UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

STATEMENT OF
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before the

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

on

"U.S. POSTAL SERVICE IN CRISIS: PROPOSALS TO PREVENT A POSTAL SHUTDOWN"

September 6, 2011

Chairman Lieberman, Ranking Member Collins, and Members of the Committee:

Thank you for the opportunity to testify regarding the United States Postal Service (the Postal Service or USPS) proposal to end its participation in the federal employee health and retirement plans and to provide comments on several postal reform legislative proposals currently in Congress. The Office of Personal Management (OPM) recognizes the value of the Postal Service to the Nation's commerce and is sympathetic to the fiscal challenges that the Postal Service faces. I have met with Postmaster General Patrick Donahoe many times to explore ways OPM can be helpful and we are committed to assisting the Postal Service where we can. At the same time, as program administrator and fiduciary for the Civil Service Retirement and Disability (CSRD) and the Federal Employees Health Benefits Trust Funds, OPM has an obligation to avoid any potential adverse impacts that would occur were the Postal Service to withdraw from these programs.

In recognition of the difficulties the Postal Service is facing, the President's Budget proposed specific short-term financial relief measures. These measures would provide financial relief and allow the Postal Service to continue restructuring its operations without severe disruptions.

Current Postal Service Health and Retirement Benefits Obligations

The Postal Service has a legal obligation to make certain payments related to health and retirement benefits. Postal Service expenses with respect to health benefits include annual premium payments of approximately $7.4 billion constituting the employer contribution for postal workers and retirees, as well as $5.5 billion to pre-fund retiree health benefits. The Postal Service has decided to cover a larger portion of its employees' health care premiums than do federal agencies. On average, Postal employees pay 20 percent of the cost of the premiums, compared to an average of 31 percent for federal employees. The Postal Service Retiree Health Benefit (PSRHB) Fund was established under P.L. 109-435, the Postal Accountability and Enhancement Act (PAEA) of 2006 and required the Postal Service to pre-fund retiree health benefits and make fixed payments through 2016. The purpose of the PSRHB Fund is to cover the Postal Service's liability for the health care costs of current and future retirees under the Federal Employee Health Benefits (FEHB) Program. This pre-funding mechanism is unique to the Postal Service and federal agencies are not required to and do not pre-fund retiree health benefits. OPM calculates that the actuarial liability for the PSRHB Fund value was $91 billion as of September 30, 2010. Subtracting the PSRHB Fund value of $42.5 billion, there remains an unfunded liability of about $48.5 billion.

Postal Service expenses with respect to retirement benefits total approximately $3 billion per year. These expenses are incurred only on behalf of those employees enrolled in the Federal Employee Retirement System (FERS) program. In 2006, Congress discontinued Postal Service contributions on behalf of employees enrolled in Civil Service Retirement System (CSRS). Most employees covered by CSRS pay 7 percent of their salaries toward their pension costs while FERS covered employees pay 0.8 percent of their salaries for the FERS defined benefit and contribute to Social Security payroll taxes, plus elective amounts for the Thrift Savings Plan (TSP). The FERS funding and employee cost sharing requirements are the same as those that apply to all non-Postal agencies and employees.

Postal Service's Recent Proposals

The Postal Service has announced that it would like to pursue establishing and administering its own health benefits program and retirement system. It believes it can realize substantial savings if it (1) withdraws all retirees and active employees and their families from the FEHB Program and establishes its own health benefits program, and (2) withdraws all employees and retirees from the CSRS and the FERS and administers its own retirement system.

OPM believes the Postal Service and its employees and retirees are well-served by the existing health benefits program and retirement system. Currently, OPM overhead costs for the FEHB Program are only 0.08 percent of total health premiums. These very low overhead costs have been achieved by managing programs with very large numbers of enrollees and the accumulated experience of the agency and its staff having managed these programs for decades. In the most recent external review of the FEHB program, expert consultants rated the FEHB Program as being comparable to benefit packages offered by large private sector employers. The FEHB Program offers good value to employees and the taxpayer and is not an excessively costly benefit as compared with other employer plans. In addition, annual premium increases for FEHB plans are typically at or below industry averages.

This is a complex proposal that requires further analysis to determine if the Postal Service can achieve significant cost savings through administering its own health benefits program and retirement system.

Impact of USPS Withdrawal from FEHB to a Postal Plan

OPM expects that a withdrawal of the Postal population would not have a significant impact on the FEHB Program as a whole. In addition, the overall cost impact on the FEHB Program would be minimal. However, a Postal withdrawal would have an impact on health plans with a large Postal population, such as Rural Letter Carriers, National Association of Letter Carriers, and the American Postal Workers Union. While Postal employees and retirees represent less than one quarter of the FEHB covered population, 23 health plans are comprised of 50 percent or more Postal employees and retirees and 56 plans are comprised of one third or more Postal employees and retirees.

