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U.S. Postal Service Retiree Health Benefits and Pension Funding Issues

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Summary

Congress designed the U.S. Postal Service (USPS) to be a self-supporting government agency. Since 1971, the agency has not relied upon annual appropriations to cover its operating costs. Rather, USPS has funded its operations mostly through the sales of postage and postal products and services.

Since FY2007, however, the agency has run more than $40 billion in deficits and has reached its statutory borrowing limit ($15 billion). The agency does receive an annual appropriation of approximately $90 million per year, which amounts to about 0.1% of USPS's $65 billion operating budget.

USPS's troubled financial condition has raised concerns about the viability of the agency. Many postal reform bills were introduced in the 113th and 112th Congresses. These bills proposed altering many aspects of postal operations, from raising mailing rates to reducing delivery days and closing USPS post offices and mail sorting facilities.

Postal reform bills also have proposed altering funding policies for USPS's retiree healthcare and pensions. Alterations to these policies could significantly affect USPS's financial condition. In FY2013, prefunding USPS's retiree health benefits cost the agency $5.6 billion and funding its pensions cost $5.7 billion. These costs constituted 15.7% of the agency's operating expenses.

USPS employees are covered by the same retirement plans as most other civilian federal employees: the Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS). In addition, USPS retirees (and employees) participate in the Federal Employees Health Benefits Program (FEHBP). Since FY2007, USPS has been required by law to prefund its current employees' future retirement health benefits at a cost of more than $5 billion per year. USPS has lacked sufficient cash to make all of these payments.

A number of bills were introduced in the 113th Congress to improve USPS's financial condition by altering current pension and retiree health benefits funding policies. Bills carrying provisions to alter the funding of USPS retiree health benefits included H.R. 630, H.R. 2690, H.R. 2748, and S. 1486. USPS pension funding legislation included H.R. 630, H.R. 961, H.R. 2690, H.R. 2748, S. 316, and S. 1486.

The aforementioned USPS retiree health benefits bills would reduce the Postal Service's annual operating expenses by abolishing or reworking the current statutory prefunding schedule; moving some USPS retirees on to Medicare; or lowering the target for prefunding from the current 100% funding requirement to 80% of the estimated total liability.

USPS pension-related bills aim to aid the Postal Service's financial condition by either changing the costs allocation between the Postal Service and the federal government in the funding of USPS's CSRS benefits or recalculating USPS's FERS costs. In both instances, the legislation would refund sums from the federal government to USPS.

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Background

In 1971, Congress established the U.S. Postal Service (USPS) and mandated that it operate as a self-supporting, wholly governmental entity.[1] Previously, the federal government provided postal services via the U.S. Post Office Department (USPOD), a federal agency that was financially dependent upon annual appropriations from Congress. Members of Congress were involved in many aspects of the USPOD's operations, including the selection of managers (e.g., postmasters) and the pricing of postal services.

In 1971, Congress passed the Postal Reorganization Act (PRA; P.L. 91-375), which replaced USPOD with USPS—an "independent establishment of the executive branch."[2] The PRA designed USPS to be a marketized government agency, that is, an agency that would cover its operating costs with revenues generated through the sales of postage and related products and services.[3] Although USPS does receive an annual appropriation, the agency does not rely on appropriations. Its appropriation is approximately $90 million per year, about 0.1% of USPS's $65 billion operating budget.[4] Congress provides this appropriation to compensate USPS for the revenue it forgoes in providing, at congressional direction, free mailing privileges to blind persons and overseas voters. Otherwise, USPS by law is directed to cover the costs of its operations from revenues deposited in the Postal Service Fund, a revolving account at the U.S. Treasury. Thus, USPS's operational costs are to be borne not by the public as a whole, but by ratepayers (i.e., those individuals and organizations who purchase postage).

USPS employees are covered by, and may be eligible for, benefits under the same two pension plans that cover nearly all civilian federal workers: the Civil Service Retirement System (CSRS) for employees first hired before 1984 and the Federal Employees' Retirement System (FERS) for employees first hired in 1984 or later.[5] In addition, by law, USPS retirees (and employees) may participate in the Federal Employees Health Benefits Program (FEHBP).[6]

USPS's recent deficits—$40 billion since FY2007—have prompted much discussion over possible reforms to the agency and its operations.[7] USPS's retiree health benefits and pension funding policies have been part of this discussion, in part because they represent significant costs

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[1] USPS often is mischaracterized as a quasi-governmental or private entity. It is neither. USPS is a government agency that was created by Congress to achieve various public purposes. Federal law defines what products and services the Postal Service may offer. Additionally, USPS's employees are federal employees who participate in the Civil Service Retirement System (CSRS), the Federal Employees Retirement System (FERS), and the Federal Employees Health Benefits Program (FEHBP). On quasi-governmental entities, which have both governmental and private-sector attributes, see CRS Report RL30533, *The Quasi Government: Hybrid Organizations with Both Government and Private Sector Legal Characteristics*, by Kevin R. Kosar.

[2] PRA; P.L. 91-375; 84 Stat. 725; and 39 U.S.C. §201.

[3] The term *marketized* refers to a government agency structured to provide goods and services in the manner of a private firm. On marketization as an alternative to privatization, see CRS Report RL33777, *Privatization and the Federal Government: An Introduction*, by Kevin R. Kosar.

[4] For further details on USPS's appropriations, see CRS Report R42730, *Financial Services and General Government: FY2013 Appropriations*, coordinated by Garrett Hatch.

[5] 5 U.S.C. §8331 (CSRS) and 5 U.S.C. §8401 (FERS). For details on CSRS and FERS, see CRS Report 98-810, *Federal Employees' Retirement System: Benefits and Financing*, by Katelin P. Isaacs.

