OFFICE OF
INSPECTOR
GENERAL
UNITED STATES POSTAL SERVICE

Pension and Retiree Health Care Funding Levels

Management Advisory Report

June 18, 2012

Report Number FT-MA-12-002

OFFICE OF
INSPECTOR
GENERAL
UNITED STATES POSTAL SERVICE

HIGHLIGHTS

June 18, 2012

Pension and Retiree Health Care Funding Levels

Report Number FT-MA-12-002

IMPACT ON

The U.S. Postal Service's compliance with the Postal Accountability and Enhancement Act of 2006 for prefunding retiree health care benefits.

WHY THE OIG DID THE AUDIT:

Our objective was to explore the progress on funding pension and retiree health care benefits as of September 30, 2011.

WHAT THE OIG FOUND:

The Postal Service has funded its pension benefit obligations at nearly 105 percent and is currently overfunded by $13.1 billion. The law does not allow the Office of Personnel Management to alter the contribution formula for the Postal Service, nor can it refund current or future surpluses. Although the Postal Service continues to implement changes to align costs with revenue, action is needed now to use the current and future surpluses to remain a viable business.

Further, the Postal Service is required to fully fund its future retiree health care benefit obligations. Currently, the Postal Service has funded nearly 50 percent of that obligation. As an alternative to the annual prefunding payments, which has been difficult, we estimate the Postal Service's fair market value of real property totals $85 billion and would be enough to cover the remaining unfunded obligation of $46 billion. Recognition of these assets that could be applied to the liability, if ever needed, could prevent the prefunding payments from increasing Postal Service debt.

WHAT THE OIG RECOMMENDED:

We recommended that management pursue legislative action to refund current and future pension surpluses to the Postal Service.

WHAT MANAGEMENT SAID:

Although management did not agree or disagree with the monetary impact, they agreed with the recommendation and will continue their support of pending legislation that would address the Federal Employees Retirement System surplus. They will also evaluate all pension assets and liabilities prior to the start of the new session of Congress in January 2013, and will pursue legislation as appropriate.

AUDITORS' COMMENT(S):

The OIG considers management's comments responsive to the recommendation and corrective actions should resolve the issues identified in the report.

Link to review the entire report

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

June 18, 2012

MEMORANDUM FOR: JOSEPH CORBETT
CHIEF FINANCIAL OFFICER AND
EXECUTIVE VICE PRESIDENT

MARIE THERESE DOMINGUEZ
VICE PRESIDENT, GOVERNMENT RELATIONS AND
PUBLIC POLICY

FROM: John E. Cihota
Deputy Assistant Inspector General
for Financial Accountability

SUBJECT: Management Advisory Report – Pension and Retiree Health Care Funding Levels
(Report Number FT-MA-12-002)

This report presents the results of our review of the pension and retiree health care funding levels for the fiscal year ended September 30, 2011 (Project Number 12BS001FT000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Lorie Nelson, director, Financial Reporting, or me at 703-248-2100.

Attachments

cc: Stephen J. Masse
Timothy F. O'Reilly
Sheila T. Meyers
Corporate Audit and Response Management

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Introduction

This self-initiated report presents the results of our review of pension and retiree health care funding levels for the fiscal year (FY) ended September 30, 2011 (Project Number 12BS001FT000). We performed this review to explore the progress on funding pension and retiree health care benefits. This report addresses financial risk. See Appendix A for additional information about this review.

In the past 3 fiscal years, the U.S. Postal Service has sustained losses of more than $17 billion. It is more critical than ever to reverse this trend. One of the greatest opportunities for cost savings has been the overfunded pension plan,[1] including the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS), and the prefunding of retiree health care benefits.[2] The U.S. Postal Service Office of Inspector General (OIG) has issued seven reports exploring these complex issues and identifying opportunities for better use of these funds. See Prior Audit Coverage for additional information. This report updates prior work which described Postal Service funding levels for pension and retiree health care benefits.

Conclusion

The Postal Service has funded its pension benefit obligations at nearly 105 percent and is currently overfunded by $13.1 billion. The law does not allow the Office of Personnel Management (OPM) to alter the contribution formula for the Postal Service, nor can it refund current or future surpluses. Although the Postal Service continues to implement changes to align costs with income, action is needed now to use the current and future surpluses to remain a viable business.

