

**Richard G. Thissen**  
*National President*



**Jon Dowie**  
*National Secretary/Treasurer*

May 10, 2016

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

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

As you discuss the state of the United States Postal Service (USPS) and potential legislative reforms affecting the USPS at the May 11 hearing “Reforming the Postal Service: Finding a Viable Solution,” the National Active and Retired Federal Employees Association (NARFE) would like to share its views and concerns with you. NARFE, a nonpartisan, nonprofit association, was founded in 1921 with the mission of protecting the earned rights and benefits of America’s current and retired federal workers. As one of the largest federal employee/retiree organizations with more than 222,000 members, NARFE represents the interests of the nearly five million federal annuitants and employees, and their spouses and survivors.

Approximately 25 percent of NARFE’s membership comes from the USPS and its retirees, and postal reform remains at the forefront of our legislative agenda. Thank you for providing us an opportunity to share our views, and for holding this important hearing. I respectfully request this letter be entered into the hearing record.

### **Prefunding Requirement**

The United States Postal Service is operating under the extraordinary, unnecessary and burdensome congressional mandate to fully prefund all of its future retirees’ health care obligations within the unreasonably short time frame of 10 years (fiscal years 2007-2016).

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

**National Active and Retired Federal Employees Association**

[www.NARFE.org](http://www.NARFE.org) | 606 N. Washington Street, Alexandria, VA 22314 | **phone** 703-838-7760 | **fax** 703-838-7785

and \$1.188 billion in FY15.<sup>1</sup> Yet its FY15 books show a \$5.06 billion net loss, primarily due to its \$5.70 billion prefunding obligation.<sup>2</sup> But the USPS did not make its prefunding payments that year; it has not done so since 2010.

Even though the USPS has not made these payments, the liability remains current on its balance sheet. 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. It is a counterproductive congressional mandate that should be eliminated.

In major part due to the unnecessary prefunding burden, the USPS has engaged in cost-cutting strategies to try to balance its books. 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.

### **Legislative Action**

Congress has an easy fix for the USPS' perceived financial crisis: Eliminate the prefunding requirement.

Congress also should 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, was instrumental in increasing USPS revenue. In FY15 alone, it increased revenue by \$2.1 billion.<sup>3</sup> This rate increase ended in April 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 increase 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. Notably, it could allow the USPS to ship alcohol. With the USPS prohibited from carrying alcohol, this revenue opportunity is left to its competitors, which

---

<sup>1</sup> 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).

<sup>2</sup> 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.

<sup>3</sup> 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).

have no such restrictions. 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.

Unfortunately, Congress has failed to do any of these things. Instead, Congress and this Committee have focused on comprehensive reform bills that could do more harm than good, and that have failed to gain the bipartisan, bicameral support necessary to become law.

### ***S. 2051, the Improving Postal Operations, Services and Transparency (iPost) Act***

The latest iteration of comprehensive reform legislation is the Improving Postal Operations, Services and Transparency (iPost) Act, S. 2051, which was introduced by Sen. Tom Carper, D-DE, last year. While Sen. Carper should be commended for his tireless efforts to build bipartisan, bicameral support for a reform bill that improves USPS operations while honoring its commitments, this bill falls short. Given the legislation could serve as a template for bipartisan, bicameral efforts, we would like to address our concerns here.

NARFE has two major objections to this bill. First, it requires postal retirees to enroll in Medicare as a condition of continued receipt of retiree health insurance benefits. Second, the bill makes draconian reductions in compensation benefits for injured federal workers across the federal government. That controversial provision has no place in a postal reform bill.

However, the bill is a significant improvement over Sen. Carper's legislation from the 113<sup>th</sup> Congress, S. 1486, as it applies the workers' compensation changes prospectively only and does not allow collective bargaining over the retirement benefits of new postal employees.