[6] 5 U.S.C. §8901(1)(A) and 5 U.S.C. §2105(e). For details on FEHBP, see CRS Report RS21974, *Federal Employees Health Benefits Program (FEHBP): Available Health Insurance Options*, by Annie L. Mach and Ada S. Cornell.

[7] See CRS Report R43162, *The U.S. Postal Service's Financial Condition: A Primer*, by Daniel J. Richardson.

to the agency. In FY2013, prefunding USPS's retiree health benefits cost the agency $5.6 billion and funding its pensions cost $5.7 billion.[8] This amounted to 15.7% of USPS's $72.1 billion operating expenses.

In addition, there are concerns over the possible negative ramifications on postal retirees and the public were USPS to insufficiently fund its retirees' health benefits or pensions. For example, the Office of Personnel Management (OPM) reports that the U.S. Treasury (and, therefore, taxpayers) would be liable for any USPS shortfalls in funding its pensions.[9]

Recent USPS Retiree Health Benefits Funding Issues[10]

Since FY2007, USPS has been required to prefund its current employees' future retirement benefits. This policy was included in an omnibus postal reform law, the Postal Accountability and Enhancement Act (PAEA; P.L. 109-435, enacted in December 2006).[11] This prefunding policy has become contentious since USPS began posting multi-billion dollar financial losses in FY2007 and missing prepayments.[12]

The debates concerning retiree health benefits prefunding have centered on both the principle of prefunding and the PAEA's execution thereof. Hence, some in Congress have advocated abolishing the prefunding requirement entirely. Others in Congress have proposed various ways to revise the PAEA's funding schedule so as to continue prefunding but to alleviate USPS's costs in the short term.

The PAEA Prefunding Requirement

Prior to the enactment of the PAEA, USPS funded its share of retiree health premiums on a pay-as-you-go basis. Put in simple terms, formerly USPS annually tabulated the number of retirees and then paid its portion of the health premiums due for those retirees. (USPS retirees also pay a portion of their health premiums.)[13]

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8 U.S. Postal Service, "2013 Report on Form 10-K," November 15, 2013, pp.27-28, at http://about.usps.com/who-we-are/financials/10k-reports/fy2013.pdf.

9 See Office of Personnel Management Office of the Inspector General, "A Study of the Risks and Consequences of the USPS OIG's Proposals to Change USPS's Funding of Retiree Benefits: Shifting Costs from USPS Ratepayers to Taxpayers," February 2011, p. ii, at http://archive.opm.gov/oig/OPM_OIG_Study_of_USPS_OIG_Proposals%20Feb%2028%202011.pdf.

10 This section was written by Kevin R. Kosar, analyst in American National Government. Readers with questions about this section's subject matter may contact Kirstin B. Blom.

11 P.L. 109-435, §803; 120 Stat. 3251-3252; 5 U.S.C §8909(d)(3)(A).

12 On USPS's losses, see CRS Report R43162, *The U.S. Postal Service's Financial Condition: A Primer*, by Daniel J. Richardson.

13 USPS contributes to annuitants' premiums according to the formula set in statute at 5 U.S.C. §8906.

The PAEA required USPS to continue contributing to current retirees' benefits from the Postal Service Fund each year. The law also obliged USPS annually to set aside funds for the future retiree health benefits of current employees.[14]

Specifically, the PAEA created a 50-year payment schedule,[15] which includes 10 years of statutorily prescribed prefunding payments (FY2007-FY2016) into the Postal Service Retiree Health Benefits Fund (RHBF).[16] **Table 1** depicts the statutorily prescribed prepayments.[17]

Table 1. USPS Future Retiree Health Benefits Payment Schedule

Fiscal Year	Payment Due Per PAEA (billions)	Status of Payment
2007	$5.4	Paid in full
2008	$5.6	Paid in full
2009	$5.4	$1.4 billion paid[a]
2010	$5.5	Paid in full
2011	$5.5	No payment[b]
2012	$5.6	No payment
2013	$5.6	No payment
2014	$5.7	Due September 30, 2014
2015	$5.7	Due September 30, 2015
2016	$5.8	Due September 30, 2016

Source: Postal Accountability and Enhancement Act (P.L. 109-435, §803; 120 Stat. 3251-3252; 5 U.S.C §8909(d)(3)(A)) and USPS *Annual Reports*.

[14] In accountancy terms, PAEA requires USPS to pay annually a portion of the present value of future retiree health benefits of current employees. Thus, PAEA moved USPS from "cash accounting" to "accrual accounting." On these two approaches and their use for accounting for post-retirement benefits, see Financial Accounting Standards Board, "Summary of Statement No. 106," December 1990, at http://www.fasb.org/st/summary/stsum106.shtml. See also David M. Walker, Comptroller General, U.S. General Accounting Office, "U.S. Postal Service: Accounting for Postretirement Benefits," GAO-02-916-R, September 12, 2002, at http://www.gao.gov/assets/100/91503.pdf.

[15] The Congressional Research Service's (CRS's) review of the legislative history of PAEA did not reveal the reason(s) Congress chose to set the annual payment levels for FY2007-FY2016 as it did, or why it enacted a 50-year payment period. The Government Accountability Office (GAO) has stated, "The retiree health benefits payment schedule established under PAEA was significantly frontloaded, with total payment requirements through fiscal year 2016 that were significantly in excess of what actuarially determined amounts would be." U.S. Government Accountability Office, "U.S. Postal Service: Health and Pension Benefits Proposals Involve Trade-offs," GAO-13-872T, September 26, 2013, p. 4, at http://www.gao.gov/assets/660/658176.pdf.

