



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

June 23, 2014

H.R. 2748 **Postal Reform Act of 2013**

*As ordered reported by the House Committee on Oversight and Government Reform
on July 24, 2013*

SUMMARY

H.R. 2748 would change the laws that govern the operation of the United States Postal Service (USPS). Major provisions of the bill would:

- Permit the Postal Service to reduce mail delivery from six days per week to five;
- Authorize the Postal Service to phase out delivery of mail directly to some customers' doors;
- Require the use of demographic data specific to Postal Service employees for the calculation of certain retirement benefits;
- Reduce the contribution made by the Postal Service for employees' health and life insurance premiums;
- Change the payments that the Postal Service is required to make relating to the Postal Service Retiree Health Benefits Fund (PSRHBF); and
- Eliminate annual appropriations made to the Postal Service for free and reduced-rate mail.

In addition, other provisions of H.R. 2748 would aim to help the Postal Service reduce its operating costs and increase its revenues.

CBO estimates that enacting the bill would result in off-budget savings of \$23.6 billion over the 2015-2024 period and on-budget costs of \$6.6 billion. (USPS cash flows are recorded in the federal budget in the Postal Service Fund and are classified as off-budget, while the cash flows of the PSRHBF are on-budget.) Nearly all the off-budget savings derive from two provisions—reducing mail delivery to five days per week and phasing out delivery to customers' doors for some (but not all) addresses.

Combining those effects, CBO estimates that the net budgetary savings from enacting H.R. 2748 would be \$17.0 billion over the 2015-2024 period. All of those effects reflect changes in direct spending. Enacting H.R. 2748 would not affect revenues. Pay-as-you-go procedures apply because enacting the legislation would affect on-budget direct spending.

In addition, CBO estimates that H.R. 2748 would affect discretionary spending, which is subject to future appropriation actions. We estimate that implementing the bill would have net discretionary costs of \$5.2 billion over the 10-year period, assuming the necessary amounts are appropriated. Eliminating annual appropriations to the Postal Service would save about \$750 million, which would be offset by costs of nearly \$5.9 billion from higher retirement contributions made by federal agencies (although those retirement costs would be offset by higher receipts paid into the Civil Service Retirement and Disability Fund, as shown in the memorandum on Table 1).

H.R. 2748 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

H.R. 2748 would impose a private-sector mandate, as defined in UMRA, on national and state political committees by increasing their postal rates for third-class letters. Based on information from an affected committee and the USPS, CBO estimates that the cost to those mailers would be small and fall well below the annual threshold for private-sector mandates established in UMRA (\$152 million in 2014, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2748 is shown in Table 1. The costs of this legislation fall within budget functions 370 (commerce and housing credit), 550 (health), and 600 (income security).

BASIS OF ESTIMATE

For the purposes of this estimate, CBO assumes that H.R. 2748 will be enacted near the end of fiscal year 2014. The bill would affect outlays of the Postal Service Fund, which is off-budget, and the on-budget PSRHBF. CBO estimates that the net direct spending savings (combining the off-budget and on-budget effects) would total \$17.0 billion over the 2015-2024 period.

