



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

September 14, 2009

S. 1507

Postal Service Retiree Health Benefits Funding Reform Act of 2009

*As ordered reported by the Senate Committee on Homeland Security
and Governmental Affairs on July 30, 2009*

SUMMARY

S. 1507 would change the payments that the United States Postal Service (USPS) makes for retirees' health insurance premiums. In total, the bill would decrease those payments over the 2009-2014 period and increase the payments in subsequent years. In particular, the bill would:

- Authorize the Postal Service to make payments for retirees' health insurance premiums from the Postal Service Retiree Health Benefits Fund (PSRHBF) for fiscal years 2009 through 2016;
- Change the amounts that the Postal Service is required to pay into the PSRHBF over the 2009-2019 period; and
- Direct the Postal Service, over the 2009-2019 period, to make estimated annual payments to the PSRHBF to prefund the health care costs of future retirees.

In addition, S. 1507 would raise the borrowing limitation of the Postal Service for fiscal years 2009 and 2010 and make other changes to the laws that govern the agency's operations.

CBO estimates that enacting the bill would result in on-budget costs totaling about \$4.8 billion and off-budget savings of \$2.1 billion over the 2009-2019 period. (USPS cash flows are recorded in the Postal Service Fund and are classified as off-budget, while the PSRHBF is an on-budget account.)

Combining those effects, CBO estimates that the net cost to the unified budget of enacting S. 1507 would be \$2.8 billion over both the 2010-2019 and 2009-2014 periods. All of those effects reflect changes in direct spending. Enacting S. 1507 would not affect revenues.

S. 1507 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 1507 is shown in Table 1. The costs of this legislation fall within budget function 370 (commerce and housing credit).

TABLE 1. ESTIMATED COSTS OF S. 1507

	By Fiscal Year, in Millions of Dollars												2009-	2009-
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2014	2019	
CHANGES IN DIRECT SPENDING														
On-budget Effects ^a														
Estimated Budget Authority	2,400	2,500	1,105	465	332	266	-23	-92	-548	-712	-845	7,068	4,848	
Estimated Outlays	2,400	2,500	1,105	465	332	266	-23	-92	-548	-712	-845	7,068	4,848	
Off-budget Effects ^a														
Estimated Budget Authority	-2,400	-1,250	-553	-47	-33	-27	23	92	548	712	845	-4,309	-2,089	
Estimated Outlays	-2,400	-1,250	-553	-47	-33	-27	23	92	548	712	845	-4,309	-2,089	
Total Unified Budget Effects														
Estimated Budget Authority	0	1,250	553	419	299	239	0	0	0	0	0	2,759	2,759	
Estimated Outlays	0	1,250	553	419	299	239	0	0	0	0	0	2,759	2,759	

Note: Positive numbers indicate increases in costs; negative numbers indicate reductions in costs.

- a. The Postal Service has stated that it will not be able to make the payment that it is required to make to the PSRHBF in 2009. If the full 2009 payment were not made, the estimated on-budget and off-budget effects of the legislation would change, but CBO estimates that the total unified effects for 2009 would still be zero.

BASIS OF ESTIMATE

CBO assumes that S. 1507 will be enacted near the end of fiscal year 2009. Enacting the bill would decrease Postal Service payments for retirees' health insurance premiums over the 2009-2014 period and increase those payments for subsequent years. The bill would affect outlays of the off-budget Postal Service Fund and the on-budget PSRHBF. CBO estimates that the net cost to the unified budget would total about \$2.8 billion over the 2010-2019 period.

Postal Service Retiree Health Benefits Under Current Law

The Postal Service makes two annual payments over the 2009-2016 period for retirees' health insurance premiums. (USPS spending on those activities is classified as off-budget.) The agency makes a direct payment to the on-budget Federal Employees Health Benefits (FEHB) fund for current retirees. CBO estimates that this payment will be about \$2.0 billion in 2009 and \$2.2 billion in 2010, rising to \$4.1 billion by 2016.

In addition, over the 2009-2016 period, the Postal Service is required to make specified annual payments that range from \$5.4 billion to \$5.8 billion to the PSRHBF, an on-budget account established by the Postal Accountability and Enhancement Act (Public Law 109-435) to prefund future retirees' health benefits. Under current law, funds in the PSRHBF may not be expended for retirees' health costs until fiscal year 2017.

Beginning in 2017, the Postal Service will make estimated annual payments to the PSRHBF to cover the "normal costs" of providing health benefits to future retirees. Those payments will be equal to the annual increase in retiree health care liabilities attributable to current employees. In addition, the agency will make annual payments amortized over 40 years to liquidate the "unfunded liability" for retirees' health benefits. The unfunded liability is the total liability accrued to date for retirees' health benefits minus the PSRHBF balance, that is, the amount that has not been set aside to cover future liabilities.

Table 2 displays Postal Service payments for retirees' health benefits under current law, and payments for retirees' health benefits and other changes in USPS costs that would result if S. 1507 is enacted.