[16] GAO has noted, "Contrary to statements made by some employee groups and other stakeholders, [the] PAEA did not require USPS to prefund 75 years of retiree health benefits over a 10-year period. Rather, pursuant to OPM's methodology, such payments would be projected to fund the liability over a period in excess of 50 years, from 2007 through 2056 and beyond (with rolling 15-year amortization periods after 2041)." U.S. Government Accountability Office, "U.S. Postal Service: Status, Financial Outlook, and Alternative Approaches to Fund Retiree Health Benefits," GAO-13-112, December 2012, p. 7, at http://www.gao.gov/assets/660/650511.pdf.

[17] PAEA established the Postal Service Retiree Health Benefits Fund (RHBF), an on-budget account in the U.S. Treasury. RHBF is separate from the Postal Service Fund, an off-budget account USPS uses for most of its financial transactions. For further background on the Postal Service Fund, see CRS Report RS20350, *Off-Budget Status of Federal Entities: Background and Current Proposals*, by Bill Heniff Jr.; and Office of Management and Budget, *Budget of the U.S. Government Fiscal Year 2014*, Appendix (Washington: GPO, 2013), pp. 1300-1301, at http://www.whitehouse.gov/sites/default/files/omb/budget/fy2014/assets/oia.pdf.

a. Congress reduced the FY2009 payment amount from $5.4 billion to $1.4 billion (P.L. 111-68, §164).

b. Congress delayed the FY2011 payment due date to October 4, 2011 (P.L. 112-33, §124), November 18, 2011 (P.L. 112-36, §124), December 16, 2011 (P.L. 112-55, §101), and then August 1, 2012 (H.Rept. 112-331, §632).

In FY2017, the statutorily prescribed payment amounts conclude. Between FY2017 and FY2056, however, USPS would continue to make annual payments to RHBF. The amount of these payments would be determined by OPM. Per PAEA, OPM is to compute on an annual basis, the size of current employees' future retiree healthcare benefit liability and the current RHBF balance and then to determine a schedule of annual payments to liquidate any outstanding liability by September 30, 2056.[18]

Disputes over Prefunding Future Retiree Health Benefits

Although enacted with little, if any, ostensible criticism, the PAEA's prefunding policy subsequently has become very contentious.[19]

The criticisms of prefunding include the following:

1. For 36 years (1970-2006), USPS paid its current retiree health benefits out of pocket without incident.
2. No other federal agency prefunds its current employees' future retirement health benefits, so it is unfair to require USPS to do so.[20]
3. Private-sector companies that prefund their future retiree health benefits do not typically fund 100% of the obligation.[21]
4. Prefunding was primarily a policy designed to contend with a budget scoring issue caused by USPS overfunding its pensions.[22]

[18] Prior to FY2017, USPS must pay for current retirees' health benefits from the Postal Service Fund. Beginning in FY2017, USPS is to pay these benefits from the Retiree Health Benefits Fund.

[19] Under a suspension of the rules, the House passed PAEA by a voice vote on December 8, 2006. The Senate passed PAEA without amendment by unanimous consent on December 9, 2006. The subject of prefunding has been examined by the 113th Congress. See U.S. Congress, House Oversight and Government Reform Committee, *A Path Forward on Postal Reform*, hearing, 113th Cong., 1st sess., July 13, 2013, at http://oversight.house.gov/hearing/a-path-forward-on-postal-reform/; and U.S. Congress, Senate Committee on Homeland Security and Governmental Affairs, *Outside the Box: Reforming and Renewing the Postal Service, Part II—Promoting a 21st Century Workforce*, hearing, 113th Cong., 1st sess., September 26, 2013, at http://www.hsgac.senate.gov/hearings/outside-the-box-reforming-and-renewing-the-postal-service-part-ii_-promoting-a-21st-century-workforce.

[20] See Cliff Guffey, President, American Postal Workers Union, AFL-CIO, written testimony, U.S. Congress, House Oversight and Government Reform Committee, *A Path Forward on Postal Reform*, hearing, 113th Cong., 1st sess., July 13, 2013, p. 1, at http://oversight.house.gov/wp-content/uploads/2013/07/Guffey-Testimony-Final.pdf. Note: The Department of Defense (DOD) prefunds its TRICARE for Life retiree healthcare program. See DOD, "FY2013 Medicare Eligible Retiree Healthcare Fund Audited Financial Statements," December 9, 2012, at http://comptroller.defense.gov/cfs/fy2013/12_Medicare_Eligible_Retiree_Health_Care_Fund/Fiscal_Year_2013_Medicare_Eligible_Retiree_Health_Care_Fund_Financial_Statements_and_Notes.pdf. On TRICARE generally, see CRS Report RL33537, *Military Medical Care: Questions and Answers*, by Don J. Jansen.

[21] Ibid.

[22] Steve Hutkins, "How the Postal Service Began Prefunding Retiree Health Care and Fell into a Deep Hole," SavethePostOffice.com, January 2, 2013, at http://www.savethepostoffice.com/how-postal-service-began-prefunding-retiree-health-care-and-fell-deep-hole; and David Morris, "How Phantom Accounting Is Destroying the Post Office," HuffingtonPost.com, May 25, 2012, at http://www.huffingtonpost.com/david-morris/usps-budget_b_1545430.html.

5. Prefunding is financially harming USPS—it is draining USPS's cash, and it has had a significant role in producing the agency's recent deficits.[23]

Arguments advanced in favor of prefunding include the following:

1. The pay-as-you-go approach creates an inaccurate depiction of USPS's financial health. "Because the Service was ignoring a very expensive fringe benefit in its income statement, its reported costs were artificially low and its reported income artificially high."[24]
2. The pay-as-you-go approach is inequitable in that "current [postage] ratepayers are not paying for the full costs of the services they are receiving." Instead, a portion of current employees' compensation costs will be paid by future mailers.[25]
3. "Based on known demographic trends, the Service's share of its retirees' health insurance premiums is expected to continue rising until about 2040. Under the Service's existing accounting and rate-setting methods, more significant and frequent rate hikes are likely to be needed for future ratepayers to cover the costs of benefits that are being earned by current employees."[26]
4. Prefunding future retirement benefits provides compensation security for current employees.[27]
5. Prefunding future retiree health benefits protects U.S. taxpayers from a possible bailout should USPS health benefits costs exceed USPS's cash on hand.[28]

Beyond these debates, two additional issues have arisen with the PAEA prefunding policy as enacted. First USPS has not had sufficient cash to meet the current statutory RHBF payment schedule. Second there have been actuarial disputes over the size of USPS's future retiree health benefits liability and, by implication, the size of the annual FY2007-FY2016 RHBF required payments.

