



Testimony  
Before the Committee on Homeland  
Security and Governmental Affairs,  
U.S. Senate

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**U.S. POSTAL SERVICE**

**Health and Pension  
Benefits Proposals  
Involve Trade-offs**

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# GAO Highlights

Highlights of [GAO-13-872T](#), a testimony before the Committee on Homeland Security and Governmental Affairs, U.S. Senate

## Why GAO Did This Study

USPS continues to be in a serious financial crisis, with little liquidity in the short term and a challenging financial outlook in the long term as profitable First-Class Mail volume continues to decline. Critical decisions by Congress are needed on postal reform legislation that has been proposed in both the U.S. Senate and the House of Representatives. Various proposals would restructure the financing of postal retiree health benefits, including required payments to prefund these benefits; enable USPS to introduce a new health plan for postal employees and retirees; and restructure the funding of postal pensions, including addressing a potential surplus in funding postal pensions under FERS.

GAO has previously testified that a comprehensive package of legislative actions is needed so that USPS can achieve financial viability and assure adequate benefits funding for more than 1 million postal employees and retirees. GAO has also previously reported on various approaches Congress could consider to restructure the funding of USPS retiree health benefits and pensions.

This testimony discusses (1) funding USPS retiree health benefits; (2) USPS's proposal to withdraw its employees and retirees from FEHBP and establish its own health plan; and (3) a potential surplus in funding postal pensions under FERS. This testimony is based primarily on GAO's past work.

View [GAO-13-872T](#). For more information, contact Frank Todisco at (202) 512-2834 or [todiscof@gao.gov](mailto:todiscof@gao.gov) or John E. Dicken at (202) 512-7114 or [dickenj@gao.gov](mailto:dickenj@gao.gov).

September 26, 2013

## U.S. POSTAL SERVICE

### Health and Pension Benefits Proposals Involve Trade-offs

#### What GAO Found

GAO has reported that Congress needs to modify the U.S. Postal Service's (USPS) retiree health benefit payments in a fiscally responsible manner. GAO also has reported that USPS should prefund any unfunded retiree health benefit liability to the maximum extent that its finances permit. Deferring funding for postal retiree health benefits could increase costs for future ratepayers and increase the risk that USPS may not be able to pay for these costs. Key considerations for funding postal retiree health benefits include:

- *Trade-offs regarding USPS's current and long-term financial condition:* One rationale for prefunding is to protect USPS's future viability by paying for retirement benefits as they are being earned. However, USPS currently lacks liquidity to fund required payments for prefunding retiree health benefits. To the extent prefunding is postponed, larger payments will be required later, when they likely would be supported by less First-Class Mail volume. No prefunding approach will be viable unless USPS can make the payments.
- *Possible consequences to USPS employees and retirees:* Fully funded benefits protect against an inability to make payments later and make promised benefits less vulnerable to cuts.
- *Allocating costs between current and future ratepayers:* Deferring payments can pass costs from current to future postal ratepayers. Allocating costs among different generations of ratepayers is complicated by the unfunded liability that was not paid for in prior years.
- *Funding targets:* An 80 percent funding target for postal retiree health benefits would effectively lead to a permanent unfunded liability of roughly 20 percent. An option could be to build in a schedule to achieve 100 percent funding in a later time period after the 80 percent level is achieved.

GAO has reported that USPS would likely realize large financial gains from its proposal to withdraw its employees and retirees from the Federal Employees Health Benefits Program (FEHBP) and establish its own health plan. According to USPS's estimates, these financial gains would significantly reduce its health benefits expenses and eliminate its unfunded retiree health benefit liability—with increased use of Medicare by retirees comprising most of the projected liability reduction. USPS also has projected that its proposal will increase Medicare spending. As Congress considers proposals for a USPS health care plan, it should weigh the impact on Medicare, which also faces fiscal pressure, and other issues, including establishing safeguards for assets of the USPS health plan and ensuring protections for plan participants are comparable to those in FEHBP.