TABLE 2. POSTAL SERVICE PAYMENTS FOR RETIREE HEALTH BENEFITS—OFF-BUDGET COSTS

	By Fiscal Year, in Millions of Dollars											2009-2019
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	
Current Law												
Estimated Payments to FEHB	2,000	2,200	2,505	2,765	3,132	3,466	3,777	4,108	0	0	0	23,953
Specified Payments to PSRHB ^a	5,400	5,500	5,500	5,600	5,600	5,700	5,700	5,800	0	0	0	44,800
Estimated Payments for Normal Costs ^b	0	0	0	0	0	0	0	0	6,230	6,666	7,133	20,029
Estimated Amortization Payments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,822</u>	<u>3,822</u>	<u>3,822</u>	<u>11,466</u>
Total	7,400	7,700	8,005	8,365	8,732	9,166	9,477	9,808	10,052	10,488	10,955	100,248
S. 1507												
Payments to PSRHB ^a	1,700	1,700	3,100	3,900	4,100	4,300	4,500	4,700	4,900	5,100	5,300	43,300
Estimated Payment for Normal Costs ^c	3,300	3,500	3,800	4,000	4,300	4,600	5,000	5,300	5,700	6,100	6,500	52,100
Estimated Impact on All Other USPS Costs ^d	<u>0</u>	<u>1,250</u>	<u>553</u>	<u>419</u>	<u>299</u>	<u>239</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,759</u>
Total	5,000	6,450	7,453	8,319	8,699	9,139	9,500	10,000	10,600	11,200	11,800	98,159
Change in Off-Budget Costs	-2,400	-1,250	-553	-47	-33	-27	23	92	548	712	845	-2,089

Note: FEHB = Federal Employees Health Benefits fund; PSRHB^a = Postal Service Retiree Health Benefits Fund.

- a. The Postal Service has stated that it will not be able to make the full payment of \$5.4 billion required in 2009. CBO has no basis for estimating the amount of any shortfall. However, anything less than a full payment would affect the 2009 change in off-budget costs, but CBO estimates that the total unified budget effect for 2009 would still be zero.
- b. These payments are equal to the annual increase in retiree health care liabilities attributable to current employees.
- c. These costs are based on information provided by the Office of Personnel Management.
- d. Total USPS expenses in 2008 were nearly \$80 billion (on a cash basis), including spending on personnel, transportation, and facilities. If health care expenses are reduced by S. 1507, CBO expects net spending on these activities to increase.

Postal Service Retiree Health Benefits Proposed Under S. 1507

The bill would authorize the USPS, over the 2009-2016 period, to make payments to the FEHB fund for current retirees' health insurance premiums from the PSRHB^a. Under current law, funds in the PSRHB^a are not available for spending until fiscal year 2017, and current retirees' health insurance premiums are paid for by USPS from sales of postage and other products.

S. 1507 also would replace the current specified payments into the PSRHB^a for fiscal years 2009 through 2016 with lower payments that range from \$1.7 billion in 2009 to \$5.3 billion in 2019.

In addition, from 2009 through 2019, the bill would direct the Postal Service to make estimated annual payments to the PSRHBFB to cover the normal costs of providing health benefits to future retirees. The agency would make estimated 40-year amortization payments toward the unfunded liability for retirees' health benefits beginning in 2020 instead of 2017.

Table 3 shows cash flows of the PSRHBFB under current law and under the bill.

TABLE 3. POSTAL SERVICE RETIREE HEALTH BENEFITS FUND (PSRHBFB) CASH FLOWS—ON-BUDGET COSTS

	By Fiscal Year, in Millions of Dollars											2009-
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2019
Current Law												
Specified Payment from USPS ^a	-5,400	-5,500	-5,500	-5,600	-5,600	-5,700	-5,700	-5,800	0	0	0	-44,800
Estimated Normal Payments	0	0	0	0	0	0	0	0	-6,230	-6,666	-7,133	-20,029
Estimated Amortization												
Payments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>-3,822</u>	<u>-3,822</u>	<u>-3,822</u>	<u>-11,466</u>
Total	-5,400	-5,500	-5,500	-5,600	-5,600	-5,700	-5,700	-5,800	-10,052	-10,488	-10,955	-76,295
S. 1507												
Payment to FEHB	2,000	2,200	2,505	2,765	3,132	3,466	3,777	4,108	0	0	0	23,953
Specified Payments from USPS	-1,700	-1,700	-3,100	-3,900	-4,100	-4,300	-4,500	-4,700	-4,900	-5,100	-5,300	-43,300
Estimated Normal Payments	-3,300	-3,500	-3,800	-4,000	-4,300	-4,600	-5,000	-5,300	-5,700	-6,100	-6,500	-52,100
Estimated Amortization												
Payments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	-3,000	-3,000	-4,395	-5,135	-5,268	-5,434	-5,723	-5,892	-10,600	-11,200	-11,800	-71,447
Change in On-Budget Costs	2,400	2,500	1,105	465	332	266	-23	-92	-548	-712	-845	4,848

Note: USPS = United States Postal Service; FEHB = Federal Employees Health Benefits fund.

a. The Postal Service has stated that it will not be able to make the full payment of \$5.4 billion required in 2009. CBO has no basis for estimating the amount of any shortfall. However, anything less than a full payment would affect the 2009 change in on-budget costs, but CBO estimates that the total unified budget effect for 2009 would still be zero.

