

History of pre-funding health benefits



**Brian
Renfro**

You have likely read, in other parts of this magazine or on the NALC website, about the recent passage of H.R. 2382 in the House of Representatives. This bill would repeal the requirement for the USPS to pre-fund future retiree health benefits, which has caused most of its financial losses in the last decade. Plenty of information is available about the bill and our outlook as we seek postal reform to improve the financial situation of our employer. In this month's column, I want to give you some background and information on how this mandate to pre-fund came to be.

The mandate that the USPS pre-fund retiree health benefits became law with the passage of the Postal Accountability and Enhancement Act (PAEA). This wasn't the first time the idea of pre-funding future retiree health benefits had been suggested. In the years prior to the PAEA, the head of the Government Accountability Office called on Congress to require all federal agencies, not just the Postal Service, to pre-fund their future retiree health benefits. Pre-funding future retiree health benefits is essentially setting money aside for employees before they retire and even before they are hired or become eligible to retire. This is akin to paying a mortgage for a house that isn't yours yet.

This proposal to have the entire federal government pre-fund future retiree health benefits was shot down, likely because it didn't make much sense (just as it made no sense for USPS to pre-fund). But the idea didn't die. At the time, the Postal Service was a cash cow, partly due to 2003 legislation that had allowed the Postal Service to stop overfunding the Civil Service Retirement System (CSRS). This resulted in billions of dollars of savings by allowing the Postal Service to pay the true cost of CSRS, and not the previously over-inflated value.

So along came the PAEA, which was passed in December of 2006 during a lame-duck session (as elections had already been decided, but the new representatives had not yet started their terms). Not only did the PAEA require the Postal Service to start pre-funding future retiree health benefits, it set out an accelerated schedule of 10 years to make all of the payments.. And so began an era where the Postal Service, unlike any other federal agency or any private corporation, was required by law to start making payments in excess of \$5 billion per year to pre-fund future

retiree health benefits.

To make matters worse, the Postal Service was making payments that went on to sit in a fund of low-yielding Treasury securities. Meanwhile, the rising health care costs were outpacing the returns of the low-yielding securities. So naturally, the amount required to fully pre-fund the future retiree health benefits was growing faster than the money the Postal Service had set aside in the fund could grow from interest.

These pre-funding payments have stretched the Postal Service's finances, all while we faced the Great Recession which led to a decline in mail volume, further hurting the Service's ability to maintain the roughly \$5 billion annual payments. Over the years the Service has attempted many cost-cutting measures in other areas in order to compensate for these significant, erroneous payments. This came in the form of efforts to reduce delivery, such as ending Saturday delivery, closing processing plants and shuttering many local offices, and reducing staffing. Fortunately, many of these misguided efforts that only hurt the Postal Service were prevented, mostly thanks to the work of the NALC and you, our members. Regardless, it has been a long and difficult journey for the Postal Service and all its dedicated employees forced to shoulder the burden of the pre-funding mandate.

During the years, attempts have been made to repeal and mitigate the pre-funding requirement through various legislative efforts. Some of these efforts included methods to reduce health benefit costs, increase revenue, expand services and even repeal the pre-funding mandate entirely. Some would say previous efforts have failed, since no legislation was enacted into law, but I would disagree. NALC members have used every opportunity we've had to educate representatives of both parties on the issue and potential solutions. In today's climate, it is very difficult to build bipartisan support on any issue, but you have done just that.

H.R. 2382, a bill known as the USPS Fairness Act, was passed with overwhelming bipartisan support in February. There is no doubt the work of thousands upon thousands of letter carrier activists that made your voices heard played a huge role in building support for this bill over the last few months. But our work does not stop here. The bill still needs to be passed in the Senate and signed into law by the president. There will be challenges ahead to accomplish that, but I know we will be up to the challenge.