September 3, 2010

ANTHONY J. VEGLIANTE,
EXECUTIVE VICE PRESIDENT AND
CHIEF HUMAN RESOURCES OFFICER

SUBJECT: Management Advisory – Follow-Up Review of the Postal Service's Employee Benefit Programs (Report Number HR-MA-10-001)

This report presents the results of our follow-up review of the U.S. Postal Service's Federal Employees' Group Life Insurance (FEGLI) and Federal Employees Health Benefits (FEHB) programs (Project Number 10YG018HR000). This report responds to a request from Senator Susan M. Collins, Ranking Member, Senate Committee on Homeland Security & Governmental Affairs. The senator requested an update[1] to the U.S. Postal Service Office of Inspector General's (OIG) 2007 employee benefits program comparability data and determine what the savings would be if the Postal Service changed FEGLI and FEHB contribution rates that matched the rest of the federal government. This review addresses financial risk. See Appendix A for additional information about this review.

The Postal Service offers both life and health insurance benefits to all career employees by participating in the FEGLI and FEHB programs. Unlike the federal government, the Postal Service's contribution rates for the FEGLI and FEHB programs are determined through a collective bargaining process with its unions. Moreover, 39 U.S.C. §1004 requires the Postal Service to consult with the management associations[2] regarding any changes to contribution rates for non-bargaining employees.

Conclusion

The Postal Service has reduced its FEHB contribution rate by 1 percent per year[3] from 2008 to 2010 with similar reductions planned in 2011 and 2012. However, its FEGLI and FEHB contribution rates are still higher than those of the federal government. We determined the Postal Service can save approximately $705 million in calendar year

[1] The OIG issued a report on the FEGLI and FEHB benefit programs titled *Postal Service's Employee Benefit Programs* (Report Number HM-AR-07-003, dated September 24, 2007).
[2] The management associations are the National Association of Postmasters of the United States, National Association of Postal Supervisors, and the National League of Postmasters.
[3] The 1 percent reductions were a result of agreements between the Postal Service and the four major unions: the American Postal Workers Union (APWU), the National Association of Letter Carriers (NALC), the National Postal Mail Handlers Union (NPMHU), and the National Rural Letter Carriers' Association (NRLCA).

(CY) 2011 if it matches the federal government's FEGLI rate and uses the federal government formula to calculate its FEHB contribution rates (see Appendix B).

FEGLI Contribution Rate

The Postal Service pays 100 percent of the basic FEGLI contribution rate for the majority of its employees, compared to the 33.33 percent paid by the federal government.[4] As shown in Table 1, the Postal Service's current employee FEGLI costs for CYs 2007 through 2009 totaled $612 million.

Table 1. The Postal Service's Total FEGLI Costs for CYs 2007 through 2009

Employee Categories	CY 2007	CY 2008	CY 2009	Total Costs for CYs 2007 to 2009
Bargaining	[redacted]	[redacted]	[redacted]	[redacted]
Non-Bargaining[5]	[redacted]	[redacted]	[redacted]	[redacted]
Totals $203,5	**47,814**	**$207,101,883**	**$201,659,711**	**$612,309,408**

Source: Postal Service Payroll System
Note: Numbers were rounded.

The Postal Service's FEGLI employer contribution rate is higher for most employees than the rate paid by the federal government because Title 39 U.S.C. requires the Postal Service to determine the FEGLI contribution rate for bargaining employees through a collective-bargaining process with its unions. In addition, Title 39 U.S.C. states that no variation, addition or substitution shall be made to fringe benefits except by agreement between the unions and the Postal Service.[6] The current national agreements require the Postal Service to maintain the current life insurance program, including the requirement for the Postal Service to pay 100 percent of the contribution rate. There is no statutory requirement for the contribution rate for non-bargaining employees; however, Title 39 U.S.C. requires the Postal Service to consult with the non-bargaining employee management associations regarding any changes and the Postal Service has always paid the same rate for bargaining and non-bargaining employees.

[4] FEGLI benefits for Postal Service OIG employees with no executive benefits and Postal Inspection Service inspectors and forensic staff are paid at the same rate (33.33 percent) as the federal government.
[5] We excluded OIG employees with no executive benefits, Inspection Service inspectors, and forensic staff from these totals because their FEGLI contributions are paid at the same rate as federal employees. However, we included OIG employees who receive executive benefits in these totals.
[6] For most federal agencies, the 33.33/67 percent agency/employee contribution rates are determined by Title 5 U.S.C, §8708, Government Contributions.

