



**CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE**

October 20, 2016

H.R. 5707
Postal Service Financial Improvement Act of 2016
*As ordered reported by the House Committee on Oversight and Government Reform
on July 12, 2016*

SUMMARY

CBO estimates that enacting H.R. 5707 would cost about \$4.4 billion over the 2017-2026 period because funds from a government account would be transferred to a privately operated investment fund. Pay-as-you-go procedures apply because that transfer would increase direct spending. Enacting the bill would not affect revenues.

CBO estimates that enacting the legislation would not increase net direct spending or on-budget deficits by more than \$5 billion in any of the four consecutive 10-year periods beginning in 2027.

H.R. 5707 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effect of H.R. 5707 is shown in the following table. The costs of this legislation fall within budget function 550 (health).

| | By Fiscal Year, in Millions of Dollars | | | | | | | | | | 2017- | 2017- |
|--|--|------|------|------|------|------|------|------|------|--------|--------|-------|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2021 | 2026 |
| INCREASES OR DECREASES (-) IN DIRECT SPENDING | | | | | | | | | | | | |
| Estimated Budget Authority | 11,940 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -7,533 | 11,940 | 4,407 |
| Estimated Outlays | 11,940 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -7,533 | 11,940 | 4,407 |

BASIS OF ESTIMATE

The Postal Accountability and Enhancement Act (Public Law 109-435) established the Postal Service Retiree Health Benefits Fund (PSRHBF); the fund is administered by the Office of Personnel Management (OPM) and currently has a balance of \$51 billion. Beginning in fiscal year 2017, the PSRHBF will be used to pay the government's share of health insurance premiums for retirees of the Postal Service (USPS), which CBO projects will total about \$4 billion in 2017. PSRHBF assets currently consist solely of U.S. government securities. H.R. 5707 would direct the Department of the Treasury to use professional asset managers to invest about 25 percent of the available balances of the fund in equity or bond index funds.

CBO expects that the Department of the Treasury would contract with a private entity to invest the PSRHBF balances in one or more privately operated investment funds. The current budgetary treatment of the investment of federal funds in non-Treasury financial instruments is specified in Circular A-11, published by the Office of Management and Budget, which states that the purchase of private securities should be recorded as an outlay at the time of the purchase. Thus, investments under H.R. 5707 would be classified as an outlay in 2017, increasing direct spending. Based on the current balance in the PSRHBF, CBO estimates that the Treasury would invest about \$12 billion.

In subsequent years the balance of the PSRHBF would decline as it is used to pay premiums for USPS retirees. Under the bill, CBO estimates that the PSRHBF would exhaust the balances held with the Treasury by 2026 and about \$7.5 billion would need to be transferred back into the Treasury that year from the privately operated investment funds to sufficiently replenish the fund balance. The A-11 specifies that such transfers should be treated as offsetting receipts, which would lower outlays.

In addition, assuming enactment of the bill by the end of calendar year 2016, and based on information from the Department of the Treasury about the anticipated fees that would have to be paid to private investors, CBO estimates that it would cost about \$4 million in fiscal year 2017 and \$74 million over the 2017-2026 period. We expect those amounts would be paid from investment earnings on the initial \$12 billion expenditure and the cost of those fees is not reflected in this estimate.

With the potential for greater rates of return, government investments in private securities would increase the expected value of budgetary resources, but such investments also would expose the government, future taxpayers, and beneficiaries of federal programs to greater risk. When that risk is taken into account, the returns on private securities would be no greater than the returns on government securities, CBO estimates, so enacting H.R. 5707 would have no significant effect on investment returns for the PSRHBF.

H.R. 5707 would direct that the PSRHBF funds invested with private asset managers be considered a means of financing the federal deficit and not an expenditure. For this cost estimate, CBO did not follow this scoring directive because current budget laws and administrative procedures require that investments be accounted for as expenditures.

H.R. 5707 also would require the Department of the Treasury to hire an independent public accountant each year to audit the financial statements of the investments required by the bill and to prepare a report for the Congress on the performance of the new investments. Based on the costs of similar activities, CBO estimates that the audits and reports, as well as increased administrative costs for OPM, would cost less than \$500,000 annually, subject to the availability of appropriated funds.

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.

CBO Estimate of Pay-As-You-Go Effects for H.R. 5707, as ordered reported by the House Committee on Oversight and Government Reform on July 12, 2016

| | By Fiscal Year, in Millions of Dollars | | | | | | | | | | | |
|--|--|------|------|------|------|------|------|------|------|--------|-----------|-----------|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2017-2021 | 2017-2026 |
| NET INCREASE OR DECREASE (-) IN THE DEFICIT | | | | | | | | | | | | |
| Statutory Pay-As-You-Go Impact | 11,940 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -7,533 | 11,940 | 4,407 |

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

CBO estimates that enacting the legislation would not increase net direct spending or on-budget deficits by more than \$5 billion in any of the four consecutive 10-year periods beginning in 2027.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 5707 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

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