TABLE 1. SUMMARY OF BUDGETARY IMPACT OF H.R. 2748, THE POSTAL REFORM ACT OF 2013

	By Fiscal Year, in Millions of Dollars											
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2019	2015-2024
OFF-BUDGET CHANGES IN DIRECT SPENDING^a												
Estimated Budget Authority	-2,778	-2,952	-1,379	-1,604	-1,765	-2,206	-2,460	-2,630	-2,800	-3,072	-10,477	-23,646
Estimated Outlays	-2,778	-2,952	-1,379	-1,604	-1,765	-2,206	-2,460	-2,630	-2,800	-3,072	-10,477	-23,646
ON-BUDGET CHANGES IN DIRECT SPENDING												
Estimated Budget Authority	3,276	3,474	-23	-22	-20	-19	-17	-14	-12	-9	6,684	6,613
Estimated Outlays	3,276	3,474	-23	-22	-20	-19	-17	-14	-12	-9	6,684	6,613
TOTAL CHANGES IN DIRECT SPENDING												
Estimated Budget Authority	498	522	-1,402	-1,626	-1,785	-2,225	-2,477	-2,644	-2,812	-3,081	-3,793	-17,033
Estimated Outlays	498	522	-1,402	-1,626	-1,785	-2,225	-2,477	-2,644	-2,812	-3,081	-3,793	-17,033
CHANGES IN SPENDING SUBJECT TO APPROPRIATION												
Estimated Authorization Level	418	437	459	482	506	531	557	584	612	639	2,302	5,225
Estimated Outlays	417	437	459	482	506	531	557	584	612	639	2,301	5,224

Memorandum^b

Increase in Offsetting Receipts Resulting from Higher Employer Contributions	-483	-502	-524	-547	-571	-596	-622	-649	-677	-704	-2,627	-5,876
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Note: Components may not add to totals because of rounding. Positive numbers indicate increases in costs; negative numbers indicate reductions in costs.

- a. Cash flows of the Postal Service are classified as off-budget.
- b. Employer contributions are intragovernmental transactions that do not affect the deficit; negative numbers indicate an increase in such intragovernmental receipts. The receipts shown in the memorandum result from federal employer contributions financed by future appropriations; such receipts are not considered to be an offset to direct spending because they are contingent on future appropriation actions.

Off-Budget Changes in Direct Spending (Postal Service Fund)

CBO estimates that enacting H.R. 2748 would reduce net USPS spending by \$23.6 billion over the 2014-2024 period; as noted above, USPS spending is classified as off-budget. Details of changes in spending from the Postal Service Fund are summarized in Table 2 and discussed in the following subsections.

TABLE 2. DETAILS OF OFF-BUDGET CHANGES IN DIRECT SPENDING UNDER H.R. 2748

	By Fiscal Year, Outlays in Millions of Dollars										
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2024
Reduction in the Frequency of Mail Delivery	-1,200	-1,200	-1,200	-1,200	-1,150	-1,100	-1,050	-1,000	-950	-900	-10,950
Other Changes in Mail Delivery	-10	-80	-250	-470	-680	-900	-1,100	-1,300	-1,500	-1,800	-8,090
Limit Postal Contributions for Life and Health Insurance	0	0	0	0	0	-270	-374	-392	-411	-432	-1,880
Use of Postal-Specific Data for Retirement Benefits	-17	-17	-190	-191	-191	-192	-193	-194	-196	-197	-1,578
Alaska Mail Delivery	-5	-10	-15	-20	-20	-20	-20	-20	-20	-20	-170
Changes in USPS Payments for Retiree Health Benefits (See Memorandum for more detail.)	-1,621	-1,720	202	202	202	202	202	202	202	202	-1,728
Elimination of Annual Appropriations	<u>75</u>	<u>75</u>	<u>75</u>	<u>75</u>	<u>75</u>	<u>75</u>	<u>75</u>	<u>75</u>	<u>75</u>	<u>75</u>	<u>750</u>
Total Off-Budget Changes	-2,778	-2,952	-1,379	-1,604	-1,765	-2,206	-2,460	-2,630	-2,800	-3,072	-23,646

