

Potential Approach to Combine the Best Elements of the House and Senate Provisions for the Retiree Health Benefit Fund

Background

Both S. 2468 and H.R. 4341 establish a new fund: the Postal Service Retiree Health Benefits Fund. In both bills, the CSRS postal surplus resulting from the transfer of military service costs back to Treasury is placed in the new fund (\$18 billion) and payments for retiree health benefits are paid out of the fund. In addition, both bills would require the Postal Service to deposit into this fund two payments each year – (1) the amount required to pre-fund the retiree health care costs that its employees earned in the previous year -- \$2.3 billion in 2006 --and (2) interest on the unfunded retiree health care obligation -- \$2.8 billion in 2006.

Differences Between the House and Senate Bills

The Postal Service, in its preferred proposal filed in 2003, agreed that it should make both these payments annually into the Retiree Health Benefits Fund. However, USPS did not propose to make any annual principal payments into the fund to liquidate some of the existing unfunded obligation (about \$45 billion after the transfer of the military service costs).

The House and Senate bills do not accept the Postal Service's preferred approach. Both bills require that USPS begin to reduce the unfunded obligation by making principal payments each year. However, the two bills are very different in terms of how much principal is paid each year.

The Senate proposal is rather simple, with the Service paying 1/40 of the unfunded obligation annually beginning in 2006 with full funding reached in 2046.

The House establishes a more escalated payment schedule, designed to cut the unfunded obligation in half (to about \$26 billion) by 2015 but not requiring additional principal payments after that date. To determine how much principal USPS should pay in each of the next 10 years, the House bill has a complicated payment formula that sums the two payments USPS agreed to make (previous year accrual and interest), subtracts USPS' annual health benefit premium costs (which are a modest \$1.8 billion in 2006 but grow to \$4.6 billion in 2015), and requires the difference between that amount and 2/3 of the annual escrow savings to be paid into the Health Benefits Fund. Because the formula uses 2/3 of a growing escrow amount and requires the growing annual premium costs to be subtracted, the principal payments USPS would have to make under the House methodology are much larger than the Senate payments from 2010-2015 (although the House bill would allow the PRC to waive the 2/3 calculation requirement at its discretion and a small amount of these payments could be used to pay off debt). On the other hand, in the years 2006-2008 the House formula only requires small principal payments, which are less than the 1/40th of the obligation required in the Senate.

