



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

December 27, 2006

H.R. 6407 **Postal Accountability and Enhancement Act**

*As cleared by the Congress on December 9, 2006,
and signed by the President on December 20, 2006*

SUMMARY

H.R. 6407 (enacted as Public Law 109-435) changes the laws that govern the operation of the United States Postal Service (USPS), particularly those regarding the cost of pensions and health care benefits of retired workers and the requirement to hold certain funds in escrow. CBO estimates that H.R. 6407 will result in on-budget savings of \$44.2 billion and off-budget costs of \$45.7 billion over the 2007-2016 period. (The net expenditures of the USPS are classified as “off-budget.”) Thus, CBO estimates the net cost to the unified budget will be \$1.5 billion over the 2007-2016 period. All of those effects reflect changes in direct spending. The legislation does not affect federal revenues.

H.R. 6407 will not affect how much the federal government spends on pension or health care benefits for USPS retirees. By changing how much the Postal Service pays to finance those benefits and by eliminating the escrow account requirements, however, the act will decrease future budget deficits—as measured by the unified federal budget—for 2007 through 2010, and will increase deficits for 2011 through 2016.

Eliminating the requirement that the USPS maintain an escrow account for the savings from legislation enacted in 2003 will allow the Postal Service to increase spending for capital improvements or other projects, pay down its outstanding debt, postpone or diminish future rate increases, or some combination of these options. This act also will reduce direct spending mostly by making the costs of the Postal Rate Commission (PRC) and the USPS Office of the Inspector General subject to appropriation, beginning in 2009.

MAJOR PROVISIONS

H.R. 6407:

- Eliminates a requirement in Public Law 108-18, the Postal Civil Service Retirement Funding Reform Act of 2003, that the Postal Service place savings from reduced pension contributions in escrow;
- Transfers responsibility for pension costs of employees with military service from the Postal Service to the Department of the Treasury;
- Requires the Postal Service to make specified payments to a new on-budget fund, the Postal Service Retiree Health Benefits Fund (PSRHBF);
- Revises the procedure for raising postal rates;
- Modifies the USPS Board of Governors and the Postal Rate Commission, which is redesignated the Postal Regulatory Commission (PRC); and
- Makes other changes designed to increase the Postal Service's competitiveness with private industry.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO's estimate of the budgetary effects of provisions in the act that affect direct spending is shown in Table 1. Effects of direct spending under this legislation fall within budget functions 370 (commerce and housing credit), 550 (health), 800 (general government), 900 (net interest), and 950 (undistributed offsetting receipts).

TABLE 1. ESTIMATED DIRECT SPENDING EFFECTS OF H.R. 6407

	By Fiscal Year, in Billions of Dollars										2007-
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2016
CHANGES IN DIRECT SPENDING											
On-Budget Effects											
Estimated Budget Authority	-6.4	-3.7	-3.6	-3.8	-3.9	-4.2	-4.3	-4.5	-4.7	-5.0	-44.2
Estimated Outlays	-6.4	-3.7	-3.6	-3.8	-3.9	-4.2	-4.3	-4.5	-4.7	-5.0	-44.2
Off-Budget Effects											
Estimated Budget Authority	6.1	3.4	3.4	3.7	4.1	4.3	4.7	5.1	5.2	5.6	45.7
Estimated Outlays	6.1	3.4	3.4	3.7	4.1	4.3	4.7	5.1	5.2	5.6	45.7
Total Unified Budget Effects											
Estimated Budget Authority	-0.3	-0.3	-0.2	-0.1	0.1	0.1	0.4	0.6	0.5	0.6	1.5
Estimated Outlays	-0.3	-0.3	-0.2	-0.1	0.1	0.1	0.4	0.6	0.5	0.6	1.5

NOTE: Components may not sum to totals because of rounding.

BASIS OF ESTIMATE

CBO estimates that enacting H.R. 6407 will result in on-budget savings of \$44.2 billion and off-budget costs of \$45.7 billion over the 2007-2016 period, for a net cost to the unified budget of \$1.5 billion over the 10-year period.

Effects on the Unified Budget

H.R. 6407 will not affect how much the federal government spends on pension or health benefits for USPS retirees. However, by increasing how much the Postal Service pays to finance those benefits, by eliminating the requirement to fund an escrow account, and by making certain Postal Service-related costs subject to appropriation, the act will decrease future budget deficits—as measured by the unified federal budget—for 2007 through 2010. The act would increase budget deficits for 2011 through 2016.

Off-budget payments made by the Postal Service for the Civil Service Retirement System (CSRS) and Federal Employees Health Benefits (FEHB) are transfers to on-budget federal accounts and are counted as offsetting receipts (a credit against direct spending). Eliminating the USPS transfer to CSRS will reduce on-budget offsetting receipts by \$14.6 billion over

the 2007-2016 period. Under H.R. 6407, that reduction will be more than offset by a \$55.8 billion increase in on-budget offsetting receipts paid by the Postal Service into the new PSRHBF. The legislation also will require the transfer of an additional \$3.0 billion into the PSRHBF in fiscal year 2007, equivalent to the escrow account payment made by the Postal Service in 2006. Thus, on balance, the act will increase on-budget offsetting receipts by \$44.2 billion over the 2007-2016 period.