GAO has also reported on key considerations regarding the release of any Federal Employees Retirement System (FERS) surplus to USPS. First, estimates of retirement benefits liabilities contain a significant degree of uncertainty and can change over time. Second, returning surpluses whenever they develop would likely result in an eventual unfunded liability. Alternative options to address funding surpluses include reducing USPS's annual FERS contribution either by amortizing the surplus over 30 years (which would mirror the treatment of deficits) or by offsetting the contribution against the full surplus each year until the surplus is used up.

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Chairman Carper, Ranking Member Coburn, and Members of the Committee:

We appreciate the opportunity to be here today to discuss U.S. Postal Service (USPS) benefit issues in the context of proposed postal reform legislation. USPS continues to be in a serious financial crisis, with little liquidity in the short term and a challenging financial outlook in the long term as profitable First-Class Mail volume continues to decline. Members of this Committee have recently introduced comprehensive postal legislation that would, among other things, restructure the financing of postal retiree health benefits, including required payments to prefund these benefits; authorize USPS to collectively bargain with its unions to introduce a new health plan for postal employees; and restructure the funding of postal pensions, including addressing a potential surplus in funding postal pensions under the Federal Employees Retirement System (FERS).<sup>1</sup> In addition, USPS and others have offered proposals in these areas. This testimony will focus on issues related to (1) funding USPS retiree health benefits; (2) USPS's proposal for its own health plan outside of the Federal Employees Health Benefits Program (FEHBP) and (3) funding postal pensions including addressing a potential surplus in funding postal pensions under FERS.

This testimony is based primarily on our past work through July 2013 that examined USPS's financial condition and benefits. We have previously reported on (1) funding USPS retiree health benefits; (2) USPS's proposal to establish its own health plan outside of FEHBP and (3) funding postal pensions including addressing a potential surplus in funding postal pensions under FERS.<sup>2</sup> This testimony is based on work that was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe

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<sup>1</sup> S. 1486, 113th Cong. (2013).

<sup>2</sup> GAO, *U.S. Postal Service: Proposed Health Plan Could Improve Financial Condition, but Impact on Medicare and Other Issues Should be Weighed before Approval*, [GAO-13-658](#) (Washington, D.C.: July 18, 2013); *U.S. Postal Service: Status, Financial Outlook, and Alternative Approaches to Fund Retiree Health Benefits*, [GAO-13-112](#) (Washington, D.C.: Dec. 4, 2012); *U.S. Postal Service: Allocation of Responsibility for Pension Benefits between the Postal Service and the Federal Government*, [GAO-12-146](#) (Washington, D.C.: Oct. 13, 2011); *U.S. Postal Service: Strategies and Options to Facilitate Progress toward Financial Viability*, [GAO-10-455](#) (Washington, D.C.: Apr. 12, 2010).

that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Each of the reports cited in this testimony provides detailed information on our scope and methodology.

## Background

As table 1 shows, at the end of fiscal year 2012, USPS had \$96.1 billion in unfunded benefits and other liabilities: \$63.5 billion in unfunded liabilities for retiree health and pension benefits, as well as \$15.0 billion in outstanding debt—the statutory limit—and \$17.6 billion in workers’ compensation liabilities. These liabilities have become a large and growing financial burden, increasing from 83 percent of USPS revenues in fiscal year 2007 to 147 percent of revenues in fiscal year 2012.

**Table 1: Selected USPS Liabilities and Unfunded Pension and Health Benefit Liabilities, Fiscal Year End 2007 through 2012**

(Dollars in billions)

Fiscal Year	Liabilities		Unfunded retiree health benefit and pension liabilities				Total
	Outstanding debt at the end of the fiscal year	Workers’ compensation liabilities	Unfunded liabilities for retiree health benefits	Unfunded CSRS liabilities (surplus) <sup>a</sup>	Unfunded FERS liabilities (surplus) <sup>a</sup>		
2007	\$4.2	\$7.7	\$55.0	\$3.1	\$(8.4)	<b>\$61.6</b>	
2008	7.2	8.0	53.5	3.3	(8.8)	<b>63.2</b>	
2009	10.2	10.1	52.0	9.6	(6.8)	<b>75.1</b>	
2010	12.0	12.6	48.6	7.3	(6.9)	<b>73.6</b>	
2011	13.0	15.1	46.2	(1.7)	(11.4)	<b>61.2</b>	
2012	15.0	17.6	47.8	18.7	(3.0)	<b>96.1</b>	

Source: USPS.