Memorandum: Details of Changes in USPS Payments for Retiree Health Benefits

Under Current Law											
Estimated Payments to FEHB	3,241	3,439	0	0	0	0	0	0	0	0	6,680
Specified Payments to PSRHBF ^a	0	0	0	0	0	0	0	0	0	0	0
Estimated Payments for Normal Costs ^{b,c}	0	0	2,458	2,574	2,679	2,819	2,991	3,174	3,364	3,566	23,625
Estimated Amortization Payments ^c	<u>0</u>	<u>0</u>	<u>3,490</u>	<u>27,920</u>							
Total, Current Law	3,241	3,439	5,948	6,064	6,169	6,309	6,481	6,664	6,854	7,056	58,225
Under H.R. 2748											
Estimated Payments to FEHB	0	0	0	0	0	0	0	0	0	0	0
Specified Payments to PSRHBF ^a	0	0	0	0	0	0	0	0	0	0	0
Estimated Payment for Normal Costs ^d	0	0	2,458	2,574	2,679	2,819	2,991	3,174	3,364	3,566	23,625
Estimated Amortization Payments ^d	<u>0</u>	<u>0</u>	<u>3,893</u>	<u>31,144</u>							
Subtotal	0	0	6,351	6,467	6,572	6,712	6,884	7,067	7,257	7,459	54,769
Changes in Other USPS Spending	<u>1,621</u>	<u>1,720</u>	<u>-202</u>	<u>1,728</u>							
Total, H.R. 2748	1,621	1,720	6,150	6,266	6,371	6,511	6,683	6,866	7,056	7,258	56,497
Changes in Payments for Retiree Health Benefits	-1,621	-1,720	202	202	202	202	202	202	202	202	-1,728

Notes: Components may not add to totals because of rounding; USPS = United States Postal Service; FEHB = Federal Employees Health Benefits; PSRHBF = Postal Service Retiree Health Benefits Fund.

- Under current law, the Postal Service is required to pay a total of \$17.2 billion to the PSRHBF in 2014 through 2016. However, CBO expects that the agency will not make any of those payments, so eliminating the requirement to make the payments would yield no savings.
- Those payments are equal to the annual increase in retiree health care liabilities attributable to current employees.
- Those costs are based on information provided by the Office of Personnel Management.
- H.R. 2748 would require the Postal Service to make normal and amortization payments in 2015 and 2016, but CBO expects the Postal Service would not make those payments.

Reduction in the Frequency of Mail Delivery. H.R. 2748 would authorize the Postal Service to deliver mail five days per week, as long as there are not more than two consecutive days without delivery. As a result, the Postal Service expects that it would eliminate mail delivery on most Saturdays but continue to deliver packages six days a week. The Postal Service estimates that this reduction in service would result in net savings of \$1.5 billion annually, mostly in personnel and transportation costs. The agency assumes that most mail currently delivered on Saturdays could be delivered on Mondays with minimal increased costs.

The Postal Regulatory Commission (PRC) has not prepared an estimate of savings from this proposal. However, in 2011 the PRC estimated that reducing *both* mail and package delivery from six to five days per week would save \$1.7 billion a year—compared to the USPS estimate of \$3.1 billion in annual savings for that proposal—largely because it disagreed with the Postal Service’s assumption that Saturday mail could be delivered on Mondays with minimal increased costs. In addition, earlier this year an independent firm estimated savings for ending Saturday delivery of mail (but not packages) that were roughly 50 percent lower than the USPS estimate of that proposal.¹

Based on the current estimates prepared by USPS and considering the past disparity in estimates made by USPS and other entities, CBO estimates that reducing mail delivery from six to five days per week under H.R. 2748 would save about \$1.2 billion annually beginning in fiscal year 2015. Beginning in 2019, we expect that annual savings would gradually decline as those funds would probably be spent by the Postal Service or returned to mailers in the form of lower rates rather than accumulating in surpluses in the Postal Service Fund. We estimate that net annual savings would fall to \$900 million by 2024.

Other Changes in Mail Delivery. USPS delivers mail to the doors of customers, to curbside receptacles, and to centralized mail receptacles that serve multiple addresses. The bill would require the Postal Service, by the end of fiscal year 2022, to convert at least 30 million addresses with door delivery as of 2012 to curbside or centralized delivery. The legislation also would authorize the Postal Service to reimburse customers for the costs of converting from door delivery to other means.