A Possible Compromise

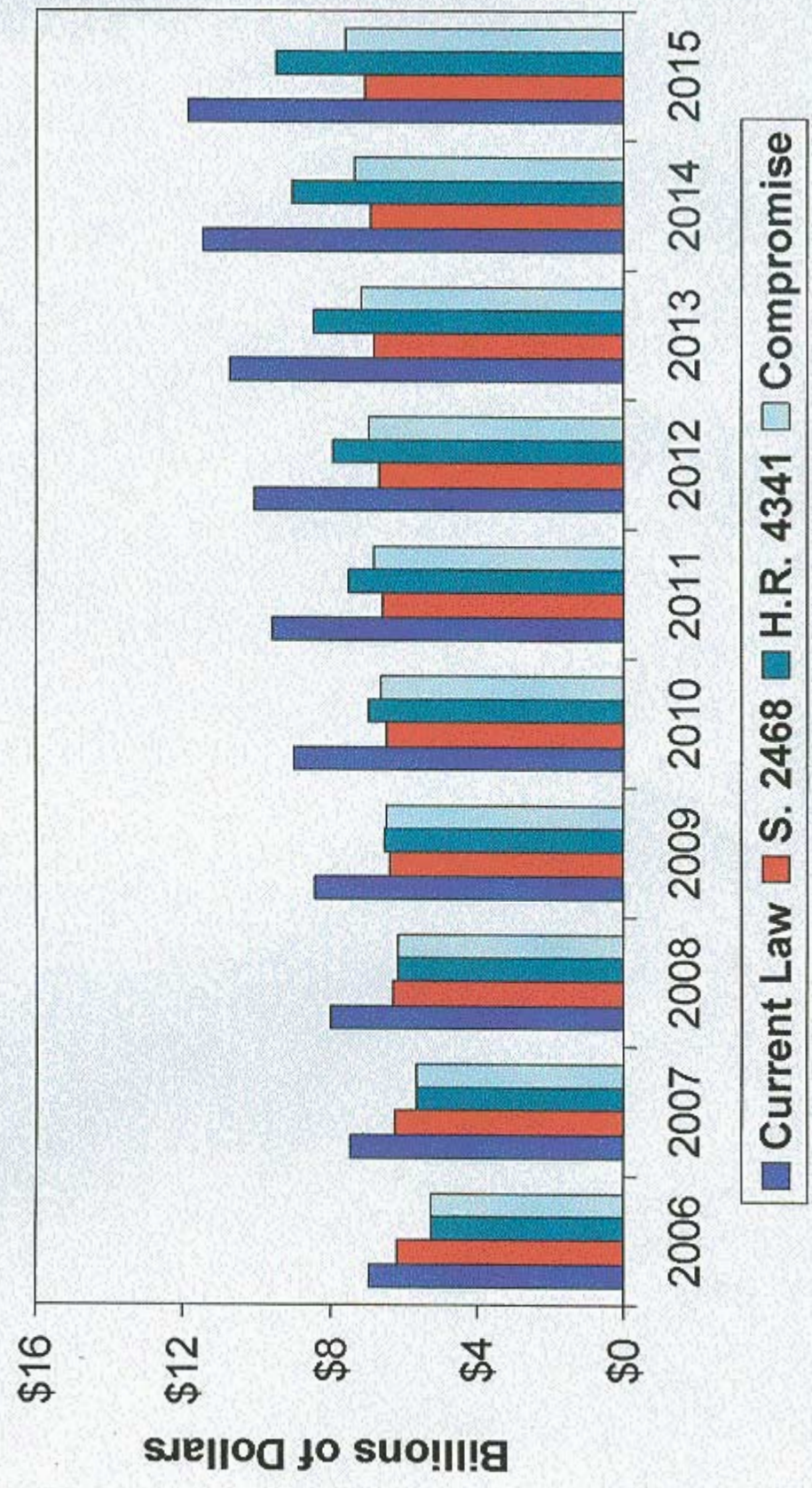
Because the Senate principal payment in 2006 would be \$1 billion greater than the House principal payment, the Senate methodology would likely lead to a 1.5% greater overall rate increase in the next rate case. This would be in addition to the substantial increase for which mailers are already bracing. Mailers therefore favor the House language with regard to its impact in the short run. However, because the House principal payments grow so large between 2010 and 2015, mailers are very concerned about the potential impact of the House principal payments on the Postal Service's finances and future rate increases.

Rather than adopt the House bill's escalated payment schedule, it might be possible to put a cap on the House principal payments and extend the payments for another 10 years. This would put the Postal Service on a pace to pay off about half of the unfunded obligation by 2025 (similar to the pace in the Senate bill). In any given year, the principal payment would not exceed \$1 billion (the Senate principal payment is about \$1.1 billion per year). The main difference between the House and Senate in this alternative is that for the first three years (2006-2008), the House principal payments would be less than \$1 billion and in 2006, the principal payment would only be \$150 million, adding much less to the revenue requirement in the next rate case.

To accomplish this, the following changes would be needed in H.R. 4341.

