



National Association of Letter Carriers

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Fredric V. Rolando, President

October 4, 2016

Mr. Walton Francis
1625 K Street, NW
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Dear Mr. Francis:

On behalf of the membership of the National Association of Letter Carriers, I write to address a number of issues raised by your recent appearance on the Mike Causey radio show on Federal New Radio (September 28, 2016). That show dealt with the proposed postal reform bill (H.R. 5714) adopted by the House Oversight and Government Reform Committee earlier this year – and particularly with the proposed changes in the way the Federal Employees Health Benefit Program (FEHBP) covers postal employees and annuitants.

Although I appreciate your expertise regarding FEHBP and I acknowledge the incredible value of your guide to federal health plans during the program's annual open season, your understanding of the proposed postal reform bill (and the NALC's position regarding it) is seriously lacking. During the radio program you made a number of statements about these issues that are simply not accurate.

But let me first give you credit where credit is due. You did a pretty good job describing the policy problem that is motivating the reform legislation: The 2006 mandate that requires the Postal Service to prefund future retiree health benefits, at the unaffordable cost of more than \$ 5 billion per year (it's actually \$5.8 billion this year). But you were wrong to suggest that the burden only lasts for "15 years of so." The 2006 law requires the Postal Service to prefund more than 90 years of future retiree health premiums over a 50-year period. And contrary to what you implied, this mandate is not intended to require the Postal Service to pre-fund "as if it were a business" or to shift to a "true business model." In fact, private businesses are not required to prefund future retiree health benefits by law or accounting standards. This crushing burden is virtually unique to the Postal Service. It accounts for 90% of the Postal Service's reported losses since 2007 – and without it, we'd have recorded profits over the past three years.

However, over the course of the interview with Mike Causey, you made a number of misleading or inaccurate statements:

- 1) It is not true that "several postal unions oppose" the postal reform bill. Nor is it true that the National Association of Letter Carriers is "in collusion" with the Congressional oversight committees to advance the postal bill. The word *collusion* suggests something inappropriate or nefarious. This is not a secret process, hidden from public view. In fact, all four postal unions (NALC, APWU, NPMHU, NRLCA) have taken the exact same position on the legislation. We

cannot support the bill as it is currently drafted. However, all four organizations are committed to working with allies in the mailing industry, the Postal Service and leaders in Congress to reach and enact a consensus bill by adopting several key amendments. After all, the Committee adopted the first draft of the bill; we are certain that other Members of Congress will want to have a say on the legislation.

Although the unions (and many in the mailing industry) support the core provisions of the reform bill, we hope to address a number of issues to improve it – including one or two issues related to the Medicare provision that you have raised.

- 2) You claimed that the Postal Service and others supporting Medicare integration “did not know” that postal participants would be rated in a “separate risk pool” or that postal workers are slightly older than federal workers – and therefore slightly more expensive to insure. Both these facts are well known. In fact, OPM officials testified about the relative costs of the two proposed risk pools in 2011 and 2013, concluding that the impact would be minimal. However, you failed to note that the savings from Medicare integration more than offset the modestly higher costs of insuring postal employees (see item 3.) Moreover, in recent years, net hiring in the Postal Service has been on the rise – to meet a booming demand for e-commerce deliveries and to replace tens of thousands of older workers who are retiring. The number of city carriers on the rolls has risen by 20,000 -- and 40,000 younger non-career carriers have converted to full-time career status in recent years to replace retiring carriers. At the same time, federal agency employment declined between 2011 and 2015. These trends could reduce the small cost differential between the postal and federal risk pools.
- 3) It is not true that the Postal Service would “lose money” as a result of the proposed reform. You failed to take into account the savings from Medicare integration that would offset the slightly higher premium costs associated with a slightly more expensive risk pool. The net effect would be to reduce FEHBP premiums for postal participants, active and retired alike. You also neglected to take into account the huge savings on retiree health prefunding costs. More fully integrating with Medicare would virtually eliminate the unfunded liability for the Postal Service’s future FEHBP obligations. That would eliminate a \$3 billion annual amortization payment now required under current law.
- 4) You incorrectly suggested that the legislation “came out of nowhere” and that there were no “real hearings” on the proposals contained in H.R. 5714. The core concepts contained in H.R. 5714 have been included in bills introduced over the past three Congresses, starting with S. 1789 in 2011, and S. 1486 in 2013. There have been multiple hearings over the past six years.
- 5) Perhaps most alarmingly, you wrongly suggested that the House legislation requires postal seniors (those aged 65 or older) to enroll in a Medicare Part D plan at a cost of \$500 per year to keep their FEHBP coverage. There is no such requirement in the bill. Rather, health plans wishing to insure postal participants would be required to set up an Employer Group Waiver Plan (EGWP) within the structure of their plans to take advantage of discounted prescription drugs, catastrophic limits and subsidies from the Department of Health and Human Services. These benefits were made available to private employer health plans by the Medicare Part D law (the Medicare Modernization Act of 2006) to encourage companies to maintain their