In 2013, the Postal Service provided door delivery for about 38 million addresses and spent roughly \$12 billion to provide this service. Upon enactment of H.R. 2748, the USPS expects that it would change the means of delivery for about 200,000 addresses in 2015 and for 1.5 million addresses annually in each subsequent year. Those actions would affect nearly 14 million addresses by the end of 2022—about half the number called for by the bill—but the Postal Service anticipates that a more-aggressive schedule of conversions would result in significant customer discontent and lower mail volumes. The agency also is

1. http://www.prc.gov/prc-docs/home/whatsnew/Swiss%20Economics%20Model%20-%20Saturday%20delivery%20Final%20Report%20V3_3545.pdf

concerned about the capacity of vendors to manufacture enough centralized mail receptacles to meet much higher demand.

Based on information from the Postal Service about the relative savings per address from implementing curbside and centralized delivery as compared to door delivery, netted against costs to install and maintain curbside and centralized mail receptacles, CBO estimates that annual savings under H.R. 2748 would grow to nearly \$2 billion by 2024 and would total roughly \$8 billion over the 2015-2024 period. This estimate of savings assumes that mail would be delivered five days a week as authorized by the bill. If USPS converted more customers to curbside and centralized delivery, savings would be greater.

Limit Postal Contributions for Health and Life Insurance. Currently, the Postal Service pays 78.5 percent of the health insurance premiums and 100 percent of the life insurance premiums for most of its employees. H.R. 2748 would lower those employer contributions to about 70 percent for health insurance and 33 percent for life insurance. The lower contributions would begin on January 1, 2020.

In fiscal year 2013, the Postal Service paid \$5 billion for health insurance premiums and \$180 million for life insurance premiums for active employees. Based on those recent payments, CBO estimates that H.R. 2748 would reduce employer contributions by \$540 million in 2020 and \$3.8 billion over the 2020-2024 period. For this estimate, CBO anticipates that some individuals who face lower employer contributions would either leave the Federal Employees Health Benefits (FEHB) program or the federal life insurance program, or switch to lower-cost plans with those programs.

However, we anticipate that enacting this provision would lead the agency to cut expenses less aggressively than it otherwise would and thereby lead to an increase in other postal expenses. For example, the Postal Service has sharply curtailed its capital spending in recent years and could apply savings from the lower employer contributions to needed investments in facilities or other postal infrastructure. CBO estimates that net savings to the Postal Service would be about half of the potential gross savings—\$270 million in 2020 and \$1.9 billion over the 2020-2024 period.

Use of Postal-Specific Employee Data for Calculation of Retirement Benefits.

H.R. 2748 would direct the Office of Personnel Management (OPM) to use economic and demographic factors (such as salary growth and retirement rates) specific to Postal Service employees, rather than government-wide data, to calculate the annual employer contribution that USPS is required to make to federal retirement accounts under the Federal Employees Retirement System (FERS) and the Civil Service Retirement System (CSRS).

For 2013, the Postal Service made nearly \$2.9 billion in contributions to the Civil Service Retirement and Disability Fund (CSRDF) for FERS employees. The agency currently makes no contributions for CSRS employees; beginning in fiscal year 2017 under current law, the Postal Service will make annual payments amortized over 27 years to liquidate any

unfunded liability as estimated by OPM for retirees' CSRS pension benefits. The unfunded liability is the total liability accrued to date for retirees' pension benefits minus the portion of the CSRDF attributable to Postal Service contributions.

Based on information from OPM, CBO estimates that enacting H.R. 2748 would lower the Postal Service's annual employer contribution to FERS by about \$35 million beginning in 2015 and would lower the amortization payment the agency will make to the CSRDF beginning in 2017 by \$344 million per year. Those reductions would occur because Postal Service employees tend to have lower salary increases and higher mortality rates (when retired) compared to the averages for all federal employees. As with some of the bill's other provisions, however, we anticipate that lowering retirement costs would lead the Postal Service to cut expenses less aggressively than it otherwise would and lead to an increase in other postal expenses. Thus, we estimate net savings to the Postal Service of nearly \$1.6 billion over the 2015-2024 period (about half of the potential gross savings).

