable Treasury Securities – Debt securities, including Treasury bills, notes and bonds, that the U.S. Treasury offers to the public and are traded in the marketplace. Their bid and ask prices are quoted on securities exchange markets.

Measurable – Reasonably estimable.

Measurement – An action that implies an estimation has been based on the best available information at the time but does not necessarily require a full actuarial "valuation" as that term is used by actuaries.

Montgomery GI Bill-Active Duty (MGIB-AD) – Education program authorized by Congress under 38 U.S.C. § 3021. This program provides education benefits to Veterans and Servicemembers who have at least two years of active duty and have had their pay reduced by \$1,200 or meet other eligibility requirements.

Normal Cost – The amount of funding required, known as "normal cost," is the entry age normal cost of the provisions of FERS that relate to the Civil Service Retirement and Disability Fund (Fund). The normal cost must be computed by OPM in accordance with generally accepted actuarial practices and standards (using dynamic assumptions). Federal law requires VA to contribute an amount equal to the normal cost of FERS minus employee contributions to the program, e.g., Employees first hired before 2013 contribute 0.8% of pay toward their FERS annuities. Consequently, the normal cost of FERS basic annuity to the VA for these employees equals 16.0% of payroll (16.8 - 0.8 = 16.0).

Obligation at Claims Approval – Occurs when a liability does not arise until the agency formally reviews, applies all established business rules, and approves payment of the healthcare claim or invoice. In these instances, the agency should not record an

obligation until it approves the claim or invoiced for payment. (See discussion at Government Accountability Office (GAO) Redbook Chapter 7, Obligation of Appropriations, Administrative Approval of Payment).

Other Postemployment Benefits (OPEB) – Benefits provided to former or inactive employees, their beneficiaries, and covered dependents outside pension or Other Retirement Benefits (ORB) plans. Inactive employees are those who are not currently rendering services to the employer but who have not been terminated, including those temporarily laid off or disabled. Postemployment benefits can include salary continuation, severance benefits, counseling and training, continuation of health care or other benefits, and unemployment, workers' compensation, and veterans' disability compensation benefits paid by the employer entity.

Pensions – Federal Employees – Amounts paid to VA employees covered either under the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS), in the form of monthly annuities.

Post 9/11 GI Bill – Veterans education program authorized by Congress under 38 U.S.C. § 3311. Veterans with at least 90 days aggregate service after September 10, 2001, or individuals honorably discharged with a service-connected disability after 30 continuous days after September 10, 2001, are eligible to receive Post 9/11 GI Bill benefits, which include tuition and fees and a monthly housing allowance.

Probable – That which can reasonably be expected or believed to be more likely than not on the basis of available evidence or logic, with the exception of pending or threatened litigation and unasserted claims. For pending or threatened litigation and unasserted claims, the future confirming event or events are likely to occur.

Recognize – The process of formally reporting a dollar amount on the face of the basic financial statements when it is both probable and measurable.

Subscription Charge – Refers to the premiums charged by health insurance carriers for health benefits plans for Federal employees. The amount of the charge that is financed by the Federal Government on behalf of the employee will be calculated by the Office of Personnel Management.

Veteran Readiness & Employment (VR&E) – Veteran program authorized by Congress under 38 U.S.C. § 3100. VR&E helps Veterans and active duty Servicemembers transitioning to civilian employment with service-connected disabilities and an employment handicap prepare for, obtain, and maintain suitable careers.

Workers' Compensation – The Federal Employees' Compensation Act (FECA) provides income and medical-cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose deaths are attributable to job-related injuries or

occupational diseases. Claims incurred for benefits for VA employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by VA.

0704 Roles and Responsibilities

Under Secretaries, Assistant Secretaries, Other Key Officials, and Chief Financial Officers (CFOs) are responsible for ensuring compliance with the policies set forth in this chapter.

Actuarial staff, including Office of Management Actuarial Services and Veterans Benefits Administration (VBA) staff actuaries, are responsible for developing and maintaining actuarial models, producing actuarial analyses, developing quarterly and annual financial statement liabilities, presenting proposed changes to assumptions and methods to the Actuarial and Benefit Liability Governance Board (ABLGB), and preparing Qualified Actuarial Opinions (i.e., oral or written communications about the actuarial results).

