Institute for Policy Studies

Policy Brief

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How Congress Manufactured a Postal Crisis — And How to Fix it

A prefunding mandate for retiree health benefits threatens the ability of the U.S. Postal Service to continue to provide good jobs and universal service in every U.S. community.

Summary

- In 2006, Congress passed a law that imposed extraordinary costs on the U.S. Postal Service. The Postal Accountability and Enhancement Act (PAEA) required the USPS to create a $72 billion fund to pay for the cost of its post-retirement health care costs, more than 50 years into the future, a burden that applies to no other federal agency or private corporation.[1]

- If the costs of the extraordinary retiree health care mandate were removed from the USPS financial statements, the Post Office would have reported operating profits each year between 2013 and 2018 (see Table 1).

- This extraordinary mandate created a financial "crisis" that has been used to justify harmful service cuts and even calls for postal privatization. Additional cuts in service and privatization would be devastating for millions of Americans.[2]

- The prefunding mandate has prohibited investments in technology and training that could help USPS expand and strengthen their services to meet 21st Century needs. The Postal Service funds its operations entirely by the sale of postal products and services, without any congressional appropriation.[3]

- The Postal Service has already amassed $47.5 billion into its retiree health benefits fund.[4] No employer in the country — governmental or in the private sector — comes close to the USPS's funding level of retiree health benefits.

- USPS has amassed more than $280 billion in its retirement funds – meeting 87% of future pension liabilities and far surpassing the funding levels of any other federal agencies. Under private sector accounting principles, this would place USPS funds in "green zone" status.

- Despite cries that the Postal Service "is broke," the healthy funding levels of its postretirement funds – both pension and health benefits – demonstrate an underlying financial strength. Those funds may even make USPS a more attractive candidate for privatization.

To ensure the sustainability of the USPS as a vital public service, the extraordinary prefunding mandate must be addressed. The USPS Fairness Act (H.R. 2382/S.2965) would eliminate the prefunding mandate, allowing USPS to address future postretirement health benefit costs on a pay-as-you-go basis like any other company. The bill enjoys substantial bipartisan support.

Artificially creating large paper losses to push for privatization and service cuts

For more than four decades, USPS has faced calls for privatization. Think tanks have led the charge, supported by corporations like United Parcel Service and FedEx that stand to gain from privatization. In April 2018, President Trump entered the fray by appointing a task force on the future of the Postal Service. In December 2018, that task force issued a report calling for sweeping changes.

The presidential task force recommendations include contracting out key parts of the Postal Service, reducing delivery days, closing many rural post offices, drastically increasing prices on package service and the mail, limiting operations to "essential services" like delivering medicine, and banning expansion of services like postal banking that would benefit the public while boosting USPS revenues.

According to the Trump task force, such drastic changes are necessary because USPS is on an "unsustainable financial path." The report fails to identify the real source of the financial problem, namely the congressionally mandated retiree health care prefunding.

The cause of the postal crisis: the prefunding mandate

In 2006, Congress passed the Postal Accountability and Enhancement Act (PAEA), requiring USPS to amass in 10 years sufficient reserves to cover the cost of its employee post-retirement health benefits more than 50 years into the future. This is an onerous financial mandate that no other federal agency or private corporation faces.

As a matter of public policy, the pre-funding mandate has a complex origin story. While the full story requires detail beyond the scope of this report, it's important to note that the record suggests the pre-funding requirement had more to do with addressing unrelated federal budget rules than any genuine concern about the Postal Service's ability to finance future benefit obligations.

PAEA mandated that over the 10-year period, from 2007 to 2016, USPS was to make payments into the newly established reserve fund totaling $55.8 billion, in addition to nearly $20 billion in initial contributions to the fund originating from pension surpluses and other pension-related savings.[5]

Since enactment of the 2006 law, the postal retiree health benefit fund has amassed nearly $50 billion — a figure unmatched by any other agency or private sector business.

Nonetheless, the full burden of the pre-funding mandate was impossible for the Postal Service to meet, and over that same period, USPS failed to make required contributions totaling $33.9 billion. Each time USPS has chosen not to make the extraordinary retiree health care contributions, this has shown up on its income statement as a liability, creating the appearance of a deep financial crisis. This has sparked a wave of ominous headlines about USPS hemorrhaging losses and becoming a burden on taxpayers.