Alaska Mail Delivery. H.R. 2748 would direct the Postal Service to increase the rates that it charges for delivery of certain mail in Alaska (known as bypass mail). Based on information from the agency, CBO estimates that this provision would reduce USPS net outlays by \$170 million over the 2015-2024 period.

Changes in Payments for Retiree Health Benefits. CBO estimates that the bill's provisions that would change payments relating to the PSRHBF would result in off-budget savings of \$1.7 billion over the 2015-2024 period, as discussed below and shown in detail in the memorandum section of Table 2.

Background on Postal Service Obligations for Retiree Health Care. The Postal Service is obligated to contribute toward the health insurance premiums of its retired employees who participate in the FEHB program. Under current law, CBO expects that the agency will make direct payments for retirees' premiums to the on-budget FEHB fund for 2015 and 2016 totaling \$6.7 billion. Over the same period, the Postal Service also is required to make statutorily specified payments to the on-budget PSRHBF to prefund future retiree health obligations. Because of the Postal Service's poor financial condition, however, it has not made these statutorily specified payments since 2010, and CBO expects that the agency will not make the remaining specified payments for 2015 and 2016.

Beginning in 2017, the PSRHBF is expected to start making payments to the FEHB program for the Postal Service's share of those premiums. Under current law, the Postal Service is required to make payments to the PSRHBF, starting in 2017, to cover the future health care liabilities accruing to current employees ("normal costs") and to liquidate the unfunded liability for retirees' health benefits ("amortization payments"). CBO estimates that prefunding payments for normal costs and amortization will sum to \$51.5 billion over the 2017-2024 period.

Changes in USPS Payments for Retiree Health Benefits Under H.R. 2748. The bill would make several changes in the timing and source of funds for payments for retiree health benefits.

H.R. 2748 would:

- Eliminate the requirement for the USPS to make direct payments to the FEHB fund in 2015 and 2016 and would authorize PSRHBF payments for the agency's share of FEHB retiree premiums in 2015 and 2016 instead;
- Eliminate the requirement for the USPS to make specified payments to the PSRHBF for 2015 and 2016 to prefund retiree health benefits; and
- Require the USPS to begin making annual payments to the PSRHBF for normal and amortization costs in 2015 instead of beginning in 2017.

CBO estimates that eliminating the requirement to make direct payments to FEHB would reduce USPS spending on retiree health benefits by \$6.7 billion over the 2015-2024 period. Under current law, the Postal Service is required to pay a total of \$17.2 billion to the PSRHBF in 2014 through 2016. However, CBO expects that the agency will not make any of those payments, so eliminating the requirement to make the payments would yield no savings.

Because of the Postal Service's poor financial condition, CBO does not expect that the Postal Service would make the annual normal and amortization payments to the PSRHBF required by the bill in 2015 and 2016 (though we expect that such payments will occur under current law in subsequent years). As a result of the PSRHBF payments to FEHB in 2015 and 2016, the bill is expected to reduce the PSRHBF balance relative to current law and to increase the estimated unfunded liability for USPS retiree health benefits by the end of 2016. After amortizing the higher unfunded liability over a 40-year period, we expect that the Postal Service would be charged higher amortization payments over the 2017-2024 period. CBO estimates that USPS costs associated with those payments would increase from \$27.9 billion to \$31.1 billion, or \$3.2 billion, over the 2017-2024 period.

Changes in Other USPS Spending. CBO expects that lowering health care expenses would lead the agency to modify its ongoing efforts under current law to reduce spending. In 2009, the Postal Service began cost-cutting actions including closing administrative offices, halting construction of new facilities, and freezing salaries for certain employees. More recently, the agency has implemented more-severe measures such as closing mail processing facilities, making major reductions in service, and either deferring or failing to make certain required payments to the Treasury.

