Know THE SCORE

Understanding Congress' postal reform reluctance

With postal reform, as with many complex problems, the key to understanding it and to figuring out a solution comes down to following the money. By following the trail of dollars, it's easy to see how Congress damaged the Postal Service's finances and why it has yet to pass meaningful postal reform. Also clear is the struggle NALC activists face in trying to convince members of Congress to do the right thing.

Follow the bouncing ball

First off, let's track the money.

1. The Postal Service earns revenue. Since USPS doesn't receive taxpayer money, all of the funds come from selling postage and other products and services. Other companies can raise the prices on their goods and services when they need to increase their profits, but not so for USPS. For nearly 200 years, only Congress could raise the price of postage, and often it would take the legislative body so long to do so that USPS would need to raise the stamp prices again even before the long-sought hike went into effect. In 1970, this power was transferred to the Postal Rate Commission, a new regulator that approved rate increases after months of costly litigation in which various mailers sought to shift costs to others. Eventually Congress gave the Postal Service the power to raise stamp prices on its own, but only to keep up with inflation. That's challenging enough, but then Congress placed an addition financial burden on it.

2. Congress demands $5.5 billion be deposited each year into an account for future retiree health benefits. The Postal Service must pay for retiree health benefits the same way it pays for active employees, meaning that USPS is on the hook for 72 percent of all former employees' health benefits costs. Fair enough. But in 2006, Congress decided that USPS must, unlike any other government agency or private company, pre-fund future health benefits for all employees and annuitants over the next 75 years as well. Regardless of operational costs or conditions, whether the Postal Service is making or losing money on delivering the mail, a $5.5 billion annual deposit has to be made between 2007 and 2016. These payments will total nearly $59 billion over the 10 years.

3. OPM keeps the funds. Congress doesn't let the Postal Service simply set aside the funds for future retiree health benefits or invest it properly to maximize their value. Instead, that money is required by law to go to a trust fund controlled by the Office of Personnel Management (OPM), into the so-called Postal Service Retiree Health Benefits Fund (PSRHBF). For federal budget purposes, the USPS owes the OPM $5.5 billion per year by law. Absurdly, the USPS' budget shows that it is responsible to pay for retiree health benefits, while the OPM budget gets to carry the assets of the PSRHBF. In simple terms, OPM gets all the benefit while the Postal Service pays all the bills.

4. Congress spends against the savings. So what happens to the money sent to the PSRHBF? Quite simply, it gets loaned to the United States Treasury

to finance the nation's budget deficit. The PSRHBF by law must be invested in Treasury bonds. The annual payments look no different than tax revenues, so they permit the Treasury to finance government spending, such as Medicare, defense spending, or anything else the government pays for. The USPS pre-funding payments make the deficit look $5.5 billion smaller each year.

5. Repeat annually. Because Congress passed a law that requires the Postal Service to fully fund 75 years' worth of retiree health benefits in only 10 years, the federal budget is written assuming that these billions will roll in each year. So, it's not in Congress' interest to simply end the pre-funding, no matter how unfair or unnecessary the payments are.

Potential solutions

With the large pre-funding payments, the Postal Service's finances have fallen off a cliff. Congress and other stakeholders have searched for solutions, with varying degrees of complexity.

1. Return of the Civil Service Retirement System overfunding. In 1971, when the Postal Service was created out of the Post Office Department, retirement coverage was shifted from the federal government to USPS (to be paid from postage sales). For postal employees who worked beyond 1971, the USPS (and its postage ratepayers) covers the cost of pensions earned after 1971 and the U.S. Treasury (taxpayers) is responsible for any retirement benefits for the period they worked for the Post Office Department.

It sounds simple—the Treasury should pay the pension costs of pre-1971 service and the USPS should pay for such costs after 1971. But in reality, it's not. The cost of pensions is not split in a fair way, grossly burdening the Postal Service. The federal government pays the retirement benefits for postal employees for the years they worked up until 1971 *only at the pay rate they made in 1971*—leaving the remaining cost to the Postal Service and its employees. But actual retirement benefits are based on an employee's end-of-career pay rate (the "high-three average"). That means the federal government has shifted a huge amount of the cost of pre-1971 pensions to the Postal Service. That difference between the actual cost of pre-1971 pensions and the cost paid for by the Treasury, for all of the postal CSRS employees, totals $50 billion to $75 billion, according to two independent audits. If that money were returned, the Postal Service could fully cover the amount required by the pre-funding mandate.

2. Return of the Federal Employees Retirement System overfunding. Every year, the federal government takes a snapshot of where all its employees are, in terms of tenure, salary and years until retirement, and tells all of its agencies how much they need to contribute toward pension costs that year.

For a number of reasons, including the scale of attrition of postal employees each year, the contributions called for often are more than the Postal Service will need. That overfunding currently amounts to about $11.4 billion.

