STATEMENT OF
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before the

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

on

"OUTSIDE THE BOX: REFORMING AND RENEWING THE POSTAL SERVICE, PART II – PROMOTING A 21ST CENTURY WORKFORCE"

September 26, 2013

Chairman Carper, Ranking Member Coburn, and Members of the Committee:

Thank you for the opportunity to testify regarding reform of the United States Postal Service (Postal Service or USPS), including changes to employee benefits. The Office of Personnel Management (OPM) recognizes how important it is to the Nation's commerce to have a healthy Postal Service and understands the need to provide financial relief and to undertake reform. However, any reforms should undergo a careful analysis to prevent unintended consequences to Government benefits programs. As program administrator for the Federal Employees Health Benefits (FEHB) Program, Civil Service Retirement System (CSRS), the Federal Employees Retirement System (FERS), and fiduciary for the Civil Service Retirement and Disability Fund (CSRDF) and the Federal Employees Health Benefits Trust Funds, OPM has an interest in the various proposals to reform the benefits available to the Postal Service workforce and their impact on these programs.

Current Postal Service Health and Retirement Benefits Obligations

Under current law, the Postal Service has an obligation to make certain payments related to health and retirement benefits for its employees and retirees. The Postal Accountability and Enhancement Act of 2006 required the Postal Service to pre-fund retiree health benefits and make fixed payments from 2007 through 2016 into the Postal Service Retiree Health Benefit (PSRHB) Fund. The purpose of the PSRHB Fund is to cover the Postal Service's liability for the health care costs of current and future retirees under the FEHB Program. This pre-funding mechanism is unique to the Postal Service. Due to its financial difficulties, the Postal Service was unable to make these required payments of $5.5 billion initially due in FY2011 and $5.6

billion due in FY2012. OPM calculates that the actuarial liability for the PSRHB Fund value was $94 billion as of September 30, 2012. Subtracting the PSRHB Fund value of $46 billion, there remains an unfunded liability of about $48 billion.

With respect to retirement benefits, Postal Service contributions to FERS total approximately $3 billion per year. These expenses are incurred only on behalf of those employees enrolled in FERS. In 2006, Congress discontinued Postal Service contributions on behalf of employees enrolled in CSRS. The FERS funding and employee cost sharing requirements are the same as those that apply to all non-Postal agencies and employees.

The President's FY2014 Budget includes short-term relief and long-term reforms to the Postal Service, including a proposal allowing OPM to calculate the Postal Service share of its FERS costs using Postal-specific demographic assumptions. Pursuant to the proposal, the amount of any Postal FERS actuarial funding surplus as most recently computed according to government-wide actuarial assumptions would be refunded to the Postal Service in 2013, and any remaining amounts would be refunded in 2014 and 2015 after OPM has completed a demographic study of Postal Service data to determine a Postal-specific normal cost percentage. This and other reforms included in the Budget will help the Postal Service return to financial sustainability.

Retirement and Health Benefits in the Postal Reform Act of 2013

I would like to briefly discuss a couple of provisions included in S. 1486, the Postal Reform Act of 2013, regarding Postal Service employee retirement and health benefits. Among other things, the legislation authorizes the Postal Service to negotiate retirement benefit terms for new employees and to create new health benefits plans which may be offered within the FEHB Program.

Negotiability of USPS Retirement Benefits

Postal employees are currently subject to the same rules as Federal employees for the purposes of benefits, employment rights, and other obligations. Section 102 of the legislation would grant labor organizations and the Postal Service the authority to negotiate retirement benefits for employees. OPM is concerned that the ability to negotiate retirement benefits, especially whether an employee is covered in FERS, will result in disparate execution of benefits. That is, employees performing the same work will receive different benefits based on their collective bargaining agreements. Tracking and reporting variable employee deduction rates based on bargaining unit and time period would be nearly impossible and administratively costly, both for OPM and the Postal Service. Retirement claims processing for all agencies would be negatively impacted by the burden of computing such unique Postal Services cases.

Additionally, OPM has technical concerns with section 102(a)(1). Employee retirement contributions to the CSRDF under negotiated agreements require clarification, and OPM would like to work with the Committee to address any technical concerns.

USPS Withdrawal from FEHB Plans

Section 104 would authorize the Postal Service to enter into individual or joint collective bargaining agreement or agreements with bargaining representatives to create a single Postal Service Health Benefits Plan (PSHBP). Coverage must be actuarially equivalent to the types of plans available in the FEHB Program.

OPM has long believed and has previously testified before this Committee that the Postal Service and its employees and retirees are well-served by the FEHB Program. Currently, OPM overhead costs for the FEHB Program are only 0.08 percent of total health premiums. These very low overhead costs have been achieved by managing programs with very large numbers of enrollees and the accumulated experience of the agency and its staff having managed these programs for decades. The FEHB Program offers good value to employees and the taxpayer and is not an excessively costly benefit as compared with other large employer plans. In addition, annual premium increases for FEHB plans are typically at or below industry averages.

A Postal withdrawal under Section 104 would have an impact on health plans with a large Postal population, such as Rural Letter Carriers, National Association of Letter Carriers, and the American Postal Workers Union. While Postal employees and retirees represent less than one quarter of the FEHB covered population, 23 health plans are comprised of 50 percent or more Postal employees and retirees and 57 plans are comprised of one third or more Postal employees and retirees. If these plans were to choose to withdraw from the FEHB Program, their remaining members would need to choose another health insurer. This might also reduce choices among plans, which reduces competition.

Section 105 would remove Postal Actives and Postal Annuitants with both parts A and B of Medicare from the FEHB Program risk pool, and create separate FEHBP enrollment options for health benefit plans with a separate risk pool for these individuals and their families. Postal Annuitants without Medicare coverage, with Medicare Part A only, or Medicare Part B only, would be the only Postal groups to remain in the original FEHB Program risk pool. Because the groups to be removed are less expensive than those that are to remain, we anticipate this change will result in an increased cost to the FEHB Program for the original FEHB Program risk pool on a per enrollee basis. If postal employees and retirees are removed from the FEHB Program risk pool under both Sections 104 and 105, costs under the original FEHB Program risk pool would increase by about two percent per enrollee.

Also, it may be challenging for the PSHBP to have provider networks for employees and retirees located all across the country, especially in rural areas. As stated previously, OPM has developed the systems to provide these numerous, locally-based options at very little administrative cost.

Postal Workforce Restructuring

As the Postal Service realigns its operations to reduce its costs, it has and is expected to continue to make use of available authorities to provide early retirement and voluntary separation incentives to its eligible employees. I would like to take the opportunity to highlight the positive impact resulting from Congress' action to authorize the CSRDF's receipt for claims processing costs from agencies offering either voluntary separation incentives or voluntary early out retirements, aiding OPM in its significant reduction of backlogged retirement cases.

Conclusion

Any effort to return the Postal Service to financial sustainability would require careful analysis in order to avoid unintended consequences that could ripple throughout the Government wide retirement and health benefit programs. We look forward to working with the Committee to assist the Postal Service in addressing its fiscal challenges.