
How
Congress
manufactured
the
pre-funding
crisis

**Regular readers of The *Postal* ***Record* and other NALC sources of information are more than familiar with these words:

The Postal Service faces a manufactured financial crisis as a result of a 2006 congressional mandate to pre-fund future retiree health benefits decades in advance. No other enterprise in the country, private or public, is required to pre-fund such retirement benefits.

These words have been repeated countless times over the past decade in the pages of this magazine, in NALC congressional testimony, on our social media platforms and on our union's website. Not all of our members fully understand that this mandate is the true source of the U.S. Postal Service's chronic financial losses—yet it accounts for 92 percent of our reported losses since 2007 and 100 percent of the losses over the past six years. But most of our activists do know this—and they are doing their best to educate other members, their representatives in Congress, the general public and the media about this misguided policy—changing the national conversation in the process.

But even many of our activists may not understand why and how this policy was adopted. This article seeks to provide answers to these important questions—why and how. We include six succinct takeaways that may help you remember the key points while also serving as a guide when you speak with lawmakers and others.

Setting the scene in 2006

Nobody knew it at the time, but 2006 was a crucial turning point in the history of the Postal Service—total mail volume, at 213.1 billion pieces, reached a historic high that year, 45 percent greater than volume would be in 2018. Financially, 2006 marked the end of perhaps the four most successful years in Postal Service history—with positive annual net incomes between 2003 and 2006 totaling more than $9 billion. USPS sales topped $72 billion in 2006—or $90 billion in today's dollars. USPS's debt was just $1.2 billion, a fraction of its $15 billion debt limit. But the world was about to change dramatically. None of us could possibly anticipate what was about to happen; unfortunately, this included the senators and representatives in Congress who were then debating postal reform legislation in the form of the Postal Accountability and Enhancement Act of 2006 (PAEA).

The political forces driving action on postal legislation varied. Some were ideological. Some were technological. And some were the practical result of prior policy decisions.

On the ideological front, conservatives dominated Washington with President George W. Bush in the White House and the Republican Party in control of both houses of Congress. Three years earlier, a presidential commission had been formed to consider the future of the Postal Service. Although the commission ultimately rejected calls for postal privatization, it did call for improving the costly and litigious system of postage rate setting and for placing strict limits on the kinds of services the Postal Service could offer in competition with private companies.

On the technological front, there was widespread concern about the likely impact of the internet on postal volumes and finances. Some worried about the viability of the Postal Service in the digital age.

But perhaps the most important factors had to do with the prior policy decisions that motivated Congress to take up postal reform. Two such decisions stand out in particular:

In 2003, Congress reformed the funding rules for the Postal Service's Civil Service Retirement System (CSRS) account. It did that after an audit revealed that USPS would massively overfund its CSRS pension benefits by tens of billions of dollars if the funding rules were not changed. The resulting legislation, the Postal CSRS Funding Reform Act of 2003, effectively reduced the Postal Service's retirement costs by billions of dollars annually. This created a problem for Congress—because the self-supporting Postal Service is off-budget, reducing its CSRS contributions effectively raised the federal budget deficit, with less money coming into the Treasury. And since the federal deficit was skyrocketing after tax cuts in 2001 and 2002, Congress wanted to limit the "cost" of the CSRS funding reform. So instead of letting USPS keep all its savings from reduced pension contributions, Congress set up an "escrow account" to hold most of these savings until it could decide what to do with the money.

This reform still benefited the Postal Service because it effectively reduced the agency's payroll costs for CSRS benefits to zero for 10 years. But it denied USPS most of the savings. Compounding the problem was the realization, after the fact, that the Bush administration's Office of Personnel Management (OPM) had shifted tens of billions of dollars in liabilities for military pension benefits to the Postal Service when the 2003 law was implemented—basically making the Postal Service pay for CSRS benefits earned by its employees during their previous service in the armed forces. It sounds crazy today, and it was. As funds began to pile up in the escrow account, further postal reform was becoming urgent. Indeed, there was real concern that Congress might use the money for non-postal purposes.

Meanwhile, the leadership of the General Accounting Office (GAO), a research and auditing unit of Congress whose name would be changed in 2004 to the General Accountability Office, was raising concerns about large unfunded liabilities in the federal government's retirement programs. GAO was especially concerned with the cost of future retiree health benefits, because Congress already had addressed the unfunded liabilities for federal pensions when it created FERS in 1987.

Although private-sector accounting rules (FASB 106 for the accounting nerds) simply required companies to report the unfunded liability for such benefits, they do not require companies to pre-fund these benefits (though some do so on a voluntary basis, when they can afford it). Nevertheless, the comptroller general of the United States (the head of GAO) called on Congress to require all federal agencies to pre-fund their future retiree health benefits—effectively, to apply pension funding rules to retiree health benefits. For various reasons, this proposal made little sense—and it was rejected by both the White House and Congress in the ordinary budget process in the years before 2006.

Unfortunately, GAO's idea—this time applied only to the Postal Service—emerged as a potential solution to the problem created by the 2003 CSRS funding reform law and the troublesome escrow account. Congress decided to make the Postal Service pre-fund its retiree health benefits with its pension savings and thereby avert an increase in the budget deficit. This is what led to the legislated schedule of 10 annual payments ranging from $5.4 billion to $5.8 billion between 2007 and 2016—and to the mandate to continue pre-funding even after the first 10 years with so-called "normal cost" and "amortization" payments.