We determined that if the Postal Service matched the federal government's FEGLI contribution rate it could result in predicted savings of approximately $139 million in fiscal year (FY) 2011. See Appendix C for our methodology in calculating these savings.

FEHB Contribution Rate

The Postal Service's FEHB contribution rate is 79 percent for most employees compared to 72 percent for federal government employees. The federal government bases its contribution rate on a 72/75 formula whereby the government pays 72 percent of the weighted average premium cost of all FEHB plans, but no more than 75 percent of the total premium for any individual plan. Additionally, the Postal Service's FEHB contribution rate for Postal Career Executive Service (PCES) employees, OIG directors, and Senior Executive Service (SES) employees is 100 percent, while there is no similar benefit provided to employees with comparable grades at most other federal agencies. Postal Service officials previously advised that the rate paid for PCES employees improves the recruitment and retention of those employees.

The Postal Service's FEHB contribution rate is higher than the federal government rate because Title 39 U.S.C. requires the rate be determined through a collective bargaining process with the unions. In addition, like FEGLI, there is no statutory requirement for the FEHB contribution rate for non-bargaining employees.

As shown in Table 2, the Postal Service's current employee FEHB cost for CYs 2007 through 2009 was approximately $14.3 billion.

Table 2. Postal Service's Total FEHB Costs for CYs 2007 through 2009

Employee Categories	CY 2007	CY 2008	CY 2009	Total Costs for CYs 2007 to 2009
Bargaining	[redacted]	[redacted]	[redacted]	[redacted]
Non-Bargaining[7]	[redacted]	[redacted]	[redacted]	[redacted]
Totals $4,809,2	**02,809**	**$4,748,448,267**	**$4,693,083,602 $**	**14,25 0,734,678**

Source: Postal Service Payroll System
Note: Amounts were rounded.

The Postal Service experienced reductions in FEHB premium costs from 2008 through 2009. Specifically, in CY 2009, the Postal Service paid approximately $4.7 billion in FEHB benefits for bargaining and non-bargaining employees. This is a decrease of about $55 million from CY 2008.

[7] We excluded OIG employees with no executive benefits, Inspection Service inspectors, and forensic staff from these totals because their FEHB contributions are paid at the same rate (72 percent) as federal employees. However, OIG employees who have executive benefits are included in these totals.

Postal Service officials indicated the decrease in FEHB premium costs was due to complement reductions and the continuing decline in the employer FEHB share of the premium that began in plan year 2008 as a result of negotiated agreements with the unions. The Postal Service's employer FEHB contribution rate has decreased from an average of 83 percent of the total premium in 2007 to 79 percent in 2010. According to Postal Service officials, this reduction in the employer share has allowed the agency to keep average health benefit premium cost increases below both FEHB plan increases and health benefits cost increases in the private sector, as measured by the Employment Cost Index.[8]

We determined that if the Postal Service uses the federal government's FEHB formula to calculate its FEHB contribution rate, it could result in predicted savings of approximately $567 million in CY 2011. See Appendix C for our methodology in calculating these savings.

We recommend the executive vice president and chief human resources officer:

1. Consider pursuing changes to the Federal Employee Group Life Insurance contribution rate to match the federal government rate.

2. Consider pursuing changes to the Federal Employee Health Benefit contribution rate to allow for use of the federal government's formula to calculate employer contributions.

Management's Comments

Management generally agreed with the findings and recommendations [redacted] See Appendix D for management's comments, in their entirety.

Evaluation of Management's Comments

Management's comments are responsive to recommendations 1 and 2, and therefore we consider the recommendations closed. [redacted]

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[8] The Employment Cost Index is a quarterly report of compensation costs, including benefits, released by the Bureau of Labor Statistics in the final month of each quarter. The data provided excludes federal employees.

[redacted] This is especially critical given the potential for additional Postal Service losses in FY 2011.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Andrea Deadwyler, director, Human Resources and Security, or me at 703-248-2100.

