

# GAO Highlights

Highlights of [GAO-13-658](#), a report to congressional requesters

## Why GAO Did This Study

USPS has asked Congress to help restore its financial viability in part by enacting its proposal to create a USPS health care plan outside of FEHBP. This would result in the withdrawal of all postal employees and retirees (about 1 million people) from FEHBP. Under its proposal, USPS's and postal employees' and retirees' share of premiums would first be established by USPS and then, for union-covered employees, in collective bargaining. USPS employee groups oppose or have concerns about USPS's proposal.

GAO was asked to review USPS's proposed health care plan. This report discusses how the plan could affect 1) USPS's financial condition, 2) postal employees' and retirees' benefits and costs, and 3) FEHBP and non-postal enrollees. GAO analyzed USPS and FEHBP data and interviewed officials from USPS, Office of Personnel Management (OPM), OMB, Treasury, CMS, employee groups, and FEHBP plans. See the following page for more discussion of the scope and methodology.

## What GAO Recommends

As Congress considers USPS's health care plan, it should weigh the plan's impact on Medicare and other issues, including establishing safeguards for USPS health plan assets and ensuring FEHBP-comparable protections for USPS health plan participants. In a letter commenting on this report, USPS took no position on GAO's recommendations. OPM and Treasury had no formal comments. USPS and Treasury provided technical comments that were incorporated where appropriate.

View [GAO-13-658](#). For more information, contact John E. Dicken at (202) 512-7114 or [dickenj@gao.gov](mailto:dickenj@gao.gov), Lorelei St. James at (202)-512-2834 or [stjamesl@gao.gov](mailto:stjamesl@gao.gov), and Frank Todisco at [todiscof@gao.gov](mailto:todiscof@gao.gov).

July 2013

## U.S. POSTAL SERVICE

### Proposed Health Plan Could Improve Financial Condition, but Impact on Medicare and Other Issues Should Be Weighed before Approval

## What GAO Found

The U.S. Postal Service (USPS) would likely realize large financial gains from its proposed health care plan, primarily by increasing retirees' use of Medicare. Specifically, USPS estimates that its plan would reduce its retiree health benefit liability by \$54.6 billion, thereby eliminating its unfunded retiree health benefit liability. The plan would also reduce USPS's required total annual health care payments by an estimated \$7.8 billion in the first year of implementation and by \$33.2 billion over the first 5 years of implementation. USPS also projects that relative to the total annual health care payments it would expect to make (reflecting its stated inability to make prefunding payments to fund retiree health benefits), its new plan would reduce its payments by \$2.1 billion in the first year of implementation and \$12.4 billion over 5 years. USPS also projects that its plan would increase the more than \$550 billion that the federal government spends annually for Medicare by \$1.0 billion in the first year and an average of about \$1.3 billion annually in the first 5 years of its health plan—about 0.2 percent of Medicare's annual costs. GAO has previously reported that Medicare is on a fiscally unsustainable path over the long term. Additional costs resulting from USPS's proposed plan would also have to be weighed alongside the fiscal pressure already faced by Medicare, but these costs have not been evaluated by the Office of Management and Budget (OMB) or the Centers for Medicare and Medicaid Services (CMS).

Some elements of USPS's proposal would add uncertainties that could reduce funds available for its employees' and retirees' future health care.

- **Investment of Health Plan Assets:** One of USPS's proposed options for investing health plan assets would increase the risk exposure of these assets by allowing investments in assets other than Treasury securities, such as stocks, as well as commodities, foreign currency, and other investments. If fund assets were invested in non-Treasury securities (including \$46 billion that would be transferred under this option from the current Postal Service Retiree Health Benefits Fund), the fund may experience losses in a market downturn and would thus have reduced assets available for health care. The presence of non-Treasury securities in the portfolio would also raise issues as to the appropriate discount rate for determining prefunding targets for retiree health benefits.
- **Transfer of Surplus Funds:** USPS's proposed option to transfer health fund assets to use for purposes other than health benefits, when assets supporting the USPS health plan exceed liabilities, is not fiscally prudent. If USPS were to consistently exercise this option to help maintain its financial solvency, it could result in an unfunded liability for retiree health benefits.
- **Selection of Assumptions:** Liability measurements are very sensitive to assumptions, and there can be professional disagreements over assumptions. USPS's proposal could potentially allow for the use of overly optimistic assumptions, which could lead to inadequate funding for the health plan over time. This potential could be reduced by having assumptions selected by an independent third party.

