Comparative Analysis of Alternative Retirement Models

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Executive Summary

The Postal Service is in a precarious financial situation. Due to mail volume declines in recent decades, revenue has not kept pace with rising costs and the agency has operated at a deficit since 2007. In FY 2025 alone, the agency reported a $9 billion loss. Over the past 10 years, retirement costs grew faster than other categories of spending. Pension-related expenses including normal costs and amortization costs totaled $10.3 billion in FY 2025, or 11.5 percent of total agency expenses. In April 2026, due to liquidity concerns, the Postal Service announced that it would stop making required employer contributions into the pension fund in order to free up $2.5 billion by the end of the fiscal year. This decision underscores the severity of the Postal Service's financial condition and the need for congressional action to address retirement-related costs.

This paper assesses the financial implications of the Postal Service's current retirement model over the next 20 years. It also describes the retirement funding and benefits models used by other employers in the public and private sectors. Finally, it analyzes the potential financial impact of selected alternative retirement models on the Postal Service's pension funding. The analysis is aimed at evaluating the outcome of various approaches and does not endorse or recommend any specific change.

The Postal Service's Retirement System is Underfunded

Career Postal Service employees receive the same retirement benefits as most federal employees. For employees hired since 1984, coverage is provided through a hybrid system combining a defined benefit (DB) pension, which guarantees a set annuity based on years of service and salary, with the Thrift Savings Plan (TSP), a defined contribution (DC) plan in which retirement income depends on individual and employer contributions and the fund's investment performance. The Postal Service's retirement liability is 70 percent funded, which is better than the federal government as a whole but still represents a significant shortfall. The agency's unfunded retirement liability has grown in recent years, reaching $101 billion in FY 2024. This increased liability has driven up retirement-related expenses and contributed to billions in annual deficits. One cause of increasing liabilities is the low rate of return generated by the investment of retiree assets. Unlike employers outside the federal government, the Postal Service is legally required to invest 100 percent of its retirement assets in U.S. Treasury securities. It is standard practice for state and local governments and private companies to invest their retirement assets in diversified portfolios including equities, securities, and other investments.

Projected Financial Impact of Alternative Retirement Models on the Postal Service

Since the 2008 financial crisis, public sector employers at the state and local levels have increasingly adopted models other than traditional DB plans. To understand the potential financial impact if the Postal Service were to operate under a different retirement model, the OIG partnered with the Segal Group, an actuarial consulting firm, to project the effects of such a change on the Postal Service's pension funding status over the next 20 years. These projections compare a current model scenario with four alternative retirement models and include a range of outcomes based on projected performance of investment assets. See Table 1 for the results of our projections. The Postal Service cannot make changes to its retirement model on its own, and congressional action would be required to allow the agency to depart from its current model.

Table 1: Projected Impact of Alternative Retirement Models on Postal Service Pension Funding

	Description	Projected Status of USPS Pension Funding in FY 2044: Actuarial Surplus/Deficit and Funded Ratio in Different Market Performance Scenarios		
		Worst Case - 5th Percentile	Median - 50th Percentile	Best Case - 95th Percentile
Current Model with Statutorily Required Payments	No change to model. Projections assume that USPS makes all required payments.*	-$104 billion (71 percent funded)	-$27 billion (92 percent funded)	+$52 billion (117 percent funded)
Diversified Investment	USPS immediately invests all retirement assets in a diversified portfolio. No change to benefits.	-$155 billion (56 percent funded)	+$61 billion (119 percent funded)	+$464 billion (242 percent funded)
DC Only	DB plan closed to new hires, who receive a more generous DC plan.	-$50 billion (81 percent funded)	+$23 billion (110 percent funded)	+$96 billion (145 percent funded)
COLA-Based Risk Sharing	Cost-of-living adjustment (COLA) for current retirees fixed at 1.92 percent annual increase.	-$82 billion (75 percent funded)	-$21 billion (94 percent funded)	+$57 billion (118 percent funded)
Variable Employee Contribution	Employee contribution to pension increased from 4.4 percent to 8.8 percent.	-$80 billion (78 percent funded)	-$2 billion (99 percent funded)	+$79 billion (126 percent funded)

*Note: Projections assume the Postal Service makes its statutorily required pension contributions and amortization payments. The agency has skipped amortization payments for several years and temporarily paused normal employer contributions in April 2026. Continued missed payments will lower the projected funded status and funded ratios but the relative funding advantages between models remain unchanged.
Source: USPS OIG research and Segal Analysis.

- **The Current Model Will Likely Leave the Postal Service's Retirement Obligations Underfunded:** Even if the Postal Service were to make all required employer contributions and amortization payments, maintaining the current retirement system would likely result in the funded status remaining below 100 percent over the next 20 years. As a result, high pension costs, including billions in annual amortization payments to pay off unfunded liabilities, will persist and continue to strain the Postal Service's finances.
- **Diversifying Retirement Investments Could Significantly Improve Funding Within 10 Years but Increases Market Risk:** In this scenario, the Postal Service would invest all its retirement assets in a diversified investment portfolio of 60 percent equities and 40 percent fixed-income investments. The average (50th percentile) result of this scenario has the unfunded liability falling to $34 billion lower than the current model in FY 2034 (after 10 years). In FY 2044 (after 20 years), the result is a significant actuarial surplus, with a balance $88 billion higher than the current model projection. These projections suggest that, over time, diversified investment of pension funds could by itself address the agency's retirement benefit funding problems without impacting employee benefits. However, this may expose the pension funds to greater market volatility.
- **Enrolling New Hires in a DC-Only Plan Could Reduce Unfunded Liabilities in the Long Term While Weakening Employee Benefits:** In this scenario, the DB plan is closed to new hires. There would be a new tier of employees who do not accrue pension benefits but have a more generous DC plan than the Thrift Savings Plan

in which Postal Service employees are currently enrolled. This scenario projects an actuarial surplus, with a balance of almost $50 billion higher than the current model after 20 years in the best-case scenario, but leaves employees with reduced benefits.

- **Establishing a Fixed Cost-of-Living Adjustment (COLA) Would Limit Postal Service Liability in a High Inflation Environment While Reducing Retiree Benefits:** To demonstrate the potential impact of limiting the COLA, the OIG projected a scenario in which the COLA is fixed at 1.92 percent. The results demonstrate that setting a fixed COLA would not be an impactful change to the Postal Service's retirement model in lower inflation environments but could reduce the impact of high inflation rates. Implementing this measure, however, would result in retirees receiving lower benefits in higher inflation years than under the current COLA formula.
- **Doubling the Employee Contribution Rate Could Improve Long-Term Funding While Lowering Take-Home Pay:** In this scenario, we doubled the employee contribution for new hires. This scenario reduces the unfunded liability by $25 billion more than the current model after 20 years but reduces take-home pay for employees without providing additional retirement benefits.

In summary, our simulations of the potential financial impact of alternative retirement models on the Postal Service showed that diversified investment of retiree assets in stocks and bonds would produce the largest expected positive financial impact on the Postal Service's retirement funding without altering employee compensation or retiree benefits. The other models projected in this paper could also positively impact retirement funding but would achieve those outcomes by reducing benefits or increasing employee contributions. Weakening benefits or reducing overall compensation may affect the Postal Service's ability to attract and retain employees.

Due in part to the current retirement model, the Postal Service faces persistent budget shortfalls. These deficits require the Postal Service to weigh competing financial priorities, from paying down unfunded liabilities to maintaining its operations or modernizing its network. Taking action to improve retirement funding can strengthen the Postal Service's finances and help sustain its mission over the long term.

Observations

Introduction

The Postal Service has more than half a million active career employees and over 700,000 retirees and surviving beneficiaries who rely on pension benefits. The agency's retirement benefits are a key component of its compensation package, helping the organization attract and retain employees, but its retirement liabilities have consistently grown in recent decades. Pension-related expenses increased from $3.5 billion (4.7 percent of the agency's total spending) in FY 2015 to $10.3 billion (more than 11.5 percent of total expenditures) in FY 2025, growing faster than other categories of spending, including salaries, transportation, and workers' compensation.[1]

Growing retirement costs exert pressure on an already precarious financial situation, where revenue has not kept pace with rising costs and the agency has operated with annual net losses since 2007. With mail volumes projected to continue declining, the Postmaster General publicly announced in March 2026 that the agency could run out of cash as soon as 2027.[2]

To preserve liquidity, the agency has chosen for several years not to make some or all of its annual amortization payments to pay down unfunded retirement liabilities; these payments total billions each year. Further, in April 2026, the Postal Service announced that it would cease making required normal employer contributions to its pension fund, a measure the agency expects to free up $2.5 billion by the end of FY 2026. Defaulting on required retirement payments improves cash flow and provides the Postal Service some temporary flexibility in its financial decision-making but increases the liability that it must eventually fund to make promised benefit payments to retirees.

The Postal Service does not control how its retirement plans are structured, funded, and invested; it is legally required to participate in the same system as most other federal government agencies. However, unlike those other agencies, the Postal Service must fund retirement benefits out of its own revenue instead of congressional appropriations. The agency is also required to invest its retirement assets in Treasury securities, while employers outside the federal government invest their assets in diversified portfolios that generally produce higher yields.

Other employers in the public and private sectors have faced similar challenges to the Postal Service in funding their retirement plans and have implemented changes to their retirement models to reduce costs. Employers may opt to adjust the parameters of the existing model or adopt an entirely new model. In state and local government employee retirement systems, changes to retirement models often require cooperation with state legislatures or other stakeholders.[3] Similarly, the Postal Service cannot make such changes on its own, and congressional action would be required to allow the agency to depart from its current retirement model.

