The public policy roots of the Postal Service's financial woes

Fredric V. Rolando

The Postal Service will announce this month its financial results for Fiscal Year 2019, which ended on Sept. 30. As has been the case since 2007, a large financial loss will be reported—perhaps as much as $8.5 billion for the year. We know that the uniquely onerous retiree health benefits pre-funding mandate contained in the Postal Accountability and Enhancement Act of 2006 is largely responsible for the losses—accounting for 100 percent of the losses between 2013 and 2018. That's why we are pushing so hard to repeal this misguided public policy through the USPS Fairness Act (which now has 269 co-sponsors) in the House of Representatives.

But the pre-funding policy is just one of many misguided or unfair public policies that undermine the Postal Service's financial health. Some are familiar—such as the Postal Regulatory Commission's decision to roll back postage rates in 2016 (the first reductions in rates since 1919). This repeal of the 4.3 percent "exigent rate" increase, which was enacted to deal with the permanent loss of volume during the Great Recession, has cost the Postal Service $2 billion annually in lost revenues since 2016.

Other public policies are not so familiar—such as the way the Postal Service handles its workers' compensation expenses and balance sheet liabilities. Every quarter, the USPS reports changes in its projected long-term liabilities for injured workers under the Federal Employees' Compensation Act (FECA) as expenses—so that even minor changes in assumed interest rates or medical inflation rates can lead to huge non-cash charges that increase the Postal Service's reported losses. As crazy as it sounds, the increased estimates of FECA expenses over the next 20 or 30 years get reported as expenses in the current fiscal year. For example, in 2019, changes in accounting and actuarial assumptions resulted in an increase in workers' compensation expenses of approximately $2.7 billion—a non-cash expense that will account for roughly 30 percent of the reported loss for the year. Meanwhile, the actual cash cost of FECA benefits ($1.4 billion) charged back to the Postal Service by the Department of Labor (OWCP) in 2019 barely increased at all.

But perhaps the least-recognized way in which public policy damages the Postal Service's financial stability has to do with how Congress requires USPS to invest its retirement funds. All told, the Service held about $333 billion in assets in the Civil Service Retirement System (CSRS), Federal Employees Retirement System (FERS) and Postal Service Retiree Health Benefits Fund (PSRHBF) in 2017. In that year, the last fiscal year for which we have complete data, the bonds earned only 2.9 percent in interest, or roughly $9.6 billion. That's because, by law, the funds must be invested in Treasury bonds. Had those funds been invested the way typical corporate or state pension plans are invested—in private stocks, bonds, real estate, etc.—our funds would have earned tens of billions of dollars more.

To give you an idea of the magnitude of these lost earnings, imagine if our retirement funds had been invested in the Thrift Savings Plan's L 2050 Fund in 2017. (The L 2050 Fund is the TSP's longest-term Lifecycle Fund, which offers the kind of long-term investment horizon our retirement plans need.) The L 2050 Fund earned an 18.81 percent return in 2017—which would have generated $62.8 billion in earnings for our three retirement funds. In just one year, we lost out on $53.2 billion in earnings.

Of course, investment returns vary from year to year, and sometimes balanced portfolios can lose money. But over the long term, this public policy—requiring us to invest long-term pension funds in low-yielding Treasury bonds—is bad for the Postal Service. It results in higher-than-necessary USPS pension contributions, and the cost of pre-funding retiree health benefits is made even more burdensome.

In fact, according to an excellent analysis done by the NALC research staff, the funding status of the Postal Service's retirement funds would be dramatically better had we been investing our retirement funds more appropriately. If we had invested the PSRHBF in the longest-term TSP Lifecycle Funds starting in 2007, the year it was created, we would have had $79.2 billion in that fund by the end of 2017—$29.4 billion more than the reported balance of $49.8 billion. If we had done the same thing in 2007 with the Postal Service's FERS and CSRS accounts, our pension funds would be overfunded by $40 billion in 2017 instead of being underfunded by $43 billion. These improved funding levels—achieved despite one of the worst crashes in U.S. financial market history in 2008-2009—would have saved the Postal Service some $5.8 billion in pension expenses in 2019, more than enough to wipe out the operating deficit we expect to be reported this month.

I do not report all this to deny that the Postal Service faces significant financial challenges due to economic and technological change, but rather to underscore the overriding importance of adopting the right public policies in the years ahead. The Postal Service has been adapting quite well to market and technology challenges, but the policy headwinds we face have thwarted our best efforts.

We can expect the Postal Service's commercial rivals and political adversaries to try to exploit the Postal Service's financial struggles for their own economic and ideological advantage. Our job is to fight for fair policies that preserve affordable and universal service for years and decades to come.