Further, the Postal Service is required to fully fund its future retiree health care benefit obligations. Currently, the Postal Service has funded nearly 50 percent of that obligation ($44.1 billion of the $90.3 billion future obligation). As an alternative to the annual prefunding payments, which has been difficult, we estimate the Postal Service's fair market value of real property to be $85 billion, which would be sufficient to cover the remaining unfunded obligation of $46 billion. Recognition of these assets that could be applied to the liability, if ever needed, could prevent the prefunding payments from increasing Postal Service debt.

[1] The Postal Service pays pension contributions into the Civil Service Retirement and Disability Fund (CSRDF).
[2] The Postal Service pays retiree health care contributions into the Postal Service Retiree Health Benefit Fund (PSRHBF).

Funding Level Updates

The OPM has projected a $13.1 billion surplus in the Postal Service's pension plan, as of September 30, 2011,[3] resulting in a 105 percent[4] funded pension plan. Figure 1 provides funding details for the $13.1 billion surplus.

Figure 1. Pension Funding Status

Present Value Analysis of Retirement Programs
as calculated by OPM (9/30/10 latest actual data available)

(Dollars in billions)

CSRS	Projected 2011	2010	2009
Actuarial Accrued Liability 9/30	$ 193.3	$ 193.0	$ 202.6
Current Fund Balance	195.0	194.6	195.3
(Unfunded)/Surplus	**$ 1.7**	**$ 1.6**	**$ (7.3)**

FERS	Projected 2011	2010	2009
Actuarial Accrued Liability 9/30	$ 75.9	$ 69.9	$ 68.3
Current Fund Balance	87.3	80.8	75.2
Surplus	**$ 11.4**	**$ 10.9**	**$ 6.9**

* assumes full payment of all USPS FERS contributions

TOTAL CSRS and FERS	Projected 2011	2010	2009
Actuarial Accrued Liability 9/30	$ 269.2	$ 262.9	$ 270.9
Current Fund Balance	282.3	275.4	270.5
(Unfunded)/Surplus	**$ 13.1**	**$ 12.5**	**$ (0.4)**

Source: Postal Service's 2011 Form 10-K Report, dated November 16, 2011.

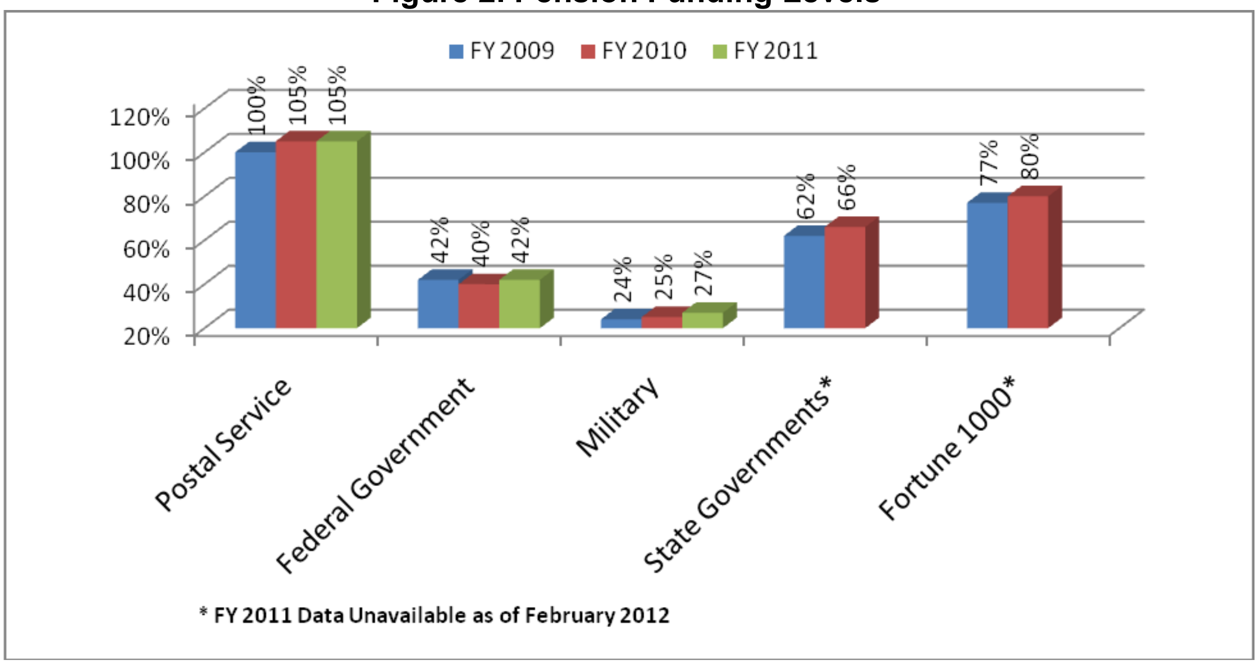
By comparison, the federal government[5] is 42 percent funded and the military[6] is 27 percent funded, as of September 30, 2011. According to the OPM, the liability is a projection for current and future benefit obligations and considers contributions paid into and disbursements from the CSRDF. Overall, the liability is based on estimated