The truth is that the USPS covers all its operating costs through its product revenue and receives no taxpayer subsidies.[6] Ninety-two percent of their paper losses since 2006 are directly attributed to the extraordinary retiree health care mandate.[7]

The presidential Postal Task Force admitted as much. In Table 1, which replicates data from the task force report, row three shows that if the costs of retiree health benefits (RHB) were removed from the USPS financial statements, the Post Office would have reported operating profits each year between 2013 and 2018.

USPS and its workforce have accomplished all of this while weathering the second-worst economic recession in the nation's history and dealing with technological changes that have led to sharp declines in first-class mail.

Table 1: Pre-funding Accounts for 100% of Postal Service 'Losses' Since 2013 *(dollars in billions)*

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Revenue	67.1	65.7	65.2	67.3	67.9	69.0	71.5	69.7	70.7
Expenses Excluding RHB	70.1	70.8	70.1	66.7	67.7	68.3	71.3	68.2	70.0
Operating Income (prior to RHB)	(3.0)	(5.1)	(4.8)	0.6	0.2	0.6	0.2	1.5	0.7
RHB (10-Year Prefunding)	5.5	0.0	11.1	5.6	5.7	5.7	5.8	-	-
RHB (40-Year Amortized Prefunding)	-	-	-	-	-	-	-	1.0	0.8
Annual Accrual of RHB	-	-	-	-	-	-	-	3.3	3.7
Net Income (Including RHB)	(8.5)	(5.1)	(15.9)	(5.0)	(5.5)	(5.1)	(5.6)	(2.8)	(3.9)

Note: RHB stands for retiree health benefits. **Source:** U.S. Department of the Treasury, United States Postal Service: A Sustainable Path Forward Report from the Task Force on the United States Postal System, December 2018, p. 19.

As of 2018, USPS had $47.5 billion in their retiree health benefits fund. From 2007-2018, the Postal Service made $20.9 billion in direct contributions to the fund. A transfer of a previous CSRS pension surplus into the fund and interest account for the remainder of the fund's balance. Beginning in 2017, USPS is able to draw from the fund to pay premiums for retiree health benefits, while being statutorily required to contribute normal costs and an amortization payment back to the fund. [8]

By forcing the USPS to accumulate such massive reserves, the prefunding mandate has in a sense "fattened the hog for slaughter." For privatizers interested in acquiring only the most profitable postal assets, these reserves make the service even more attractive as the extraordinary retirement health care funding mandate has left the Post Office with post-retirement reserves (healthcare benefits and the already well-funded pensions – see below) that far exceed those of other large public corporations.

The USPS has fulfilled a much larger share of pension and post-retirement benefit obligations than other federal government agencies and industry competitors

The President's Task Force report notes that USPS is the largest entity to participate in the two federal employee pension systems and that USPS pension reserves far outpace other federal agencies. Comparisons to other agencies on the funding status of retiree health benefits are clear: the Postal Service again stands head and shoulders above any other department or agency because only USPS has been forced to prefund those benefits at such extraordinary levels (see Table 2).

Table 2: Comparing USPS Retirement Benefits to Other Federal Agencies and Private Sector Competitors

	Obligations met for workers qualifying for pensions	Obligations met for workers qualifying for retiree health benefits	Pension fund open?	Retiree health benefits open?
USPS - CSRS	86.5%	38.0%	No	Yes
USPS - FERS	87.7%	38.0%	Yes	Yes
Other federal agencies - CSRS	13.7%	0%	No	Yes
Other federal agencies - FERS	82.2%	0%	Yes	Yes
UPS	87.3%	0.1%	Yes, but to union members only	Yes, but to union members only
FedEx	97.4%	0.0%	Yes, to a few employees	Yes, to a few employees
Pitney Bowes	88.4%	0.0%	Closed in 2005	No
R.R. Donnelley	94.2%	75.4%	Closed in 2011	No

Note: The Federal Employees Retirement System (FERS) and the Civil Service Retirement System (CSRS) are the two federal employee pension programs. **Source:** Corporate 10-Ks, most recent year, and USPS 10-K from 2018.

