OIG Reviews Estimates of Postal Service's Liability for Retiree Health Care Benefits

Prefunding the employer's share of future premiums for retiree health benefits while continuing to pay health care premiums for current retirees was established by the Postal Accountability and Enhancement Act of 2006 (the Act). The Act established a specific payment schedule ranging from $5.4 billion to $5.8 billion over the ten-year period from fiscal years (FYs) 2007 through 2016. These payments have added a crippling burden to the Postal Service's deteriorating financial position. The Office of Inspector General (OIG) for the United States Postal Service contracted the services of the Hay Group to review the assumptions used to estimate the Postal Service's liability for retiree health care benefits.

The Hay Group concluded that the Office of Personnel Management's (OPM) assumption of an average 7 percent annual health care cost inflation rate for all future years is unreasonably high. The Hay Group surveyed Fortune 100 companies and state and local governments to determine the average health care inflation rate they used and found it to be approximately 5 percent.

If the Postal Service continues the payment schedule required by the Act, calculations by the Hay Group indicate that the Postal Service could overfund its retiree health care liability by $5.6 billion by the end of fiscal year 2016. The Postal Service could pay on average $3.3 billion less each year from FYs 2009 to 2016 to prefund its retiree health benefits and still achieve the same level of funding anticipated under OPM's assumptions.

In FY 2008, the Postal Service recorded a net loss of $2.8 billion. Without the $5.6 billion payment mandated by the Act to prefund retiree health benefits, the Postal Service would have had a net income of $2.8 billion. As of Quarter 2, FY 2009, the Postal Service had a year-to-date net loss of $2.3 billion. Had the prefunding charges not been expensed for this period, the Postal Service would have had a net income of approximately $400 million at of the end of Quarter 2, FY 2009.

The OIG report recommends the Postal Service pursue legislative relief from the mandated schedule of payments into the Postal Service Retiree Health Benefit Fund. Ideally, the legislative relief would adopt an actuarially-based funding method, in which the payment requirements are adjusted each year to match estimated liabilities.

Presently, a bill in Congress, H.R. 22, which would amend the 2006 Act and was introduced by Congressmen John McHugh and Danny Davis, addresses the prefunding requirement and would make a simple but significant change in the law. H.R. 22 to permit the Postal Service to satisfy its payment for the premiums of *current* retirees out of the $32 billion that the Postal Service has already set aside for *future* health benefits premiums. The bill has 331 co-sponsors.