<sup>a</sup> The Civil Service Retirement System (CSRS), which became effective on August 1, 1920, established a retirement system for certain federal employees. It was replaced by the Federal Employees Retirement System (FERS) for federal employees who first entered covered service on and after January 1, 1987. Pension and retiree health projections are sensitive to the economic and demographic assumptions used and can fluctuate from year to year due to actual economic and demographic outcomes (such as investment returns, salary increases, and mortality) being different than those predicted by the assumptions, and to changes in the assumptions themselves.

USPS’s dire financial condition makes paying for these liabilities highly challenging. In the short term, USPS is in a financial crisis, has reached its \$15 billion statutory borrowing limit, and lacks liquidity to fund needed capital investment. USPS has not made legally-required payments of \$11.1 billion to prefund retiree health benefits and does not expect to make its required prefunding payment of \$5.6 billion due at the end of this

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month. In the long term, USPS will be challenged to pay for its liabilities on a smaller base of profitable First-Class Mail. First-Class Mail volume has declined 33 percent since it peaked in fiscal year 2001, and USPS projects this volume will continue declining through fiscal year 2020.

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## Funding Postal Retiree Health Benefits

The Postal Accountability and Enhancement Act (PAEA) established the Postal Service Retiree Health Benefits Fund (PSRHBF) and required USPS to begin prefunding health benefits for its current and future postal retirees, with annual payments of \$5.4 billion to \$5.8 billion from fiscal years 2007 through 2016.<sup>3</sup> Subsequent USPS payments are required to be based on an actuarial approach to funding through fiscal years 2056 and beyond.<sup>4</sup> USPS has made a total of \$17.9 billion in prefunding payments since the prefunding schedule began in fiscal year 2007, with the most recent prefunding payment that was made being for \$5.5 billion in fiscal year 2010; a total of \$33.9 billion in required prefunding payments remain from the 10 years of fixed payments. USPS's \$5.5 billion retiree health benefit payment requirement that was originally due at the end of fiscal year 2011 was delayed until August 1, 2012.<sup>5</sup> USPS missed that payment, as well as the \$5.6 billion payment that was due by September 30, 2012. USPS has reported that due to a low level of available cash, it will be unable to make its \$5.6 billion payment due by September 30, 2013. The required prefunding payments that USPS does not make are reported as outstanding liabilities in USPS's financial statements. Looking forward, USPS has reported that low levels of liquidity will continue to exist, absent legislative actions by Congress.

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<sup>3</sup> Pub. L. 109-435, § 803, 120 Stat. 3198 (Dec. 20, 2006), codified at 5 U.S.C. § 8909a.

<sup>4</sup> Under the prefunding mechanism established by PAEA, as implemented by the Office of Personnel Management (OPM), USPS payments to OPM would be projected to fund the liability over a period in excess of 50 years, from fiscal years 2007 through 2056 and beyond (with rolling 15-year amortization periods after 2041). PAEA established "fixed" prepayment amounts—meaning that the amounts were set by statute and did not vary with actuarial measurements of the cost of the benefits—in the first 10 years, from fiscal years 2007 through 2016, with actuarially determined payments thereafter. However, the payments required by PAEA were significantly "frontloaded," with the fixed payment amounts in the first 10 years exceeding what actuarially determined amounts would have been using a 50-year amortization schedule. According to OPM, as of Sept. 30, 2012, USPS's liability for retiree health benefits was \$93.575 billion and the PSRHBF balance was \$45.744 billion, with a resulting unfunded liability of \$47.831 billion. For more detail, see [GAO-13-112](#).

<sup>5</sup> Pub. L. No. 112-74, § 632, 125 Stat. 786, 928 (Dec. 23, 2011).

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We have previously reported that Congress needs to modify USPS's retiree health benefit payments in a fiscally responsible manner.<sup>6</sup> Further, we also stated that USPS should prefund any unfunded retiree health benefit liability to the maximum extent that its finances permit. Deferring funding for postal retiree health benefits could increase costs for future ratepayers and increase the risk that USPS may be unable to pay for these costs.

