POSTAL CIVIL SERVICE RETIREMENT SYSTEM FUNDING REFORM ACT OF 2003

REPORT OF THE COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

TO ACCOMPANY
S. 380

TO AMEND CHAPTER 83 OF TITLE 5, UNITED STATES CODE, TO REFORM THE FUNDING OF BENEFITS UNDER THE CIVIL SERVICE RETIREMENT SYSTEM FOR EMPLOYEES OF THE UNITED STATES POSTAL SERVICE, AND FOR OTHER PURPOSES

APRIL 8, 2003.—Ordered to be printed

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Ms. COLLINS, from the Committee on Governmental Affairs, submitted the following

REPORT

[To accompany S. 380]

The Committee on Governmental Affairs, to which was referred the bill (S. 380) to amend chapter 83 of title 5, United States Code, to reform the funding of benefits under the Civil Service Retirement System for employees of the United States Postal Service, and for other purposes, having considered the same, reports favorably thereon with an amendment and recommends that the bill as amended do pass.

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I. PURPOSE AND SUMMARY

S. 380, the Postal Civil Service Retirement System Funding Reform Act of 2003, is a bipartisan bill to reform the funding of benefits under the Civil Service Retirement System for employees of the Postal Service, and for other purposes.

S. 380 would require USPS to contribute annually to the Civil Service Retirement and Disability Fund (CSRDF) on behalf of employees covered by CSRS an amount equal to the dynamic normal cost of CSRS minus the amount contributed by employees. (The dynamic normal cost of CSRS is currently estimated to be equal to 24.4 percent of payroll. Employees covered by CSRS are required to have 7 percent of pay withheld and deposited in the CSRDF.)
Thus, the required USPS contribution would be equal to 17.4 percent of payroll. Because the dynamic normal cost of CSRS includes the effects of future employee pay raises and retiree COLAs, the separate payments that USPS is required to make under current law to fund the future increases in CSRS annuities that result from pay raises and COLAs would no longer be necessary. Consequently, S. 380 would repeal the provisions of law that require the Postal Service to amortize over 15 years the increases in future CSRS annuities that result from annual employee pay raises and retiree COLAs.

Under S. 380, OPM would be required to estimate any “supplemental liability” of the Postal Service with respect to CSRS benefits earned by current or former USPS employees and to amortize this supplemental liability over 40 years. In addition, S. 380 would include the value of CSRS benefits attributable to military service as a financial obligation of the Postal Service in the calculation of the Postal Service’s supplemental liability.

The Reform Act expresses the “Sense of Congress” that the savings accruing to the USPS will be sufficient to allow the USPS to fulfill its commitment to hold postage rates stable until at least 2006. The Committee also notes that some portion of the savings should be used to address the Postal Service’s substantial unfunded post-retirement health obligations; and that none of the savings should be used in the computation of bonuses to Postal Service executives or managers.

S. 380 requires that the Secretary of the Treasury shall specify the manner and extent to which the savings accruing as a result of the enactment of the Act shall be used to pay down postal debt. The bill also requires the USPS to submit a report to Congress by December 31, 2003, describing how it proposes to address its obligations relating to unfunded post-retirement health care costs of current and former employees. The Postal Service also would be required to send a report to GAO, the Senate Governmental Affairs Committee and House Government Reform and Oversight Committee detailing how much of the future savings attributable to the legislation the Postal Service would use for debt repayment, prefunding of post-retirement health care costs for postal employees, capital improvements, holding rates stable, and other purposes.

II. BACKGROUND

OVER-FUNDING OF CSRS LIABILITY

On November 1, 2002, the Office of Personnel Management (OPM) had good news for the Postal Service (USPS). A review of USPS payments to the civil service retirement fund for pension obligations to employees on board before 1984 revealed a far more positive picture than had previously been believed. USPS—unlike any other federal agency—is required to pay into the fund an amount that approximates the full cost of its employees’ participation in the Civil Service Retirement System (CSRS). Because pension investments have been earning interest at a higher rate than presumed in the statutory funding formula, OPM reported that the Postal Service’s deferred liability for pension obligations was only $5 billion instead of $32 billion. According to OPM, if USPS continues to make payments based on the latter figure, the liability
will eventually be over-funded by $78 billion. OPM stated that, “the major reason for the projected over-funding is due to the excess interest earned by the CSRS fund; that is, interest earnings in excess of the 5 percent that was assumed under the statutory funding method.”