Prior to enactment of this legislation, the collection of funds to be held in escrow by the Postal Service reflected an off-budget set-aside. Eliminating the requirement to fund the escrow account will allow the USPS to instead make payments to the new PSRHBF, pay down debt, increase spending for capital improvements or other projects, postpone or diminish future rate increases, or some combination of these activities. Taken together with other provisions that affect USPS requirements under the act, including the new health payments by the Postal Service into the PSRHBF and spending for the USPS Office of the Inspector General and the PRC, CBO estimates that such changes will increase off-budget spending by \$45.7 billion over the 2007-2016 period.

The combined effect of the \$44.2 billion net increase in on-budget receipts and the \$45.7 billion net increase in off-budget spending produces an estimated \$1.5 billion in direct spending costs for the unified budget over the 2007-2016 period. Those effects are presented in Table 2 and explained in more detail below.

TABLE 2. DETAILED DIRECT SPENDING EFFECTS OF H.R. 6407, POSTAL ACCOUNTABILITY AND ENHANCEMENT ACT

	By Fiscal Year, in Billions of Dollars										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2007-2016
CHANGES IN DIRECT SPENDING											
On-Budget Effects											
Civil Service Retirement System	2.0	1.9	1.8	1.7	1.6	1.4	1.3	1.2	1.0	0.8	14.6
Postal Service Retiree Health Benefits Fund	-8.4	-5.6	-5.4	-5.5	-5.5	-5.6	-5.6	-5.7	-5.7	-5.8	-58.8
Total On-Budget Effects	-6.4	-3.7	-3.6	-3.8	-3.9	-4.2	-4.3	-4.5	-4.7	-5.0	-44.2
Off-Budget Effects											
Civil Service Retirement System	-2.0	-1.9	-1.8	-1.7	-1.6	-1.4	-1.3	-1.2	-1.0	-0.8	-14.6
Postal Service Retiree Health Benefits Fund	8.4	5.6	5.4	5.5	5.5	5.6	5.6	5.7	5.7	5.8	58.8
Difference Between Escrow, CSRS Contributions, and Payments to PSRHBF	-0.3	-0.3	*	0.1	0.3	0.3	0.6	0.8	0.7	0.8	2.9
Make Funding for PRC and USPS Inspector General Costs Subject to Appropriation	0.0	0.0	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-1.4
Total Off-Budget Effects	6.1	3.4	3.4	3.7	4.1	4.3	4.7	5.1	5.2	5.6	45.7
Total Unified Budget Effects	-0.3	-0.3	-0.2	-0.1	0.1	0.1	0.4	0.6	0.5	0.6	1.5

NOTES: * = less than \$50 million; CSRS = Civil Service Retirement System; PSRHBF = Postal Service Retiree Health Benefits Fund; PRC = Postal Rate Commission; USPS = U.S. Postal Service.

Numbers are based on CBO's March 2006 baseline and reflect actual USPS contribution to the escrow account for fiscal year 2006. Components may not sum to totals because of rounding.

On-Budget Direct Spending

The net increase in on-budget collections (i.e., a reduction in direct spending) comes from increased transfers (off-budget outlays) from the USPS to the CSRS and to the new health benefits fund.

Civil Service Retirement Contributions. H.R. 6407 changes the way the Postal Service finances retirement benefits for current and retired employees. Starting in 2007, the act transfers financial responsibility for military service credits earned by Postal Service employees and retirees participating in CSRS from the Postal Service to the Department of the Treasury. Military service credits represent time served in the U.S. military that is credited toward benefits under the civilian retirement system. The costs to the pension system of the military service credits incurred by CSRS employees of most agencies is borne by the Treasury, but Public Law 108-18 transferred responsibility for military service credits for USPS employees from the Treasury to the Postal Service beginning in June 2004.

The Office of Personnel Management (OPM) estimates that transferring responsibility for military service credits from the Postal Service back to the Treasury will cause the Postal Service to have overfunded its obligation to CSRS by about \$20 billion through September 2005.¹ Consequently, under H.R. 6407, the Postal Service will no longer be obligated to make either agency contributions or any further annual amortization payments for CSRS. (Employee contributions will continue at 7 percent of basic pay and retirement benefits under CSRS do not change.)

The Civil Service Retirement and Disability Fund (CSRDF) is an on-budget account, so the amounts the CSRDF collects from the Postal Service are on-budget offsetting receipts. Reducing payments the Postal Service makes to the CSRDF results in a reduction in off-budget spending and a corresponding reduction in on-budget offsetting receipts. CBO estimates that transferring responsibility for military service credits, and the attendant reduction in CSRS contributions, will reduce on-budget receipts by \$2.0 billion in 2007 and \$14.6 billion over the 2007-2016 period. Although the Treasury Department will be responsible for the costs associated with those pension liabilities under the act, the Treasury payment and receipt by CSRDF are both on-budget intragovernmental transactions. That is, the act replaces one intragovernmental transfer with another. Instead of a transfer from the off-budget Postal Service to the on-budget CSRDF, there will be a transfer from the Treasury to the CSRDF.