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[23] National Association of Letter Carriers (NALC), "Congressional Mandates and the Great Recession Have Caused the Postal Service's Recent Financial Challenges," fact sheet, February 28, 2013, at http://www.nalc.org/government-affairs/body/USPS_financial_challenges_02-2013.pdf. Between FY2007 and FY2012, USPS paid $14.9 billion into RHBF and transferred an additional $3 billion from an escrow account. For further details, see CRS Report R43162, *The U.S. Postal Service's Financial Condition: A Primer*, by Daniel J. Richardson.

[24] Michael Schuyler, "Why The U.S. Postal Service Is In Greater Financial Trouble Than Most Foreign Posts—The Role of Postal Retiree Health Care Benefits," Institute for Research on the Economics of Taxation, Advisory No. 283, April 11, 2012, p. 3.

[25] GAO, "U.S. Postal Service: Key Postal Transformation Issues," GAO-03-812T, May 29, 2003, p. 22, at http://www.gao.gov/assets/120/110008.pdf.

[26] GAO, "U.S. Postal Service: Bold Action Needed to Continue Progress on Postal Transformation," GAO-04-108T, November 5, 2003, p. 3, at http://www.gpo.gov/fdsys/pkg/GAOREPORTS-GAO-04-108T/pdf/GAOREPORTS-GAO-04-108T.pdf.

[27] Shortly after PAEA was enacted, USPS's chief financial officer declared, "[Prefunding] is a farsighted and responsible action that places the Postal Service in the vanguard of both the public and private sectors in providing future security for its employees, and augurs well for our long-term financial stability upon successful completion of the payments." U.S. Postal Service, "Annual Report 2007," p. 13, at http://about.usps.com/who-we-are/financials/annual-reports/fy2007.pdf.

[28] U.S. Congress, House Committee on Oversight and Government Reform, majority, "Why the 'Postal Overpayment' Is Really a Taxpayer-Funded Bailout," 112th Cong., at http://postal.oversight.house.gov/postal_surplus.html.

USPS's Difficulties in Meeting the RHBF Payment Schedule

While the principle of prefunding continues to be debated, a more recent concern is the practicality of the FY2007-FY2016 payment schedule. In short, although the law states USPS must pay more than $5 billion per year through FY2017, the agency has not had sufficient cash to make all these payments.[29]

Between FY2007 and FY2012, USPS's financial condition eroded considerably. Mail volume fell 25.1%, from 212 billion pieces to 159 billion pieces.[30] USPS's revenue declined 12.8%, from $74.8 billion to $65.2 billion. The agency's debt grew from $4.2 billion (FY2007) to $15 billion, the maximum amount permitted by statute.[31] The fall in revenues combined with the FY2007 and FY2008 RHBF payments have drained the agency's cash supply.

USPS's difficulties in meeting the RHBF payment schedule date from FY2009, when Congress reduced that year's payment owed from $5.4 billion to $1.4 billion. This relief helped USPS have sufficient cash on hand to make the FY2010 payment. Since then, however, the agency has defaulted on the FY2011, FY2012, and FY2013 RHBF payments.[32]

Disputes over the Size of USPS's RHBF Liability and Annual RHBF Payments

In FY2012, OPM calculated USPS's future retiree health benefits liability to be $93.6 billion.[33] OPM estimated USPS had funded $45.7 billion of this obligation, which leaves an unfunded obligation of $47.9 billion.

The estimation of healthcare costs requires making certain assumptions. Thus, USPS has noted,

> [b]ecause calculation of this [retiree health benefit] liability involves several areas of judgment, estimates of the liability could vary significantly depending on the assumptions used. Utilizing the same underlying data that was used in preparing the [above] estimate... the September 30, 2012, unfunded obligation could range from $35 billion to $63 billion, solely by varying the inflation rate by plus or minus 1%, and the 2011 unfunded obligation would range from $34 billion to $60 billion.[34]

The size of USPS's estimated health benefits obligation is consequential; it affects the agency's reported financial results because the Postal Service is expected to pay these obligations that are owed to retirees. The larger the obligation, generally, the larger the yearly USPS outlays that would need to be made to retire that obligation.[35]

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[29] As noted above, each year, USPS also must pay its share of the cost of its current retirees' health benefits premiums. USPS paid $2.9 billion for this expense in FY2013. U.S. Postal Service, "2013 Report on Form 10-K," p. 27.

[30] CRS Report R43162, *The U.S. Postal Service's Financial Condition: A Primer*, by Daniel J. Richardson.

[31] Ibid., pp. 8-9; and 39 U.S.C. §2005(a).

[32] U.S. Postal Service, "Quarter III, 2013 Report on Form 10-Q," p. 8, at https://about.usps.com/who-we-are/financials/financial-conditions-results-reports/fy2013-q3.pdf.

[33] U.S. Postal Service, "2012 Report on Form 10-K," p. 43, at http://about.usps.com/who-we-are/financials/10k-reports/fy2012.pdf.

[34] Ibid., p. 43.

[35] As noted earlier in this report, PAEA set fixed annual RHBF payment rates for FY2007-FY2016. After that time, the annual payment amounts are to be determined based upon OPM's calculation of USPS's total retiree health benefits obligation, which PAEA requires to be retired by FY2056.