Concerns that the Postal Service are on "an unsustainable path" are unjustified when one compares postal finances to those in the private sector. Again, like comparisons to the rest of the federal government, the Postal Service is at least as prepared (usually better prepared) to meet its financial obligations to future retirees than private sector peers (see Table 2).

That the Postal Service has achieved such high postretirement funding levels is especially impressive when one considers that existing funds have been invested in low-yield Treasury bonds. Had the Postal Service been allowed the investment flexibility enjoyed by counterparts in the private sector and most foreign countries, their existing funding status would be even stronger.

USPS: The USPS employs 497,000 career employees and 137,000 non-career employees. Ninety-two percent of these workers are unionized. By law, the USPS is required to provide its employees the pension and post-retirement health benefits that are available to government workers.

UPS: UPS is in the process of changing who participates in its defined benefit pension plan. New non-union employees, typically managers and supervisors, hired after March 1, 2016, are no longer eligible for the defined benefit pension plan and instead will have only a contributory defined contribution 401(k) plan. By 2023, current non-union workers will stop accruing benefits in the defined benefit plan. UPS has funded 87.3% of its obligations in its defined benefit pension, which is about the same level as USPS. But UPS has funded only 0.1% of its post-retirement health care obligations, compared to 38% at USPS.

FedEx: FedEx has only 41,000 workers receiving pension benefits, indicating that such benefits are available only to a small subset of the workforce. Most employees receive less secure defined contribution retirement benefits in which employees bear the risk of stock market fluctuations. FedEx has funded 97.4% of its defined benefit obligation and 0% of its post-retirement health obligations.

Pitney Bowes: Pitney Bowes is a leader in mail sorting and processing equipment. It operates sorting centers that benefit the mailing industry, allowing them to earn pre-sorting discounts from USPS. Pitney Bowes has funded 88.4% of its closed and frozen defined benefit plan obligations and 0% of its post-retirement healthcare obligations.

RR Donnelley: RR Donnelley is the nation's largest commercial printer. It also provides mailing and pre-sorting services for direct mail clients. The company has 17,520 U.S. employees, just 438 of whom belong to labor unions. The company's defined benefit pension plan and post-retirement health benefits have been frozen to new participants since the end of 2011. The company has funded 94.2% of its defined benefit plan obligations and 75.4% of its post-retirement health obligations.

USPS preparedness to pay for post-retirement health benefit costs exceeds those of the 10 largest U.S. corporations

As indicated in Table 3, the top 10 largest U.S. corporations (by revenue) have met only a small share or none of their retiree health benefit obligations. A majority of firms pay their retiree health care costs on a "pay-as-you-go" basis, as USPS also did prior to the 2006 health care mandate established by PAEA.

USPS pension and post-retirement health reserves are hampered by legal requirements to invest only in low-return U.S. Treasury bonds

Congress expects the Post Office to be self-sustaining like a private corporation yet holds USPS to rules that impede USPS from generating returns on its retirement assets that are comparable to those earned by private sector businesses and national postal services in other nations.

Unlike private sector firms that can invest their pension funds in a broad range of assets, the USPS, like all federal agencies, is required to invest in special bonds issued by the U.S. Treasury. These bonds, while stable, have yielded smaller returns than other investment options over the long run.

Among 11 large foreign postal system pension funds recently studied by the USPS Office of Inspector General, only USPS and Japan Post were precluded from owning equities (stock) in their pension accounts and USPS was one of only four postal systems prohibited from investing pension assets in real estate.[9]

Higher returns in pension funds reduce future funding expenses. One way to make USPS finances more sustainable would be to allow postal pension assets to be invested in a broader, but still conservative, array of assets.

Table 3: Comparing USPS Retirement Benefits to the 10 Largest U.S. Corporations

	Employees (*US only)	Current retirement benefits?	Obligations met for workers qualifying for pensions	Obligations met for workers qualifying for retiree health benefits	Pension fund open?	Retiree health benefits open?
USPS	634,000*	Yes	87.7%	38.0%	Yes	Yes
Walmart	1,500,000*	Defined contribution only				
ExxonMobil	71,000	Yes	61.3%	5.2% ($7 billion liability)	Yes	Yes
Berkshire Hathaway	389,000	Some subsidiaries	88.4%	None	Yes	N/A
Apple	132,000	None				
UnitedHealth	300,000*	None				
McKesson	80,000	defined contribution only	73.3%	None	Closed in 1995	closed in 1999
CVS Health	295,000	None				
Amazon	647,500	None				
AT&T	268,220	Yes	93.2%	22.1%	Closed to Management in 2015	?
General Motors	103,000*	Yes	91.7%	0.0%	Frozen for salaried employees in 2012	

Source: Corporate Form 10-Ks filed with U.S. Securities and Exchange Commission
Note: Funded status (column 4 and 5) = plan assets/projected benefit obligations from both funded and unfunded plans.