A recent OIG white paper, *Options for Addressing the Postal Service's Financial Gap*, included a compilation of measures that various stakeholders have proposed over time to help relieve the Postal Service's financial pressures; among these options were potential changes to the pension system.[4] This paper explores this option more closely, assessing the financial implications of the Postal Service's current retirement model over the next 20 years. It also describes the retirement funding and benefits models used by other employers in the public and private sectors to provide comparative context. Finally, the OIG worked with an actuarial consulting

1 In addition to pension expenses, the Postal Service also contributed to the Thrift Savings Plan (TSP), the defined contribution plan available to USPS employees. In FY 2025, the Postal Service paid $1.6 billion to the TSP.
2 In April 2026, the Postal Regulatory Commission granted the Postal Service a muti-year waiver that lifted restrictions on how USPS may use approximately $2.4 billion of revenue in FY 2026, and potentially a total of $15 billion or more by the end of FY 2030. The Postal Service would otherwise be mandated to contribute this money toward retiree benefits. This waiver may allow the Postal Service to maintain liquidity further than 2027.
3 This paper analyzes retirement benefit models in the United States. Retirement benefit systems vary widely among countries and the models utilized by posts and other employers abroad may not be applicable to the U.S. Postal Service.
4 U.S. Postal Service Office of Inspector General, *Options for Addressing the Postal Service's Financial Gap*, Report No. RISC-WP-26-002, July 22, 2026, https://www.uspsoig.gov/reports/white-papers/options-addressing-us-postal-services-financial-gap.

firm to analyze the potential financial impact of several selected alternative retirement models on the Postal Service.[5] The OIG conducted this analysis to understand the implications of various approaches and does not endorse or recommend any specific change.

The Postal Service's Retirement Model

There is great diversity in retirement models across public and private sector employers, each influenced by unique financial, political, and legal contexts of each organization. Broadly, retirement models fall into one of three categories: defined benefit (DB), defined contribution (DC), and hybrid DB-DC:

- **Defined benefit (DB)**: Also known as pensions, these plans offer a defined lifetime benefit typically based on years of service and salary. Employees and employers make mandatory contributions into a pooled fund. The employer must manage the pension fund so that it can meet its future obligations to retirees. DB plans are common among public sector employers, with federal workers and most state and local government employees having access to some kind of DB plan.
- **Defined contribution (DC)**: Employees receive individual accounts and choose how much to contribute. Employers may make automatic contributions and may match employee contributions up to a certain percentage of salary. Employees can decide how to invest DC funds and bear the risk that these assets will not be sufficient to meet their needs upon retirement. DC plans are the most common retirement model for private sector employers.
- **Hybrid**: Some employers, including the Postal Service and most other federal agencies, offer a package that includes both a DB plan and a DC plan.

Postal Service career employees participate in the same retirement plan as most other federal employees, consisting of a hybrid plan with a traditional DB pension and a DC account.

The agency's retirement liabilities are largely out of its control under the current model, as it cannot change the benefits promised to employees or the mandated employee contributions. The Postal Service can, however, make strategic decisions about hiring. Limiting the number of career employees in the postal workforce will help curb future retirement obligations, though this requires balancing financial efficiency with the agency's mandate to deliver mail and parcels to every community in the United States.

The Postal Service Offers a Hybrid Defined Benefit-Defined Contribution Model

Career Postal Service employees receive the same retirement benefits as most other federal employees.[6] For all USPS employees hired since 1984, this is the Federal Employees Retirement System (FERS).[7] FERS is a hybrid system consisting of both a DB pension and the Thrift Savings Plan (TSP), a DC plan. In the FERS hybrid model, the DB portion of the plan provides a guaranteed base of core income support, while the TSP is an additional source of benefits. Upon retirement, Postal Service retirees receive a lifetime annuity from the DB and also receive payments from their TSP accounts.

Some other public sector retirement systems use a similar hybrid model; around 7 percent of the plans offered by state and local public sector retirement systems are hybrid.[8] This model is rare in the private sector.

Defined Benefit Component

The Postal Service's hybrid model includes a DB plan funded by employee and employer contributions. Full-time career Postal Service employees (FTEs) make mandatory contributions between 0.8 percent to 4.4 percent of their salary into the DB plan,

5 See Appendix A for details on the paper's research methodology.
6 Most new field employees begin as noncareer employees before they become eligible for a career position. Non-career employees are temporary workers who do not receive the same employee benefits as career employees. Postal employees enroll in the retirement benefits program upon becoming full-time career employees.
7 Employees hired before 1984 were enrolled in the Civil Service Retirement System (CSRS), a DB-only plan. Nearly all current career USPS employees are part of the FERS program, as most CSRS participants have retired. CSRS participants had access to the TSP but did not receive any employer contribution to that plan. Employees contributed between seven and eight percent of their salary into the pension and the Postal Service matched that amount. Upon retirement, retirees received an annuity calculated through a more generous formula than that of the FERS. Another difference between CSRS and FERS employees is that FERS employees also participate in the Social Security system, while CSRS participants do not.
8 Jean-Pierre Aubry and Laura D. Quinby. "The Rise of Alternative Designs for Public Plans," Center for Retirement Research, October 2025, https://crr.bc.edu/wp-content/uploads/2025/10/IB_25-21.pdf.

depending on their date of hire. The Postal Service is required to contribute the equivalent of 13.2 percent of salary for FERS employees hired since 2013, although it announced in 2026 that it would temporarily stop making this contribution. Employer contributions are higher for employees hired prior to 2013 (see Table 2). FTEs must complete five years of service to be vested in the FERS DB.

Table 2: Postal Service Contribution Rates into DB Plan

Category of FERS Employee	Employee Contribution	Postal Service Contribution
Employees Hired Before 2013	0.8%	16.1%
Employees Hired During 2013	3.1%	14.2%
Employees Hired Since 2013	4.4%	13.2%

Source: U.S. Postal Service, Form 10-K, 2025.

Upon retirement, FERS participants receive an annuity equal to a portion of their highest average pay over a three-year period. The exact percentage of that average pay is determined by a multiplier based on a retiree's years of service. For example, an employee who retires at 62 after 30 years of service would earn an annuity equal to 33 percent of the highest average basic salary earned during any three consecutive years of service.[9] Due to the annual FERS cost-of-living adjustment (COLA), that annuity increases over time based on the inflation rate.[10] For example, the COLA that took effect in January 2026 increased FERS annuities by 2.0 percent.

The Postal Service's DB plan is broadly similar to DB plans offered by other employers in terms of its contribution and benefit structure. DB plans are designed to replace a portion of a worker's income from retirement through the end of life.[11] In a DB plan, the employer bears the risk and must manage the pension fund so that it can meet its future obligations to retirees despite potential market downturns, periods of high inflation, or changes in life expectancy.

Defined Contribution Component

The DC component of the Postal Service's hybrid model is the TSP, a retirement savings plan available only to federal employees. The Postal Service automatically makes a contribution equal to 1 percent of an employee's salary to the TSP but will match the employee's own contribution to the DC account up to 3 percent of salary and then match half of an employee's contribution up to 5 percent of salary. For example, if an employee contributes 5 percent of salary to the TSP, USPS automatically contributes 1 percent, matches the first 3 percent, and then matches half of the additional employee contribution, for a total maximum employer contribution of 5 percent. Upon retirement, TSP benefits are paid from money accrued in an employee's individual account.

USPS Retirement Funds Face Growing Unfunded Liabilities

Because DB plans guarantee specific retirement benefits, employers must maintain sufficient funding to meet those obligations. Actuaries estimate how much money should currently be in the DB fund in order to pay out future benefits. The difference between the actuarial target and the plan's current assets is its unfunded liability.[12]

The Postal Service's unfunded pension liability has grown in recent years, driving up retirement-related expenses and contributing to billions in annual losses. From FY 2022 through FY 2024, the Postal Service incurred more than $10 billion annually in retirement benefit costs. At the end of FY 2024 (the most recent data available), the agency had a total combined actuarial liability for CSRS and FERS of $343.1 billion and an unfunded liability of $101.4 billion. By this

9 For FERS participants who retire at age 62 or older with more than 20 years of service, the annuity is equal to 1.1 percent of "high-3" average pay per each year of service. High-3 is the highest average basic pay earned during any three consecutive years of service.

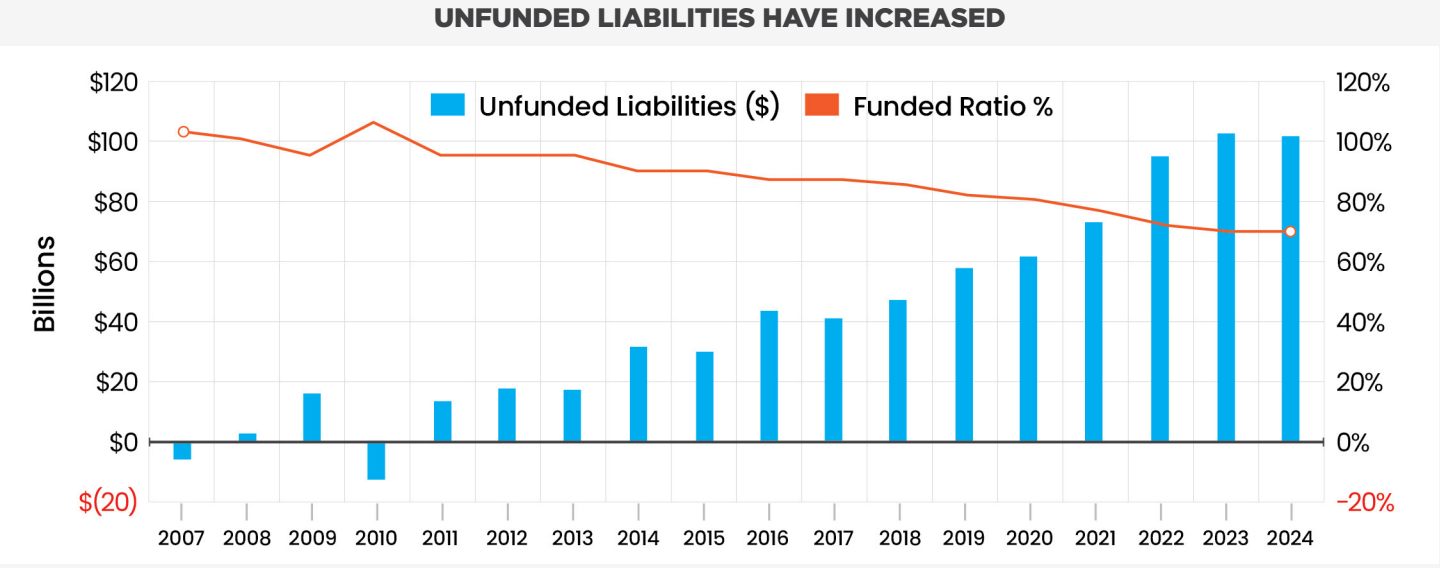
10 The COLA formula for FERS annuities is based on the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), a measure of inflation. The annual COLA matches the CPI-W rate of increase up to 2.0 percent. If the CPI-W increase is between 2.0 percent and 3.0 percent, the COLA is 2.0 percent. If the CPI-W increase is above 3.0 percent, the COLA is equal to CPI-W minus 1.0 percent. The COLA will never cause an annuity to decrease; if the CPI-W is below zero, there is no COLA. The last year in which there was no COLA was 2016. For CSRS retirees, the COLA matches CPI-W with no adjustment or cap.

