We're number 3! Time for some common-sense investing

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Did you know that postal employees and the mailing industry are collectively the third largest creditor of the United States government, just behind the countries of China and Japan? That's right, we are major players in financing Uncle Sam's debt.

I realized this the other day when I saw a list of the top 10 foreign official holders of United States Treasury bonds. The top three were: China ($1.27 trillion), Japan ($1.18 trillion) and a group called the Caribbean Banking Centers ($295 billion—think the Cayman Islands). Then it hit me: Our pension and retiree health benefit funds hold Treasury bonds worth more than $340 billion.

That's right, letter carriers and other postal employees have contributed tens of billions of dollars through payroll deductions to the Postal Service's CSRS and FERS pension accounts, and the Postal Service has used postage rate-payer funds (mostly from business mailers) to pay even more into those accounts and into the Postal Service Retiree Health Benefits Fund (PSRHBF).

By law, all of the funds have to be invested in U.S. Treasury bonds. So yes, if the postal industry were a country, we'd be Uncle Sam's third largest creditor. Amazing.

This is a great deal for the feds. We are a great source for low-cost financing for the government; the current interest rate on 10-year Treasuries right now stands at about 2 percent.

But is it a good deal for us? Is this the best way for us to be investing our retirement funds? And if we invested the funds more wisely, would we be better able to handle the unique and unfair burden of pre-funding future retiree health benefits?

At first, the answer to these questions seems obvious. No company in America would invest 100 percent of its pension funds in low-yielding government bonds. That would raise the cost of payroll contributions for pensions through the roof. Instead, companies would, and do, invest their pension funds in broadly diversified portfolios of private-sector stocks, bonds, real estate and other assets. And although most companies don't pre-fund retiree health benefits at all, the ones that do so invest their retiree health funds in a similar way. In 2014, the long-term expected rate of return on retirement funds for large corporations ranged between 6.8 and 7.4 percent, according to industry pension surveys.

One could argue that investing the postal CSRS ($195 billion) and postal FERS ($95 billion) pension accounts in Treasury bonds might still make sense. Although interest rates on U.S. bonds are now at historic lows, the managers of the Civil Service Retirement and Disability Fund (which holds both CSRS and FERS) at the Office of Personnel Management predict that our bonds will earn an average of 5.25 percent annually over the long run (75 years). That's a decent return that surpasses the long-term growth rate of pension benefits (which track wage growth trends over the long run). Besides, diversifying the investment of the postal CSRS and FERS accounts would be very hard to do. They are now co-mingled with the taxpayer money that funds the pension benefits of other federal employees—everyone from NASA scientists and border patrol officers to FBI agents and congressional staffers.

But what about the $49 billion in the retiree health fund (PSRHBF)? That fund is a stand-alone account financed exclusively by postage ratepayers. It covers just the health benefits of postal annuitants. And remember: No other agency or company in America is legally required to pre-fund such benefits. When the long term rate of inflation for health insurance premiums is expected to rise by 5.5 to 7.0 percent annually, why would we invest in assets that grow more slowly than that? That's crazy.

That means the unfunded liability of future retiree health benefits would increase *forever*. Our pre-funding payments—both the normal annual payments and the payments to amortize the unfunded liability—would together rise every year. The pressure to raise postage rates and to cut services would be relentless.

In view of this reality, NALC, the other postal unions and our allies in the mailing industry have proposed investing the PSRHBF in stock and bond index funds such as those offered by the Thrift Savings Plan. If we had put our retiree health fund in the 2040 Lifecycle Fund of the TSP from the time it was created in 2007, our fund would be $11 billion larger—$60 billion—despite the worst stock market crash in 80 years back in 2008.

Investing this fund more sensibly is just common sense. Why would we consider endless service cuts and self-defeating downsizing when we could simply invest the PSRHBF more intelligently?

No offense, Uncle Sam. It's time for us to move some of our money into better investments. But have no fear, Sam: We'll still be your fourth biggest creditor with $290 billion in our FERS and CSRS pensions.

Watch out, Caribbean—we're gaining on you!