IRET *Congressional Advisory*

INSTITUTE FOR RESEARCH ON THE ECONOMICS OF TAXATION

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April 11, 2012 **Advisory No. 283**

Why The U.S. Postal Service Is In Greater Financial Trouble Than Most Foreign Posts — The Role of Postal Retiree Health Care Benefits

Executive Summary

Many foreign postal services are profitable, according to data from the Universal Postal Union (UPU). Those posts have adjusted successfully to the upheaval in the postal market caused by electronic diversion and the last recession. In contrast, the U.S. Postal Service has lost money throughout the years 2007-2011, and its losses are deepening.

This paper examines two major, separate retirement fringe benefits that USPS provides to its workers: pensions and retiree health care.

The Service's pensions are in very good financial shape. A few foreign posts have had trouble with underfunded pensions, but USPS actually enjoys a pension surplus: $13.1 billion at the end of 2011. The Service should be allowed to access that money — provided it is used to help finance needed reforms, not to delay them.

On the other hand, the generous retirement health benefits the Service promises to its workers and the high cost of paying for those benefits are one of the key reasons for USPS's poor financial performance compared to the majority of foreign postal services. The U.S. Postal Service is burdened with massive unfunded obligations for retiree health care: an estimated $46.2 billion at the end of 2011. The unfunded obligations gradually accumulated because, until 2006, the Service followed the pay-as-you-go approach, which means not funding promises when they are made but waiting until the bills later come due.

The Postal Accountability And Enhancement Act of 2006 (PAEA) established a front-loaded 10-year contribution schedule for reducing the unfunded retiree health care liability. Prefunding is just as sound a concept for USPS's expensive retiree health care promises as it is for pensions. The absence of prefunding would reduce transparency, be unfair to future mail users, and almost certainly lead to a taxpayer bailout.

Although the funding schedule appeared challenging when enacted, a frequently overlooked fact is that part of its cost was indirectly built into the postal rate base through allowances for the expense of an escrow account and a charge related to some employees' prior military service. PAEA repealed the escrow account and the military service charge, but the allowances for them are still embedded in the rate base.

Nevertheless, with plummeting mail demand due to the recession and accelerated electronic diversion, PAEA's contribution schedule has become unaffordable. A mid-course correct is needed. Prefunding should continue, but the contribution schedule should be stretched out.

Although the front-loaded contribution schedule has worsened USPS's near-term reported losses, the government enterprise would have incurred massive losses in 2009-2010 even if it had contributed nothing, and in 2011, when it had a one year reprieve and contributed nothing, it still ended the year $5.1 billion in the red.

Various parties are making radically different claims about how much funding is still required in order to put the Service's retiree health benefit on an actuarially sound basis in the long term. To clear the air, Congress may wish to ask the Government Accountability Office (GAO), with cooperation from the Office of Personnel Management (OPM), to prepare a report indicating what the Service's retiree health expenditures and unfunded liability would look like for the next several years, the medium term, and a generation or two hence under the pay-as-you-go approach and several alternative prefunding schedules.

USPS claims it could reduce its health care costs for active employees and retirees while simultaneously improving recipients' benefits if it established its own health care system. Although the goal of bending down the cost curve is laudable, the Service's plan poses numerous risks. A less radical approach that would save an estimated $700 million yearly would be for Congress to pass legislation that brings postal employees' life and health insurance contribution rates into line with those of other federal workers.

An earlier paper discussed another powerful drag on the U.S. Postal Service's financial viability: government micromanagement that deprives the Service of important cost control tools commonly relied on by foreign posts. Later papers will investigate two other possible factors: postal pricing and nonpostal diversification.

Why The U.S. Postal Service Is In Greater Financial Trouble Than Most Foreign Posts — The Role of Postal Retiree Health Care Benefits

An earlier IRET study looked at postal services in high- and medium-income countries that reported their financial results to the Universal Postal Union (UPU), an international postal organization.[1] The study found that, in each year during the period 2007-2010, the majority of posts were profitable, in spite of the challenges they confronted due to electronic diversion and the last recession.