Financial Services Center (FSC) is responsible for providing support for the accounting and reporting of VA's financial position; including posting, reconciling, and recording transactions and events, as requested.

Office of Financial Reporting (OFR) is responsible for Department-wide accounting, reporting, and disclosure of liabilities in accordance with Federal Accounting Standards Advisory Board (FASAB) and Office of Management and Budget (OMB) guidance and requirements.

0705 Policies

070501 General Policies

- A. Federal Employees' and Veterans' Benefits liabilities will be reported in accordance with:
- Office of Management and Budget Circular A-136 – Financial Reporting Requirements;
 - SFFAS 33, Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates; and
 - SFFAS 5, Accounting for Liabilities of the Federal Government.
- B. VA actuaries will calculate the present value of the Veterans Benefits Liabilities using standards established by Actuarial Standards Board and FASAB, for compensation, burial, and education benefits for recordation in VA's accounting system. (See Appendix A for actuarial assumption considerations).

- C. Veterans pension benefits do not meet the requirements under SFFAS 5 for recognition of an accrued actuarial projection in the basic financial statements and are not covered in this chapter. SFFAS 5 specifically states that VA pension is an entitlement benefit and is accounted for as a general fund benefit and related expenses should be recognized in the period pension was issued.
- D. This chapter does not cover VA's long-term Medical Care Cost. FASAB concluded in SFFAS 5, that VA medical benefits, for both mandatory and discretionary programs, are best measured by the annual cost incurred rather than by actuarially determined charges during the Veteran's military service. Medical care for Veterans does not satisfy the probability or reasonably measurable criteria in this standard at earlier dates; therefore, future medical benefits do not constitute a long-term liability to be recognized in the balance sheet. As such, VA medical benefit liabilities and related expenses should be recognized in the period medical care service is rendered.

070502 Federal Employee Benefits

- A. VA will recognize a liability for projected payments related to employee benefits. Employee benefits currently reported include:
- FECA benefits; and
 - Annual Leave benefits.
- B. FECA benefits are provided to covered civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases.
- C. VA will make appropriate FECA deposits during each calendar quarter based on a determination by the Secretary of Labor as to the amounts due. VA will report the following two components of FECA benefits:
1. Accrued FECA liability when amounts are paid to beneficiaries by DOL on behalf of VA.
 2. Actuarial FECA liability for compensation cases to be paid beyond the current fiscal year.
 - Future workers' compensation estimates are generated from an actuarial projection developed by DOL which estimates the liability for FECA benefits.
 - The projection is determined by utilizing historical benefit payment patterns, related to a particular period, to estimate payments related to future periods.
- D. Federal employee annual leave will accrue in accordance with 5 U.S.C. § 6303. VA will adjust accrued annual leave balances at the end of the fiscal year to reflect current pay rates for leave that has been earned but not taken.

- E. VA records costs related to employee retirement, health insurance and life insurance benefit plans. OPM is responsible for the management and accounting of such plans and passes the expense, or imputed cost, to VA.
- VA will not maintain or report information about the assets of the CSRS or FERS retirement plans, nor does it report actuarial data for the accumulated plan benefits. This reporting is the responsibility of OPM.
 - VA will contribute biweekly pension benefit amounts for CSRS, equal to employee deductions, from the appropriation or fund used to pay the employee. Both VA and the employee's contributions will be deposited in the Treasury of the United States to the credit of the Civil Service Retirement Fund.
 - In accordance with 5 U.S.C. § 8423, VA will contribute biweekly pension benefit amounts for FERS, equal to the sum of the product of the normal cost percentage, as determined for employees, multiplied by the aggregate amount of basic pay made by the agency to the employees who are within such agency, for the period involved from the appropriation or fund used to pay the employee. Both VA and the employee's contributions will be deposited in the Treasury of the United States to the credit of the Federal Employees' Retirement Fund.
 - In accordance with 5 U.S.C § 8906, VA will pay no more than 75 percent of the subscription charge or premiums as the biweekly Government contribution for an employee or annuitant enrolled in a health benefit plan procured by the Federal Government.
 - In accordance with 5 U.S.C. § 8708, VA will pay one-half the cost of life insurance coverage each payroll period for employees from the appropriation used to pay the employee.
- F. Quarterly and at year-end, the appropriate journal entries will be made to record VA's accrued employee benefits.

