Consensus legislative proposal calls for expanded use of Medicare

As NALC President Fredric Rolando reported at last month's national rap session in Houston, the union has spent much of the past few years painstakingly trying to build a consensus on postal reform within the mailing industry, including all the key stakeholders—the postal unions, the major mailers and vendors, and the Postal Service itself. That effort has progressed since former Postmaster General Patrick Donahoe retired last year.

Although work remains to be done on key issues, such as adjusting postage rates and service standards, there is broad agreement on the most important financial problem facing the Postal Service: how to alleviate the crushing burden to pre-fund decades of future retiree health benefits. The industry has coalesced around the idea of full Medicare integration for health plans that cover postal employees and postal annuitants in the Federal Employees Health Benefit Program (FEHBP)—that is, implementing a requirement that postal annuitants enroll in Medicare Parts A and B when they reach age 65, and requiring FEHBP plans covering postal employees to adopt drug plans made possible by the Medicare Part D program.

This approach would not only largely resolve the pre-funding requirement that is hindering USPS finances, it also would reduce FEHBP health insurance rates for all active and retired letter carriers as part of the bargain.

"It's a proposal that NALC was instrumental in developing," President Rolando said. Indeed, the basic outlines of the proposal were carefully crafted by the NALC and the USPS by the health care task force established by the 2013 Das award. "We have agreed on the major provisions of this plan, but we are taking a cautious approach to it to make sure that any legislation takes into account the best interests of the Postal Service, letter carriers and other postal workers."

We can make a compelling case for better using Medicare as a way to pay for retiree health benefits, both to reduce costs in the short term and to shrink the long-term FEHBP liability that requires continuous pre-funding payments for years into the future.

As we know, in 2006 Congress mandated, in the Postal Accountability and Enhancement Act, that the Postal Service "pre-fund" decades of health benefits for future retirees. Hard-wired into the 2006 law without regard to economic conditions was an inflexible payment schedule that required USPS to pay about $5.6 billion a year over a 10-year period. While the Postal Service made many of the early pre-funding payments, the financial crunch caused by the Great Recession forced USPS to skip several payments since—even though the missed payments showed up as expenses and super-sized its financial losses.

Currently, the pre-funding account contains about $50 billion. However, the estimated cost for the Postal Service's

Previous proposals: From Plan A to Plan C

The consensus proposal outlined above is not the first attempt NALC and other stakeholders have made to come up with a way to deal with the pre-funding liability, which has created massive red ink at the Postal Service. In fact, there has been a long line of them.

From the beginning, NALC proposed simply repealing the pre-funding burden as the easiest solution to fixing the Postal Service's financial crisis. Pre-funding accounts for 87 percent of the reported losses since the Postal Accountability and Enhancement Act created the liability in 2006, and 100 percent since 2013. However, outright repeal of the pre-funding payments "scored" against the budget, making this solution a legislative nonstarter. That was Plan A.

Plan B was to pay for much of the liability by getting the Treasury to refund the Postal Service's overcharged pension accounts, primarily the one for the Civil Service Retirement System (CSRS). These overpayments stem from when the Post Office Department became the Postal Service.

The Treasury is responsible for pension benefits for the years any carriers worked for the Post Office Department, with the Postal Service picking up the tab for their years working for USPS. But the Treasury calculated the payments in its favor, not accounting for increases to letter carriers' pre-1971 pensions due to pay increases after postal reorganization. Two independent studies found the CSRS postal account to be overfunded to the tune of $50 billion to $75 billion. Overpayments to the Federal Employees Retirement System accounted for billions more.

Despite the pension surplus fix appearing in many pieces of legisla-

future retirees' health benefits under FEHBP as it is structured now put USPS on the hook for a $90 billion liability, meaning USPS would need to raise $40 billion more to fund the liability under current law.