Key considerations for Congress regarding the requirements for funding postal retiree health benefits include the following:

- *Trade-offs regarding USPS's current financial condition and long-term prospects:* One of the rationales for prefunding retirement benefits is to protect the future viability of the organization by paying for retirement benefits as they are being earned, rather than after employees have already retired. However, USPS currently lacks liquidity and postal costs would need to decrease, or postal revenues to increase, or both, to fund required payments for prefunding retiree health benefits. To the extent prefunding payments are postponed, larger payments will be required later, when they likely would be supported by less First-Class Mail volume. No prefunding approach will be viable unless USPS can make the required payments.
- *Fixed versus actuarially determined payments:* 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.
- *Possible consequences to USPS employees and retirees:* Funded benefits protect against an inability to make payments later, make promised benefits less vulnerable to cuts, and reduce the risk that employee pay and benefits may not be sustainable and could be reduced.
- *Allocating costs between current and future ratepayers:* Deferring payments until later can have the effect of passing costs from current to future postal ratepayers. One of the rationales for prefunding is for current ratepayers to pay for retiree health benefits being earned by

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<sup>6</sup> [GAO-10-455](#).

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current employees. The appropriate allocation of costs among different generations of postal ratepayers is complicated by what might be called the “legacy” unfunded liability that was not paid for in prior years.

- Funding targets: We have expressed concern about a proposed 80 percent funding target for postal retiree health benefits that would have the effect of carrying a permanent unfunded liability equal to roughly 20 percent of USPS’s liability, which could be a significant amount.<sup>7</sup> If an 80 percent funding target were implemented because of concerns about USPS’s ability to achieve a 100 percent target level within a particular time frame, an additional policy option to consider could include a schedule to achieve 100 percent funding in a subsequent time period after the 80 percent level is achieved.

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## USPS’s Proposed Health Plan Outside of FEHBP

We recently reported on USPS’s proposal to create a postal health care plan outside of FEHBP.<sup>8</sup> This proposal would offer health care coverage to postal employees and retirees (about 1 million of whom currently participate in FEHBP).<sup>9</sup> Under this proposal, initial benefits and postal employees’ and retirees’ share of premiums would first be established by USPS and subsequently, for union-covered employees, in collective bargaining.

USPS’s proposed health care plan is designed to increase postal retirees’ enrollment in Medicare as well as take advantage of Medicare subsidies

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<sup>7</sup> For example, USPS’s retiree health benefit liability at the end of fiscal year 2012 was \$93.6 billion. Twenty percent of that is \$18.7 billion.

<sup>8</sup> See [GAO-13-658](#). Since this report was issued, USPS has discussed other options for a new USPS health plan that would be offered within FEHBP.

<sup>9</sup> The term “retirees” is used to refer to postal annuitants or any survivors of postal retirees who receive health benefits.

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for employer-based prescription drug plans.<sup>10</sup> Specifically, it is designed so that all Medicare-eligible retirees would enroll in Medicare Parts A and B, with Medicare acting as the primary insurer for those enrollees and the USPS plan paying costs above what Medicare would cover for current retirees.<sup>11</sup> USPS's proposed plan would include prescription drug benefits that qualify it to receive a federal subsidy and drug discounts under Medicare Part D. Under one USPS option for funding this plan, USPS proposes that it would be authorized to invest plan assets without the approval of the Secretary of the Treasury in non-Treasury securities, such as stocks and bonds, as well as commodities, foreign currency, and real property. (See app. I for more information on the USPS proposed health plan.)

We have reported that USPS would likely realize large financial gains from its proposed health care plan. According to USPS's estimates, USPS would reduce its health benefits expenses and eliminate its unfunded retiree health benefit liability, primarily by increasing the use of Medicare by postal retirees once they are eligible for Medicare generally beginning at age 65. USPS estimated that its plan would reduce its retiree health benefit liability by \$54.6 billion, with the increased use of Medicare accounting for most of this reduction. USPS also estimated that the plan would reduce its total annual required health care payments by \$7.8 billion in the first year of implementation and by \$33.2 billion over the first 5 years of implementation. In addition, some of the elements of the proposal—notably an option to allow USPS to invest health plan funds outside of Treasury securities, such as in stocks, commodities, and

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<sup>10</sup> Medicare is the federally financed health insurance program for persons age 65 or over, certain individuals with disabilities, and individuals with end-stage renal disease. Medicare Parts A and B are known as Medicare fee-for-service. Medicare Part A covers hospital and other inpatient stays. Medicare Part B covers hospital outpatient, physician, and other services. Medicare beneficiaries have the option of obtaining coverage for Medicare services from private health plans that participate in Medicare Advantage—Medicare's managed care program—also known as Part C. All Medicare beneficiaries may purchase coverage for outpatient prescription drugs under Part D, either as a stand-alone benefit or as part of a Medicare Advantage plan.

