OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

Office of Inspector General | United States Postal Service

RARC Report

Update on the Postal Service's Share of CSRS Pension Responsibility

Report Number RARC-WP-18-009 | May 7, 2018

Table of Contents

Executive Summary

This white paper by the U.S. Postal Service Office of Inspector General (OIG) responds to a request from Congress to provide updated estimates of the postal portion of assets within the Civil Service Retirement System (CSRS) fund, using methods of calculation proposed by the OIG and the Postal Regulatory Commission (PRC) in 2010.

At its creation in 1971, the U.S. Postal Service was required to keep most of its massive workforce enrolled in CSRS, a defined-benefit pension program. The Postal Service and the federal government share the burden of CSRS pension costs for employees who carried over from the old Post Office Department.

Every time those employees receive a pay increase, their CSRS pension benefits grow in value — including benefits they earned while working for the Post Office Department. Under the Office of Personnel Management's (OPM) current method of calculation, the Postal Service has sole responsibility for *all* increases in pension costs due to employee pay increases after July 1, 1971. Although a 2003 law required the use of dynamic assumptions to account for employees' anticipated future pay increases, OPM has applied these assumptions only to the Postal Service's share of the costs. Under OPM's method, the federal government is only responsible for CSRS obligations reflecting employees' 1971 salary.

In January 2010, the OIG released a white paper titled *The Postal Service's Share of CSRS Pension Responsibility*, which proposed an alternate way of splitting the costs of the CSRS obligation between the Postal Service and the federal government. This "years-of-service" method would assign costs in direct proportion to the number of years employees worked for the Post Office Department or the Postal Service. For example, under this method the Postal Service would pay only 50 percent of the costs for an employee who spent 50 percent of their career with the Postal Service.

After the OIG's paper, in June 2010, the PRC released a report suggesting another approach to assigning CSRS pension costs. This "benefit accrual" method has the advantage of reflecting the traditional CSRS formula in which employees earn benefits more slowly during the start of their career and more quickly in later years. However, in contrast to OPM's current method, the benefit accrual method assigns the federal government costs based on employees' actual pay at the end of their career instead of a salary frozen in 1971. Moreover, the benefit accrual method reflects core principles established in modern actuarial and accounting standards. It is important to note that implementing either alternate method would not reduce or alter the pension benefits actually earned and received by CSRS annuitants.

For this new white paper, the OIG hired PRM Consulting Group (PRM) to provide updated estimates using both of the alternate methods proposed in the 2010 reports by the OIG and the PRC. According to PRM's estimates, the postal portion of assets within the CSRS fund would have been $111 billion larger as of September 30, 2016, under the years-of-service method, and $80 billion larger under the benefit accrual method. This issue is critical because the Postal Service's CSRS obligation is underfunded by about $27 billion.

Highlights

The Postal Service alone covers increases in CSRS pension costs resulting from pay raises given to USPS employees who worked for the Post Office Department before USPS was created in 1971.

The federal government's share of these CSRS pension costs is based on employees' 1971 pay, as if the employees had not received future pay increases.

In 2010, the OIG and the PRC proposed two alternate methods of splitting the costs of the CSRS obligations. This paper provides an update to those estimations.

Under the "benefit accrual" method, the postal portion of assets within the CSRS fund would be $80 billion larger than its current level. Under the "years-of-service" method, that difference would be $111 billion.

Observations

Introduction

The Postal Service and the federal government share responsibility for the Civil Service Retirement System (CSRS) pension costs of postal employees who worked for the Post Office Department before 1971. When the Postal Service began operations on July 1, 1971, it was required to keep its employees in CSRS.[1] However, the law at that time did not address how the increased pension costs would be paid for employees of the old Post Office Department who later continued working for the Postal Service (referred to as "POD-USPS crossover employees" in this paper). Would those costs be the Postal Service's obligation, or would the federal government pick up the tab on behalf of the former Post Office Department?

The Postal Service is currently responsible for all additional CSRS liabilities resulting from pay increases after 1971.

Congress answered this question in 1974 by passing a law making the Postal Service responsible for the additional CSRS liability resulting from pay increases after June 30, 1971.[2] Under this law, the federal government assumed no responsibility for inflationary increases to pension costs related to employees' service during the Post Office Department era. This has resulted in the Postal Service paying a larger share of the CSRS pension costs for these employees. For example, the Postal Service could be responsible for 70 percent of the pension of an employee who worked only 50 percent of her career for the Postal Service.

In 2003, in response to a concern that the Postal Service was on track to overfund its CSRS pension obligations substantially, Congress passed a law that altered the methodology the Office of Personnel Management (OPM) uses to calculate the Postal Service's payments.[3] Although OPM's current method applies dynamic assumptions to its calculation of the Postal Service's CSRS liability, it has not changed the way it estimates the federal government's share of these costs. Under OPM's method, the federal government's share of costs is based on employees' 1971 pay.

The U.S. Postal Service Office of Inspector General (OIG) released a white paper in January 2010 addressing this issue.[4] The OIG proposed a simple alternate method of allocating these pension costs between the federal government and the Postal Service — one that would divide the costs in proportion to the years of service employees spent working for the Post Office Department and the Postal Service. For example, under the OIG's proposal, the Postal Service would be responsible for 60 percent of the pension obligation for an employee who spent 60 percent of their federal career at the Postal Service.[5]

Alternate methods of splitting CSRS pension costs can better reflect principles from modern actuarial and accounting standards.

In June 2010, shortly after the release of the OIG's paper, the Postal Regulatory Commission (PRC) issued a separate report in response to a request from the Postal Service to provide its opinion on the fairness and equity of the OPM allocation methodology.[6] The PRC report stated that "fairness and logic" dictate that

1 The Postal Service replaced the Post Office Department under the Postal Reorganization Act of 1970 (PRA), P.L. 91-375. The PRA transferred the operational authority from Congress to a Board of Governors and Postal Service executive management. The PRA made the Postal Service an independent establishment of the executive branch, whereas the Post Office Department had been a cabinet-level department. In addition, the PRA required that "Officers and employees of the Postal Service (other than the Governors)" be covered under CSRS.

2 The Postal Service's CSRS responsibilities under P.L. 93-349 apply to pay increases granted to *all* USPS employees, not just those who carried over from the Post Office Department. This paper focuses primarily on the issue of how to address CSRS pension costs related to affected POD-USPS crossover employees.

3 The Postal Civil Service Retirement System Funding Reform Act of 2003, P.L. 108-18.

4 In its 2010 report, the OIG hired the actuarial firm the Hay Group to review the allocation of CSRS liabilities between the Postal Service and the federal government. For more information, please see U.S. Postal Service Office of Inspector General, *The Postal Service's Share of CSRS Pension Responsibility,* Report No. RARC-WP-10-001, January 20, 2010, https://www.uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-10-001_0.pdf.

5 For example, this could apply to an employee who worked 10 years with the Post Office Department and 15 years with the Postal Service.

6 For this report, the PRC commissioned the Segal Group. For more information, please see The Segal Group, *Report to the Postal Regulatory Commission on: Civil Service Retirement System Cost and Benefit Allocation Principles,* June 29, 2010, https://www.prc.gov/docs/68/68679/Report%20on%20CSRS%20Cost%20and%20Benefit%20Allocation%20Principles_1126.pdf.

the federal government should pay pension costs associated with employment before July 1, 1971.[7] The PRC report suggested another approach for allocating the costs for the Postal Service's CSRS pension obligations, which would use modern actuarial and accounting standards as a guidepost to produce a more equitable split.

This white paper responds to a request from U.S. Representative Stephen F. Lynch to provide an updated estimate of what the balance of the Postal CSRS Fund would be under the alternate methods proposed by the OIG and the PRC in 2010.[8] For this paper, we hired PRM Consulting Group (PRM), whose report to the OIG is included as Appendix A.

Overview of CSRS and Its Cost to the Postal Service

CSRS is a federal retirement system for employees who started working for the government in 1983 or earlier.[9] It is a defined-benefit pension system in which both employees and employing agencies contribute each year toward the expense of future annuities.[10] As mentioned above, when the Postal Service replaced the Post Office Department in 1971, it was required to keep its employees in CSRS. Postal employees earn their CSRS benefits under the same accrual formula as other, non-postal federal employees.

As shown in Table 1, there are two drivers of a retiree's initial CSRS benefit — years of service and salary.[11] For years of service, the benefit formula results in CSRS benefits accruing more slowly during the first part of an employee's career.

The salary portion of the CSRS computation is based on an employee's high-three average salary, which is the highest basic pay for any three consecutive years of work.[12] In most cases, those three years are the final three years of an employee's career.

Table 1: Example of CSRS Benefit Accrual Formula

CSRS BENEFITS ACCRUE MORE SLOWLY IN EARLY YEARS

Federal employees enrolled in CSRS accrue benefits more slowly in the early years of their career. The example below shows how benefits would have accrued for a hypothetical employee who worked for the federal government for 25 years with a final high-three average salary of $20,000.

Years of Employment	High-Three Average Salary	Percent of Salary Earned as Benefit Each Year	Annual Benefit Earned Each Year	Total Amount of Annual Benefit Earned for Years
1-5	$20,000	1.5%	$300	$1,500
6-10	$20,000	1.75%	$350	$1,750
11-25	$20,000	2.0%	$400	$6,000
			Total Annuity	**$9,250**

Source: OIG Analysis.

7 Ibid, p. 1.
8 In reality, there is only one account, the Civil Service Retirement and Disability Fund (CSRDF), which contains both the federal and Postal Service monies and employee contributions put aside to cover the cost of obligations under CSRS and the Federal Employees Retirement System (FERS). In this report, we use the term "Postal CSRS Fund" to refer to assets the Postal Service and its employees specifically put into that fund to cover the obligations for postal employees and retirees who participate in CSRS.
9 CSRS stopped taking new entrants at the end of 1983, prior to being replaced by FERS.
10 For more information, please see the OPM website at https://www.opm.gov/retirement-services/csrs-information/.
11 In addition, retirees will receive cost of living adjustments (COLAs) to their benefit payments.
12 For more information, please see the OPM website at https://www.opm.gov/retirement-services/csrs-information/computation/.

Alternate Methods of CSRS Pension Cost Allocation

The OIG and the PRC both issued proposals in 2010 for alternate ways of allocating the CSRS pension costs for POD-USPS crossover employees. Those 2010 reports found that the Postal CSRS Fund would be between $50 billion (PRC estimate) and $75 billion (OIG estimate) larger than it was under OPM's actual method at the time.[13] For this new OIG white paper, PRM conducted updated analysis using both alternate methods to determine what the Postal CSRS Fund balance would be if those methods had been in place since 1971 instead of OPM's current method. Given that nearly a decade has passed since the previous reports were released, the differences in the fund balance estimates using the different methods have grown considerably.

Figure 1 compares how OPM's current method and the two alternate methods assign costs for a hypothetical Postal Service employee who worked for both the Post Office Department and the Postal Service over the course of his 25-year career.