Because of the potential over-funding, and the fact that needed changes in scheduled payments cannot occur without changes to existing laws, OPM sent a legislative proposal to Congress to rectify the situation, while “protecting employee interests and the integrity of the [postal] retirement system.” According to OPM, there are two elements of the Postal Service’s financing of CSRS benefits that distinguish the agency from other federal agencies, and which are important factors in the potential over-funding of CSRS benefits for its employees. First, the Postal Service is responsible only for CSRS benefits that were earned by USPS employees after June 30, 1971. Consequently, a significant proportion of the Postal Service’s early contributions to the Civil Service Retirement and Disability Fund have remained in the Fund for a number of years, during which interest has accrued. Second, due to a series of laws passed between 1989 and 1993, USPS is required to pay for the increases in CSRS pensions that result from annual cost-of-living adjustments. As a result, the Postal Service—unlike any other federal agency—is required to pay into CSRDF an amount that approximates the full cost of the CSRS. It is these two factors, in combination with the interest earnings in excess of the assumed 5 percent rate of return, that have led to projected pension contributions and interest earnings exceeding the value of CSRS benefits owed to USPS retirees and survivors.

According to OPM, the assumed interest rate used in CSRS financing has been set at 5 percent since 1972. However, while OPM uses a 5 percent interest rate in its static valuation of CSRS, it currently uses a nominal interest rate of 6.75 percent when valuing the liabilities of the CSRS on a dynamic basis. The dynamic valuation of CSRS liabilities is a more accurate measure of the present value of future CSRS annuities. Since the enactment of the Omnibus Budget Reconciliation Act (OBRA) of 1990—which required the Postal Service to pay for the increase in CSRS liabilities resulting from COLAs granted since 1971 and to amortize the cost of future COLAs—USPS has been paying the full dynamic cost of its CSRS liabilities.

S. 380 continues the Postal Service’s liability for the retirement costs attributable to its employees covered by the CSRS, which was imposed when the Post Office Department became the self-supporting United States Postal Service in July 1971. It also makes the Postal Service responsible for retirement benefits due to its CSRS enrollees as a result of prior military service, an obligation the Postal Service has agreed to assume. The Committee notes that the Reform Act’s treatment of these payments by the Postal Service is not an adoption of any position by the Committee on whether any agency or Department of the executive branch should have responsibility for these costs attributable to its employees covered by CSRS.
DELAYED POSTAL RATE INCREASE

The Reform Act expresses the “Sense of Congress” that the savings accruing to the USPS will be sufficient to allow the USPS to fulfill its commitment to hold postage rates stable until at least 2006. This issue is of high importance to the mailing community. Upon introduction of S. 380, Postmaster General Jack Potter announced that enactment of the bill would allow the Postal Service to hold off raising rates until 2006, rather than 2004, as it had planned. The Committee believes it is especially important in these difficult economic times to note the significant adverse impact such an untimely postal rate increase would have on the $900 billion mailing industry, which employs nine million Americans in fields as diverse as magazine and newspaper publishing, direct mailing, printing and paper production. Postal rates have already risen three times in the past two years.

DEBT REDUCTION

The deteriorating state of the Postal Service’s finances has been a source of concern to the Committee. Over the past few years, the Postal Service has come perilously close to reaching its statutory debt limit of $15 billion. The Postal Service Board of Governors has made it clear that it will not seek authorization from Congress for a higher borrowing limit, as it has done in the past. The Postal Service deserves recognition for decreasing its debt level by $200 million this past year. With enactment of this legislation, the Postal Service will be able to use part of the savings to pay down its debt. To ensure that a portion is indeed used for debt repayment, the Committee approved language requiring the Secretary of the U.S. Treasury to specify a plan that the Postal Service must follow to use these savings to reduce its debt.

UNFUNDED HEALTH CARE COSTS REPORT

The Postal Service has a statutory obligation to fund a portion of the health insurance premiums of its current and future retirees—an obligation estimated to be between $40 and $50 billion as of September 30, 2002. To this point, the Postal Service has not indicated how this obligation and future costs will be funded. For that reason, the Committee included language in S. 380 that requires USPS to report to Congress by December 31, 2003 on how it proposes to address this currently unfunded obligation and future costs for the purpose of (1) funding, (2) financial statement reporting, and (3) rate-setting. Furthermore, the bill requires GAO to prepare and submit a written evaluation of the USPS proposal. It is anticipated that the White House Commission on the Postal Service will also address the issue of how best to satisfy this outstanding obligation. The Committee looks forward to receiving the Commission’s report in July.

DISPOSITION OF SAVINGS REPORTS

The Postal Service has stated that, because of the savings it would realize under the provisions of this legislation, it would not have to file a new rate case seeking to increase postal 4 rates until the end of 2005, for rates that would go into effect in 2006. However, the benefits of this legislation will continue to be realized by
the Postal Service for many years. It is the view of this Committee that the substantial reductions in the Postal Service's obligation to the Treasury occasioned by this bill warrant continued oversight by Congress to ensure that a portion of these savings are used to meet other key obligations of the Postal Service.

For this reason, S. 380 requires that, before filing its rate case in 2005 and at least eight months before filing any subsequent rate case, the Postal Service must submit a report to this Committee and to the House Committee on Government Reform and Oversight recommending how much of the future savings the Postal Service would receive as a result of this legislation should be used for the following: debt repayment to the U.S. Treasury; prepaying to the U.S. Treasury post-retirement health care costs for postal employees; capital investments to improve productivity and cost saving; keeping postal rates stable; and other purposes. The recommendations should also take into consideration, as appropriate, the report of the President's Commission on the United States Postal Service.

