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Committee on Oversight and Government Reform
United States House of Representatives
Washington, D.C. 20515

Dear Members of the House Committee on Oversight and Government Reform:

The National Active and Retired Federal Employees Association (NARFE) appreciates the opportunity to comment on the discussion draft of postal reform legislation. NARFE represents the interests of federal employees and retirees, as well as their spouses and survivors, and has more than 220,000 members across the country, about 30 percent of whom are retired postal workers, their spouses or survivors.

NARFE recognizes and appreciates the time and effort spent pursuing a realistic, bipartisan reform bill that aims to maintain an effective United States Postal Service (USPS or "Postal Service"). The discussion draft represents the product of that effort and is an improvement over previous Committee proposals, as well as over the leading Senate bill, S. 2051.

Unfortunately, the draft proposal shoulders postal retirees with the responsibility of fixing the Postal Service's finances in the name of expediency. It compromises fairness and breaks a promise made to now-retired postal workers and their survivors regarding their health benefits. It tells them they now must pay additional health insurance premiums for extra, mostly duplicative, insurance coverage (through Medicare) or risk losing their health insurance benefits entirely. For many postal retirees and survivors who are satisfied with their current coverage, that means another $122 per month or more to keep their current health insurance.

This draft bill sends a very powerful message to retirees: Congress can change your benefits at any time, when you're on a fixed income and possibly struggling to make ends meet. Because the draft bill reneges on the bargain struck with postal retirees and removes the choice they now have with regard to their health benefits, NARFE opposes the draft bill in its current form. We propose a simple solution that would maintain choice, while still accruing significant savings for the Postal Service – automatically enroll postal retirees in Medicare, as the draft already does, but also provide them a brief window of time to opt out of that enrollment.

We provide further comments on the mandatory Medicare enrollment proposal, NARFE's proposed amendment and other provisions of the discussion draft below.

Mandatory Medicare Enrollment and the Postal Service Health Benefits Program (PSHBP)

NARFE opposes the draft bill because of the provision, within section 101, that would force eligible postal retirees, their spouses and survivors to enroll in Medicare Part B or forfeit the Federal Employees Health Benefits Program (FEHBP) coverage that they earned as a benefit of years of employment. For those required to newly enroll – about 76,000 individuals – this would require an additional $122 per month (or more) in Medicare premiums.

NARFE recognizes the benefits that dual enrollment in Medicare Part B and FEHBP (or PSHBP) provides. Dual enrollment is often a financially beneficial option, as it reduces out-of-pocket costs in the form of deductibles and co-pays. But the *choice* of whether to pay additional premiums up front for the likelihood of lower costs down the road should be left to postal retirees and their family members. NARFE does not object to this provision for current employees/future retirees, as it would not be breaking a promise of what future retiree health benefits would be in exchange for current employment.

We object to this provision for current retirees on two basic grounds: (i) it changes the bargain regarding health benefits for postal retirees after they have retired, setting a dangerous precedent; and (ii) it removes choice for postal retirees with regard to their health insurance coverage. As a result, postal retirees, their spouses and survivors would be forced to pay more in premiums for additional coverage they may not want, while on a fixed income and unable to recoup those costs.

Automatic Enrollment and Transition Fund

The draft bill makes two significant improvements over the Senate version of this provision, contained in section 102 of S. 2051. First, those postal retirees forced to enroll in Medicare as a condition of continuing their FEHBP coverage would be automatically enrolled. This would avoid complete loss of health insurance coverage for individuals who fail to enroll affirmatively. Second, those postal retirees forced to enroll in Medicare would pay less than full Medicare Part B premiums for the first three years of coverage, paying only 25, 50 and 75 percent of their premium in years one, two and three, respectively. This will lessen the financial impact of the forced enrollment. Nonetheless, it still changes the health benefits for postal retirees after they have retired and removes the choice they currently have.

