



Highlights of [GAO-04-238](#), a report to congressional committees

Why GAO Did This Study

In April 2003, Congress enacted the Postal Civil Service Retirement System (CSRS) Funding Reform Act of 2003 (P.L. 108-18), which lowered the Postal Service's (Service) annual payment for its CSRS obligation by over \$2.5 billion beginning in fiscal year 2003. P.L. 108-18 includes requiring (1) the Service to begin making payments into an escrow account in fiscal year 2006, (2) the Service to issue a report on its proposed use of "savings" resulting from the lower CSRS payments, and (3) GAO to evaluate the Service's report and present its findings to Congress. GAO evaluated whether the Service's proposals were consistent with P.L. 108-18; the impact of the escrow account; and whether the proposals were fair to current and future ratepayers, affordable, and helped achieve transformation goals.

What GAO Recommends

To ensure continuing progress in addressing the Service's financial challenges, Congress should consider repealing the escrow requirement after it receives an acceptable plan on rationalizing the Service's infrastructure and workforce. Absent an acceptable plan, Congress could direct the Service to fund specific purposes, such as prefunding its retiree health benefits obligation or supporting the Service's transformation. GAO makes additional matters for Congress to consider in the report.

www.gao.gov/cgi-bin/getrpt?GAO-04-238.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Bernard L. Ungar at (202) 512-2834 or ungarb@gao.gov.

POSTAL PENSION FUNDING REFORM

Issues Related to the Postal Service's Proposed Use of Pension Savings

What GAO Found

The Service's report presented two proposals for how it would use the "savings," and GAO found both to be generally consistent with P.L. 108-18. The first proposal assumes that responsibility for military service pension costs shifts to the Treasury Department and proposes prefunding retiree health benefits for retirees and current employees. The second proposal assumes that the Service retains responsibility for military service pension costs and proposes prefunding retiree health benefits only for new employees. Both proposals assume that the Service would pay down debt and fund capital investment through inflation-based rate increases.

Under both proposals, the Service proposes that the escrow requirement be eliminated, so that the Service would not have to include \$3 billion as a mandated incremental operating expense beginning in fiscal year 2006. The Service cannot use the escrow funds unless Congress eliminates the escrow requirement or specifies by law how these funds may be used. If no action is taken, the Service believes that it would have to raise rates higher than would otherwise be necessary. The escrow requirement provides Congress an opportunity to review how the Postal Service will address a number of long-term challenges, such as progress toward transformation and funding its retiree health benefits obligation. Once Congress is satisfied, it could repeal the escrow requirement so that an escrow account is not needed.

GAO assessed the Service's two proposals according to their fairness, affordability, and the ability to achieve transformation goals, as follows:

Fairness: Proposal I strikes a more equitable balance of allocating costs between current and future ratepayers, because benefits earned by today's employees will be built into the current rate base. Under Proposal II, much of the retiree health benefits obligation would remain unfunded, thereby placing the burden of the benefits being earned today on future ratepayers.

Affordability: The Service's proposals attempt to balance short-term rate mitigation with some level of prefunding to address its long-term obligations. The first proposal would require a larger postal rate increase than the second proposal and would prefund more of the retiree health benefits. The second proposal focuses more on rate mitigation. Given the Service's uncertain financial future, its ability to raise revenues, reduce costs, and improve productivity and efficiency is critical to affordability.

Transformation goals: Although the Service believes it can pay down debt and fund the capital investments associated with its transformation initiatives, this is not clear because the Service has not yet presented a comprehensive, integrated infrastructure and workforce rationalization plan. GAO has previously recommended that the Service provide Congress with such a plan and periodic reports on its transformation progress. The Service disagrees with GAO that the escrow repeal should be tied to a plan.