Time to consider other alternatives for postal reform

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In 2006, Congress passed the Postal Accountability and Enhancement Act (PAEA) of 2006, which focused largely on streamlining the postage rate-setting process. Intended or not, the PAEA turned an affordable long-term liability (for future retiree health benefits) into an unaffordable short-term liability that accounts for 90 percent of the Postal Service's losses since its enactment.

No other enterprise in the country is required to pre-fund retiree health benefits decades in advance. Some companies set aside reserves for this purpose when profits are good, but most companies cover these costs on a pay-as-you go basis. In any case, because of the onset and severity of the Great Recession, USPS decided not to build the $5.5 billion annual cost of pre-funding into baseline rates before the CPI price cap took effect in 2007. Since then, USPS has recorded $60 billion in losses—almost all of them due to the crushing cost of pre-funding. We've been trying to persuade Congress to reconsider the pre-funding policy ever since.

So where do we stand on that task? On the one hand, there is a broad consensus that the pre-funding policy needs reform. On the other hand, our dysfunctional political system has blocked every possible solution in Congress. We've reached a crossroads. We cannot defer action any longer. So what are the options? I see four possible paths forward.

First, there is the policy our oversight committees have been focusing on over the past six years: Medicare integration. The idea is to significantly reduce the cost of future retiree health benefits—and therefore reduce the burden of pre-funding those benefits—by adopting private-sector best practice. That practice is to require all postal annuitants to enroll in Medicare Parts A and B at age 65 and to restructure our health plans to take advantage of the subsidies and savings on prescription drugs for seniors under the Medicare Part D law.

These are the reforms at the heart of H.R. 756, which was adopted by our House oversight committee last year—and at the center of S. 2629, introduced in the Senate by Sens. Tom Carper (D-DE), Heidi Heitkamp (D-ND), Claire McCaskill (D-MO) and Jerry Moran (R-KS) last month. We are pleased that the Senate version of the bill removes unwise cuts to door delivery and provides protections for retirees who cannot afford to enroll or who could not benefit from Medicare Part B. (See story on page 4.) Unfortunately, it appears that the GOP majority in both houses of Congress opposes these bills because they would raise Medicare spending. So what are the other options?

The second option would be the simplest: a straightforward repeal of the pre-funding mandate. The Postal Service already has amassed nearly $50 billion for future retiree health benefits—enough to cover those costs for more than a decade. After that, USPS would operate on a pay-as-you-go basis just like other companies do—and like we did before 2007. Ending the pre-funding mandate would allow USPS to replace its vehicle fleet and make other long-delayed investments needed to maintain quality service. And since USPS has not been making pre-funding payments in recent years, repealing the mandate would no longer "score"—that is, raise the federal debt.

A third option would be to minimize the burden of pre-funding by reducing the liability to be pre-funded and investing the assets of the Postal Service Retiree Health Benefits Fund (PSRHBF) more sensibly. Under current law, we are required to pre-fund the total projected cost of future retiree health benefits (assuming all current postal employees retire from USPS), not the actual liability for such benefits of employees and retirees as they become eligible (vested) each year. We also are required to invest the PSRHBF's assets in low-yielding Treasury bonds instead of in private-sector stocks and bonds that pay much higher returns. Changing the pre-funding mandate to apply only to the vested liability would dramatically reduce the cost of pre-funding, and investing the PSRHBF the way the federal Thrift Savings Plan is invested would greatly increase the PSRHBF's earnings. Together, these changes would effectively stabilize USPS finances.

A final option would be to revive a bill that attracted majority bipartisan support in Congress in the 2011-2012 session—a bill that would transfer a huge postal surplus in the Civil Service Retirement System (CSRS) into the Retiree Health Fund and essentially eliminate the unfunded liability for retiree health benefits. (Such a surplus would result from applying private-sector accounting standards to the valuation of the postal CSRS account.)

All of these approaches individually, or in combination, would address the financial crisis caused by the PAEA. For example, if one or more of these other ideas were adopted, it would be possible to apply the Medicare enrollment approach only to active employees under the age of 55—delaying any new Medicare spending for a decade or more when such employees reach the age of 65. But given that any form of Medicare integration appears to be politically blocked at this time, it's time to explore these other approaches to postal reform.

Although it's an election year, there is still plenty of time for Congress to strengthen one of the most popular institutions in America. As lawmakers weigh options for reform, NALC will continue to work to ensure that both our active and retired members are protected in any approach to postal reform.