1. This overfunding, which is calculated on a net-present-value basis, represents an estimate of the total amount of money the Postal Service will have contributed toward CSRS from 1971 through September 30, 2005, minus the agency's CSRS liabilities if USPS bears no financial responsibility for the pension costs associated with military service credits. The projected overfunding is due primarily to larger-than-expected returns on assets held in the Civil Service Retirement and Disability Fund.

Postal Service Retiree Health Benefits Fund. H.R. 6407 also changes how the Postal Service finances its share of the cost of providing health care to retirees. The legislation requires that the Postal Service make specified annual payments into the PSRHBF, which will earn interest at the same rate as the CSRDF. H.R. 6407 will require that the Postal Service pay \$8.4 billion into the PSRHBF for fiscal year 2007 and an estimated \$58.8 billion over the 2007-2016 period.

Starting in 2017, instead of directly paying a portion of the health premiums incurred by current retirees each year to the FEHB program, the USPS will begin paying for the estimated costs of retiree health care as such costs are accrued by current workers. H.R. 6407 will require the USPS to make yearly payments equal to the annual increase in retiree health care liabilities accrued by current employees. Those payments will be deposited into the PSRHBF. The Postal Service's share of health care premiums for current retirees will be paid out of the PSRHBF from 2017 forward.

Off-Budget Direct Spending

CBO estimates that enacting H.R. 6407 will result in net off-budget costs of \$6.1 billion in fiscal year 2007 and \$45.7 billion over the 2007-2016 period. Those amounts are the net effects of eliminating the USPS payment to the CSRDF, requiring the USPS to make certain payments to the new PSRHBF, and allowing the Postal Service to use funds that otherwise would have been set aside in escrow. The net costs also reflect off-budget savings from a provision in the act to make the costs of the PRC and the USPS Office of the Inspector General subject to appropriation beginning in fiscal year 2009, reducing direct spending by about \$1.4 billion over the next 10 years. The act contains many other provisions that could affect USPS cash flows in each year, but we estimate that they will not have a significant net effect on the USPS over the long term.

Civil Service Contributions. The new law eliminates the USPS contributions to the CSRDF on behalf of its employees. CBO estimates that the reduction in required contributions will reduce off-budget outlays by a total of \$14.6 billion over the 2007-2016 period.

Health Benefit Fund Payments. As noted above, H.R. 6407 requires the USPS to make annual payments into the new PSRHBF beginning in 2007. Those payments increase off-budget outlays by \$58.8 billion over the 2007-2016 period.

H.R. 6407 amends Public Law 108-18 to eliminate the escrow fund requirement for the Postal Service. CBO estimates that eliminating the escrow requirement will make available \$44.1 billion over the 2007-2016 period. The USPS funds that will no longer be used to make both CSRDF contributions and escrow account deposits will largely be used to make

the new payments to the on-budget PSRHBF. CBO expects that the USPS will continue to adjust its revenues and manage its costs as it seeks to operate on a break-even basis. Thus, to the extent that funds needed for the PSRHBF payments are different from the amounts previously needed for CSRDF and escrow fund contributions, the USPS may reduce its revenues from the levels expected prior to enactment of H.R. 6407, or maintain rates and increase spending, or some combination of these actions.

Make Costs of PRC and USPS Office of the Inspector General Subject to Appropriation. Currently, the PRC and the Inspector General of the Postal Service are funded from the Postal Service Fund without annual Congressional appropriation. In total, these offices spent about \$170 million in 2006. H.R. 6407 authorizes the appropriation of such sums as may be necessary from the Postal Service Fund for these offices and makes that spending subject to appropriation action beginning in 2009. Thus, enacting this legislation will reduce direct spending—and correspondingly increase spending subject to appropriation—by about \$0.2 billion annually beginning in fiscal year 2009.

PREVIOUS CBO ESTIMATES

CBO has prepared several cost estimates for legislation that contained provisions similar to those in this act. On April 25, 2005, CBO transmitted a cost estimate for H.R. 22, the Postal Accountability and Enhancement Act, as ordered reported by the House Committee on Government Reform on April 13, 2005. CBO estimated that H.R. 22 would have generated on-budget savings of \$35.7 billion and off-budget costs of \$41.6 billion over the 2006-2015 period, for a net cost to the unified budget of \$5.9 billion over that period.

On July 1, 2005, CBO transmitted a cost estimate for S. 662, the Postal Accountability and Enhancement Act, as ordered reported by the Senate Committee on Homeland Security and Governmental Affairs on June 22, 2005. CBO estimated that legislation would have generated on-budget savings of \$37.7 billion and off-budget costs of \$41.6 billion over the 2006-2015 period, for a net cost to the unified budget of \$3.9 billion over 10 years.

ESTIMATE PREPARED BY:

USPS costs: Mark Grabowicz
Retirement costs: Craig Meklir
Health care costs: Julia Christensen

ESTIMATE APPROVED BY:

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis