United States Government Accountability Office

Report to the Ranking Member, Committee on Homeland Security and Governmental Affairs, U.S. Senate

August 2018

POSTAL RETIREE HEALTH BENEFITS

Unsustainable Finances Need to Be Addressed

Accessible Version

GAO-18-602

GAO Highlights

Highlights of GAO-18-602, a report to the Ranking Member, Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

USPS is required to prefund its share of health benefits costs for its retirees. To do so, USPS is required to make payments into the RHB Fund, which is administered by OPM. However, USPS has not made any payments to the fund since fiscal year 2010. At the end of fiscal year 2017, USPS had missed $38.2 billion in payments, leaving the fund 44 percent funded. Pursuant to law, beginning in fiscal year 2017, OPM started drawing from the fund to cover USPS's share of postal retirees' health benefits premiums. GAO was asked to review issues related to the sustainability of the RHB Fund.

This report examines (1) the financial outlook for the RHB Fund and (2) policy approaches for postal retiree health benefits, among other topics. GAO evaluated financial projections for the RHB Fund from OPM. GAO reviewed laws and regulations and identified policy approaches primarily by identifying legislative proposals, and literature on actions of companies and state governments to address retiree health benefits. These approaches are not exhaustive or mutually exclusive. GAO also interviewed experts in retiree health benefits and postal stakeholders, chosen on the basis of relevant publications and prior GAO work, and interviewed and obtained written responses from OPM and USPS officials.

What GAO Recommends

Congress should consider passing legislation to put postal retiree health benefits on a more sustainable financial footing. USPS agreed that congressional action is needed and offered views on some policy approaches discussed in this report.

View GAO-18-602. For more information, contact Lori Rectanus at (202) 512-2834 or rectanusl@gao.gov.

August 2018

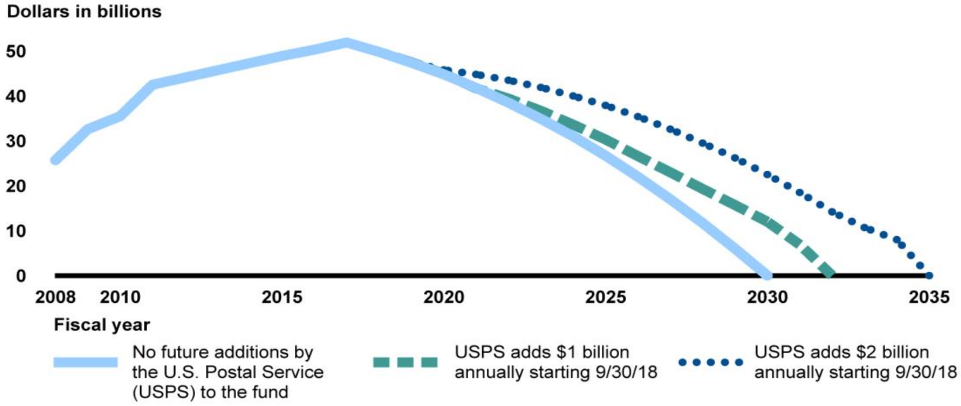
POSTAL RETIREE HEALTH BENEFITS

Unsustainable Finances Need to Be Addressed

What GAO Found

The financial outlook of the Postal Service Retiree Health Benefits Fund (RHB Fund) is poor. At the end of fiscal year 2017, the fund's assets declined to $49.8 billion and unfunded liabilities rose to $62.2 billion. Based on Office of Personnel Management (OPM) projections requested by GAO, the fund is on track to be depleted in fiscal year 2030 if the United States Postal Service (USPS) continues to make no payments into the fund. Annual payments of $1 billion or $2 billion into the fund would extend the projected depletion date by 2 to 5 years (see figure). USPS has said that its required payments to the fund are unaffordable relative to its current financial situation and outlook. For the past 11 years USPS has incurred large operating losses that it expects will continue. Additionally, USPS has stated that its opportunities for revenue generation and cost-cutting are limited. USPS reported that it did not make required fund payments in 2017 in order to preserve liquidity and cover operational costs. If the fund becomes depleted, USPS would be required by law to make the payments necessary to cover its share of health benefits premiums for current postal retirees. Current law does not address what would happen if the fund becomes depleted and USPS does not make payments to cover those premiums. Depletion of the fund could affect postal retirees as well as USPS, customers, and other stakeholders, including the federal government. About 500,000 postal retirees receive health benefits and OPM expects that number to remain about the same through 2035.

Actual and Projected Balance of the Retiree Health Benefits Fund, by Fiscal Year



Source: GAO evaluation of U.S. Office of Personnel Management projections. | GAO-18-602

GAO identified three categories of policy approaches for postal retiree health benefits, based on legislative proposals and pertinent literature. First, some approaches, such as generally requiring eligible postal retirees to participate in Medicare, would shift costs to the federal government. Second, some approaches would reduce benefits or increase costs to postal retirees and/or employees. Third, some approaches would change how benefits are financed (see table). All of these approaches have different potential effects and would require congressional action. Thus, it is up to Congress to consider the merits of different approaches and determine the most appropriate action to take. It would be preferable to take action when careful consideration is possible, rather than wait until lack of adequate funding could disrupt postal retiree health benefits.

Selected Policy Approaches to Address Postal Retiree Health Benefits That GAO Identified Primarily from Legislative Proposals and Pertinent Literature on Actions Taken by Companies and State Governments

Approach category	Approach	Description	Potential effects
Approaches that would shift costs to the federal government	Medicare integration	Various legislative proposals have been made to generally require postal retirees to participate in Medicare, which would increase their level of participation. Increased participation in Medicare would shift primary responsibility for covering certain health care services to Medicare for those who enroll.	Requiring retirees to use Medicare would decrease the U.S. Postal Service's (USPS) costs but increase Medicare's costs, according to analyses of past legislation by the Congressional Budget Office. The primary policy decision for Congress to make is whether to increase postal retirees' use of Medicare.
Approaches that would shift costs to the federal government	Supplemental federal appropriations	If the Postal Service Retiree Health Benefits Fund (RHB Fund) is depleted and USPS does not fill the financial gap, appropriations could be provided.	Using federal appropriations could help benefits continue at the same level if Congress so desires. However such an action could increase the federal budget deficit. In addition, supplemental appropriations for postal retiree health benefits would be inconsistent with USPS functioning as a self-financing entity that covers its costs with revenue it generates.
Approaches that would reduce benefits or increase costs to postal retirees and/or employees	Tighten eligibility/reduce or eliminate retiree health benefits	As some companies and state governments have done, eligibility restrictions could be tightened for postal retiree health benefits, such as making new hires ineligible to receive retiree health benefits, or other actions could reduce the level of benefits or even eliminate benefits.	Tightening eligibility would reduce USPS's liability for postal retiree health benefits, and thus reduce its unfunded liability. Effects on current and/or future retirees would depend on the specific actions taken.
Approaches that would reduce benefits or increase costs to postal retirees and/or employees	Increase postal retiree and employee premium payments	As some companies and state governments have done, retirees could be required to pay a larger share of premiums, or employees could be required to pay for retiree health benefits before they retire.	Shifting costs to retirees and/or employees would reduce the expenses of the RHB Fund. Depending on how much costs are shifted to retirees, this approach could increase any financial challenges the retirees may face.
Approaches that would reduce benefits or increase costs to postal retirees and/or employees	Change the federal contribution to a fixed subsidy	As some companies and state governments have done, benefits could be shifted to a defined contribution structure with a fixed amount subsidizing the benefit. This amount could be adjusted over time; any adjustments might or might not keep up with costs.	Using a fixed subsidy could decrease RHB Fund costs and required USPS payments and increase incentives for retirees to make less costly health care decisions. However, it also could result in greater cost exposure for retirees, costs that could lead to difficult decisions regarding health care.
Approaches that would reduce benefits or increase costs to postal retirees and/or employees	Establish a non-federal voluntary employees' beneficiary association (VEBA)	As some companies have done to provide retiree health benefits separately from the employer, a VEBA outside the federal government could be established to provide postal retiree health benefits instead of the current federal program. The VEBA would determine what benefits would be provided to its members—which could include retirees and employees—what payments members would make, and how the VEBA's assets would be invested.	VEBA effects would depend on the VEBA's governance structure and its determinations of benefit levels, funding sources, level of funding, type of investments, and associated market risks. Such determinations would include the level of initial funding and its sources, such as whether it would come from the RHB Fund and/or the Treasury, as well what funds would be provided to the VEBA going forward.
Approaches that would change how benefits are financed	Reduce the required level of prefunding	Proposed legislation would reduce the prefunding target for the RHB Fund from 100 percent to 80 percent.	Reducing the required funding level would reduce USPS's required payments to the fund but could increase costs for future postal ratepayers and increase the risk that USPS may not be able to pay for these costs.
Approaches that would change how benefits are financed	Outside investment	Proposed legislation would initially require 25 percent of RHB Fund assets to be invested outside U.S. Treasury securities, with the goal of seeking greater returns.	Allowing outside investment could lead to a higher rate of return on RHB Fund assets and reduce long-term funding needs. However, assets invested in non-Treasury securities may experience losses in a market downturn and would thus reduce assets available for health care.

Source: GAO. | GAO-18-602

Note: The policy approaches summarized in this table could be used, individually or in combination, to help address the financial shortfall in funding postal retiree health benefits. Even if successfully implemented, no one approach would necessarily be sufficient to make postal retiree health benefits financially sustainable. Although our discussion of the various policy approaches specifically addresses postal retiree health benefits, most could address federal retiree health benefits broadly, as both are currently the same for postal and non-postal federal employees.

Contents

Abbreviations

ACA	Affordable Care Act
AHRQ	Agency for Healthcare Research and Quality
CBO	Congressional Budget Office
CSRDF	Civil Service Retirement and Disability Fund
CSRS	Civil Service Retirement System
FEHBP	Federal Employees Health Benefits Program
HRET	Health Research & Educational Trust
Kaiser	Kaiser Family Foundation
OPM	Office of Personnel Management
PAEA	Postal Accountability and Enhancement Act
RHB Fund	Postal Service Retiree Health Benefits Fund
UAW	International Union, United Automobile, Aerospace and Agricultural Implement Workers of America
USPS	U.S. Postal Service
VEBA	voluntary employees' beneficiary association

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
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August 31, 2018

The Honorable Claire McCaskill
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate

Dear Senator McCaskill:

About 500,000 postal retirees currently receive federal retiree health benefits.[1] Unlike most federal entities, the U.S. Postal Service (USPS) is required to prefund its share of health benefits for its retirees.[2] To do so, USPS is required to pay money into the Postal Service Retiree Health Benefits Fund (RHB Fund), which is administered by the Office of Personnel Management (OPM). However, USPS has experienced financial difficulties and has not made its required payments to the RHB Fund since 2010.[3] Those missed payments totaled $38.2 billion through the end of fiscal year 2017. At the same time, the fund had assets of $49.8 billion but liabilities of $112.1 billion—leaving a shortfall of $62.2 billion in unfunded liabilities—and thus only 44 percent of the liabilities were funded. Further, pursuant to law, beginning in fiscal year 2017, OPM started drawing from the RHB Fund to cover USPS's share of premiums for postal retirees' health benefits.

Challenges related to funding and providing retiree health benefits are not unique to USPS. For years, private companies and state governments

[1] Postal retirees include the number of persons who were enrolled in federal health insurance on which USPS made contributions, including persons retired from USPS and their survivors ("postal retirees"). Federal health insurance plans may also cover certain family members of postal retirees, such as spouses and certain children under 26 years of age.

