



Envelope Manufacturers Association
Foundation for Paper-Based Communications
Institute for Postal Studies

**The Effect of the Military Service
Obligation on the Budget Scoring of H.R. 22**

Executive Summary

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EXECUTIVE SUMMARY

The United States Postal Service is a quasi-governmental entity authorized by legislation passed in 1970. The Service is currently subject to a break-even mandate to recover its costs through postage rates, not appropriations. However, many of its employees participate in the Civil Service Retirement System (CSRS), administered by the Office of Personnel Management (OPM), along with employees of other federal agencies. Unlike other federal agencies, the Postal Service's contributions into the CSRS Fund are paid through rate increases imposed on postal ratepayers, rather than through appropriations paid by taxpayers. Since 1970, Congress has several times seen fit to increase the Postal Service's contributions into the overall CSRS Fund, and these additional contributions have been funded by increased postage rates.

In late 2002, OPM discovered that if the Postal Service continued to make its statutorily-mandated payments into the CSRS Fund, the Fund would be overfunded by \$105 billion. At that point, OPM imposed a new CSRS obligation on the Postal Service by assigning to the Postal Service pension costs associated with years of military service by persons who later became USPS employees. This added obligation reduced the projected overfunding by \$27 billion to around \$78 billion. OPM's transfer of responsibility for the costs of military service credits from the U.S. Treasury to the Postal Service had the effect of charging postal ratepayers, instead of taxpayers, for pensions arising from military service, even though these costs had nothing to do with delivering mail and a large portion of them had already been paid out of general appropriations.

In 2003, Congress passed P.L. 108-18, which halted for three years the statutory payments into the CSRS Fund. But the law also codified OPM's transfer of the military service obligation from Treasury to the Postal Service. As current law, P.L. 108-18 re-sets the baseline for purposes of scoring the budget effect of H.R. 22, the postal reform legislation recently passed by the House of Representatives and the Senate. Under P.L. 108-18 and the budget scoring rules, the government now expects to receive CSRS payments from the Postal Service to cover the remaining liability for military pensions. H.R. 22 would return the military service obligation to Treasury, rendering unnecessary any future CSRS payments for military service costs. Eliminating this expected revenue stream would therefore have a negative effect on the government's budget.

As a result, even though the clear intent of P.L. 108-18 was to allow Congress to revisit the military service issue, concerns have now arisen that returning the military service obligation to Treasury would lower the Postal Service's payments into the federal government below the new baseline and thus increase the deficit of the unified budget. For some members of Congress, budget neutrality has become a threshold test. For them, the threshold issue is whether the return of the military service obligation to Treasury can be done in a way that does not increase the budget deficit. If budget neutrality cannot be achieved, then the substantive question whether equitable and policy reasons require Congress to return the military service obligation to Treasury need not be reached.

This paper is intended to address this threshold issue. It concludes that there is at least one feasible way to effect transfer of the military service obligation to Treasury while avoiding

an increase in the deficit. This approach is also fiscally responsible because it strengthens the long-term financial health of the Postal Service by shoring up the retiree health benefits fund and giving mailers some rate relief. We leave to others the question whether the imposition of military service costs on postal ratepayers is an unfair tax, which will drive down mail volumes and have a detrimental effect on the Postal Service's financial health, and which is contrary to the intent of H.R. 22 to facilitate postal reform.

There is more than one way to achieve budget neutrality while returning military service costs to Treasury. We have suggested one approach that may be modified depending on the parties' negotiations. Rather than using the assumptions of the Congressional Budget Office (CBO), our approach builds on Treasury's assumptions, as incorporated in its discussion paper, first presented in 2005, and revised in 2006. There are five steps to the plan:

1. The CSRS overpayment that immediately results from transferring military service costs to Treasury would be deposited into the new fund for Postal Service retirees' health care (PSRHBF). CBO's 2005 analysis seems to indicate that this does not affect the budget score.
2. Future "CSRS" payments, which would no longer be necessary because of the transfer of the military service obligation back to Treasury, would continue to be paid by the Postal Service, but not into the CSRS Fund. Instead, the funds would be deposited into the PSRHBF as payments of principal of the unfunded health care liabilities. This is necessary to ensure a zero effect on the budget score.
3. To protect mailers, the Postal Service would not be allowed to recover the "CSRS" payment amounts (in Paragraph 2 above) in rates, but it could borrow these amounts from Treasury. Generally, borrowing (except for the costs of the loan) is not reflected in the budget score, and year-to-year variations in rates do not change the score over the long run.
4. For the first ten years, the Postal Service would make payments to the PSRHBF under the formula in the Administration's discussion paper, modified to include "CSRS" payment amounts. That formula sets the amortization payments at whatever amount ensures a zero budget score in each of the ten years.
5. After ten years, the Postal Service would start to pay the balance of unfunded liability in the PSRHBF according to a 30-year amortization schedule, but the remaining liability would be substantially reduced by earlier deposits made into the PSRHBF and the accrued interest. These savings will be so substantial that the Postal Service will be in a good position to repay borrowings to cover the earlier "CSRS" payments.

Further details are contained in the Appendix. If you have any questions, please contact the Institute for Postal Studies, Envelope Manufacturers Association Foundation for Paper-Based Communications (mhbenjamin@envelope.org).