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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:

On behalf of the National Active and Retired Federal Employees Association (NARFE), I appreciate the opportunity to submit our views regarding legislative reforms affecting the United States Postal Service (USPS or “Postal Service”) in advance of the February 7 hearing, “Accomplishing Postal Reform in the 115th Congress.” NARFE represents the interests of federal and postal 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.

This letter will offer our views on postal reform generally, but will focus on H.R. 756, the Postal Reform Act of 2017, which was introduced by Chairman Jason Chaffetz, R-UT, with the co-sponsorship of Ranking Member Elijah E. Cummings, D-MD, and Reps. Mark Meadows, R-NC, Dennis A. Ross, R-FL, Gerald E. Connolly, D-VA, and Stephen F. Lynch, D-MA.

NARFE strongly opposes this bill, as it unfairly places the burden of fixing the Postal Service’s finances on the backs of postal retirees. In so doing, it breaks a longstanding promise to postal retirees by removing choice as it relates to their health care and forcing them to pay additional health insurance premiums or lose their earned health insurance coverage.

Specifically, the bill would require postal employees and retirees to enroll in Medicare or forfeit the Federal Employees Health Benefits Program (FEHBP) coverage they earned as a benefit of long years of employment. For those 76,000 current postal retirees not enrolled in Medicare, this individual mandate would require an additional \$134 per month (or more) in Medicare Part B premiums. That’s more than \$1600 per year for an individual, and more than \$3200 per year for a couple. All for health insurance coverage many postal retirees do not want, may not be able to afford, and have previously chosen not to take.

NARFE has no objection to this requirement for current employees/future retirees, and suggests a simple alternative that would preserve choice for current postal retirees and realize substantial savings for the Postal Service: automatically enroll current postal retirees in Medicare Part B, but provide them with a short opt-out window of 60 or 90 days. This option was offered as an amendment by Rep. Brenda Lawrence, D-MI, at last year’s mark-up and, at the very least, should receive consideration and a vote at any

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subsequent mark-up. Without this option, the bill breaks a promise regarding postal retiree health benefits and replaces the individual postal retiree's choice of health insurance with a paternalistic government requirement, at significant cost to the Medicare program.

Below are further comments on the mandatory Medicare enrollment proposal, NARFE's proposed amendment, the prefunding requirement, alternatives for consideration, and other issues.

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

NARFE opposes H.R. 756 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 through years of employment. For those required to newly enroll – about 76,000 individuals – this would require a minimum of \$134 per month in Medicare premiums (\$268 per month for couples).

We object to this provision for current retirees on two grounds: it changes the bargain regarding health benefits for postal retirees after they have retired, setting a dangerous precedent; and 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.

This provision may also cost postal retirees an additional \$850 per year, on average, in health care costs.¹ While NARFE recognizes that dual enrollment in Medicare Part B and FEHBP (or Postal Service Health Benefits Program, as the legislation creates) provides some benefit, in the form of lower deductibles and co-pays, the value of that wraparound coverage is only about \$750 per year, on average. Yet, Part B premiums cost an additional \$1,600 per year. Not only would this bill remove the choice from postal retirees as to whether they pay more in premiums up front for the possibility of lower costs down the road, but it turns out that this option is likely to be the more expensive one, according to a report by the Heritage Foundation.

NARFE does not object to this provision for current employees/future retirees, as it would not be breaking a promise of future retiree health benefits in exchange for current employment. It also would allow current employees an opportunity to plan for their future.

¹ "Postal Service Health Benefits and the FEHBP: The Urgent Case for Getting Reform Right," Walton Francis, Heritage Foundation, available at: <http://www.heritage.org/health-care-reform/report/postal-service-health-benefits-and-the-fehbp-the-urgent-case-getting>.

Automatic Enrollment and Transition Fund

While NARFE opposes the overall mandatory Medicare enrollment proposal, we support two provisions included in the bill having to do with the transition to Medicare.

First, we support a provision requiring that those postal retirees forced to enroll in Medicare as a condition of continuing their FEHBP coverage be automatically enrolled. This would avoid a complete loss of health insurance coverage for individuals who fail to enroll affirmatively.