Under OPM's current method, the federal government's share of the costs is frozen at 1971 levels, using the CSRS formula for benefit accrual but applying only the employee's salary at that time. This means that the federal share is calculated as if employees retired as soon as the Postal Service began operations. The Postal Service pays the entirety of the remaining CSRS obligation, with the federal government taking on no added costs for future pay increases of POD-USPS crossover employees.

We discuss two alternate methods below for spreading the costs between the Postal Service and the federal government more proportionately. It is important to note that these alternate methods merely split CSRS pension costs differently; they do not affect the benefits employees have earned and to which they are entitled.

Years-of-Service Method

Instead of leaving the federal share frozen at 1971 levels, the years-of-service method would split the costs of the CSRS obligation between the federal government and the Postal Service in direct proportion to the number of years an employee actually worked for the Post Office Department and the Postal Service. For instance, if an employee spent exactly half of their career working for the Post Office Department and the other half working for the Postal Service, the pension costs for that employee would be equally divided.

According to estimates from PRM, had the years-of-service method been used instead of OPM's current method, the Postal CSRS Fund's value as of September 30, 2016, would have been approximately $283 billion. That represents an increase of about $111 billion over OPM's current method.[14]

Benefit Accrual Method

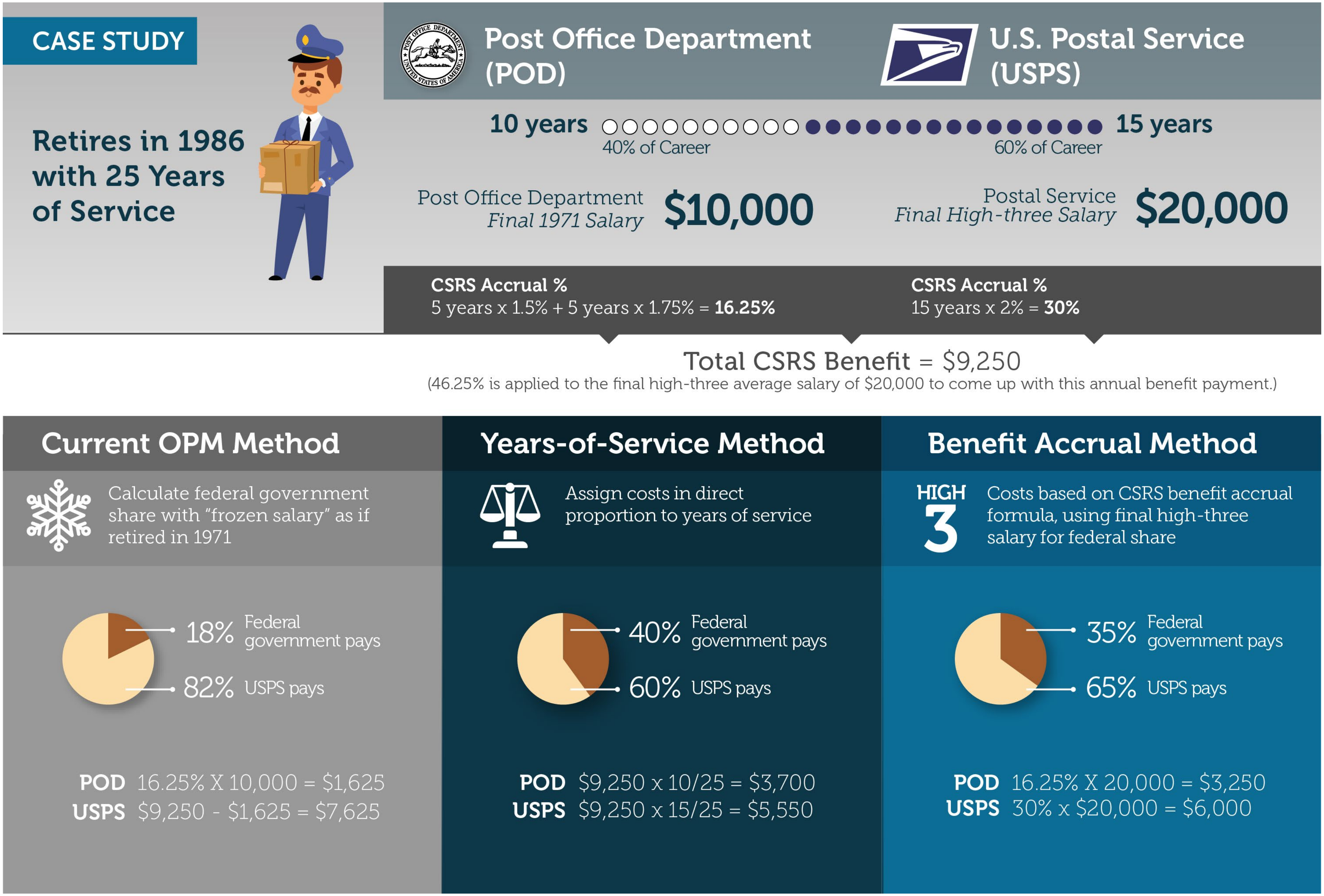
Applying employees' actual final high-three salary to all years they worked to determine costs — instead of keeping the federal share frozen at 1971 levels — would be more consistent with modern actuarial and accounting standards.

Another reasonable alternative for allocating CSRS pension costs would be the option proposed by the PRC in 2010, which we refer to here as the benefit accrual method. Under this method, the existing CSRS accrual formula would be used to split the pension costs between the federal government and the Postal Service. One advantage of this method is that it fully reflects the way CSRS was designed, with benefits accruing more slowly during the first years of an employee's career, and applies that principle to the cost allocation. However, unlike OPM's current method, which uses 1971 salaries to calculate the federal government's share of costs, the benefit accrual method uses employees' final high-three average salary at the end of their careers when determining the costs for both the federal government and the Postal Service.

13 Both the OIG's and PRC's 2010 reports focused on retroactive changes to the Postal CSRS Fund balance, meaning that the methods they proposed would reallocate the costs between the Postal Service and the federal government for CSRS pension benefits already paid going back to July 1, 1971. However, both reports also mentioned that there would be an additional, smaller benefit to the Postal Service because the alternate methods also would reduce its liability for future CSRS pension costs.

14 For more information about PRM's analysis, please see Appendix A.

Figure 1: Comparison of OPM's Current Method and Two Alternate Methods



The 2010 PRC report supported this proposal by emphasizing that it reflected modern actuarial and accounting standards, stating:

> *FASB ASC 715 is quite clear with respect to the two areas of disagreement. An employer is required to reflect the actual benefit accrual formula embodied in a pension plan, as OPM does. An employer is also required to reflect the impact of future salary increases on current accruals in a "high" or "final" average salary plan, as USPS-OIG does.*[15]
>
> *The FASB ASC 715 methodology assigns the [Post Office Department] period the benefit based on the CSRS benefit formula and participant service at transition, but reflects a future final average salary rather than a frozen 1971 rate of pay.*[16]

Based on PRM's updated estimates using the benefit accrual method, the Postal CSRS Fund would have been approximately $252 billion as of September 30, 2016, if this alternate method had been used instead of OPM's current method. That is an increase of nearly $80 billion over OPM's current estimate of the Postal CSRS Fund's value.[17]

Comparison of Estimates Under Three Methods

Table 2 compares the estimated value of the Postal CSRS Fund as of September 30, 2016, under the three cost-allocation methods discussed in this paper.[18]

It is important to note that the estimates in Table 2 are higher than the estimates presented in 2010 by the OIG and the PRC. In 2010, the OIG paper estimated that the years-of-service method would result in a $75 billion increase in assets in the Postal CSRS Fund, and the PRC's report estimated that the benefit accrual method resulted in a $50-to-$55 billion difference. This change is due to how the funds' growth would have varied since 2010 under the three cost-allocation methods. Under OPM's current method, the Postal CSRS Fund has actually declined as benefit payments exceeded fund earnings. However, under either alternate method the earnings would have exceeded the benefit payments, allowing the fund balance to grow. The larger the fund, the greater the potential for earnings, and therefore the greater the potential for future growth.[19]

Table 2: Estimated Value of the Postal CSRS Fund Under Different Methods

ALTERNATE COST-ALLOCATION METHODS PROVIDE DIFFERENT ESTIMATES OF THE POSTAL CSRS FUND'S POTENTIAL VALUE

Both alternate methods for allocating CSRS costs (years-of-service and benefit accrual) would lead to different values for the Postal CSRS Fund. The Postal CSRS Fund is currently underfunded by $27 billion.

Estimated Value of Postal CSRS Fund (as of September 30, 2016)			
	OPM's Current Method	Years-of-Service Method	Benefit Accrual Method
Estimated Value	$172.4 billion	$283.2 billion	$252.2 billion
Increase Over OPM's Current Method	$0	$110.8 billion	$79.8 billion

Source: PRM estimates and OPM data.

15 Segal Group report to the PRC, p. 2. Although the PRC report acknowledged that Segal primarily relied on private sector actuarial and accounting standards, it asserted that those standards were relevant to discussions about the Postal Service's share of its CSRS responsibility.
16 Ibid., p. 10.
17 For more information about PRM's analysis, please see Appendix A.
18 U.S. Postal Service, 2017 Report on Form 10-K, http://about.usps.com/who-we-are/financials/10k-reports/fy2017.pdf, p. 28. This reflects the actual 2016 data, and is consistent with the analysis by PRM.
19 For more information, please see PRM's analysis on pg. 13.

Use of Modern Actuarial and Accounting Standards Would More Appropriately Acknowledge Future Pay Increases

OPM's current way of estimating the Postal Service's CSRS liability uses dynamic assumptions, but the division of costs is still essentially static because it sets the federal government's share at 1971 levels.

Modern actuarial and accounting standards for pension accounts factor in the effects of future pay raises. The 2003 law reflected these modern practices when it changed the calculation of the Postal Service's CSRS obligation from a static process to a more robust annual estimation that incorporates expected future increases in pension costs due to inflation, investment returns, and employees' pay raises.[20] After the law's passage, OPM introduced a new procedure that applied these dynamic assumptions to its Postal CSRS Fund estimation as required. However, the basic allocation of costs between the federal government and the Postal Service is still essentially static, with the federal share based on 1971 pay. Leaving this critical part of the process — the splitting of pension costs — static and unchanging may be inconsistent with the overall intent of using dynamic assumptions.

Conclusion

The current method used by OPM to divide POD-USPS crossover employees' CSRS pension costs between the Postal Service and the federal government is disproportionate. Using an alternate method could result in a more even division of responsibility for this critical and significant obligation, and could more broadly reflect principles from modern actuarial and accounting standards. PRM's estimates show that the value of the Postal CSRS Fund would have been $111 billion larger following the years-of-service method, and $80 billion larger under the benefit accrual method, as of September 30, 2016. The Postal CSRS Fund is currently underfunded by $27 billion, which reflects the substantial financial challenges facing the Postal Service.