Both the U.S. Postal Service Office of Inspector General (USPSOIG) and the Postal Regulatory Commission (PRC) have released studies arguing that the size of USPS's future retirees' health benefits obligation likely will be lower than OPM has estimated.[36] USPSOIG and PRC concluded that USPS could have paid $1.6 billion per year and $3.2 billion per year, respectively, between FY2007 and FY2016 to adequately fund its future retiree healthcare obligation. The differences between these estimates are due to the differing assumptions used. For example, OPM assumed healthcare costs would rise 7% per year, whereas USPSOIG assumed a rate of 5% per year. OPM assumed USPS's workforce size would stay the same size; PRC assumed USPS's employee cohort would become smaller due to downsizing.[37]

Recent Proposals for Changing the Prefunding Policy

In the 113th Congress, bills were introduced to change the current RHBF policy. These bills either proposed to eliminate the RHBF payment schedule or modify it to reduce the size of the annual payments. These bills included[38]

- The Postal Service Protection Act of 2013 (H.R. 630) and (S. 316), which would abolish the RHBF prefunding policy and RHBF payment schedule.[39]
- The Innovate to Deliver Act of 2013 (H.R. 2690), which would replace the current RHBF payment schedule with a new payment schedule. USPS would make no RHBF payments until 2016. The total liability would be amortized between 2016 and 2053. H.R. 2690 also would require USPS to fund 80% of its total liability (as opposed to the current 100% funding requirement).[40]
- The House version of the Postal Reform Act of 2013 (H.R. 2748), which would replace the current RHBF payment schedule with a new payment schedule. USPS would make no RHBF payments until 2016. The total liability would be amortized between 2016 and 2056. H.R. 2748 also would require USPS to fund 80% of its total liability (as opposed to the current 100% funding requirement).[41]

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[36] U.S. Postal Service Inspector General, *Final Management Advisory Report–Estimates of Postal Service Liability for Retiree Health Care Benefits* (Washington: USPSOIG, July 22, 2009), at http://www.uspsoig.gov/foia_files/ESS-MA-09-001R.pdf; and Postal Regulatory Commission, *Postal Regulatory Commission Review of Retiree Health Benefit Fund Liability as Calculated by Office of Personnel Management and U.S. Postal Service Office of Inspector General* (Washington: PRC, July 30, 2009), p. 22, at http://www.prc.gov/Docs/63/63987/Retiree%20Health%20Fund%20Study_109.pdf. See also written testimony of David C. Williams, Inspector General, U.S. Postal Service Office of Inspector General, in U.S. Congress, Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, *The U.S. Postal Service in Crisis*, 111th Cong., 1st sess., S. Hrg. 111-409 (Washington: GPO, 2010), pp. 83-87, at http://www.gpo.gov/fdsys/pkg/CHRG-111shrg53836/pdf/CHRG-111shrg53836.pdf.

[37] Postal Regulatory Commission, *Postal Regulatory Commission Review of Retiree Health Benefit Fund Liability as Calculated by Office of Personnel Management and U.S. Postal Service Office of Inspector General*, p. 3. Since FY2007, USPS's permanent workforce has become smaller, decreasing from approximately 685,000 to 491,000. U.S. Postal Service, "2013 Report on Form 10-K," p.29.

[38] This list is intended to be representative of the approaches considered by the 113th Congress, and not an exhaustive list of legislation introduced.

[39] Introduced by Rep. DeFazio on April 8, 2013, and introduced by Sen. Sanders on February 13, 2013, respectively.

[40] Introduced by Rep. Cummings on July 16, 2013. Rep. Cummings is the ranking Member of the House Oversight and Government Reform Committee, which has jurisdiction over postal issues.

[41] Introduced by Rep. Issa on July 19, 2013, and reported by the House Oversight and Government Reform Committee on July 24, 2013. Rep. Issa is the chairman of the House Oversight and Government Reform Committee.

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- The Senate version of the Postal Reform Act of 2013 (S. 1486), which would replace the current RHBF payment schedule with a new payment schedule. USPS would make no RHBF payments until 2016. The total liability would be amortized between 2016 and 2052. S. 1486 also would attempt to reduce USPS's long-term retiree health benefits costs by moving some USPS retirees onto Medicare and authorizing USPS to opt its employees (and future retirees) out of the FEHBP and into a new health insurance program.[42] Finally, the bill aims to further reduce USPS's prefunding costs by requiring USPS to fund 80% of its total liability (as opposed to the current 100% funding requirement).

Recent USPS Pension Funding Issues[43]

Recent policy debate has focused on two issues related to the funding of retirement benefits for USPS employees. First, the allocation of costs between USPS and the federal government in the funding of USPS benefits under CSRS has been debated. Second, the issue of a surplus or "overpayment" made by USPS on behalf of its FERS employees has been identified; although amendments to current law would be required to refund any payments to USPS.

USPS CSRS Funding: Allocation of Costs

CSRS provides pension benefits to eligible USPS employees and other federal employees first hired prior to 1984.[44] When the Postal Reorganization Act (PRA; P.L. 91-375) created USPS in 1971, the law resulted in a situation in which some USPS employees performed service under CSRS as employees of both (1) the old USPOD and (2) the newly created USPS. The required CSRS employer contributions USPS made on behalf of its CSRS employees are no different than the employer contributions made by other federal agencies; however, it was not immediately clear how the funding of CSRS benefits for employees with service under both USPOD and USPS should be assigned. The PRA did not specifically allocate responsibility for the costs of CSRS benefits for these individuals between USPS and the federal government.