For many years, the NALC and other stakeholders have searched for a way to repeal or reform pre-funding: by getting the government to refund overcharges on pension accounts, by recalculating its liabilities using standard business accounting methodology, and by spreading out the pre-funding over a longer period. The Postal Service under PMG Donahoe focused on cutting services and downsizing to cover the cost of the burden. No one single approach garnered support from all the stakeholders or advanced in Congress.

USPS finances since the Postal Accountability and Enhancement Act of 2006

(measured in billions)

Year	USPS reported net income/loss	Pre-funding	FECA accounting adjustments	Operating income/loss
2006 (pre-PAEA)	$0.9	$0.0	-$0.4	$1.3
2007	-$5.1	-$8.4	$0.1	$3.2
2008	-$2.8	-$5.6	-$0.2	$3.0
2009	-$3.8	-$1.4	-$1.1	-$1.3
2010	-$8.5	-$5.5	-$2.4	-$0.6
2011	-$5.1	$0.0	-$2.4	-$2.7
2012	-$15.9	-$11.1	-$2.4	-$2.4
2013	-$5.0	-$5.6	$0.3	$0.3
2014	-$5.5	-$5.7	-$1.2	$1.4
2015 (through 3 quarters)	-$2.8	-$4.3	$0.2	$1.2
Total (since PAEA)	**-$54.5**	**-$47.6**	**-$9.1**	**$2.1**
Percent of total		**87%**	**17%**	

The new strategy looks at pre-funding differently. Instead of finding new funding for that liability, it attempts to find a way to shrink the liability without service or job cuts. Since the liability is for future health costs, it attempts to find new ways to cover health benefits both in the present and in the future, largely by fully integrating with Medicare—that is, taking full advantage of Medicare.

According to the proposal, the Office of Personnel Management would create a postal-only health benefit program within FEHBP. These postal plans would be rated and priced separately from the plans covering other federal employees, with rules on Medicare enrollment that would apply only to the postal plans. Postal retirees covered by these postal plans would be required to enroll in Medicare Parts A and B when they reach age 65. In addition, the postal FEHBP

tion, most notably H.R. 1351 from Rep. Steven Lynch (D-MA) in 2012, and despite being supported by the majority of Congress, Rep. Darrell Issa (R-CA) refused to allow the plan to move forward in committee. Issa refused to allow Congress to act on the pension overpayments as they would have cost the Treasury tens of billions of dollars in the budget (even though it was the Postal Service's funds as raised by the sale of postage). His obstruction was aided and abetted by so called pay-as-you-go (Pay-Go) budget rules, which require any bill that increases the deficit to provide offsetting spending cuts or revenue increases.

"I want to thank all of the carriers who worked so hard to convince their members of Congress to back the Lynch proposal," NALC President Fredric Rolando said. "It was a valiant effort, but ultimately one that came up short when facing the will of one representative."

That leads us to Plan C. The third idea, using Medicare to reduce the liability, came up in the last Congress. We urged Sens. Tom Carper (D-DE) and Tom Coburn (R-OK) to include it in S. 1486, as an alternative to service cuts. Unfortunately, they added it to a bill so laden with cuts in service, including reduced days of delivery, that NALC and others could not support it. However, the idea of a pared-down proposal emerged from the talks surrounding that bill and we decided the Medicare integration solution made the most sense in the context of a bill that would protect service quality and city carrier jobs.

"We've been working on the pre-funding problem for close to a decade now," Rolando said. "And while this isn't our first choice in how to rectify the situation, it has shown the most viability with all of the various stakeholders interested in finding a real solution that allows the Postal Service to innovate and grow in the years ahead. I know that NALC members will continue our efforts until we get a solution that becomes law." PR

program would embed low-cost drugs made possible by the Medicare Part D program and offer three tiers of coverage instead of two: self only, self plus one, and self and family.

Single parents with just one child and those with a spouse and no dependent children would see lower contributions. But even carriers with large families should see a discount, thanks to Medicare integration.

Annuitants and their families would be able to select less-expensive plans with no loss of benefits since they would have essentially complete coverage through more effective integration with Medicare.