[3] CSRS is overfunded by $1.7 billion and FERS is overfunded by $11.4 billion.
[4] Separately, CSRS is 101 percent funded and FERS is 115 percent funded.
[5] Federal government pension contributions are also paid into the CSRDF. Combined with Postal Service contributions, the CSRDF is 53 percent funded.
[6] Military pension contributions are paid into the Military Retirement Fund, a separate fund from the CSRDF.

demographics for the entire federal government, including the Postal Service. However, the Postal Service's benefits paid represent actual demographic behavior, such as early career turnover and not the aggregate for the federal government, resulting in a surplus status for the Postal Service and an unfunded status for the federal government. Based on this data, the Postal Service's overfunding issue is even larger than we previously reported.

In addition, compared to the Postal Service, only 6 percent of Fortune 1000 companies have pension plans that are 100 percent or more funded.[7] The average Fortune 1000 company's pension plan is funded at 80 percent.[8] State government pension plans[9] are not as robust as the private sector, with only 1 percent of the pension plans being fully funded. State governments have an average funding level of 66 percent.[10] Figure 2 shows the pension funding levels from 2009 through 2011 for various entities.

Figure 2. Pension Funding Levels



Sources: Postal Service's Form 10-K Reports, federal government financial statements, and benchmarked research for public and private sectors.

The Postal Service is currently funded at 49 percent for retiree health care benefits, as of September 30, 2011, and is obligated to prepay $33.9 billion through 2016.[11]

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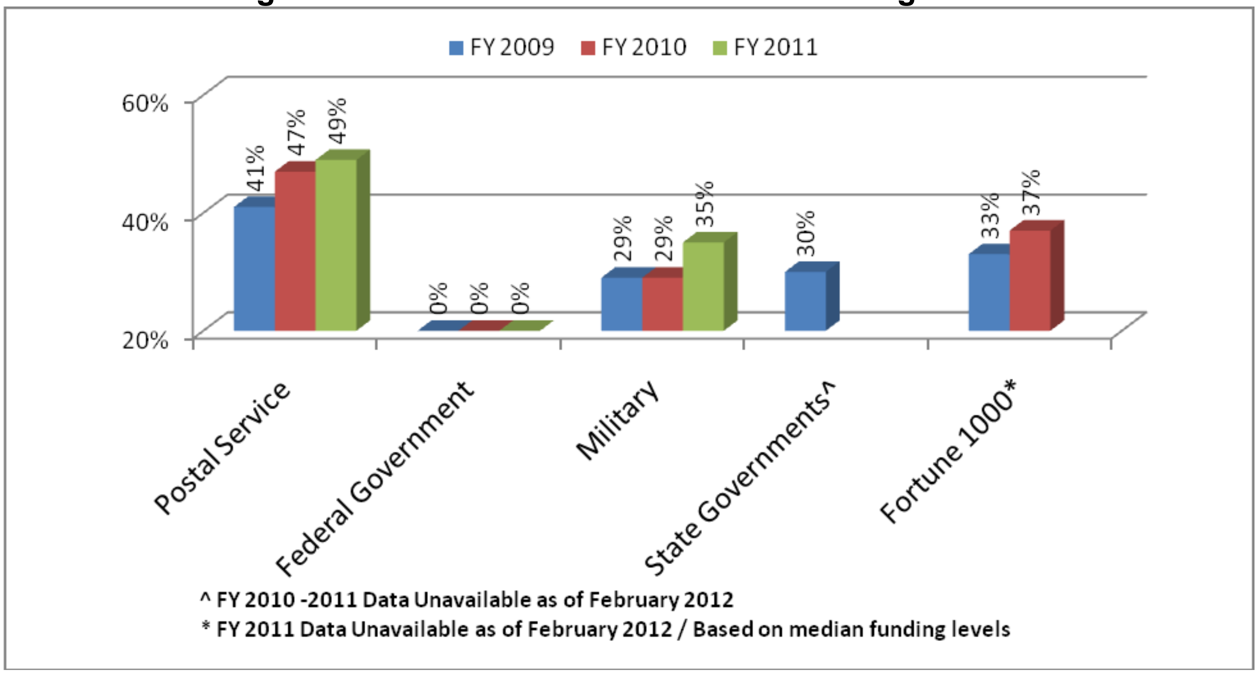
7 Survey of 615 companies.
8 The Fortune 1000 average funding level ranged from 71 to 95 percent between 2001 and 2010.
9 Survey of 99 state pension plans (some states had more than one pension plan).
10 The state government average funding level ranged from 62 to 95 percent from 2001 through 2010.
11 The Postal Service is obligated to pay $11.1 billion in FY 2012 and an average of $5.7 billion between 2013 and 2016.