20 P.L. 108-18, Section 2(a)(3).

Appendices

Click on the appendix title below to navigate to the section content.

Appendix A: Report from PRM Consulting Group

prm CONSULTING GROUP

The Postal Service's Share of the Civil Service Retirement System (CSRS) Pension Responsibility

PREPARED FOR: USPS OFFICE OF INSPECTOR GENERAL

DATE: MARCH 2018

PRM CONSULTING GROUP • 3206 TOWER OAKS BOULEVARD • SUITE 400 • ROCKVILLE, MD 20852
PHONE: 301.951.5104 • FAX: 301.951.5108
WWW.PRMCONSULTING.COM

EXECUTIVE SUMMARY

In 2010, the USPS Office of Inspector General (OIG) published a report The Postal Service's Share of CSRS Responsibility[1] that discussed the split of the obligation for the civilian portion of the Civil Service Retirement System (CSRS) liabilities between the Postal Service and the federal government for those employees whose career spans before and after July 1,1971, (the date at which the Postal Service went from being a government-funded agency to an independent, self-funded agency). The current Office of Personnel Management (OPM) policy is to make this split by calculating the federal government's share of the civilian portion of the CSRS obligation as if the person retired from the federal government in 1971 (we refer to this as the "frozen accrued benefit method"). Under this policy, the Postal Service's share of the CSRS pension is the total pension (based on civilian service) less the frozen 1971 accrued benefit amount. Accordingly, this approach results in the full burden of post-1971 salary increases falling on the Postal Service.

In the 2010 Report, the OIG presented examples of why this split is unfair and calculated the impact of changing this methodology to one that allocates the pension by career years worked at the Post Office Department and the Postal Service ("years-of-service method"). After the paper was released, the Postal Regulatory Commission (PRC) was asked by the Postal Service to provide its opinion on the fairness and equity of the OPM allocation methodology. The Segal Company, the contractor hired by the PRC, reviewed both the OPM and OIG methodology and suggested a third alternative, similar in concept to the OIG's years-of-service methodology but based on principles adopted in pension accounting standards ("benefit accrual method"). The rationale for the use of the benefit accrual method was described in the Segal 2010 Report to the PRC.[2]

PRM Consulting Group (PRM) was retained by the OIG to prepare an update to the OIG 2010 Report with current information through September 30, 2016, and to expand the analysis to include the benefit accrual method from the Segal report. This report therefore determines the Postal CSRS Fund as of September 30, 2016, using:

- OPM's frozen accrued benefit methodology,
- years-of-service methodology, and
- benefit accrual methodology.

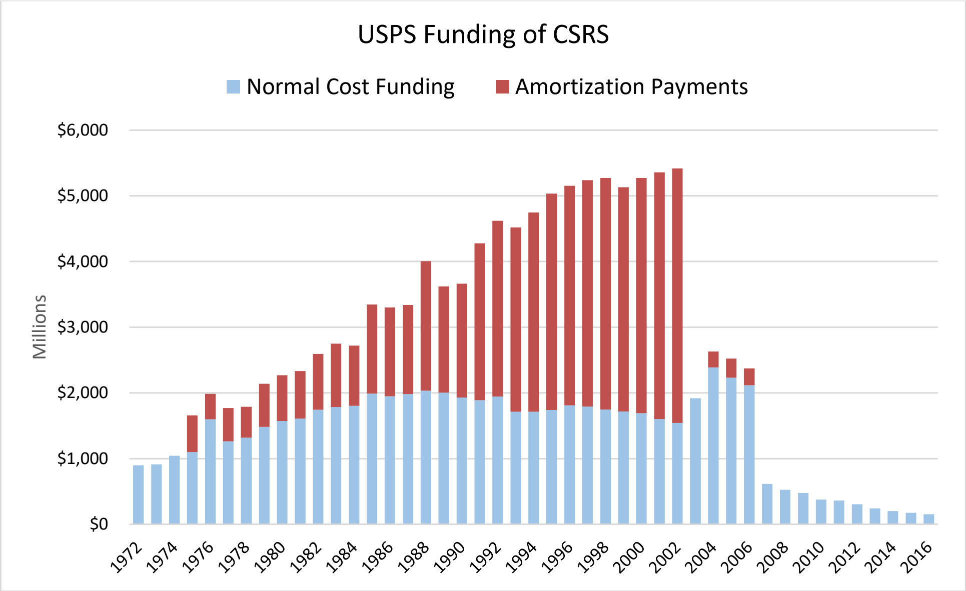
1 January 2010 Report Number: RARC-WP-10-001 ("2010 Report")
2 June 29, 2010 Report to the Postal Regulatory Commission on Civil Service Retirement System Cost and Benefit Allocation Principles.

POSTAL CSRS FUND

The term "Postal CSRS Fund" is used throughout this paper to represent the subset of assets within the Civil Service Retirement and Disability Fund (CSRDF) that are attributable to covering the postal share of CSRS obligations. The cost allocation methodologies are described in Section I of this report and the data used to develop the cost allocations is described in Sections II-IV.

The amount of the pension benefit payable to a retired postal worker is not affected by the approach used to allocate the costs between the Postal Service and the federal government. The purpose of the different methodologies is solely to determine the Postal Service's and federal government's shares of the CSRS liabilities.

Since the 1970 Postal Reorganization Act (PRA), a total of $119 billion has been contributed into the Postal CSRS Fund, $63 billion in regular normal cost "agency" and employee contributions and $56 billion in amortization payments made by the Postal Service. The chart below shows the amount and timing of these payments. In June 2007, $17.1 billion, the surplus in the Postal CSRS Fund, was transferred to the newly established Postal Service Retiree Health Benefit Fund ("PSRHBF"). Since 2007, only employee contributions have been paid into the Postal CSRS Fund.



Under current OPM policy for allocating CSRS liabilities between the Postal Service and the federal government (i.e. the frozen benefit method), total pension payments from the fund totaled $220 billion between FY1972 and FY2016.

The payments from the Postal CSRS Fund would have been different had another methodology been used to estimate the Postal Service's share of the CSRS obligation for employees with service spanning before and after July 1, 1971. Using the benefit accrual methodology to determine the postal share of the pension benefit responsibility, the total amount of pension payments that would have been paid from the fund from FY1972-FY2016 is $191.7 billion. Under the years-of-service methodology, the amount would have been $180.6 billion.

Table E-1 summarizes the contributions and payments made to the Postal CSRS Fund, and the benefit payments and transfers from the fund, based on the three cost-allocation approaches. The CSRS fund earnings rate was just over 6% in FY1972; above 10% from FY1982 through FY1991 (peaking at 11.7125% in FY1985), then declined gradually to 8.66% in FY1996; 5.73% in FY2006; and 4.09% in FY2016. The annual fund earnings rates are shown in Appendix A. Applying the same earnings rates to the accumulated fund amounts, annual funding and benefit payments under each of the three methodologies results in the different Postal CSRS Fund amounts for each cost allocation method.

Table E-1
Postal CSRS Fund as of September 30, 2016
Amounts in $Billions

	Frozen Accrued Method	**Benefit Accrual Method**	**Years-of-Service Method**
Normal Cost Payments	$63.0	$63.0	$63.0
Amortization Payments	$56.0	$56.0	$56.0
Fund Earnings	$290.5	$342.0	$361.9
Benefit Payments	($220.0)	($191.7)	($180.6)
Transfer to PSRHBF	($17.1)	($17.1)	($17.1)
Postal CSRS Fund 9/30/2016	**$172.4**	**$252.2**	**$283.2**

Under the benefit accrual method, the Postal CSRS Fund would be $79.8 billion larger as of September 30, 2016 than under OPM's current frozen accrued benefit method. Under the years-of-service method, the Postal CSRS Fund would be $110.8 billion larger than under OPM's method as of September 30, 2016.

Table E-2 shows the Postal CSRS Fund amounts under the three methods as of September 30, 2009. PRM calculated the increase in the value of the Postal CSRS Fund using the benefit accrual method as $53.2 billion as of September 30, 2009, compared to the range of $50 to $55 billion developed by the Segal Company for its 2010 report to the PRC.

Table E-2 Postal CSRS Fund Amounts in $Billions			
	Frozen Accrued Method	**Benefit Accrual Method**	**Years-of-Service Method**
Fund as of 9/30/2009	$195.6	$248.7	$269.0
Increase from frozen accrued value method	--	**$53.2**	**$73.5**
Employee contributions FY2010-2016	$1.8	$1.8	$1.8
Benefit payments FY2010-2016	($81.4)	($74.6)	($71.6)
Investment earnings FY2010-FY2016	$56.5	$76.3	$83.9
Fund as of 9/30/2016	$172.4	$252.2	$283.2
Increase from frozen accrued value method	**--**	**$79.8**	**$110.8**

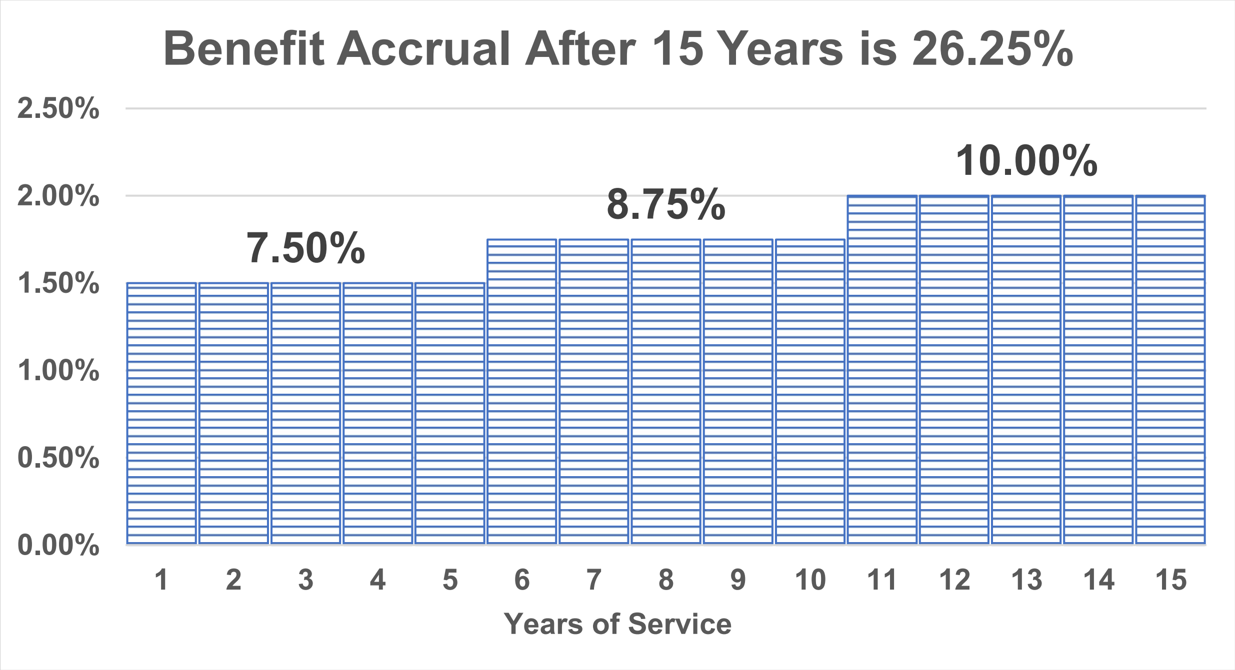
Table E-2 also shows the different direction the fund amounts have or would have taken since 2009. Under OPM's frozen accrued method, the benefit payments have exceeded the investment earnings, resulting in a decline in the fund amount by over $23 billion. Under the benefit accrual method, the investment earnings would have slightly exceeded the benefit payments, resulting in a small increase in the fund amount. Under the years-of-service method, the larger initial fund balance and $3 billion in lower benefit payments since 2009 together would have generated $7.6 billion more in investment earnings since 2009, resulting in a further $10 billion increase in the fund amount compared to the benefit accrual method.