[2] USPS is an independent establishment of the executive branch. 39 U.S.C. § 201.

[3] In July 2009, GAO added USPS's financial condition to its list of high-risk areas needing attention by Congress and the executive branch, and it has remained there since. At the end of fiscal year 2017, USPS had about $149 billion in unfunded liabilities and debt, including unfunded liabilities of $62.2 billion for retiree health benefits, an estimated $42.0 billion for pension benefits, $17.9 billion for workers' compensation, and $11.9 billion for other liabilities, as well as $15.0 billion in outstanding debt—the statutory limit.

have been similarly challenged with the rising costs of providing retiree health benefits and have taken actions to address this issue. However, no consensus exists about what actions should be taken to address the growing financial shortfall for postal retiree health benefits. You asked us to review issues related to postal retiree health benefits funding and what lessons could be learned from the efforts of other organizations including companies and state governments that have dealt with retiree health benefits issues.

This report examines (1) the financial outlook for the RHB Fund, (2) actions that companies and state governments have taken to address retiree health benefit costs, and (3) possible policy approaches regarding postal retiree health benefits.

To assess the financial outlook for the RHB Fund, we obtained OPM's projections for the RHB Fund's income and expenses and reviewed written comments of USPS and OPM officials on the fund. Next, we evaluated the projections and statements against statutory provisions specifying the fund's responsibilities for funding postal retiree health benefits. We discussed the methods and assumptions underlying OPM's estimates with OPM officials, and concluded that OPM's projections would be reasonable for our purposes, but we did not otherwise evaluate the underlying data, which were outside the scope of this review. The baseline scenario that OPM developed was based on a continuation of current practices in which USPS would make no additional payments into the fund.[4] In addition, we interviewed and obtained written responses from OPM and USPS officials.

To identify actions the private sector and state governments have taken to address retiree health costs and obtain a broad perspective on how these entities have dealt with issues in this area, we identified reports and articles issued from 1998 through 2018 on retiree health benefits provided by companies and state governments, based on searches in bibliographic databases and other online resources, prior GAO work, and interviews

[4] At GAO's request, OPM also conducted a sensitivity analysis in which the estimated depletion date of the fund was based on alternative assumptions in which USPS makes annual contributions of $1 billion or $2 billion.

with experts on retiree health benefits.[5] We conducted interviews with 20 experts in retiree health benefits and four postal stakeholders, including two postal labor unions and two mailer groups, chosen on the basis of our review of relevant publications and prior GAO work.

In addition, we identified and used data from surveys on companies' provision of retiree health benefits. These surveys were sponsored by:

- the Kaiser Family Foundation and the Health Research & Educational Trust (Kaiser/HRET) from 1999 through 2017 and
- the U.S. Department of Health and Human Services' Agency for Healthcare Research and Quality (AHRQ), which sponsored the Medical Expenditure Panel Survey, Insurance Component, from which we used data from 2003 through 2016.

The Kaiser/HRET and AHRQ surveys were selected because they were generalizable at the national level and used comparable methodology across time. We conducted a data reliability assessment of both surveys by reviewing documentation related to how the survey data were collected and processed. We found these surveys produced evidence of sufficient quality for the purposes of our reporting objectives.

To identify and select approaches that could address postal retiree health benefits, we identified legislative proposals and the experiences of private companies and state governments based on the work described above. In addition, we considered input provided during our interviews with experts in retiree health benefits and postal stakeholders, and drew on our prior work.

We conducted this performance audit from June 2017 to August 2018 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and

[5] For example, we identified reports and articles by Aon Hewitt, the Center for Retirement Research at Boston College, the Center for State and Local Government Excellence, the Employee Benefit Research Institute, the Henry J. Kaiser Family Foundation, the National Association of State Retirement Administrators, the Pew Charitable Trusts and the John D. and Catherine T. MacArthur Foundation, Standard and Poor's, and Towers Watson.

conclusions based on our audit objectives.

Background

Postal retiree health benefits are provided as part of the Federal Employees Health Benefits Program (FEHBP). FEHBP covers federal employees and retirees, including postal and nonpostal retirees, who receive health insurance from companies that contract with OPM. Retiree participation is voluntary; in fiscal year 2018, about 500,000 postal retirees have participated in FEHBP.

Funding requirements for postal retiree health benefits are established by law, which divides responsibility among USPS, the federal government, and postal retirees. USPS is responsible for a specific percentage of premiums, the federal government is responsible for paying a prorated share, and retirees are responsible for the rest.[6] The funding requirements for these benefits changed in 2006. Before then, a "pay-as-you-go" system governed USPS's payments, which required USPS to pay its share of premiums for current postal retirees. The 2006 Postal Accountability and Enhancement Act (PAEA)[7] required USPS to start fully "prefunding" retiree health benefits. This meant that USPS was required to make annual prefunding payments to a newly established fund to build up funds to cover USPS's share of future postal retiree health benefit costs.[8] PAEA also established the RHB Fund as a new fund in the U.S. Treasury for USPS to deposit money into, and specified that beginning in fiscal year 2017, the fund would be used by OPM to pay USPS's share of postal retiree premiums for health benefits. Under PAEA, the first 10 years of prefunding payments were fixed—ranging from $5.4 billion to

[6] The federal government generally pays 72 percent of the weighted average premium across all FEHBP plans but no more than 75 percent of any particular plan's premium. 5 U.S.C. § 8906(b). With respect to postal retirees' FEHBP costs, USPS is responsible for the federal government's share, except for a prorated portion to be paid by the federal government in certain circumstances. 5 U.S.C. § 8906(g).

[7] Pub. L. No. 109-435 (2006).

[8] More precisely, the objective under full funding is to fully fund the actuarial accrued liability. The actuarial accrued liability at any point in time represents the actuarial present value of the cost of the portion of future retiree health premiums for which USPS is responsible and that are attributable to past service. These liabilities reflect all such projected future costs for current retirees and beneficiaries and a portion of such projected future costs for current employees.

$5.8 billion annually from fiscal years 2007 to 2016.[9] From fiscal years 2007 through 2016, USPS was also required to continue “pay-as-you-go” payments for its share of premiums for current retirees. The permanent schedule for USPS payments to prefund postal retiree health benefits under PAEA started in fiscal year 2017.[10]

We have reported that USPS’s financial condition continues to deteriorate and its outlook is bleak. We have separately issued reports and testimonies that examined USPS’s financial condition, including its liabilities, and identified strategies and options for USPS and Congress to reduce postal costs, generate revenue, and restructure the funding of USPS’s pension and retiree health benefits.[11] Looking forward, we have reported that USPS is facing unsustainable financial challenges as First-Class Mail volume continues to decline.[12] USPS has recently reported that its revenue generation options are constrained, including by the price cap on market-dominant mail,[13] and that any cost-cutting opportunities within its control are “relatively limited and dwindling.”[14] USPS stated that

[9] USPS’s required prefunding payment due in 2009 was reduced from $5.4 billion to $1.4 billion. Pub. L. No. 111-68, § 164(a) 123 Stat. 2023, 2053 (Oct.1, 2009).

[10] The permanent payment schedule is based on actuarial funding principles. Specifically, USPS is required by law to make annual payments based on actuarial determinations of the following component costs: (1) a 40-year amortization schedule to address the unfunded liabilities for postal retiree health benefits, and (2) the “normal costs” of retiree health benefits for current employees. The “normal cost” is the annual expected growth in liability attributable to an additional year of employees’ service. OPM is required to annually re-estimate future expenses for retiree health benefits and adjust USPS’s payment schedule.

[11] For example, see GAO, *U.S. Postal Service: Key Considerations for Restoring Fiscal* Sustainability, GAO-17-404T (Washington, D.C.: Feb. 7, 2017); *U.S. Postal Service: Action Needed to Address Unfunded Benefit Liabilities*, GAO-14-398T (Washington, D.C.: Mar. 13, 2014); *U.S. Postal Service: Status, Financial Outlook, and Alternative Approaches to Fund Retiree Health Benefits*, GAO-13-112 (Washington, D.C.: Dec. 4, 2012); and *U.S. Postal Service: Strategies and Options to Facilitate Progress toward Financial Viability*, GAO-10-455 (Washington, D.C.: Apr. 12, 2010).

[12] GAO, *U.S. Postal Service: Projected Capital Spending and Processes for Addressing Uncertainties and Risks*, GAO-18-515 (Washington, D.C.: June 28, 2018).

[13] An inflation-based price cap generally limits rate increases for market-dominant products, including First-Class Mail (e.g., correspondence, bills, payments, statements, and advertising), USPS Marketing Mail (mainly advertising), Periodicals (mainly magazines and local newspapers) and Package Services (mainly Bound Printed Matter, Media Mail, and Library Mail).

[14] USPS, *Reply Comments of the United States Postal Service in Response to Order No. 4258*, PRC Docket No. RM2017-3 (Washington, D.C: Mar. 30, 2018), p. 35.

the opportunity for further cost savings within its control will not come close to filling its financial gap.

With respect to actions taken by companies and state governments, we have previously reported on the long-term trend for these organizations to eliminate or reduce retiree health benefits.[15] Factors contributing to this decline include financial challenges for companies and states, current and expected retiree health benefit costs, and the legal ability to change retiree health benefit programs.

The Financial Outlook of the Postal Service Retiree Health Benefits Fund Is Poor

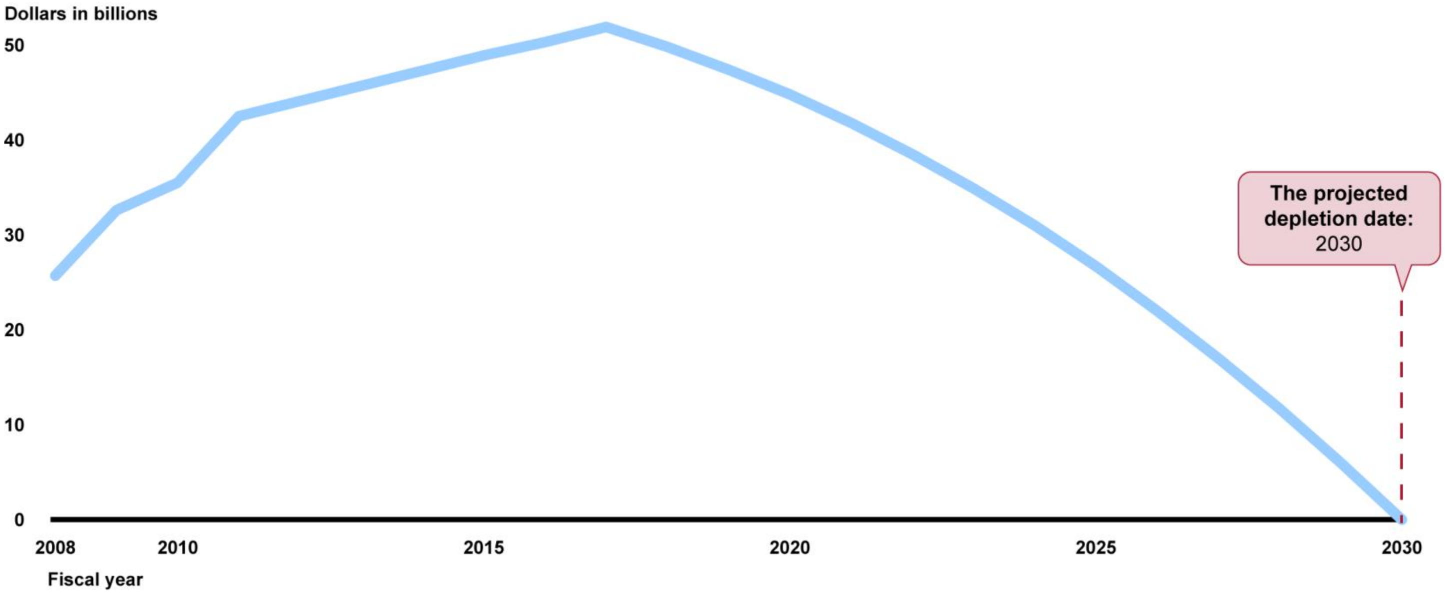
The RHB Fund is on an unsustainable path and is projected to be depleted in 12 years under the status quo. USPS has missed approximately $38 billion in payments to the fund since fiscal year 2010, and the fund's balance is declining. Beginning in fiscal year 2017, OPM started drawing from the fund to pay USPS's share of premiums for postal retirees' health benefits. OPM's payments in that year exceeded the fund's income from interest, and OPM projects that, based on the status quo, future payments will continue to exceed the fund's income from interest. As long as USPS continues to miss its annual payments—which were nearly $4.3 billion in fiscal year 2017 and are $4.5 billion in fiscal year 2018[16]—the fund is on track to be depleted in fiscal year 2030 based

