



NALC Fact Sheet

Department of Legislative and Political Affairs — National Association of Letter Carriers, AFL-CIO
100 Indiana Ave. NW — Washington, DC 20001-2144 — 202-393-4695 — www.nalc.org © NALC

The Building Blocks for Postal Reform

The Postal Service is a national treasure and an essential part of the nation's economic infrastructure. It is the heart of a \$1.4 trillion mailing industry that employs 7.0 million workers in the private sector. Congress should allow it to fully leverage its networks to meet the evolving needs of our country, its citizens and businesses.

Over the past decade, the Postal Service has bounced back from the worst recession in 80 years, fueled by a booming e-commerce delivery business and record productivity growth from postal workers. During this time it has dramatically restructured itself and reduced career employment by nearly 200,000 jobs in response to the decline in letter mail volume during the recession. Despite the misguided repeal of the 4.3 percent exigent rate increase four years after it was implemented, USPS has shown the ability to operate profitably – if not for the congressional mandate to pre-fund future retiree health benefits decades in advance.

Background

The misguided pre-funding policy, created by the Postal Accountability and Enhancement Act of 2006, has cost USPS an average of \$5.3 billion annually over the past 12 years. It accounts for 92 percent of USPS' net losses since 2007 – and 100 percent of the losses over the past six years. No other public or private enterprise faces such a mandate, which has starved the agency of investment needed for innovation.

Postal reform centered around full and immediate Medicare integration, which brings down the cost of pre-funding by requiring all age-eligible current and future postal annuitants to enroll in Medicare Parts A and B, has failed to advance over the past four Congresses. The politics surrounding Medicare – including the need for offsets to reimburse the Medicare Trust Funds that finance Parts A and B – has blocked progress. It's time for Congress to consider alternative approaches.

Elements for sensible reform

NALC calls on Congress to implement a series of smart, targeted reforms to pave the way for long-term stability and growth:

Address the retiree health benefits pre-funding burden. Congress should either repeal or reform the pre-funding mandate to reduce its burden on the Postal Service. It can do the latter by adopting the private sector best practices:

- **Pre-fund only the vested liability.** Private sector companies are not required to pre-fund retiree health benefits at all, but they are required to report the future cost of vested benefits for employees eligible for retiree coverage. About 40 percent of Fortune 1000 companies choose to partially pre-fund such benefits – at a median level of 60 percent. Congress should adopt this “best practice” and reduce USPS' prefunding target from 100 percent of the “total projected liability” to 60 percent of the “vested liability” for retiree health benefits – that is, only for employees who are retiree-eligible and who qualify for such benefits. This would reduce the retiree health funding burden for future retiree health by at least \$35 billion.
- **Medicare Part D integration.** Congress should reform the way the

Federal Employee Health Benefits Program (FEHBP) covers postal employees and postal annuitants by authorizing postal-only plans within FEHBP to take advantage of the prescription drug savings offered private sector health plans by the Medicare Part D law. This reform would reduce the Postal Service's liability for retiree health by at least \$25 billion.

- **Prospective integration with Medicare Parts A and B.** Congress should apply a requirement to enroll in Parts A and B of Medicare at age 65 – which is standard practice among private company health plans with retiree coverage – to the postal-only FEHBP plans, with appropriate exceptions for VA-covered retirees and others who cannot benefit from Medicare Part B. In order to avoid the need for offsets to reimburse the Medicare Trust Funds over the CBO's 10-year budget scoring window, this requirement should be applied on a prospective basis – for active employees under the age of 55 on the date of enactment. This reform would reduce future retiree health costs by tens of billions of dollars.
- **Properly invest the PSRHBF.** To further reduce the pre-funding burden, Congress should authorize the Postal Service to safely invest future retiree health contributions in low-cost index funds similar to those offered by the federal Thrift Savings Plan. Despite the 2008 crash, the TSP's common stock fund (C Fund) returned an average of 8.8 percent since the Postal Retiree Health Benefits Fund (PSRHBF) was created in 2007. Nonsensically, current law requires the PSRHBF to be invested in low-yielding Treasury securities instead of diversified portfolio of stocks and bonds, the best practice of private sector companies. Since annual medical inflation is much higher than Treasury returns (2-3 percent in recent years), this investment policy guarantees that the unfunded liability for retiree health will increase without end. Investing the PSRHBF properly would avoid this while generating billions of dollars in additional returns for the PSRHBF.

Allow new products and innovation. The services USPS can provide are strictly limited by current law. It therefore cannot maximize the value of its unique retail, processing and delivery networks. To innovate and remain healthy, USPS must be allowed to develop new ways to serve the public and to offer new services. For example, Congress could use the Postal Service to strengthen our democracy by promoting mail-in balloting at all levels of government and improve access to government services by encouraging partnerships between USPS and federal, state and local government agencies. It could also permit USPS to deliver beer, wine and distilled spirits (consistent with state laws).

Adopt measures to track and improve service. Congress should adopt the reforms aimed at improving service standards and performance, especially in rural America, that were included in the Postal Service Reform Act of 2018 (Senate bill S. 2629).

In combination with an improved system of postage rate regulation – which will emerge in 2019 from an ongoing proceeding at the Postal Regulatory Commission – the reforms outlined above would stabilize the Postal Service and create the conditions for it to thrive in the 21st Century.