CBO estimates that H.R. 2748 would lower net USPS costs by \$3.5 billion over the 2015-2024 period (that includes a savings of \$6.7 billion in 2015 and 2016 and costs of \$3.2 billion in subsequent years). We expect that enacting legislation to lower health care expenses would lead the agency to alter its cost-reduction program by cutting spending less aggressively than it would without the legislation. We estimate that the net reduction in such USPS outlays over the 2015-2024 period would be about half of the potential gross savings in those years—about \$1.7 billion.

Elimination of Annual Appropriations. H.R. 2748 would eliminate the annual appropriation to reimburse the Postal Service for delivery of free and reduced-rate mail, including mail for overseas voting and mail for the blind. Based on the amounts appropriated in recent years, CBO estimates that this provision would replace discretionary spending of \$75 million per year with direct spending from the Postal Service Fund, beginning in fiscal year 2015, assuming that future appropriations for the Postal Service are reduced consistent with the provision. (Reductions in spending subject to appropriation are discussed below.)

On-Budget Changes in Direct Spending

CBO estimates that enacting H.R. 2748 would increase on-budget direct spending by about \$6.6 billion over the 2015-2024 period. Those costs result from changes in the cash flows of the CSRDF, which reflects expenditures for civil service retirement benefits, and the PSRHBF, which reflects expenditures on health care benefits for USPS retirees, as shown in Table 3 and discussed below.

Changes in PSRHBF Spending. As discussed previously, the bill would change payments that the Postal Service makes for retiree health benefits, and CBO estimates that those changes would increase net on-budget direct spending by about \$3.5 billion over the 2015-2024 period. Those costs result from changes in cash flows of the PSRHBF as displayed in the memorandum to Table 3. H.R. 2748 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).

Under the bill, CBO estimates that the PSRHBF would pay the FEHB fund \$3.2 billion in 2015 and \$3.4 billion in 2016. CBO does not expect that the Postal Service will make any of the currently specified payments into the PSRHBF over the 2014-2016 period or that it would begin making payments to cover normal and amortization costs before 2017. Thus, we estimate that the bill's provisions to eliminate the specified payments and require normal and amortization payments in 2015 would have no effect on the PSRHBF over the 2015-2016 period. Beginning in 2017, however, we estimate that amortization payments to the PSRHBF would increase by \$403 million annually because of the lower balance in that fund.

TABLE 3. DETAILS OF ON-BUDGET CHANGES IN DIRECT SPENDING UNDER H.R. 2748

	By Fiscal Year, Outlays in Millions of Dollars											
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2024	
Changes in PSRHBF Spending	3,241	3,439	-403	-403	-403	-403	-403	-403	-403	-403	-403	3,456
Use of Postal-Specific Data for Retirement Benefits	<u>35</u>	<u>35</u>	<u>380</u>	<u>381</u>	<u>383</u>	<u>384</u>	<u>386</u>	<u>389</u>	<u>391</u>	<u>394</u>	<u>394</u>	<u>3,157</u>
Total Changes	3,276	3,474	-23	-22	-20	-19	-17	-14	-12	-9	-9	6,613

Memorandum: PSRHBF Cash Flows

Under Current Law												
Specified Payment from												
USPS ^a	0	0	0	0	0	0	0	0	0	0	0	0
Normal Payments	0	0	-2,458	-2,574	-2,679	-2,819	-2,991	-3,174	-3,364	-3,566	-3,566	-23,625
Amortization Payments	<u>0</u>	<u>0</u>	<u>-3,490</u>	<u>-27,920</u>								
Total, Current Law	0	0	-5,948	-6,064	-6,169	-6,309	-6,481	-6,664	-6,854	-7,056	-7,056	-51,545
Under H.R. 2748												
FEHB Payment ^b	3,241	3,439	0	0	0	0	0	0	0	0	0	6,680
Normal Payments ^c	0	0	-2,458	-2,574	-2,679	-2,819	-2,991	-3,174	-3,364	-3,566	-3,566	-23,625
Amortization Payments ^c	<u>0</u>	<u>0</u>	<u>-3,893</u>	<u>-31,144</u>								
Total, H.R. 2748	3,241	3,439	-6,351	-6,467	-6,572	-6,712	-6,884	-7,067	-7,257	-7,459	-7,459	-48,089
Changes in PSRHBF Spending	3,241	3,439	-403	-403	-403	-403	-403	-403	-403	-403	-403	3,456