070503 Veterans Benefits

- A. VA will recognize a liability for projected payments related to Veteran benefits. Types of benefits currently reported and applicable authority include:
- Compensation benefits (Title 38, Part 2, Chapters 11 and 13);
 - Burial benefits (Title 38, Part 2, Chapter 23);
 - Education and VR&E benefits (Title 38, Part 3, Chapters 30, 31, 33, 35); and
 - Medical Claims (Community Care) (P.L. 116-220).
- B. The actuarial liability for projected benefit payments will factor in the following as part of the computation:
- Beneficiaries, including Veterans and survivors, currently receiving benefit payments;
 - Current Veterans and survivors, who will become future beneficiaries of the Compensation Program; and,

- An estimate of servicemembers (and their survivors) who gained eligibility as of the valuation date and will become future beneficiaries.
- C. VA Compensation benefits are provided to the following individuals:
- Dependents of eligible Veterans who died as a result of active military service-related causes;
 - Eligible Veterans who are disabled as a result of active military service-related causes, and their dependents; and,
 - Dependents of Servicemembers who died during active military service.
- D. Burial benefits are provided to:
- Servicemembers who died during active military service;
 - Veterans who separated under other-than-dishonorable conditions; and
 - Their eligible family members.
- E. The liability for future compensation and burial payments is reported on VA's balance sheet at the present value of projected future payments and is developed on an actuarial basis.
- F. Estimated liabilities for Veteran's compensation and burial benefits are measured as of the end of the fiscal year, based on June 30 beneficiary data that is adjusted for estimated changes in the number of participants covered (enrollment) such as deaths, new cases, and changes in degree of disability during the fourth quarter.
- G. VA's primary education benefit programs provide benefits to Veterans, Servicemembers, and their dependents.
- H. The liability for future education and VR&E benefits is reported on VA's balance sheet at the present value of projected future payments and is developed on an actuarial basis. Various assumptions in the actuarial model, such as the total number of Veterans with entitlement, average usage of entitlement, the program stop and restart rate, the number of Veterans and dependents receiving payments and discount rates impact the amount of the liability.
- I. Estimated liabilities for the Post-9/11 GI Bill obligations in the financial statements are measured on the academic year of August 1 to July 31 and are adjusted for known material changes.
- J. Estimated liabilities for all other education obligations in the financial statements are as of the end of the fiscal year based on June 30 beneficiary data that is adjusted for known material changes during the fourth quarter.
- K. VA may provide medical care to Veterans and eligible dependents through community providers. Community care eligibility is dependent upon the availability of VA care, the needs and circumstances of individual Veterans and enrollment requirements which vary by program.

- VA uses a methodology called “obligation at claims approval”, for the Medical Community Care and VA Choice appropriations. See VA Financial Policy Vol II, Chapter 5C – Obligation at Claims Approval for detailed information on claims approval authority and process.
- VA actuaries created a traditional actuarial IBNR model (using payment patterns) to develop an estimate of the current liability associated with services rendered that have not yet been approved for payment.
- VA will calculate and estimate the obligation at claims approval accrual adjustments for IBNR expense on a quarterly basis.

0706 Authorities and References

[5 U.S.C. Chapter 63, Leave](#)

[5 U.S.C. Chapter 83, Subchapter III, Civil Service Retirement](#)

[5 U.S.C. Chapter 84, Federal Employees' Retirement System](#)

[5 U.S.C. Chapter 85, Unemployment Compensation](#)

[5 U.S.C. Chapter 87, Life Insurance](#)

[5 U.S.C. Chapter 89, Health Insurance](#)

[38 U.S.C Part II, General Benefits](#)

[38 U.S.C Part III, Readjustment and related benefits](#)

[SFFAS 5 - Accounting for Liabilities of the Federal Government](#)

[SFFAS 33 - Pensions, Other Retirement Benefits and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates](#)

[Office of Management and Budget \(OMB\) Circular A-11, Preparation, Submission and Execution of the Budget](#)

[OMB A-136, Financial Reporting Requirements – Revised](#)