Comparatively, the federal government does not prefund its retiree health care benefits, the military[12] is funded at 35 percent, and state governments were funded at 30 percent in FY 2009. Only 38 percent of Fortune 1000 companies that offer retiree health care benefits prefund the expense, at a median funding level of 37 percent.[13] Figure 3 shows retiree health care benefit funding levels from 2009 through 2011 for various entities.

Figure 3. Retiree Health Care Benefit Funding Levels



Sources: Postal Service's Form 10-K Reports, federal government financial statements, and benchmarked research for public and private sectors.

Use of Overfunded Amount

The Postal Service has an opportunity to use its projected current and future surpluses to address its current financial crisis, while maintaining a 100 percent funding level for its pension obligations. Additionally, current PSRHBF assets would continue to grow with interest. The PSRHBF would still maintain a funding level that exceeds public and private industry standards.

As of September 30, 2011, the PSRHBF had assets totaling $44 billion with unfunded obligations of $46 billion, totaling $90 billion in future obligations. Figure 4 details the funded and unfunded future retiree health care obligations.

[12] Military retiree health care contributions are paid into the Medicare-Eligible Retiree Health Care Fund, separate from the PSRHBF. The fund pays the liabilities under the Department of Defense retiree health care programs for military retirees and their dependents and survivors who are Medicare-Eligible.
[13] Eighty-seven percent of Fortune 1000 companies provide retiree health care benefits; however, only 38 percent prefund the expense. The median funding level ranged from 23 to 37 percent between 2001 and 2010.

Figure 4. Retiree Health Benefit Funding Status

Postal Service Retiree Health Benefit Fund Funded Status and Components of Net Periodic Costs as calculated by OPM * (Dollars in millions)	**2011**	**2010**
Beginning Actuarial Liability at October 1	$ 91,059	$ 87,472
- Actuarial Gain	(5,360)	(1,600)
+ Normal Costs	2,879	3,055
+ Interest @ 4.9% and 5.1%, respectively	4,200	4,379
Subtotal Net Periodic Costs	**1,719**	**5,834**
- Premium Payments	(2,441)	(2,247)
Actuarial Liability at September 30	**90,337**	**91,059**
- Fund Balance at September 30	(44,118)	(42,492)
Unfunded Obligations at September 30	**$ 46,219**	**$ 48,567**

* The 2011 medical inflation assumption was 5.5% as of the valuation date and grades down to an ultimate value of 4.4%. The 2010 medical inflation assumption was 7.5% and grades down to an ultimate value of 4.5%.

Source: Postal Service's 2011 Form 10-K Report, dated November 16, 2011.

Providing the Postal Service with the projected CSRS and FERS surpluses gives needed short-term flexibility for it to address its current financial crisis. Future surplus funds could also be refunded to the Postal Service in the year of occurrence. Pension guidelines[14] in the private sector allow certain entities to withdraw pension fund surpluses under certain circumstances. The law[15] does not specify how the federal government, including the Postal Service, resolves a surplus in the CSRDF. We believe allowing the Postal Service to use its current and future surplus funds will provide significant financial relief and dramatically improve cash flow. See Appendix B for monetary impact.

