

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.

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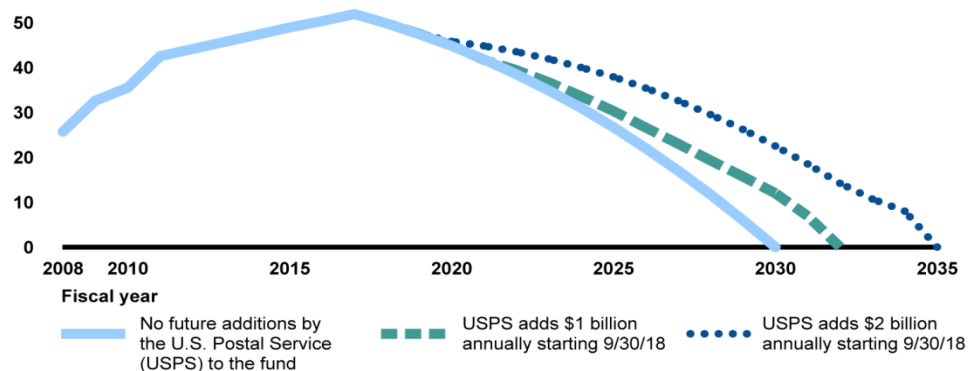
POSTAL RETIREE HEALTH BENEFITS

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
Dollars in billions



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	Description	Potential effects
<i>Approaches that would shift costs to the federal government</i>		
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.
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.
<i>Approaches that would reduce benefits or increase costs to postal retirees and/or employees</i>		
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.
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.
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.
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.
<i>Approaches that would change how benefits are financed</i>		
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.
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.