In contrast, the U.S. Postal Service has been in the red in every year since 2007, and its losses are growing. Why is USPS in such terrible financial shape? A second paper examined one of the main reasons.[2] With plunging mail demand, especially for highly profitable first-class mail, the Postal Service needs to make major adjustments in its operations if it is to stay afloat financially. Unfortunately, Congressional restrictions, some embodied in law and some applied through political pressure, have denied it many of the basic cost-control tools that are common at postal services in other nations. Hence, while USPS is one of the world's great postal services in many respects, it is among the weakest in terms of its bottom line.

This paper considers another possible reason for USPS's financial troubles compared to foreign posts: the generous retiree health benefits it offers its workers and the high cost of paying for those benefits. The paper also looks at pensions, which are the other main fringe benefit the Service promises its workers in retirement. (Pensions and retiree health care are separate fringe benefits. Eligible postal workers receive both in retirement.)

Later studies will investigate whether differences in postal pricing and nonpostal diversification are other factors that partially explain USPS's red ink.

Postal pensions

One rarely hears about retirement benefits at foreign postal services unless serious problems develop. In the United Kingdom, for instance, a massive pension deficit at Royal Mail convinced the leadership of the previous Labour government that the enterprise needed to be bailed out and privatized, and the current coalition government has followed through by enacting legislation (the Postal Services Act 2011) that authorizes the bailout and begins moving toward privatization.[3] Another example is found in Nigeria, where some retired postal workers have staged protests alleging that they have not been paid their pension benefits in years.[4] A third example is from Germany, where the government decided in the 1990s that it wanted to privatize its national postal service, viewed pension obligations as a barrier, and agreed to assume partial responsibility for future pension payments. Since the mid-1990s, the German government has indirectly channeled billions of dollars from taxpayers to Deutsche Post by helping pay its pension bills.[5]

Fortunately, the U.S. Postal Service has adequately funded its pensions. Indeed, its pension funds are in surplus according to current projections: $1.7 billion for the Civil Service Retirement System (CSRS) and $11.4 billion for the Federal Employees Retirement System (FERS), both as of the end of fiscal year 2011.[6] (Postal workers hired before the mid-1980s are in the older CSRS pension system; most postal workers hired since then are in the newer FERS system.) Of further encouragement, the combined pension fund balance has improved dramatically in the last several years, from an estimated net deficit of -$0.4 billion at the end of 2009 to a projected net surplus of $13.1 billion at the end of 2011.[7]

There had been a dispute about whether the Postal Service had been overcharged for CSRS and was due a huge refund. The Postal Service and its Inspector General claimed it was owed a $50-$75 billion refund, while the Office of Personnel Management (OPM) and its Inspector General claimed no overcharge existed and, therefore, no refund was due.[8] In response to this extraordinary disagreement between government agencies and their Inspectors General, senior members of Congress on postal committees in both chambers and from both parties asked the Government Accountability Office (GAO) to provide guidance. GAO concluded that the Service's CSRS payments have been "consistent with applicable law" and, because USPS has not been overcharged, no refund is owed.[9] GAO also found that the Service's CSRS payments have not contributed to its red ink. "The cost of USPS's CSRS pension obligation has already been reflected in postal rates for most of the past four decades, so that USPS has already received payment for these costs by postal rate payers."[10] Unlike the supposed overpayment that the GAO study refutes, all parties agree on the $13.1 billion CSRS-FERS surplus.

A frequent suggestion in the postal community is that Congress permit USPS to draw on its FERS surplus to ease its financial problems. The proposal has merit, although it would be more reasonable to look at the combined pension balance (CSRS and FERS). Certainly, if a cash-starved postal service in a foreign country were sitting on a $13.1 billion pension surplus, it is almost inconceivable the foreign government would refuse to let its post access the surplus. Similarly, if a private-sector company were experiencing massive losses while its pension plan were more than 100% funded, it would draw down the excess pension funding in a heartbeat. Three appealing uses for USPS's pension surplus would be: funding buyouts to incentivize more workers to leave the agency (which could bring long-term savings far exceeding the short-term cost); paying for urgent capital investments related to market-dominant products (finding money to pay for competitive-product investments is less worrisome because the Service has $1.1 billion sitting in the Competitive Products Fund at the U.S. Treasury that it could use for that purpose[11]); and helping finance retiree health benefits. Congress should insist the money be used to help implement needed reforms, not as an excuse for postponing reforms for a year or two. However, provided that condition is met, Congress should let the Service's management decide exactly how to spend the money; Congress should not try to micromanage.

