



NALC FACT SHEET

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March 5, 2010

Strengthening the Postal Service: Reform its Retiree Health Pre-funding Schedule

The Postal Service is facing a financial crisis in the midst of the worst recession in 80 years. Congress spent much of 2009 debating short-term financial relief for USPS in the form of reduced prefunding payments for future retiree health benefits. On September 30, 2009, Congress adopted a measure which reduced the level of USPS prefunding in 2009 from \$5.4 billion to \$1.4 billion and reduced the Postal Service's operating loss from \$7.7 billion to \$3.7 billion. While it was helpful last year, this type of last-minute relief will not adequately address the larger problems caused by the prefunding requirements. In 2010, Congress must reform the prefunding schedule adopted by Public Law 109-435 to provide for long-term financial stability. The current schedule is unaffordable and unfair:

1. The USPS is the only enterprise in the country required by law to prefund retiree health benefits while most Fortune 1000 companies (two-thirds) don't prefund at all.
2. The annual payments required are extremely onerous, requiring the USPS to effectively prefund 80 percent of a 75-year liability in just 10 years, and are based on flawed calculations by the Office of Personnel Management (OPM).
3. The actuarial methods used to determine the retiree health benefit liability are deeply flawed and inequitably overstate the Postal Service's liability. Congress should mandate a new prefunding schedule based on fair and accurate actuarial calculations.

Background on Prefunding

The Postal Accountability and Enhancement Act of 2006 established the Postal Service Retirees Health Benefit Fund (PSRHBF) by calling on OPM to calculate the "postal" surplus in the Civil Service Retirement System and to transfer it to the PSRHBF in 2007. The law also dictated 10 annual payments into the Fund averaging \$5.5 billion each between 2007 and 2016, also based on OPM calculations.

In establishing the Fund and setting the payment schedule, Congress sought to minimize the "budget score" of the legislation and re-

lied on the OPM estimates of the value of the CSRS surplus and the cost of future retiree health benefit liabilities. A study conducted by the USPS Office of Inspector General shows that OPM underestimated the size of the postal CSRS pension surplus by roughly \$75 billion.¹ Furthermore, the Postal Regulatory Commission has found that OPM's health care inflation assumptions are overstated.² As a result of these calculations, the Postal Service has been saddled with an unaffordable prefunding schedule that threatens its future viability.

A Fair Calculation of the Postal CSRS Surplus

In 2003, OPM made the initial determination of the postal pension surplus in order to implement a CSRS funding reform law (P.L. 108-18). This process, which was repeated in 2007 under the PAEA (with the Treasury taking responsibility for CSRS military benefits), required the OPM to allocate the cost of CSRS benefits earned by postal employees between the Treasury (taxpayers) and the Postal Service (ratepayers) for all workers who performed service before and after July 1, 1971. That was the day the Post Office Department (POD) was reorganized and became the U.S. Postal Service, an independent agency of the government separate from other cabinet agencies. Unfortunately, OPM shifted much of the cost of CSRS benefits earned by POD employees to the Postal Service by making the USPS responsible for any and all increases in the value of benefits accrued for POD service due to wage increases after July 1, 1971. Any fair calculation of benefits accrued before postal reorganization in 1971 should have included some recognition of normal wage increases in the future, since CSRS benefits are based on end-of-career earnings. Instead, OPM froze the value of accrued benefits at July 1, 1971, pay levels—effectively shifting much of the cost of pre-reorganization service to the Postal Service. The OPM also failed to recognize that the CSRS benefit formula is back-

¹ Postal OIG study, "The Postal Service's Share of CSRS Pension Responsibility". 20 Jan. 2010. http://www.uspsoig.gov/foia_files/RARC-WP-10-001.pdf

² Postal Regulatory Commission study, 30 July 2009. http://www.prc.gov/Docs/63/63987/Retiree%20Health%20Fund%20Study_109.pdf

loaded and unfairly assigned the low-cost early years to the POD and the high cost later years to the Postal Service.

By overstating the Postal Service's liability for CSRS benefits, the OPM understated the value of the postal surplus in the CSRS by as much as \$75 billion, according to a review by the OIG. As a result, the Postal Service was short-changed when the surplus was transferred to the PSRHB in 2007. Under OPM's method, the fund was credited \$17 billion. Using the more fair and accurate method advanced by the OIG, however, the postal surplus may have exceeded \$80 billion, more than enough to cover all of the Postal Service's future retiree health liability.

Adjusting the OPM's Health Inflation Rate

The OPM has also inflated the cost of the Postal Service's prefunding payments by assuming an extremely high rate of long-term health care inflation—some 7 percent annually for 75 years. Most Fortune 1000 companies use a 5 percent long-term rate, while Medicare and Medicaid assume costs will rise by 6.25 percent annually. Both the Inspector General and the PRC have concluded that more accurate inflation assumptions could reduce or eliminate the Postal Service's PAEA-required payments. The OIG's report concluded that “[t]he

Postal Service could pay an average of \$4 billion less each year from FYs 2009-2016 to prefund its retiree health benefits and still achieve the same level of prefunding [80%] anticipated under OPM assumptions.”

The current long-term cost assumption is inaccurate and places an unfair burden on the Postal Service, its employees and ratepayers. It must be adjusted to more accurately reflect the reality of the Postal Service's future obligations.

Eliminating Saturday Delivery Not the Answer

Correcting OPM's actuarial calculations involving the CSRS postal surplus and the long-term cost inflation rate would significantly reduce the \$5.5 billion prefunding payments mandated by the Postal Accountability and Enhancement Act of 2006. It would also strengthen the financial stability and future viability of the Postal Service.

Adopting a more accurate and affordable prefunding schedule should be given the highest priority in any postal reform legislation considered during the remainder of the 111th Congress. This step should certainly be taken before Congress considers more radical measures such as the elimination of Saturday delivery.