[The Consolidated Appropriations Act, 2021 \(P.L. 116-260\)](#)

[VA Financial Policy Volume II, Chapter 5C – Obligations at Claims Approval](#)

0707 Rescissions

VA Financial Policy, Volume VI, Chapter 7 - Federal Employees' and Veterans' Benefits Liability dated July 2020

0708 Questions

Questions concerning this financial policy should be directed to the following points of contact:

VHA
VBA
All Others

[VHA Financial Policy \(Outlook\)](#)
[VAVBAWAS/CO/FINREP \(Outlook\)](#)
[OFP Accounting Policy \(Outlook\)](#)

Appendix A: Actuarial Assumptions for Compensation, Burial, and Education Benefits

The actuarial assumptions used to calculate liabilities will vary by type of liability but some of the base assumptions used include the following:

1. Estimation of costs and benefits occurring at different times requires that all future benefits be discounted. VA will use the following criteria in identifying the proper discount rates (in accordance with SFFAS 33):
 - Discount rates for present value measurements of Veterans' benefits liabilities will be based on the interest rates for marketable Treasury securities of similar maturities to the cash flows of the payments for which the estimate is being made.
 - Discount rates as of the reporting date will reflect average historical rates on marketable Treasury securities rather than giving undue weight to the current or very recent past experience of such rates.
 - A minimum of five historical (and sequential) rates are required to be used in developing average historical Treasury rates.
 - The number of historical rates used in the calculation of the average as explained above should be consistent from period to period.
 - For cash flows that are projected to occur in future years for which Treasury securities are or were not available or that are expected beyond the maturities at which Treasury securities are available, VA will incorporate interest rates interpolated or extrapolated from historical Treasury rates.
2. Assumptions are developed through analyses of experience studies. These assumptions are updated and prioritized based on what VA has determined to be most critical to ensuring the models reflect the best estimate of present value of future cash flows. Priorities are subject to deviations as other factors affecting benefit programs may emerge requiring a re-prioritization of tasks.
3. Economic assumptions are used for modeling how time value of money affects the net cost estimations. Key economic assumptions include the interest rate and COLA.
4. Demographic assumptions are used for modeling how participants' behaviors affect the amount and timing of benefits paid. Major demographic assumptions include mortality rates, expected amount of benefit use and benefit remaining.
5. VA will use mortality rates of beneficiaries collecting benefits from the Compensation program, based upon studies of mortality experience of those beneficiaries available to prepare estimations during the period identified in the annual financial statements and notes as required by FASAB and OMB Circular A-136.

6. VA will use mortality rates for Veterans not yet collecting benefits from the Compensation program, based on mortality rates from the Office of Enterprise Integration's (OEI) Veteran Population Projection Model. VA will apply a factor to make mortality improvements. Rates of benefits termination for beneficiaries due to reasons other than mortality are also reflected in the calculation.
7. VA will base the amount of benefits by beneficiary category and age on current amounts being paid, future cost of living adjustments (COLA) to determine the average benefits per Veteran for each future time period, and changes in other factors that affect benefits. Expected changes in benefits due to other reasons are also reflected.
8. VA will consider changes to actuarial assumptions as credible experience dictates.
9. Compensation benefits begin for a Veteran and can continue through their beneficiaries (i.e., survivors), as such, the projection period for the compensation and burial model has a long projection period. VA will explicitly model expected compensation and burial benefit payments for the next 100 years to capture all significant projected liabilities for Veterans and Veterans' beneficiaries.
10. The compensation and burial models will continue to be refined as additional analysis of the assumptions is completed and other relevant information becomes available in the future that can be used to enhance the estimates.
11. The projected future education benefit costs are capped based on the maximum months applicable to each beneficiary and program.
12. The projected education and VR&E liability will include future new enrollees who are eligible for education benefits but have never enrolled in the program and are estimated to enroll in the future.
13. Changes in present value of the actuarial liabilities resulting from changes in valuation techniques or their application are treated as a change in estimate and accounted for on a prospective basis.
14. Actuarial experience studies are necessary to evaluate the differences between assumed and actual experience over a period of time, with the goal of examining the trends related to actual experience and using that to develop a more reasonable assumption.