One caveat is that estimates are sometimes wrong. If Congress lets USPS withdraw the full $13.1 billion and the current estimate of the surplus later proves too optimistic, the Service's pensions would become slightly underfunded. Still, the risk is probably worth taking if the money is used as part of a reform package.

Retirement health benefits

In sharp contrast, a different retirement fringe benefit, retiree health care, suffers from a massive funding deficit. The retiree-health-care-funding deficiency and efforts to correct it, as well as the fringe benefit's underlying cost, account for a significant portion of USPS's recent deficits. They are among the chief reasons why USPS is in much deeper financial trouble than most foreign posts.

Before enactment of the Postal Accountability and Enhancement Act of 2006 (PAEA, P.L. 109-435), the U.S. Postal Service had been promising generous retirement health benefits to its workers without setting aside any money to pay the costs it would owe in future years. 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. The unfunded retiree health care obligation had mushroomed to $74.8 billion by September 30, 2006.[12] The program's unfunded liability is essentially the present value of the future retiree health care payments promised to postal employees for past and current work minus the amount set aside to cover those future payments.

Concerned that the enormous unfunded liability would eventually require a massive taxpayer bailout if left unaddressed, PAEA's authors prudently directed the Service to begin making contributions to a newly created Retiree Health Benefits Fund (RHBF).[13] The Service must also pay the large bills presented to it each year for the health care benefits of current retirees, although the money accumulating in the RHBF will eventually assist with that. Due in part to the RHBF contributions, the Service's unfunded health care obligations had dropped to $46.2 billion by the end of 2011.[14]

Unfortunately, influenced by the Postal Service's record-setting volume in 2006 and several prior years of healthy profits, PAEA's authors chose an aggressive, front-loaded contribution schedule for the RHBF. Congress may also have reasoned that the Service had increased its rates to cover the added costs of an escrow account and a charge related to some employees' prior military service, both of which Congress had established as part of the Postal Civil Service Retirement System Funding Reform Act of 2003 (P.L. 108-18).[15] A 5.4% across-the-board rate increase was implemented in January 2006 solely to fund the escrow account and was estimated to boost the Service's revenue by $3.1 billion annually.[16] A further 7.6% rate increase, which took effect for most products in May 2007 but was decided under pre-PAEA law, included about $0.5 billion annually to fund the military service obligation and the growing cost of the escrow account.[17] Because PAEA abolished the escrow account and the military service charge,[18] the higher prices built into the postal rate base for the discontinued expenses could instead help finance the new RHBF contributions. (The rate increases due to the since-abolished expenses can be thought of as gifts that keep on giving, in that they are embedded within the current rate base.)

PAEA transferred the money in the discontinued escrow account into the new RHBF; called for 10 annual payments, averaging about $5.6 billion each, into the RHBF during the years 2007-2016; and directed that any remaining unfunded liability be financed over the period 2017-2056. (The 10-year schedule, with the dollar amount of each yearly contribution specified by statute, is another example of Congressional micromanagement.)

When mail demand plummeted due to the recession and accelerating electronic diversion, the RHBF contribution schedule specified by PAEA quickly became unaffordable. In 2010, for example, USPS had to contribute $5.5 billion to the RHBF and pay $2.25 billion for current retirees' health care premiums, for a total of $7.75 billion (over 10% of its annual expenses).[19] Congress has so far made two one-time modifications to PAEA's original contribution schedule. It reduced the 2009 contribution from $5.4 billion to $1.4 billion, and it postponed the $5.5 billion contribution originally due in 2011, adding it to the total amount due in 2012.[20] If not for the last postponement, the Postal Service would have lost $10.6 billion in 2011, instead of $5.1 billion.[21]

The strain of the funding schedule is sometimes measured by comparing the Service's net income under actual law (a $25.3 billion cumulative deficit over the period 2007-2011, with losses in all years) versus what losses would have been if Congress had not mandated RHBF contributions but had still repealed the escrow account (a $4.5 billion cumulative deficit over the period 2007-2011, with losses in every year since 2009).[22] While the current-law numbers are bleaker than otherwise because of the front-loaded contribution schedule, the hypothetical no-RHBF numbers are too rosy because they ignore expensive past and current promises to employees that will have to be redeemed in the future.