I. COST ALLOCATION METHODOLOGIES

The amount of the pension benefit payable to the retired postal worker is not affected by the approach used to allocate the costs between the Postal Service and the federal government. The purpose of the different methodologies is solely to determine the Postal Service's and federal government's shares of the CSRS liabilities.

CSRS BENEFIT FORMULA

CSRS provides a defined benefit retirement income based on years of credited service and the participant's "high-three" pay. The high-three pay is the average of the highest consecutive three-years base pay. The amount of the annuity is based on a non-uniform benefit accrual rate. The accrual rate is 1.50% for each of the first 5 years, 1.75% for each of the next 5 years, and 2% for each additional year after that point. Therefore, if an employee had 15 years of credited service in CSRS, the benefit accrual would be 26.25% of the high-3 pay, as depicted in the following chart.



COST ALLOCATION FOR A POSTAL WORKER WITH PRE-1971 SERVICE

For illustration purposes, consider the CSRS pension benefits accruing to a City Letter Carrier who, as of July 1, 1971, had 5 years of service. Based on the CSRS formula for computing the basic annuity, as shown above, the benefit multiplier for this employee would be 7.5 percent (5 x 1.5%).

Based on the National Association of Letter Carriers (NALC) Collective Bargaining Agreement (CBA) the City Letter Carrier's pay as of July 1, 1971 was $7,777 per year. Therefore, in this illustrative example, the accrued pension for the City Letter Carrier's service in the Post Office Department ("POD") was $583.28 per year as of July 1, 1971.

Date	Final Salary at POD	Benefit Multiplier (5 Years of Service times 1.50%)	Annual Accrued Pension
7/1/1971	$7,777	7.5%	$583.28 [3]

As shown in Appendix B, the City Letter Carrier's pay increased due to "step" increases, cost of living adjustments, and negotiated CBA general increases. Assuming the postal worker retired with 30 years of service, the annual base pay in the final three years include $34,243 as of March 6, 1993 and increased to $36,135 as of March 16,1996. The High-3 average of the last 36 months base pay is $35,225. Using the CSRS accrual formula, the benefit multiplier is 56.25%[4]; therefore, the total pension at retirement is $19,814.20.

Date	High-3 As of 7/1/1996	Benefit Multiplier (30 Years of Service)	Total Pension (56.25% x $35,225)
7/1/1996	$35,225	56.25%	$19,814.20

OPM'S FROZEN ACCRUED BENEFIT METHODOLOGY

Under OPM's current methodology, the frozen accrued benefit approach, the federal portion of the benefit is the frozen accrued benefit as of July 1, 1971, or $583.28 in the above example. Thus, under this approach the USPS portion is the balance of the total pension, or $19,230.92 in this illustration. This is based on the 5 years of service at the POD and the July 1971 salary of $7,777.

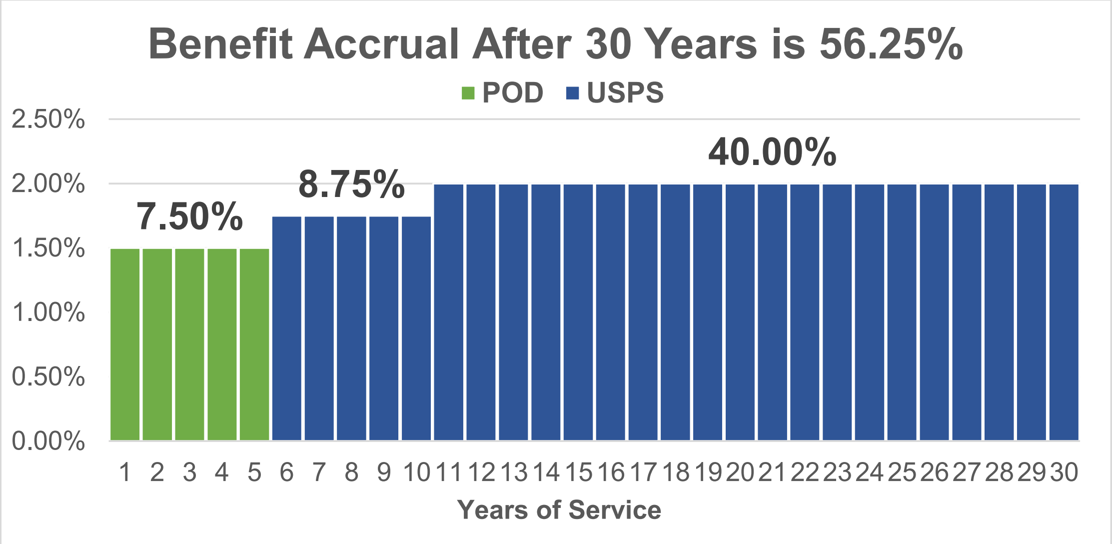
3 $7,777 time 7.5% equals $583.28.
4 7.5% + 8.75% + 40% = 56.25%

	POD Frozen Accrued Benefit	USPS Portion (Balance)	Total Pension
Years of Service	5	25	30
High-3[5]	$7,777		$35,225
Benefit Multiplier	7.5%		56.25%
Dollar Amount	$583.28	$19,230.92	$19,814.20
Share	2.9%	97.1%	100%

BENEFIT ACCRUAL METHODOLOGY

Under the benefit accrual methodology, the total benefit is allocated between the federal share and the USPS share based on the portion of the retirement benefit that is accrued according to the CSRS pension formula based on the respective employment service periods.

In the above example, the benefit multiplier for the individual after 30 years of service is 56.25%. The federal accrual for the first five years of service is 7.5% (5 times 1.5%) and the Postal Service accrual for the next 25 years of service is 48.75% (5 times 1.75% plus 20 times 2.00%).



The USPS share is therefore the total pension multiplied by the ratio of the USPS accrual (48.75%) to the total accrual (56.25%), which in this example results in 86.67% of the overall accrual. The USPS share is therefore $17,172.31 and the federal share is $2,641.89.

5 The calculation as of July 1, 1971 used the final salary as of July 1, 1971, rather than the High-3.

	Total	POD Accrual	USPS Accrual
Years of Service	30	5	25
Accrual Percent	56.25%	7.5%	48.75%
Accrual Share		7.5% / 56.25% = 13.33 %	48.75% / 56.25% = 86.67 %
Pension Allocation	$19,814.20	$2,641.89	$17,172.31

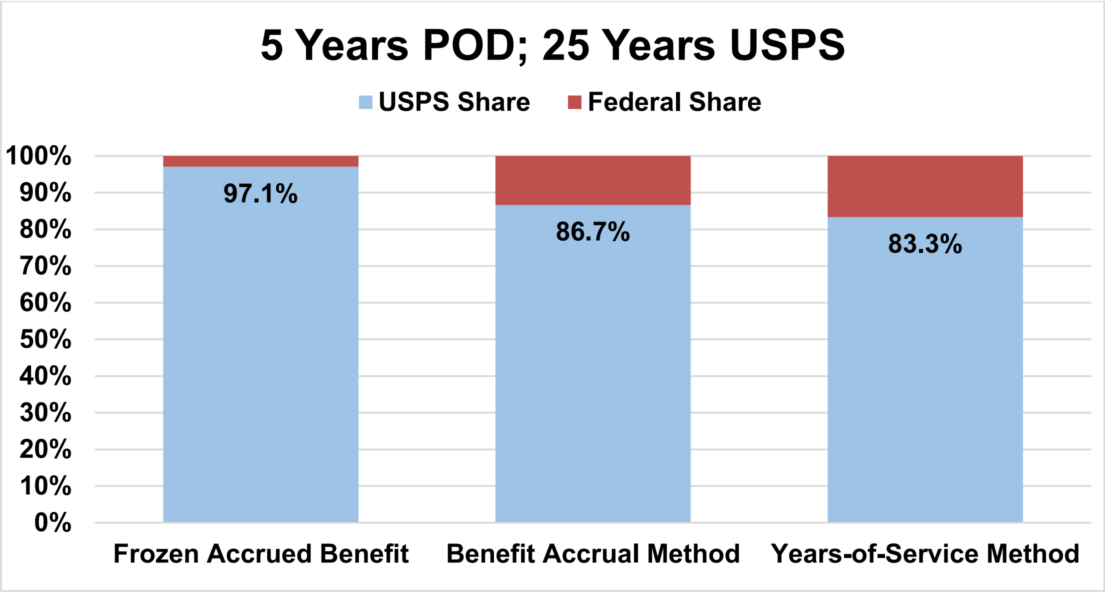
YEARS-OF-SERVICE METHODOLOGY

Under the years-of-service approach, the total benefit is allocated between the federal share and the USPS share based on the years of service with the Post Office Department and the Postal Service. In the above example, the postal worker had 5 years of service with the Post Office Department so the federal share is 5/30th (16.67%) and the Postal Service share is 25/30th (83.33%).

	Total	POD	USPS
Years of Service	30	5	25
Share of service		5 / 30 = 16.67%	25 / 30 = 83.33%
Pension Allocation	$19,814.20	$3,302.37	$16,511.83

Cost Allocation Summary

The chart below summarizes the three cost allocation approaches for the above example of a postal worker who had 5 years of service with the POD and 25 years with the Postal Service, retiring with 30 years of combined service. The frozen accrued method allocates 97.1% to USPS and 2.9% to the federal government. The benefit accrual method allocates 86.7% to USPS and 13.3% to the federal government. The years-of-service method allocates 83.3% to USPS and 16.7% to the federal government.