[15] For example, see GAO, *State and Local Government Retiree Health Benefit Benefits: Liabilities Are Largely Unfunded, but Some Governments Are Taking Action*, GAO-10-61 (Washington, D.C.: Nov. 30, 2009); *Employer-Sponsored Health and Retirement Benefits: Efforts to Control Employer Costs and the Implications for Workers*, GAO-07-355 (Washington, D.C.: Mar. 30, 2007); *Retiree Health Insurance: Gaps in Coverage and Availability,*GAO-02-178T (Washington, D.C.: Nov. 1, 2001); *Retiree Health Benefits: Employer-Sponsored Benefits May Be Vulnerable to Further Erosion*, GAO-01-374 (Washington, D.C.: May 1, 2001); *Retiree Health Insurance: Erosion in Retiree Health Benefits Offered by Large Employers,* GAO/T-HEHS-98-110 (Washington, D.C.: Mar. 10, 1998).

[16] USPS required payments for retiree health benefits in fiscal year 2018 are specified in a letter that OPM provided to USPS in July 2018.

on OPM projections requested by us (see fig. 1).[17] We reported similar results in our December 2012 report on postal retiree health benefits.[18]

Figure 1: Actual and Projected Balance of the Postal Service Retiree Health Benefits Fund, Assuming No Further Payments into the Fund, by Fiscal Year



Source: GAO evaluation of U.S. Office of Personnel Management projections. | GAO-18-602

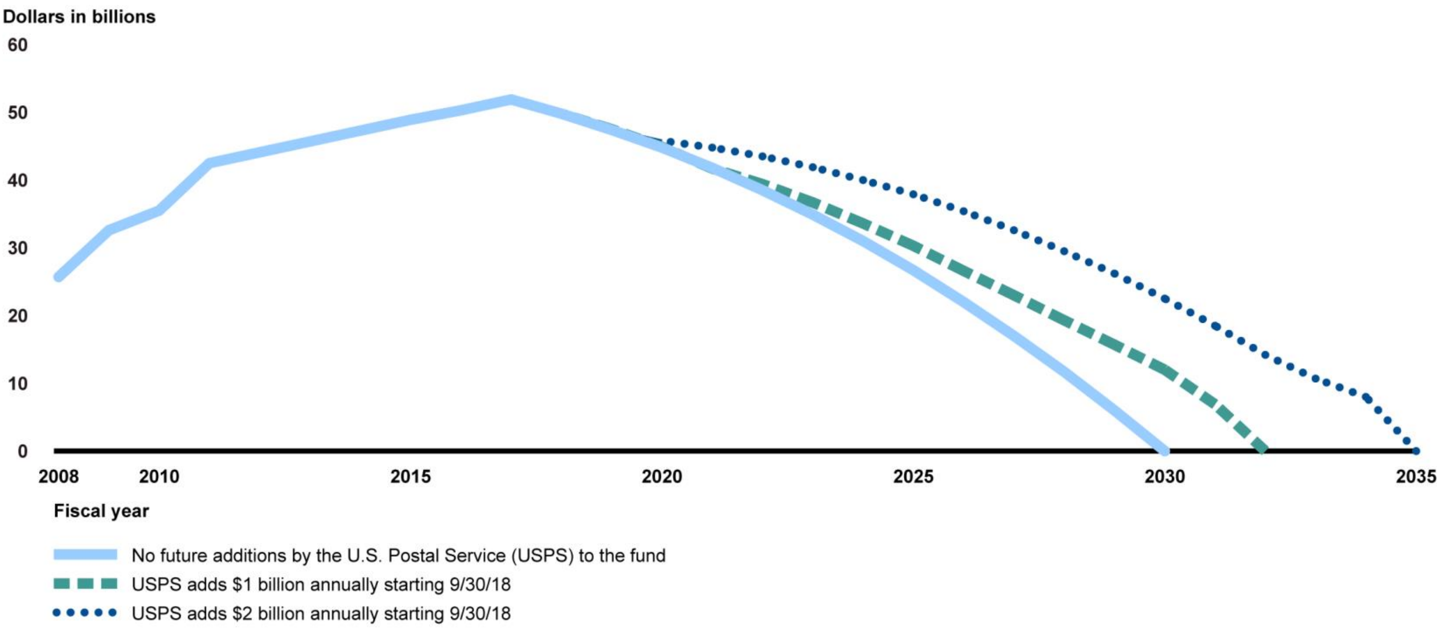
Note: This figure is based on actual data through fiscal year 2017 and projections for fiscal year 2018 and subsequent fiscal years.

At our request, OPM conducted a sensitivity analysis in which alternative projections were made that assumed USPS made payments to the fund of $1 billion per year or $2 billion per year; these alternative projections extended the fund's projected depletion date from fiscal year 2030 to fiscal years 2032 or 2035, respectively (see fig. 2). OPM estimates the number of postal retirees eligible for federal retiree health benefits will remain near the current level of 500,000 through fiscal year 2035.

[17] Our evaluation of OPM's projections found that the costs of health benefit premiums paid by the RHB Fund is estimated to grow at an average rate of about 4.7 percent annually through fiscal year 2030.

[18] GAO-13-112.

Figure 2: Actual and Projected Balance of the Postal Service Retiree Health Benefits Fund under Alternative Assumptions for Future USPS Payments, By Fiscal Year



Source: GAO evaluation of U.S. Office of Personnel Management projections. | GAO-18-602

Note: This figure is based on actual data through fiscal year 2017 and projections for fiscal year 2018 and subsequent fiscal years.

The outlook for the RHB Fund is poor as USPS has inadequate resources to cover its required payments to the RHB Fund and, in our view, based on past practices and USPS statements, appears unlikely to make partial payments. USPS has repeatedly testified that its required payments to the RHB Fund are "unaffordable" relative to its current financial situation and outlook.[19] In this regard, USPS accumulated net losses of more than $65 billion in the last 11 years and has budgeted for a net loss of about $5 billion in fiscal year 2018. Further, USPS reached its statutory borrowing limit of $15 billion in 2012. Although USPS accumulated liquid assets (cash and cash equivalents) of about $10.5 billion at the end of fiscal year 2017, it did not make $6.9 billion in required payments for retiree health and pension benefits.[20] According to USPS officials, USPS

[19] Megan J. Brennan, Postmaster General and Chief Executive Officer, USPS, testimonies before the Committee on Oversight and Government Reform, U.S. House of Representatives, 115th Cong., Feb. 7, 2017, p. 8 and May 11, 2016, p.13.

[20] United States Postal Service, *2017 Report on Form 10-K* (Washington, D.C: Nov. 14, 2017).

did not make these payments in order to preserve liquidity and cover operational costs.

If the RHB Fund is depleted, PAEA requires USPS to fill the resulting financial gap by resuming “pay-as-you-go” payments for its share of retiree health premiums that are currently being paid by the fund. However, PAEA does not address how funding will be provided or whether benefits will be provided if the fund becomes depleted and USPS does not make payments to cover its share of premiums.

OPM and USPS have identified the following issues should the fund be depleted:

- According to OPM: (1) The RHB Fund is the initial funding source for USPS’s share of postal retirees’ health insurance premiums as long as money remains in the fund. (2) If the fund is depleted, then USPS becomes the funding source responsible for paying USPS’s share of these premiums. (3) Regardless of whether funds are available to pay USPS’s share of premiums, postal retirees are statutorily entitled to remain enrolled in their FEHBP plans. (4) Therefore, if the fund is depleted and USPS does not pay its share of premiums, the providers of these FEHBP plans would be underpaid.
- According to USPS: (1) Current law does not appear to contemplate a situation in which USPS itself is unable to make payments to the RHB Fund after the fund is depleted. (2) The law does not condition postal retirees’ eligibility for health benefits upon the fund or the payment of government contributions by USPS and the federal government.[21] (3) Therefore, USPS stated it is reasonable to expect that postal retirees would remain eligible for health coverage even if USPS is unable to make payments to the RHB Fund after it is depleted. Regarding who would pay for their health coverage at this point, USPS stated that ultimately, it would be up to Congress to legislate a resolution to the funding issue.

As the above projections show, the RHB Fund could be depleted in as little as 12 years—and USPS may be unable to cover its share of retiree

[21] USPS noted that the eligibility criteria for FEHBP do not tie eligibility to whether employer contributions are made. See 5 U.S.C. § 8905(b). Additionally, USPS cited an opinion of the Department of Justice Office of Legal Counsel that the law governing postal employees’ eligibility for service credit toward their future retirement annuity did not tie eligibility to whether USPS makes its employer contributions. See 2011 WL 7431070, Off. Legal Counsel, Nov. 1, 2011.

health insurance premiums should its financial condition remain precarious. Depletion of the fund could affect postal retirees—who have provided a vital service to the nation—as well as USPS, postal customers and other stakeholders, including the federal government.