#### ***Mandatory Medicare Enrollment for Postal Retirees***

Section 102 of S. 2051 would require postal retirees to enroll in Medicare in order to continue receiving their current health insurance coverage through the Federal Employees Health Benefits Program (FEHBP). This provision would increase total health insurance premiums paid by postal retirees, who would have to pay both full Medicare Part B premiums and FEHBP premiums. For example, a Medicare-eligible postal retiree who is paying a \$501.17 monthly premium for Self Plus One, Standard Option, Blue Cross and Blue Shield coverage under the FEHBP (for the retiree and his or her Medicare-eligible spouse) also would have to pay two \$121.80 Part B standard premiums, or an additional \$243.60 a month, for a grand total of \$744.77 in monthly health insurance premiums.<sup>4</sup>

---

<sup>4</sup>The Medicare enrollment is projected to decrease FEHBP premiums for postal enrollees, so overall costs would be slightly lower, but this only slightly mitigates the overall increase in health insurance premiums for retirees.

Postal retirees earned their health benefits throughout long careers of service. They should not be required to pay for additional health insurance coverage as a condition of continuing to receive those benefits. NARFE has no objection to this requirement for current employees (future retirees).

Recognizing that the mandatory Medicare enrollment provision represents a significant cost savings for the USPS, it is the position of NARFE that the bill could be amended to allow current postal retirees to obtain Medicare coverage as an *option*, while still reducing USPS health care liabilities substantially in the future. First, some background.

Currently, only about 86,000 postal retirees and their dependent spouses over age 65 who participate in FEHBP do not have Medicare Part B coverage, according to staff of the House Oversight and Government Reform Committee. This represents a relatively small percentage of the postal retiree population. Given the age and size of this group, the cost savings derived from forcing these individuals to enroll in Medicare is limited, and most of the savings will come from those who retire in the next 10 years. It is the position of NARFE that several avenues could be pursued that would allow USPS to reap most of the savings derived from Medicare enrollment, but would allow retirees to retain some choice over their health insurance spending. Here are some options.

#### (1) Opt-In, with Education Campaign

NARFE recognizes the benefits of Medicare integration, both for the finances of the U.S. Postal Service and for postal retirees, who could save out-of-pocket health care expenses for such things as copays and coinsurance, by enrolling in both Medicare and FEHBP.

With that in mind, NARFE supports a special Medicare enrollment period for postal retirees, in which late enrollment fees would be waived, along with an education campaign designed to encourage them to enroll in Medicare. In other words, enrollment would not be mandatory, but encouraged for current retirees. NARFE believes at least half of those currently not enrolled in Medicare would opt in during this special enrollment period. As an organization with tens of thousands of postal retiree members, we would be fully committed to this education campaign.

Under this alternative, mandatory enrollment for current employees (future retirees) would continue under this proposal. NARFE does not oppose mandatory Medicare enrollment for those currently employed.

#### (2) Automatic Enrollment, with Opt-Out

Another alternative would be automatic enrollment in Medicare for Medicare-eligible retirees and family members currently covered by the FEHBP (and waiver of late enrollment penalties) with the option to disenroll from this additional coverage. The notification of enrollment in Medicare, along with notice that they may opt out,

should 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, thus providing savings to the USPS and retaining choice for the retirees.

However, if the provision requiring Medicare enrollment as a condition of continued receipt of retiree health benefits must remain in the bill, enrollment should be automatic. Otherwise, individuals who might be unaware of the new requirement or who simply fail to take the necessary action may lose all health insurance coverage. This could have catastrophic health and financial consequences for those retirees or their survivors.

#### *Arbitrary Reductions in Federal Employees' Compensation Act (FECA) Benefits*

Sections 502 and 503 of S. 2051 would unfairly and arbitrarily reduce workers' compensation benefits for federal and postal employees disabled by job-related injuries or illnesses. Specifically, they would reduce the basic injured federal workers' compensation benefit by 25-33 percent for workers at retirement age and eliminate the supplemental benefit for injured workers with children or other dependents. These controversial provisions, which affect the entire federal workforce, have no place in a postal reform bill.