Pay-as-you-go versus prefunding

If USPS had consistently funded its retiree health care promises as the costs accrued, its financial condition would now be much stronger, within striking distance of many foreign posts. However, the past cannot be replayed, and the relevant issue now is how to deal with the Service's massive obligations for retiree health benefits.

One option would be to eliminate the prefunding that PAEA began and return to pay-as-you-go financing. To define terms, pay-as-you-go means waiting until bills materialize in the future and then seeking money to pay them. In contrast, prefunding means putting aside money when commitments are made even though the promises will not have to be redeemed until many years later. Prefunding is similar to saving for a child's college education as the child is growing up, while pay-as-you-go is analogous to waiting until the first tuition bill arrives, with no prior saving.

In understanding the pros and cons of pay-as-you-go versus prefunding, four key points should be kept in mind. First, prefunding is always more transparent than pay-as-you-go. Prefunding shows the costs of commitments when they are made instead of ignoring the costs until years later. Second, pay-as-you-go with regard to deferred postal compensation is unfair because it transfers costs incurred for today's mail service to future mail users or taxpayers. Third, pay-as-you-go is extremely risky for an organization like the Postal Service where the future obligations are huge while income is stagnating or declining. (It would not be dangerous if future obligations were small or if income were growing rapidly enough to easily pay future bills.) Fourth, a sometimes overlooked hazard of the pay-as-you-go method is that costs can appear deceptively low for many years and then suddenly climb as more workers retire and as retirees, with increasing age, need more medical care. In that vein, OPM estimated that if retiree health care financing had reverted to pay-as-you-go in 2010, the Postal Service's pay-as-you-go expense would have been only $2.3 billion in 2010 but almost tripled to $6.4 billion by 2020.[23] If PAEA had not moved toward prefunding, insolvency and the need for a massive taxpayer bailout would be virtually inevitable for USPS, although that might not have become clear to the public for several more years because of pay-as-you-go's lack of transparency.

A bailout would be extraordinarily undesirable. It would further burden taxpayers and worsen the federal government's already frightening budget imbalance. (In 2011, the federal budget deficit for that year equaled 56.3% of receipts.[24] The number is not a misprint, although one wishes it were. USPS's 2011 deficit, 7.7% of receipts, looks almost tame in comparison.[25]) A bailout would also weaken financial discipline at the Postal Service, unless it were accompanied by tough financial controls and fundamental organizational change. Moreover, the Service itself does not want a bailout and has worked hard to lower costs and enhance revenue so it remains financially self-supporting.

A second option would be to retain prefunding but replace the front-loaded contribution schedule with a more gradual time frame, roughly similar to that of a home mortgage. In effect, this would continue PAEA's approach — but with a mid-course correction. While a front-loaded schedule may make sense for an organization rolling in cash, a stretched out contribution schedule is more appropriate for the Postal Service, especially given that the current schedule is simply unaffordable.

For several years, the Postal Service has been urging Congress to remove the prefunding requirement, with its *2010 Annual Report* commenting, "[W]e continue to seek approval from Congress to shift away from our unique retiree health benefits prefunding mandate."[26] The attraction of the pay-as-you-go method, as noted earlier, is that it would temporarily make the Service's financial statements look better. The disadvantages are that it would reduce transparency, be unfair to future mail users, and increase the odds and potential size of a future taxpayer bailout. The downside of the pay-as-you-go approach is evident in the Service's current finances, which are much weaker than otherwise because the agency failed, for most of its history, to prefund its retiree health care fringe benefit. The experience with Royal Mail's pension fund also illustrates the danger of shifting to the pay-as-you-go method. Starting in the early 1990s, Royal Mail took a 13-year "pension holiday" during which it suspended pension contributions.[27] At the start of the payment holiday, Royal Mail's pension obligations were fully funded; by the end, there was a deficit. The current estimate of the deficit, for which Royal Mail is receiving a taxpayer bailout, is $15 billion.[28]

The Service and many postal stakeholders argue that few organizations prefund retiree health benefits. That is factually correct. However, there are strong public policy reasons to require it at the Postal Service. In the private sector, the number of business offering retiree health benefits is rapidly declining, most companies still providing it are not legally required to continue, and taxpayers are not liable if businesses promising this fringe benefit are later unable to pay it. In contrast, taxpayers ultimately stand behind the Postal Service's promises, which is a good reason to ensure adequate financing. In the government sector, most agencies do not prefund retiree health benefits, but they are generally supported through government appropriations, which means taxpayers will have to pay the benefits whether they are prefunded or not.