Many Companies and State Governments Have Cut Retiree Health Benefits to Control Costs

A Small and Decreasing Percentage of Companies Continue to Offer Retiree Health Benefits

Survey data we reviewed indicate that most companies do not offer retiree health benefits and that the number of companies providing such benefits is decreasing over time. For example, the percentage of all private and public organizations (e.g., state or local governments) with more than 200 employees that offer employee health benefits and that also offer retiree health benefits is estimated to have declined from 40 percent in 1999 to 25 percent in 2017, according to annual surveys conducted by the Henry J. Kaiser Family Foundation and the Health Research & Educational Trust (Kaiser/HRET).[22]

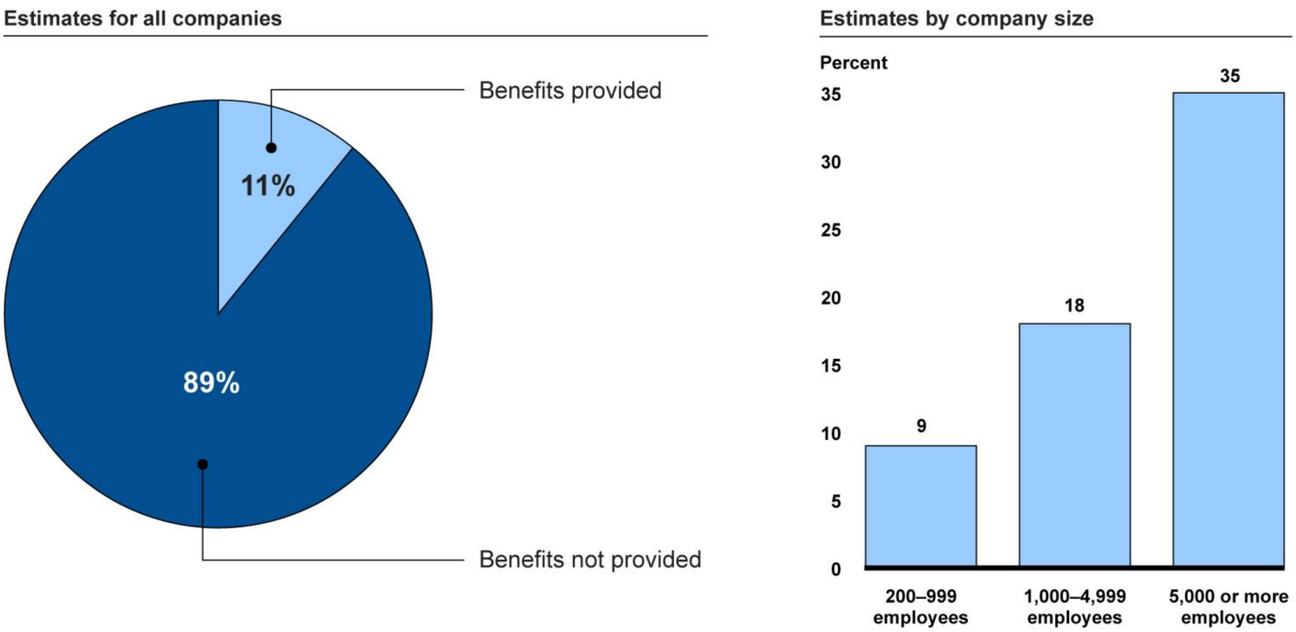
Focusing specifically on the results for private for-profit companies,[23] the 2017 Kaiser/HRET survey estimated that only 11 percent of companies with at least 200 employees that offered health benefits to active employees also offered retiree health benefits in 2017, the smallest percentage since comparable data were measured in 2012. The 2017 Kaiser/HRET survey also estimated that the percentage of companies offering retiree health benefits was greater among companies with at

[22] Results were based on responses from a random sample of organizations. Nearly all organizations with at least 200 employees reported offering health insurance to active employees; only organizations that reported offering health insurance to active employees were asked whether they offered retiree health benefits. For the most recent report on the results, see Kaiser/HRET, *Employer Health Benefits: 2017 Annual Survey* (Menlo Park, CA, and Chicago, IL: Sept. 19, 2017).

[23] For the purpose of this report, “companies” is used to refer to private for-profit organizations. In the survey, *private for-profit status* was self-reported by respondents and included private for-profit firms, including publicly traded companies and privately owned businesses.

least 5,000 employees (35 percent) than those with 1,000 to 4,999 employees (18 percent) and those with 200 to 999 employees (9 percent) (see fig. 3).[24]

Figure 3: Provision of Health Benefits for Retirees Estimated from a 2017 Survey of Private For-Profit Companies with at Least 200 Employees That Reported Offering Health Benefits to Active Employees

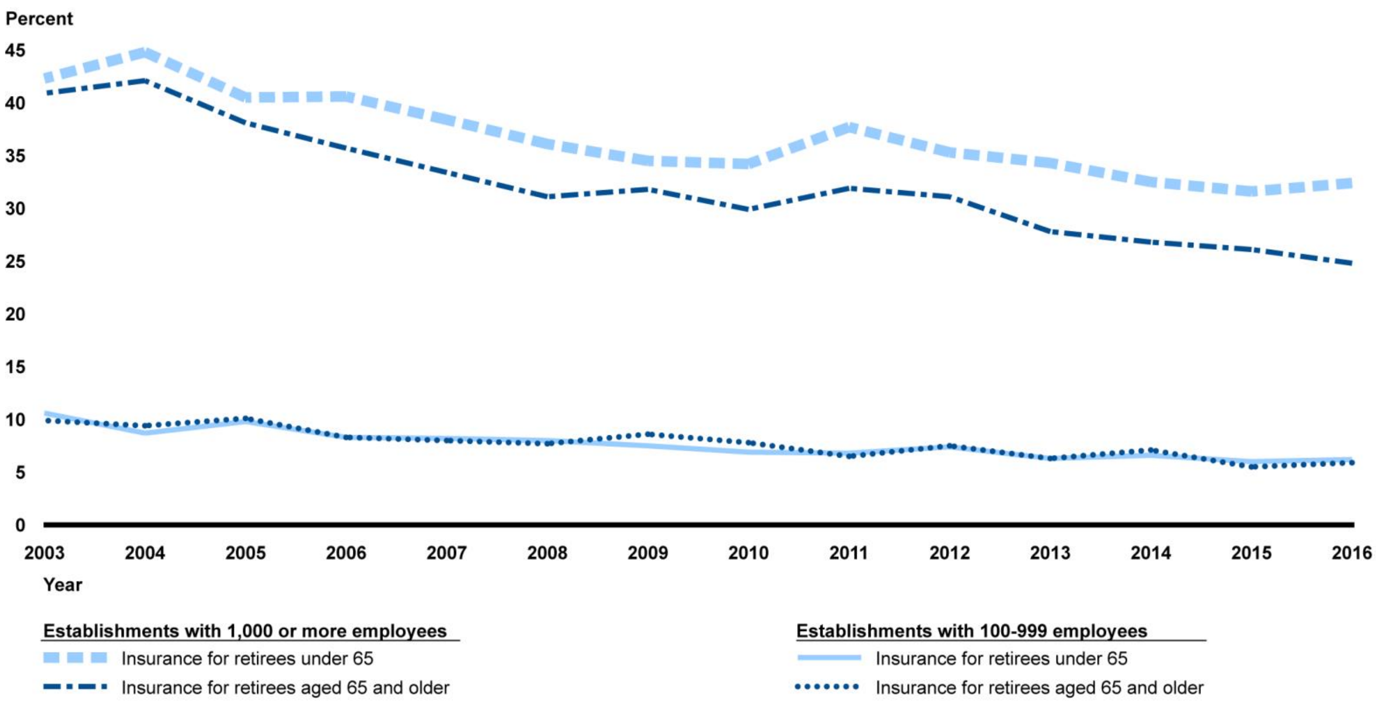


Source: Kaiser Family Foundation and Health Research & Education Trust survey. | GAO-18-602

[24] Information in this paragraph was provided by the Kaiser Family Foundation to GAO.

Surveys sponsored by the Agency for Healthcare Research and Quality (AHRQ) have estimated similar trends for private sector establishments with at least 1,000 employees and with 100-999 employees.[25] According to the AHRQ surveys, an estimated 25 percent of private sector establishments with at least 1,000 employees offered health insurance coverage to retirees age 65 and older in 2016, down from 41 percent in 2003. For retirees under 65, an estimated 32 percent offered such coverage in 2016, down from 42 percent in 2003 (see fig. 4).

Figure 4: Estimated Percentage of Private Establishments with 100 or More Employees That Reported Offering Retiree Health Benefits, Based on Annual Surveys



Source: Medical Expenditure Panel Survey, Insurance Component, sponsored by the Agency for Healthcare Research and Quality. | GAO-18-602

Note: Data were not collected in 2007; in this figure the 2007 value is the average of the 2006 and 2008 values.

[25] AHRQ is part of the U.S. Department of Health and Human Services. For the purpose of the AHRQ surveys, an establishment is a single business entity or location. Companies can include one or more establishments. For example, in a chain of grocery stores, the establishments of the company are the sites of the individual grocery stores. The overall sampling goal for the survey is to produce valid estimates for the private sector for all 50 states and the District of Columbia, state and local governments by Census division, and for the nation as a whole.

Many Companies with Retiree Health Benefits Have Changed Eligibility or Benefit Structures

Based on reports we reviewed and experts we interviewed, many companies that have retained their retiree health benefits have done so by making changes to control costs, including tightening eligibility and restructuring benefits. Depending on the company, the changes have applied to new hires, current employees, or retirees. Specific changes have included the following:

- ***Tightening eligibility:*** Some companies have made new employees and/or employees hired after a given date ineligible to receive retiree health benefits, while other companies have increased the minimum age and/or length of service requirements for eligibility, according to reports and experts we interviewed.[26]
- ***Restructuring benefits:*** Many companies have restructured retiree health benefits to reduce the level of the benefit, to shift costs to retirees, and to change how the benefits are provided. For example, some companies have shifted from an approach under which a company pays a percentage of premiums for a selected health benefit plan, to an approach under which a company pays a fixed dollar amount that employees may put toward health care costs.[27] The 2017 Kaiser/HRET survey estimated that 30 percent of private and public organizations with 200 or more employees that offer retiree health benefits provide a fixed dollar amount that the retiree can use to purchase a retiree health plan they choose.[28] Experts on retiree health benefits that we interviewed told us such companies often shift costs to retirees by maintaining defined contributions at the same level over time, even as overall health care costs increase.

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[26] For example, see Towers Watson, *Emerging Opportunities for Retiree Health Care Programs: Insights From the 2015 Survey on Retiree Health Care Strategies* (2015), the Henry J. Kaiser Family Foundation, *Retiree Health Benefits At the Crossroads* (Menlo Park, CA and Washington, D.C.: Apr. 14, 2014), and Employee Benefit Research Institute, *Employment-Based Retiree Health Benefits: Trends in Access and Coverage, 1997-2010*, Issue Brief No. 377 (Washington, D.C.: October 2012).

[27] See Aon Hewitt, *2017 Retiree Health Care Survey: The Affordable Care Act (ACA) and the New Republican Administration* (2017) and the Henry J. Kaiser Family Foundation, *Retiree Health Benefits At the Crossroads* (Menlo Park, CA and Washington, D.C.: Apr. 14, 2014).

[28] This question was not asked before 2017.

State Governments Have Also Changed Eligibility or Benefit Structures

Based on multiple reports and experts, nearly all state governments continue to offer retiree health benefits to at least some state government retirees but generally have shifted some costs from the state to retirees and/or active employees in various ways.[29] For example, in 2016, the Pew Charitable Trusts and the John D. and Catherine T. MacArthur Foundation reported on the following recent changes at the state level related to eligibility for retiree health benefits, benefit levels, and aspects of how the benefits coordinate with Medicare:[30]

- ***Tightening eligibility or limiting benefit levels:*** Most states varied eligibility for retiree health benefits based on factors such as age and years of service, and varied benefit levels based on factors such as date of hire, date of retirement, or vesting eligibility; some states varied benefit levels based on years of service. Between 2000 and 2015, more than a dozen states changed the minimum age or the number of state service years required for retirees to be eligible for health benefits. During that timeframe, at least 10 states adopted formulas for prorating benefits that required different premium-sharing amounts based on years of service, or altered existing prorating formulas, bringing the total to 31 states that used prorating in 2015. At least 5 states stopped making any contributions to health premiums for certain retirees.