The report required by this legislation is to be accompanied by a letter from the Secretary of the Treasury commenting on the recommendations, and must also be transmitted to the General Accounting Office (GAO) for its review and evaluation. GAO will have 45 days to prepare and submit an evaluation of the Postal Service’s report to this Committee and the House Committee on Government Reform on Oversight. The Postal Service shall not take any action to implement the recommendations in the report until 90 days after the report has been submitted. This timetable will allow the Committees to take actions that might be necessary to respond to the proposed allocation of savings outlined in the report before the Postal Service begins the process of preparing a new rate case.

III. LEGISLATIVE HISTORY


The Committee met on March 5, 2003, to consider S. 380. A manager's amendment in the nature of a substitute was adopted by voice vote.

The manager's amendment, offered by Chairman Collins and cosponsored by Ranking Member Lieberman and Senators Carper and Voinovich, made technical changes to improve upon the clarity of certain definitions within the bill. It also added a new reporting requirement for the Postal Service.

On that same date, the Committee ordered the bill reported by voice vote, with no members present dissenting. Senators present were Stevens, Coleman, Bennett, Fitzgerald, Sununu, Akaka, Durbin, Carper, Lautenberg and Collins.
IV. SECTION-BY-SECTION ANALYSIS

To accompany the Manager’s Amendment to S. 380.

Section 1. Short Title

This section would provide that the bill may be cited as the “Postal Civil Service Retirement System Funding Reform Act of 2003”.

Section 2. Civil Service Retirement System

This section would amend provisions of subchapter III of chapter 83 of title 5, United States Code, to reform the provisions for funding retirement benefits for employees of the United States Postal Service under the Civil Service Retirement System.

Paragraph (1) of subsection (a) would amend section 8331 of title 5, by changing the term defined in paragraph (17) of that section from “normal cost” to “normal cost percentage.” The insertion of the phrase “and standards (using dynamic assumptions)” after “actuarial practice” changes the method of computing normal cost from a static basis to a dynamic one. While the term “normal cost” was defined in section 8331, it had not actually been used in chapter 83 since the last reference to it was repealed some years ago.

Paragraph (2) would redefine “Fund balance” to provide consistency between financial reporting and actuarial computations, thereby ensuring proper accounting for liabilities.

Paragraphs (3) and (4) would make technical changes.

Paragraph (5) would add a definition of the term “dynamic assumptions,” incorporating the language used in the definition in paragraph (9) of section 8401, which is used in the administration of the Federal Employees’ Retirement System.

Subsection (b) would amend the provisions of section 8334(a)(1) to change the provisions applicable to employer retirement contributions made by the Postal Service. The amendments would exempt the Postal Service from the requirement to make agency contributions that match employee deductions, and would provide that the Postal Service employer contribution will be a percentage of basic pay equal to the difference between the product of the normal cost percentage for the type of employee (i.e., regular employee, law enforcement officer, etc.), and the basic pay of that employee, and the product of the percentage of basic pay deducted from the employee’s basic pay, and the basic pay of that employee.

Subsection (c) would provide for computation of any retirement costs not covered by past or future Postal Service or employee payments to the Retirement Fund, and for amortization of those costs by Postal Service payments over a 40 year amortization schedule. It would completely eliminate the existing provisions of section 8348 dealing with Postal Service payments.

Paragraph (1) would rewrite section 8348(h). It would repeal the existing provisions requiring Postal Service payments for costs “attributable to any benefits payable from the Fund to active and retired Postal Service officers and employees, and to their survivors, when the increase results from an employee-management agreement under title 39 of the United States Code, or any administrative action by the Postal Service taken pursuant to law, which authorizes increases in pay on which benefits are computed.”
As amended, section 8348(h)(1)(A) would establish a new concept, the “Postal supplemental liability,” which is essentially the actuarial present value of retirement obligations for Postal Service employees, less the sum of several items, including the present value of future employer and employee payments to the Retirement Fund; the portion of the Fund balance attributable to payments to the Fund by the Postal Service; benefit payments attributable to the Postal Service, and any other appropriate amount determined by the Office of Personnel Management under generally accepted actuarial practices and accounting principles.

Section 8348(h)(1)(B) would set the basis for inclusion of the value of benefits based upon military and volunteer service (i.e. Peace Corps, VISTA, etc.), providing for proration in the case of postal employees hired before the Postal Reorganization Act was enacted on June 30, 1971. It would exclude military service in the computation of the amount of the annual Treasury payment required to pay for costs attributable to military service.