A study of the Postal Service's current and future costs under various funding scenarios could help guide Congress

Various parties are making radically different claims about how much additional funding is required in order to put the Service's retiree health benefit on an actuarially sound basis in the long term. Consider three examples. Fredric Rolando, president of the National Association of Letter Carriers (NALC), would disagree with the analysis in this paper. He takes the position that prefunding is harmful and entirely unnecessary. Mr. Rolando writes, "[T]he Postal Service can be a successful organization if freed from the unwarranted and uniquely onerous pre-funding burden…"[29] Senator Bernie Sanders (I-VT) believes, based on discussions with the Postal Service's OIG, that the Service does not need to "put another nickel in the [Retiree Health Benefits] fund."[30] He claims the RHBF will be fully funded if the Postal Service simply lets the money already in the fund sit there earning interest for the next 21 years, while the Service pays out of its pocket the retiree health care bills that come due each year. A more sobering picture, however, emerges from cost estimates prepared for a bill (S. 1789, 21st Century Postal Service Act of 2012) offered by Senators Joseph Lieberman (I-CT), Susan Collins (R-ME), Thomas Carper (D-DE), and Scott Brown (R-MA). Although the bill would replace PAEA's 10-year contribution schedule with a stretched out contribution schedule of more than 40 years and reduce the target funding level to only 80%, OPM estimates that the Postal Service's spending on retiree health care would exceed $6 billion yearly by 2016, top $7 billion yearly by 2020, and continue rising.[31] If these numbers are correct, they refute the comforting notion that retiree health care costs would not be a serious problem except for the 10-year contribution schedule.

In order to better understand how various funding choices would affect the Postal Service's finances, it would be helpful if Congress asks GAO, with cooperation from OPM, to prepare a report indicating what the Service's retiree health expenditures and its unfunded liability would look like under several alternatives: current law, a reversion to pay-as-you-go, and two or three approaches for stretching out the prefunding schedule. Because some plans might appear attractive for several years but lead to USPS insolvency later, the study should present cost estimates for the next several years, the medium term, and a generation or two hence.

As Congress wrestles with the funding issue, observer Alan Robinson offers an intriguing suggestion that is worth investigating.[32] Noting that the funding levels of the Service's pension and retiree health accounts have shown unexpected improvements in the last several years, Robinson speculates that the cause may be the agency's declining headcount. The workforce reduction leaves fewer workers staying long enough to qualify for retirement benefits and, for departing workers who do qualify, often receiving pensions with smaller present values. Robinson asks that OPM, which produces the cost estimates, compute whether retiree health care funding is likely to continue improving as the Service further trims its workforce. That is a sensible request and should be included in the report it is recommended that GAO and OPM prepare for

Congress. (Some of the improvement in the retiree health account may also be due to changes in how OPM estimates future health care costs following criticisms from the Postal Service's Office of Inspector General and the PRC.[33])

The Service's proposal to establish its own health care system

A fundamental problem for USPS is that the current federal health benefits program for its employees and retirees is so generous and expensive. Postmaster General Donahoe recently told Congress the cost is about $13.2 billion annually ($8.8 billion for retirees and $4.4 billion for current employees), or "approximately 20 cents of every dollar of revenue."[34] The Postal Service claims it could bend the curve down if Congress allowed it to create a new, self-administered plan into which all postal workers and retirees receiving health benefits would be transferred.[35] Eligible Postal Service workers and retirees, like other eligible federal workers and retirees, are currently in the Federal Employees Health Benefits Program (FEHBP).