In 1974, P.L. 93-349 required that responsibility for the costs of CSRS retirement benefits due to pay increases granted by USPS (i.e., pay increases after July 1, 1971) be transferred to USPS from the federal government.[45] Subsequently, the Postal Civil Service Retirement System Funding Reform Act of 2003 (P.L. 108-18), made USPS liable for the full dynamic normal cost of all CSRS benefits attributable to post-1971 service.[46] In 2006, PAEA (P.L. 109-435) made

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[42] Introduced by Sen. Carper on August 1, 2013. Senator is the chairman of the Senate Homeland Security and Governmental Affairs Committee, which has jurisdiction over postal issues. S. 1486 is co-sponsored by Sen. Coburn, who is the ranking Member.

[43] This section was written by Katelin P. Isaacs, analyst in Income Security.

[44] For additional background on CSRS, including eligibility requirements and benefit calculations, see CRS Report 98-810, *Federal Employees' Retirement System: Benefits and Financing*, by Katelin P. Isaacs.

[45] 88 Stat. 354. CSRS benefit calculations are based, in part, on a measure of pay: "high-three" pay, which is defined as the highest three consecutive years of basic pay (5 U.S.C. §8331(4)). Because salary tends to rise across the course of a career, for most USPS employees and other federal employees, the most recent three years of service will produce the high-three pay measure. For more details on CSRS benefits, see CRS Report 98-810, *Federal Employees' Retirement System: Benefits and Financing*, by Katelin P. Isaacs.

[46] 117 Stat. 624. Actuaries use the term *dynamic normal cost* to refer to the amount, expressed as a percentage of payroll, that must be set aside each year to fund pension benefits for workers who will continue to accrue new benefits, (continued...)

additional changes to the methodology used by OPM in determining a USPS funding surplus or liability for CSRS benefits.

Under current law, OPM calculates the pay and benefits accrued for CSRS employees under USPOD separately from the pay and benefits accrued under USPS. The federal government is responsible for the costs of the former service, whereas USPS is responsible for the costs of the latter service. For example, an employee with 15 years of USPOD service and 15 years of USPS service, his or her CSRS benefit would be financed by the federal government based on the pay and the 15 years of service prior to 1971 and by USPS based on final pay and the 15 years of service beginning in 1971. Because pay generally rises as job tenure increases (and P.L. 93-349 required USPS to finance the retirement costs of any pay increases beginning in 1971), the pay measure used to calculate the federal government's share of the CSRS benefit cost in this example is lower than the pay measure used to calculate USPS's share of the benefit cost. Thus, in this example, USPS would finance a larger portion of the CSRS benefit cost than the federal government.

Two agencies with USPS oversight or auditing functions have asserted that OPM's current method of allocating the costs of CSRS benefits for employees with service under both USPOD and USPS is incorrect. For instance, a January 2010 report issued by USPSOIG claimed that the allocation of CSRS pension costs for employees with service as USPOD and USPS employees should be directly proportional to the number of years spent employed by each agency.[47] That is, in the example above, the federal government should fund one-half of this individual's CSRS annuity and USPS should fund one-half of the retirement benefit.

A PRC June 2010 report maintained that final high-three pay rather than 1971 salary should be used in calculating the federal government's portion of these CSRS benefits.[48] As stated above, pay generally rises as job tenure increases; therefore, this method of calculation would increase the pay measure used to calculate the federal government's liability, thereby shifting the cost of CSRS benefits from USPS to the federal government for individuals with service under both USPOD and USPS. In the example used above, the federal government would fund the first 15 years of service at a benefit accrual percentage of 26.25% and USPS would fund the next 15 years of service at a 30.00% benefit accrual percentage—both at the same high-three final pay.[49]

According to the Office of Personnel Management Office of Inspector General (OPMOIG) recent analyses, however, neither the Postal Civil Service Retirement System Funding Reform Act of

(...continued)

including the effects of employee pay raises, post-retirement COLAs, and changes in the rate of interest.

[47] United States Postal Service, Office of Inspector General, *The Postal Service's Share of CSRS Pension Responsibility*, RARC-WP-10-001, January 20, 2010, at http://www.uspsoig.gov/sites/default/files/document-library-files/2013/RARC-WP-10-001.pdf.

[48] Postal Regulatory Commission, *Report to the Postal Regulatory Commission on: Civil Service Retirement System Cost and Benefit Allocation Principles*, by the Segal Group, Inc., June 29, 2010, at http://www.prc.gov/Docs/68/68679/Report%20on%20CSRS%20Cost%20and%20Benefit%20Allocation%20Principles_1126.pdf.

[49] The benefit accrual rate for CSRS annuities is 1.5% for the first five years of service; 1.75% for 6 years through 10 years; and 2.0% for 11 or more years. For a more detailed illustration of the alternative methods of allocating CSRS benefits costs between the federal government and USPS under the PRC and USPSOIG proposals, see Table 3 in U.S. Government Accountability Office, *U.S. Postal Service: Allocation of Responsibility for Pension Benefits between the Postal Service and the Federal Government*, GAO-12-146, October 2011, pp. 6-7, at http://www.gao.gov/assets/590/585739.pdf.

2003 (P.L. 108-18) nor PAEA changed the fundamental allocation of costs for increased CSRS benefits due to post-1971 salary increases between USPS and the federal government as set out under P.L. 93-349.[50]

In addition, in a December 2011 analysis of this issue, the U.S. Government Accountability Office (GAO) concluded,

> OPM has carried out this requirement [under P.L. 93-349] by calculating the retirement costs for pre-1971 service (those that the federal government is responsible for) based on the employee's credited service and rate of basic pay on June 30, 1971, the last day the [US]POD was in existence. In our view, the 2003 and 2006 Acts did not change the fundamental allocation made by the 1974 Act and thus OPM's current methodology continues to be consistent with law.[51]

Because past laws have set out the current method of allocation—P.L. 93-349; P.L. 108-18; and PAEA—any reallocation of costs for USPS CSRS employees with service under both USPOD and USPS would require changes to law. Absent a reduction in the cost of financing CSRS pensions, a reduction in the proportion of CSRS pension costs allocated to USPS—as under the USPSOIG and PRC reports—would increase the current unfunded liability of the Civil Service Retirement and the Disability Fund (CSRDF), the federal trust fund that finances CSRS and FERS benefits. This reallocation of CSRS costs would also result in an equal increase in CSRS pension expenses borne by the U.S. Treasury.