NARFE's Proposed Alternative: Allow Postal Retirees to Opt Out

NARFE suggests a simple change to the current construct: retain the provision automatically enrolling postal retirees in Medicare, but provide postal retirees the option to opt out of the forced enrollment.

This proposal would allow postal retirees to retain choice. The notification of enrollment in Medicare, along with notice of the option to opt out, could include educational materials detailing the benefits of enrollment. Under this proposal, it is likely that a high percentage of postal retirees not currently enrolled in Medicare would not opt out, retaining much of the savings sought by the Postal Service. We propose a small opt-out window (60 or 90 days) to encourage enrollment.

The proposal also would reduce the cost to Medicare resulting from increased enrollment, which could mitigate objections from the members of the House Committee on Ways and Means and others concerned with the on-budget cost of the discussion draft. Based on the cost estimate provided by the Congressional Budget Office (CBO) on a relevantly identical proposal contained in S. 1486 (113th Congress), mandatory Medicare enrollment "would increase Medicare spending by about $7.9 billion over 10 years."[1] This cost shift to Medicare occurs because when a postal retiree (or spouse or survivor) is covered by both Medicare and the FEHBP, Medicare becomes the primary payer. This increases costs to Medicare and decreases costs to the FEHBP.

Postal Service Health Benefits Program (PSHBP)

NARFE does not object to the basic construct of the PSHBP, which allows postal employees and retirees to retain their current health insurance plans, but we have concerns that the most-costly postal retirees and family members will remain in FEHBP plans.

In order to ensure that the savings created by the mandatory Medicare enrollment are captured by the Postal Service, section 101 of the draft bill creates a new Postal Service Health Benefits Program (PSHBP), parallel to the FEHBP, implemented and administered by the Office of Personnel Management (OPM), for postal employees, Medicare-covered annuitants, and their spouses and survivors. Premiums for these plans would be based on a separate, postal-only risk pool. With Medicare picking up a share of the costs for those newly enrolled postal retirees and family members, the PSHBP premiums would be reduced. However, based on preliminary estimates by the USPS that premiums will be reduced by about 10 percent, this reduction would not come close to covering the additional premium cost for new enrollees in Medicare Part B.

Under the draft bill, postal employees, retirees and their family members would be able to retain their current FEHBP plan under the new umbrella of PSHBP, which NARFE supports. Any current FEHBP plan with at least 1,500 postal enrollees would provide a parallel PSHBP plan. The parallel PSHBP plans would be required to be "actuarially equivalent" to current FEHBP plans. For example, there would be a Blue Cross Blue Shield Standard plan under both the FEHBP and PSHBP, which would offer equivalent benefits, but for different premiums. While NARFE is wary of splitting the FEHBP risk pool and the precedent it may set for the future, the manner in which the draft bill does so adequately preserves current employee and retiree health insurance plans.

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[1] CBO Cost Estimate, S. 1486, Postal Reform Act of 2014, *as ordered reported by the Senate Committee on Homeland Security and Governmental Affairs on February 6, 2014*, July 14, 2014, available at: https://www.cbo.gov/sites/default/files/113th-congress-2013-2014/costestimate/s14861.pdf.

However, NARFE is concerned that the PSHBP excludes from coverage about 11,600 postal retirees and family members who are not eligible for Medicare – essentially, those who retired prior to 1983. These individuals will remain in the FEHBP. Because of their age and the fact that their health care costs are covered only by the FEHBP, they are the most expensive group of participants to cover. By excluding them from the postal risk pool and leaving them in the FEHBP risk pool, the draft bill is causing a subtle cost-shift to the FEHBP. Congress should be wary of cherry-picking risk pools and the precedent it sets.

Medicare Part D Coordination

NARFE supports the coordination of prescription drug benefits by both the FEHBP and PSHBP plans with Medicare Part D, either through the Retiree Drug Subsidy Program or an Employer Group Waiver Plan (EGWP). Both of these options are available to private-sector companies that provide adequate prescription drug coverage to meet Part D requirements. Both lower the cost of providing retiree prescription drug coverage, without reducing the quality of the coverage.