Section 8348(h)(2) would require the Office of Personnel Management (OPM) to determine an appropriate amortization schedule, including a series of equal annual installments commencing September 30, 2004, providing for the liquidation of the Postal supplemental liability by September 30, 2043. Then, for each fiscal year beginning after September 30, 2003, through the fiscal year ending September 30, 2038, OPM would be required to redetermine the Postal supplemental liability at the close of the fiscal year and to establish a new amortization schedule, including a series of installments commencing on September 30 of the subsequent fiscal year, providing for the liquidation of that redetermined Postal supplemental liability by September 30, 2043. For each fiscal year beginning after September 30, 2038, OPM would be required to redetermine the Postal supplemental liability at the close of the fiscal year and to establish a new amortization schedule, including a series of equal annual installments commencing on September 30 of the subsequent fiscal year, providing for the liquidation of that redetermined Postal supplemental liability over five years. All amortization schedules established under this section would be required to be set in accordance with generally accepted actuarial practices and principles, based on the dynamic interest rate. The Postal Service would be required to pay the amounts determined by OPM, no later than the date established by OPM.

Section 8348(h)(3) would provide that in computing the amount of any payment under any other subsection of section 8348 that is based upon the amount of the Retirement Fund's unfunded liability, such payment shall be computed disregarding any portion of the unfunded liability that OPM determines will be liquidated by the Postal Service's amortization payments.

Paragraph (2) of subsection (c) would repeal the existing provisions of section 8348(m), that currently require Postal Service payments based upon retirement costs attributable to retirement cost-of-living increases.

Subsection (d) would prospectively repeal provisions of the Omnibus Budget Reconciliation Act of 1990 requiring additional Postal Service payments to the Retirement Fund, and provide a rule of construction for those repealed provisions.
Section 3. Disposition of Savings Accruing to the USPS

Subsection (a) defines “postal debt” as the outstanding obligations of the USPS.

Subsection (b) requires that the Secretary of the Treasury, in consultation with the USPS, shall determine the extent to which savings generated by the Act shall be used to pay down postal debt to the Treasury.

Paragraph (1) of subsection (c) states that each fiscal year OPM will compute the amount of savings accruing to the USPS as a result of the Act.

Paragraph (A) provides that, no later than July 31, 2003, OPM shall formulate a plan for calculating these savings, specifically describing the actuarial methods and assumptions they will use.

Paragraph (B) requires that OPM's plan be submitted to the Senate Governmental Affairs Committee and the House Government Reform Committee.

Paragraph (3) requires that the plan be formulated in consultation with the Postal Service and shall allow the USPS the opportunity to request a review of the plan by the Board of Actuaries of the Civil Service Retirement System. The Board will have the authority to make any necessary adjustments to the plan.

Paragraph (4) states that nothing in this subsection or subsection (b) shall be considered to apply to any fiscal year beginning on or after October 1, 2007.

Subsection (d) requires the Postal Service to issue a report relating to the period after the enactment of the Act and before October 1, 2007 that details the amount of the savings applied toward reducing the postal debt, and the size of the postal debt before and after the application of subsection (b).

Paragraph (1) of subsection (e) states that it is the Sense of Congress that the savings accruing to the USPS as a result of this Act shall be sufficient to hold rates stable until at least 2006.

Paragraph (2) states that it is the Sense of Congress that some portion of the savings should be used to address the USPS's substantial unfunded health care obligations for its current and former employees.

Paragraph (3) states that it is the Sense of Congress that none of these savings should be used in the computation of bonuses for executives or managers.

Paragraph (1) of subsection (f) requires the USPS to prepare a report related to unfunded health care costs and submit it to the President and Congress no later than December 31, 2003.

Paragraph (A) states that the report should describe how the USPS proposes to address its unfunded post-retirement health care costs of current and former employees.

Paragraph (B) states that the report should outline how prior and future actuarial accrued costs for post-retirement health care benefits and the amounts necessary to prefund those costs are treated for purposes of financial statement reporting and establishing rates of postage and fees for postal services.

Paragraph (2) suggests that the USPS should consider the recommendations of the White House Commission on the Postal Service when preparing its report under subsection (f).

Paragraph (3) provides that not later than 60 days after USPS submits its health care report, required by subsection (f) of para-
graph (1), to Congress and the President, the GAO shall prepare and submit a written evaluation of the report to the Senate Committee on Governmental Affairs and the House Government Reform Committee.

Paragraphs (1) (A) and (B) of subsection (g) states that as of September 30, 2025, or whenever the last CSRS covered employee retires, if OPM, after consulting with the Postmaster General (PMG) determines, in the process of conducting their annual computation, that the Postal Service has not only paid off its CSRS liability, but has in fact overpaid into the CSRS fund, then OPM shall alert the Postmaster General as to the size of the overpayment and the PMG shall then submit a report to Congress describing how that overpayment should be used. If necessary, the PMG shall submit draft legislation to Congress.

Paragraph (1) of subsection (h) states that no later than December 31, 2004, and after that date, not later than 8 months prior to the USPS filing a rate case, the Postal Service shall submit a report to the Senate Governmental Affairs Committee, House Government Reform and Oversight Committee and GAO making recommendations for the disposition of future savings accruing to the Postal Service as a result of the Act. The report shall be accompanied by a letter of comment from the Secretary of the Treasury.