existing coverage for retirees. They would help drive health insurance premiums down for all postal participants in the FEHBP. There would be no requirement to pay a Part D premium.

- 6) You misunderstand the legislation's provisions on which plans would participate in the postal version of FEHBP, falsely claiming that health plans covering fewer than 1,500 postal participants would be "booted out" of FEHBP. That is simply not true. The bill would require plans that now cover at least 1,500 postal participants to adopt the reforms called by the legislation (separate rating for postal and federal participants, EGWP, etc.) in order to continue insuring postal participants under the new system. Those plans would offer the same benefits to federal and postal participants, but price them separately for the two risk pools.

Plans with fewer than 1,500 postal enrollees would also be eligible to participate in the postal-FEHBP as long as they abided by the new rules – but there would be no requirement to participate for such smaller plans. Nothing in the bill would prohibit these small health plans from continuing to cover non-postal federal employees and annuitants – whether they opt to cover postal participants or not.

I trust you will take these points into consideration when you are asked to address the proposed bill in the future. The fate of 600,000 American families employed by the Postal Service and the 7.5 million Americans employed by the mailing industry depend on enacting sensible postal reform – we must avoid injecting misinformation into the Congressional debate.

Finally, I'd like to address the broader objection you raised in your recent paper for the Heritage Foundation. You argue the changes proposed in H.R. 5417 should be shelved or abandoned until shortcomings in the current Medicare and FEHBP programs are addressed first. You may or may not be right about these shortcomings, but it will be years, if not decades (when it comes to Medicare) before Congress will reach consensus on broader reforms. We need action on postal reform immediately.

The mailing industry is simply asking for Congress to treat the Postal Service the same way the law treats large private employers with health plans with respect to Medicare. Most very large national companies provide retiree health benefits to some or all of their employees. All of them require most senior retirees to sign up for Medicare Parts A and B – and most of those plans have created an EGWP within their health plans. These are "standard best practices" in the private sector. In the absence of these best practices, FEHBP is subsidizing Medicare, not the other way around.

According to the CBO score of S. 1486 during the last Congress, the cost of the Medicare integration proposed by H.R. 5714 is approximately \$5.3 billion (net of offsetting FEHBP savings) over 10 years – that's less than 0.2% of annual Medicare spending. The increase in Part B enrollment would also be less than two-tenths of one percent. These modest increases would not threaten the Medicare program in any material way. The Postal Service and its employees have contributed more than \$30 billion to Medicare Part A via FICA taxes since 1983 (\$40 billion in 2016 dollars) and hundreds of thousands of postal employees have paid their share of income taxes to fund the Medicare Part B program – there is no justification to deny them equal treatment under the law.

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I don't necessarily agree with your assessment of the shortcomings of Medicare, FEHBP or the tax law governing the tax treatment of health care premiums, but at some point Congress will address these programs with legislation—and postal employees and annuitants will have to live with the results of that legislative action, just like other Americans. In the meantime, Congress should adopt sensible reforms to strengthen the Postal Service, a vital part of the nation's economic infrastructure and an invaluable service for the American people.

Sincerely,

A handwritten signature in black ink, appearing to read 'Fredric V. Rolando', with a stylized, cursive script.

Fredric V. Rolando
President