MID-CAREER EMPLOYEE EXAMPLE

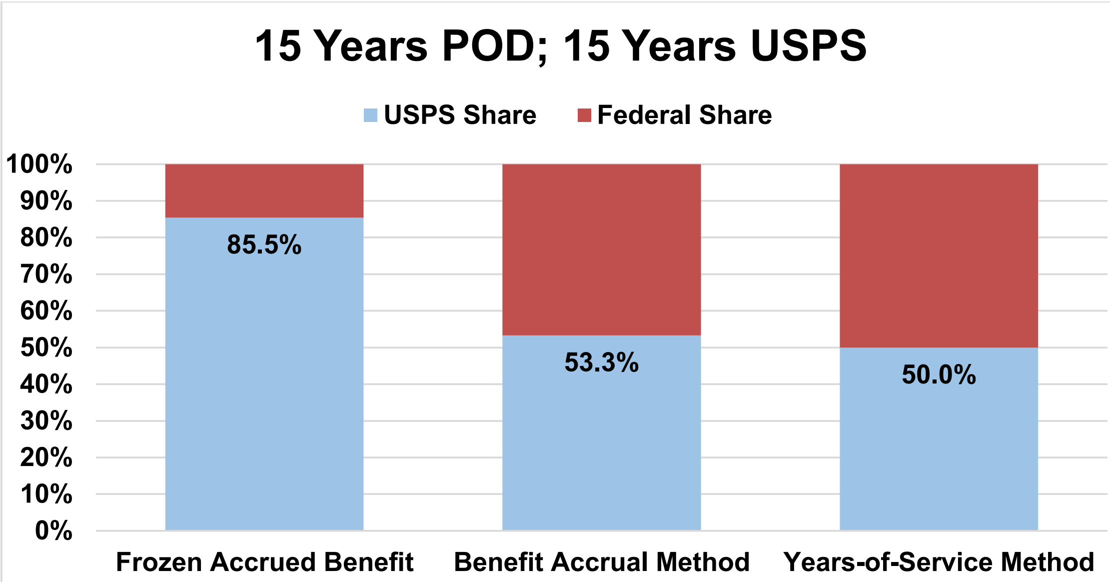
In this second example, we show the cost allocations for a postal worker who had 15 years of service when the Postal Reorganization Act was enacted and retired with 30 years of service. Therefore, half of the employees' service was with the Postal Service. The accrued pension as of July 1, 1971 is $2,041.46 as shown below, and the total pension at retirement is $14,032.20.

Date	Final Salary at POD	Benefit Multiplier (15 Years of Service)	Accrued Pension as of 7/1/1971
07/01/71	$7,777	26.25%	$2,041.46

The years-of-service method allocates the pension cost equally between POD and USPS. Under the benefit accrual method, the Postal Service share is 30/56.25, or 53.3%, slightly higher than the years-of-service method. Under the frozen accrued benefit method, the USPS share is 85.5% ($11,990.74/ $14,032.20).

Cost Allocation Summary

The chart below summarizes the three cost allocation approaches for this second example for a postal worker who had 15 years of service with the POD, and 15 years with the Postal Service, retiring with a total of 30 years of combined service.


15 Years POD; 15 Years USPS
USPS Share
Federal Share
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
85.5%
53.3%
50.0%
Frozen Accrued Benefit
Benefit Accrual Method
Years-of-Service Method

II. POSTAL CSRS FUND BASED ON FROZEN ACCRUED BENEFIT

In October 2017, OPM's Office of the Actuary provided the Postal Service with a FY2017 Financial Reporting report that included the CSRS Liability and Postal Fund as of September 30, 2016, determined in accordance with 5 USC 8348(h). The actuarial liability was determined using the long-term economic actuarial assumptions adopted by the CSRS Board of Actuaries at the June 1, 2017, meeting, which included a discount rate of 4.50%, future inflation rate of 2.50%, and General Salary Increase rate of 2.75%.

Table II-1 shows the Actuarial Accrued Liability and the Postal CSRS Fund as of September 30, 2016 with the historical and future benefit cost-sharing based on the frozen accrued benefit method. The Postal CSRS Fund was developed by accumulating the agency and employee contributions at the CSRS fund earnings rates shown in Appendix A-1, and deducting from the fund the postal share of the CSRS pension benefits. The Actuarial Accrued Liability is the discounted value of future benefit payments (net of future employee contributions). Table II-1 shows that using OPM's current frozen accrued benefit method, the Postal CSRS Fund was $172.4 billion and the Actuarial Accrued Liability exceeded the Postal CSRS Fund by $26.9 billion as of September 30, 2016. The detailed year-by-year calculations are shown in Appendix C-1.

Table II-1
As of September 30, 2016
Amounts in $Billions

Cost-sharing Method	Frozen Accrued Benefit
Postal CSRS Fund Assets	172.4[6]
Actuarial Accrued Liability	$199.3
Surplus (or Unfunded Actuarial Liability)	(26.9)

6 $17.1 Billion was transferred from the CSRS Fund to the Postal Service Retiree Health Benefits Fund as of June 30, 2006.

III. POSTAL CSRS FUND BASED ON YEARS-OF-SERVICE METHOD

Under this method the benefits are allocated to the USPS in proportion to the years of civilian service after July 1971 to the total years of civilian service used in determining the pension benefit.

Data Sources for Years of Civilian Service

In order to perform this analysis, we needed an estimate of the portion of total years of service that are attributable to the Postal Service. Fortunately, one data source already exists. Since the 1980s, the USPS has been responsible for paying a portion of the employer share of annuitants' health care premiums. For postal employees with pre-reorganization service, the employer portion of retiree healthcare premiums are allocated between the federal government and the USPS in proportion to employees' pre-1971 and post-1971 service. On a monthly basis, OPM has been submitting an invoice to the Postal Service with a summary of the employer portion of postal annuitants' Federal Employees Health Benefit (FEHB) premiums, with the allocation of the employer premium apportioned between the federal government and the Postal Service.

The share of the employer portion of the FEHB premium that is the responsibility of USPS is referred to as the "apportionment factor." Historical data on the apportionment factor was obtained from the Postal Service and extrapolated back to 1972. Therefore, the apportionment factors shown in Table III-1 are a reliable estimate of the share of total years of civilian service attributable to the Postal Service. [7]

The following table shows the apportionment factor has increased steadily and is now over 85%.

7 While not all annuitants in CSRS with pre-1971 service are enrolled in FEHB, the clear majority of them are. Therefore, the apportionment factor is a reliable estimator for the share of service years between the Post Office Department and the Postal Service.

Table III-1 Apportionment Factor by Fiscal Year									
1972	0.1%	**1982**	19.7%	**1992**	39.2%	**2002**	59.4%	**2012**	78.6%
1973	2.1%	**1983**	21.6%	**1993**	41.2%	**2003**	61.3%	**2013**	80.6%
1974	4.0%	**1984**	23.6%	**1994**	43.1%	**2004**	63.7%	**2014**	81.7%
1975	6.0%	**1985**	25.5%	**1995**	45.1%	**2005**	65.8%	**2015**	82.9%
1976	7.9%	**1986**	27.5%	**1996**	47.0%	**2006**	67.2%	**2016**	85.1%
1977	9.9%	**1987**	29.4%	**1997**	49.0%	**2007**	69.0%		
1978	11.8%	**1988**	31.4%	**1998**	50.9%	**2008**	70.9%		
1979	13.8%	**1989**	33.3%	**1999**	52.9%	**2009**	73.1%		
1980	15.7%	**1990**	35.3%	**2000**	54.8%	**2010**	75.0%		
1981	17.7%	**1991**	37.2%	**2001**	56.8%	**2011**	76.5%		

These factors were applied to the total CSRS pension benefits of retired postal employees and the resulting amounts were then used to recalculate the Postal CSRS Fund as of September 30, 2016. Table III-2 shows the Postal CSRS Fund under the years-of-service method is $283.2 billion. The detailed year-by-year calculations are shown in Appendix C-2.

Table III-2 As of September 30, 2016 Amounts in $Billions	
Cost-sharing Method	**Years-of-Service**
Postal CSRS Fund Assets	$283.2
Actuarial Accrued Liability[8]	$199.3
Surplus (or Unfunded Liability)	$83.9

8 Liability based on OPM's frozen accrued benefit allocation for future payments. Using the years-of-service allocation for future payments, the actuarial accrued liability would be $5.3 billion lower.

IV. POSTAL CSRS FUND BASED ON BENEFIT ACCRUAL METHOD

The benefit accrual method takes both the years of service and the benefit formula into account. This method uses the CSRS pension formula earned during the respective employment service periods for each entity – federal government and the Postal Service - and applies it to the total CSRS benefit of the individuals.

Data Source for Benefit Accrual Method

To determine the allocation shares under this method, an estimate (or estimates) of the average length of service of employees at retirement is needed.

OPM publishes a statistical abstract covering all benefits including data on CSRS annuitants. The retirement section contains, among other statistics, data on the number of annuitants receiving benefits as well as new retirements. Data from the statistical abstracts from 1995, 2000, 2005, and the most recent fiscal year (2016) were examined to obtain estimates of the average length of service with a focus on average length of civilian service – which is the metric used to allocate the civilian portion of CSRS benefits between the federal government and USPS.

Table IV-1
Average Years of Civilian Service for CSRS Annuitants

Year of Statistical Abstract	Average Years of Total Service (A)	Average Years of Military Service (B)	Average Years of Civilian Service (C)	Average Years on Retirement Roll (D)
1995	27.2	2.2	25.0	12.6
2000	27.6	2.1	25.5	16.0
2005	28.5	2.0	26.5	14.6
2016	31.0	1.5	29.5	16.2

Table IV-1 shows that in 1995, the average number of years of civilian service (column C) among all CSRS annuitants receiving benefits at that time was 25 years. This information was used to allocate pension costs for the pensions payable in 1995 using the following steps.

1995 Benefit Accrual Cost Allocation

Step 1. Convert the average years of service into a CSRS benefit
25 years results in a benefit accrual of 46.25%[9]

Step 2 Apportion the years of service between POD and USPS using the apportionment factor for 1995 (Table III-1, 1995 value is 45.07%)
USPS portion = 45.07% x 25 years = 11.27 years

Step 3. Determine the benefit accrual for the portion of civilian service attributable to USPS (11.27 x 2.0% = 22.54%)

Step 4. USPS share of pensions based on benefit accrual formula
USPS share = 22.54%/ 46.25% = 48.7%

The above logic was applied using the data points in 2000, 2005, and 2016. The results are summarized in Table IV-2.

Table IV-2
Determination of USPS share of Civilian Pension Amount Based on Accrual Formula, Average Years of Civilian Service, and Apportionment Factor

	1995	2000	2005	2016
A. Apportionment Factor	45.07%	54.84%	65.80%	84.17%
B. Average years of Civilian Service	25.0	25.5	26.5	29.5
C. Portion of civilian service attributable to USPS [A. x B.]	11.27	13.98	17.44	24.83
D. Benefit Accrual for all Civilian Years (Based on years in B. and CSRS benefit formula)	46.25%	47.25%	49.25%	55.25%
E. Benefit Accrual for Portion of civilian service attributable to USPS (Based on years in C, benefit formula, and total years of Civilian Service in B.)	22.54%	27.97%	34.64%	48.25%
F. USPS share of pension based on Benefit Accrual formula [E / D]	48.7%	59.2%	70.3%	87.3%

9 5 years x 1.50% + 5 years x 1.75% + 15 years x 2.0% = 46.25%

Row A shows the apportionment factors by year. Row B shows the average number of years of civilian service for annuitants receiving pensions in that year. Based on the summary data, an average CSRS civilian service of 25 years was used from 1971 to 1995, and interpolated values from 1995 to 2016.