11 Retirement plans may also pay benefits past the end of life to a surviving beneficiary, often a spouse.

12 A plan's actuary estimates how much money the plan needs to pay out future benefits, including an estimate of how much money should currently be in the fund. Current assets are divided by the present value of future benefits to determine the funded ratio.

measure, the Postal Service's retirement plans are 70 percent funded. This represents a significant deterioration in funded status over the past two decades. In FY 2007, the agency had a slight surplus and was 102 percent funded. See Figure 1 for a breakdown of the Postal Service's CSRS and FERS funded ratios since FY 2007. Despite its funding challenges, the Postal Service's retirement liabilities are much better funded than those of the federal government as a whole. The liabilities of other agencies that participate in CSRS and FERS were only 45 percent funded at the end of FY 2024.

Figure 1: CSRS and FERS Unfunded Liabilities and Percent Funded FYs 2007-2024



Source: OIG Analysis of USPS Form 10-K

The Office of Personnel Management (OPM) requires the Postal Service to make payments toward its unfunded liability. As is the norm for employers with unfunded pension liability, the Postal Service's liability is amortized over a number of years (through fiscal year 2043 for CSRS and over the next 30 years for FERS).[13] While the agency has decided to not make most of these amortization payments in order to preserve its overall liquidity, unpaid amortization costs increase the liabilities reported on the Postal Service's balance sheet. The agency reported $30.9 billion in unpaid retirement amortization payments between 2014 and 2025.

Amortization has been the major driver of the Postal Service's increasing retirement liabilities. Normal employer contributions have remained relatively steady as a percentage of salary. Amortization costs have been rising, however, and each missed amortization payment only increases the amount of liability that must be amortized going forward.

USPS Spends More on Retirement Benefits than Other Public Employers

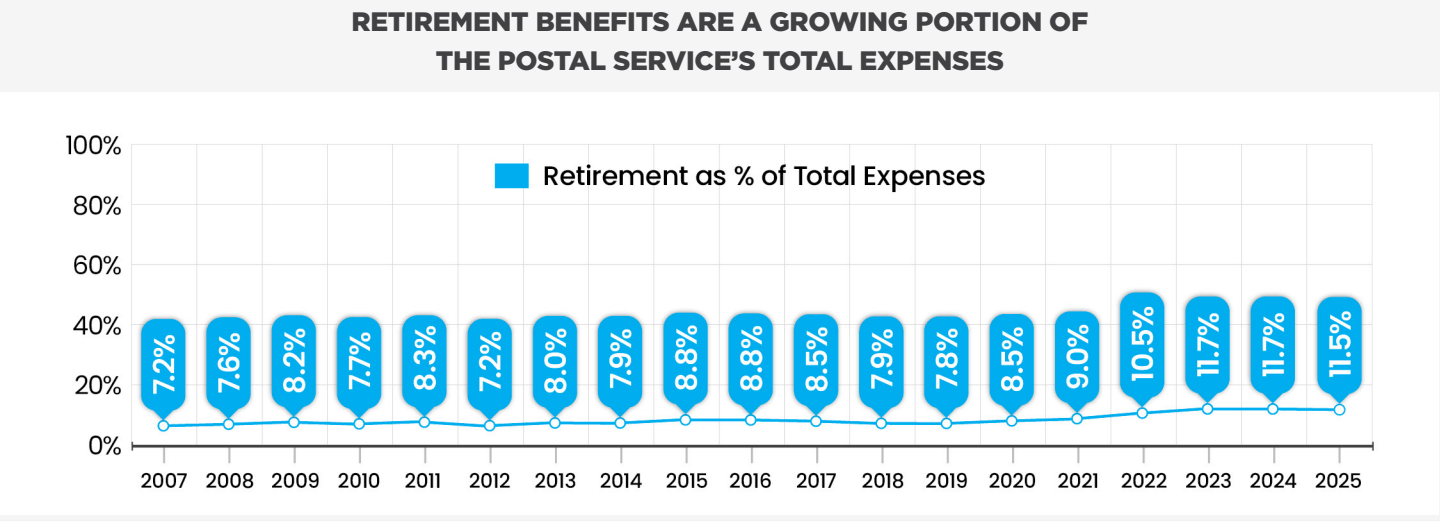
Retirement costs account for a larger portion of operating costs than is the norm for other non-federal public sector employers. In FY 2025, the agency reported expenses of $10.3 billion for contributions to its DB fund; this was 12 percent of its total operating expenses for the year.[14] See Figure 2 for the growth in retirement expenditures as a percentage of overall spending. In comparison, payments into pension funds make up an average of about 5 percent of state and local government spending.[15]

13 The Postal Service's unfunded retirement benefit liability is amortized, meaning the cost of debt is spread over time and converted to annual payments, similar to a mortgage. This is a common practice for paying down retirement fund liability. For other federal agencies, the U.S. Treasury pays annual amortization costs directly out of the general fund, rather than each agency budgeting for its own amortization payments. The Postal Service, however, must make these payments out of its own revenue. OPM requests amortization payments that essentially equal the difference between projected future benefits and the assets available to pay those benefits.

14 The Postal Service stated in August 2026 that it had only been able to fund $6.5 billion of the total $10.3 billion in pension fund contributions for FY 2025.

15 State and Local Government Spending on Public Employee Retirement Systems, NASRA, March 2026, https://www.nasra.org/files/Issue%20Briefs/NASRACostsBrief.pdf.

Figure 2: USPS Retirement and Total Expenses FYs 2007-2025



Source: OIG Analysis of USPS Form 10-K

A related issue affecting the Postal Service's financial planning is the agency's obligations for retiree health insurance. While not the focus of this white paper, the Postal Service's retiree health costs are expected to increase dramatically in FY 2031, further impacting the agency's finances. See Text Box 1 for details on the Postal Service Health Benefits Plan.

Text Box 1: The Postal Service Health Benefits (PSHB) Program

The Postal Service Health Benefits (PSHB) Program is a separate program within the larger Federal Employees Health Benefits (FEHB) Program, administered by the Office of Personnel Management (OPM). It provides health insurance coverage for USPS employees that can be carried over into retirement. In FY 2025, the Postal Service paid out $2.4 billion to provide retiree health benefits and reported an actuarial liability of $54.1 billion for future benefits, only $24.4 billion of which (~45%) is currently funded. Unlike other federal agencies, for which OPM pays retiree health benefits using congressional appropriations, USPS must cover the costs of these benefits using its own revenue.

The Postal Service pays for retiree health benefits using the Postal Service Retiree Health Benefits Fund (PSRHBF), created in 2006 as part of the Postal Accountability and Enhancement Act. Initial funding for the PSRHBF came from a $17.1 billion CSRS surplus and $3 billion that the Postal Service transferred from an escrow account. The agency was required to pre-fund the PSRHBF with a $5 billion payment each year from 2007 to 2016. The agency only made four payments into the fund for a total of $17.9 billion before ceasing prefunding payments entirely, citing financial constraints.

In 2022, the Postal Service Reform Act provided USPS with a degree of financial relief regarding the PSRHBF. The act ended USPS's prefunding obligation and required Medicare-eligible retirees to enroll in Medicare Part B to maintain their PSHB coverage. Even with these changes to the PSRHBF, the Postal Service began incurring top-up payments of about $700 million in 2026 and current funds are expected to be depleted by 2031. After current funds expire, the Postal Service will have to directly pay for these benefits, at an estimated cost of more than $6 billion annually. While this paper does not focus on retiree health insurance benefits, these obligations have a major impact on the agency's financial situation.

Other Employers Changed Their Retirement Models to Improve Funding

The Postal Service's DB plan funding has been affected by the same dynamics troubling other employers. Pensions are in general more poorly funded than they were two decades ago. The 2008 financial crisis was a turning point; the average funded ratio for state and local pension plans fell from 92 percent in 2007 to 62 percent in 2009 and partially recovered to 75 percent in 2023 (the most recent year for which data was available).[16] Over the same period, the Postal Service's DB funded ratio fell from 102 percent in 2007 to 71 percent in 2023.

There are three major drivers of increased unfunded pension liabilities for the Postal Service and other employers over the past two decades:

- **Lower than expected investment returns:** DB funds of non-federal employers are generally invested in securities, equities, and other assets in order to grow over time. The goal is for the investment returns to generate a significant portion of the money needed to pay out future retirement benefits. Pension actuaries make assumptions about future market returns in determining necessary funding for a DB plan. If actual returns are lower than expected, the plan's funded ratio will decrease. The rate of return on the Postal Service's pension assets, which are invested in special Treasury securities, has often been below the assumed rate of return. From 2020 through 2024, for example, the assumed rate of return was 4 percent but the actual rate of return in each of those years was less than 3 percent.
- **Changing demographic assumptions:** Demographic assumptions that retirement systems use to predict future benefit expenditures began to change around the time of the 2008 financial crisis to reflect higher average life expectancies and an updated method of predicting future longevity that resulted in longer projected lifespans for retirees. As a result, future liabilities increased and plans needed to accrue more assets to be considered fully funded. The Postal Service experienced such an increase in 2011 when OPM raised its life expectancy expectations, contributing to an immediate increase in USPS pension liability.
- **Maturing plans:** DB plans have in general become more mature, meaning the number of retirees collecting benefits is higher than the number of active employees paying into the funds. This dynamic can lead to a negative cash flow situation. The Postal Service has seen the size of its workforce decline while the number of retirees collecting annuity payments has increased. The ratio of active career Postal Service employees per retiree fell from around 1.5 in FY 2007 to 0.8 in FY 2025. State and local government pension funds have experienced a similar dynamic in recent decades. While the number of state and local government employees has increased, the ratio of active employees to retirees has decreased and is currently also around 0.8.[17]

Many state, local, and private pension plan administrators responded to these challenges by adjusting their plans to adapt to changing financial and economic conditions. In coordination with legislatures, employees, and other stakeholders, they altered their retirement models in ways that could reduce liabilities and expenditures and better position them to pay out promised benefits. For the Postal Service, implementing any such adjustments would require congressional action.