USPS FERS Funding: Overpayment

FERS covers most of the civilian federal workforce, including USPS employees, first hired in 1984 and later.[52] FERS is required to be fully funded under 5 U.S.C. §8423. By law, the FERS retirement benefit must be prefunded according to its dynamic normal cost. The dynamic normal cost of a pension represents the amount of funds that must be set aside annually to fully fund benefits for workers who will continue to accrue new benefits, including the effects of employee pay raises, post-retirement cost-of-living adjustments (COLAs), and changes in the rate of interest.

Federal agencies and USPS are required to make FERS contributions at a rate that is the dynamic normal cost of FERS minus required employee contributions. Currently, for regular FERS employees,[53] agencies and USPS contribute 11.9% of pay for FERS employees first hired before 2013 and 9.6% of pay for FERS employees first hired after 2012.[54]

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[50] Office of Personnel Management Office of Inspector General, "A Study of the Risks and Consequences of the USPS OIG's Proposals to Change USPS's Funding of Retiree Benefits."

[51] GAO, *U.S. Postal Service: Allocation of Responsibility for Pension Benefits between the Postal Service and the Federal Government*, GAO-12-146, October 2011, pp. 6-7, at http://www.gao.gov/assets/590/585739.pdf.

[52] For additional background on FERS, including eligibility requirements and benefit calculations, see CRS Report 98-810, *Federal Employees' Retirement System: Benefits and Financing*, by Katelin P. Isaacs.

[53] "Regular" FERS employees are individuals that are not "special category" employees, such as Members of Congress, congressional employees, or federal law enforcement officers.

[54] The decreased agency contributions and increased employee contributions for employees hired after 2012 were enacted under P.L. 112-96.

USPS maintains that it has made an overpayment of agency contributions on behalf of its FERS employees. OPMOIG agrees that USPS has made this overpayment; it also notes that a statute would need to be enacted to authorize OPM to refund the money.[55] GAO has also concurred with this assessment.[56]

In general, USPS's FERS overpayment is a result of the significantly different composition of USPS's FERS workforce compared with FERS employees in the rest of the federal workforce. That is, the dynamic normal cost of FERS benefits for USPS employees is less than the dynamic normal cost of FERS benefits for FERS employees in the rest of the federal workforce. Currently, OPM uses the same demographic assumptions to calculate the dynamic normal costs for all FERS employees—without distinguishing between the characteristics of USPS and non-USPS employees. Current OPM estimates using the same demographic assumptions for all FERS employees, including USPS employees, yield a USPS FERS overpayment of about $3 billion as of FY2012:

> According to the most recent actuarial estimate received from OPM, the Postal Service had overfunded its FERS obligations by $2.6 billion at September 30, 2011, the latest actual data available. The reduction in the estimated surplus from amounts previously reported resulted primarily from changes to government-wide economic and demographic assumptions made by OPM, as well as actual fiscal year 2011 experience. OPM's most recent calculation shows that the FERS surplus was projected to grow to approximately $3.0 billion by September 30, 2012. The Office of Inspector General has reported that if Postal Service specific assumptions and demographics are used to calculate the FERS liability, rather than government-wide averages, the overfunding amount would be substantially greater.[57]

USPSOIG claims that an even larger USPS FERS overpayment would result from the use of USPS-specific demographic assumptions. According to a USPSOIG report released in September 2013,[58] using USPS-specific demographic assumptions, rather than average demographic assumptions for all FERS employees, would yield a USPS FERS overpayment of $12.5 billion for FY2012, which is $9.5 billion more than the surplus estimated by OPM using the same demographic assumptions for all FERS employees. USPSOIG's report notes the following USPS-specific demographic and other characteristics that lead to the larger USPS FERS overpayment for its employees:

- smaller pay increases;
- a more condensed pay scale;
- lower rates of service withdrawal and early retirement;
- higher rates of in-service mortality and disability retirement; and
- smaller improvements in mortality for males.

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[55] Office of Personnel Management Office of Inspector General, "A Study of the Risks and Consequences of the USPS OIG's Proposals to Change USPS's Funding of Retiree Benefits," pp. 22-25.

[56] U.S. Government Accountability Office, *U.S. Postal Service: Allocation of Responsibility for Pension Benefits between the Postal Service and the Federal Government*, Appendix II.

[57] United State Postal Service, "Form 10-Q: Quarter III, 2013," p. 15.

[58] United States Postal Service, Office of Inspector General, *The Using U.S. Postal Service-Specific Assumptions for Calculating the Federal Employees Retirement System Liability*, FT-MA-13-024, September 27, 2013, at http://www.uspsoig.gov/sites/default/files/document-library-files/2013/ft-ma-13-024.pdf.

Proposals Related to USPS Pension Funding

Congress has considered a range of legislative proposals to address these two USPS pension funding issues. Four types of policy proposals were introduced in the 113th Congress. First, there was legislation that would change the allocation of costs for CSRS benefits for certain USPS employees. Second, several pieces of legislation in the 113th Congress proposed to refund the FERS overpayment to USPS. Third, there were proposals to alter the calculation of the costs of USPS FERS benefits. Finally, there was a proposal to provide non-FERS coverage for newly hired USPS employees. Examples of these proposals are described below. **Table 2** provides summary information on these proposals.