The change to a postal-only system fully integrated with Medicare would adopt the best practices of the private-sector health plans and of plans offered by state and local governments. Unlike FEHBP under current law, those other programs require enrollment in Medicare Parts A and B. This minimizes their costs since Medicare becomes the primary health plan—the first payer—once an insured employee retires. The employer plans pick up costs not covered by Medicare.

Under FEHBP, federal employees do not have to make Medicare the primary insurer, and 8.4 percent of postal employees are not enrolled in Medicare Part A, even though it is free. Part A covers hospital care, home health services, hospice care and more.

The numbers are worse for Medicare Part B, which covers medical services and supplies and can include outpatient care, preventive services, ambulance services and durable medical equipment. Currently, 23.5 percent of USPS annuitants are not enrolled in Medicare Part B. Reports suggest that the number is growing.

Unlike Part A, which is free, Part B comes at a cost to the participant. Most participants pay about $105 a month, though some or all of this cost is recouped immediately by the enrollees through lowered deductibles, copays and coinsurance. Over the course of a full retirement, the value of Part B coverage more than covers the cost of the premiums. Better still, under the FEHBP reform plan developed by the Postal Service and the NALC, the cost of Part B premiums will also be partially offset by lower overall rates on postal-only FEHBP plans.

Many annuitants seem to conclude that if they're in good health, they're better off avoiding the Part B contributions. However, a recent research report by PRM Consulting Group said that "On average the decision not to participate in Part B will be costly to the participant, since they are also exposed to those deductibles, copays and coinsurance payments in years in which they have higher medical expenses, which almost all annuitants will face at some point in their retirement years."

Then there is Medicare Part D, the drug benefits part of Medicare. The consensus proposal calls for incorporating the low-cost drugs provided by Medicare Part D within the new postal-only plans in FEHBP, keeping drug benefits as generous as now but with significantly lower costs and excellent benefits for those with high drug expenses. This approach takes advantage of the purchasing power of the Part D program without requiring annuitants to enroll in separate Part D plans. Part D makes these low-cost drugs available to employer health plans to encourage companies to continue offering health insurance to retirees. The PRM research paper estimated that the savings from integrating a postal-only plan with Medicare, along with the funds from previous pre-funding payments, would take care of 99 percent of the future health benefits liability, essentially eliminating the pre-funding requirement.

"The legislative proposal, by addressing the liability issue directly, primarily through proper coordination of the plans with Medicare, would produce a substantial portion of the savings that the Postal Service will need to return to financial stability," the report concluded. "And these savings are achieved without eliminating a single job, or closing a single post office or postal facility."

There are some issues with this proposal. Medicare Part B requires enrollees to opt in at age 65 when they are first eligible or face a stiff penalty if they delay doing so (up to 10 percent additional for each 12 months from first eligibility). If postal retirees were forced to join Medicare Part B after age 65, they could be forced to pay that penalty. NALC will not agree to this reform unless the penalties are waived by any legislation that includes the requirement. Happily, this waiver has been included in bills that have adopted this reform in the past.

Additionally, because this will be a new, postal-only program inside of FEHBP, health insurers will be required to offer segmented plans for non-postal federal employees and postal employees. Initially, the idea was to require plans with 5,000 or more postal participants (which covers 92 percent of postal enrollees) to participate in the new postal FEHBP program. Plans with fewer than 5,000 members would not be required to participate, though they would be permitted to join voluntarily. NALC is

Election notice for NALC director of retired members

Pursuant to an election complaint received by the United States Department of Labor's Office of Labor-Management Standards (OLMS), the National Association of Letter Carriers (NALC) entered into a voluntary agreement with OLMS to conduct a new officer election for the position of NALC Director of Retired Members under OLMS' supervision. There will not be new nominations for this position. The term of office for this election is the remainder of the unexpired term, which will end in December 2018.

The election will be conducted by mail ballot. NALC members in good standing as of June 1, 2015, are eligible to vote. All NALC members are encouraged to update their addresses with the union by contacting the NALC Membership Department at 202-662-2836 or by visiting http://forms.nalc.org/update.