<sup>11</sup> Postal employees pay Medicare taxes and therefore may become eligible for Medicare coverage generally at age 65. Eligible retirees are not required to enroll in Medicare. As of the end of 2011, about 8 percent of Medicare-eligible postal retirees were not enrolled in Medicare Part A and 22 percent were not enrolled in Medicare Part B—slightly lower than the nonpostal FEHBP population, of which 11 percent and 25 percent did not enroll in Parts A and B, respectively.



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foreign currency—would add uncertainties that could reduce funds available for its employees' and retirees' future health care.

We have reported that under USPS's health care plan as designed for year one, postal employees and retirees would have coverage for a similar package of services as under selected FEHBP plans, and the level of coverage would be similar for many services, with some exceptions (e.g., services received outside of USPS's approved network). We estimated that, had the proposed USPS plan been implemented in 2013, most employees and retirees would have had similar or lower premiums compared to selected FEHBP plans; but total costs—premiums and costs for the use of care—could be higher for some.

We have also reported that withdrawing the approximately 1 million USPS employees and retirees from FEHBP, which would be required under USPS's proposal, would reduce FEHBP's enrollment by an estimated 25 percent.<sup>12</sup> Despite the significant change in enrollment, most nonpostal enrollees would likely not be affected by a USPS withdrawal beyond what selected FEHBP plan representatives expect to be small increases or decreases in premiums. However, USPS's withdrawal could lead the small number of FEHBP plans with primarily postal enrollment to withdraw from the program. For example, if the 4 plans with 70 percent or more postal enrollment discontinue participation in FEHBP under a USPS withdrawal, an estimated 1 percent (about 29,000) of the approximately 3 million nonpostal enrollees in FEHBP would need to select a new health plan.

As Congress considers proposals for a USPS health care plan, it should weigh the impact on Medicare as well as other issues, including establishing safeguards for plan assets and ensuring FEHBP-comparable protections for plan participants. The primary policy decision for Congress to make with respect to such proposals is whether to increase eligible postal retirees' use of Medicare. USPS projects that its plan would increase Medicare spending by an average of \$1.3 billion per year over the first 5 years of its plan—about 0.2 percent of Medicare's annual costs of more than \$550 billion. Our report also noted that Medicare is on a fiscally unsustainable path over the long term. A USPS health plan that

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<sup>12</sup> Our estimates of enrollment changes used data on enrolled contracts, not the number of covered lives.

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would add costs to Medicare would have to be weighed alongside the fiscal pressure already faced by Medicare.

If Congress decides to move forward with USPS's proposed health plan as part of a broader reform package, we have identified other important policy issues that also should be addressed. Specifically, Congress should consider:

- safeguards for USPS health plan fund assets by placing appropriate constraints on their asset allocations (for example, limiting investments to Treasury securities, including inflation-indexed Treasury securities; or, to the extent that more risky assets are permitted, using a conservative approach to setting the prefunding discount rate);
- standards for the disposition of any surplus health plan assets that reduce the risk of a new unfunded liability emerging in the future (for example, standards for amortizing any surplus to mirror the amortization of any unfunded liability);
- designation of an independent entity responsible for selecting actuarial assumptions used to determine the health plan's funded status; and
- protections for postal employees and retirees that are comparable to those under FEHBP, including a formula for retirees' contribution to health costs.