If these plans were to choose to withdraw from the FEHB Program, their remaining members would need to choose another health insurer. This might also reduce choices among plans, which reduces competition. A fuller analysis is needed to understand the implications of withdrawal on the health plans in FEHB in which Postal Workers represent a large proportion of members.

The Postal Service has suggested establishing its own Postal Service Health Care Plan (PSHCP). It may be challenging for the PSHCP to have provider networks for employees and retirees located all across the country, especially in rural areas. As stated previously, OPM has developed the systems to provide these numerous, locally-based options at very little administrative cost.

Challenges of USPS Withdrawal from CSRS and FERS

Postal employees are subject to the same rules as Federal employees for the purposes of benefits, employment rights, and other obligations. The Postal Service's proposal to withdraw its annuitants and employees from CSRS and FERS would pose significant challenges because Postal and non-Postal service are integrated into the same retirement system. As such, many individuals have creditable CSRS and/or FERS service both in Postal and non-Postal employment, and the Federal Government has a legal obligation to pay these benefits. It is also possible that the USPS proposal to transfer a portion of the Civil Service Retirement and Disability Fund from the Treasury to the Postal Service would place the Postal Service's ability to pay benefits at the risk of investment returns. These are just a few of the possible complexities and challenges that segregating this large employee population could create given the diversity and size of the population. More analysis would be needed to understand the full scope of possible consequences of the proposed change.

Need for Further Analysis and Other Approaches to Address USPS Problems

Any proposal to withdraw from the FEHB and Federal employee retirement systems would be a complex undertaking. It would require careful examination to avoid unintended consequences that could harm the effectiveness of existing benefit systems. Further analysis would be necessary to ascertain whether the Postal Service's proposal to address its fiscal challenges by withdrawing from the FEHB Program is a cost-effective approach to decreasing its health obligations, and to determine the impact on those systems left behind and the employees they cover.

The Postal Service's proposal to remove its employees from CSRS and FERS could create a number of administrative and policy challenges that would also need a careful review to fully understand its effect. Implementing such a proposal would be extremely difficult and complicated because there is no clear distinction between Postal and non-Postal employees, and Postal and non-Postal employment are not mutually exclusive from each other under CSRS and FERS. Countless individuals have creditable CSRS and/or FERS service both in Postal and non-Postal employment. Also, attention needs to be given to long standing statutes that explicitly promise CSRS and FERS benefits in return for deductions as well as the question on whether the Retirement Fund would be expected to assume the costs if the Postal Service failed to meet this obligation.

The President's Budget proposed improving USPS's financial condition by returning to USPS its surplus in the FERS retirement fund, estimated at $6.9 billion as of September 30, 2009. The surplus would be paid to USPS over 30 years, including an estimated $550 million in 2011. The Budget also proposes to restructure USPS retiree health benefits payments that were specified by PAEA. This change would still pre-fund retiree liabilities, but relies more on an accruing cost basis rather than the set amounts fixed in current law, which do not allow for the dramatic shifts in demand or workforce size that USPS has experienced in recent years. This restructuring and near-term deferral would provide USPS with $4 billion in temporary financial relief in 2011.

In relation to the FEHB Program, the Budget included a cost savings proposal to streamline prescription drug costs. Currently, OPM is not authorized to contract directly for prescription drug coverage. The proposal in the President's Budget would give OPM greater authority to bring enhanced competition into the FEHB Program in relation to prescription drug coverage. We estimate that this would save the Postal Service $0.3 billion for both Postal active employees and annuitants over five years (2012 to 2016). OPM has also made clear its intention to work with the Postal Service to reduce the cost of health premiums for its employees.

One of the primary concerns of the Postal Service is the cost of retiree health benefits. There are a number of potential approaches to reduce the cost of retiree health benefits; we are piloting one approach to better coordinate FEHB coverage with Medicare in two of our current FEHB plans.