[14] *Accounting Standards Codification,* Section 715, Compensation – Retirement Benefits, 30 Defined Benefit Plans – Pensions, 55 Implementation Guidance and Illustrations, 6 Net Periodic Pension Cost, September 15, 2009.
[15] U.S. Code, Title 5, Part III, Subpart G, Chapter 84, Subchapter II, §8423 (b)(1) through (5).

Value of Extensive Real Property Holdings

The OIG previously reported[16] that the Postal Service could use its real property assets with the consent of the U.S. Department of Treasury (Treasury) and the OPM to address financial obligations if conditions were to dramatically deteriorate. The Postal Service owns buildings and land with a purchase value of more than $27 billion.[17] In our prior report, we provided examples of properties' purchase price versus assessed values;[18] however, we did not calculate the fair market value of the assets.[19] In further work, we determined that by increasing the purchase value based on the long-term average commercial real estate rate of return of 3 percent per year,[20] the current fair market value of the real estate holdings would be an estimated $85 billion. The $85 billion would sufficiently cover the remaining unfunded retiree health care benefit obligation of $46 billion.

We believe the value of these extensive real property holdings provides an alternative to the prepayment of retiree health care benefits. Recognition of these assets, which could be applied to the obligation, if ever needed, could prevent the prefunding payments from increasing Postal Service debt. The Postal Service should continue to consider this value, along with other revenue-generating and cost-savings options, as it addresses its retirement benefit obligations.

Other Related Matters

Current legislative and administration proposals to strengthen the federal government's pension funding and modify employees' retirement benefits could have additional significant impacts on the Postal Service's funding levels. For example, proposed legislation includes provisions to increase FERS and CSRS contributions an additional 5 percent, with the increase phased in over a 5-year period beginning in 2013.[21] In addition, recently enacted legislation[22] requires employees newly hired into the federal government starting in calendar year 2013, and with fewer than 5 years of service, to pay 2.3 percent more of their salary into FERS. Additional proposals still being considered include reducing FERS benefits by computing the annuity on a 5-year

[16] *Leveraging Assets to Address Financial Obligations* (Report Number FF-MA-11-118, dated July 12, 2011).
[17] As of April 2011, the Postal Service owned nearly 8,900 buildings and parcels of land.
[18] For example, the National Postal Museum had a purchase price of $47 million and an assessed tax value of $304 million.
[19] The Postal Service does not maintain fair market or assessed tax value records for its properties.
[20] The 3 percent rate pertains to the total rate of return on investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes. Although the mix of Postal Service facilities generally would not be considered investment properties, we believe the 3 percent appreciation factor is reasonable for this calculation based on the Bureau of Labor Statistics' 100-year Consumer Price Index average of between 3.1 and 3.2 percent.
[21] The administration has proposed in its FY 2013 budget a 1.2 percent increase in retirement contributions phased in over a 3-year period.
[22] Public Law 112-96.

salary average and allowing 0.7 percent for each year of service.[23] Approval of further legislative or administrative proposals is subject to much debate and it is unclear what proposals will be signed into law; however, if these proposals are approved, the Postal Service's pension fund surplus could increase, as assets may grow with increased contributions and the liability (future obligations) may decrease.

Recommendation

We recommend the chief financial officer and executive vice president, in coordination with the vice president, Government Relations and Public Policy:

1. Pursue legislative action to refund the current pension surplus and any future pension surpluses to the Postal Service.

Management's Comments

Although management did not agree or disagree with the monetary impact, they did agree with the recommendation and will continue their support of pending legislation that would address the FERS surplus. They will also evaluate all pension assets and liabilities prior to the start of a new session of the Congress in January 2013, and will pursue legislation as appropriate.

Management also advised that they have requested specific legislation to address both the FERS surplus and retiree healthcare. They noted that Senate Bill 1789, the 21st Century Postal Service Act of 2012,[24] would complete the FERS funding rules on both deficits and surpluses and negate the need for future legislative action. Additionally, it would extend and reduce retiree health benefit funding levels going forward. However, the House of Representatives Bill 2309, the Postal Reform Act of 2011,[25] does not address potential future surpluses and would only adjust the timing of the retiree health benefit prefunding. Management understands the unfunded obligation must not become a burden to taxpayers and proposed a Postal Service healthcare plan which would substantially reduce, if not eliminate, the unfunded retiree healthcare obligation.