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## The Potential FERS Surplus

USPS had an estimated FERS surplus of \$3.0 billion at the end of fiscal year 2012, according to the Office of Personnel Management (OPM), and OPM will be calculating an updated estimate for the end of fiscal year 2013. USPS has reported an estimate that its FERS surplus would have been substantially larger if its FERS liability had been estimated using postal-specific demographic and pay increase assumptions.<sup>13</sup> USPS has stated that it believes, as a matter of equity, its FERS liability should be estimated using USPS-specific pay increase and demographic

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<sup>13</sup> United States Postal Service, *2012 Report on Form 10-K* (Washington, D.C.: Nov. 15, 2012) 37.

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assumptions instead of government-wide pay increase and demographic assumptions. As we have reported, legislation would be needed to return to USPS any FERS surplus.<sup>14</sup>

As we also have reported, we would support a remedy to the asymmetric treatment of FERS surpluses and deficits under current law.<sup>15</sup> A conservative approach to permit USPS to access any FERS surplus would be to use it to reduce USPS's annual FERS contribution by amortizing the surplus over 30 years (which would mirror the legally required treatment of deficits). A second approach would be to reduce USPS's annual FERS contribution by offsetting it against the full amount of surplus each year until the surplus is used up; this would be comparable to what occurs for private-sector pension plans. We have previously suggested that any return of the entire surplus all at once should be done with care. A one-time-only return of the entire surplus should be considered as a one-time exigent action only as part of a larger package of reforms and restructurings. Otherwise, returning surpluses whenever they develop would likely eventually result in an unfunded liability.

Key issues for Congress to consider in connection with the potential USPS FERS surplus include:

- *Fluctuations in estimated liabilities:* Estimates of liabilities for retirement benefits contain a significant degree of uncertainty and can change over time.
- *Whether to use USPS-specific assumptions to measure USPS's FERS liability:* We support using the most accurate numbers possible. If USPS-specific assumptions are used in estimating USPS's FERS liability, we suggest that they also be used in estimating USPS's CSRS and retiree health liabilities. We suggest that if USPS-specific assumptions are to be used, that the assumptions be recommended by an independent body (such as OPM's Board of Actuaries).

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<sup>14</sup> [GAO-12-146](#).

<sup>15</sup> GAO, *Responses to Questions for the Record; Committee on Homeland Security and Governmental Affairs, February 13, 2013, Hearing on "Solutions to the Crisis Facing the U.S. Postal Service"* (Washington, D.C.: Apr. 5, 2013). Under current law, USPS must fund towards any FERS deficit but does not benefit from any FERS surplus. See [GAO-12-146](#), p. 37.

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- *Other liabilities:* While USPS had an estimated FERS surplus of \$3.0 billion dollars at the end of fiscal year 2012, it had an estimated CSRS deficit of \$18.7 billion at the same time. Both estimates could change if USPS-specific assumptions are used. In addition, as noted earlier in Table 1, USPS also has an unfunded liability for retiree health benefits and liabilities for workers' compensation and its debt to Treasury, for a total of \$96.1 billion of liabilities and unfunded benefit liabilities.

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In closing, we continue to believe that a comprehensive package of legislative actions is needed so that USPS can achieve financial viability and assure adequate benefits funding for more than 1 million postal employees and retirees. Chairman Carper, Ranking Member Coburn, and Members of the Committee, this concludes my prepared statement. I would be pleased to answer any questions that you may have at this time.

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## GAO Contact and Key Acknowledgments

For further information about this statement, please contact Frank Todisco, Chief Actuary, FSA, MAAA, EA, Applied Research and Methods, at (202) 512-2834 or [todiscof@gao.gov](mailto:todiscof@gao.gov); or John E. Dicken, Director, Health Care at (202) 512-7114 or [dickenj@gao.gov](mailto:dickenj@gao.gov). Mr. Todisco meets the qualification standards of the American Academy of Actuaries to render the actuarial opinions contained in this testimony regarding the measurement issues, funding issues, and risks associated with pension and retiree health care obligations. Contact points for our Congressional Relations and Public Affairs offices may be found on the last page of this statement. In addition to the contacts named above, Lorelei St. James, Director, Physical Infrastructure Issues; Teresa Anderson; Susan Barnidge; Kenneth John; Jaclyn Nelson; Kristi Peterson; Steve Robblee; Friendly Vang-Johnson; Betsey Ward-Jenks; and Crystal Wesco made important contributions to this statement.

