



Association for Postal Commerce

1901 N. Fort Myer Dr., Ste. 401 • Arlington, VA 22209-1609 • Ph: +1 703 524 0096 • Fax: +1 703 524 1871 • Web: <http://postcom.org>

"EVERYTHING (AND MORE) THAT YOU EVER WANTED TO KNOW ABOUT THE POSTAL/CSRS FUNDING CRISIS BUT WERE AFRAID TO ASK"

One of the key issues facing Congress this year is the need to reform the legislative and regulatory framework of our nation's postal system. This need is being addressed through legislation proposed by the House Committee on Government Reform and the Senate Committee on Governmental Affairs.

Rhetoric around reform often includes talk of an imminent financial "crisis" for the Postal Service. While reform is necessary to ensure the Postal Service's long-term, sustainable solvency, if the Congress takes appropriate action this year the Postal Service will be able to:

- Fully prepay all retiree health care liabilities.
- Fully pay off all other liabilities for retirees, worker's comp, etc.
- Pay off all debt to the Treasury
- Hold rates stable for at least 3 years past 2006

ALL WITH MONEY THAT HAS ALREADY BEEN PAID BY THE POSTAL SERVICE'S CUSTOMERS WITH THE RATES THAT HAVE BEEN IN EFFECT FOR YEARS!

What must the Congress do to accomplish this seeming miracle? Fully, accurately, and fairly account for the overpayments that the Postal Service has already made to the CSRS Retirement system.

Full, fair, and accurate accounting means:

- Return to the method of allocating benefits earned before 1971 used from the creation of the Postal Service until last year
- Transfer the obligation to fund benefits earned as a result of military service back to the Treasury
- Eliminate the escrow fund created in Public Law 108-18.

THAT'S RIGHT! Using an allocation method that was in effect for years, returning an obligation that was the Treasury's from the time of the creation of the Postal Service until last year, and eliminating an escrow that hasn't collected a dime yet will make the Postal Service solvent for years to come.

Confused? The issues pertaining to postal reform are many and complex. None is more complex than the issues pertaining to the obligations with which the Postal Service must contend concerning its employees' health and retirement benefits. These issues were made even more complex through recent changes made by Congress and the Administration to the way these obligation are calculated and who is ultimately responsible to pay.

In what follows, we hope to simplify and clarify these issues as much as possible to facilitate the greatest possible understanding of the dilemma now faced by all who rely on the preservation of a viable and universal mail delivery system and not just the Postal Service alone.

Q. You've mentioned "obligations" in reference to postal retirees'. Exactly what obligations are we discussing.

A. Postal employees participate in one of two federal retirement programs, the Civil Service Retirement System, or "CSRS," and (since 1984) the Federal Employees Retirement System, or "FERS." The issues we're discussing are those that pertain to CSRS and not to FERS.

Q. Why is that?

A. Obligations that come from the FERS program are fully funded by employer and employee contributions as they are incurred.

Q. And, CSRS?

A. Those obligations are not fully funded either by employees or the responsible federal agencies at the time the obligations are incurred. The CSRS fund collects funds based on a percentage of payroll, but this percentage is not actuarially related to the benefits that will eventually be paid out. If the funds collected are insufficient, the agency incurs an "unpaid" obligation that must be satisfied some time in the future.

Q. Is this the manner by which USPS CSRS obligations are paid?

A. Yes, at least prior to Congress' enactment of P.L. 108-18. The Postal Service paid a percentage of payroll for current CSRS employees plus payments of principal and interest on what was thought to be a large "unpaid" liability.

Q. And after P.L. 108-18?

A. This law requires the Postal Service to fully fund its CSRS obligations with payments to the Treasury at the time the obligations are incurred (i.e., as the employee earns his rights to retirement benefits).

Q. Does P.L. 108-18 affect other federal agencies in addition to the Postal Service?

A. No, this law pertains to the USPS alone.

Q. And why was the USPS singled out for this different treatment?

A. The change was made in conjunction with Congress' effort to address the Postal Service's "overfunding" of its CSRS obligations.

Q. Wait a minute...an "overfunding"? What do you mean and how did this occur?

A. The amount any agency must pay toward its employees' CSRS obligation has been fixed by a funding formula determined many years ago by the Office of Personnel Management's Board of Actuaries. Over the years, the actuarial board never revisited the assumptions that underlaid its original determinations, even though economic conditions, and the investments made during those conditions, deviated significantly from original estimates.

Q. What do you mean "deviated?"

A. To put it simply, the actuarial board never foresaw the climb in interest rates and yields on government securities that occurred in the years since Postal Reorganization. These higher yields resulted in a much greater contribution by the USPS toward its CSRS liabilities than the actuarial board had planned.

Q. How and by whom was this error detected?

A. The overfunding was determined by the Office of Personnel Management and the Department of Treasury following a review of USPS CSRS obligations requested by the U.S. General Accounting Office and the Postal Service itself.

Q. What did OPM and the Treasury find?

A. They found that as a result of the actuarial "error," the USPS had overpaid toward its CSRS obligation by over \$70 billion.

Q. And how was this "error" corrected?

A. The "correction" the Administration sought was several-fold. First, it demanded that the USPS change the formula for its future contributions to place its CSRS obligations on the same "fully-funded" basis that applied to its FERS obligation. In other words, it wanted the Postal Service to eliminate totally any "unpaid" portion of its CSRS obligations--a requirement that set the USPS apart from its other federal brethren.

Q. What does this mean?

A. It means that the Postal Service is now unique among federal agencies in its requirement to fully fund its CSRS obligations, leaving none underfunded or unpaid.

Q. What's the rationale for that?

A. The USPS, unlike other Executive Branch agencies, is required to operate on a self-funded basis. It also maintains its accounts differently than other federal agencies. Postal books are handled on an accrual basis. Other federal agencies typically maintain finances on a cash accounting basis. Consequently, it was deemed "appropriate" to require the Postal Service to fully account and pay on its retirement obligations as they are incurred.

Q. Did the Postal Service consider this "fair," and did it agree to such a change?

A. Yes.

Q. Were there any other changes that reduced the size of the overpayment?

A. Yes. OPM changed the methodology for allocating responsibility for retirement benefits earned by postal workers prior to the 1971 creation of the Postal Service.

Q. Why is such an allocation necessary?

A. When the Postal Service was created in 1971, the federal government took responsibility for all retirement obligations earned by employees of the old Post Office Department, which was cabinet-department like any other federal agency.

Q. What did last year's allocation change do?

A. The new method changed what was a Postal Service surplus of \$81.0 billion as of September 30, 2002 to an unfunded liability of \$4.8B. The difference is \$85.8 BILLION DOLLARS.

Q. Does the Postal Service believe this new allocation method is fair?

A. No. The Postal Service has appealed the new allocation method with the Board of Actuaries.

Q. So the Board of Actuaries will correct this problem?

A. We cannot count on the Board of Actuaries to fix this. The Board has never heard an appeal in the history of its existence, and it is an agency of the Office of Personnel Management (OPM), the very entity that forced this change on the Postal Service.

Q. Did P.L. 108-18 require any other changes not mentioned earlier?

A. Yes. There were other changes made as well.

Q. Such as what?

A. One other change made at the Administration's insistence was to move to the Postal Service, and away from the Treasury, the responsibility to pay for all of a postal retiree's pension obligations, even those that resulted from the employee's years of military service.

Q. And this change was new?

A. Yes. Prior to P.L. 108-18, the Treasury itself paid for the military retirement portion of a federal retiree's pension.

Q. Was that all?

A. No. The Administration also insisted that Congress require the Postal Service to pay to the Treasury interest on whatever payments Treasury already had made toward a postal retiree's benefits prior to enactment of P.L. 108-18.

Q. Interest? For what?

A. Interest, as a sort of "opportunity cost" payment for the money the Treasury would not have had to pay if the requirements set forth in P.L. 108-18 had been in effect at the time of postal reorganization's implementation in 1971.

Q. Has Congress or the Administration made similar demands on any other federal agency?

A. No. In this regard, the Postal Service's treatment has been truly unique.

Q. And what does this mean to the Postal Service?

A. It means it will have to swallow yet another financial burden on top of the many other burdens demanded by Congress through several budget reconciliation laws enacted since postal reorganization.

Q. How will the Postal Service fund this additional burden?

A. In the only way it can, through the postal rates it charges to all mail users.

Q. And what will this mean to mail users?

A. It will mean having to shoulder an even greater postal rate burden than otherwise would have been the case.

Q. So that will fix things, right?

A. Not exactly. There may have been a time when those who use mail as a vehicle for business communication and commerce would have had no alternative than simply swallowing hard and paying greater postage. Today, that simply is not the case. Today, those who communicate and do business by mail have the ability to communicate and do business by other media as well, such as any of the electronic communication alternatives or other privately distributed printed media. When faced with unnecessarily higher postal rates, those that can will opt for such alternatives. Those that can't may have to change their patterns of mail use to accommodate mail's higher costs. In other words, they may choose to mail less, which will mean the Postal Service will earn less revenue to cover the costs of its universal mail delivery system.

Q. Were there any other changes wrought by P.L. 108-18?

A. Yes. A provision was added to this measure that placed whatever savings the USPS should have appreciated through the adjustment made to OPM's original actuarial assumptions in an escrow account, beginning Fiscal Year 2006.

Q. What brought this about?

A. The escrow was created to reduce the apparent effect of the legislation on the federal government budget deficit (the so-called "score.") It may also have reflected the skepticism of some in Congress that the Postal Service would make prudent use of the funds saved by recalculation of its CSRS obligations.

Q. Has the Postal Service resolved any of this skepticism?

A. Yes, but the escrow remains, unless Congress enacts some new law that does away with it.