



January 20, 2010

New OIG Study Estimates USPS Has Been Overcharged for the CSRS Pension Fund by \$75 Billion

A study just released by the U.S. Postal Service's Office of Inspector General (OIG) shows that the current system of funding the Postal Service's Civil Service Retirement System pension responsibility is inequitable and has resulted in the Postal Service overpaying \$75 billion to the pension fund. The OIG estimates that if the overcharge was used to prepay the Postal Service's health benefits fund, it would fully meet all of the Postal Service's accrued retiree health care liabilities and eliminate the need for the required annual payments of more than \$5 billion. Also, the health benefits fund could immediately start meeting its intended purpose -- paying the annual payment for current retirees, which was \$2 billion in 2009.

This marks the third time the Postal Service has been overcharged. In 2002 it was determined the Postal Service would overfund CSRS by \$78 billion. Legislation in 2003 corrected this overfunding. Then it was determined the Postal Service was overcharged \$27 billion for CSRS military service credits. In 2006 these funds were returned to the Postal Service by Congress, and the surplus was used to fund retiree health care liabilities.

This study, [*The Postal Service's Share of CSRS Pension Responsibility*](#), undertaken in conjunction with the Hay Group, is the third paper sponsored by the OIG that delves into the financial entanglements between the Postal Service and the federal government -- generally at the expense of the Postal Service. The latest study describes the inequitable allocation of CSRS costs between the federal government and the Postal Service. The other two reports focus on the Postal Service's congressionally-mandated retiree health care prefunding payments ([*Estimates of Postal Service Liability for Retiree Health Care Benefits*](#)), and the Postal Service's interaction with the federal budget ([*Federal Budget Treatment of the Postal Service*](#)).

In this newly released paper, the OIG and Hay Group's analysis demonstrates that the method used to determine how CSRS pension costs for postal employees with service before 1971 are split between the Postal Service and the federal government is inequitable. As a result, the Postal Service was overcharged by \$75 billion for payments to CSRS retirees from 1972 to 2009. The OIG suggests that this amount be returned to the Postal Service's CSRS pension fund. Any excess above what is needed to fund CSRS liabilities could then be transferred to the Postal Service's retiree health care fund, which would fully fund its health care liability and eliminate the need for further congressionally-required payments to the fund. All of the Postal Service's current pension and health care obligations to its employees would then be fully funded.

The report further illustrates the inequity in the methodology used to determine the Postal Service's contribution to the CSRS fund. Key findings from the report:

- Hay Group demonstrates that the method of splitting CSRS pension costs for postal employees with service before 1971 between the Postal Service and the federal government is inequitable, because the Postal Service is made responsible for all salary increases after 1971.
- In effect, OPM calculates the federal government's share for these employees as if they retired in 1971 at their much lower 1971 salaries. An allocation methodology that burdens the Postal Service with all post-1971 pay increases is not reasonable.
- As an example, Hay Group shows that the Postal Service could be charged 70 percent instead of 50 percent of the pension costs for employees who worked half their careers with the Post Office Department and half with the Postal Service.
- Because of the inequitable split, the Postal Service was overcharged \$75 billion from 1972 to 2009.

The report also offers solutions:

- Fixing the split by using a more equitable years-of-service approach would leave the Postal Service with \$75 billion more in assets as of the end of 2009. The CSRS pension fund is currently underfunded by \$10 billion, so the resulting pension surplus would equal \$65 billion.
- The \$65 billion pension surplus could be added to \$35 billion already set aside in the retiree health benefits fund for a total retiree health fund balance of \$100 billion.

- A fund balance of \$100 billion is more than enough to fully fund accrued retiree health benefit liabilities of \$87 billion. No further payments to the fund would be needed to cover this liability.
 - The current annual payments of more than \$5 billion mandated by the Postal Accountability and Enhancement Act (PAEA) could end.
 - Payments for the premiums of current retirees could start to come from the fund immediately.
 - The annual evaluation of the Postal Service's retiree health benefit assets and liabilities would continue, and the Postal Service could be assessed if there were any unfunded liability.

This report takes on increasing significance as the Postal Service faces a challenging future. When the Postal Service was established, it was intended to be self-sufficient. Clearly delineating and separating the Postal Service's responsibilities from those of the federal government will help in determining the true costs of funding postal operations. Citizens and businesses should pay no less and no more than what is required to fund the Postal Service's operations.