OPM believes that the Postal Service and its employees and retirees can also reduce health care costs while maintaining valuable benefits by staying within the FEHB program

Legislative Proposals on Postal Reform

Several postal reform proposals have been introduced to address the financial challenges that the Postal Service faces through changes in employee benefits. Legislation introduced by Senator Collins, S. 353, the U.S. Postal Service Improvements Act of 2011, has the goal of addressing the Postal Service's funding of CSRS and FERS. Senator Carper introduced S.1010, the Postal Operations Sustainment and Transformation (POST) Act of 2011, which would amend title 5, U.S.C, by revising the methodology for calculating the amount of any Postal surplus or supplemental liability under CSRS and FERS. Representative Lynch introduced H.R. 1351, the United States Postal Service Pension Obligation Recalculation and Restoration Act of 2011, which would also revise the allocation of CSRS costs between Postal and Treasury. H.R. 1351 revises the allocation of CSRS costs between Postal and Treasury, similar to S.1010. H.R. 2309, the Postal Reform Act of 2011, was introduced by Representative Issa and has the goal of saving the Postal Service $6 billion per year by creating the Postal Service Financial Responsibility and Management Assistance Authority (Authority) and Commission on Postal Reorganization (CPR) to restructure USPS and reduce costs.

OPM would like to clarify the term "overpayment" as it has been used because it implies a problem with the current allocation method that OPM uses regarding CSRS benefits paid to former Post Office Department (POD) employees. OPM applies the method established under current law for apportioning responsibility for CSRS costs between USPS and the Treasury. Congress first established this policy in 1974, under P.L. 93-349, and all subsequent legislation has been consistent with this policy. As OPM states in a letter last year to the Chairman of the Postal Regulatory Commission (PRC), after careful review by counsel, we concluded that OPM does not have the authority to make a reallocation of these CSRS costs in the manner suggested in the report commission by the PRC. However, if Congress determines that another methodology is more appropriate, OPM will of course comply with any changes in the current law.

Comments on S. 353, the U.S. Postal Service Improvements Act of 2011

This legislation includes a requirement that OPM shall upon enactment make a determination of the Postal CSRS liability in a manner consistent with the report submitted by the PRC on June 29, 2010. That report recommended a reallocation of the Postal CSRS liability that it estimated would transfer roughly $55 to $65 billion in costs from USPS to the Federal Government. However the language does not explicitly require that the annual determination of the CSRS liability under 5 U.S.C 8348(h) be made on a basis for which the federal government, not USPS, is retroactively responsible for all of the costs attributable to the effect of post-1971 salary increases on CSRS benefits attributable to pre-1971 service. The legislation shifts responsibility from USPS to Treasury, retroactively back to inception of FERS, for FERS military service costs. The legislation does not establish authority for OPM to determine a separate FERS normal cost for USPS.

Comments on S.1010, the POST Act of 2011

S.1010 directs OPM to determine CSRS liabilities with the federal government, not USPS, being retroactively responsible for all costs attributable to the effect of post-1971 salary increases on CSRS benefits attributable to pre-1971 service. Similar to S. 353, the legislation also shifts retroactive responsibility from USPS to Treasury, back to inception of FERS, for FERS military service costs. The legislation does not establish authority for OPM to determine a separate FERS normal cost for USPS.

The legislation revises the economic assumption basis under which OPM determines the FEHB Postal retiree health liability and requires OPM's CSRS Board of Actuaries (the "Board") to recommend a medical trend rate. However, because the Board is composed of pension actuaries, choosing a medical trend assumption is beyond the scope of the Board's customary expertise. The Board has also expressed its concerns that actuarial standards of practice would likely statutorily prohibit the Board from directly offering guidance, due to the Board's composition. Savings from CSRS and FERS would be used to lower or replace USPS payments to the Postal Service Retiree Health Benefits Fund.

Comments on H.R. 1351, the United States Postal Service Pension Obligation Recalculation and Restoration Act of 2011

H.R. 1351 revises the allocation of CSRS costs between Postal and Treasury, similar to S.1010. However, the legislation appears to push all of the resulting savings to USPS (with costs going to Treasury) beyond the 10 year budget window. The legislation does not revise the FERS allocation method, but does provide use of the current FERS funding surplus for immediate payment of USPS annual payments into the PSRHB Fund.

Comments on H.R. 2309, the Postal Reform Act of 2011

H.R. 2309 would create the Authority which would have a broad mandate to restructure the Postal Service and reduce costs. It would have to meet certain benchmarks to ensure that Postal Service pension and retiree health benefits were properly funded, and then it would go out of existence. It would also create the CPR to review postal infrastructure and recommend closures and consolidations to Congress that would create cost savings. If Congress does not reject the CPR's recommendations, the recommendations would become law. This proposal would not affect FERS or CSRS or retiree FEHB funding. The only provision affecting benefits involves a limitation on the Postal contribution to FEHB and Federal Employee Group Life Insurance (FEGLI) to the federal non-postal employer contribution. H.R. 2309 does not contain any provisions that alter retirement benefits.

Conclusion

These are complex issues with effects that could ripple throughout government-wide health and retirement programs, and therefore require further analysis. We look forward to working with the Committee to assist the Postal Service in addressing its fiscal challenges.