Returning that $11.4 billion wouldn't cover the total amount of pre-funding, but it would go a ways toward erasing the Postal Service's debt and allow it some flexibility in restructuring its business model.

3. End the pre-funding. There is close to $45 billion sitting in the pre-funding account, enough to take care of retiree health benefits for decades. Congress could end the pre-funding requirement and allow the Postal Service to pay current retiree health benefits from this fund, giving the Postal Service the financial flexibility it needs to adapt to needs of the 21st century.

Keeping score

While many proposals to solve the Postal Service's financial crisis have been put forward, Congress has yet to pass one, much less take up postal reform that doesn't damage the business. Part of the reason is that Congress is hesitant to pass any bill that "scores." Scoring is the term for how much a bill will cost, either in money spent or in lost revenue. Calculating the score on any bill before the Congress is the job of the Congressional Budget Office (CBO). This obscure agency of the legislative branch often decides the fate of legislation by determining whether or not bills score—and whether they increase or reduce the deficit.

The CBO also plays a key role in enforcing the so-called PAYGO rules that were first adopted in 2006. These "pay as you go" rules require any bill that increases the deficit be fully offset with a tax increase and/or a spending cut. This makes ending the pre-funding mandate especially difficult. To do so, Congress must raise taxes or cut other popular spending, or it must get a majority in the House and a super majority (60 votes) in the Senate to waive the PAYGO rules.

The current Republican leadership in the House of Representatives has stated that one of its main goals is to shrink the size of government and to reduce the federal deficit, to the point of nearly shutting down the federal government. So, both procedurally and ideologically, Congress has an interest in keeping the deficit from growing, which is what all the major postal reform proposals do:

1. Return the CSRS overfunding. **Score: $50 billion to $75 billion.**

2. Return the FERS overfunding. **Score: $11.4 billion.**

3. End the pre-funding. **Score: $5.5 billion annually.** It scores higher if the USPS starts withdrawing the funds to pay current retiree health benefits, adding $2.3 billion a year.

The frustrating part is that even though these costs score against the federal deficit, they are USPS' own

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cash, not money from taxpayers. But, as with many things in Congress right now, it's the appearance of cutting the deficit that matters—not the reality.

Congressional 'fixes'

The Senate already has passed its version of postal reform. To do so, senators set aside the rules requiring them to not affect the deficit. Yet they refused to return the CSRS overfunding or to end pre-funding. Instead, the Senate bill returns the FERS overfunding (to be spent on buyouts to speed along attrition), reduces the pre-funding, and allows the Postal Service to pay for current retiree health benefits from the $45 billion fund for future retiree health benefits (the PSRHBF). It also has negative impacts by reducing services to the public, like allowing for the ending of Saturday delivery in two years.

The bill scores more than $6 billion over the next decade, which seems to be too much for passage in the Republican-controlled House.

Instead, the House is considering Rep. Darrell Issa's (R-CA) H.R. 2309. The slash-and-burn bill doesn't return the CSRS overfunding and ultimately increases the amount of pre-funding to a staggering $8 billion by 2015. While the bill does return the FERS overfunding, it also creates new layers of bureaucratic oversight designed to gut employees' pay and benefits, ends door-to-door mail delivery service for most homes and businesses and eliminates Saturday delivery. The Congressional Budget Office found that the severe cuts to the Postal Service's costs and payroll, along with the additions to the pre-funding, would ultimately save federal funds and not score against the deficit.

In the House, it seems that not scoring might be more important than making sure the Postal Service survives at all.

We've been here before

Unfortunately, congressional manipulation of postal funds is nothing new. Before the Postal Accountability and Enhancement Act passed in 2006—which created the pre-funding mandate—Congress had unfairly forced the Postal Service to pay for pensions earned by employees for their service in the military.

PAEA was passed to fix that, returning billions to the Postal Service. But, because Congress and then president Bush decided that the bill must be budget-neutral and not score, the pre-funding was crafted to continue the flow of postal funds into the Treasury's ledger.

And now new legislation is needed to fix this latest unnecessary burden.

Our fight

This is the political environment and these are the numbers that are arrayed against us. We must convince our elected representatives to think beyond the numbers and do what is right for the Postal Service and for taxpayers.

"It is a complex problem," NALC President Fredric Rolando said, "but it's one that we have to solve. The future of our jobs and the very existence of the Postal Service are in the balance. We need to make sure we hold our representatives in Congress accountable to making the right decisions for us all."

It appears that with election season well underway, the House is unlikely to take up any bill until after the November election. But NALC members must stay vigilant.

"We've seen postal issues addressed in a lame-duck Congress before," Rolando said. "We can't get so distracted by the results of the election that we aren't prepared for the fight that could happen immediately after."

Joining the e-Activist Network is a good start, so you can be informed of the latest news from Washington at a moment's notice. Simply go to nalc.org and follow the instructions on how to sign up.

Then it'll be your opportunity to make sure Congress knows the real score. ✉