# Appendix I: Key Elements of the Proposed U.S. Postal Service Health Care Plan

Element	Description
100% participation of eligible retirees in Medicare Parts A and B	The U.S. Postal Service's (USPS) plan is designed so that all Medicare-eligible retirees would enroll in Medicare Parts A and B. Those who do not enroll would have their benefits reduced by the amount Medicare would have paid had the individual enrolled. As is the case under the Federal Employees Health Benefits Program (FEHBP), Medicare would serve as the primary payer of health care costs, and for existing retirees, the USPS plan would cover 100 percent of any costs above the amounts covered by Medicare Parts A and B.
Prescription drug benefits that qualify the plan for federal subsidies and drug discounts	USPS would design the prescription drug benefits under its plan to qualify as an Employer Group Waiver Plan (EGWP) under Medicare Part D. This would qualify USPS to receive—for those eligible for Medicare—a federal subsidy from the Medicare program for drug costs, a discount from pharmaceutical companies for brand name drugs, and federal coverage for drug costs above a catastrophic limit.
Introduction of two new tiers of coverage	The proposed plan would include four coverage tiers: self only, self and spouse, self and children, and self and family. Premiums for each tier would be set according to the claims experience of the group. USPS's proposed addition of two tiers (self and spouse and self and children) to the options available under FEHBP would be to reflect the various stages of family status that participants may experience over the course of their career and retirement.
Purchasing plan administration services from a single vendor through a competitive bidding process	USPS would contract with a single vendor to administer its plan; that vendor would negotiate with providers for payment rates, process claims, and provide wellness and disease management programs.
Requirement that future retirees be subject to plan deductibles and cost-sharing upon enrolling in Medicare	For employees retiring a year or more after the USPS plan becomes effective (i.e., "future retirees"), Medicare would be the primary insurer once the enrollee becomes eligible, and the USPS plan would cover costs above what Medicare pays. However, future retirees would be required to meet the USPS plan deductible and pay coinsurance.
USPS Health Benefits Fund	<p>Under one option of USPS's proposal (which USPS refers to as "Scenario 2"), a health plan would be financed by a newly created fund called the Health Benefits Fund (HBF) that would include: (1) the entire Postal Service Retiree Health Benefits Fund that would be abolished upon its transfer to the HBF; (2) the balance of the fund that finances FEHBP allocable to contributions by USPS, postal employees and retirees, including any reserve fund amounts; (3) USPS contributions under its health plan; (4) contributions of postal employees and retirees under the USPS health plan; (5) any interest on HBF investments; (6) any other USPS receipts allocable to the USPS health benefits plan; and (7) appropriations based on the service of officers and employees of the former U.S. Post Office Department.</p> <p>Under its proposal, USPS would be authorized to invest HBF assets without the approval of the Secretary of the Treasury in non-Treasury securities, such as stocks and bonds, as well as commodities, foreign currency, and real property. Also, USPS indicates that HBF assets could not be used for (1) loans to USPS, such as to enable it to remain solvent; (2) USPS payments to the federal government, such as for pensions and workers' compensation; or (3) to finance USPS investments or USPS nonpostal initiatives to generate revenue.</p> <p>In any year when the amount of HBF assets exceeds USPS's estimated actuarial liability for retiree health benefits, USPS could authorize the surplus amount to be transferred to the Postal Service Fund that finances most USPS expenses, provided that such authorization is made pursuant to a recommendation by a majority of the Committee overseeing the HBF.</p>

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**Appendix I: Key Elements of the Proposed U.S.  
Postal Service Health Care Plan**

<b>Element</b>	<b>Description</b>
USPS funding of retiree health benefits	USPS would continue to prefund retiree health benefits, but under a purely actuarial approach, without the fixed (non-actuarial) payments required under current law through 2016. Payments to the HBF would be based on the “normal cost” and amortization of any unfunded liability or surplus of its retiree health care liabilities over an amortization period ending at the later of 40 years after implementation or 15 years from the then-current year.

Source: GAO analysis of USPS information.

<sup>a</sup>USPS has also proposed another option for financing its health plan (which USPS refers to as “Scenario 1”) under which retiree health benefits would continue to be financed from the Postal Service Retiree Health Benefits Fund (PSRHBF).

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