Paragraph (A) states that the report should describe whether, and to what extent, those savings should be used to address debt repayment, prefunding of post-retirement health care benefits, productivity and cost savings capital investments, maintaining postal rate stability, or any other matter.

Paragraph (B) states that the report should take into consideration the findings of the President's Commission on the United States Postal Service.

Paragraph (2) requires that GAO prepare, and submit to Congress, a written evaluation of the Postal Service's report not later than 45 days after the USPS submits their report.

Paragraph (3) prohibits USPS from taking any action to implement their recommendations for disposition of the savings until 90 days after the report is submitted to Congress.

Section 4. Effective Date

Subsection (a) requires that the Act take effect on the date of enactment.

Subsection (b) requires that the Act shall only apply to pay periods beginning on or after the date of enactment of this Act.

V. Evaluation of Regulatory Impact

S. 380 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.
Hon. Susan M. Collins,
Chairman, Committee on Governmental Affairs,
U.S. Senate, Washington, DC.

DEAR MS. CHAIRMAN: The Congressional Budget Office has prepared the enclosed revised cost estimate for S. 380, the Postal Civil Service Retirement System Funding Reform Act of 2003. This estimate supersedes the CBO estimate of S. 380 dated March 17, 2003. The previous version of the estimate contained an error in the discussion of the bill’s on-budget costs. However, this error does not affect the on-budget or off-budget cost of the bill, so this revised cost estimate does not change CBO’s estimate of the cost of enacting the legislation.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contacts are Mark Grabowicz and Geoffrey Gerhardt.

Sincerely,

Douglas Holtz-Eakin,
Director.

Enclosure.

S. 380—Postal Civil Service Retirement System Funding Reform Act of 2003

Summary: Enacting S. 380 would permanently reduce payments by the United States Postal Service (USPS) to the Civil Service Retirement and Disability Fund (CSRDF) starting in 2003. CBO estimates that enacting the bill would result in net outlays of $17 billion over the 2003–2008 period, and about $40 billion over the 2003–2013 period. That estimate is the total budgetary impact of the proposal, combining both on-budget and off-budget effects. (USPS cash flows are considered off-budget.)

Under the bill, the Postal Service would see its required payments to the CSRDF reduced by $3 billion to $5 billion a year. The legislation specifies that the Postal Service and the Department of the Treasury would determine how to apply the savings. CBO expects the Postal Service would use those savings to repay debt, delay future rate increases, and invest in capital projects or other activities to increase productivity.

By reducing USPS payments to the retirement fund, CBO estimates the bill would lower the agency’s costs (off-budget) by about $2 billion over the 2003–2008 period. We also estimate that enacting S. 380 would increase on-budget costs by about $19 billion over the same period. Thus the net effect of this legislation on the unified federal budget would be a cost of about $17 billion over the 2003–2008 period largely because on-budget offsetting receipts—representing payments from the Postal Service to the CSRDF—would be reduced. Over the 2003–2013 period, enacting S. 380 would combine off-budget savings of about $2 billion with on-budget costs of around $42 billion to produce a net cost of about $40 billion.
S. 380 contains no intergovernmental or private sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on State, local, or tribal governments.

Estimated cost to the Federal Government: The estimated budgetary impact of S. 380 is shown in the following table. The costs of this legislation fall within budget functions 370 (commerce and housing credit), 900 (net interest), and 950 (undistributed offsetting receipts).

### Changes in Direct Spending

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Note.—Components may not add to totals because of rounding.

### Basis of Estimate

For this estimate, CBO assumes that S. 380 will be enacted in the spring of 2003. CBO estimates that reducing the Postal Service’s payments to the retirement fund would reduce the agency’s off-budget costs by about $2 billion over the 2003–2008 period, but enacting S. 380 would increase on-budget costs by about $19 billion over the same period. The net effect of this legislation on the unified federal budget would be a cost of about $17 billion over those six years. Over the 2003–2013 period, enacting S. 380 would combine off-budget savings of about $2 billion with on-budget costs of around $42 billion to produce a net cost of $40 billion.

### Background

Although the Postal Service is a federal agency, its financial operations are classified as being off-budget. Despite this treatment, federal budget documents present the net income of the agency in the budgetary totals. The Postal Service is required by law to set postage rates to cover its full costs. In fiscal year 2002, the Postal Service generated $68.1 billion in collections, mostly from postage and user fees, and had $67.4 billion in expenses. The agency has the authority to borrow up to $15 billion from the Treasury; at the end of fiscal year 2002, its outstanding debt with the Treasury stood at $11.9 billion.

Postal employees participate in the federal government’s two main defined benefit pension programs. Those workers first hired prior to 1984 are covered by the Civil Service Retirement System (CSRS) while those first hired after 1983, as well as former CSRS workers who elected to change coverage, participate in the Federal Employee’s Retirement System (FERS). In 2002, about 30 percent of the USPS workforce was covered by CSRS, and the rest were under FERS.

