Postal Regulatory Commission

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Press Release

July 30, 2009

Washington, DC – The Postal Regulatory Commission (PRC) today submitted to Members of the U.S. House of Representatives Subcommittee on the Federal Workforce, Postal Service, and the District of Columbia its Review of Retiree Health Benefit Fund Liability as Calculated by Office of Personnel Management (OPM) and U.S. Postal Service Office of Inspector General (OIG). This review was requested by Subcommittee Members Stephen Lynch, John McHugh and Danny K. Davis in a June letter to the Commission.

The report examines valuations by both OPM and OIG of the Postal Service's liability for pre-funding retiree health benefits. The Postal Accountability and Enhancement Act of 2006 (PAEA) established a payment schedule for the Postal Service to prefund these liabilities through FY 2016. The subcommittee asked the PRC to review the two separate valuations which differed by $57 billion.

The Commission found that the two valuations were both reasonable in meeting the different purposes for which they were designed. However, the Commission suggests an alternative calculation which produces a long-term liability that could result in lower payments than current law requires.

"Our analysis of the two valuations should prove helpful in informing the debate as Congress considers measures to provide financial relief to the Postal Service," said Dan G. Blair, Chairman. "The Commission appreciates the cooperation of the OIG and OPM in the preparation of this report."

An executive summary of the report is attached. The report is available, in its entirety, on the Commission's website at www.prc.gov.

The Postal Regulatory Commission is an independent federal agency comprised of five Presidentially-appointed and Senate-confirmed Commissioners, each serving terms of six years. The Chairman is designated by the President. In addition to Chairman Blair, the other Commissioners are Ruth Goldway, Tony Hammond, Mark Acton, and Nanci Langley.

Executive Summary

The Postal Regulatory Commission (PRC or Commission) has undertaken an analysis of the different approaches employed by the U.S. Postal Service Office of Inspector General (OIG) and the Office of Personnel Management (OPM) to calculate the present value of the Postal Service's obligations related to the Postal Service Retiree Health Benefit Fund (Fund). The analysis was requested , by the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, Committee on Oversight and Government Reform, U.S. House of Representatives. The request was received on June 15, 2009.

The Commission contracted with Mercer Health and Benefits LLC (Mercer) for actuarial assistance on the determination of the reasonableness of the OIG and OPM assumptions and accompanying results produced by the two entities. Commission staff along with Mercer representatives met with actuaries and staff at OPM, OIG and the Hay Group, reviewed industry best practices, and analyzed data provided by OPM, OIG and the Postal Service.

The Commission finds that the two valuations were developed for different reasons and both were reasonable. The OPM estimate serves to meet an annual financial reporting requirement. In contrast, the OIG estimate is designed to estimate the funded status of the Retiree Health Benefits Fund as of 2016. The estimates differ by $57 billion in terms of full liability, and support different actuarial payment schedules.

From these differing perspectives, the two estimates assumed different health care inflation trend rates although both OPM and OIG used static trend rates rather than the more commonly used graded trend rate to arrive at their estimates. In addition, the two valuations use different estimates regarding the Postal Service workforce. Finally, the OPM and OIG estimates reflected different rates of return on assets.

Commission findings and recommendations:

- A graded trend rate is preferable because it reflects current expectations of health care inflation while recognizing the issue of how much of the national GDP will be consumed by health care costs in the future. (See page 4.)
- The OIGs assumption of a declining workforce is more appropriate for the purposes of estimating the liability as of 2016 because it more accurately reflects the current workforce trend and Postal Service intentions. (See page 11.)
- The OIG rates of return on assets assumption are reasonable for determining the fund assets as of 2016 because they provide a better short-term estimate than the OPM assumption. (See page 14.)
- Under either estimate, funding of the Retirement Health Benefits Fund exceeds that of private and public sector funds. (See page 15.)
- Using the Commission's assumptions results in a lower liability and could lead to lower payments than the OPM valuation as shown in the table below and discussed on page 17.[1]

[1] Using OPM's current valuation and the scheduled payments into the fund required by the PAEA results in a funded status of 73% in 2016.

Payments to Achieve 73% Funded Status (Dollars in Billions)			
	USPS OIG	**OPM**	**PRC Alternative**
Workforce Assumption	Declining	Fixed	Declining
Health Care Inflation	5%	7%	Graded: 8% - 5%
Average Interest rate on assets	5.35%	6.25%	5.35%
Discount Rate on Liability	6.25%	6.25%	6.25%
FY 2016 Estimated Liabilities	**$90.5**	**$147.9**	**$113.2**
FY 2016 Estimated Assets	103.7	108.7	103.7
FY 2016 Estimated Unfunded Liability	(13.2)	39.2	9.5
2016 Asset Balance for 73% Funded	66.1	108.0	82.6
Fixed Annual Payment	**$1.7**	**$5.5**	**$3.4**

- When the valuation is required to be revised under PAEA, Congress may want to request a Postal Service specific valuation that reflects use of Postal Service demographics apart from the overall Federal government population to better determine actual costs for the Postal Service. (See page 16.)