Alternative Retirement Models in Local, State, and Federal Government

Since the 2008 financial crisis, public sector employers at the state and local levels have increasingly adopted models other than traditional DB plans. These alternatives include variations on DB plans that reduce costs and share more risk with employees. Data compiled by the National Association of State Retirement Administrators show that over 40 percent of the public plans it tracked have instituted alternative models and more than half of state and local government employees are currently enrolled in plans other than the traditional DB model.[18] See Table 3 for a breakdown of the most common retirement models.

16 Equable Institute, *State of Pensions 2025*, 2025, https://equable.org/wp-content/uploads/2025/07/Equable-Institute_State-of-Pensions-2025_Final.pdf, p. 7.
17 Equable Institute, *State of Pensions 2025*, 2025, https://equable.org/wp-content/uploads/2025/07/Equable-Institute_State-of-Pensions-2025_Final.pdf, p. 7.
18 Jean-Pierre Aubry and Laura D. Quinby, "The Rise of Alternative Designs for Public Plans," Center for Retirement Research, October 2025, https://crr.bc.edu/wp-content/uploads/2025/10/IB_25-21.pdf.

Table 3: Comparison of the Most Common Retirement Models

	Benefit Structure	Prevalence	Allocation of Risk[19]	Portability[20]
Defined Benefit	Guaranteed lifetime benefit.	Used by the majority of state and local public sector plans.[21]	Employer bears investment, longevity, and inflation risk.	Not portable.
DB with COLA-Based Risk Sharing	Guaranteed lifetime benefit but COLAs contingent on factors related to plan health.	Around 21 percent of state and local public sector plans.	Shared. Employer bears investment and longevity risk but employee bears some inflation risk.	Not portable.
DB with Variable Employee Contribution	Guaranteed lifetime benefit but withholding from paycheck contingent on plan health.	Around 7 percent of state and local public sector plans.	Shared. Employees bear some investment, longevity, and inflation risk.	Not portable.
Defined Contribution	Individual accounts. Benefits depend entirely on accumulated contributions and investment returns.	Most common model in private sector. Rare in the public sector.	Employee bears all investment, longevity, and inflation risk.	High. Account balances can be transferred or rolled over.
DB-DC Hybrid	Smaller DB alongside a separate DC savings account.	Around 7 percent of state and local public sector plans.	Shared. Employer bears risk of DB portion, while employee bears risk of DC portion.	Moderate. DC account is portable while DB is not.
Cash Balance	A DB plan that has attributes of a DC plan. Benefits are payable as a lump sum upon leaving employer or as a standard annuity.	Popular among small-to-midsize private businesses.	Employer bears the investment risk. Employee bears longevity risk if taking a lump sum payout.	High. Participants can take a lump sum distribution and roll over into another plan.

Source: USPS OIG research.

Examples of federal agencies that operate retirement benefit plans outside the FERS and CSRS system include:

- **The Tennessee Valley Authority (TVA)** is a federally owned electric utility. It receives no taxpayer funding and, like the Postal Service, collects its own revenue and must operate similarly to a private company. Prior to 1996, TVA employees had a traditional DB. Workers hired between 1996 and 2014 received a cash balance plan. Since 2014, new hires have only had access to a 401(k). The TVA Retirement System invests its retirement assets in a diversified portfolio.
- **The Railroad Retirement Board (RRB)** is an independent federal agency that administers retirement benefits for railroad workers. RRB benefits include a DB plan. Plan assets are invested in a diversified portfolio.
- **The Federal Reserve** operates its own hybrid DB-DC retirement plan, including a DB that can be cashed out for a lump sum upon leaving the agency, and invests its assets in a diversified portfolio.[22]

19 Employers and employees can bear the risk of an unexpected increase in retirement liability or decrease in available retirement benefits. Such increases may be caused by unforeseen changes to investment returns, inflation, retiree longevity (how long beneficiaries live), or other variables.
20 "Portability" refers to the ability of an employee to transfer assets from the retirement plan to another retirement plan or to withdraw those assets.
21 While the majority of state and local plans offer a traditional stand-alone DB plan, more than half of state and local government employees are enrolled in alternative models because the average number of employees enrolled in these alternative models is higher than the average for traditional DB plans.
22 Some employers in the public and private sectors offer retirees the option to exchange part or all of their future pension annuity payments for a lump sum payout. This option could allow an employer to reduce some of its pension liability in the long term. The exact impact on pension funding depends on the how the size of the lump sum payment is calculated and the number of retirees who choose this option. Postal Service retirees do not have the option to convert their pension benefits to a lump sum payment.

Potential Financial Impact of Changes to the USPS Retirement Model

To understand what the potential financial impact could be if the Postal Service were to adopt a different retirement model, the OIG worked with an actuarial consulting firm to project USPS pension fund balances over the next 20 years for the current model, an alternative scenario reflecting the potential impact of diversifying retirement asset investment, and three selected alternative models most common among other public and private sector employers:

1. **Diversified retirement asset investment:** The Postal Service invests retirement assets in a portfolio of 60 percent stocks and 40 percent bonds.
2. **DC only:** The Postal Service closes its DB to new hires and only provides a DC plan.
3. **COLA-based risk sharing:** The Postal Service does not allow retirees' annual cost-of-living adjustments (COLAs) to rise over a fixed threshold.
4. **Variable employee contribution:** New USPS employees contribute a higher amount to the DB plan.

Methodology and Assumptions

The financial estimates for each model are based on data from the Postal Service and OPM and include a range of possible outcomes based on projected market performance, from a worst-case 5th percentile outcome in which equity and security returns are very low, to an average 50th percentile, to a best-case 95th percentile outcome with very high returns. (See Appendix A for a description of the methodology used in this analysis.) We evaluated each hypothetical scenario against the current model projection to illustrate the potential impact of alternative models. The projections provide a quantitative estimate of long-term financial dynamics and do not represent proposed policy changes or operational recommendations for the Postal Service.

In all five scenarios we analyzed, we assumed that the Postal Service made its required retirement benefit contributions and amortization payments each year. In reality, the Postal Service has not made any CSRS amortization payments since FY 2017. It did not make any FERS amortization payments between FYs 2014 and 2021 and it has only made partial payments in FYs 2022 through 2025. For the purpose of simplifying the projections and allowing for more accurate comparison of scenarios, we use the same amortization payment projections for each scenario; in reality, these would vary in accordance with actual investment performance of fund assets.

To ensure the objectivity of the projections in this paper, the OIG used the assumptions that OPM, as the plan administrator, uses to generate the annual statements of current USPS fund balances and future liabilities. While these projections are useful in comparing the relative impact of an alternative model versus the current model, they do not consider variance in the Postal Service's future funding behavior. This means that the projected outcomes for both the current model and alternative model projections would be significantly different should the agency continue to miss statutorily required contributions and amortization payments.

Summary of the Financial Impact of Each Model

Of these four alternative models, diversifying assets into stocks and bonds provided, by far, the most significant expected financial benefit to the Postal Service but also carried a higher risk of poor performance compared to the more stable special Treasury securities in which the Postal Service's pension assets are currently invested. Importantly, this is the only scenario analyzed in this paper that does not negatively impact retirees or employees through benefit reduction or contribution increases.

The three other alternative scenarios involve trade-offs between financial impact and employee benefit cuts. The DC-only model would have the second-greatest expected impact on retirement funding but would constitute the largest cut to benefits of these scenarios. The third and fourth scenarios, both variations on the traditional DB model, produce a smaller financial impact for the Postal Service but represent a less drastic cut to employee benefits. See Table 4 and Figure 3 for a summary of our results.

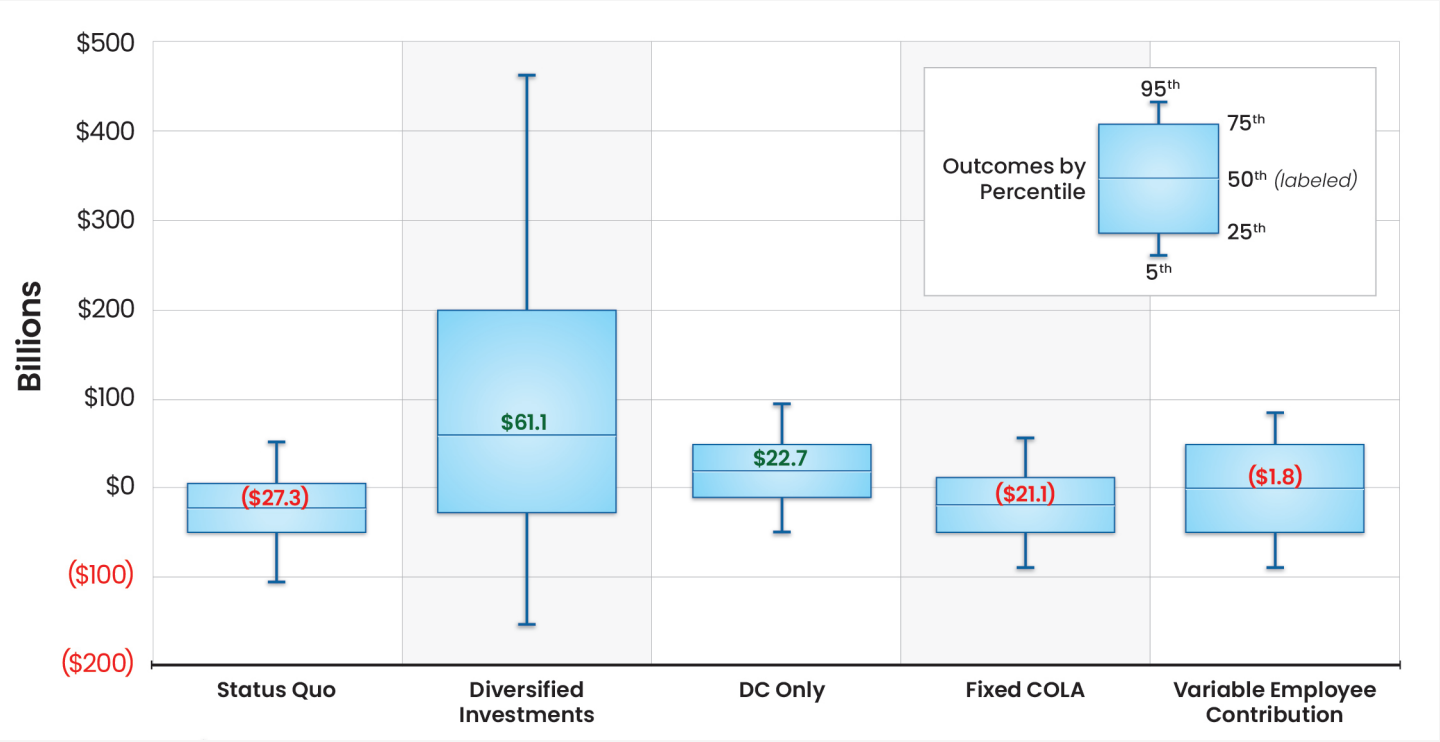
Table 4: Projected Impact of Alternative Retirement Models on Postal Service Pension Funding