The Postal Service and its employees each make payroll contributions toward both CSRS and FERS. For CSRS workers, both the
standard agency and employee contribution rates are 7 percent. For FERS employees, the agency contribution rate for most employees is 10.7 percent, while the employee rate is 0.8 percent. Although CSRS provides more generous benefits than FERS, unlike FERS, CSRS is not a fully funded pension system, meaning that agency and employee contributions alone are not enough to finance the program’s benefits. In an effort to make up the shortfall between contributions and benefits for its current and former employees, the Postal Service makes lump-sum payments to the retirement system each year. In 2002, those payments amounted to about $3.9 billion.

The Office of Personal Management projects that, under current law, the Postal Service will eventually overfund pension obligations for its workers by as much as $71 billion. The projected overfunding is due primarily to higher-than-expected returns on assets held in the CSRDF.

**On-budget effects**

S. 380 would change the way the Postal Service finances retirement benefits for many of its current and former employees. The proposal would replace two amortization payments the Postal Service now makes to CSRDF—amounting to a combined $4 billion in 2003 and is expected to grow to nearly $6 billion in 2013—with a new annual payment of $434 million over the next 40 years that would amortize the agency’s estimated unfunded liability of about $5 billion. The net effect of changes in amortization payments is to reduce Postal Service payments to the CSRDF by $4 billion in 2003, $19.5 billion over the 2004–2008 period, and $43.5 billion over the 2004–2013 period.

The legislation also would replace the fixed contribution rate, which the Postal Service currently makes for its approximately 225,000 employees covered by the CSRS, with a rate intended to pay the full normal cost of CSRS benefits (including military service credits). This change would effectively increase the Postal Service’s contribution rate for most covered employees from 7 percent to 17.4 percent of payroll. In 2004, the first full year of contributions at the higher rate, CBO estimates that this would increase the agency’s retirement contributions by nearly $1 billion, but that increase would gradually decline as the CSRS covered workers retire. Employee contribution rates for those in CSRS, as well as agency and employee contributions for those in the Federal Employee’s Retirement System, would be unaffected by the legislation.

The Postal Service is an off-budget entity and contributions and payments that it makes to the retirement trust fund are considered offsetting receipts. Reducing overall payments the Postal Service makes to the CSRDF would result in a reduction of on-budget receipts to the government. To the extent that the Postal Service uses its savings to reduce its debt to the Federal Financing Bank, on-budget interest receipts would also be lower. Assuming the changes made by S. 380 are effective in April 2003, CBO projects the net on-budget effect of the bill would be cost of $3.5 billion in 2003, and approximately $19 billion over the 2003–2008 period.
Off-budget effects

CBO estimates that enactment of S. 380 would reduce net expenditures of the USPS by $2 billion over the 2003–2008 period.

Estimated Effects on Postal Outlays for Fiscal Years 2003–2006. The Postal Service's response to the change in its pension payments is uncertain, but CBO anticipates that the agency will use the savings from S. 380 to:

- Repay $2 billion of its outstanding debt in fiscal year 2003;
- Invest $1 billion in fiscal year 2003 and $2 billion in 2004 in additional capital projects or other activities aimed at improving productivity; and
- Delay the next postal rate increase—anticipated late in fiscal year 2004, until fiscal year 2007.

CBO expects that the Postal Service would repay about $2 billion of its outstanding debt to the Treasury in 2003. That action would reduce the agency's interest expenses by about $60 million annually, beginning in fiscal year 2004. Because the USPS pays an average interest rate on that debt of only 3 percent, CBO expects the agency would seek to make capital investments with much of the savings that could more effectively contribute to lowering its operating costs and thus contribute to a postponement of its next rate increase. For fiscal years 2005 and 2006, CBO estimates such investments would lead to operational savings of about $300 million and $600 million per year, respectively.

In July 2002, the Postal Service raised the price of a first-class stamp from $0.34 to $0.37 and raised rates for other classes of mail. Based on information from the Postal Service and on postal revenues to date in 2003, CBO estimates that this rate increase will raise over $3 billion in additional revenue a year. The CBO baseline assumes a similar rate increase late in fiscal year 2004, including a price of $0.40 for a first-class stamp.

We estimate that delaying the next rate increase would result in a small loss of revenue in fiscal year 2004 and losses of roughly $3.5 billion in each of fiscal years 2005 and 2006. A delay in the rate increase also would increase operating expenses because the Postal Service would have to deliver higher volumes of mail than otherwise expected. (When rates go up, mail volume goes down.) Based on information from the Postal Service about the relationship between price increases, mail volumes, and operating costs, we expect that this increase in expenses would be about a billion dollars annually in 2005 and 2006.

CBO estimates that those changes in postal revenues and expenses would result in lower net outlays of $2.5 billion in fiscal year 2003 and $600 million in 2004, with net increases in outlays of $800 million in 2005 and $300 million in 2006.

Estimated Effects on Postal Outlays in Fiscal Years after 2006. After 2006, CBO assumes that the Postal Service will use a combination of rate increases and controls on spending to ensure that its income covers the costs of its services, as required by law and as assumed in the CBO baseline. Thus, S. 380 would have no effect on net postal outlays after fiscal year 2006 when we expect the next rate increase would occur.

Intergovernmental and private-sector impact: S. 380 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.
Previous CBO Estimates: This cost estimate of S. 380 supersedes and replaces the estimate for the same bill that CBO released on March 17, 2003. The previous cost estimate contained an error in the discussion under “Basis of Estimate” of the legislation’s on-budget effects. The earlier estimate said that the on-budget effect of replacing the Postal Service’s current amortization payments to the CSRDF would be to reduce offsetting receipts by $3.5 billion in 2003, $15.5 billion over the 2004–2008 period, and $38 billion during the 2004–2013 period. Those figures were incorrect. CBO estimates the change in amortization payments would reduce receipts by $4 billion in 2003, $19.5 billion during the 2004–2008 period, and $43.5 billion over the 2004–2013 period. This correction does not change CBO’s estimate of either the on-budget or off-budget cost of enacting the legislation. The numbers shown in the table and cited in the “Summary” are unchanged.

On March 14, 2003, CBO transmitted a cost estimate for H.R. 735, the Postal Civil Service Retirement System Funding Reform Act of 2003, as ordered reported by the House Committee on Government Reform on March 6, 2003. CBO estimated that enacting that bill would result in net outlays of $7.1 billion over the 2003–2008 period and $7.2 billion over the 2003–2013 period. Estimated outlays for H.R. 735 are lower because, for fiscal years after 2005, that bill would require that savings resulting from reduced payments to the CSRDF be held in escrow and remain unavailable for obligation unless authorized by subsequent legislation. S. 380 does not contain any such requirement.

Estimate prepared by: Federal costs—Postal Service: Mark Grabowicz; CSRDF: Geoffrey Gerhardt; impact on state, local, and tribal governments: Victoria Heid Hall; impact on the private sector: Paige Piper/Bach.

Estimate approved by: Peter H. Fontaine, Deputy Assistant Director for Budget Analysis.

VII. CHANGES TO EXISTING LAW

In compliance with paragraph 12 of rule XXVI of the Standing Rules of the Senate, changes in existing laws made by S. 380 as reported are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):
UNITED STATES CODE
TITLE 5—GOVERNMENT ORGANIZATION AND EMPLOYEES
PART III. EMPLOYEES
Subpart G. Insurance and Annuities
CHAPTER 83. RETIREMENT
Subchapter III. Civil Service Retirement
§ 8331. Definitions

* * * * * * *
(17) "normal cost" means the entry-age normal cost computed by the Office of Personnel Management in accordance with generally accepted actuarial practice and standards (using dynamic assumptions) and expressed as a level percentage of aggregate basic pay;

(18) "Fund balance" means the sum of—
(A) the investments of the Fund calculated at par value; and
(B) the cash balance of the Fund on the books of the Treasury; but does not include any amount attributable to—
(i) the Federal Employees’ Retirement System; or
(ii) contributions made under the Federal Employees’ Retirement Contribution Temporary Adjustment Act of 1983 by or on behalf of any individual who became subject to the Federal Employees’ Retirement System;

* * * * * * *
(27) "Nuclear materials courier"—
(A) means an employee of the Department of Energy, the duties of whose position are primarily to transport, and provide armed escort and protection during transit of, nuclear weapons, nuclear weapon components, strategic quantities of special nuclear materials or other materials related to national security; and
(B) includes an employee who is transferred directly to a supervisory or administrative position within the same Department of Energy organization, after performing duties referred to in subparagraph (A) for at least 3 years;

(28) "Government physician" has the meaning given that term under section 5948[i.]; and

(29) "dynamic assumptions" means economic assumptions that are used in determining actuarial costs and liabilities of a retirement system and in anticipating the effects of long-term future—
(A) investment yields;


(B) increases in rates of basic pay; and
(C) rates of price inflation.

§ 8334. Deductions, contributions, and deposits

(a)(1) The employing agency shall deduct and withhold from the basic pay of an employee, Member, congressional employee, law enforcement officer, firefighter, bankruptcy judge, judge of the United States Court of Appeals for the Armed Forces, United States magistrate, Court of Federal Claims judge, member of the Capitol Police, member of the Supreme Court Police, or nuclear materials courier, as the case may be, the percentage of basic pay applicable under subsection (c). An equal amount shall be contributed from the appropriation or fund used to pay the employee or, in the case of an elected official, from an appropriation or fund available for payment of other salaries of the same office or establishment. When an employee in the legislative branch is paid by the Chief Administrative Officer of the House of Representatives, the Chief Administrative Officer may pay from the applicable accounts of the House of Representatives the contribution that otherwise would be contributed from the appropriation or fund used to pay the employee.

