GAO Highlights

Highlights of GAO-13-872T, a testimony before the Committee on Homeland Security and Governmental Affairs, U.S. Senate

September 26, 2013

U.S. POSTAL SERVICE

Health and Pension Benefits Proposals Involve Trade-offs

Why GAO Did This Study

USPS continues to be in a serious financial crisis, with little liquidity in the short term and a challenging financial outlook in the long term as profitable First-Class Mail volume continues to decline. Critical decisions by Congress are needed on postal reform legislation that has been proposed in both the U.S. Senate and the House of Representatives. Various proposals would restructure the financing of postal retiree health benefits, including required payments to prefund these benefits; enable USPS to introduce a new health plan for postal employees and retirees; and restructure the funding of postal pensions, including addressing a potential surplus in funding postal pensions under FERS.

GAO has previously testified that a comprehensive package of legislative actions is needed so that USPS can achieve financial viability and assure adequate benefits funding for more than 1 million postal employees and retirees. GAO has also previously reported on various approaches Congress could consider to restructure the funding of USPS retiree health benefits and pensions.

This testimony discusses (1) funding USPS retiree health benefits; (2) USPS's proposal to withdraw its employees and retirees from FEHBP and establish its own health plan; and (3) a potential surplus in funding postal pensions under FERS. This testimony is based primarily on GAO's past work.

View GAO-13-872T. For more information, contact Frank Todisco at (202) 512-2834 or todiscof@gao.gov or John E. Dicken at (202) 512-7114 or dickenj@gao.gov.

What GAO Found

GAO has reported that Congress needs to modify the U.S. Postal Service's (USPS) retiree health benefit payments in a fiscally responsible manner. GAO also has reported that USPS should prefund any unfunded retiree health benefit liability to the maximum extent that its finances permit. Deferring funding for postal retiree health benefits could increase costs for future ratepayers and increase the risk that USPS may not be able to pay for these costs. Key considerations for funding postal retiree health benefits include:

- *Trade-offs regarding USPS's current and long-term financial condition:* One rationale for prefunding is to protect USPS's future viability by paying for retirement benefits as they are being earned. However, USPS currently lacks liquidity to fund required payments for prefunding retiree health benefits. To the extent prefunding is postponed, larger payments will be required later, when they likely would be supported by less First-Class Mail volume. No prefunding approach will be viable unless USPS can make the payments.
- *Possible consequences to USPS employees and retirees:* Fully funded benefits protect against an inability to make payments later and make promised benefits less vulnerable to cuts.
- *Allocating costs between current and future ratepayers:* Deferring payments can pass costs from current to future postal ratepayers. Allocating costs among different generations of ratepayers is complicated by the unfunded liability that was not paid for in prior years.
- *Funding targets:* An 80 percent funding target for postal retiree health benefits would effectively lead to a permanent unfunded liability of roughly 20 percent. An option could be to build in a schedule to achieve 100 percent funding in a later time period after the 80 percent level is achieved.

GAO has reported that USPS would likely realize large financial gains from its proposal to withdraw its employees and retirees from the Federal Employees Health Benefits Program (FEHBP) and establish its own health plan. According to USPS's estimates, these financial gains would significantly reduce its health benefits expenses and eliminate its unfunded retiree health benefit liability—with increased use of Medicare by retirees comprising most of the projected liability reduction. USPS also has projected that its proposal will increase Medicare spending. As Congress considers proposals for a USPS health care plan, it should weigh the impact on Medicare, which also faces fiscal pressure, and other issues, including establishing safeguards for assets of the USPS health plan and ensuring protections for plan participants are comparable to those in FEHBP.

GAO has also reported on key considerations regarding the release of any Federal Employees Retirement System (FERS) surplus to USPS. First, estimates of retirement benefits liabilities contain a significant degree of uncertainty and can change over time. Second, returning surpluses whenever they develop would likely result in an eventual unfunded liability. Alternative options to address funding surpluses include reducing USPS's annual FERS contribution either by amortizing the surplus over 30 years (which would mirror the treatment of deficits) or by offsetting the contribution against the full surplus each year until the surplus is used up.