Reduced Spending from USPS Fund (Off-budget Account)

The bill's changes in payments for retirees' health insurance premiums would lower costs of the Postal Service for those activities over the 2009-2014 period and raise the agency's costs in subsequent years. CBO also expects that lowering health care expenses would lead to an increase in other USPS costs totaling \$2.8 billion over the 2009-2019 period. We estimate that enacting S. 1507 would reduce net USPS spending by \$2.1 billion over the 10-year period—such spending is off-budget.

We expect that lowering the health care expenses of the Postal Service Fund by about \$2 billion annually would lead the agency to modify its efforts to reduce other spending in future years. Faced with an imbalance of receipts from postal customers and operational costs, the Postal Service has made significant efforts to reduce spending in recent years. We expect that they will continue such efforts under current law.

Early in 2009, the Postal Service announced plans to cut spending by \$5.9 billion over the 2009-2010 period. Just a few months later in response to worsening financial conditions, the agency accelerated the plan to cut \$5.9 billion in 2009 alone. More recently, the Postal Service has announced the possibility of closing post offices, laying off employees, and making other reductions in service—cost-cutting measures that were not publicized earlier in 2009. CBO expects that by eliminating a \$2 billion health care expense, enacting the bill would lead the agency to alter its cost-reduction program by cutting spending less aggressively than it would without the legislation. Consequently, CBO estimates that enacting this legislation would increase other postal expenses relative to current law.

CBO estimates that there would be no increase in net USPS outlays in 2009 because nearly all of the fiscal year will have elapsed by the time the legislation is enacted. We estimate that the increase in net USPS outlays in 2010 and 2011 would be about half of the reduction in required health care payments—about \$1.2 billion in 2010 and \$550 million in 2011. In fiscal years 2012 through 2014, we expect the increase in net USPS outlays to be nearly equivalent to the reduction in required payments as CBO expects that the agency will have its revenues and expenses more nearly aligned by that time.

Increased Spending from PSRHBF (On-budget Account)

CBO estimates that enacting S. 1507 would increase on-budget direct spending by \$2.4 billion in 2009 and by about \$4.8 billion over the 2009-2019 period. Those costs result from changes in cash flows of the PSRHBF as displayed in Table 3. S. 1507 would not affect the net cash flows of the FEHB fund (although under the bill's provisions, the payments to this fund would be made out of the PSRHBF rather than the Postal Service Fund).

CBO estimates that the payments from the PSRHBF would range from \$2 billion in 2009 to \$4.1 billion in 2016. In addition, over the 2009-2019 period, the bill would change the specified payments from the Postal Service Fund into the PRSHBF. As shown in Table 3, the current annual payments, ranging from \$5.4 billion to \$5.8 billion over the 2009-2016 period, would under the bill range from \$1.7 billion to \$5.3 billion over the 2009-2019 period. Finally, S. 1507 would direct the Postal Service starting in 2009 to make estimated annual payments to the PSRHBF to cover the costs of providing health benefits to future retirees. Currently, payments for those so-called “normal costs” will not be

made until 2017. CBO estimates that those payments would grow from \$3.3 billion in 2009 to \$6.5 billion by 2019. Under the bill, the agency also would make estimated 40-year amortization payments toward the unfunded liability for retirees' health benefits beginning in 2020 rather than in 2017 under current law.

CBO estimates that S. 1507 would increase the net spending from the PSRHBFB for each of fiscal years 2009 through 2014 and decrease spending in subsequent years; over the 10-year period net spending would increase by \$4.8 billion.

Net Cost Under S. 1507 (Unified Budget)

CBO estimates that enacting S. 1507 would increase costs to the unified budget by about \$2.8 billion over the 2009-2019 period. We estimate that the bill would increase on-budget spending from the PSRHBFB by \$4.8 billion over the 2009-2019 period. Those costs would be partially offset by decreased off-budget spending from the Postal Service Fund of \$2.1 billion over the 10-year period.

Other Provisions

S. 1507 would raise the Postal Service's debt limit from \$3 billion to \$5 billion for fiscal years 2009 and 2010. Because the legislation would lower USPS costs in those years, CBO does not expect the agency to use the additional authority. The bill also would preclude the Postal Service from paying bonuses to certain senior employees for years in which the agency lost money. Based on the total amount of such bonus payments in recent years, CBO estimates that savings would not be significant in any year.

INTERGOVERNMENTAL AND PRIVATE-SECTOR MANDATES

S. 1507 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

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