Regarding the use of real property assets to address financial obligations, management does not believe Treasury will allow cash obligations to be settled with the pledge of real property. However, they will continue to identify real estate assets that are in excess of needs and to obtain the best value from their lease or disposal. See Appendix C for management's comments, in their entirety.

[23] Current FERS benefits are generally based on a 3-year salary average with 1 percent for each year of service.
[24] Passed April 25, 2012.
[25] Not yet passed.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendation and management's corrective actions should resolve the issues identified in the report.

The OIG considers the recommendation significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action is completed. This recommendation should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed.

Appendix A: Additional Information

Background

The Postal Service's financial challenges have been well-publicized in recent months. The funding requirements for pensions and retiree health care benefits have caused a tremendous burden on the Postal Service's financial operations. The Postal Service has fully funded its pension obligations for both CSRS and FERS. For retiree health care benefits, the Postal Service is required to prefund the expense at an increasing rate through 2016.

The OPM establishes prefunding levels for the CSRS and FERS pension programs and the Postal Accountability and Enhancement Act of 2006[26] dictates prefunding requirements for retiree health care benefits, as well as current and future requirements to pay retiree health care premiums. The OPM uses actuarial assumptions for the future rate of inflation, cost-of-living adjustments, annual salary increases, and a projected rate of return on the CSRDF to establish contribution rates. Understandably, actuarial assumptions will never equal the actual experiences, resulting in actuarial gains or losses. Changes in the economic climate or demographics may alter the funding status.

The OIG has offered a variety of recommendations to assist the Postal Service in controlling expenses and decreasing future losses caused by prefunding pensions and retiree health care benefits. The Postal Service is currently working with Congress to develop legislation to address the comprehensive issues identified in our prior reports.

Objective, Scope, and Methodology

Our objective was to explore progress on funding pension and retiree health care benefits as of September 30, 2011. We did not rely on computer-generated data to support the opinions and conclusions presented in this report. To achieve our objectives we:

- Reviewed prior OIG and Government Accountability Office reports.
- Researched FY 2011 annual reports for the Postal Service and federal government.
- Evaluated benchmarked data from the public and private sectors.
- Considered proposed legislation and current news articles.

We conducted this review from January through June 2012 in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation.* We discussed our observations and conclusions with management on May 17, 2012, and included their comments where appropriate. We did

[26] Public Law 109-435.

not rely on any computer generated data for the conclusions in this report.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact (In billions)	Report Results
Leveraging Assets to Address Financial Obligations	FF-MA-11-118	7/12/2011	None	This report explores an opportunity for the Postal Service to leverage its assets to address its funding obligations. It recommends working with applicable parties to leverage Postal Service properties at fair market value to achieve 100 percent funding for its retirement benefit programs. Management agreed with the intent of the recommendation but did not know whether property could be used to achieve 100 percent funding of these obligations in any legal or actuarial sense. They agreed to raise the leveraging issue with other stakeholders.
Substantial Savings Available by Prefunding Pensions and Retirees' Health Care at Benchmarked Levels	FT-MA-11-001	11/23/2010	$59.8	This report summarizes the results of our review and benchmarking of the Postal Service's prefunding of pensions and retiree health care liabilities. It recommends management pursue necessary changes that would permit the Postal Service to prefund pension and retiree health care funds at benchmarked levels of 80 and 30 percent, respectively, of liabilities. Management did not agree with the recommendation but did state they would continue to work with Congress and the administration to address this matter.