	Description	Projected Status of USPS Pension Funding in FY 2044: Actuarial Surplus/Deficit and Funded Ratio in Different Market Performance Scenarios		
		Worst Case - 5th Percentile	Median - 50th Percentile	Best Case - 95th Percentile
Current Model with Statutorily Required Payments	No change to model. Projections assume that USPS makes all required payments.*	-$104 billion (71 percent funded)	-$27 billion (92 percent funded)	+$52 billion (117 percent funded)
Diversified Investment	USPS immediately invests all retirement assets in a diversified portfolio. No change to benefits.	-$155 billion (56 percent funded)	+$61 billion (119 percent funded)	+$464 billion (242 percent funded)
DC Only	DB plan closed to new hires, who receive a more generous DC plan.	-$50 billion (81 percent funded)	+$23 billion (110 percent funded)	+$96 billion (145 percent funded)
COLA-Based Risk Sharing	COLA for current retirees fixed at 1.92 percent annual increase.	-$82 billion (75 percent funded)	-$21 billion (94 percent funded)	+$57 billion (118 percent funded)
Variable Employee Contribution	Employee contribution to pension increased from 4.4 percent to 8.8 percent.	-$80 billion (78 percent funded)	-$2 billion (99 percent funded)	+$79 billion (126 percent funded)

*Note: Projections assume the Postal Service makes its statutorily required pension contributions and amortization payments. The agency has skipped amortization payments for several years and temporarily paused normal employer contributions in April 2026. Continued missed payments will lower the projected funded status and funded ratios but the relative funding advantages between scenarios remain unchanged.

Source: USPS OIG research and Segal Analysis.

Figure 3: Range of Projected Funded Status Outcomes in FY 2044 for Each Alternative Retirement Model



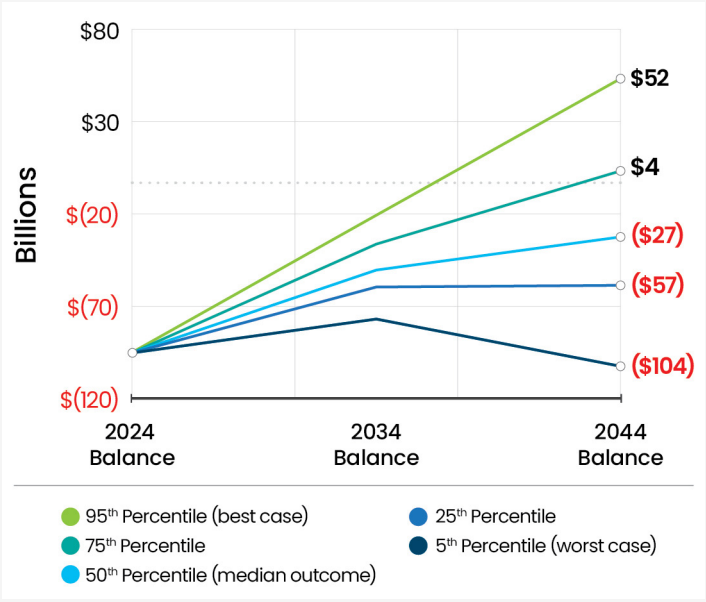
Source: USPS OIG and Segal Analysis

The Current Model Will Likely Leave the Postal Service's Retirement Obligations Underfunded Over the Long Term

In the current model scenario, we assume that the Postal Service's retirement model continues as-is without major changes. Our projections for the current model start with the retirement benefit funding data for FY 2024, the most recent year for which full data was available at the time of this analysis. As discussed earlier in this paper, this scenario assumes that the Postal Service makes all required payments into its DB fund, which has not been the case in recent years.

Our median projection for the current model scenario results in the funded status remaining below 100 percent over the next 20 years, even if the Postal Service meets its amortization obligations and mandated employer contributions. In this scenario, the average (50th percentile) result from our projections has the pension unfunded liability declining from a deficit of $101 billion at the end of FY 2024 to a deficit of $45 billion in FY 2034, then to a $27 billion deficit in FY 2044. The rate of return from Treasury bonds strongly influences the range of forecasted outcomes (see Figure 4).

Figure 4: Current Model Pension Fund Status Projections in Different Market Performance Scenarios



Source: USPS OIG and Segal analysis.

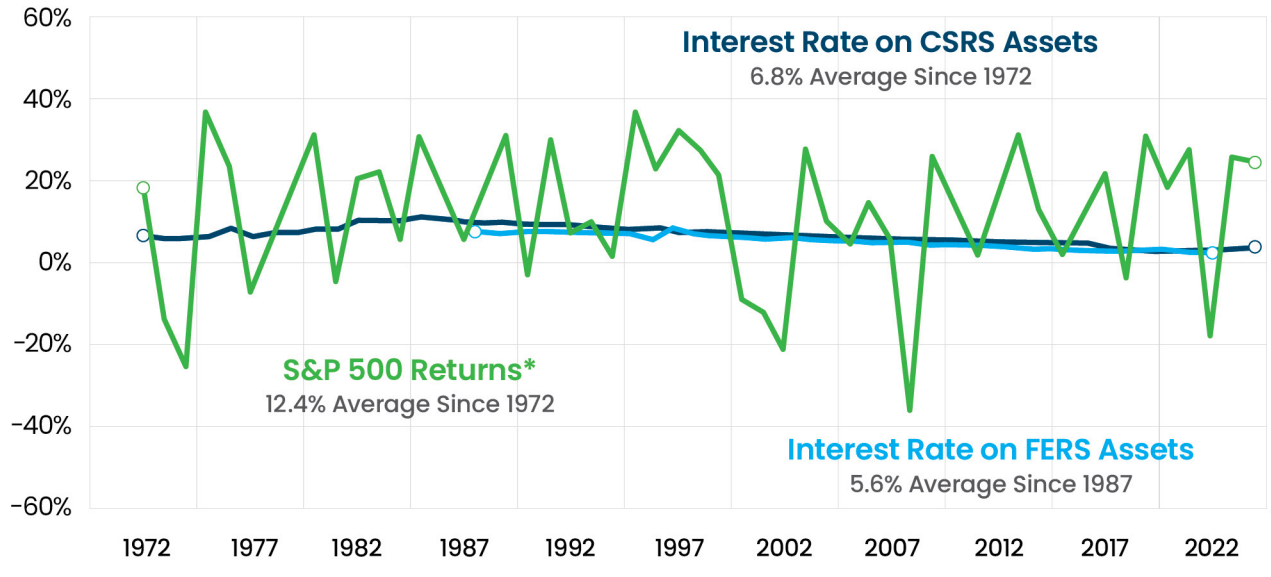
This scenario demonstrates that maintaining the current model will likely result in a retirement system that is still underfunded in the longer term (after 20 years). As a result, high pension costs, including billions in annual amortization payments, will persist and continue to strain the Postal Service's finances, making the current model potentially unsustainable.

Diversifying Retirement Investments Could Significantly Improve Pension Funding Within 10 Years but Increases Market Risk

The Postal Service, like most federal agencies, cannot make decisions about how its retirement funds are invested, while most private and public employers outside the federal government are able to invest their pension assets in diversified assets. In 2024, for example, state and local government pension funds invested 43 percent of their assets in public equities, allocated 25 percent to fixed income investments (such as bonds) and cash holdings, and put the remainder in alternative investments such as real estate and private equity.[23] Private sector pension funds invest in similarly diverse portfolios. A DB plan's investment strategy is one way plan administrators manage the financial health and sustainability of the plan. Through investment in stocks, bonds, and other assets, DB plans generally try to achieve investment returns that are higher than inflation in order to prevent their funds from losing value. The investment strategy can be adjusted to adapt to changing financial and economic conditions.

Employee and employer contributions to FERS and CSRS are paid into the Civil Service Retirement and Disability Fund (CSRDF). This fund, managed jointly by OPM and the Department of Treasury, pools the pension assets of all participating federal agencies and is legally required to invest 100 percent of its assets in special-issue U.S. Treasury securities. These securities are safe and stable investments, but they typically generate lower rates of return over time than other common types of investments, such as stocks and municipal and corporate bonds. See Figure 5 for a comparison of FERS and CSRS pension fund returns with the S&P 500. In 2024, the actual rate of return for CSRS and FERS funds was 2.7 percent and had not been higher than 4.1 percent in any of the previous 10 years.