The President's Task Force does not adequately address the prefunding mandate

In its December 2018 report, President Trump's Task Force on the United States Postal Service reaffirmed current rules related to postal retiree health benefits, calling it "part of a mandate for postal self-sustainability." However, the Task Force also recognized that the aggressive and accelerated timetable for funding the mandate has proved unworkable. They call for past deficits to be "restructured with the payments re-amortized with new actuarial calculation based on the population of employees at or near retirement age."[10]

While this would have a modest positive effect by spreading payments over a longer period of time, it does little to address the underlying problem caused by USPS being burdened with a mandate that no other federal agency or private corporation faces.

A Better Path Toward Sustainability

1. Repeal the mandate and allow USPS to use accumulated post-retirement reserves to fund future pay-as-you-go costs

As indicated in Table 1, the Trump Task Force acknowledged that without the costs imposed by the Post-Retirement Health Care Mandate, USPS would today be profitable on an operating basis. Allowing USPS once again to pay the costs of retiree health care costs on a pay-as-you-go basis as the rest of the federal government and two-thirds of private industry currently do, is the biggest step that could be taken to assure long-term financial sustainability. Current reserves of $47.5 billion could be used to pay expected pay-as-you-go retiree health care costs 10-15 years into the future.

The USPS Fairness Act (H.R. 2382/S.2965) would repeal the mandate and allow USPS to behave like any other company or agency would.

Absent a repeal of the prefunding mandate, other options would, collectively or individually, reduce the Postal Service's unfunded liability and allow the Postal Service to preserve significant amounts of cash in the near term. The following three principles should also be considered:

2. Adopt generally accepted accounting principles (GAAP accounting as set forth by the Financial Accounting Standards Board) for determining USPS liabilities

USPS mandated post-retirement health care reserves must be based on "actual vested liability," not on "total projected liability" as they are now. This is the difference between allowing a credit card holder to pay the charges they accrue each month, rather than requiring them to create a holding account for all of the expenses they expect to charge over a lifetime.

The prefunding mandate makes the unfair assumption that all current USPS employees will work for the Postal Service for the rest of their working lives. It also assumes that all current workers will qualify for and request that USPS pay the full cost of retirement health insurance. Basing the mandate on earned and vested benefits, rather than the hypothetical formula currently in place, would reduce USPS's accumulated retiree health fund deficit by $41 billion.[11]

3. Medicare integration for future postal retirees

Medicare integration, carefully designed and implemented, could relieve the Postal Service of some of its unfunded liability for retiree healthcare benefits. In the last Congressional session, bipartisan bills were introduced in both the House and Senate that required postal retirees with federal employee health benefits (FEHB) to enroll in Medicare parts A and B at age 65. It also required all federal health plans to be reformed to use Medicare Part D (Employer Group Waiver Plan) laws for prescription drugs without additional premium costs to the FEHB enrollee.

The House and/or Senate separately addressed additional protections for those with special circumstances and individuals who could not benefit from Medicare B to remain in the FEHB program.

4. Eliminate the requirement to invest solely in Treasury bonds

Restricting USPS retirement assets to investment in special Treasury bonds has negatively impacted returns, relative to corporate pension funds, and therefore required USPS to set aside larger sums of money to meet its financial obligations to retirees. The principle of conservatively investing postal retirement assets is sound, but can be achieved by allowing investment in a broader range of assets like those in the Thrift Savings Plan, the federal employee retirement plan similar to a 401(k).

Conclusion

It is time for a new story to be told about the United States Postal Service. Dire warnings about impending insolvency reflect the political objectives of those itching to privatize the lucrative parts of Postal Service and turn the more than half a million good USPS jobs into poor-quality jobs stripped of benefits and retirement security.

