



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

STATEMENT

of

JONATHAN FOLEY

DIRECTOR OF PLANNING AND POLICY ANALYSIS

U.S. OFFICE OF PERSONNEL MANAGEMENT

before the

SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION,
FEDERAL SERVICES, AND INTERNATIONAL SECURITY

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

UNITED STATES SENATE

on

FINDING SOLUTIONS TO THE CHALLENGES FACING THE U.S. POSTAL SERVICE

December 2, 2010

Chairman Carper, Ranking Member McCain, and Members of the Subcommittee.

I am pleased to be here today on behalf of Director John Berry of the Office of Personnel Management (OPM) to discuss "Finding Solutions to the Challenges Facing the U.S. Postal Service," and provide comments on S. 3831, the POST Act of 2010, as introduced by Chairman Carper. OPM commends the Subcommittee for its efforts to provide for the financial viability of the United States Postal Service, and we share the Subcommittee's commitment to help the Postal Service stay viable, while maintaining our fiduciary responsibility to the Civil Service Retirement and Disability Trust Fund.

As you know, S. 3831 would readdress the issue of how responsibility for the retirement costs of pre-1971 Postal employment should be apportioned. In particular, the underlying question

is whether the Treasury or the Postal Service should be responsible for the effects of Postal pay increases on the value of that service in computing annuities under the Civil Service Retirement System (CSRS). Given the extensive prior coverage of this issue, I will limit myself today to a brief outline of relevant history.

In 1973, the Congress enacted P.L. 93-349 which established the policy, then supported by the Postal Service, that it would accept responsibility for the effects of pay increases on annuities. No further consideration was given to the issue until 2003, when the Postal Service first suggested that OPM transfer responsibility for the effects of Postal pay increases to the Treasury. After careful consideration by OPM and its Board of Actuaries, OPM determined that the original apportionment method complied with the law. The issue was not raised again until January of this year when the Postal Inspector General issued a report raising the apportionment issue and asserting a \$75 billion overpayment.

In June of this year, the Postal Regulatory Commission (PRC) transmitted to OPM a Segal Company (Segal) study commissioned by the PRC on the apportionment methodology. The Segal report only addressed one aspect of the complicated funding arrangement and did not discuss the historical context of the issue. Segal acknowledges this by stating that its "recommendation is, in essence, a 2010 fresh look, and does not attempt to deal with the history accumulated over forty years since the PRA [Postal Reform Act] was enacted." The Segal proposed methodology was a slight variation on the Postal IG's proposal, and suggested a \$50-55 billion overfunding.

At that time, the PRC also suggested that P.L. 109-435, the Postal Accountability and Enhancement Act (PAEA), gave OPM authority to reapportion responsibility for pre-1971 service as part of the redetermination process. Enacted in 2006, the primary purpose of the PAEA was for the Treasury to take responsibility for the cost of military service credit in the computation of Postal CSRS annuities, leading to a savings of \$28 billion for the Postal Service. The law further provided for a review process, initiated at the request of the PRC, for OPM to reconsider "any determination or redetermination made by the Office of Personnel Management under this section." The PRC asserted that this reconsideration authority gave OPM authority to make the reallocation.

We believe the assertion that OPM has the discretion to make basic changes in the allocation method between the Postal Service and the Treasury goes beyond the intent of and the authority provided to OPM in PAEA. The reconsideration process provided for in section 802(c) of the PAEA allows for appeal and review of OPM's specific calculations of the annual supplemental liability determination, according to the established Fund allocation methodology. For example, section 802(c) allows for reconsideration of the population or accounting data underlying the annual liability determination, but not of the allocation methodology. Thus, we believe that the question of whether there should be a change in the

apportionment responsibility is one that is appropriate for consideration by the Congress.

Our comments on S. 3831 are limited to section 2, which would transfer responsibility to the Treasury for the effects of Postal pay increases on the value of pre-1971 Postal employment in computing annuities under CSRS, a change estimated to be \$50-55 billion. In addition, it would permit the resulting Postal CSRS surplus to be used at the discretion of the Postal Board of Governors to satisfy the \$5.5 to 5.8 billion annual payments to the Postal Service Retiree Health Benefits Fund (PSRHBP) required under 5 U.S.C. 8909a(d)(3)(A) for fiscal years 2010-2016.

OPM's principal roles in this matter are those of a program administrator and trust fund fiduciary. As such, our principal concerns must be for the efficient operation and reliable funding of the retirement and insurance programs. As a trust fund fiduciary, our principal relevant concern is with the adequate funding of the program and not with the source of that funding. Since S. 3831 will not change funding levels for CSRS, but only the source of those funds, OPM takes no position at this time as to the substance of section 2.

However, we do have concerns regarding certain technical aspects of that section. The amendment to 5 U.S.C. 8348(h)(2)(B) would require that the annual computation of the Postal surplus or liability be completed by March 31 following the end of each fiscal year. Because not all necessary data is available by that date, we suggest that it be changed to June 30, which will still give the Postal Board of Governors three months for consideration prior to the funds transfer date. There are also internal inconsistencies between the dates specified for calculations and the dates for payments to the PSRHBP. Finally, there are technical problems with the wording of the new 5 U.S.C. 8348(h)(2)(C)(4) in that the required methodology is not supported by available data. We would be pleased to provide the Subcommittee with more detailed explanations and suggested technical revisions that would retain the substantive intent of these provisions.

I appreciate the opportunity to appear before you today and I would be pleased to answer any questions you may have. We look forward to assisting the Subcommittee in its efforts to assist the Postal Service in continuing its third century of contributions to the nation.