(ii) Except in the case of an employee of the United States Postal Service, an equal amount shall be contributed from the appropriation or fund used to pay the employee or, in the case of an elected official, from an appropriation or fund available for payment of other salaries of the same office or establishment. When an employee in the legislative branch is paid by the Chief Administrative Officer of the House of Representatives, the Chief Administrative Officer may pay from the applicable accounts of the House of Representatives the contribution that otherwise would be contributed from the appropriation or fund used to pay the employee.

(ii) In the case of an employee of the United States Postal Service, an amount shall be contributed from the appropriation or fund used to pay the employee equal to the difference between—

(I) the product of—

(aa) the basic pay of that employee; and

(bb) the normal cost percentage applicable to the employee category of that employee under paragraph (1)(A); and

(II) the product of—

(aa) the basic pay of that employee; and

(bb) the percentage applicable to that employee under subsection (c) deducted from basic pay under paragraph (1)(A).
[(m) A Member who has served in a position in the executive branch for which the rate of basic pay was reduced for the duration of the service of the Member to remove the impediment to the appointment of the Member imposed by article I, section 6, clause 2 of the Constitution, or the survivor of such a Member, may deposit to the credit of the Fund an amount equal to the difference between the amount deducted from the basic pay of the Member during that period of service and the amount that would have been deducted if the rate of basic pay which would otherwise have been in effect during that period had been in effect, plus interest computed under subsection (e).]

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§ 8348. Civil Service Retirement and Disability Fund

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[(h)(1) Notwithstanding any other statute, the United States Postal Service shall be liable for that portion of any estimated increase in the unfunded liability of the Fund which is attributable to any benefits payable from the Fund to active and retired Postal Service officers and employees, and to their survivors, when the increase results from an employee-management agreement under title 39, or any administrative action by the Postal Service taken pursuant to law, which authorizes increases in pay on which benefits are computed.

[(2) The estimated increase in the unfunded liability, referred to in paragraph (1) of this subsection, shall be determined by the Office of Personnel Management. The United States Postal Service shall pay the amount so determined to the Office in 30 equal annual installments with interest computed at the rate used in the most recent valuation of the Civil Service Retirement System, with the first payment thereof due at the end of the fiscal year in which an increase in pay becomes effective.]

(h)(1)(A) In this subsection, the term “Postal supplemental liability” means the estimated excess, as determined by the Office of Personnel Management, of the difference between—

(i) the actuarial present value of all future benefits payable from the Fund under this subchapter attributable to the service of current or former employees of the United States Postal Service; and

(ii) the sum of—

(I) the actuarial present value of deductions to be withheld from the future basic pay of employees of the United States Postal Service currently subject to this subchapter under section 8334;

(II) the actuarial present value of the future contributions to be made under section 8334 with respect to employees of the United States Postal Service currently subject to this subchapter;

(III) that portion of the Fund balance, as of the date the Postal supplemental liability is determined, attributable to payments to the Fund by the United States Postal Service and employees of the United States Postal Service, including earnings on those payments; and]
(IV) any other appropriate amount as determined by the Office in accordance with generally accepted actuarial practices and principles.

(B)(i) In computing the actuarial present value of future benefits, the Office shall include the full value of benefits attributable to military and volunteer service for United States Postal Service employees first employed after June 30, 1971, and prorated share of the value of benefits attributable to military and volunteer service for United States Postal Service employees first employed before July 1, 1971.

(ii) Military service included in the computation under clause (i) shall not be included in computation of the payment required under subsection (g) (2).

(2)(A) Not later than June 30, 2004, the Office of Personnel Management shall determine the Postal supplemental liability, as of September 30, 2003. The Office shall establish an amortization schedule, including a series of equal annual installments commencing September 30, 2004, which provides for the liquidation of such liability by September 30, 2043.

(B) The Office shall redetermine the Postal supplemental liability as of the close of the fiscal year, for each fiscal year beginning after September 30, 2003, through the fiscal year ending September 30, 2038, and shall establish a new amortization schedule, including a series of equal annual installments commencing on September 30 of the subsequent fiscal year, which provides for the liquidation of such liability by September 30, 2043.

(C) The Office shall redetermine the Postal supplemental liability as of the close of the fiscal year for each fiscal year beginning after September 30, 2038, and shall establish a new amortization schedule, including a series of equal annual installments commencing on September 30 of the subsequent fiscal year, which provides for the liquidation of such liability over 5 years.

(D) Amortization schedules established under this paragraph shall be set in accordance with generally accepted actuarial practices and principles based on the dynamic interest rate.

(E) The United States Postal Service shall pay the amounts determined under this paragraph for deposit in the Fund, with payments due not later than the date scheduled by the Office.

(3) Notwithstanding any other provision of law, in computing the amount of any payment under any provision other than this subsection that is based upon the amount of the unfunded liability, such payment shall be computed disregarding that portion of the unfunded liability that the Office determines will be liquidated by payments under this subsection.

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