The Postal Service and its stakeholders were reluctant to accept this solution, but Congress offered two significant inducements. First, it reversed OPM's cost shift of the $27 billion in military pension liabilities. Second, it gave USPS the right to raise rates one last time within one year of enactment of the law—that is, to build the cost of pre-funding into the postage rates before a new Consumer Price Index (CPI) price-cap system was implemented. Fatefully, PAEA was passed by a lame-duck session of Congress in December of 2006. Although nobody saw it coming at the time, a "perfect storm" was brewing in the global economy that would have devastating effects on the Postal Service.

The Great Recession hits and the pre-funding crisis begins

Even as Congress was debating PAEA in December 2006, the housing market in the United States had begun to collapse in what was a harbinger of the Great Recession. Mail volume declined in 2007 as a massive real estate bubble began to burst. The domestic and global financial systems began to implode. With the U.S. economy weakening and mail volume falling, the mailing industry rallied against the Postal Service's petitioning to raise rates to cover the cost of pre-funding before the CPI cap took effect. The Postal Service, perhaps understandably, agreed to forego its final chance to set rates under the old rules. In retrospect, USPS should have applied for the last rate increase and deferred its implementation. Instead, the strict CPI price cap went into effect right away.

The Postal Service was devastated as the economy suffered the worst recession since the Great Depression of the 1930s. Unemployment soared to more than 10 percent. Millions of Americans lost their homes. Mail volume plummeted by double-digit percentages as the downturn hit the most mail-intensive parts of the economy—advertising, publishing, real estate and financial services. Meanwhile, the crushing cost of the pre-funding mandate took effect, driving up the Postal Service's financial losses. The rest is history.

In the immediate crisis, most people blamed the recession for the Postal Service's financial woes—and Congress reduced the pre-funding payment in 2009 from $5.4 billion to $1.4 billion and then deferred the 2011 payment until 2012. But once the U.S. economy began to slowly recover, observers started to blame the internet for the repeated losses, overlooking the impact of the pre-funding mandate. Indeed, many failed to see that the Postal Service had bounced back dramatically after 2012—thanks to an e-commerce boom made possible by that very same internet, and to rising productivity made possible by the Postal Service's craft employees.

In fact, without the pre-funding mandate, USPS would have reported profits in each of the past six years totaling $3.8 billion. That means that, absent pre-funding, USPS averaged an annual profit of $633 million over that period—a remarkable achievement for a government entity offering Americans and their businesses the industrial world's most affordable delivery network while receiving no taxpayer money. And it shows that what is needed moving forward is to address pre-funding, not to degrade postal services or drastically alter USPS's business model.

The bottom line: *The Postal Service faces a manufactured financial crisis as a result of the 2006 congressional mandate to pre-fund future retiree health benefits—a mandate that no other company or agency in the United States is required to meet.*

This artificial crisis has opened the Postal Service and its employees to relentless attacks. Thanks to the actions and solidarity of tens of thousands of activists in our union and in our sister postal unions, we've defeated most of these attacks. We have saved Saturday delivery and door delivery from repeated legislative threats. We've fought off numerous budget proposals to slash our pay through higher pension contributions—and to cut our retirement and health benefits. We have even convinced a majority in the House of Representatives to co-sponsor a resolution opposing privatization—which the Trump administration advocated last year in a report from the Office of Management and Budget.

As Sen. Ron Johnson (R-WI), chairman of the Postal Service's Senate oversight committee, said about the pre-funding mandate in 2016, "(W)e passed the 2006 law that reclassified a long-term liability into a short-term liability which created a real pinch on the Postal Service that should have never occurred."

That thought is perfectly understated and perfectly true. As NALC President Fredric Rolando outlines in this month's President's Message, now is the time to finally put that policy mistake behind us. **PR**

6 key takeaways

You can do your part to change the conversation about this manufactured crisis by educating other members, your representatives in Congress, the general public and the media about these basic facts:

1. All enterprises are required to pre-fund their pension plans, but only the Postal Service must pre-fund its future retiree health benefits. Congress imposed this unique mandate in 2006 when the Postal Service was healthy and growing—before mail volume plummeted during the Great Recession. So pre-funding is unfair because it singles out the Postal Service.

2. The Postal Service has \$47.5 billion already saved for future retiree health benefits—enough to cover its retiree health premiums for the next 12 years. Most private companies don't pre-fund retiree health benefits at all since the practice is voluntary under private-sector laws and regulations. Pre-funding is, therefore, unnecessary.

3. This unique pre-funding mandate is extremely expensive, costing between \$1.4 and \$5.8 billion annually over the past 12 years and accounting for 92 percent of all the Postal Service's losses since 2007. Without this expense, the Postal Service would have averaged more than \$600 million in annual profits over the past half-dozen years. Pre-funding is unaffordable.

4. The red ink plaguing USPS is not the result of a poor postal business model or of technological progress; it is the result of flawed public policy that lawmakers created and that they can fix. Pre-funding should be addressed by those who established it.

5. NALC and a broad coalition of stakeholders in the postal industry have called on Congress to either repeal the pre-funding mandate outright or to implement sensible reforms to dramatically reduce the mandate's burden. The latter can be done by adopting private-sector best practices regarding Medicare subsidies and integration, investing the Retiree Health Fund in stocks and bonds instead of in low-yielding Treasury bonds, or lowering the percentage of retiree health benefits that must be pre-funded in the future. There are reasonable ways to address pre-funding.

6. Given that the chairman of the Senate Homeland Security and Governmental Affairs Committee, Sen. Ron Johnson (R-WI), says that the pre-funding mandate "should not have occurred" and that the new leadership of the House of Representatives supports our efforts at reform, 2019 offers the best opportunity in years to finally address the crisis manufactured by the pre-funding mandate. All NALC members can help by contacting your representatives and senators and urging them to repeal or reform the pre-funding mandate this year. With your help, we can accomplish this, and thereby solidify USPS's future. **PR**