For the PRC report in 2010, Segal used a constant 25-year service period as the estimate of service at retirement. For the cost allocation and determination of the Postal CSRS Fund, Segal used an average POD service of 10 years (i.e. 40% of the total years of service). Thus, while the approaches used are consistent, the methodology used in this report is "dynamic" in that it results in a cost allocation percentage that varies by year.

The resulting benefit accrual factors were applied to the total CSRS pension benefits of retired postal employees and the resulting amounts were then used to recalculate the Postal CSRS Fund as of September 30, 2016. As shown in Table IV-3, the Postal CSRS Fund using the benefit accrual method is $252.2 billion.

Table IV-3
As of September 30, 2016
Amounts in $Billions

Cost-sharing Method	Benefit Accrual
Postal CSRS Fund Assets	$252.2
Actuarial Accrued Liability	$199.3[10]
Surplus (or Unfunded Liability)	$52.9

10 Liability based on OPM's frozen accrued benefit allocation for future payments. Using the benefit accrual method for future payments, the liability would be $3.3 billion lower.

ACTUARIAL CERTIFICATION

The United States Postal Service Office of Inspector General retained PRM Consulting Group (PRM) to prepare this report and determine the Postal CSRS Fund as of September 30, 2016, under three different methods for allocating benefit costs between the federal government and the United States Postal Service. These measurements have been conducted in accordance with generally accepted actuarial principles and practices.

PRM relied on information contained in the OPM Statistical Abstracts, OPM's Office of the Actuary's Financial Reporting disclosures for historical contribution and benefit amounts paid to/from the CSRS fund, and the apportionment factor data from the Postal Service.

The results shown in this report are reasonable actuarial results. However, a different set of results could also be considered reasonable actuarial results. The reason for this is that the selection of the best estimate assumption requires professional judgment from the actuary. Thus, reasonable results differing from those presented in this report could have been developed by another actuary.

The actuary certifying to these results is a member of the Society of Actuaries and other professional actuarial organizations, and meets the General Qualification Standards of the American Academy of Actuaries for purposes of issuing Statements of Actuarial Opinion.

Adam J Reese

Adam J. Reese, Principal
Fellow of the Society of Actuaries
Fellow of the Conference of Consulting Actuaries
Member of the American Academy of Actuaries
Enrolled Actuary # 17-04303

PRM APPENDIX A

The January 2010 report contained a history of the CSRS fund earnings from 1971 through 2008. The fund earnings since 2008 were obtained from the Postal Service's FY17 financial reporting file prepared by OPM's Office of the Actuary, which noted their reliance upon financial information prepared by OPM's Office of the Chief Financial Officer.

Table A CSRS Fund Earnings FY1972 – FY2016					
FY	Earnings	FY	Earnings	FY	Earnings
1972	6.0350%	**1987**	10.2631%	**2002**	6.8016%
1973	5.6414%	**1988**	10.5644%	**2003**	6.6578%
1974	6.0716%	**1989**	10.4516%	**2004**	6.0681%
1975	6.4839%	**1990**	10.1308%	**2005**	5.8489%
1976	8.7375%	**1991**	10.0964%	**2006**	5.7329%
1977	6.6843%	**1992**	9.7444%	**2007**	5.6323%
1978	7.2232%	**1993**	9.3144%	**2008**	5.4508%
1979	7.1531%	**1994**	8.7904%	**2009**	5.2267%
1980	8.0727%	**1995**	8.7642%	**2010**	5.1011%
1981	8.7906%	**1996**	8.6642%	**2011**	4.7114%
1982	11.2486%	**1997**	7.5824%	**2012**	4.6983%
1983	10.8440%	**1998**	7.8821%	**2013**	4.0090%
1984	10.8898%	**1999**	7.3843%	**2014**	4.1141%
1985	11.7125%	**2000**	7.1461%	**2015**	4.0387%
1986	11.5074%	**2001**	7.0325%	**2016**	4.0955%

For the development of the Postal CSRS Fund under each of the cost allocation methods, the same CSRS annual fund earnings were used.

PRM APPENDIX B

PS-5, CC-5 & CC-1

CITY CARRIER (CC) SCHEDULE
CHRONOLOGICAL LISTING OF PAY INCREASES
4/18/70 (PP 10-70) THROUGH 11/14/2015 (PP 25-2015)
(Salaries Include COLA)

