

Kenneth J. Thomas
National President



Kathryn E. Hensley
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Committee on Oversight and Reform
House of Representatives
Washington, DC 20515

Dear Chairman Cummings, Ranking Member Jordan, and members of the House Committee on Oversight and Reform:

Thank you for holding a hearing on the financial path forward for the United States Postal Service (USPS). I write to share the views and concerns of the National Active and Retired Federal Employees Association (NARFE) in advance of the hearing. NARFE is dedicated to advancing the interests of the more than five million federal and postal employees and retirees, as well as their spouses and survivors. A substantial number of NARFE's 200,000 dues-paying members across the country are retired postal employees. I respectfully request that this letter be entered into the hearing record.

NARFE's primary concern regarding recent legislative efforts to reform the USPS has been inclusion of provisions that would require current postal retirees to pay additional premiums for mostly duplicative health insurance coverage through Medicare or lose their earned retiree health benefits. Without changes to these provisions, NARFE will continue to oppose postal reform bills containing them, as they change the bargain regarding health benefits for postal retirees after they retired, adding costs for those on a fixed income and setting a dangerous precedent for all federal retirees.

This letter will start with some background on the legislative landscape and the overly burdensome requirement to prefund future postal retiree health benefits that provides the motivation for USPS to reduce its retiree health care costs through mandatory Medicare enrollment. It will then discuss our concerns with the mandatory Medicare requirement, followed by comments on other issues.

Legislative Background

As members of the Committee are aware, Congress has been debating new postal reform frameworks since shortly after the last iteration of postal reform passed Congress in 2006. While some have gained committee approval from either this committee or its Senate counterpart, only one bill – a Senate bill in 2012 – has been approved by either chamber, and none have been approved by both.

National Active and Retired Federal Employees Association

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Like most of their predecessors, leading postal reform bills in the House and Senate during the 115th Congress, H.R. 756/H.R. 6076/S. 2629, did not gain the support necessary to win approval in either chamber. However, these bills represent a starting point for postal reform efforts in the 116th Congress, and as such, most of NARFE's views contained within this letter will focus on that legislation. We will also provide comments on the report and recommendations of the President's Task Force on the United States Postal Service (USPS), the viewpoints of the Government Accountability Office (GAO) and other congressional efforts aimed at ensuring the viability of USPS and the universal service it provides.

The Postal Service Retiree Health Benefits Fund

The Postal Accountability and Enhancement Act (PAEA) of 2006 mandated annual prefunding payments by USPS into the Retiree Health Benefits Fund (RHBF), which pays most of the health benefits costs associated with roughly 500,000 postal retirees, over a 10-year budget window from fiscal years 2007-2016, which ranged from \$5.4 to \$5.8 billion. Congress designed this scheme to allow USPS a refund for \$27 billion in overpayments for its share of former veterans' retirement benefits without creating a budget cost for the bill. No other federal agency or private-sector company fully prefunds its retiree health benefits.

USPS has not made a prefunding payment to the U.S. Treasury since 2010. At the end of the 10-year payment schedule in 2016, the Office of Personnel Management (OPM) revalued the RHBF unfunded liability to \$56.9 billion and now assesses annual amortization payments (\$955 million in FY17 and \$815 billion in FY18) through fiscal year 2056 to cover the unfunded liability.¹ USPS continues to default on mandatory health and retirement payments even with the 10-year budget window closed.

A recent Government Accountability Office study² detailed the financial situation of the USPS RHBF. Through fiscal year 2017 (FY17), the USPS was unable to contribute \$38.2 billion in required payments to the fund due to agency finances, leaving it only 44 percent funded. If this trend continues, Office of Personnel Management (OPM) projections predict fund depletion in fiscal year 2030 (FY30). According to GAO, annual payments to the fund of \$1 billion or \$2 billion could fend off the depletion date by two to five years.

In the report, GAO laid out proposed policy approaches to ameliorate the situation based on current legislative proposals in Congress and pertinent literature. One of those proposals would force postal retirees to enter Medicare, which NARFE opposes as explained below.