The Postal Service claims that transferring its workers and retirees from the FEHBP to a new USPS health plan would reduce its health care costs by about $1.5 billion annually through greater cost effectiveness.[36] Part of this saving would occur because the USPS plan would require more eligible beneficiaries to participate in Medicare, which would shift some expenses from the Service to Medicare. Moreover, the Service says its health plan would make further RHBF contributions unnecessary, and counts that as saving $5.6 billion annually. In addition, the Service argues that, as part of the switch, it should gain access to the RHBF's assets of more than $40 billion. (OPM projected that the fund had liabilities of $90.3 billion, assets of $44.1 billion, and unfunded obligations of $46.2 billion at the end of fiscal year 2011.[37])

In Congressional testimony, however, FEHBP expert Walton Francis raised troubling questions about the wisdom of the Service's proposal.[38] Noting that the FEHBP has a good reputation, although it is far from perfect, Mr. Francis expressed doubt that a USPS plan could deliver benefits at lower cost, unless a reduction in benefits is part of the Service's strategy. Based on a comparison of existing FEHBP options with the Service's proposed options, Mr. Francis claimed to find evidence of "a massive [proposed] reduction in health insurance benefits."[39] He also observed that because postal beneficiaries are older, on average, than other beneficiaries within the FEHBP risk pool and because medical costs rise with age, the Service is receiving an indirect yearly subsidy when its beneficiaries are pooled with less costly non-postal federal beneficiaries. If the Postal Service pulled its workers and retirees out of the FEHBF pool, it would lose that indirect subsidy. "[J]ust to break even the USPS will have to reduce benefits or increase premiums by about one tenth."[40] An additional concern is that the sudden loss of nearly one quarter of its enrollees might destabilize the FEHBP, which could lead to more expensive or lower quality health benefits for non-postal federal workers and retirees.[41]

Because of questions like these about efficiency and fairness, Congress is wary of the proposal. Congress might be more supportive if postal unions endorsed the idea, but none has done so yet, although the Postal Service is talking with its unions.

Congress should also examine whether the Service's proposal to exit the FEHBP and set up its own health plan would create hazards for taxpayers. If its plan proves more costly than the Service expects, are there any safeguards to protect taxpayers from having to make up the difference? If USPS makes no further RHBF contributions and gains prompt access to the money already in the fund, would those changes increase the odds and potential size of a future taxpayer bailout?

In his testimony, Mr. Francis mentioned several alternative health-benefit adjustments that would save money and be less disruptive. One of them was the subject of a Postal OIG report, and it is included in a postal reform bill (H.R. 2309, Postal Reform Act of 2011) introduced by Representatives Darrell Issa

(R-CA) and Dennis Ross (R-FL).[42] For most postal employees, USPS currently pays 78.5% of their health insurance premiums and 100% of their life insurance premiums, compared to averages elsewhere in the federal government of 72% for health insurance premiums and one third for life insurance premiums. The Postal Service has been trying for several years to persuade its unions to accept a lower USPS contribution rate for health care premiums, and has achieved some success, but progress has been slow. The Service's leverage is weakened because of a Congressional mandate that it collectively bargain with its union employees and, if agreement is not reached, submit disputes to binding arbitration.[43] Seeing no good reason why postal employees should enjoy higher premium contribution rates than other federal employees, the Postal OIG recommended eliminating the disparity, and the Issa-Ross bill would accomplish that objective through legislation. (To avoid breaking existing contracts, H.R. 2309 would not supersede any existing labor contracts but would apply as soon as the contracts expire.) The Congressional Budget Office (CBO) estimates this reform "would save about $650 million in 2014, with potential savings growing to nearly $1 billion by 2016."[44]

Conclusion

Fortunately, unlike a few postal services in other countries, the U.S. Postal Service has no problem with pension debt. Unfortunately, it has a huge problem paying for the generous and extremely costly retirement health care fringe benefit it promises its employees. The retiree health care program had built up an enormous unfunded liability before Congress intervened in 2006. Moreover, the aggressive schedule of 10 large annual contributions that Congress wrote into law in 2006 to reduce the program's unfunded liability is plainly unaffordable. The financial hole created by this fringe benefit is a major reason why USPS is veering towards insolvency while many foreign posts are profitable and often paying dividends and taxes to their governments. Another heavy burden on USPS is Congressional micromanagement that places numerous restrictions on the Service's ability to manage its costs.

Congress should stretch out the RHBF contribution schedule. Before it does so, though, Congress should request an impartial study laying out how various contribution scenarios would affect USPS's expenses and obligations in the short- and long-terms. Congress should also work with the Postal Service on finding ways to lower the extraordinary cost of USPS's health care fringe benefit. One sensible reform would be enacting legislation to bring postal employees' life and health insurance contribution rates into line with those of other federal workers.

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This is another of a continuing series of IRET papers examining the U.S. Postal Service. IRET began its work in this area in the mid 1990s. Norman Ture, the organization's founder, believed that growth and prosperity are advanced by restricting government to a limited set of core functions. From this perspective he was concerned about the activities of government owned and sponsored businesses. The Postal Service stands out among government businesses because of its size – it currently employs about 25% of the federal government's civilian workforce. For many years – but fortunately much less so in recent years – it was also notable for aggressively trying to expand beyond its core mission into nonpostal commercial markets.

Endnotes

1. Michael Schuyler, "Most Foreign Postal Services Are Profitable; The U.S. Postal Service Lags," *IRET Congressional Advisory*, No. 281, January 13, 2012, available at http://iret.org/pub/ADVS-281.PDF.

2. Michael Schuyler, "Why The U.S. Postal Service Is In Greater Financial Trouble Than Most Foreign Postal Services — The Role Of Government Micromanagement," *IRET Congressional Advisory*, No. 282, March 30, 2012, available at http://iret.org/pub/ADVS-282.PDF.

3. For a decisive report that laid out the issues and became the blueprint for the U.K. government's actions, see Richard Hooper, Deirdre Hutton, and Ian R. Smith, "Modernise Or Decline: Policies To Maintain The Universal Postal Service In The United Kingdom," December 16, 2008, accessed at http://www.bis.gov.uk/files/file49389.pdf.

4. Benjamin Hundeyin, "NIPOST Pensioners Commence Protest," *Nigerian Mail Online*, August 9, 2011, accessed at http://nigerianmailonline.com/2011/08/nipost-pensioners-commence-protest.

5. For a discussion of the enormous amount of state aid, see Gerrit Wiesmann, Alex Barker, and Stanley Pignal, "D Post To Appeal Against EU Ruling," *Financial Times*, January 25, 2012, accessed at http://www.ft.com/intl/cms/s/0/fd1f0bfa-4776-11e1-9a92-00144feabdc0.html#axzz1qzxc2ZsN.

6. U.S. Postal Service, "Form 10-K, Fiscal Year 2011," November 15, 2011, p. 26, accessed at http://about.usps.com/who-we-are/financials/10k-reports/fy2011.pdf.

7. *Ibid*. In 2009, FERS was in surplus, but that was more than offset by a CSRS deficit.

8. For the dueling Inspectors General reports, see Office of Inspector General, U.S. Postal Service, "The Postal Service's Share Of CSRS Pension Responsibility," RARC-WP-10-001, January 20, 2010, accessed at http://www.uspsoig.gov/foia_files/RARC-WP-10-001.pdf; and Office of the Inspector General, U.S. Office of Personnel Management, "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 28, 2011, accessed at http://www.opm.gov/budget/oig/OPM_OIG_Study_of_USPS_OIG_Proposals%20Feb%2028%202011.pdf. For an overview of the dispute, see Michael Schuyler, "Does The U.S. Treasury Owe $75 Billion To The Postal Service?" *IRET Congressional Advisory*, No. 273, March 14, 2011, available at http://iret.org/pub/ADVS-273.PDF.

9. U.S. Government Accountability Office, "Allocation Of Responsibility For Pension Benefits Between The Postal Service And The Federal Government," GAO-12-146, October 2011, accessed at http://www.gao.gov/new.items/d12146.pdf. GAO added that Congress could change the law, if it wished to transfer the money to USPS.

10. *Ibid*., p. 16.

11. U.S. Postal Service, "FY 2011 Competitive Products Fund Reporting Materials," USPS-FY11-39, Submitted to Postal Regulatory Commission, December 29, 2011, accessed at http://prc.gov/Docs/79/79179/USPS-FY11-39.pdf.

12. U.S. Postal Service, *Annual Report, 2007*, p. 26, accessed at http://about.usps.com/who-we-are/financials/annual-reports/fy2007.pdf.