Notes: Components may not add to totals because of rounding.

USPS = United States Postal Service; PSRHBF = Postal Service Retiree Health Benefits Fund; FEHB = Federal Employees Health Benefits.

- Under current law, the Postal Service is required to pay a total of \$17.2 billion to the PSRHBF in 2014 through 2016. However, CBO expects that the agency will not make any of those payments, so eliminating the requirement to make the payments would yield no savings.
- Under current law, the FEHB payment would be made from the PSRHBF beginning in 2017, so H.R. 2748 would not affect cash flows over the 2017-2024 period.
- H.R. 2748 would require the Postal Service to make normal and amortization payments in 2015 and 2016, but CBO expects the Postal Service will not make those payments.

Use of Postal-Specific Employee Data for Calculations of Retirement Benefits.

H.R. 2748 would direct OPM to use economic and demographic factors specific to Postal Service employees, rather than government-wide data, to calculate the annual employer contribution that USPS makes to federal retirement accounts under FERS and CSRS. Based on information from OPM, CBO estimates that the lower payments made by USPS under the bill would increase costs for the CSRDF by \$35 million annually over the 2015-2016 period and by nearly \$3.2 billion over the 2015-2024 period.

Other Provisions That Could Affect Direct Spending

Transfers from Retirement Funds. For each year, H.R. 2748 would transfer to the PSRHBFB any surplus in the USPS FERS account within the CSRDF, less any required contributions to FERS that the Postal Service has not made during that year. The amount transferred also would be reduced by the amount of any liability for USPS retirement contributions for employees enrolled in CSRS for that fiscal year. For these calculations, the bill would require OPM to use economic assumptions and demographic factors specific to Postal Service employees.

Based on information provided by OPM for 2013, CBO expects that the surplus for the FERS account (\$2 billion to \$3 billion) would be much less than the liability for the CSRS account (roughly \$15 billion), so there would be no transfer of funds. Those estimates could vary in subsequent years, but CBO expects no transfers would occur over the 2015-2024 period.

Changes in Rates for Mail Services. The bill also would direct the Postal Service to set postage rates (within the annual cap on rate increases in current law) so that most types of mail products cover the costs attributable to them. In addition, H.R. 2748 would require the Postal Service to raise rates each year on those classes of mail with delivery costs that exceed revenues. Those increases would depend on the outcome of a study to be prepared by the PRC (probably in late 2015) concerning excess capacity within USPS.

In general, the Postal Service aims to set rates to maximize total mail revenue. CBO anticipates that the Postal Service will continue to attempt to maximize revenue while decreasing costs. (The PRC has already directed the Postal Service to increase the cost coverage for certain products.)

Other Provisions. Several other provisions of H.R. 2748 could help the Postal Service in its efforts to lower costs; however, CBO has not estimated additional savings for those provisions because it is not clear that any savings would exceed what we expect would be achieved under current law or under other provisions of the legislation.

H.R. 2748 would authorize the Postal Service to establish a program to allow advertising at USPS facilities and on USPS vehicles, and to establish a program to provide services for agencies of state governments or other government agencies for a fee. Implementing these programs would require the Postal Service to compete with the various media currently available to advertisers and to offer cost-effective alternatives for services to state or federal agencies. Those proposed programs might increase USPS revenues but also would add to costs. CBO has no information to predict the cost-effectiveness of such new ventures that may be undertaken by the Postal Service under the bill.