Second, we support a provision calling for those postal retirees forced to enroll in Medicare to 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 would 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 Current 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 current 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. NARFE also would educate its postal retirees on the benefits of Medicare enrollment.

Rep. Lawrence proposed an amendment that would have made this change at the July mark-up to last year's postal reform bill (H.R. 5714, 114th Congress). Unfortunately, the committee did not vote on the amendment. We ask that this proposal receive a vote this time around.

Not only would this proposal allay the legitimate and serious concerns of postal retirees, but it could reduce the cost to Medicare resulting from increased enrollment, and thereby mitigate objections from the members of the House Committee on Ways and Means and others.² According to the Congressional Budget Office, the mandatory Medicare

² For individuals with dual enrollment in Medicare Part B and FEHBP, Medicare becomes the primary payer.

provisions of this bill would increase Medicare spending by \$7.8 billion over 10 years.³ The opt-out would allow USPS to retain savings and simultaneously lessen the constraints placed on Medicare.

Postal Service Health Benefits Program

To ensure that the savings created by the mandatory Medicare enrollment are captured by the Postal Service, Section 101 of H.R. 756 creates a new Postal Service Health Benefits Program (PSHBP), parallel to the FEHBP, to be 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, 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.

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, impacting the FEHBP risk pool.

Under H.R. 756, most 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 be required to provide a parallel PSHBP plan. The parallel PSHBP plans would have 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. NARFE remains wary of splitting the FEHBP risk pool and the precedent it may set for the future, but the manner in which H.R. 756 does so is likely the least disruptive.

However, NARFE is concerned that the PSHBP would exclude from coverage about 11,600⁴ postal retirees and family members who are not eligible for Medicare – essentially, those who retired prior to 1983. These individuals would 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, H.R. 756 would cause a subtle cost-shift to the FEHBP. Congress should be wary of setting a precedent through cherry-picking risk pools.

³ CBO Cost Estimate, *H.R. 5714, the Postal Reform Act of 2016, as ordered reported by the House Committee on Oversight and Government Reform on July 12, 2016*, November 10, 2016, available at: <https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/costestimate/hr5714.pdf>.

⁴ This number likely has decreased from last year, when the figure was cited to us by congressional staff, based on USPS data.

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 options lower the cost of providing retiree prescription drug coverage, without reducing the quality of coverage.

In addition to allowing PSHBP plans to coordinate coverage with Medicare 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 H.R. 756 providing a waiver of increased Medicare Part B premiums that otherwise would apply due to late enrollment for those currently retired and 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 prefunding payments for retiree health benefits. By requiring Medicare to pay first for all postal retirees and family members, H.R. 756 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 over 10 years, 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 three fiscal years (2014, 2015 and 2016). Its controllable operating income was \$1.357 billion in

FY14, \$1.188 billion in FY15, and \$610 million in FY16.⁵ Yet, its FY16 books show a \$5.591 billion net loss, primarily due to its \$5.80 billion prefunding obligation.⁶ But the USPS did not make its prefunding payments last 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. 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.⁷ This rate increase ended in April 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 mailings, increasing revenue. Without this ability, the USPS will continue to provide subsidized service below cost to mass mailers.

Additionally, Congress could loosen the 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

⁵ U.S. Postal Service Reports Fiscal Year 2016 Results, available at: https://about.usps.com/news/national-releases/2016/pr16_092.htm; 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).

⁶ 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 \$1.026 billion and \$248 million, respectively. *Id.*

⁷ 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).

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 Postal Reform

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. H.R. 756 rightly preserves six-day delivery by not specifically targeting the number of delivery days.

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.

H.R. 756 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

Simple solutions exist for the financial problems facing the Postal Service, but H.R. 756 takes a more complicated route – forcing postal retirees and survivors who are satisfied with their current health insurance coverage to pay another \$1600 per year or more to keep it.

The reason for doing so is unconvincing. This Congress is simply trying to save the Postal Service money 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 eliminate or lessen 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.

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,

A handwritten signature in cursive script that reads "Richard Thissen".

Richard G. Thissen
National President