13. PAEA, sec. 803.

14. U.S. Postal Service, "Form 10-K, Fiscal Year 2011," *op. cit*., p. 28.

15. Under pre-PAEA law, postal rates were set according to the cost of service. In January 2006, the Service implemented a 5.4% across-the-board rate increase solely to recover the escrow expense. (For the regulator's decision and explanation, see Postal Rate Commission, "Opinion And Recommended Decision," Docket No. R2005-1, November 1, 2005, accessed at http://www.prc.gov/docs/47/47278/R2005-1Op.Rec.Dec.pdf.) In May 2006, the Postal Service requested that its regulator approve another rate hike, due in part to the escrow requirement. Although the PRC issued its decision after PAEA's enactment, the determination was based on pre-PAEA law, which meant that postal rates increased sufficiently to recover the escrow costs anticipated when the case was filed and evidence gathered. (See

Postal Regulatory Commission, "Opinion And Recommended Decision," Vol. 1, Docket No. R2006-1, February 26, 2007, accessed at http://www.prc.gov/docs/55/55901/Vol1R2006-1Op.pdf.)

16. PRC, "Opinion And Recommended Decision," Docket No. R2005-1, *op. cit*., p. i.

17. PRC, "Opinion And Recommended Decision," Vol. 1, Docket No. R2006-1, *op. cit*., p. i; and Richard G. Loutsch, "Direct Testimony Of Richard G. Loutsch On Behalf Of United States Postal Service," Docket No. R2006-1, USPS-T-6, submitted to the Postal Regulatory Commission, May 3, 2006, accessed at http://www.prc.gov/docs/48/48671/Loutsch_USPS-T-6_FINAL.pdf.

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22. *Ibid*., p. 89.

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24. U.S. Office Of Management And Budget, "Budget Of The U.S. Government. Fiscal Year 2013," p. 23, accessed at http://www.whitehouse.gov/sites/default/files/omb/budget/fy2013/assets/hist.pdf.

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36. Donahoe, "Statement Of Postmaster General/CEO Patrick R. Donahoe Before The Subcommittee On Federal Workforce, U.S. Postal Service & Labor Policy United States House Of Representatives," *op. cit.*

37. U.S. Postal Service, "Form 10-K, Fiscal Year 2011," *op. cit*., p. 28.

38. Walton Francis, "Can A USPS-Run Health Plan Help Solve Its Financial Crisis?" before the Subcommittee on Federal Workforce, Postal Service, and Labor Policy, House Committee on Oversight and Government Reform, March 27, 2012, accessed at http://oversight.house.gov/wp-content/uploads/2012/03/3-27-12-USPS-Francis.pdf.

39. *Ibid*., p. 6.

40. *Ibid*., p. 7.

41. On the other hand, if the USPS pullout occurred gradually so that the FEHBP had more time to adjust, non-postal federal workers and retirees might gain because they would no longer have to indirectly subsidize postal beneficiaries who, on average, are older and sicker.

42. See H.R. 2309 (Postal Reform Act of 2011), sec. 302; and U.S. Postal Service Office of Inspector General, "Follow-Up Review Of The Postal Service's Employee Benefit Programs," Report No. HR-MA-10-001, September 3, 2010, accessed at http://www.uspsoig.gov/FOIA_files/HR-MA-10-001.pdf.

43. The previous paper in this series discussed how this mandate raises USPS's labor costs. See Michael Schuyler, "Why The U.S. Postal Service Is In Greater Financial Trouble Than Most Foreign Postal Services — The Role Of Government Micromanagement," *IRET Congressional Advisory*, No. 282, March 30, 2012, accessed at http://iret.org/pub/ADVS-282.PDF.

44. Congressional Budget Office, "Cost Estimate: H.R. 2309, "Postal Reform Act of 2011," March 29, 2012, p. 6, accessed at http://www.cbo.gov/sites/default/files/cbofiles/attachments/hr2309_0.pdf. CBO does not break down the savings from bringing USPS premium contribution rates for health and life insurance into line with those at other federal entities, but the earlier OIG study estimated that about 80% of the savings would be on health insurance and about 20% on life insurance. (See Postal OIG, "Follow-Up Review Of The Postal Service's Employee Benefit Programs," *op. cit*., pp. 3-4.)