[29] State governments generally have provided less prefunding for their workforce retiree health benefits than for pension benefits. According to an October 2017 report, 31 states had accumulated assets for at least one of their retiree health plans. However, only 17 states had funded ratios for all “other postemployment benefits” (OPEB – that primarily consists of retiree health benefits) exceeding 10 percent and only 6 had funded ratios ranging from approximately 51 to 71 percent. The report stated it used the most recent OPEB valuations available, which were for 2015 and 2016 in most cases, but 2014 in a few cases. S&P Global Ratings, *Ratings Direct: U.S. State Retiree Medical And Other Postemployment Benefit Liabilities Keep Rising As States Prioritize Other Obligations* (New York, NY: Oct. 18, 2017).

[30] The Pew Charitable Trusts and the John D. and Catherine T. MacArthur Foundation, *State Retiree Health Plan Spending: An examination of funding trends and plan provisions* (May 2016). The report collected information on all 50 states from the states’ annual financial reports and other documents on the provisions of their retiree health insurance plans.

- ***Medicare[31] coordination:*** Thirty-five states provided employer-sponsored Medicare Advantage or Medicare Part D plans, known as Employer Group Waiver Plans, to provide health or prescription drug benefit coverage for Medicare-eligible retirees since these options were authorized in 2003.[32] According to the report, "These cost-saving programs provide states with financial subsidies from the federal Medicare program to provide Medicare plus wraparound benefits."[33]

Various Policy Approaches to Address the Sustainability of Postal Retiree Health Benefits Could Have Wide-Ranging Effects

We identified eight potential policy approaches to address the financial sustainability of postal retiree health benefits, primarily based on a review of legislative proposals and pertinent literature on actions that were taken by private companies and state governments and are discussed above.[34] These approaches fall into three categories: (1) approaches that shift costs to the federal government; (2) approaches that reduce benefits or increase costs to postal retirees and/or postal employees; and (3) approaches that change how the benefits are financed.

These eight approaches are not mutually exclusive, nor are they an exhaustive list of possible approaches. Each approach could include a

[31] Medicare is the federally financed health insurance program for persons age 65 or over, certain individuals with disabilities, and individuals with end-stage renal disease. Medicare Parts A and B are known as Medicare fee-for-service. Medicare Part A covers hospital and other inpatient stays. Medicare Part B covers hospital outpatient, physician, and other services. Medicare beneficiaries have the option of obtaining coverage for Medicare services from private health plans that participate in Medicare Advantage—Medicare's managed care program—also known as Part C. All Medicare beneficiaries may purchase coverage for outpatient prescription drugs under Part D, either as a stand-alone benefit or as part of a Medicare Advantage plan.

[32] Employer Group Waiver Plans are employer-sponsored Medicare Advantage or Part D plans that qualify for a federal subsidy to provide Medicare Advantage or Medicare prescription drug coverage to an employer's Medicare-eligible retirees.

[33] The report defines such wraparound coverage as including coverage that is secondary to Medicare Parts A and B and may cover Medicare copayments, coinsurance, and deductibles; it also could cover services not covered by Medicare and may reimburse providers for costs above Medicare reimbursement.

[34] We also identified some stakeholder proposals that fell within these approaches.

range of specific options; thus, even if successfully implemented, no one approach would necessarily be sufficient to make postal retiree health benefits financially sustainable. Although our discussion of the various policy approaches specifically addresses postal retiree health benefits, most approaches could address federal retiree health benefits more broadly, as both postal and non-postal federal employees participate in the same federal health benefits program.

All approaches we identified have different potential effects and would require congressional action because current law establishes certain requirements for postal retiree health benefit plans, including basic rules for benefits, enrollment, and participation, and how benefits are to be paid for.[35] Because the RHB Fund has a large and growing financial gap, any approach that would have a significant financial impact could affect the federal government, postal retirees, postal employees, USPS, and customers to varying degrees.

Some Approaches Would Shift Costs to the Federal Government

Medicare Integration: Various legislative proposals have been made to increase postal retirees' participation in Medicare—a shift that would decrease USPS's costs but increase Medicare's costs, according to analyses by the Congressional Budget Office (CBO).[36] These proposals would establish a program within FEHBP for active postal employees and postal retirees. Under these bills, Medicare-eligible postal retirees enrolled in this program would generally also be required to be enrolled in Medicare Parts A, B, and D. According to CBO analyses,[37] the bills would have resulted in USPS savings, in part because increased participation in Medicare would shift primary responsibility for covering certain health

[35] See Congressional Research Service, *Federal Employees Health Benefits (FEHB) Program: An Overview*, R43922 (Washington, D.C.: Feb. 3, 2016).

[36] See CBO, *Cost Estimate: H.R. 756, Postal Service Reform Act of 2017* (Washington, D.C.: June 1, 2017); *Cost Estimate: H.R. 5714, Postal Service Reform Act of 2016* (Washington, D.C.: Nov. 10, 2016); *Cost Estimate: S. 1486, Postal Reform Act of 2014* (Washington, D.C.: July 14, 2014). House and Senate bills have recently been introduced with provisions for Medicare integration, but have not been analyzed by CBO as of July 20, 2018. H.R. 6076 and S. 2629, 115th Cong (2018).

[37] CBO cost estimates on H.R. 756, 115th Cong., H.R. 5714, 114th Cong., and S. 1486, 113th Cong.

care services to Medicare for those who enroll.[38] As we have previously reported,[39] the primary policy decision for Congress to make is whether to increase postal retirees' use of Medicare.[40]

Supplemental federal appropriations: If the RHB Fund becomes depleted and USPS does not fill the financial gap, supplemental federal appropriations could be an alternative if Congress wants benefits to continue at the same level.[41] As previously noted, OPM officials told us that regardless of whether funds are available to pay USPS's share of premiums, postal retirees are statutorily entitled to remain enrolled in their FEHBP plans. However, supplemental federal appropriations for postal retiree health benefits could increase the federal budget deficit. In addition, supplemental appropriations for postal retiree health benefits would be inconsistent with USPS functioning as a self-financing entity that covers its costs with revenue it generates.

Some Approaches Would Reduce Benefits or Increase Costs to Postal Retirees and/or Employees

Tighten eligibility or reduce or eliminate retiree health benefits: As some companies and state governments have done, eligibility restrictions could be tightened for postal retiree health benefits, or other actions could reduce the level of benefits or even eliminate benefits, such as making new hires ineligible to receive retiree health benefits. The effects would depend on the specific changes and whether they were made to apply to current retirees, current employees, or future hires. Depending on the

[38] Federal health insurance plans covering postal employees and retirees also would be required to participate in Medicare Part D and would thereby receive subsidies related to prescription drugs.

[39] GAO, *U.S. Postal Service: Proposed Health Plan Could Improve Financial Condition, but Impact on Medicare and Other Issues Should Be Weighed before Approval*, GAO-13-658 (Washington, D.C.: July 18, 2013).

[40] GAO, *The Nation's Retirement System: A Comprehensive Re-evaluation Is Needed to Better Promote Future Retirement Security*, GAO-18-111SP (Washington, D.C.: October 2017).

[41] A 2011 report issued by the OPM Office of Inspector General reached a similar conclusion when assessing what might happen if USPS ceased making its required payments for its share of premiums for retiree health benefits. See OPM Office of Inspector General, *A Study of the Risks and Consequences of the USPS OIG's Proposals to Change USPS's Funding of Retiree Benefits: Shifting Costs from USPS Ratepayers to Taxpayers* (Washington, D.C.: Feb. 28, 2011), pp. 7-8.

extent of the changes, this approach would reduce USPS's liability for postal retiree health benefits and thereby reduce its unfunded liability.

Increase premium payments by postal retirees and/or postal employees: As some companies and state governments have done, premium payments for postal retiree health benefits by postal retirees and/or postal employees could be increased.[42] For example, as others have reported, some companies and state governments have required retirees to pay 100 percent of the health insurance premium for their retiree health benefits.[43] Similarly, a larger share of retiree health premiums could be borne by postal retirees[44] or postal employees could be required to pay for retiree health benefits before they retire. Such changes would require changes to current law that allocates specific financial responsibility for payments among USPS, the federal government, and retirees participating in FEHBP, as active postal employees make no payment for retiree health benefits under current law.[45]

The expenses of the RHB Fund could be decreased by these approaches that shift costs to postal retirees, postal employees, or both. Depending on how much of the costs are shifted, the additional costs could increase

[42] Retiree health benefits are not negotiated with employee unions. USPS's share of FEHBP premium costs for postal retirees is set according to a statutory formula and is not subject to collective bargaining. See 5 U.S.C. § 8906. According to our analysis of this statutory formula and Article 21.1.B of each of the four current collective bargaining agreements with USPS's four major labor unions (the National Association of Letter Carriers, the American Postal Workers Union, the National Rural Letter Carriers Association, and the National Postal Mail Handlers Union), USPS currently pays a higher percentage of FEHBP premiums for active employees than other federal agencies; USPS's share has decreased over time and will be only 1 percent higher than other federal agencies by 2019.

[43] For example, see The Pew Charitable Trusts and the John D. and Catherine T. MacArthur Foundation, *State Retiree Health Plan Spending: An examination of funding trends and plan provisions* (May 2016), p. 22, and The Henry J. Kaiser Family Foundation, *Retiree Health Benefits at the Crossroads* (April 2014), pp. 3, 6.

[44] The President's proposed budget for fiscal year 2019 would modify the federal contribution rate for FEHBP premiums to base it on an insurance plan's score from the FEHBP Plan Performance Assessment, which reportedly could increase the share paid by postal and non-postal employees and retirees participating in FEHBP. See *Fiscal Year 2019 Budget Appendix*, p. 1099, available at https://www.whitehouse.gov/wp-content/uploads/2018/02/appendix-fy2019.pdf, last accessed Aug. 16, 2018.

[45] As previously noted, by statute, USPS and the federal government generally pay 72 percent of the weighted average premium of all health benefit plans participating in FEHBP, but no more than 75 percent of any particular plan's premium, while enrollees pay the balance. See 5 U.S.C. § 8906(b).

the challenge for retirees to ensure their accumulated resources last throughout retirement, or for postal employees to save for retirement. Further, as we have reported, rising health care costs can increase the overall amount individuals may need to save to ensure they have an adequate income once they retire.[46]

Change the federal contribution to a fixed subsidy: As some companies and state governments have done, postal retiree health benefits could be shifted to a structure with a fixed amount subsidizing the benefit. This amount could be adjusted over time; any adjustments might or might not keep up with costs. Depending on the initial size of the fixed subsidy and any adjustments over time, this approach could reduce the expenses of the RHB Fund and USPS's required payments. RHB Fund expenses could be reduced over time if the fixed subsidy increases less than postal retiree health premiums. This approach would require changes to current law and regulations that prescribe the federal government's financial contribution to FEHBP. For example, CBO recently identified one option to change FEHBP's statutory structure from a premium-sharing structure that is required by law to fixed subsidies for health benefits.[47] Under this option, the fixed subsidies would grow at the rate of inflation rather than at the average rate of growth for FEHBP premiums; CBO stated this change would be expected to slow the growth of federal contributions to FEHBP. A fixed subsidy for retiree health benefits could increase incentives for retirees to make less costly decisions with respect to health care. However, this approach could result in greater cost exposure for retirees, who may face difficult decisions regarding their health care, particularly if their financial resources are limited. As we have reported, individuals face the risk that rising and unpredictable health care or long-term care costs may lead them to draw down their retirement savings faster than expected.[48]

Establish a non-federal voluntary employees' beneficiary association (VEBA) for postal retiree health benefits: As some companies have done to provide retiree health benefits separately from the employer, a VEBA outside the federal government could be established to manage postal

[46] GAO-18-111SP.