Table 2. Examples of USPS Pension Funding Legislation in the 113th Congress

Type of Proposal	Legislation Introduced
Proposals to Reallocate CSRS Costs	H.R. 630; S. 316
Proposals to Refund USPS FERS Overpayment	H.R. 630; S. 316; H.R. 961; H.R. 2690; H.R. 2748; S. 1486
Proposals to Change Calculation of USPS FERS Liabilities	H.R. 961; H.R. 2690; H.R. 2748; S. 1486
Proposals to Provide Non-FERS Coverage for New USPS Employees	S. 1486

Source: Compiled by the Congressional Research Service.

Proposals to Reallocate CSRS Costs

The House and Senate versions of the Postal Service Protection Act of 2013 (H.R. 630[59] and S. 316) both include a proposal to alter the allocation of costs of CSRS benefits for individuals with service under both USPOD and USPS.[60] H.R. 630 and S. 316 would require OPM to use final high-three pay rather than 1971 salary in calculating the federal government's portion of these CSRS benefits.[61] Any surplus created by this reallocation of CSRS costs would be transferred to the Postal Service Retiree Health Benefit Fund and the Postal Service Fund.[62]

Proposals to Refund USPS FERS Overpayment

Several proposals would provide USPS a refund of the FERS overpayment:

- The House version of the Postal Service Protection Act of 2013 (H.R. 630), would refund any USPS FERS overpayment for FY2010.[63]

[59] Introduced by Rep. DeFazio on February 13, 2013.

[60] See Section 101 in both H.R. 630 and S. 316.

[61] This proposal follows the recommendations made in the 2010 Postal Regulatory Commission report. See Postal Regulatory Commission, *Report to the Postal Regulatory Commission on: Civil Service Retirement System Cost and Benefit Allocation Principles*, by the Segal Group, Inc., June 29, 2010.

[62] The Postal Service Fund is authorized under Section 2003 of Title 39 of U.S. Code.

[63] H.R. 630, Section 103. The FERS overpayment fund would be transferred, at the request of USPS, to (1) the Postal Service Retiree Health Benefit Fund; (2) the Postal Service Fund (established by 39 U.S.C. §2003; (3) the Postal Service Employees' Compensation Fund (established by 5 U.S.C. §8147 to fund workers' compensation benefits for USPS employees); and (4) USPS to repay debt obligations under 39 U.S.C. §2005.

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- The Senate version Postal Service Protection Act of 2013 (S. 316), would refund any USPS FERS overpayment for FY2013.[64]
- The United States Postal Service Stabilization Act of 2013 (H.R. 961)[65] and the Innovate to Deliver Act of 2013 (H.R. 2690)[66] would refund any USPS FERS overpayment in any fiscal year that a surplus occurred.[67]
- The Postal Reform Act of 2013 (H.R. 2748)[68] would refund any USPS FERS overpayment in any fiscal year that a surplus occurred minus any USPS CSRS and other federal retirement liabilities.[69]
- The Postal Reform Act of 2013 (S. 1486) would refund any USPS FERS overpayment for FY2013 and future years.

Proposals to Change Calculation of USPS FERS Liabilities

The United States Postal Service Stabilization Act of 2013 (H.R. 961) and the Innovate to Deliver Act of 2013 (H.R. 2690) would require OPM to calculate the dynamic normal costs of USPS FERS benefits separately for USPS employees.[70]

The Postal Reform Act of 2013 (H.R. 2748) and the Postal Reform Act of 2013 (S. 1486) would require OPM to calculate a separate dynamic normal cost for USPS FERS benefits and use demographic and economic assumptions specific to USPS's workforce.[71]

Proposals to Provide Non-FERS Coverage for New USPS Employees

The Postal Reform Act of 2013 (S. 1486) would grant USPS authority to use collective bargaining to negotiate retirement benefits for new USPS employees.[72] That is, USPS employees hired after enactment of this bill may be covered by a collective bargaining agreement that provides retirement coverage under one or more new retirement benefit plans, not under FERS.[73]

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[64] S. 316, Section 103. The FERS overpayment fund would be transferred, at the request of USPS, in the same ways as by H.R. 630, Section 103. See footnote 63.

[65] Introduced by Rep. Lynch on March 5, 2013.

[66] Introduced by Rep. Cummings on July 16, 2013.

[67] H.R. 961, Section 3 and H.R. 2690, Section 202. Under these proposals, the FERS overpayment fund would be transferred to USPS in the first year that such a surplus is determined to repay debt obligations under 39 U.S.C. §2005. Any USPS FERS surplus in future fiscal years would be transferred to the CSRDF to fund USPS CSRS liabilities.

[68] Introduced by Rep. Issa on July 19, 2013.

[69] H.R. 2748, Section 501. Any USPS FERS overpayment refund would be transferred to the Postal Service Retiree Health Benefit Fund.

[70] H.R. 961, Section 2 and H.R. 2690, Section 201. These proposals do not specify that OPM would use USPS-specific demographic assumptions for this calculation—just that the dynamic normal costs of FERS benefits be calculated separately for USPS employees.

[71] H.R. 2748, Section 505 and S. 1486, Section 101. Both of these sections in H.R. 2748 and S. 1486 would also require OPM to redetermine a USPS liability or surplus for CSRS employees using demographic and economic assumptions specific to USPS's workforce.

[72] S. 1486, Section 102.

[73] This proposal would also authorize collective bargaining on the required retirement contributions for new USPS employees as well as whether USPS would make employer matching contribution to the Thrift Savings Plan (TSP) accounts of new employees (and if so, how much these employer matching contributions will be). For an overview of (continued...)

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the TSP, including current employer matching contributions for FERS employees, see CRS Report RL30387, *Federal Employees' Retirement System: The Role of the Thrift Savings Plan*, by Katelin P. Isaacs.