While the discussion draft does not include provisions to allow or require PSHBP plans to coordinate with Part D through the EGWP model, it is our understanding that was a drafting error that will be rectified prior to bill introduction. We support that change.

In addition to allowing PSHBP plans to coordinate coverage with Part D, the Committee also should authorize FEHBP plans to do the same. There is no sound rationale to allow one to do so, but not the other.

Waiver of Late Enrollment Penalties and Benefits of Part B Enrollment

NARFE supports the provision of the draft bill providing a waiver of increased Medicare Part B premiums that otherwise would apply due to late enrollment for those newly enrolled in Medicare. Without this, the mandatory enrollment provision would be grossly unfair and even more cost-prohibitive for the participant.

Eliminate the Prefunding Requirement

The impetus behind mandatory Medicare enrollment for postal retirees and their family members is to lower the Postal Service's payments for retiree health benefits. By requiring Medicare to pay first for all postal retirees and family members, the draft bill lowers the Postal Service's future liabilities.

But the need to lower future liabilities now is the result of an unnecessary and overly burdensome congressional mandate to fully prefund all of the Postal Service's future retirees' health care obligations. Rather than complicate the matter by shifting costs to Medicare, breaking promises to postal retirees and mandating additional health insurance coverage that many postal retirees do not want, we suggest a much easier solution for the USPS' artificial financial crisis: eliminate the prefunding requirement.

The prefunding requirement is the unfortunate consequence of the quirks of congressional budget scoring. The annual prefunding payments by the USPS into the Retiree Health Benefits Fund, ranging from $5.4 to $5.8 billion, were mandated by the Postal Accountability and Enhancement Act of 2006. This scheme was designed to allow the USPS a refund for $27 billion in overpayments for its share of former veterans' retirement benefits without creating an on-budget cost for the bill. That is not a sound policy rationale. No other federal agency or private-sector company fully prefunds its retiree health benefits, let alone within such a short time frame.

Without this obligation, the USPS would have made a profit during the last two fiscal years (FY14 and FY15). Its controllable operating income was $1.357 billion in FY14 and $1.188 billion in FY15.[2] Yet its FY15 books show a $5.06 billion net loss, primarily due to its $5.70 billion prefunding obligation.[3] But the USPS did not make its prefunding payments that year; it has not done so since 2010.

This liability is driving cost-cutting strategies at the Postal Service and prohibits investments that could expand business and save money over the long term. Since 2012, the USPS has reduced delivery standards, which has resulted in increased delivery time across the country, according to the Government Accountability Office (GAO-14-828R). Top-level USPS management continues to plan reductions in USPS infrastructure in line with the reduced delivery standards. Although plans to close 82 mail processing plants in 2015 were postponed, management plans to go forward with the closures in 2016, absent congressional action on the issue. The prefunding requirement is a counterproductive congressional mandate that should be eliminated.

Other Suggested Alternatives for Legislative Action

The impetus for mandatory Medicare enrollment is to reduce the prefunding liability, and thereby improve the Postal Service's finances. But there are other options for doing this without forcing postal retirees to solve these financial problems.

First, Congress could make it easier for the USPS to increase revenue by raising postal rates. The 4.3 percent exigent rate increase instituted in January 2014, and in place throughout FY15 and half of FY16, was instrumental in increasing USPS revenue. In FY15 alone, it increased revenue by $2.1 billion.[4] This rate increase ended in April 2016

[2] 2015 United States Postal Service Annual Report and Comprehensive Statement, pp. 20-23, available at: http://about.usps.com/who-we-are/financials/annual-reports/fy2015.pdf (accessed May 10, 2016).

[3] Other items not under the control of USPS include non-cash expenses related to changes in the federal workers' compensation program, including fluctuations in expenses due to changes in discount rates, and the amortization of its portion of the Federal Employees Retirement System (FERS) using governmentwide, rather than postal-specific, assumptions. These two items account for a loss of $809 million and $241 million, respectively.