1 # 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17

APWU/NALC

EFFECT. DATE	*Steps Prior to 1/19/85=>* A	B	C	(1) D	(2) E	(3) F	(4) G	(5) H	(6) I	(7) J	(8) K	(9) L	(10) M	(11) N	(12) O	STEP INCR	TYPE INCR	AMT. INCR
04/18/70				7,072	7,307	7,542	7,777	8,012	8,247	8,482	8,717	8,952	9,187	9,422	9,657	235		--
07/20/71				7,322	7,557	7,792	8,027	8,262	8,497	8,732	8,967	9,202	9,437	9,672	9,907	235		250
10/20/71				7,572	7,807	8,042	8,277	8,512	8,747	8,982	9,217	9,452	9,687	9,922	10,157	235		250
01/20/72				7,822	8,057	8,292	8,527	8,762	8,997	9,232	9,467	9,702	9,937	10,172	10,407	235		250
07/20/72				8,072	8,307	8,542	8,777	9,012	9,247	9,482	9,717	9,952	10,187	10,422	10,657	235		250
08/05/72				8,238	8,473	8,708	8,943	9,178	9,413	9,648	9,883	10,118	10,353	10,588	10,823	235	COLA	166
01/20/73				8,488	8,723	8,958	9,193	9,428	9,663	9,898	10,133	10,368	10,603	10,838	11,073	235		250
07/21/73				9,188	9,423	9,658	9,893	10,128	10,363	10,598	10,833	11,068	11,303	11,538	11,773	235		700
11/10/73				9,334	9,569	9,804	10,039	10,274	10,509	10,744	10,979	11,214	11,449	11,684	11,919	235	COLA	146
05/11/74				9,729	9,964	10,199	10,434	10,669	10,904	11,139	11,374	11,609	11,844	12,079	12,314	235	COLA	395
07/20/74				10,129	10,364	10,599	10,834	11,069	11,304	11,539	11,774	12,009	12,244	12,479	12,714	235		400
11/09/74				10,586	10,821	11,056	11,291	11,526	11,761	11,996	12,231	12,466	12,701	12,936	13,171	235	COLA	457
05/10/75				10,898	11,133	11,368	11,603	11,838	12,073	12,308	12,543	12,778	13,013	13,248	13,483	235	COLA	312
07/21/75				11,298	11,533	11,768	12,003	12,238	12,473	12,708	12,943	13,178	13,413	13,648	13,883	235		400
11/08/75				11,444	11,679	11,914	12,149	12,384	12,619	12,854	13,089	13,324	13,559	13,794	14,029	235	COLA	146
03/21/76				11,694	11,929	12,164	12,399	12,634	12,869	13,104	13,339	13,574	13,809	14,044	14,279	235		250
05/08/76				11,902	12,137	12,372	12,607	12,842	13,077	13,312	13,547	13,782	14,017	14,252	14,487	235	COLA	208
11/06/76				12,172	12,407	12,642	12,877	13,112	13,347	13,582	13,817	14,052	14,287	14,522	14,757	235	COLA	270
11/21/76				12,422	12,657	12,892	13,127	13,362	13,597	13,832	14,067	14,302	14,537	14,772	15,007	235		250
05/07/77				12,713	12,948	13,183	13,418	13,653	13,888	14,123	14,358	14,593	14,828	15,063	15,298	235	COLA	291
07/21/77				13,313	13,548	13,783	14,018	14,253	14,488	14,723	14,958	15,193	15,428	15,663	15,898	235		600
11/05/77				13,604	13,839	14,074	14,309	14,544	14,779	15,014	15,249	15,484	15,719	15,954	16,189	235	COLA	291
05/20/78				13,916	14,151	14,386	14,621	14,856	15,091	15,326	15,561	15,796	16,031	16,266	16,501	235	COLA	312
07/21/78				14,416	14,651	14,886	15,121	15,356	15,591	15,826	16,061	16,296	16,531	16,766	17,001	235		500
11/04/78				14,416	14,651	14,886	15,121	15,356	15,591	15,826	16,061	16,296	16,531	16,766	17,001	235	COLA RI	1,518
11/18/78				14,603	14,838	15,073	15,308	15,543	15,778	16,013	16,248	16,483	16,718	16,953	17,188	235	COLA	187
05/19/79				15,144	15,379	15,614	15,849	16,084	16,319	16,554	16,789	17,024	17,259	17,494	17,729	235	COLA	541
07/21/79				15,577	15,819	16,061	16,303	16,545	16,787	17,029	17,271	17,513	17,755	17,997	18,239	242	3% (AVG)	502
11/17/79				16,326	16,568	16,810	17,052	17,294	17,536	17,778	18,020	18,262	18,504	18,746	18,988	242	COLA	749
05/17/80				17,158	17,400	17,642	17,884	18,126	18,368	18,610	18,852	19,094	19,336	19,578	19,820	242	COLA	832
07/21/80				17,658	17,900	18,142	18,384	18,626	18,868	19,110	19,352	19,594	19,836	20,078	20,320	242		500
11/15/80				18,282	18,524	18,766	19,008	19,250	19,492	19,734	19,976	20,218	20,460	20,702	20,944	242	COLA	624
05/16/81				18,968	19,210	19,452	19,694	19,936	20,178	20,420	20,662	20,904	21,146	21,388	21,630	242	COLA	686
07/25/81				19,268	19,510	19,752	19,994	20,236	20,478	20,720	20,962	21,204	21,446	21,688	21,930	242		300
11/14/81				19,663	19,905	20,147	20,389	20,631	20,873	21,115	21,357	21,599	21,841	22,083	22,325	242	COLA	395
05/15/82				19,830	20,072	20,314	20,556	20,798	21,040	21,282	21,524	21,766	22,008	22,250	22,492	242	COLA	167
07/24/82				20,130	20,372	20,614	20,856	21,098	21,340	21,582	21,824	22,066	22,308	22,550	22,792	242		300
11/13/82				20,671	20,913	21,155	21,397	21,639	21,881	22,123	22,365	22,607	22,849	23,091	23,333	242	COLA	541
05/14/83				20,691	20,933	21,175	21,417	21,659	21,901	22,143	22,385	22,627	22,869	23,111	23,353	242	COLA	20
07/23/83				20,991	21,233	21,475	21,717	21,959	22,201	22,443	22,685	22,927	23,169	23,411	23,653	242		300
11/12/83				21,387	21,629	21,871	22,113	22,355	22,597	22,839	23,081	23,323	23,565	23,807	24,049	242	COLA	396
05/12/84				21,511	21,753	21,995	22,237	22,479	22,721	22,963	23,205	23,447	23,689	23,931	24,173	242	COLA	124
07/21/84				22,092	22,340	22,589	22,837	23,086	23,334	23,583	23,832	24,080	24,329	24,577	24,826	249		640
11/10/84				22,383	22,631	22,880	23,128	23,377	23,625	23,874	24,123	24,371	24,620	24,868	25,117	249	COLA	291
01/19/85		18,532	20,518	22,383	22,631	22,880	23,128	23,377	23,625	23,874	24,123	24,371	24,620	24,868	25,117	249	New Steps	0
05/11/85		18,532	20,518	22,487	22,735	22,984	23,232	23,481	23,729	23,978	24,227	24,475	24,724	24,972	25,221	249	COLA	104
07/20/85		19,032	21,072	23,068	23,322	23,578	23,832	24,088	24,342	24,598	24,854	25,108	25,364	25,618	25,874	256		640
11/09/85		19,365	21,405	23,401	23,655	23,911	24,165	24,421	24,675	24,931	25,187	25,441	25,697	25,951	26,207	256	COLA	333
05/10/86		19,427	21,467	23,464	23,718	23,974	24,228	24,484	24,738	24,994	25,250	25,504	25,760	26,014	26,270	256	COLA	63
07/19/86		19,927	22,021	24,045	24,305	24,568	24,828	25,091	25,351	25,614	25,877	26,137	26,400	26,660	26,923	263		640
11/08/86		20,094	22,188	24,211	24,471	24,734	24,994	25,257	25,517	25,780	26,043	26,303	26,566	26,826	27,089	263	COLA	166
05/09/87		20,406	22,500	24,523	24,783	25,046	25,306	25,569	25,829	26,092	26,355	26,615	26,878	27,138	27,401	263	COLA	312
07/18/87		20,814	22,950	25,013	25,279	25,547	25,812	26,080	26,346	26,614	26,882	27,147	27,416	27,681	27,949	268	2% (AVG)	526
10/10/87		20,814	22,950	25,013	25,279	25,547	25,812	26,080	26,346	26,614	26,882	27,147	27,416	27,681	27,949	268	COLA RI	1,643
11/07/87		21,022	23,158	25,221	25,487	25,755	26,020	26,288	26,554	26,822	27,090	27,355	27,624	27,889	28,157	268	COLA	208
05/07/88		21,230	23,366	25,429	25,695	25,963	26,228	26,496	26,762	27,030	27,298	27,563	27,832	28,097	28,365	268	COLA	208
07/16/88		21,480	23,616	25,679	25,945	26,213	26,478	26,746	27,012	27,280	27,548	27,813	28,082	28,347	28,615	268		250
11/05/88		22,000	24,136	26,199	26,465	26,733	26,998	27,266	27,532	27,800	28,068	28,333	28,602	28,867	29,135	268	COLA	520
01/14/89		22,250	24,386	26,449	26,715	26,983	27,248	27,516	27,782	28,050	28,318	28,583	28,852	29,117	29,385	268		250
05/06/89		22,603	24,739	26,802	27,068	27,336	27,601	27,869	28,135	28,403	28,671	28,936	29,205	29,470	29,738	268	COLA	353
07/15/89		22,903	25,039	27,102	27,368	27,636	27,901	28,169	28,435	28,703	28,971	29,236	29,505	29,770	30,038	268		300
11/04/89		23,340	25,476	27,539	27,805	28,073	28,338	28,606	28,872	29,140	29,408	29,673	29,942	30,207	30,475	268	COLA	437
01/27/90		23,640	25,776	27,839	28,105	28,373	28,638	28,906	29,172	29,440	29,708	29,973	30,242	30,507	30,775	268		300
05/05/90		24,181	26,317	28,380	28,646	28,914	29,179	29,447	29,713	29,981	30,249	30,514	30,783	31,048	31,316	268	COLA	541
07/28/90		24,381	26,517	28,580	28,846	29,114	29,379	29,647	29,913	30,181	30,449	30,714	30,983	31,248	31,516	268		200
09/08/90		24,630	26,766	28,830	29,096	29,364	29,629	29,897	30,163	30,431	30,699	30,964	31,233	31,498	31,766	268	COLA	250
02/09/91		24,631	26,767	28,830	29,096	29,364	29,629	29,897	30,163	30,431	30,699	30,964	31,233	31,498	31,766	268	COLA RI	1,269
06/15/91		24,927	27,088	29,176	29,445	29,716	29,985	30,256	30,525	30,796	31,067	31,336	31,608	31,876	32,147	271	1.2% (AVG)	332
07/13/91	22,420	24,927	27,088	29,176	29,445	29,716	29,985	30,256	30,525	30,796	31,067	31,336	31,608	31,876	32,147	271	New Step-A	0
09/07/91	22,420	25,135	27,296	29,384	29,653	29,924	30,193	30,464	30,733	31,004	31,275	31,544	31,816	32,084	32,355	271	COLA	208
11/16/91	22,756	25,504	27,698	29,816	30,089	30,364	30,637	30,912	31,185	31,460	31,735	32,008	32,284	32,556	32,831	275	1.5% (AVG)	437
03/07/92	23,026	25,774	27,968	30,086	30,359	30,634	30,907	31,182	31,455	31,730	32,005	32,278	32,554	32,826	33,101	275	COLA	270
09/05/92	23,401	26,149	28,343	30,461	30,734	31,009	31,282	31,557	31,830	32,105	32,380	32,653	32,929	33,201	33,476	275	COLA	375
11/28/92	23,737	26,518	28,745	30,893	31,170	31,449	31,726	32,005	32,282	32,561	32,840	33,117	33,397	33,673	33,952	279	1.5% (AVG)	437
03/06/93	24,028	26,809	29,036	31,184	31,461	31,740	32,017	32,296	32,573	32,852	33,131	33,408	33,688	33,964	34,243	279	COLA	291
09/04/93	24,298	27,079	29,306	31,454	31,731	32,010	32,287	32,566	32,843	33,122	33,401	33,678	33,958	34,234	34,513	279	COLA	270
11/27/93	24,657	27,473	29,734	31,915	32,197	32,480	32,761	33,044	33,326	33,609	33,892	34,173	34,458	34,738	35,021	283	1.6% (AVG)	467
03/05/94	24,907	27,723	29,984	32,165	32,447	32,730	33,011	33,294	33,576	33,859	34,142	34,423	34,708	34,988	35,271	283	COLA	250
09/03/94	25,240	28,056	30,317	32,498	32,780	33,063	33,344	33,627	33,909	34,192	34,475	34,756	35,041	35,321	35,604	283	COLA	333
02/04/95	25,240	28,056	30,317	32,498	32,780	33,063	33,344	33,627	33,909	34,192	34,475	34,756	35,041	35,321	35,604	283	COLA RI	2,517
08/05/95 *	25,240	28,056	30,317	32,498	32,780	33,063	33,344	33,627	33,909	34,192	34,475	34,756	35,041	35,321	35,604	283	COLA RI	2,517
11/11/95	25,240	28,056	30,317	32,498	32,780	33,063	33,344	33,627	33,909	34,192	34,475	34,756	35,041	35,321	35,604	283	COLA RI	0
11/25/95	25,543	28,393	30,681	32,888	33,173	33,460	33,744	34,031	34,316	34,602	34,889	35,173	35,461	35,745	36,031	287	1.2% (AVG.)	394
Beginning 3/16/96, all COLA increases are rolled in to basic salary immediately																		
03/16/96	25,647	28,497	30,785	32,992	33,277	33,564	33,848	34,135	34,420	34,706	34,993	35,277	35,565	35,849	36,135	287	COLA (RI)	104

The red shaded salaries in the schedule align with a City Letter Carrier with 5 years of service as of July 1, 1971 and step increases in accordance with the CBA in effect prior to July 1, 1971.

The following table shows the number of weeks of service required in each grade level before the City Carrier is eligible to progress to the next pay step.

Steps Prior to 1/19/1985	Steps After 1/18/1985	Weeks of Service Needed Before Eligible for Step Increase
	A-B	96
	B-C	96
	C-D	44
1 - 2	D-E	44
2 - 3	E-F	44
3 - 4	F-G	44
4 - 5	G-H	44
5 - 6	H-I	44
6 - 7	I-J	44
7 - 8	J-K	34
8 - 9	K-L	34
9 - 10	L-M	26
10 - 11	M-N	26
11 - 12	N-O	24

PRM APPENDIX C-1

Frozen Accrued Benefit Method					
	USPS & Employee Funding	Benefit Payments	Transfer to PSRHBF	Fund Earnings	Postal CSRS Fund
1972	$898.9	($1.3)	-	$27.1	$924.7
1973	$911.9	($10.9)	-	$77.6	$1,903.3
1974	$1,043.2	($29.8)	-	$146.3	$3,063.0
1975	$1,658.9	($58.9)	-	$232.3	$4,895.3
1976	$1,984.7	($139.7)	-	$491.5	$7,231.8
1977	$1,769.2	($192.3)	-	$519.2	$9,327.9
1978	$1,789.7	($289.4)	-	$711.0	$11,539.2
1979	$2,140.4	($411.8)	-	$863.6	$14,131.4
1980	$2,269.8	($586.0)	-	$1,180.5	$16,995.7
1981	$2,331.1	($826.9)	-	$1,528.2	$20,028.1
1982	$2,593.1	($994.9)	-	$2,294.9	$23,921.2
1983	$2,751.2	($1,161.5)	-	$2,627.7	$28,138.6
1984	$2,720.5	($1,360.4)	-	$3,088.2	$32,586.9
1985	$3,345.8	($1,598.1)	-	$3,839.6	$38,174.2
1986	$3,301.6	($1,849.7)	-	$4,398.2	$44,024.3
1987	$3,336.9	($2,078.6)	-	$4,513.2	$49,795.8
1988	$4,003.9	($2,438.3)	-	$5,069.1	$56,430.5
1989	$3,623.2	($2,730.5)	-	$5,859.8	$63,183.0
1990	$3,662.5	($3,070.7)	-	$6,343.0	$70,117.8
1991	$4,276.8	($3,451.8)	-	$7,000.0	$77,942.8
1992	$4,621.9	($3,583.2)	-	$7,515.0	$86,496.5
1993	$4,517.9	($4,353.4)	-	$7,933.3	$94,594.3
1994	$4,746.2	($4,458.2)	-	$8,194.2	$103,076.5
1995	$5,032.3	($4,624.7)	-	$8,906.9	$112,390.9
1996	$5,153.0	($4,782.4)	-	$9,608.5	$122,370.0
1997	$5,237.5	($5,059.6)	-	$9,153.8	$131,701.7
1998	$5,272.4	($5,302.2)	-	$10,239.8	$141,911.7
1999	$5,129.0	($5,523.4)	-	$10,337.4	$151,854.8
2000	$5,274.2	($5,829.4)	-	$10,704.0	$162,003.6
2001	$5,358.2	($6,219.3)	-	$11,230.7	$172,373.2
2002	$5,418.5	($6,584.0)	-	$11,552.6	$182,760.3
2003	$1,918.2	($6,923.7)	-	$12,001.3	$189,756.1
2004	$2,629.7	($7,421.9)	-	$11,362.0	$196,325.9
2005	$2,523.0	($7,889.6)	-	$11,317.5	$202,276.8
2006	$2,374.9	($8,400.2)	-	$11,416.2	$207,667.7
2007	$613.0	($8,902.1)	($17,100.0)	$11,463.0	$193,741.6
2008	$525.4	($9,321.6)	-	$10,320.8	$195,266.2
2009	$477.6	($10,128.2)	-	$9,953.7	**$195,569.3**
2010	$374.7	($10,743.7)	-	$9,711.8	$194,912.1
2011	$362.4	($10,882.6)	-	$8,935.2	$193,327.1
2012	$304.3	($11,452.3)	-	$8,821.2	$191,000.3
2013	$242.1	($11,770.3)	-	$7,426.1	$186,898.2
2014	$202.7	($12,141.0)	-	$7,443.6	$182,403.5
2015	$176.6	($12,267.0)	-	$7,122.6	$177,435.7
2016	$152.1	($12,166.2)	-	$7,020.9	**$172,442.5**
Total	**$119,051.1**	**($220,011.6)**	**($17,100.0)**	**$290,503.0**	