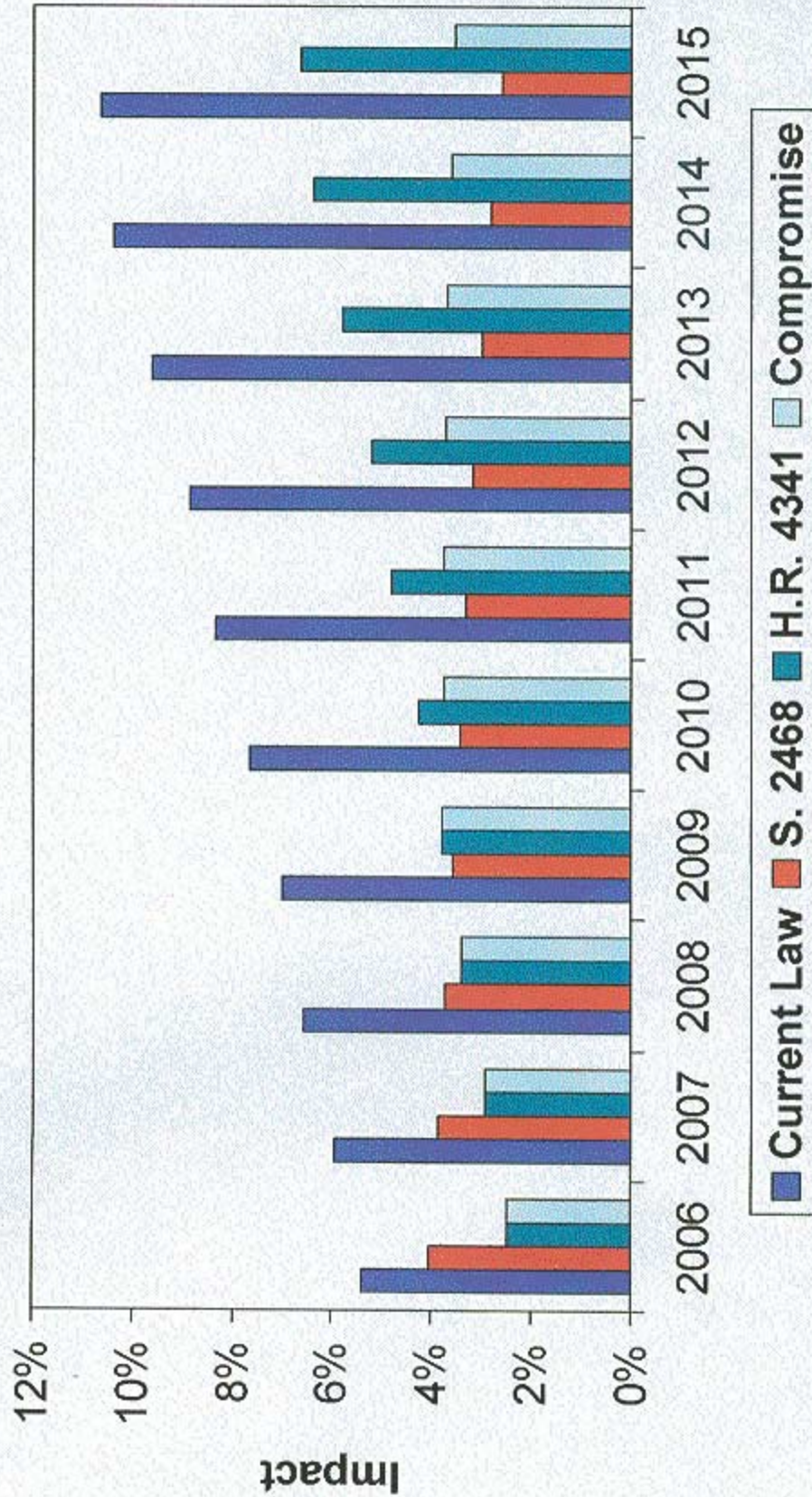
- Sec. 904. Ensuring Appropriate Use of Escrow and Military Savings.
 - (b) Calculations – The following calculations shall be made for each of fiscal years 2006 through 2025:
 - (c) Requirements – (2) If Threshold is not met. – (A) In general. – If the amount calculated under subsection (b)(2) for a fiscal year is less than two-thirds of the total savings in such fiscal year, the Postal Service shall pay into the Postal Service Retiree Health Benefits Fund, by June 30 of the following fiscal year, an amount equal to the difference or \$1 billion, whichever is less.

Total "CSRS" Payments



*Figures assume that \$1.3 billion FY 2006 health premium issue is resolved.

Revenue Requirement Impact



*Figures assume that \$1.3 billion FY 2006 health premium issue is resolved.

Savings (vs. Current Law) in Billions

| Alternative | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | Ten Year |
|-------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|----------|
| S. 2468 | \$0.8 | \$1.2 | \$1.7 | \$2.1 | \$2.5 | \$3.0 | \$3.4 | \$4.0 | \$4.5 | \$4.8 | \$28 |
| H.R. 4341 | \$1.7 | \$1.8 | \$1.9 | \$1.9 | \$2.0 | \$2.1 | \$2.2 | \$2.3 | \$2.4 | \$2.4 | \$21 |
| Compromise | \$1.7 | \$1.8 | \$1.9 | \$2.0 | \$2.4 | \$2.8 | \$3.1 | \$3.6 | \$4.1 | \$4.3 | \$28 |

*Figures assume that \$1.3 billion FY 2006 health premium issue is resolved.

Total Saving Over 10 Years

- **S. 2468 10-Year Savings: \$28 Billion**
- **H.R. 4341 10-Year Savings: \$21 Billion**
- **Compromise 10-Year Savings: \$28 Billion**