¹ Financial Analysis of United States Postal Service Financial Results and 10-K Statement FY 2017, p. 11, available at: <https://www.prc.gov/sites/default/files/reports/PRC%20FY2017%20FINANCIAL%20REPORT%20FINAL.pdf>; Financial Analysis of United States Postal Service Financial Results and 10-K Statement FY 2018, p. 6, available at: <https://www.prc.gov/sites/default/files/reports/FY%202018%20Financial%20Analysis%20Report.pdf>.

² United States Government Accountability Office, "Postal Retiree Health Benefits: Unsustainable Finances Need to Be Addressed," GAO-18-602, available at: <https://www.gao.gov/assets/700/694188.pdf>.

Another GAO policy option suggested requiring 25 percent of fund assets to be invested outside U.S. Treasury securities to provide greater returns. NARFE does not have a formal stance on this proposal. In assessing this proposal, we must determine if the status quo presents greater risks of insolvency than investing in outside securities that would provide greater returns over time but could also lose value due to higher investment risk.

NARFE supports the GAO proposal to reduce the requirement that USPS fully prefund retiree health benefits. In that vein, NARFE supports the Postal Service Task Force recommendation to restructure overly burdensome payments from USPS to the Treasury for its retiree health care prefunding liability. The recommendation would allow the payments to be re-amortized with a new actuarial calculation based on the population of employees at or near retirement age — instead of the potential liabilities of all postal employees, even those who will never qualify for benefits. This is a common-sense proposal that should be adopted as a first step towards righting the Postal Service's financial ship.

Although USPS has not made these payments, the liability remains current on its balance sheet. This liability and the continued amortization payments are driving cost-cutting strategies at USPS, prohibiting investments that could expand business and save money over the long term. The liability and payments are also driving the conversation regarding mandatory Medicare coverage. The overly burdensome prefunding requirement must be reevaluated.

Mandatory Medicare Enrollment

NARFE opposes provisions contained in the leading bills from the 115th Congress that would require current postal retirees and their family members to enroll in Medicare Part B or forfeit the Federal Employees Health Benefits (FEHB) program coverage they earned as a benefit of long years of employment.

NARFE objects to the mandatory Medicare provisions for current postal retirees on two basic grounds: 1) it changes the bargain regarding health benefits for postal retirees after they retired, setting a dangerous precedent for all federal retirees; and 2) it imposes a deeply paternalistic government requirement by removing choice for postal retirees with regard to their health insurance coverage, at significant additional cost.

Additional Cost for Postal Retirees

For those not currently enrolled – about 76,000 individuals – this would require an additional \$135.50 per month or more in Medicare premiums per enrollee, on top of their FEHB premiums. While FEHB premiums vary by plan, the enrollee share of monthly premiums for the popular Blue Cross Blue Shield Standard plan in 2019 is \$243.17 for self-only coverage, \$555.83 for self-plus-one coverage, and \$581.13 for self-and-family coverage. For a postal retiree and spouse already paying \$6,670 per year for their federal health benefits, the mandatory Medicare requirement would add another \$3,240 in premiums per year, bringing their annual health insurance premium costs to nearly \$10,000 while living on a fixed income.

Improvements

It is worth noting that H.R. 756/H.R. 6076/S. 2926 (115th Congress) contained two provisions that make them notably better than previous iterations. First, those postal retirees forced to enroll in Medicare as a condition of continuing their FEHB coverage would be automatically enrolled, which would avoid complete loss of all health insurance coverage for individuals who fail to enroll affirmatively. Second, those postal retirees forced to enroll would pay less than full Medicare Part B premiums during the first three years of coverage, paying only 25, 50 and 75 percent of the premium in years one, two and three, respectively. In addition, the Senate bill included various exemptions for those who derive no benefit from Medicare enrollment whatsoever. While these provisions were welcome improvements, they were not enough to garner NARFE's support for the bills for reasons already articulated.

