



POSTAL SERVICE RETIREE HEALTH BENEFITS OBLIGATIONS UNDER PAEA

The Postal Service is under serious financial strain due to challenging economic conditions that continue to reduce mail volume.

A combination of factors has led to the severity of the economic climate:

- Year over year fuel price increases
- Increases in the cost of paper
- Uncertainty in the financial markets
- Increased diversion of hardcopy messages to the Internet
- Continued increase in USPS expenses in pay and benefits

The requirement to pre-fund its retiree health benefits liability is also placing a tremendous burden on the Postal Service.

The payment schedule statutorily mandated by the Postal Accountability and Enhancement Act of 2006 (PAEA) requires the Postal Service to make an annual payment ranging from \$5.4 to \$5.8 billion from 2007 to 2016. In addition, under PAEA, the Postal Service makes a separate payment to the Office of Personnel Management (OPM) for its annual retiree health benefit premiums until 2016. When this payment schedule was being considered in 2006, the Postal Service believed the payment plan was achievable; financial circumstances have changed that analysis.

The Postal Service understands that it must constrain costs. The Postal Service reduced the number of employees by more than 100,000; offered a voluntary early retirement to virtually every employee in the Postal Service; and is exploring a variety of ways to consolidate its processes to achieve efficiency while maintaining service. However, the Postal Service's fixed network costs cannot be reduced immediately.

To address the Postal Service's immediate financial distress, there is an option that could reduce the Postal Service's expenses by roughly \$2.3 billion in FY2009. Congress could amend the PAEA to leave the ten-year PAEA payment stream intact, but allow the Postal Service to pay its retiree health premiums out of the trust fund, rather than make a separate payment to OPM. This option would simply accelerate a provision in PAEA, which states that after 2016, premium payments would no longer be paid separately, but would be drawn from the RHBFB.

At the end of FY2008, the trust fund had a balance of roughly \$32 billion.

This change would ease the financial pressure while the Postal Service pursues the long-term actions necessary to address the network costs. It would also reduce the need for the Postal Service to borrow money from the Treasury for the sole purpose of depositing that money into the retiree health benefit trust fund.

BACKGROUND INFORMATION

As shown in the table below, the PAEA specifies future Postal Service payments to the RHBF totaling \$44.8 billion in eight annual payments in the period 2009-2016. (This amount is additional to the payments of \$5.4 billion and \$5.6 billion paid as specified by the law in 2007 and 2008 respectively that totaled \$11 billion, the \$3.0 billion paid for the 2006 escrow fund that resulted from P.L. 108-18, and the \$17.1 billion transfer of funds from the Civil Service Retirement System (CSRS) to the RHBF.) With the addition of \$3.5 billion in employer premium payments for 2007-2008 and \$28.1 billion in estimated annual employer premium payments to the fund in the period 2009-2016, total Postal Service payments for retiree health benefits under the terms of the PAEA in the 2007-2016 period will total \$107.5 billion.

PAEA Costs Related to Retiree Health Benefits ¹

	PAEA RHBF Expenses		
	Scheduled Payments (Pre-Funding)	Premium Payments (Annual/Current)	Total
2009	\$ 5.4	\$ 2.3	\$ 7.7
2010	\$ 5.5	\$ 2.6	\$ 8.1
2011	\$ 5.5	\$ 2.9	\$ 8.4
2012	\$ 5.6	\$ 3.3	\$ 8.9
2013	\$ 5.6	\$ 3.6	\$ 9.2
2014	\$ 5.7	\$ 4.0	\$ 9.7
2015	\$ 5.7	\$ 4.4	\$ 10.1
2016	\$ 5.8	\$ 4.8	\$ 10.5
Total	\$ 44.8	\$ 28.1	\$ 72.9

(Dollars in billions) (Columns may not add due to rounding.)

Request: Immediate Payment of the Postal Service's Portion of Retiree Health Benefits Premium from the RHBF

An alternative is to immediately allow the payment of the Postal Service's portion of the retiree health benefit premiums from the Retiree Health Benefit Trust Fund, while maintaining the PAEA scheduled payments. This would allow the Postal Service to avoid the expense listed in the "Premium Payments" column, as that payment would be transferred from the Trust Fund. The PAEA specifies that, beginning in 2017, the premium payments for retirees is to be paid from the Trust Fund. This alternative simply accelerates when the payments would begin being paid from the Trust Fund.

¹ This estimate assumes a 7% annual increase in retiree health benefits premium levels, a discount rate of 6.25%, fund interest earnings rates varying from 5.3% in the early years to 6.25% in the later years, and an annual decline in the total workforce of approximately 12,000 employees per year. These assumptions and estimates are subject to change based on changes in the annual retiree health benefits valuation produced by the Office of Personnel Management.