Report Title	Report Number	Final Report Date	Monetary Impact (In billions)	Report Results
Summary of Substantial Overfunding in Postal Service Pension and Retiree Health Care Funds	FT-MA-10-002	9/30/2010	$8.7	This report summarizes the results of four OIG reports identifying overfunding issues in employee and retiree benefit funds. It recommends management develop a comprehensive legislative strategy to recover overfunded amounts and review all available data related to pensions and retiree health benefit calculations to ensure that calculations are reasonable and accurate. Management neither agreed nor disagreed with the recommendations but was working with Congress to address the findings of the four reviews summarized in this report.
Federal Employees Retirement System Overfunding	FT-MA-10-001	8/16/2010	None	This report identifies that the Postal Service overfunded its FERS contributions by $5.5 billion. In addition, present legislation does not exist to resolve surpluses. Further, it recommends that the Postal Service's pension responsibilities be clearly delineated and separated from those of the rest of the federal government. Management agreed with our recommendations and stated that legislative change would be pursued if FY 2010 FERS valuations support it.
Civil Service Retirement System Overpayment by the Postal Service	CI-MA-10-001	6/18/2010	$49.8	This report discusses the $75 billion CSRS overfunding by the Postal Service, addresses the related facts, and identifies solutions. Management agreed with the recommendation and was pursing various options identified by the OIG to obtain a more equitable CSRS valuation and access to any resulting funds.
The Postal Service's Share of CSRS Pension Responsibility	RARC-WP-10-001	1/20/2010	None	This report discusses the inequities of the current system of funding of the Postal Service's CSRS pension responsibility and explains that it has resulted in an overfunding of $75 billion.

Report Title	Report Number	Final Report Date	Monetary Impact (In billions)	Report Results
Estimates of Postal Service Liability for Retiree Health Care Benefits	ESS-MA-09-001(R)	7/22/2009	$5.95	This report questions OPM's assumption that the annual health care cost inflation rate will average 7 percent annually for all future years. Management concurred with the recommendation and stated they will use this information to help support their continuing discussions with OPM, the Postal Regulatory Commission, and Congress.

Appendix B: Monetary Impacts

As of September 30, 2011, the Postal Service's share of the CSRDF (including both FERS and CSRS) had a projected surplus of $13.1 billion. On September 30, 2010,[27] the OIG claimed monetary impact relating to the Postal Service's adjusted FERS surplus of $5.5 billion as of September 30, 2009. Since the FY 2009 surplus is included in the FY 2011 surplus, we have reduced the monetary impact to represent the surplus not previously claimed ($13.1 billion less $5.5 billion equals $7.6 billion).

Recommendation	Impact Category	Amount
Pursue legislative action to refund the current pension surplus and any future pension surpluses to the Postal Service.	Funds Put to Better Use[28]	$7,600,000,000

[27] *Summary of Substantial Overfunding in Postal Service Pension and Retiree Health Care Funds* (Report Number FT-MA-10-002, dated September 30, 2010).
[28] Funds that could be used more efficiently by implementing recommended actions.

Appendix C: Management's Comments

UNITED STATES POSTAL SERVICE

June 12, 2012

LUCINE WILLIS
DIRECTOR, OIG AUDIT OPERATIONS

SUBJECT: Management Advisory Report – Pension and Retiree Health Care Funding Levels (Report Number FT-MA-12-DRAFT)

Thank you for the opportunity to respond to the above-referenced report. As you are aware, the United States Postal Service has requested specific legislation to address our financial position and our projected losses. Our legislative initiatives would return the projected Postal Service surplus of $11.4 billion in the Federal Employees Retirement System (FERS)[1] and could nearly eliminate our unfunded retiree healthcare obligation of $42.6 billion.[2] Our proposals to address both the FERS surplus and retiree healthcare are discussed in more detail in Postmaster General and Chief Executive Officer Patrick R. Donahoe's congressional testimony of September 6, 2011, and March 27, 2012, and in our *Plan to Profitability*, which we sent to congressional leaders on February 16, 2012.

While multiple bills have been introduced in the House and Senate addressing this issue, Senate Bill 1789 (S. 1789), the *21st Century Postal Service Act of 2012*, which passed the Senate on April 25, 2012, includes provisions that would return to the Postal Service the projected 2011 FERS surplus of $11.4 billion and any future surpluses that may accumulate. This provision regarding future surpluses is very important, as it would complete the FERS funding rules on both deficits and surpluses and negate the need for future legislative action. If passed, House of Representatives Bill 2309 (H.R. 2309), the *Postal Reform Act of 2011*, would return the 2010 FERS surplus of $10.9 billion in one lump sum two weeks following its enactment, but it does not address potential future surpluses.