Figure 5: S&P 500, CSRS, and FERS Annual Rates of Return*, 1972-2024



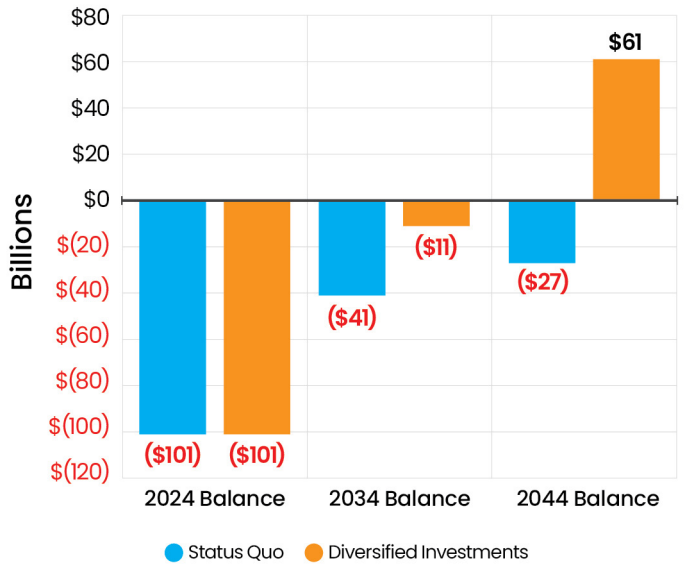
* S&P Returns calculated including dividends
Source: Office of Personnel Management, Aswath Damodaran, and USPS OIG analysis.

23 Equable Institute, *State of Pensions 2025*, 2025, https://equable.org/wp-content/uploads/2025/07/Equable-Institute_State-of-Pensions-2025_Final.pdf, p. 11.

The scenario projected here analyzes a situation in which the Postal Service could immediately invest all its retirement assets in a diversified portfolio rather than strictly in Treasury securities. We chose a 60 percent equity and 40 percent fixed-income portfolio, a common design that was also the focus of a previous OIG paper analyzing historical retirement investment returns.[24] All other aspects of the model, including the contribution rates, COLA formula, and benefits, remain as they are in the current model.

In the median (50th percentile) projection for this scenario, the unfunded liability would fall to $34 billion lower than the current model in FY 2034 (after 10 years). In FY 2044 (after 20 years), the result is actually a significant actuarial surplus, with a balance $88 billion higher than the current model projection. This result is based on a projected 5.3 percent compound rate of return from the diversified portfolio; this is the average market performance projected by our contractor. See Figure 6 and Table 5 for the full results of this projection.

Figure 6: USPS Unfunded/Surplus Projections – Diversified Portfolio vs. Current Model 50th Percentile Outcomes



Source: USPS OIG and Segal analysis.

Table 5: USPS Pension Fund Status Projections – Diversified Portfolio vs. Current Model (in Billions of Dollars)

9/30/2034				
Percentile	Current Model with Statutorily Required Payments	Compound Rate of Return*	Diversified Investment	Compound Rate of Return
95th	($25.5)	3.9%	$128.0	10.2%
75th	($35.6)	3.6%	$43.3	7.3%
50th	($45.3)	3.5%	($10.7)	5.3%
25th	($55.5)	3.3%	($54.8)	3.1%
5th	($76.6)	3.0%	($103.5)	0.2%
9/30/2044				
Percentile	Current Model with Statutorily Required Payments	Compound Rate of Return	Diversified Investment	Compound Rate of Return
95th	$52.1	5.1%	$463.7	9.1%
75th	$4.1	4.4%	$199.3	6.8%
50th	($27.3)	3.9%	$61.1	5.3%
25th	($56.9)	3.4%	($39.7)	3.8%
5th	($104.2)	2.7%	($154.9)	1.6%

*Note: For the current model, this is the projected compound rate of return for the special purpose treasuries in which USPS pension assets are invested. For the diversified investment scenario, this is the projected compound rate of return for a portfolio of 60 percent equities and 40 percent securities.

Source: USPS OIG and Segal analysis.

24 U.S. Postal Service Office of Inspector General, *Historical Analysis of USPS Retirement Fund Returns*, Report No. RISC-WP-23-005, April 26, 2023, https://www.uspsoig.gov/reports/white-papers/historical-analysis-usps-retirement-fund-returns.

While these projections make clear the potential positive impact of diversifying retirement asset investment, they also demonstrate the risk. The worst-case 5th percentile outcome, representing a period of very poor market performance (only a 1.6 percent compound rate of return for the diversified portfolio), would result in an outcome far worse than the current model scenario, with the unfunded liability growing to around $50 billion worse than the current model after 20 years. This outcome is unlikely but must be a consideration for stakeholders considering expanding the Postal Service's investment options. Conversely, the best-case 95th percentile result projects a surplus rising to over $400 billion higher than the current model due to a 9.1 percent compound rate of return.

These projections suggest that allowing diversified investment of Postal Service pension funds could significantly improve the agency's retirement benefit funding without changes to the benefits of USPS employees and retirees.

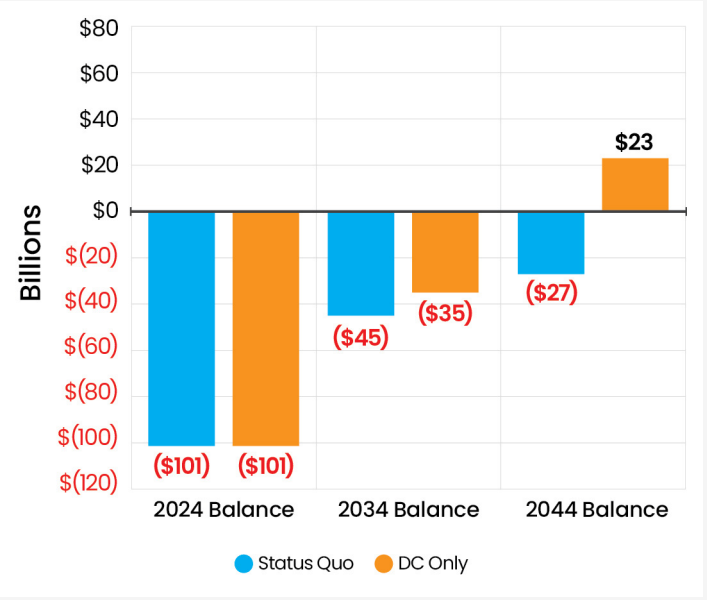
Enrolling New Hires in a DC-Only Plan Could Reduce Unfunded Liabilities in the Long Term While Weakening Employee Benefits

The second scenario models the Postal Service shifting to a DC-only plan, replicating the most common retirement model for the private sector. In this scenario, the FERS DB plan is closed to new hires. There would be a new tier of USPS employees who do not accrue pension benefits but would have a more generous DC plan than the current TSP.

In this scenario, the Postal Service would replace contributions to the pension fund for new employees (which in total is equivalent to around 17 percent of their salaries) with a four percent increase in the employer contribution to the TSP. This would result in a DC with a total automatic employer contribution of 5 percent. With the TSP's matching contribution rules described earlier in this paper, the total maximum Postal Service contribution into an individual DC account would be 9 percent of salary. This would be higher than the DC plans offered by private sector companies, whose plans (most commonly a 401(k)) typically offer a maximum employer contribution of between 4 and 6 percent.

In our projections, we demonstrate the potential impact of this scenario by showing the effect if the Postal Service used the money it saved by switching to a DC-only model to pay down its amortization costs. In this scenario, the short- and medium-term impact would be relatively low because this change only affects new hires, and it would take time for this tier of employees to grow as a percentage of the overall Postal Service workforce.[25] After 10 years, the average (50th percentile) outcome is an unfunded liability that is $10 billion lower than the current model outcome. After 20 years, the impact is more significant. The median (50th percentile) projected outcome is an actuarial surplus $50 billion higher than the current model. See Figure 7 and Table 6 for full results.

Figure 7: USPS Unfunded/Surplus Projections – DC Only vs. Current Model 50th Percentile Outcomes



Source: USPS OIG and Segal analysis.

25 Our projections use forecasts for annual retirements and separations prepared by OPM and assume a constant total workforce, with the number of employees retiring or leaving the Postal Service each year replaced by an equal number of new hires.

Table 6: USPS Pension Fund Status Projections – DC Only vs. Current Model (in Billions of Dollars)

9/30/2034				
Percentile	Current Model with Statutorily Required Payments	Compound Rate of Return*	DC Only	Compound Rate of Return
95th	($25.5)	3.9%	($14.6)	3.9%
75th	($35.6)	3.6%	($24.6)	3.6%
50th	($45.3)	3.5%	($34.8)	3.5%
25th	($55.5)	3.3%	($45.4)	3.3%
5th	($76.6)	3.0%	($67.8)	3.0%
9/30/2044				
Percentile	Current Model with Statutorily Required Payments	Compound Rate of Return	DC Only	Compound Rate of Return
95th	$52.1	5.1%	$95.5	5.1%
75th	$4.1	4.4%	$52.6	4.4%
50th	($27.3)	3.9%	$22.7	3.9%
25th	($56.9)	3.4%	($5.6)	3.4%
5th	($104.2)	2.7%	($50.2)	2.7%

*Note: This is the projected compound rate of return for the special purpose treasuries in which USPS pension assets are invested.
Source: USPS OIG and Segal analysis.

The resulting fund balances in this scenario are on average lower than the diversified portfolio scenario, although the variance between the best-case and worst-case is also lower. Importantly, however, this would result in new employees receiving less generous retirement benefits compared to current employees and losing the security inherent in a DB plan. The new tier of employees would also bear more risk, as their retirement benefits would be fully allocated to an individual DC account which is subject to market fluctuations. These changes could have a negative impact on the Postal Service's ability to recruit and retain qualified workers but would preserve annuities for current retirees and avoid contentious and harmful cuts for the active workforce.

An example of a public sector retirement system that moved from a DB to a DC plan is the state of Alaska. See Text Box 2 for an explanation of how Alaska's shift to a DC plan for public employees affected employee satisfaction, retention, and hiring.

Text Box 2: Alaska's Shift to a DC Plan Negatively Affected Public Employee Retention

In 2006, the State of Alaska closed its public employee DB plans to new hires and began offering only DC plans. Research by the National Institute on Retirement Security (NIRS) suggests that this shift had a negative effect on the state's ability to retain employees. Changing demographics and actuarial assumptions indicate that the percentage of workers who are leaving their positions as public employees has been significantly higher for those in the DC plan than in the DB plan. Lower retention means that more resources (money and time) must be put into training new hires.