E-Signed by Mark Duda
VERIFY authenticity with ApproveIt

Mark W. Duda
Deputy Assistant Inspector General
for Support Operations

Attachments

cc: Doug A. Tulino
Vinay K. Gupta
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Corporate Audit and Response Management

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The federal government established the FEGLI and FEHB Programs in 1954 and 1960, respectively. The Office of Personnel Management (OPM) has responsibility for administering both programs. All Postal Service career employees can receive life insurance and health coverage through the FEGLI and FEHB programs. The Postal Service and its employees share the cost of FEHB benefits.

Prior to 2008, the Postal Service calculated its liability for FEHB premium payments for any individual employee using an "85/88.75" formula. That is, the Postal Service would pay the lesser of 85 percent of the OPM-determined FEHB program-wide "weighted average of premiums" or 88.75 percent of the specific plan premium. Because of the mix of plans chosen by employees, the Postal Service ended up paying, generally, 1 to 2 percentage points less than 85 percent of overall premium costs.

In general, all other government agencies use a different formula for determining their premium liability payouts. They pay the lesser of 72 percent of the OPM-determined FEHB program-wide weighted average of premiums, or 75 percent of the specific plan premium, for a given employee. Because of the mix of plans employees chose, the federal government ends up paying, generally, 1 to 2 percentage points less than 72 percent of overall premium costs. This can be termed a "72/75" formula.

Beginning in 2008, as a result of new collective bargaining agreements with the major postal unions, the formula used for determining the Postal Service's portion of the premium costs was reduced by 1 percentage point for each year of the new contract periods. That is, the formula for the APWU and NPMHU changed to "84/87.5" in 2008 and to "83/86.5" in 2009. While the formula for the NALC and NRLCA remained at "85/88.75" in 2008, it changed to "83/86.5" in 2009. By FY 2011, the formula will be "81/84.5." For the NALC and NPMHU, the Postal Service's contribution level will be reduced in CY 2012 by an additional 1 percent to 80/83.5.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to update the OIG's 2007 Employee Benefits Comparability Data and determine what the savings would be if the Postal Service changed their FEHB and FEGLI contribution rates to match the rest of the federal government.

Our scope for the review was the FEHB and FEGLI benefit programs and the Postal Service's participation in these programs during CYs 2007, 2008, and 2009. We used calendar year data instead of fiscal year data for our analysis because changes to the contribution percentages and health plan increases are made on a calendar year basis and FEGLI premiums are based on an employee's annual basic pay in effect at the end of a given pay period.

To accomplish our objective, we reviewed all applicable laws, regulations, policies, and procedures related to the FEGLI and FEHB benefit programs. We also communicated with the OPM to verify that other agencies' FEGLI and FEHB contribution rates remained the same since we last reviewed them.

Additionally, we reviewed legal or regulatory obstacles the Postal Service would face if it sought to reduce its FEGLI and FEHB contribution rates from the current 100 percent to 33.33 percent for basic life and from 79 percent to 72 percent for FEHB. We also reviewed current agreements with the four major unions to determine the Postal Service's contractual obligations related to employee benefits.

To determine the potential savings associated with changes to the Postal Service's contributions to the FEGLI and FEHB benefit programs, we obtained and reviewed the total Postal Service and employee FEGLI and FEHB payment amounts for CYs 2007, 2008, and 2009. Because OIG non-directors and SES employees, Postal Inspection Service inspectors, and forensic staff have their FEGLI and FEHB employer contributions paid at the federal government rates, we excluded these costs from the total figures for non-bargaining employees. We also excluded from these costs payments made to retirees and deceased benefit payouts. Deceased benefit payouts are captured in the Postal Service's general ledgers but not in the Pay Data and Master Employee files. With the assistance of an OIG economist, we predicted the savings to the Postal Service in CY 2011 if it matched the federal government FEGLI contribution rate and used the federal government formula for calculating FEHB contribution rates.

We conducted this review from March through September 2010 in accordance with the *Quality Standards for Inspections*.[9] Management reviewed our discussion draft and generally agreed with our observations and conclusions. We incorporated management's comments in this report as appropriate.