With respect to the benchmarking of pension funding by various governmental and private sector entities, it is important to note that the Civil Service Retirement System (CSRS) was not originally designed to achieve 100 percent funding levels via contributions from agencies and employees. However, the *Postal Accountability and Enhancement Act of 2006 (PAEA)* directs the U.S. Office of Personnel Management (OPM) to annually calculate the funding status of CSRS as it relates to the Postal Service. In the future, any resulting surplus would be periodically deposited in the Postal Service Retiree Health Benefits Fund (PSRHBF), with the first opportunity for such a deposit occurring with respect to fiscal year (FY) 2015. Beginning in FY2017, any underfunding must be addressed via postal contributions to CSRS (the Postal Service employer contribution to CSRS was suspended by the PAEA). In contrast to CSRS, FERS was designed to achieve 100 percent funding levels. In the event of agency underfunding, current law provides OPM with the authority to increase agency contributions to FERS by an amount sufficient to achieve full funding over time. As mentioned in the OIG's above-referenced report, however, the law does not provide a mechanism for the refund of FERS surpluses.

[1] In October 2011, the U.S. Office of Personnel Management (OPM) disclosed a Postal Service FERS surplus of $10.9 billion as of September 30, 2010, and projected a Postal Service FERS surplus of $11.4 billion as of September 30, 2011.
[2] Source of $42.6 billion: OPM calculation as of September 30, 2011.

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With regard to prefunding of retiree healthcare benefits (RHB), the OIG's benchmarking clearly demonstrates the unique and burdensome nature of our RHB prefunding requirement. S. 1789 would extend and reduce our RHB funding levels going forward, bringing them closer to the approaches used by some entities that prefund RHB; however, H.R. 2309 would only adjust the timing of the prefunding. We understand and share the policy concern that our unfunded obligation must not become a burden to taxpayers. With this and other considerations in mind, we proposed a Postal Service healthcare plan for current employees and retirees, which would substantially reduce, if not eliminate, our unfunded retiree healthcare obligation, through full integration with Medicare Parts A, B and D, adoption of private sector best practices, and other changes that are not presently available under the Federal Employees Health Benefits Program.

In July 2011, we provided extensive comments in response to the OIG's Management Advisory – Leveraging Assets to Address Financial Obligations (Report Number FF-MA-11-118), including our view on the related legal issues. Our understanding of the relevant legal issues has not changed. That is, we do not believe the Treasury will allow us to settle cash obligations with the pledge of real property. Further, we believe that Postal Service-occupied real estate would not be a suitable asset within the PSRHBF, because employer-occupied real estate cannot be readily sold to provide cash when needed to pay benefits. Sales leasebacks of property may be possible, but these leaseback obligations may be limited by the statutory $15 billion debt limit. Unless the real estate was leased to the Postal Service, there would be no running yield from the asset, and if the properties were leased, the lease payments would increase Postal Service expenses. Finally, as demand for certain types of real estate changes over time, the current value of properties and land may change materially.

In the past year, the Postal Service has undertaken numerous steps to better align our sortation, transportation, retail, and delivery networks with mail volumes, and we continue to believe that further steps are necessary (e.g., five-day delivery and changes in delivery standards). We will continue our efforts to identify real estate assets that are in excess of needs and to obtain best value from their lease or disposal.

Recommendation:
Pursue legislative action to refund the current pension surplus and any future pension surpluses to the Postal Service.

Response:
Management concurs with this recommendation. We believe it is very important that any legislation include automatic refund of any future pension surpluses. To date, we have focused on the FERS surplus of $11.4 billion, which is equal to 15 percent of the entire Postal Service FERS liability. OPM's projection of our CSRS surplus is $1.7 billion as of September 30, 2011. This amount represents less than one percent of the Postal Service CSRS liability.

Management will continue its support of pending legislation that would address the Postal Service FERS surplus. We will also evaluate all Postal pension assets and liabilities prior to the start of a new session of the Congress in January 2013, and will pursue legislation as appropriate.

Target Implementation Date:
We plan to work with Congress to resolve these issues by the end of the calendar year 2012 and into 2013 as necessary.

Responsible Official:
Marie Therese Dominguez, Vice President, Government Relations and Public Policy

This report and management's response do not contain information that may be exempt from disclosure under the Freedom of Information Act.

Joseph Corbett
Chief Financial Officer and Executive Vice President

Marie Therese Dominguez
Vice President, Government Relations and Public Policy

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