Cost to Taxpayers

Many lawmakers also object to the mandatory Medicare provisions, based on the significant cost to Medicare, and therefore to taxpayers, to the tune of \$10.7 billion over 10 years, according to the Congressional Budget Office.³

Task Force Views

We believe it is worth noting that the President's Task Force declined to endorse mandatory Medicare enrollment in its report. At a Senate hearing, one of the task force leaders, Gary Grippio, Deputy Assistant Secretary for Public Finance for the U.S. Department of the Treasury, expressed opposition to the proposals, arguing that requiring all postal retirees to enroll in Medicare would shift postal liabilities to taxpayers. That, he noted, would run counter to the mandate for the USPS to remain self-sustaining. This should put another nail in the coffin of these misguided ideas to change postal retiree benefits in retirement.

Possible Solutions

NARFE suggests a simple alternative that would preserve choice for current postal retirees and result in substantial savings for USPS: maintain automatic enrollment of current postal retirees into Medicare, but provide them with a short opt-out window. Without this option, the legislation sets the dangerous precedent of changing retiree benefits in retirement and replaces the individual postal retiree's choice of health insurance with a paternalistic government requirement.

Other acceptable alternatives include only applying the requirement prospectively to future retirees/current employees or allowing current retirees to opt in to Medicare Part B with a waiver of late enrollment fees.

³ Congressional Budget Office Cost Estimate, H.R. 756, the Postal Reform Act of 2017. Available at: <https://www.cbo.gov/system/files/115th-congress-2017-2018/costestimate/hr756.pdf>. Tables 2 & 4; pp. 5, 9-10.

Postal Employee Benefit Cuts

Unfortunately, the Task Force turned to the dustbin of federal workforce benefit cuts as alternatives, taking aim at the retirement benefits of all federal employees, and specifically targeting the compensation paid to federal workers disabled through their work. These proposals have been rejected by Congress before, and should be dead on arrival again. Just as the financial problems of the USPS cannot be solved by burdening its retirees, they also cannot, and should not, be solved by cutting benefits of its current workforce. NARFE strongly objects to any proposal decreasing benefits for postal employees and/or retirees.

NARFE's Position on Additional Issues

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. Toward that end, NARFE supports H.Res. 54 (116th Congress) in support of six-day delivery, and continuing to mandate six-day delivery through the appropriations process. The Task Force proposed allowing the Postal Service to do away with six-day delivery, which would weaken the promise of universal service to the entire American public at today's standards. Rather than seek to grow the Postal Service's business, this policy would constrict its growth, and undermine the services Americans have come to expect in the process.

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 are retired and some may not have the ability to walk several blocks to retrieve their mail, and they shouldn't have to. NARFE supports H.Res. 23 (116th Congress), in support of to-the-door delivery.

Maintaining Service Standards

NARFE supports efforts to preserve high service and delivery standards. Lowering the quality of service is not the way to improve the USPS business model. Toward that end, NARFE supports H.Res. 60 (116th Congress), in support of restoring service standards.

Privatizing the Postal Service

NARFE supports universal postal service provided independent of profit motivations. Toward that end, NARFE supports H.Res. 33 (116th Congress), expressing the position that USPS remain an independent establishment of the federal government and not be subject to privatization.

Conclusion

As you consider the Task Force recommendations, legislative proposals to improve USPS finances, and the viewpoints of a wide range of stakeholders, please keep in mind the basic commitments made to current and retired postal workers. These retirees had long careers working for the Postal Service, serving their communities. They care deeply about maintaining a strong and vibrant public postal service that meets the needs of American citizens. They believe, as does NARFE, that reliable mail delivery people can count on is an inherently governmental function. As employees of the Postal Service, they earned valuable pension and retiree health benefits, in addition to their pay, in exchange for years of hard work. They rightfully expect the U.S. government to hold up its end of the bargain. Imposing additional requirements and costs to maintain their earned benefits fails to do so.

Thank you for considering NARFE's views. If you have any questions or comments, please contact NARFE's Staff Vice President for Advocacy Jessica Klement at 571-483-1284 or jklement@narfe.org.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ken Thomas', with a stylized flourish at the end.

Ken Thomas
National President