FECA's basic compensation benefit ought to make employees whole financially, maintaining their compensation at the level it would have been had their public service not been cut short by an unforeseen job-related injury or workplace-induced illness. This includes compensation during working-age years and retirement benefits in retirement-age years.

Unfortunately, S. 2051's provision (s. 502) to reduce benefits at retirement age fails to make employees whole financially, and the justification for the proposal – that current benefits are excessive – simply is not supported by the evidence.

According to the Government Accountability Office (GAO), the proposed reduction would leave disabled federal workers worse off in terms of retirement-age benefits than they would have been had they been able to continue working.<sup>5</sup> The GAO concluded that the median FECA benefit package would be 22-35 percent *less* than the median Federal Employees Retirement System (FERS) retirement package, had the disabled workers not been injured on the job and been able to complete the same 30-year career as their uninjured coworkers.

Even if providing a different retirement-age benefit made sense on a theoretical level, an arbitrary benefit reduction to 50 percent of pre-injury pay does not adequately account for the lost retirement income and savings that FECA recipients would have earned absent their on-the-job injury. Notably, these individuals: lose the ability to increase their

---

<sup>5</sup> U.S. Government Accountability Office, *Federal Employees' Compensation Act, Analysis of Proposed Program Changes*. (GAO-13-108), available at <http://www.gao.gov/assets/650/649716.pdf>.

salaries through raises and promotions; have a reduced ability to save because they are not able to contribute to the Thrift Savings Plan (TSP) during the period of their disability (or receive matching contributions); and would have a reduced Social Security benefit because employees covered by Social Security are unable to earn quarterly credits to increase average monthly earnings while receiving FECA benefits. Thus, it was no surprise that GAO's analysis found that, under current law, for an individual with a 30-year career, the median FECA benefit is "on par or 10 percent less than the median FERS retirement benefit package, depending on TSP contributions."

NARFE also opposes the provision (s. 503) to eliminate augmented compensation for FECA beneficiaries with dependents. According to the GAO, this change would cause workers without dependents to achieve a higher replacement rate of pre-injury income than workers with dependents. This is due to the effect of lower marginal tax rates on the pre-injury, after-tax income of FECA recipients. While section 503 intends to improve equity between those with and without dependents, in practice, it would do the opposite.

Should you consider any efforts to reform the USPS in part by changing the FECA structure, we hope you keep in mind the many individuals who may be affected by these proposals: medical professionals combating disease; postal workers with legs or backs crushed by cars or heavy machinery; firefighters taming wild fires; federal law enforcement personnel seeking to put dangerous criminals behind bars and the prison guards who are tasked with keeping them there; and employees who volunteer to go overseas into hostile territories or even combat zones.

### ***Additional Legislative Proposals***

#### *Rural Postal Act of 2015*

NARFE supports S. 1742, the Rural Postal Act of 2015, introduced by Sen. Heitkamp. This bill would maintain service standards, including six-day delivery and rural delivery, preventing the USPS from entering a downward spiral of decreasing volume and revenue.

#### *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. Therefore, in support of six-day delivery, NARFE supports H. Res. 12, continuing to mandate six-day delivery through the appropriations process, and as included in S. 1742.

#### *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. Therefore, NARFE supports H. Res. 28 and provisions in S. 1742, 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. Therefore, NARFE supports H. Res. 54, in support of restoring service standards, and H.R. 784 and S. 1742, requiring the USPS to maintain service standards.

### **Conclusion**

The management and employees of the United States Postal Service are doing a remarkable job providing a vital service to the American public, and they are doing it without taxpayer funds, and operating at a profit. Yet their efforts are hindered by the unreasonable congressional mandate to prefund future retiree health benefits obligations decades into the future.

There are simple legislative solutions to the challenges facing the USPS, such as eliminating the prefunding requirement and allowing USPS to set postal rates. NARFE urges members of this Committee, and your fellow members of Congress, to adopt them.

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](mailto:jklement@narfe.org).

Sincerely,



Richard G. Thissen  
National President