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# *Office of Inspector General*

# *Audit Report*

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*Actuarial Estimates for  
Retired Pay and Medical Benefits*

*U.S. Coast Guard*

*Report Number: FI-2001-033*

*Date Issued: February 23, 2001*





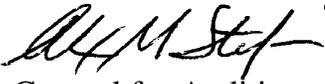
# Memorandum

**U.S. Department of  
Transportation**

Office of the Secretary  
of Transportation  
Office of Inspector General

Subject: INFORMATION: Report on Actuarial Estimates for  
Retired Pay and Medical Benefits, U.S. Coast Guard  
FI-2001-033

Date: February 23, 2001

From: Alexis M. Stefani   
Assistant Inspector General for Auditing

Reply To

Attn Of: JA-20:x61496

To: Chief of Staff  
U.S. Coast Guard

## INTRODUCTION

This report provides the study results of the U.S. Coast Guard actuarial model for estimating liabilities for retired pay and medical benefits. The study was conducted by the Hay Group, under contract with the Office of Inspector General, as part of our audit of the Department of Transportation Fiscal Year (FY) 2000 Consolidated Financial Statements.

The principal objective of the study was to determine whether the methodology the Coast Guard contractor used to calculate liabilities and annual actuarial activity of the Coast Guard military retirement system was reasonable and reliable as of September 30, 1999. FY 1999 data are used because the data represent the most current full year of financial data for estimating FY 2000 military retirement liabilities totaling \$19.8 billion.

## RESULTS

The Coast Guard properly reported military retirement liabilities of \$19.8 billion as of September 30, 2000. The Coast Guard reported two types of liabilities: retirement and survivor pension benefits of \$15.2 billion, and retirement and survivor post-retirement medical benefits of \$4.6 billion.

The Coast Guard initially reported a total liability of about \$19.5 billion for FY 2000 based on its contractor's calculation. However, the Hay Group projection of the medical benefits liability was \$287 million higher than the Coast Guard contractor's projection. The Hay Group concluded the variance in medical benefits between the two studies was larger than expected and traced the primary cause to

former Coast Guard personnel who are not receiving pension benefits, but who are eligible for retiree medical benefits. The Hay Group included these former Coast Guard personnel who were not receiving pension benefits, but who were eligible for retiree medical benefits, in its medical benefits projection, but the Coast Guard contractor did not. The Hay Group did not note any other deficiencies and made no recommendations.

The Coast Guard agreed to use the Hay Group projection as the basis for reporting the medical benefits liability, which increased the Coast Guard total reported liability to \$19.8 billion. The Coast Guard also agreed to direct its contractor to include former Coast Guard personnel who are not receiving pension benefits, but who are eligible for retiree medical benefits, in future projections.

### **ACTION REQUIRED**

No response to this report is required. The study documents are voluminous and will be provided upon request.

We sincerely appreciate the assistance and cooperation of Coast Guard and contractor representatives. If you have any questions, please call me at (202) 366-1992 or John Meche at (202) 366-1496.

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