Law enforcement officers working for Alaska's Department of Public Safety (DPS) at age 30 were much more likely to remain in the department until age 54 if they were enrolled in the DB plan than if they were enrolled in the DC plan. For male officers, for example, 63 percent of employees in the DB were retained through age 54, compared to only 17 percent of officers in the DC plan. Overall retention was lower for female officers but there was still a marked difference, with 40 percent of DB plan participants staying from age 30 through 54 compared to only 9 percent of DC plan participants. From 2011 through 2017, the DPS saw a notable increase in the number of non-retirement separations from service, with 72 percent of those who left going to work for a different public safety department, often in a state that offered a pension.

Research into teachers in Alaska showed similar results. For example, 38 percent of female teachers in the DB plan who were working at age 30 were still employed as teachers at age 55, compared to only 11 percent of those in the DC plan. For male teachers, the results were slightly more significant, with 40 percent of DB employees remaining at age 55 compared to only 7 percent of DC employees.

Establishing a Fixed COLA Would Limit Postal Service Liability in a High Inflation Environment While Reducing Retiree Benefits

This scenario assesses the financial impact of limiting the annual COLA increase for retiree annuities. COLA-based risk sharing is the most common alternative retirement model that public sector DB systems have implemented in the United States. This model is not common in the private sector, as private companies that offer pensions typically do not provide a COLA.

Pension plans that offer COLAs for retirees determine these adjustments in different ways. Most commonly, COLAs are linked to inflation and are often capped at a certain percentage. The Postal Service's COLA is based on inflation and does not have a cap. Periods of unexpectedly high inflation pose a risk for employers because they result in more rapid depletion of fund assets, potentially increasing a plan's unfunded liability. In DB models with COLA-based risk sharing, the COLA calculation may be linked to factors related to plan performance. In this way, the employer shares some of the risk of high inflation with the employee.

One approach under this model is to limit the COLA rate based on the plan's funded ratio. If the funded ratio is lower than the target, the COLA for that year will be lower than would otherwise be indicated by the rate of inflation. For plans using this model, the goal may be to maintain a 100 percent funded ratio, although the target could be lower. Keeping COLAs within a certain limit helps control an employer's retirement spending.[26]

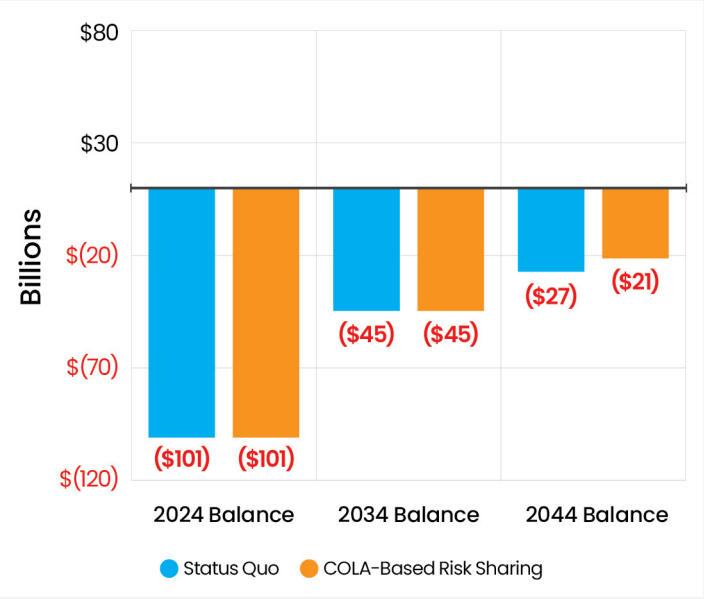
To demonstrate the potential impact of limiting the COLA, the OIG projected a scenario in which the COLA is fixed at 1.92 percent, which is the assumed COLA that OPM and the Postal Service use for their financial projections. This is a lower COLA than those applied in FYs 2022–2025, when the FERS COLA varied between 2.0 percent and 7.7 percent. The OIG chose this scenario to demonstrate a model in which the Postal Service faced a lower risk of paying out very

26 The extent to which COLAs impact employer pension costs varies based on the specific design, but even a relatively small COLA can lead to a significant increase in employer expenditure because COLAs are permanent and compound from year to year. For example, a 1 percent COLA in one year adds an estimated increase of 7 percent to the total cost of retirement benefits, while a COLA of 3 percent adds as estimated 26 percent to that cost. See: Paul Zorn, Mark Randall, and Joe Newton, "Postemployment Cost-of-Living Adjustments: Concepts and Recent Trends," GRS Consulting, April 2011, https://www.nasra.org/Files/Topical%20Reports/Cost-of-Living%20Adjustments/GRSCOLAbrief.pdf.

high COLAs in a high inflation environment but in which retirees still benefited from some COLA every year.

In the median 50th percentile outcome, the projections for this scenario are very similar to the current model because the fixed 1.92 percent COLA rate is close to the median inflation rate in our contractor's model. The 50th percentile result after 10 years is essentially the same as the current model. After 20 years, the unfunded liability would be reduced by $6 billion compared to the current model but would still represent a deficit of over $20 billion. The real impact of this scenario can be seen in the worst-case 5th percentile outcome, where the unfunded liability is $20 billion lower in the fixed COLA scenario than in the current model scenario after 20 years. This represents a high inflation environment in which the Postal Service would have to pay out a large COLA under the current retirement system. The fixed COLA scenario caps this cost, limiting the increase in pension liability. (See Figure 8 and Table 7 for full results.)

Figure 8: USPS Unfunded/Surplus Projections – Fixed COLA vs. Current Model 50th Percentile Outcomes



Source: USPS OIG and Segal analysis.

Table 7: USPS Pension Funded Status Projections – Fixed COLA vs. Current Model (in Billions of Dollars)

9/30/2034				
Percentile	Current Model with Statutorily Required Payments	Compound Rate of Return*	Fixed COLA	Compound Rate of Return
95th	($25.5)	3.9%	($36.4)	3.9%
75th	($35.6)	3.6%	($41.1)	3.6%
50th	($45.3)	3.5%	($44.7)	3.5%
25th	($55.5)	3.3%	($47.7)	3.3%
5th	($76.6)	3.0%	($52.4)	3.0%
9/30/2044				
Percentile	Current Model with Statutorily Required Payments	Compound Rate of Return	Fixed COLA	Compound Rate of Return
95th	$52.1	5.1%	$57.1	5.1%
75th	$4.1	4.4%	$10.2	4.4%
50th	($27.3)	3.9%	($21.1)	3.9%
25th	($56.9)	3.4%	($46.3)	3.4%
5th	($104.2)	2.7%	($82.4)	2.7%

*Note: This is the projected compound rate of return for the special purpose treasuries in which USPS pension assets are invested.
Source: USPS OIG and Segal analysis.

These results demonstrate that setting a fixed COLA would not be an impactful change to the Postal Service's retirement model in lower inflation environments but could reduce the impact of high inflation rates. Implementing this measure, however, would result in retirees receiving lower benefits in higher inflation years than under the current COLA formula. A more aggressive approach to COLA-based risk sharing, such as one that eliminated COLAs until the plan reached fully funded status, would have a greater impact on the Postal Service's retirement funding but would have a more negative effect on annuity payments to retirees who depend on these benefits.

Doubling the Employee Contribution Rate Could Improve Long-Term Funding While Lowering Take-Home Pay

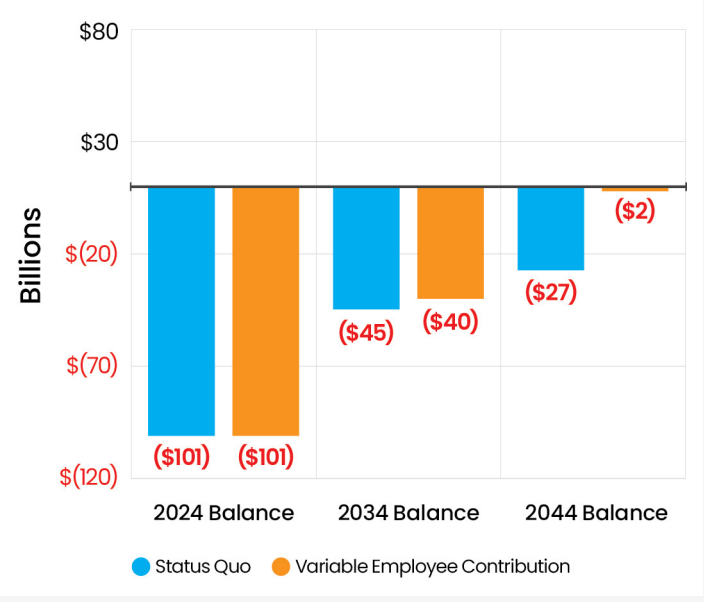
The final scenario presents a variable contribution model, the second most common variation on DB plans among public sector pensions (used by about 7 percent of state and local government retirement systems). In a traditional DB plan, the employee contribution is a fixed percentage of a worker's salary; poor returns on pension asset investments may require the employer to increase its contribution to maintain adequate funding while the employee's contribution remains fixed. In contrast, a variable contribution model adjusts employee contribution annually to help the plan meet its funding goals.

A common approach is to equally divide the total annual plan cost (amortization plus the normal contribution) between the employer and employees. If the fund performs poorly and the annual plan cost increases, that cost increase is shared between both parties. Under this model, risk is shared with current employees, who will see their take-home pay vary from year to year due to fluctuations in retirement benefit withholding.

In our projections for this scenario, we doubled the Postal Service employee contribution to demonstrate its potential effect on DB funding. In building our scenario, we assumed the increase would only apply to new hires. The current FERS employee contribution rate is 4.4 percent; in our modeling, we increased the contribution rate to 8.8 percent, double the current contribution rate, while the Postal Service's contribution to FERS would remain the same. These employees would have reduced take-home pay but would not see an increase in DB benefits. This overall reduction in compensation could, as with the previous two scenarios, negatively impact hiring and retention.

Like the DC-only model, implementing a change that only affects new hires limits short- and medium-term financial impacts. However, with this scenario there is a more significant financial impact after 20 years as this new tier of employees becomes a larger share of the workforce. In the 50th percentile result for this projected scenario, the unfunded liability would be reduced by $5 billion compared to our current model projection after 10 years, while after 20 years it would be reduced by $25 billion and result in a plan that is nearly fully funded. This is a relatively low-risk scenario, as the worst-case 5th percentile outcome is an unfunded liability that is still reduced by $24 billion compared to the current model. See Figure 9 and Table 8 for full results.

Figure 9: USPS Unfunded/Surplus Projections – Variable Contribution vs. Current Model 50th Percentile Outcomes



Source: USPS OIG and Segal analysis.

Table 8: USPS Pension Funded Status Projections – Increased Employee Contribution vs. Current Model (in Billions of Dollars)

9/30/2034				
Percentile	Current Model with Statutorily Required Payments	Compound Rate of Return*	Increased Employee Contribution	Compound Rate of Return
95th	($25.5)	3.9%	($20.3)	3.9%
75th	($35.6)	3.6%	($30.4)	3.6%
50th	($45.3)	3.5%	($40.1)	3.5%
25th	($55.5)	3.3%	($50.4)	3.3%
5th	($76.6)	3.0%	($71.2)	3.0%
9/30/2044				
Percentile	Current Model with Statutorily Required Payments	Compound Rate of Return	Increased Employee Contribution	Compound Rate of Return
95th	$52.1	5.1%	$79.3	5.1%
75th	$4.1	4.4%	$30.4	4.4%
50th	($27.3)	3.9%	($1.8)	3.9%
25th	($56.9)	3.4%	($32.7)	3.4%
5th	($104.2)	2.7%	($80.0)	2.7%

*Note: This is the projected compound rate of return for the special purpose treasuries in which USPS pension assets are invested.
Source: USPS OIG and Segal analysis.

The results from this scenario would be stronger if the Postal Service implemented the change for all employees or a portion of current employees, or if employee contributions were increased beyond 8.8 percent. This scenario moves the Postal Service toward the goal of full funding in the long term but does so by significantly reducing employee take-home pay. This represents a more dramatic version of previous FERS reforms which increased employee contributions from 0.8 percent to 4.4 percent for employees hired in 2013 or later.

Considerations for Employers in Changing Retirement Models

Employers typically make changes to their retirement models to reduce costs and shift risk toward their employees. Such changes can be complicated and contentious, as they must anticipate variables such as future market conditions and workforce size and have real impacts on the lives of employees and retirees. Every retirement model involves trade-offs between the employer's financial sustainability and the long-term retirement security of the workforce. Even diversifying retirement asset investments, which yielded the strongest results of any scenario explored in this paper and would not require changes to employee and retiree benefits, would result in the Postal Service taking on the risk that a sustained market downturn might reduce available retirement assets.

Subject matter experts interviewed for this paper shared best practices in approaching potential retirement model reforms. These best practices would be important considerations for the Postal Service and other stakeholders in implementing any structural changes to its current pension model:

- **Set Goals and Plan Carefully:** It is important to set clear goals and carefully plan any changes to an organization's retirement model. Employers should define the objectives and establish targets and measures of success. These measures should evaluate not only the impact on costs and cost predictability for the employer but also the level of risk and benefit for employees. It is important to conduct multi-year projections of contributions and liabilities given the current model and each alternative. An organization should focus not only on the most probable outcomes, but also on what would happen in the upper and lower bounds of those projections, the best- and worst-case scenarios.
- **Communicating Change:** When approaching changes to a retirement system, employers should emphasize continuous communication with employees and other relevant stakeholders throughout the process. Employers should lay out clear expectations for the level of benefits that will be provided to employees and how that may vary with plan performance, market conditions, or the rate of inflation. Experts interviewed for this paper recommended framing discussion of proposed changes around fund viability and shared risk. Employers should emphasize that they are trying to do right by their employees while addressing challenges to the future viability of their retirement benefits.
- **Employers Should Consider Automatic Risk Triggers:** Experts interviewed for this paper recommended that retirement plans include automatic triggers that adjust benefits or costs without waiting for legislative intervention. These triggers, for example, may reduce COLAs for retirees or raise employee contributions in the case of poor plan performance or related financial indicators. Establishing automatic triggers when a plan is initially established reduces the need to hold recurring discussions with stakeholders about how to adapt to new circumstances. If the Postal Service were to shift to a new retirement model, it could benefit from such automatic risk triggers.

Conclusion

The Postal Service's retirement costs are high and growing at a faster pace than any other category of spending. This is a significant contributor to the agency's ongoing financial challenges and operational deficits.

Managing long-term pension sustainability is a common challenge for state and local governments. To control costs and ensure plan sustainability, many of these public sector employers have adjusted their retirement models by shifting some risk to employees or reducing benefits. Specific approaches include adopting variable employee contribution rates, limiting cost-of-living increases for retirees, and shifting to defined contribution plans. Each approach involves trade-offs between employer financial health and employee retirement security. For the Postal Service, implementing any such adjustments would require congressional action.

Our simulations of the potential financial impact of alternative retirement models on the Postal Service showed that, for the median outcome, diversified investment of retiree assets in stocks and bonds would produce the largest positive financial

impact on the Postal Service's retirement funding. This scenario does not alter employee or retiree benefits or compensation. Diversified investment does, however, present higher downside risk from exposure to market volatility, and periods of weak market performance could negatively affect plan funding. The diversified model outperforms the current model in all but the worst-case scenario, with the median projected outcome reaching full funding within 10 years. The other models projected in this paper also showed higher funding balances than the current model, although they would achieve those outcomes by reducing benefits or increasing employee contributions. Such reductions in overall compensation would likely affect the Postal Service's ability to attract and retain employees.

The Postal Service's financial position is unlikely to improve without legislative action. Operating costs are projected to continue growing faster than revenue, and forthcoming retiree health care obligations will add billions to the agency's costs within the next five years. Due in part to the current retirement model, the Postal Service faces persistent budget shortfalls. As a result, the Postal Service must choose between funding pensions, maintaining operations, or modernizing its vast network. Taking action to improve retirement funding can strengthen the Postal Service's finances and help sustain its mission over the long term.

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Appendix A: Additional Information

Objective(s), Scope, and Methodology

Objectives

1. Assess the financial implications of the Postal Service's current retirement funding model.
2. Describe retirement funding mechanisms used by public and private sector employers.
3. Analyze the potential financial impact if the Postal Service were to adopt an alternative retirement funding model.

Scope

The project analyzed the retirement models of the Postal Service and other selected public and private organizations in the United States. It presented the Postal Service's current model and those of several selected case studies. The project presented 20-year projections of USPS retirement funding under different funding models, including the current model and several alternative models. The paper examined the potential implications of the Postal Service adopting another model versus maintaining the current model. The paper does not favor any specific funding model or make any recommendations for changing the model.

The specific models projected in the paper were determined after consultation with the contractor selected to prepare these projections.

Methodology

The project team conducted desk research and interviews on the most common retirement benefit models in the public and private sectors. The team identified employers that have made significant changes to their retirement systems and analyzed common models and trends.

The OIG worked with a contractor, the Segal Group, to create projections of the Postal Service's retirement asset balances and funded ratios for the current model and four alternative scenarios. The various scenarios were modeled using Monte Carlo simulations. The stochastic forecast model combines capital market asset returns, interest rates, and inflation rates with the benefit payment profiles of the USPS participants. For the various funding designs, the actuarial liability was simulated and compared with the simulated market value with consistent economic environments to determine funded ratios and deficit or surplus metrics. In all scenarios, 2,000 simulations were run to provide robust results for the various percentile outcomes.

Benefit payments and actuarial data were based on the most recent projections by OPM. Capital market assumptions were based on Segal's long-term expectations for stocks and bonds. The current investment strategy's returns were modeled from simulated Treasury market yield curve environments. For all funding scenarios, actuarial assumptions were held consistent with the data supplied with the design impacts focusing on the realized trade-offs in market value of assets and actuarial liabilities and their corresponding impact on funded status.

The inspection was conducted in accordance with the Council of the Inspectors General on Integrity and Efficiency's Quality Standards for Inspection and Evaluation.

Prior Coverage

Title	Objective	Report Number	Final Report Date	Monetary Impact
Postal Retirement Funds in Perspective: Historical Evolution and Ongoing Challenges	1. Review the history and legislative evolution of the Postal Service's retirement funds in CSRS, FERS, and PSRHBF. 2. Assess the current challenges experienced by the Postal Service's retirement funds and consider future challenges.	RISC-WP-24-002	January 8, 2024	$0
Historical Analysis of USPS Retirement Fund Returns	Analyze the historical fund returns of the Postal Service's retirement investments and determine the potential investment income that could have been earned from different investment strategies.	RISC-WP-23-005	April 26, 2023	$0
Postal Service Investment and Interest Rate Risk	Assess the Postal Service's investment of its cash balances and identify opportunities to improve investment and borrowing strategies and to reduce interest rate risk.	22-035-R23	January 18, 2023	$172 million

Appendix B: Management's Comments

UNITED STATES POSTAL SERVICE

October 2, 2026

PAOLA PISCIONERI
RESEARCH DIRECTOR
RESEARCH AND INSIGHTS SOLUTION CENTER

SUBJECT: Management Response: *Comparative Analysis of Alternative Retirement Models* (Project Number 2026RISC001)

Thank you for the opportunity to review and comment on the Office of Inspector General's (OIG's) white paper, *Comparative Analysis of Alternative Retirement Models.*

The Postal Service's precarious financial condition is undeniable. We appreciate the OIG's recognition throughout this document that systemic challenges will persist without significant reforms, and that inaction is not a viable path forward.

Our current retirement model, including how retirement plans are structured, funded, and invested, is one area that requires congressional action to facilitate changes. The current retirement fund structure of the Postal Service is similar to most federal agencies wherein funds cannot be invested in diversified assets, unlike most private and public employers outside the federal government. This is one of the many constraints the Postal Service faces while moving forward with our strategic plan designed to reverse years of financial and operational deterioration by comprehensively and systematically transforming into a modern, high-performing organization. Despite the many systemic constraints, we continue to implement self-help initiatives to reduce costs, increase operational precision, grow revenue, and improve service reliability.

We look forward to working with the relevant stakeholders to address our financial outlook as we continue implementing the initiatives that are within our control to support our achievement of service excellence and financial stability.

Luke T. Grossmann
Chief Financial Officer & Executive Vice President

cc: *Corporate Audit Response Management*

Tristan Dreisbach, David Neu, and Joy Sanzone contributed to this report.

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