Data Reliability Testing

To verify the reliability of computer-generated data, we compared our FEHB and FEGLI payment totals obtained from the Postal Service Pay Data and Employee Master Files to employer contribution amounts the Postal Service reported to the OPM for CYs 2007, 2008, and 2009. In addition, we relied on the OIG's verification of employer contributions reported and transferred to the OPM for health benefits, life insurance, and retirement for CYs 2007, 2008, and 2009, which did not reveal any weaknesses that would impact our review. Therefore, we believe the data is sufficiently reliable to support our conclusions and recommendations.

[9] These standards were last promulgated by the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE) in January 2005. Since then, **The Inspector General Act of 1978 as amended by the IG Reform Act of 2008** created the Council of the Inspectors General on Integrity and Efficiency (CIGIE), which combined the PCIE and ECIE. To date, the Quality Standards for Inspections have not been amended to reflect adoption by the CIGIE and, as a result, still reference the PCIE and ECIE.

PRIOR AUDIT COVERAGE

We identified one previous OIG report related to Postal Service employee benefits, titled *Postal Service's Employee Benefit Programs* (Report Number MA-AR-07-003, dated September 24, 2007). The report found the Postal Service's FEGLI and FEHB programs for bargaining and non-bargaining employees are comparable to the six federal and five quasi-federal agencies against which we benchmarked. However, the Postal Service's contribution rates for both programs were significantly higher compared to most agencies.

For example, the Postal Service pays the full cost of the premiums for almost all employees' FEGLI basic life insurance and for executives' Option-A life insurance and FEHB benefits. Most other agencies pay 33.33 percent of the FEGLI premiums and 72 percent of the FEHB premiums for their employees. We also found the Postal Service made great progress in reducing future FEHB costs when it successfully negotiated with two of its major unions — the APWU and the NPMHU — to reduce the agency's FEHB contribution rate of 1 percent for each year of the existing collective bargaining agreements. The report contained four recommendations that would allow the Postal Service to continue providing employees with benefits that are on a par with those provided to other federal employees, while significantly reducing the agency's cost obligations. Management agreed with the findings and recommendations and stated they would pursue the recommendations in the next round of collective bargaining and management consultation process.

APPENDIX B: MONETARY IMPACT

We determined the Postal Service could save approximately $705 million in CY 2011 if its FEGLI contribution rate matched the federal government's rate and if its formula for calculating FEHB contribution rates also matched the federal government's.

Program	Impact Category	Amount
FEGLI	Funds Put to Better Use[10]	$138,530,109
FEHB	Funds Put to Better Use	566,895,413
Total		**$705,425,522**

[10] Funds that could be used more efficiently by implementing recommended actions.

APPENDIX C: METHODOLOGY FOR CALCULATING FEGLI AND FEHB PREMIUM PAYMENT SAVINGS

FEGLI

Objective

Estimate the difference between premium payments we predict the Postal Service will pay and those we predict the Postal Service would pay using the federal government rate to calculate the premium payments for calendar year 2011. **Note:** For our analysis, we concentrated solely on the Postal Service's cost for basic coverage because those costs comprise 99.9 percent of the total.

Methodology

Using historical FEGLI premium information for CYs 2004-2009 obtained from the Pay Data and Employee Master files, we determined the sum of total premium costs for all categories of employees, paid by both the Postal Service and employees, for each of the historical years. From these six data points, using standard functions in Excel, we calculated the slope and y-intercept of a "least squares" linear regression line through the points. From the slope and y-intercept, we were then able to predict the total premium costs for the year 2011.

Using historical FEGLI premium information for CYs 2004-2009, we calculated the percentage of total premium costs the Postal Service paid for each of the historical years. From these six data points, using standard functions in Excel, we calculated the slope and y-intercept of a "least squares" linear regression line through the points. From the slope and y-intercept, we were then able to predict the percentage of total premium costs the Postal Service will pay for the year 2011.

For 2011, we then multiplied the predicted total premium cost by the predicted percentage the Postal Service would pay to calculate the predicted amount the Postal Service would pay.

We used 33.33 as our predicted percentage that the Postal Service would pay, in 2011, if it used the federal government rate. We were then able to calculate the predicted amount the Postal Service would pay for the year 2011 if it used the federal government rate.

We then calculated the predicted difference between the amount the Postal Service will pay and the amount the Postal Service would pay if it used the federal government rate.

The predicted payment difference for 2011 is approximately $139 million as shown in Table 3.

Table 3. Predicted Postal Service FEGLI contributions (Basic) vs. predicted contributions (Basic) if paid at federal government rate

CY	Predicted total premiums	Predicted Postal Service share (percentage)	Predicted Postal Service FEGLI contributions	Predicted federal government share (percentage)	Predicted federal government FEGLI contributions	Difference between predicted future Postal Service contributions and future Postal Service contributions if paid at the federal government rate
2011	$207,865,200	99.97%	$207,811,580	33.33%	$69,281,471	$138,530,109

Source: Postal Service Payroll System
Note: There are futher decimal places not shown in the predicted Postal Service share and predicted federal government share percentages.

FEHB

Objective

Estimate the difference, for calendar year 2011, between premium payments we predict the Postal Service would pay and those we predict the Postal Service would pay if it used the federal government's formula to calculate the premium payments.

Methodology

The methodology is directly analogous to that described for FEGLI.

Using historical FEHB premium information for CYs 2004-2009 obtained from the Pay Data and Employee Master files, we calculated the sum of total premium costs for all categories of employees, paid by both the Postal Service and employees for each of the historical years. From these six data points, using standard functions in Excel, we calculated the slope and y-intercept of a "least squares" linear regression line through the points. From the slope and y-intercept, we were then able to predict the total premium costs for the year 2011.

Using historical FEHB premium information for CYs 2007-2009, we calculated the percentage of total premium costs paid by the Postal Service for each of the historical years. From these three data points, using standard functions in Excel, we calculated the slope and y-intercept of a "least squares" linear regression line through the points. From the slope and y-intercept, we were then able to predict the percentage of total premium costs the Postal Service will pay for the year 2011. Because the years 2007-2009 reflect the results of reducing the FEHB payment formula by one percentage point each year, the prediction for 2011 inherently assumes the reduction in the calculation formula will continue for 2011, and subsequent years.

For 2011, we then multiplied the predicted total premium cost by the predicted percentage the Postal Service would pay to calculate the predicted amount the Postal Service would pay (if the one percentage point reduction in the formula continues for 2011).

We also used the slope and y-intercept described above to predict the percentage of total premium costs the Postal Service would pay if the federal government payment calculation formula were used. We were then able to calculate the predicted amount which the Postal Service would pay for the year 2011if it used the federal government formula.

We then calculated the predicted difference, for 2011, between the amount the Postal Service will pay, if the 1 percentage point reduction in the formula continues for 2011, and the amount the Postal Service would pay if it used the federal government formula in 2011.

The predicted payment difference for 2011 is approximately $567 million as shown in Table 4.

Table 4. Predicted Postal Service FEHB contributions if the calculation formula continues to reduce by 1 percentage point each year [redacted] vs. predicted contributions if paid at federal government rate

CY	Predicted total premiums	Predicted Postal Service share (Percentage)	Predicted Postal Service FEHB contributions	Predicted federal government share (Percentage)	Predicted federal government FEHB contributions	Difference between predicted future Postal Service contributions and future Postal Service contributions if paid at federal government rate
2011	$5,988,792,823	78.74%	$4,715,287,815	69.27%	$4,148,392,402	$566,895,413

Source: Postal Service Payroll System
Note: There are futher decimal places not shown in the predicted Postal Service share and predicted federal government share percentages.

APPENDIX D: MANAGEMENT'S COMMENTS

ANTHONY J VEGLIANTE
EXECUTIVE VICE PRESIDENT
AND CHIEF HUMAN RESOURCES OFFICER

UNITED STATES
POSTAL SERVICE

August 24, 2010

LUCINE WILLIS

SUBJECT: Follow-Up Review of the Postal Service's Employee Benefit Programs (Report Number HR-MA-10-DRAFT)

Thank you for the opportunity to review and comment on the subject draft audit report.

Recommendation 1: Consider pursuing changes to the Federal Employee Group Life Insurance contribution rate to match the federal government rate.

[redacted]

Recommendation 2: Consider pursuing changes to the Federal Employee Health Benefit contribution rate to allow for use of the federal government's formula to calculate employer contributions.

[redacted]

Potential Future Cost Savings: The draft audit report states that "We determined the Postal Service can save approximately $705 million in calendar year (CY) 2011 if it matches the federal government's FEGLI rate and uses the federal government formula to calculate its FEHB contribution rates."

[redacted]

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