The bill also would direct arbitrators involved in future labor negotiations to consider the financial condition of the Postal Service when mediating disputes between USPS and its labor unions and would reform certain Postal Service contracting practices. Those provisions might reduce USPS costs, but CBO expects that any net savings probably would be indistinguishable from savings that would result from the Postal Service's current efforts to negotiate more favorable labor contracts and improve procurement practices.

In addition, H.R. 2748 would establish the Postal Service Financial Responsibility and Management Assistance Authority. That authority would be a new entity composed of five members appointed by the President that would advise and govern the Postal Service. CBO cannot judge whether the new management entity would be more successful in reducing the agency's costs than the existing USPS management structure.

Spending Subject to Appropriation

Under the provisions of H.R. 2748 that would require the use of postal-specific economic and demographic factors to calculate the employer contribution toward retirement that USPS makes on behalf of its employees, the amount of employer contributions required from most other federal agencies also would be adjusted. OPM estimates that the use of economic and demographic factors that exclude postal workers for calculating the contributions required of other agencies would raise the contribution rate paid by other federal agencies by 0.1 percent to 0.2 percent of salary. CBO projects that such an increase in contributions would increase spending subject to appropriation by about \$6 billion over the 2015-2024 period. However, that cost would be offset by additional receipts by the Civil Service Retirement and Disability Trust Fund and would have no net effect on future deficits.

H.R. 2748 would authorize the appropriation of the necessary sums from the Postal Service Fund, up to \$10 million annually, for the Postal Service Financial Responsibility and Management Assistance Authority that would be established by the bill. CBO estimates that entity would spend about \$10 million annually, beginning in 2015, assuming appropriation of the authorized amounts.

H.R. 2748 also would eliminate the annual appropriation to reimburse the Postal Service for the delivery of free and reduced-rate mail, including overseas voting materials and mail for the blind. Based on the amounts appropriated in recent years, CBO estimates that this provision would save about \$75 million per year, beginning in fiscal year 2015, assuming future appropriations for the Postal Service are reduced consistent with the bill's provision. However, we expect this discretionary cost would be shifted to the Postal Service Fund and become a mandatory (off-budget) expenditure.

On balance, combining the increase in discretionary costs for employer contributions with the costs for the new management authority and the savings for eliminating funding for

free and reduced-rate mail would produce a net increase in discretionary costs of \$5.2 billion over 10 years.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays that are subject to those pay-as-you-go procedures are shown in the following table. Only on-budget changes to outlays or revenues are subject to pay-as-you-go procedures.

CBO Estimate of Pay-As-You-Go Effects for H.R. 2748, the Postal Reform Act of 2013, as ordered reported by the House Committee on Oversight and Government Reform on July 24, 2013

	By Fiscal Year, in Millions of Dollars												
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2014-2019	2014-2024
NET INCREASE OR DECREASE (-) IN THE ON-BUDGET DEFICIT													
Statutory Pay-As-You-Go Impact	0	3,276	3,474	-23	-22	-20	-19	-17	-14	-12	-9	6,684	6,613

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 2748 contains no intergovernmental mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

H.R. 2748 would impose a private-sector mandate, as defined in UMRA, on national and state political committees by repealing their current discount on postal rates for third-class letters. Increasing the postal rates for those political committees would be a mandate because the federal government, by law, has an exclusive right to deliver letter mail through the USPS. Based on information from an affected committee and the USPS, CBO estimates that the cost to those mailers would be small and fall well below the annual threshold for private-sector mandates established in UMRA (\$152 million in 2014, adjusted annually for inflation).

ESTIMATE PREPARED BY:

Federal Costs: Paul Masi—Health Care provisions
Amber Marcellino—Retirement
Mark Grabowicz—All Other

Impact on State, Local, and Tribal Governments: Elizabeth Cove Delisle

Impact on the Private Sector: Paige Piper/Bach

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