Ballots will be mailed to eligible members on Sept. 14 and Sept. 15, 2015. Ballots are due back in the post office box by 12 p.m. on Oct. 5, 2015. The tally will commence immediately afterward at Peake-DeLancey Printing, 2500 Schuster Drive, Cheverly, MD 20781. The results will be published on the NALC website, with the vote totals broken down by branch.

If you have not received your ballot by Sept. 21, 2015, or if you spoil your ballot or need another ballot for any reason, contact your local branch office and request that it contacts the NALC Membership Department to provide a duplicate ballot to you. When requesting a duplicate ballot, please provide your branch office with your name and current mailing address. The NALC Membership Department will process your duplicate ballot request. If you cast your original ballot AND a duplicate ballot, only the duplicate ballot will be counted.

All phases of the election are being supervised by OLMS. If you have any questions, please call U.S. Department of Labor, OLMS, Election Supervisor Brian Lucy at 202-513-7318 or e-mail OLMS-NALC-Election@dol.gov. Any NALC member wishing to file a protest regarding the conduct of this election must do so in writing to the election supervisor no later than Oct. 19, 2015. To receive the mailing address and fax number options to file a protest, contact OLMS Election Supervisor Brian Lucy at the phone number or e-mail address above. PR

working to lower that number to 1,500 members, to make it easier for postal employees who opt for smaller plans to enjoy the benefits of the reform. At this time, it has not been determined whether letter carriers in plans with fewer than 1,500 members would be mandated to enroll in Medicare if they are already over the age of 65.

There is also a concern about "scoring." Scoring is how Congress determines whether legislation will add to the federal budget deficit. Because the reform would shift health care costs from FEHBP to Medicare, the U.S. Treasury would be on the hook for providing more funding to Medicare. The Postal Service's report makes it clear that while it would be putting the cost on the Treasury, Medicare is able to offer the same coverage for less by dealing in the volume it does, meaning that it will not cost the Treasury as much as it costs the Postal Service. In any event, the added cost to the $450-billion-a-year Medicare program would be miniscule—less than two-tenths of 1 percent.

To "pay for" or offset these costs, the Postal Service hopes that the legislation will include funding increases from a provision to make the exigent rate hike permanent. In December of 2013, the Postal Regulatory Commission (PRC) agreed to an emergency—or "exigent"—rate increase, which brought the cost of a First Class stamp from 46 cents to 49 cents. The raise, which went into effect in January of 2014, was promoted as a way to help USPS recover from the dramatic drop in mail volume brought on by the Great Recession, not to mention the devastating financial effects that came with that drop. The exigent rate increase was set to expire in August of this year, but in a 4-to-1 decision, the PRC ruled that the raise would remain in place through at least March of 2016. NALC is working with the mailing industry and the Postal Service to reach an agreement on postage rates that will help offset the score of Medicare integration.

If Congress were to adopt a rates compromise that included higher postage, it would increase the revenue for the Postal Service. Because of complicated budgetary rules, the off-budget Postal Service is included in the so-called unified federal budget (even though it earns its own money from the sale of postage). This means that an increase in funding to the Postal Service also is seen as an increase in funding for the overall federal government. The NALC, the Postal Service and the other stakeholders hope that a rates deal will give the legislation a budget-neutral score, making it more palatable to this fiscally conservative Congress.

As with all legislative proposals, it is up to the members of Congress to decide whether to include Medicare integration within a postal-only FEHBP in postal reform legislation. Congress has the ability to alter any aspect of this proposal through the normal legislative process by which a bill becomes a law.

"This is a good first step toward positive postal reform, that recognizes the needs of the employees and the employer," President Rolando said, "but we'll need to tread carefully as we progress further."

Look for more on the legislative process in future issues of *The Postal Record* and on the NALC website, nalc.org. Sign up to become an e-Activist to get all of the latest legislative news as it happens at forms.nalc.org/e-activist. PR