[47] CBO, *Options for Reducing the Deficit: 2017 to 2026* (Washington, D.C.: Dec. 8, 2016), pp. 219-220.

[48] GAO-18-111SP.

retiree health benefits.[49] This approach means that postal retiree health benefits would be provided through the VEBA instead of through the OPM-administered FEHBP. The non-federal VEBA would administer the postal retiree health benefits program, including determining the specific benefits that would be provided and the level of contributions from the VEBA members—who could include retirees and employees—and the investing of its assets. Such an approach would require determining the VEBA's governance structure, funding sources, level of funding, type of investments, and associated market risks. One issue could be determining the source and level of initial funding for a new VEBA for postal retiree health benefits, such as whether initial funding would come from the RHB Fund, the Treasury, or both. Other issues could be what funds would be provided to the VEBA going forward, including the source(s) and level of funding, and what the benefit levels would be. If the entire RHB Fund were transferred into a VEBA, the current level of benefits would ultimately not be sustainable unless further funding is provided from one or more sources, such as from USPS, retirees, active employees, or the federal government. Thus, trade-offs would involve what level of benefits would be provided, who would bear the costs, and what might happen if VEBA assets decline or become depleted.

Some Approaches Would Change How Benefits Are Financed

Reduce the required level of prefunding: Proposed legislation includes an 80 percent funding target for postal retiree health benefits instead of the 100 percent target established by current law.[50] This would reduce USPS's required payments to the RHB Fund but could increase costs for

[49] A VEBA is a form of trust fund whose sole purpose is to provide employee benefits. It can manage retiree health insurance plans, must be based on voluntary membership, and allows the tax-free withdrawal of funds by retirees for qualifying health expenses. For example, see GAO*, Private Health Insurance: Implementation of the Early Retiree Reinsurance Program*, GAO-11-875R, (Washington, D.C: Sept. 30, 2011) and GAO-10-61.The three major domestic automakers—Chrysler LLC, Ford Motor Company, and General Motors Corporation—reached an agreement in 2007 with the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW) that transferred responsibility for retiree health benefits to UAW. Under this agreement, VEBAs were created to manage the retiree health plans starting January 1, 2010.

[50] S. 2629, 115th Cong. (2018). This provision also has been included in past legislative proposals (e.g., S. 2051, 114th Cong. (2015), S. 1486, 113th Cong. (2013), S. 1789, 112th Cong. (2011)).

future postal ratepayers and increase the risk that USPS may not be able to pay for these costs. As previously discussed in this report, state governments either do not prefund their retiree health benefits or generally have a low level of prefunding.[51] We have expressed concern about a proposed 80 percent funding target for postal retiree health benefits that would have the effect of carrying a permanent unfunded liability equal to roughly 20 percent of USPS's liability, which could be a significant amount.[52] As we previously reported, an alternative could be to build in a schedule to achieve 100 percent funding in a later time period after the 80 percent level is achieved.[53] Although USPS payments with an 80 percent funding target would reduce USPS's required payments, fully funded benefits protect against an inability to make payments later, make promised benefits less vulnerable to cuts, and protect USPS's long-term viability.[54] Further, reducing the funding target is unlikely to have any effect as long as USPS continues to make no payments to the RHB Fund, as discussed earlier.

We continue to believe that as long as USPS is required by law to pay its share of retiree health benefits premiums, it is important for USPS to prefund its retiree health benefit liability to the maximum extent that its finances permit. We recognize that multiple options exist to prefund benefits and amortize unfunded liability and that no prefunding approach will be viable unless USPS can make the payments and maintain liquidity. As we have reported, making affordable prefunding payments would protect the viability of USPS by not saddling it with bills later on, when employees are already retired and no longer helping it to generate revenue; making payments can also make the promised benefits more secure.[55] We also have reported that deferring payments can pass costs

[51] Current data are not available for a representative sample of private companies on their prefunding of retiree health benefits. According to a USPS Office of Inspector General report, in fiscal year 2010, 38 percent of Fortune 1000 companies that provided retiree health care benefits prefunded the expense at a median funding level of 37 percent. See USPS Office of Inspector General, *Management Advisory Report – Pension and Retiree Health Care Funding Levels*, FT-MA-12-002 (Arlington, VA: June 18, 2012), p. 4.

[52] GAO, *U.S. Postal Service: Health and Pension Benefits Proposals Involve Trade-offs*, GAO-13-872T (Washington, D.C.: Sept. 26, 2013).

[53] GAO-13-872T.

[54] GAO-13-112, GAO-13-872T.

[55] GAO, *U.S. Postal Service: Urgent Action Needed to Achieve Financial Sustainability* GAO-13-347T (Washington, D.C.: Feb. 13, 2013).

from current to future postal ratepayers.[56] To the extent prefunding is postponed by using a lower funding target, larger payments will be required later, when they likely would be supported by lower levels of profitable First-Class Mail volume.[57]

Outside investment: Proposed legislation would initially require 25 percent of the RHB Fund to be invested in index funds modeled after those used for federal Thrift Savings Plan investments.[58] The objective of investing RHB Fund assets outside of U.S. Treasury securities would be to seek a greater rate of return on these assets in an attempt to reduce unfunded liabilities and the amount of required prefunding payments. Such outside investment would require legislation because current law limits RHB Fund assets to U.S. Treasury securities that are backed by the full faith and credit of the federal government. A higher rate of return on RHB Fund assets could reduce long-term funding needs. However, there are other considerations. For example, we have reported that if fund assets were invested in non-Treasury securities, the fund may experience losses in a market downturn and would thus have reduced assets available for health care.[59] Assuming there would be no explicit federal guarantee of the value of the invested assets, we stated that USPS is not well positioned to deal with a potentially significant decline in their value, given its significant operating losses and continuing decline in mail volume.[60] We also reported that the impact of any asset losses could be magnified because a market downturn that negatively affects asset value could be associated with a more general economic downturn that negatively

[56] GAO-13-872T.

[57] GAO-14-398T. Domestic First-Class Mail volume has declined 43 percent since it peaked in fiscal year 2001, and USPS expects this decline to continue for the foreseeable future.

[58] H.R. 760, 115th Cong. (2017). These investments would be required to replicate the performance of the longest-term target date asset allocation investment fund established by the Federal Retirement Thrift Investment Board. Starting at least 5 years after enactment, the minimum percentage of the RHB Fund invested remains at 25 percent, but this percentage could be increased up to 30 percent.

[59] GAO-13-658.

[60] Total mail volume has declined 30 percent since it peaked in fiscal year 2007, including 3.1 percent in fiscal year 2017, and has continued to decline in fiscal year 2018.

affects USPS mail volume and revenues.[61]

[61] GAO-13-658.

Conclusions

About a half million postal retirees receive retiree health benefits. Postal retirees have provided a vital service to the nation, and resolving a key aspect of their future situation warrants congressional action. Failure to address the poor financial outlook of the RHB Fund could pose serious consequences for these retirees as well as USPS, postal customers, and other stakeholders, including the federal government. It is reasonable to believe that USPS will not be able to fill the financial gap once the RHB fund is depleted—a situation that could occur in as little as 12 years under the status quo. There is no certainty on what actions should be taken to address this problem. However, we have identified multiple approaches that could be used, individually or in combination, that Congress could consider to help address the financial shortfall in this area. All of these approaches have different potential effects, and it is up to Congress to consider the merits of the approaches and determine the most appropriate action to take. It would be preferable to take action when careful consideration is possible, rather than wait until lack of adequate funding could disrupt postal retiree health benefits.

Matter for Congressional Consideration

Congress should consider passing legislation to put postal retiree health benefits on a more sustainable financial footing.

Agency Comments and Our Evaluation

We provided a draft of this report to OPM and USPS for their review and comment. OPM provided technical comments, which we incorporated as appropriate. USPS provided a written response, which is reproduced in appendix II of this report.

In its written response, USPS stated that it concurred with our matter for congressional consideration that congressional action is necessary to achieve a financially sustainable Postal Service Retiree Health Benefits Fund (RHB Fund). However, USPS said our discussion of potential policy approaches for postal retiree health benefits would benefit from additional context and balance. USPS also put forth additional information for three of the potential policy approaches highlighted in our report. Our report presents a high-level overview of eight potential policy approaches. It was not designed to be a comprehensive catalog of possible options with an analysis of the various considerations relevant to each.

With regard to the Medicare integration approach, USPS stated that increased Medicare participation by postal retirees is not limited to the “full Medicare integration option,” as represented in our report and identified variations of such an approach. USPS said readers would benefit from a fuller picture of Medicare integration practices, stating that among employers that continue to provide retiree health benefits, full Medicare integration is a uniform best practice. USPS cited a 2014 report that said Medicare integration is the most common arrangement for employer-provided retiree health benefits,[62] adding that retiree health benefits for Medicare-eligible employees are assumed to be merely supplemental to Medicare as a matter of course.[63] Our report discussed Medicare integration by state governments, but did not present recent data on the percentage of private companies that coordinate their retiree health benefits with Medicare because such data are not publicly available. Additionally, USPS said our report framed the issue of Medicare integration as “solely” a tradeoff between USPS and Medicare costs while there are other factors to consider, such as the relative benefits to USPS compared to the overall cost for the Medicare program. As we noted in our report, the eight potential policy approaches were not designed to be mutually exclusive, nor an exhaustive list of possible approaches. Additionally, we recognize there are various factors related to this approach, but that the primary one is whether to increase postal retirees’ use of Medicare which would lead to further increasing Medicare costs.

Second, USPS said it believed our statements about approaches for changing the level of prefunding for retiree health benefits below the 100 percent level were misplaced, citing “universally accepted practices” for other entities to “pay-as-you-go” (i.e., not prefund at all), or to prefund at much lower levels. We have reported on such funding levels in the past

[62] The Henry J. Kaiser Family Foundation, *Retiree Health Benefits At the Crossroads* (Menlo Park, CA and Washington, D.C.: Apr. 14, 2014), pp. 3-4.

[63] In this regard, the 2014 report stated that for retirees on Medicare, generally age 65 and older, employer-sponsored retiree health is the “primary source” of supplemental coverage. The 2014 report also stated that employers use a “variety of approaches” to provide health benefits to Medicare-eligible retirees, one of which included self-insured employer plans to supplement Medicare benefits. *Id.*

as well.[64] However, a proposed 80 percent funding target for postal retiree health benefits would have the effect of carrying a permanent unfunded liability equal to roughly 20 percent of USPS's liability, which could be a significant amount. As we previously reported, an alternative could be to build in a schedule to achieve 100 percent funding in a later time period after the 80 percent level is achieved.[65] As our report also explained, although USPS payments with an 80 percent funding target would reduce USPS's required payments, fully funded benefits protect against an inability to make payments later, make promised benefits less vulnerable to cuts, and protect USPS's long-term viability.

Finally, USPS said that our statements about potential risks associated with investment of assets outside the U.S. Treasury seem disproportionate given USPS's view that diversification of assets set aside for retiree health benefits is "universally accepted" as a best practice. We recognize that a higher rate of return on RHB Fund assets could reduce long-term funding needs for the RHB Fund. However, there are considerations specific to USPS. For example, assuming there would be no explicit federal guarantee of the value of the invested assets, we stated that USPS is not well positioned to deal with a potentially significant decline in their value, given its significant operating losses and continuing decline in mail volume. We also noted that, as we have previously reported, the impact of any asset losses could be magnified because a market downturn that negatively affects asset value could be associated with a more general economic downturn that also negatively affects USPS mail volume and revenues.[66]

In summary, we believe our report presents a balanced description of a wide range of possible policy options; it does not endorse or recommend any particular option for Congress. As we concluded, all of these approaches have different potential effects, and the information we present, as well as the additional views presented by USPS, provide critical information for congressional decision-makers to assess as they consider the merits of the approaches and determine the most appropriate action to take.