## **Scope and Methodology**

To describe the potential financial effects of USPS's proposed plan, GAO reviewed USPS documents detailing key elements of the plan and estimated cost savings. GAO obtained documentation regarding USPS's assumptions, methodology, calculations, underlying data, and projections and reviewed these for internal consistency and consistency with GAO's prior work and for overall reasonableness, and discussed them with officials of USPS and representatives of the Hay Group, which USPS hired to prepare its projections. GAO used its actuarial, economic, and health care expertise and judgment to determine the assumptions and projections were sufficiently reliable for purposes of this review but did not independently validate them. GAO also met with officials from OMB and CMS to discuss the effect of USPS's proposal on Medicare.

To determine the effect that USPS's proposal could have on postal employees' and retirees' benefits, GAO compared the package of services that USPS proposed to cover in the first year of implementation with the services covered in 2013 by seven selected FEHBP plans that had more than 75 percent of the total postal enrollment in FEHBP. To determine the extent to which employees and retirees would have the same legal protections related to employees' and retirees' benefits and costs under USPS's proposed plan as they have within FEHBP, GAO reviewed draft legislation proposed by USPS and federal laws, regulations, and OPM guidance that apply to FEHBP plans.

To describe the effects of a USPS withdrawal on FEHBP and on nonpostal FEHBP enrollees, GAO used OPM data on postal and nonpostal enrollment in FEHBP in 2011 to estimate the change in total program enrollment. GAO also used the data to estimate the effect on enrollment in each of the more than 140 FEHBP plans.

GAO met with officials from USPS management and employee groups and others to obtain their perspectives on USPS's proposed health care plan.

## **What GAO Found (continued)**

Under USPS's health care plan as designed for year one, USPS employees and retirees would have coverage for a similar set of inpatient, outpatient, and prescription drug services as under selected Federal Employees Health Benefits Program (FEHBP) plans, which account for over 75 percent of postal enrollment in FEHBP. USPS's proposed plan would also offer similar levels of coverage for many services, with some exceptions (e.g., services received outside of USPS's approved network). GAO estimated that at least 63 percent of postal enrollees in the selected FEHBP plans would pay similar or lower premiums under the USPS plan, but some employees and retirees could have higher total costs—premiums and out-of-pocket costs for the use of care—due in part to differences in deductibles and maximum spending limits. Also, employees and retirees may need to change providers and would have many but not all the same protections around benefits and costs under the USPS plan as in FEHBP. For example, postal retirees would no longer have the assurance that USPS's contribution to the cost of health benefits would be fixed by law as it is within FEHBP.

A USPS withdrawal from FEHBP would reduce the program's enrollment by an estimated 25 percent. 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, which would result in an estimated 29,000 (of over 3 million) nonpostal enrollees having to select a new health plan.

### **Key Policy Issues**

The primary policy decision for Congress to make with respect to USPS's proposed health care plan is whether to increase postal retirees' use of Medicare, which is already facing funding challenges. This is because USPS's proposal would essentially decrease USPS costs but increase Medicare costs. If Congress does not act on USPS's proposal for a new USPS health care plan, GAO continues to believe that Congress and USPS need to reach agreement on a comprehensive package of actions to improve USPS's financial viability. In previous reports, GAO has provided strategies and options that Congress could consider to address constraints and legal restrictions that limit USPS's ability to reduce costs and improve efficiency. GAO also continues to believe that Congress would need to modify the current statutory schedule for prefunding USPS's retiree health benefits payments in a fiscally responsible manner. In this regard, USPS should continue to prefund any unfunded retiree health benefits liabilities to the maximum extent that its finances permit.

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

- safeguards for all USPS health plan fund assets by placing appropriate constraints on their asset allocations; such as limiting all investments to Treasury securities, including inflation-indexed Treasury securities;
- standards for the disposition of any surplus health plan assets that reduce the risk of a new unfunded liability emerging in the future; such as 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.