The losses experienced by USPS over the last decade are nearly wholly attributable to failed public policy. Thankfully, they can be reversed by eliminating the extraordinary post-retirement health care mandate and returning USPS to a pay-as-you-go system. Congress should embrace GAAP accounting principles used by businesses across the United States, as the proper accounting standard for USPS post-retirement health benefits. Doing so would require ending the post-retirement health care mandate.

Through the hard work of postal employees and decades of responsible fiscal management, the USPS is today well-positioned both compared to other federal government agencies and large private sector businesses to fund its post-retirement obligations. This position would be strengthened further if USPS were allowed greater flexibility in investing retirement assets.

The proud history of the Post Office in America dates to 1775, a year before the Declaration of Independence. Over the last 244 years, the Post Office has been at the forefront of the development of postal roads throughout the colonies, launching inter-city air service to deliver Air Mail, and package delivery service that made possible rural development and expansion as well as the rise of the commercial ancestors of today’s e-commerce firms.

Rather than the story of a Postal Service facing dire financial straits, it is time we see the Postal Service for what it really is: a well-loved public institution that has risen to every challenge and innovated its way to new services even in the face of an unprecedented congressional mandate. All the while it has delivered high-quality jobs, in big cities and small towns across the country — all without a dime of taxpayer money.

The Postal Service is truly an American success story. Congress has the opportunity to ensure that it stays that way for generations to come.

Notes

[1] Updated to reflect Government Accountability Office estimate. https://www.gao.gov/assets/660/650511.pdf

[2] See: Institute for Policy Studies, "Who Would Pay the Biggest Price for Postal Privatization?" December 2018. https://inequality.org/wp-content/uploads/2018/12/IPS-Price-of-Privatization.pdf

[3] USPS receives small taxpayer subsidies as reimbursement for mailing services to blind customers.

[4] U.S. Postal Service 10-K report, November 16, 2018. Retiree health benefit liability as of September 2018, less unfunded obligations (see p. 35). https://about.usps.com/what/financials/10k-reports/fy2018.pdf

[5] Originally, the required reserve amount was $55.8 billion, but this was reduced to $51.8 billion when the 2009 payment was reduced from $5.4 billion to $1.4 billion after the financial crisis.

[6] USPS receives small taxpayer subsidies as reimbursement for mailing services to blind customers.

[7] National Association of Letter Carriers, American Postal Workers Union, National Postal Mail Handlers, and National Rural Letter Carriers, "Making the Postal Service Great Again: Workforce Submission to the White House Task Force on the USPS," https://www.nalc.org/news/nalc-updates/body/Postal-Service-Workforce-Executive-Summary.pdf

[8] U.S. Postal Service 10-K report, November 16, 2018. Retiree health benefit liability as of September 2018, less unfunded obligations (see p. 35). https://about.usps.com/what/financials/10k-reports/fy2018.pdf

[9] USPS OIG report FT-WP-19-001 "Foreign Posts' Retirement Asset Investments"

[10] Task Force on the United States Postal System, "United States Postal Service: A Sustainable Path Forward," December 4, 2018, p. 6. https://home.treasury.gov/system/files/136/USPS_A_Sustainable_Path_Forward_report_12-04-2018.pdf

[11] National Association of Letter Carriers, American Postal Workers Union, National Postal Mail Handlers, and National Rural Letter Carriers, "Making the Postal Service Great Again: Workforce Submission to the White House Task Force on the USPS," June 2018, p. 10-11. https://www.nalc.org/news/nalc-updates/body/Postal-Service-Workforce-Submission.pdf

Co-authors: Sarah Anderson, Scott Klinger, and Brian Wakamo.

Anderson directs the Global Economy Project at the Institute for Policy Studies, an independent, nonpartisan think tank founded in 1963. Klinger, a chartered financial analysis, is a Senior Equitable Development Specialist at Jobs with Justice and an IPS Associate Fellow. Brian Wakamo is an IPS research assistant. Funding to support this research paper provided by the American Postal Workers Union.

They are also co-authors of: Who Would Pay the Biggest Price for Postal Privatization?

Contact: Sarah Anderson, sarah@ips-dc.org, 202 787 5227.

Institute for Policy Studies
1301 Connecticut Ave. NW, Suite 600
Washington, DC 20036
202 234 9382
www.IPS-DC.org