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[64] GAO-13-112.

[65] GAO-13-872T.

[66] GAO-13-658. This report also briefly discussed Treasury Inflation Protected Securities (TIPS), which USPS raised in its comments as another possibility for investing RHB Fund assets.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the appropriate congressional committees; the Postmaster General; and the Director of the Office of Personnel Management. In addition, the report will be available at no charge on the GAO website at http://www.gao.gov. If you or your staff have any questions concerning this report, please contact me at (202) 512-2834 or rectanusl@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff that made key contributions to this report are listed in appendix III.

Sincerely yours,

Lori Rectanus
Director, Physical Infrastructure Issues

Appendix I: Postal Retiree Health Benefits Trend Data

Table 1: U.S. Postal Service (USPS) Retiree Health Benefits Fund Status (Dollars in Billions)

Fiscal Year	Beginning of year assets	One-time transfer	USPS payments to the fund	Interest earned	Premiums paid from the fund	End of year assets	End of year actuarial liabilities	End of year net funded status (unfunded)	Missed USPS payments to the fund
2007	0.0	20.1	5.4	0.3	N/A	25.7	80.8	(55.0)	0.0
2008	25.7	N/A	5.6	1.3	N/A	32.6	86.1	(53.5)	0.0
2009	32.6	N/A	1.4	1.5	N/A	35.5	87.5	(52.0)	0.0
2010	35.5	N/A	5.5	1.5	N/A	42.5	91.1	(48.6)	0.0
2011	42.5	N/A	0.0	1.6	N/A	44.1	90.3	(46.2)	0.0
2012	44.1	N/A	0.0	1.6	N/A	45.7	93.6	(47.8)	11.1
2013	45.7	N/A	0.0	1.6	N/A	47.3	95.6	(48.3)	5.6
2014	47.3	N/A	0.0	1.5	N/A	48.9	97.7	(48.9)	5.7
2015	48.9	N/A	0.0	1.5	N/A	50.3	105.2	(54.8)	5.7
2016	50.3	N/A	0.0	1.5	N/A	51.9	104.0	(52.1)	5.8
2017	51.9	N/A	0.0	1.4	3.5	49.8	112.1	(62.2)	4.3
Total	**N/A**	**20.1**	**17.9**	**15.3**	**3.5**	**N/A**	**N/A**	**N/A**	**38.2**

Legend: N/A = Not Applicable

Source: USPS Form 10-K Statements. | GAO-18-602

Note: This table provides the Office of Personnel Management's (OPM) estimation of the funded status of USPS obligations for retiree health benefits. Data are rounded to the nearest $100 million. The net funded status may not equal assets minus liabilities due to rounding. Key terms include the following:

Assets include securities of the RHB Fund, which is managed by OPM.

Actuarial liabilities represent the actuarial present value of the cost of the portion of future retiree health premiums for which USPS is responsible and that are attributable to past service; these liabilities reflect all such projected future costs for current retirees and beneficiaries and a portion of such projected future costs for current employees.

Net funded status equals assets minus liabilities.

One-time transfer included (1) A one-time transfer of $17.1 billion from the Civil Service Retirement System (CSRS) Pension Fund: The Postal Accountability and Enhancement Act (PAEA) established the RHB Fund and directed OPM to determine any USPS surplus for CSRS obligations as of Sept. 30, 2006, and to transfer this amount from the Civil Service Retirement and Disability Fund (CSRDF) into the RHB Fund by June 30, 2007, and (2) **A one-time transfer of $3.0 billion from USPS's escrow account.** Pub. L. No. 109-435, §§ 802-804 (2006). PAEA required USPS to transfer the escrow funds resulting from the Postal Civil Service Retirement System Funding Reform Act of 2003, which reduced USPS's CSRS payments and required these reductions to be placed into escrow. Pub. L. No. 108-18.

USPS payments to the fund represent payments USPS made to the RHB Fund.

Premiums paid from the fund are payments from the RHB Fund that cover USPS's share of health insurance premiums for postal annuitants receiving retiree health benefits. These payments began in fiscal year 2017 in accordance with PAEA. Before fiscal year 2017, USPS made premium payments for its share of health insurance premiums for current retirees to the Federal Employees Health Benefits Fund, which is a separate fund from the RHB Fund.

Missed USPS payments to the fund remain as current liabilities on USPS's balance sheet. These amounts resulted in a lower asset total and higher net unfunded liability than would have occurred if the payments were made. The missed payments from fiscal years 2012 through 2016 consisted of missed fixed prefunding payments. The missed payments for fiscal year 2017 included annual payments due on Sept. 30, 2017, of $955 million for the amortization of USPS's unfunded liability for postal retiree health benefits, and $3.3 billion for the "normal costs" of retiree health benefits. The "normal cost" is the annual expected growth in liability attributable to an additional year of employees' service.

Table 2: Required and Missed U.S. Postal Service (USPS) Payments for Retiree Health Benefits (Dollars in Billions)

Fiscal Year	Required USPS Payments					Missed USPS Payments				
n/a	Retiree Health Benefits Premiums	Fixed Pre-funding Payments	Normal Costs	Amor-tization Payment	Total	Retiree Health Benefits Premiums	Fixed Pre-funding Payments	Normal Costs	Amor-tization Payment	Total
2007	1.7	5.4	0.0	0.0	**7.1**	0.0	0.0	0.0	0.0	**0.0**
2008	1.8	5.6	0.0	0.0	**7.4**	0.0	0.0	0.0	0.0	**0.0**
2009	2.0	1.4	0.0	0.0	**3.4**	0.0	0.0	0.0	0.0	**0.0**
2010	2.2	5.5	0.0	0.0	**7.7**	0.0	0.0	0.0	0.0	**0.0**
2011	2.4	0.0	0.0	0.0	**2.4**	0.0	0.0	0.0	0.0	**0.0**
2012	2.6	11.1	0.0	0.0	**13.7**	0.0	11.1	0.0	0.0	**11.1**
2013	2.9	5.6	0.0	0.0	**8.5**	0.0	5.6	0.0	0.0	**5.6**
2014	3.0	5.7	0.0	0.0	**8.7**	0.0	5.7	0.0	0.0	**5.7**
2015	3.1	5.7	0.0	0.0	**8.8**	0.0	5.7	0.0	0.0	**5.7**
2016	3.3	5.8	0.0	0.0	**9.1**	0.0	5.8	0.0	0.0	**5.8**
2017	0.0	0.0	3.3	1.0	**4.3**	0.0	0.0	3.3	1.0	**4.3**
Total	**25.1**	**51.8**	**3.3**	**1.0**	**81.1**	**0.0**	**33.9**	**3.3**	**1.0**	**38.2**

Source: USPS Form 10-K Statements. | GAO-18-602

Note: This table provides information on USPS payments for postal retiree health benefits. Data are rounded to the nearest hundred million dollars. Numbers may not add to the total due to rounding. Key terms include the following:

Retiree health benefit premiums are USPS's share of premiums for retiree health benefits for postal annuitants and their survivors. The Postal Accountability and Enhancement Act (PAEA) required USPS to continue making these payments to the Federal Employees Health Benefits Fund until the end of fiscal year 2016. PAEA also created a new fund established in the U.S. Treasury and administered by the Office of Personnel Management called the Postal Service Retiree Health Benefits Fund (RHB Fund). Beginning in fiscal year 2017, USPS's share of health benefit premiums for retirees is to be paid from the RHB Fund rather than by USPS.

Fixed prefunding payments are statutory payments established by PAEA that were due from USPS to the RHB Fund for fiscal years 2007 through 2016. See 5 U.S.C § 8909a(d)(3)(A). Subsequent congressional action reduced the 2009 prefunding requirement from $5.4 billion to $1.4 billion and delayed $5.5 billion from fiscal year 2011 to fiscal year 2012, resulting in a requirement to pay $11.1 billion in fiscal year 2012.

Normal Costs: Starting in fiscal year 2017, PAEA requires USPS to make annual payments for the "normal costs" of retiree health benefits for current employees. The "normal cost" is the annual expected growth in liability attributable to an additional year of employees' service.

Amortization payments: Starting in fiscal year 2017, PAEA requires USPS to make annual payments under a 40-year schedule to address the unfunded liabilities for retiree health benefits.

Missed USPS payments to the fund have not been made by USPS and remain as current liabilities on USPS's balance sheet.

Appendix II: Comments from the U.S. Postal Service

JOSEPH CORBETT
CHIEF FINANCIAL OFFICER
EXECUTIVE VICE PRESIDENT

UNITED STATES POSTAL SERVICE

August 10, 2018

Ms. Lori Rectanus
Director, Physical Infrastructure Issues
U.S. Government Accountability Office
441 G Street NW
Washington, DC 20548-0001

Dear Ms. Rectanus:

Thank you for the opportunity to provide comments to the Government Accountability Office (GAO) report titled, *Postal Retiree Health Benefits: Unsustainable Finances Need to be Addressed.*

We concur with the overarching conclusion of the report that congressional action is necessary to achieve a financially sustainable Postal Service Retiree Health Benefits Fund (RHB Fund). The Postal Service recognizes the importance of ensuring that our employees and retirees have access to effective, affordable health benefits. However, we have not had the financial resources to make the normal cost and amortization payments into the RHB Fund required by current law. The Postal Service has therefore urged Congress to enact postal reform legislation that allows the provision of health benefits to postal retirees to be fully integrated with Medicare.

The report makes clear that the outlook for the RHB Fund is determined by both the level of funding provided and by the cost of future health care coverage. Overall, the report provides an overview of several leading reform options. We are concerned, however, that some further context is necessary to avoid leaving readers, particularly policymakers, with an incomplete picture of the rationale for, and effects of, the various options.

In particular, while the report notes that the number of employers who offer retiree health benefits is dwindling, it does not note that among employers that continue to provide retiree health benefits, full Medicare integration is a uniform best practice. The report's only mention of industry practices (on page 13) is limited to state government employers and addresses Medicare Parts A and B only in a footnote. Readers would benefit from a fuller picture of Medicare integration practices, as attested in the very studies cited in the draft report:

- Only 16.5 percent of large non-Federal employers offer health benefits to Medicare-eligible retirees, although that figure is likely inflated by the state and local government employers reflected in it.[1] Non-covered Medicare-eligible retirees are likely to rely on Medicare as their primary insurance, rather than purchasing full primary coverage on a private market.

[1] Gary Claxton *et al.*, Employer Health Benefits: 2017 Annual Survey, at 175, 178 (Kaiser Family Found/Health Research & Educ. Trust 2017) (25 percent of large firms offer RHB at all, of which 66 percent offer benefits to Medicare-eligible retirees). The proportion is much lower among private employers than among state and local government employers. *Id.* at 175.

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- Moreover, integration with Medicare is "[t]he most common arrangement" for employer-provided RHB, to the point where RHB for Medicare-eligible employees is assumed to be merely supplemental to Medicare as a matter of course.[2] This is hardly surprising, as Medicare integration allows for an average premium cost that is half–or less than half–of the cost to cover a pre-Medicare retiree.[3]

- In the public sector, integration with Medicare Parts A and B is universal: 47 states integrate with Medicare via wraparound coverage, Medicare Advantage plans, or both, with 25 of those offering only wraparound coverage.[4] The remaining three states (along with Idaho with respect to post-2009 retirees) offer no coverage to Medicare-eligible retirees, thereby requiring those retirees to self-insure or seek private coverage (likely after using Medicare first).