[4] 2015 United States Postal Service Annual Report and Comprehensive Statement, p. 22, available at: http://about.usps.com/who-we-are/financials/annual-reports/fy2015.pdf (accessed May 10, 2016).

when the USPS' authority to maintain it expired. The consequent loss of revenue resulting from this rate decrease will only drive further counterproductive cost-cutting strategies. Congress should allow the USPS greater ability to raise rates to sufficiently account for the costs of mailing, increasing revenue. Without this ability, the USPS will continue to provide subsidized service below cost to mass mailers.

Additionally, Congress could loosen its shackles on the USPS' ability to increase revenue in other ways. For example, it could allow the USPS to ship alcohol. With the USPS prohibited from carrying alcohol, this revenue opportunity is left to its competitors, which have no such restrictions. Or Congress could allow or direct the USPS to increase financial services to those without viable private-sector options for things such as check cashing, bill payment, savings accounts or small-dollar loans. The Postal Service provided some of these services prior to the mid-1960s, and many other industrialized countries do so. Congress should examine closely its restrictions on the USPS' ability to increase revenues by eliminating or lessening the limitations it currently imposes on USPS activities.

Additional Views on the Draft Bill

Six-Day Delivery

NARFE supports maintaining six days of mail delivery throughout the United States. This modest delivery standard, or a more demanding one, has existed since at least 1888. The draft bill rightly preserves six-day delivery.

To-the-door Delivery

NARFE supports maintaining curbside and to-the-door delivery, opposing a transition to cluster box delivery. This is of particular concern to NARFE members, as most of them are retired and some may not have the ability to walk several blocks to retrieve their mail – and they shouldn't have to.

The draft bill takes an ill-advised step away from to-the-door delivery, prohibiting it for new addresses and allowing conversions of existing neighborhoods under certain circumstances. This would be neither efficient nor what the American people want from their Postal Service.

Conclusion

There are simple solutions to the financial problems facing the Postal Service, but the draft bill takes a more complicated route – forcing postal retirees and survivors who are satisfied with their current health insurance coverage to pay another $122 per month or more to keep it.

The reason for doing so is unconvincing. It is simply to save money for the Postal Service in a manner that avoids more politically difficult decisions.

This is not the only path forward. Why not allow the USPS to raise the price of postage to a more reasonable amount, instead of continuing to heavily subsidize the business of bulk mailers? Why not allow the USPS to ship alcohol or provide more financial services? Why not allow the USPS to pay its health insurance bills when they are due, and not before, by ending the burdensome prefunding requirement?

These are the questions you should ask before you place the burden of postal reform on the backs of postal retirees and their survivors. These retirees should not now, after finishing long careers with the Postal Service, be threatened with the loss of their health insurance entirely if they do not buy additional coverage. This is not only unfair to postal retirees, but it also sets a dangerous precedent for all federal retirees.

Supporters of the proposal will say that having both federal retiree health insurance and Medicare is a better bet for postal retirees, and many already make that choice. It is true that having coverage through both is more comprehensive and often saves most individuals more in reduced deductibles and co-pays in the long term than they pay in additional premiums.

But it’s not a one-size-fits-all situation. Some individuals are quite happy with the decision they made and the insurance they have now. They neither want – nor can they afford – to pay another $122 per month. The bargain struck with postal retirees left that decision up to them, and it should remain that way for current retirees.

While this postal reform bill is much improved compared to its predecessors, it seeks significant savings through “Medicare integration,” as supporters like to call it. We call it unfair and unnecessary. It augments the finances of the Postal Service at the expense of its retirees.

Thank you for considering NARFE’s views. If you have any questions or comments regarding this request, please contact NARFE Legislative Director Jessica Klement at 703-838-7760 or jklement@narfe.org.

Sincerely,

Richard Thissen

Richard G. Thissen
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