BACK to COVER

PRM APPENDIX C-2

Years-of-Service Method					
	USPS & Employee Funding	Benefit Payments	Transfer to PSRHBF	Fund Earnings	Postal CSRS Fund
1972	$898.9	($0.9)	-	$27.1	$925.1
1973	$911.9	($21.6)	-	$77.3	$1,892.7
1974	$1,043.2	($51.9)	-	$145.0	$3,029.0
1975	$1,658.9	($95.0)	-	$228.9	$4,821.8
1976	$1,984.7	($184.3)	-	$483.1	$7,105.3
1977	$1,769.2	($205.8)	-	$510.3	$9,179.0
1978	$1,789.7	($277.2)	-	$700.7	$11,392.2
1979	$2,140.4	($364.2)	-	$854.8	$14,023.2
1980	$2,269.8	($484.6)	-	$1,175.8	$16,984.2
1981	$2,331.1	($643.3)	-	$1,535.3	$20,207.3
1982	$2,593.1	($782.5)	-	$2,327.0	$24,344.9
1983	$2,751.2	($910.2)	-	$2,687.2	$28,873.1
1984	$2,720.5	($1,043.1)	-	$3,185.3	$33,735.8
1985	$3,345.8	($1,197.2)	-	$3,997.5	$39,881.9
1986	$3,301.6	($1,365.8)	-	$4,622.5	$46,440.2
1987	$3,336.9	($1,520.4)	-	$4,789.9	$53,046.6
1988	$4,003.9	($1,769.3)	-	$5,447.9	$60,729.1
1989	$3,623.2	($1,977.9)	-	$6,348.4	$68,722.8
1990	$3,662.5	($2,221.9)	-	$6,947.2	$77,110.6
1991	$4,276.8	($2,492.5)	-	$7,754.4	$86,649.3
1992	$4,621.9	($2,619.9)	-	$8,410.4	$97,061.6
1993	$4,517.9	($3,064.4)	-	$8,977.4	$107,492.5
1994	$4,746.2	($3,218.4)	-	$9,382.5	$118,402.8
1995	$5,032.3	($3,412.9)	-	$10,303.2	$130,325.4
1996	$5,153.0	($3,588.3)	-	$11,214.2	$143,104.3
1997	$5,237.5	($3,846.6)	-	$10,771.9	$155,267.1
1998	$5,272.4	($4,074.9)	-	$12,145.6	$168,610.2
1999	$5,129.0	($4,282.9)	-	$12,354.8	$181,811.1
2000	$5,274.2	($4,548.2)	-	$12,890.5	$195,427.6
2001	$5,358.2	($4,884.8)	-	$13,628.1	$209,529.1
2002	$5,418.5	($5,265.1)	-	$14,124.6	$223,807.1
2003	$1,918.2	($5,563.2)	-	$14,779.5	$234,941.6
2004	$2,629.7	($6,009.8)	-	$14,146.8	$245,708.3
2005	$2,523.0	($6,459.1)	-	$14,247.6	$256,019.8
2006	$2,374.9	($6,883.1)	-	$14,540.7	$266,052.3
2007	$613.0	($7,353.0)	($17,100.0)	$14,795.0	$257,007.3
2008	$525.4	($7,775.1)	-	$13,811.4	$263,569.0
2009	$477.6	($8,566.3)	-	$13,564.5	**$269,044.8**
2010	$374.7	($9,156.9)	-	$13,500.4	$273,763.0
2011	$362.4	($9,347.6)	-	$12,686.3	$277,464.1
2012	$304.3	($10,001.3)	-	$12,808.3	$280,575.4
2013	$242.1	($10,410.9)	-	$11,044.4	$281,451.0
2014	$202.7	($10,723.4)	-	$11,362.8	$282,293.1
2015	$176.6	($10,909.3)	-	$11,184.3	$282,744.7
2016	$152.1	($11,017.7)	-	$11,357.3	**$283,236.4**
Total	**$119,051.1**	**($180,593.0)**	**($17,100.0)**	**$361,878.3**	

PRM APPENDIX C-3

Benefit Accrual Method					
	USPS & Employee Funding	Benefit Payments	Transfer to PSRHBF	Fund Earnings	Postal CSRS Fund
1972	$898.9	($1.0)	-	$27.1	$925.0
1973	$911.9	($23.3)	-	$77.2	$1,890.8
1974	$1,043.2	($56.1)	-	$144.7	$3,022.6
1975	$1,658.9	($102.7)	-	$228.3	$4,807.1
1976	$1,984.7	($199.3)	-	$481.2	$7,073.7
1977	$1,769.2	($222.5)	-	$507.6	$9,128.0
1978	$1,789.7	($299.6)	-	$696.1	$11,314.2
1979	$2,140.4	($393.7)	-	$848.1	$13,909.0
1980	$2,269.8	($523.9)	-	$1,165.0	$16,819.9
1981	$2,331.1	($695.4)	-	$1,518.5	$19,974.1
1982	$2,593.1	($845.9)	-	$2,297.1	$24,018.4
1983	$2,751.2	($984.0)	-	$2,647.8	$28,433.4
1984	$2,720.5	($1,127.7)	-	$3,132.9	$33,159.1
1985	$3,345.8	($1,294.3)	-	$3,924.3	$39,134.9
1986	$3,301.6	($1,476.6)	-	$4,530.3	$45,490.2
1987	$3,336.9	($1,643.7)	-	$4,686.1	$51,869.5
1988	$4,003.9	($1,912.8)	-	$5,316.1	$59,276.7
1989	$3,623.2	($2,138.3)	-	$6,188.3	$66,949.9
1990	$3,662.5	($2,402.1)	-	$6,758.5	$74,968.8
1991	$4,276.8	($2,694.6)	-	$7,528.0	$84,079.0
1992	$4,621.9	($2,832.4)	-	$8,149.5	$94,018.0
1993	$4,517.9	($3,312.9)	-	$8,682.3	$103,905.4
1994	$4,746.2	($3,479.4)	-	$9,055.8	$114,228.0
1995	$5,032.3	($3,689.6)	-	$9,925.2	$125,495.8
1996	$5,153.0	($3,878.0)	-	$10,783.2	$137,554.0
1997	$5,237.5	($4,155.8)	-	$10,339.4	$148,975.0
1998	$5,272.4	($4,401.1)	-	$11,636.8	$161,483.2
1999	$5,129.0	($4,624.3)	-	$11,815.8	$173,803.8
2000	$5,274.2	($4,909.2)	-	$12,305.4	$186,474.2
2001	$5,358.2	($5,269.3)	-	$12,985.0	$199,548.1
2002	$5,418.5	($5,676.1)	-	$13,431.9	$212,722.4
2003	$1,918.2	($5,993.8)	-	$14,027.1	$222,673.9
2004	$2,629.7	($6,449.3)	-	$13,389.0	$232,243.3
2005	$2,523.0	($6,904.2)	-	$13,447.0	$241,309.1
2006	$2,374.9	($7,338.8)	-	$13,684.3	$250,029.5
2007	$613.0	($7,815.3)	($17,100.0)	$13,879.6	$239,606.8
2008	$525.4	($8,237.6)	-	$12,850.3	$244,744.9
2009	$477.6	($9,044.0)	-	$12,568.1	**$248,746.6**
2010	$374.7	($9,639.4)	-	$12,452.6	$251,934.5
2011	$362.4	($9,818.0)	-	$11,646.9	$254,125.8
2012	$304.3	($10,473.0)	-	$11,700.7	$255,657.8
2013	$242.1	($10,872.0)	-	$10,036.3	$255,064.2
2014	$202.7	($11,181.0)	-	$10,267.7	$254,353.6
2015	$176.6	($11,355.3)	-	$10,046.8	$253,221.7
2016	$152.1	($11,308.4)	-	$10,142.2	**$252,207.6**
	$119,051.1	**($191,695.4)**	**($17,100.0)**	**$341,952.0**	

Appendix B: Management's Comments

LUKE T. GROSSMANN
VICE PRESIDENT, FINANCE AND PLANNING

UNITED STATES POSTAL SERVICE

May 2, 2018

Amanda Martinez
Manager, RARC Central, Risk Analysis Research Center
U.S. Postal Service Office of the Inspector General

Subject: Final Draft Review – Update on the PS Share of CSRS Pension Responsibility
(Project Number 2018RARC007)

Thank you for the opportunity to review and comment on the white paper providing an update on your previous analysis regarding the Postal Service's share of CSRS pension responsibility.

The Postal Service has no concerns regarding the conclusions reached in this white paper.

Luke T. Grossmann
Vice President, Finance and Planning

cc: Jeff Colvin
Director, Finance and Economics, RARC, USPS OIG
Sally Haring
Manager of Corporate Audit and Response Management
Fred Diaz
RARC, USPS OIG
E-FOIA@uspsoig.gov

475 L'Enfant Plaza SW Room 8011
Washington, DC 20260-0004

WWW.USPS.COM

OFFICE OF
INSPECTOR
GENERAL
UNITED STATES POSTAL SERVICE

Contact us via our Hotline and FOIA forms.
Follow us on social networks.
Stay informed.

1735 North Lynn Street
Arlington, VA 22209-2020
(703) 248-2100

We conducted work for this white paper in accordance with the Council of the Inspectors General on Integrity and Efficiency's Quality Standards for Inspection and Evaluation (January 2012).