The report's discussion of Medicare integration is therefore incomplete, because it frames the issue solely as a tradeoff between Postal Service costs and Medicare costs. Given the fact that the Postal Service is expected to operate in a business-like manner and finance its retiree health benefits in a self-sufficient fashion, the fact that Medicare integration is an essentially universal practice among employers that offer retiree health benefits is clearly a relevant consideration for policymakers.

In addition, with respect to the tradeoff that the report discusses, policymakers would also benefit from a more complete understanding of the implications. The report discusses the issue as if the impact on Postal Service costs and Medicare costs were equivalent. That may be true as a matter of absolute dollars, but it is not true as a matter of proportion: full Medicare integration would relieve most of the Postal Service's unfunded RHB liability, while increasing Medicare costs by less than 0.2 percent. Therefore, while full Medicare integration would make a substantial contribution to the postal system's sustainability, the marginal increase to Medicare expenses would not create a material negative impact on the program.

At the same time, increased Medicare participation by postal retirees is not unique to the "full Medicare integration" option, as represented in the report. If RHB eligibility criteria were restricted or RHB were closed to new enrollees, ineligible retirees would rely on Medicare benefits in a far greater proportion than is currently the case among postal retirees. Similarly, if a greater share of premium costs were shifted to retirees, it may cost them less to enroll in Medicare and purchase supplemental coverage elsewhere. A Voluntary Employees' Beneficiary Association (VEBA), managed by fiduciaries responsible for reducing the VEBA's costs, would likely require Medicare enrollment as a condition for VEBA benefits and/or to tighten eligibility in a way that drives more retirees to Medicare. As such, the impact on Medicare is not limited to the one "full Medicare integration" option.

Beyond Medicare integration, the draft report would benefit from similarly balanced treatment of other policy options. With respect to reducing prefunding levels, contrary to footnote 49 of the draft report, current information is available about the low rate of RHB prefunding among large employers.[5] It should also be noted that the Department of Defense prefunded only 28.9 percent

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[2] Frank McArdle *et al.*, Retiree Health Benefits at the Crossroads, at 3-4 (Kaiser Family Found. 2014).

[3] *Id.* at 3.

[4] Pew Charitable Trusts and John D. & Catherine T. MacArthur Found., State Retiree Health Plan Spending: An Examination of Funding Trends and Plan Provisions, at 18-19 (2016).

[5] See footnote 1 above.

- 3 -

of its RHB liability in FY2017,[6] and that this lower funding level relates to liabilities that are already substantially reduced through Medicare integration. The rest of the Federal Government does not prefund RHB at all. Given the universally accepted practices of funding (smaller) RHB liabilities on a pay-as-you-go basis and prefunding only to a small degree, concern about the risks of an 80 percent funding target (see page 18) seem misplaced.

Another area where the draft report's concerns seems disproportionate is RHB Fund investment. While it is true, as a general matter, that higher-yield investments tend to bring higher short-term risks, the general experience of private and public employers' retiree benefits funds–including those of Amtrak, the National Railroad Retirement Investment Trust, and the Pension Benefit Guaranty Corporation–is that long-term rates of return are higher than that of the RHB Fund.[7] That is why diversification of retiree benefits fund assets is universally accepted as "a best practice of retirement investment professionals."[8] A recent study by Segal Consulting found that even a "low risk" or "conservative" diversified portfolio would significantly reduce the Postal Service's RHB liability.[9] Thus, instead of focusing on the short-term risk of a market downturn (at pages 4 and 24), readers would benefit from further explanation that such risks are manageable and generally perceived as outweighed by the prospect of higher yields over the longer-term horizon of a retiree benefits fund.

Finally, readers may benefit from discussion of additional policy options. Another policy option is to direct that the Treasury Department exercise its existing discretion to invest RHB Fund assets in Treasury Inflation-Protected Securities (TIPS): a low-risk option that would nevertheless hedge against inflation and may improve yields.[10]

Ensuring stable, affordable, and dependable health care for all employees and retirees is crucial to the long-term success of the Postal Service. Having an affordable arrangement that utilizes best practices found in the private sector will serve Postal Service employees and retirees well

[6] U.S. Dep't of the Treasury, FY2017 Financial Report of the United States Government (Feb. 15, 2018), at 95, 98 (reporting FY2017 Medicare-Eligible Retiree Health Care Fund assets of $225.8 billion and accrued actuarial RHB liability for military beneficiaries of $781.6 billion).

[7] *E.g.*, Lazard, Selected Federal and State Fund Allocations and Returns, at 2 (2015). The annual reports of private-sector employers like United Parcel Service and FedEx indicate higher long-term yields on their retiree benefits funds as well.

[8] United States Postal Serv. Office of the Inspector Gen. ("USPS OIG"), FT-WP-17-001, Postal Service Retiree Funds Investment Strategies (2017), at 8.

[9] *Id.* at 10.

[10] USPS OIG, FT-WP-17-001, Postal Service Retiree Funds Investment Strategies (2017), at 11. USPS OIG notes that 75 to 90 percent of assets in the Military Retirement Fund are invested in TIPS.

- 4 -

and minimize overall costs to the Federal Government. As such, addressing this issue can best be accomplished by adopting reforms that include full Medicare integration as a foundational component.

Sincerely,

Joseph Corbett

cc: Ms. Brennan
Mr. Stroman
Mr. Marshall
Mr. Williamson
Mr. Grossmann
CARM Manager

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Lori Rectanus, (202) 512-2834 or RectanusL@gao.gov

Staff Acknowledgments

In addition to the individual named above, Derrick Collins (Assistant Director); Kenneth John (Analyst-in-Charge); Amy Abramowitz; Taiyshawna Battle; William Colwell; Swati Deo; John Dicken; Leia Dickerson; William Hadley; James Leonard; Emei Li; Thanh Lu; Sara Ann Moessbauer; Joshua Parr; Malika Rice; Matthew Rosenberg; Amy Rosewarne; Frank Todisco; and Crystal Wesco made key contributions to this report.

Appendix IV: Accessible Data

Data Tables

Accessible Data for Actual and Projected Balance of the Retiree Health Benefits Fund, by Fiscal Year

Fiscal year	No future additions by USPS to the fund	USPS adds $1 billion annually starting 9/30/18	USPS adds $2 billion annually starting 9/30/18
2008	25.7	25.7	25.7
2009	32.6	32.6	32.6
2010	35.5	35.5	35.5
2011	42.5	42.5	42.5
2012	44.1	44.1	44.1
2013	45.7	45.7	45.7
2014	47.3	47.3	47.3
2015	48.9	48.9	48.9
2016	50.3	50.3	50.3
2017	51.9	51.9	51.9
2018	49.8	49.8	49.8
2019	47.4	47.5	47.5
2020	44.8	44.9	45.8
2021	41.8	41.7	44.8
2022	38.5	39.4	43.5
2023	34.9	36.7	41.9
2024	31	33.6	40
2025	26.7	30.3	37.9
2026	22	26.6	35.4
2027	17	23	32.6
2028	11.7	19.3	29.5
2029	6	15.7	26.2
2030	0	12	22.5
2031		6.9	18.5
2032		0	14.2
2033			10.7
2034			8

Fiscal year	No future additions by USPS to the fund	USPS adds $1 billion annually starting 9/30/18	USPS adds $2 billion annually starting 9/30/18
2035			0

Accessible Data for Figure 1: Actual and Projected Balance of the Postal Service Retiree Health Benefits Fund, Assuming No Further Payments into the Fund, by Fiscal Year

Fiscal year	Dollars in billions
2008	25.7
2009	32.6
2010	35.5
2011	42.5
2012	44.1
2013	45.7
2014	47.3
2015	48.9
2016	50.3
2017	51.9
2018	49.8
2019	47.4
2020	44.8
2021	41.8
2022	38.5
2023	34.9
2024	31
2025	26.7
2026	22
2027	17
2028	11.7
2029	6
2030	0

Accessible Data for Figure 2: Actual and Projected Balance of the Postal Service Retiree Health Benefits Fund under Alternative Assumptions for Future USPS Payments, By Fiscal Year

Fiscal year	No future additions by USPS to the fund	USPS adds $1 billion annually starting 9/30/18	USPS adds $2 billion annually starting 9/30/18
2008	25.7	25.7	25.7
2009	32.6	32.6	32.6
2010	35.5	35.5	35.5
2011	42.5	42.5	42.5
2012	44.1	44.1	44.1
2013	45.7	45.7	45.7
2014	47.3	47.3	47.3
2015	48.9	48.9	48.9
2016	50.3	50.3	50.3
2017	51.9	51.9	51.9
2018	49.8	49.8	49.8
2019	47.4	47.5	47.5
2020	44.8	44.9	45.8
2021	41.8	41.7	44.8
2022	38.5	39.4	43.5
2023	34.9	36.7	41.9
2024	31	33.6	40
2025	26.7	30.3	37.9
2026	22	26.6	35.4
2027	17	23	32.6
2028	11.7	19.3	29.5
2029	6	15.7	26.2
2030	0	12	22.5
2031		6.9	18.5
2032		0	14.2
2033			10.7
2034			8
2035			0

Accessible Data for Figure 3: Provision of Health Benefits for Retirees Estimated from a 2017 Survey of Private For-Profit Companies with at Least 200 Employees That Reported Offering Health Benefits to Active Employees

Provision of health benefits for retirees and employees in 2017	Health benefits provided for retirees and employees in 2017, by company size
Benefits provided (11%)	200-999 employees (9%)
	1,000-4,999 employees (18%)
	5,000 or more employees (35%)
Benefits not provided (89%)	

Accessible Data for Figure 4: Estimated Percentage of Private Establishments with 100 or More Employees That Reported Offering Retiree Health Benefits, Based on Annual Surveys

	Establishments with 1,000 or more employees		Establishments with 100-999 employees	
Fiscal year	Insurance for retirees under 65	Insurance for retirees aged 65 and older	Insurance for retirees under 65	Insurance for retirees aged 65 and older
2003"	42.3	40.9	10.6	9.9
2004"	44.8	42.1	8.7	9.4
2005"	40.5	38.1	9.8	10.1
2006"	40.6	35.7	8.3	8.3
2007"	38.4	33.4	8.2	8
2008"	36.1	31.1	8	7.7
2009"	34.5	31.8	7.5	8.6
2010"	34.2	29.9	6.9	7.8
2011"	37.7	31.9	6.8	6.5
2012"	35.3	31.1	7.4	7.5
2013"	34.3	27.8	6.3	6.3
2014"	32.5	26.8	6.6	7.1
2015"	31.6	26.1	6	5.5
2016"	32.4	24.8	6.2	5.9

Agency Comment Letter

Accessible Text for Appendix II Comments from the U.S. Postal Service

Page 1

August 10, 2018

Ms. Lori Rectanus

Director, Physical Infrastructure Issues

U.S. Government Accountability Office

441 G Street NW

Washington, DC 20548-0001

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<u>Page 2</u>

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Page 4

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Sincerely,

Joseph Corbett

cc: Ms. Brennan

Mr. Stroman

Mr. Marshall

Mr. Williamson

Mr. Grossmann

CARM Manager

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