CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

November 10, 2016

H.R. 5714
Postal Service Reform Act of 2016

As ordered reported by the House Committee on Oversight and Government Reform on July 12, 2016

SUMMARY

H.R. 5714 would change the laws that govern the operation of the Postal Service (USPS), restructure how the federal government pays for health benefits for federal employees and annuitants, and alter how the federal government calculates the contributions that agencies make for retirement benefits. Major provisions of the bill would:

- Partially reinstate a postal rate increase that expired in April 2016 (direct spending savings of $8.4 billion);
- Change the requirements for the security of parcels sent by air (direct spending costs of $3.2 billion);
- Authorize the Postal Service to phase out delivery of mail directly to business customers' doors (direct spending savings of $2.0 billion);
- Establish a new health benefits program for Postal Service employees, annuitants, and their dependents (net direct spending costs of $4.7 billion and discretionary savings of $1.8 billion);
- Change the nature of the payments that the Postal Service is required to make related to retiree health benefits (no net effect on direct spending); and
- Require the use of demographic data specific to Postal Service employees for the calculation of certain retirement benefits, (no net effect on direct spending, but discretionary costs totaling $5.9 billion).[1]

1. CBO estimates that this change would reduce costs to the Postal Service by $0.4 billion but increase the other federal retirement costs by the same amount. In addition, CBO estimates the Postal Service would spend half of the savings it would realize in lower retirement costs. Thus we estimate this policy would lead to a government-wide cost of $0.2 billion.

Effects on the Federal Budget

CBO estimates that enacting H.R. 5714 would result in $2.2 billion in direct spending savings over the 2017-2026 period; therefore, pay-as-you-go procedures apply. Enacting H.R. 5714 would not affect revenues.

The total changes in direct spending over the 2017-2026 period are split between net off-budget savings of about $1.9 billion and net on-budget savings of about $0.4 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 other accounts affected by H.R. 5714 are classified as on-budget.)

In addition, CBO estimates that implementing H.R. 5714 would have a net discretionary cost of $4.1 billion over the next 10 years, subject to appropriation actions consistent with that estimate.

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

Effects on State, Local, and Tribal Governments, and on the Private Sector

By increasing postal rates for public and private mailers, H.R. 5714 would impose intergovernmental and private-sector mandates, as defined in the Unfunded Mandates Reform Act (UMRA), on public and private entities that send certain types of mail through the USPS. Additionally, the bill would impose a private-sector mandate on some postal annuitants by requiring them to enroll in Part B of Medicare, if eligible. CBO estimates that the annual cost for public entities of increasing the postal rates would exceed the threshold established in UMRA for intergovernmental mandates ($77 million in 2016, adjusted annually for inflation) in four of the first five years after the rates became effective. CBO also estimates the aggregate annual cost for private entities of complying with the mandates would exceed the threshold established in UMRA private-sector mandates ($154 million in 2016, adjusted annually for inflation) in each of the first five years the mandates were effective.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effects of H.R. 5714 are shown in Table 1. The costs of this legislation fall within all budget functions that include salaries and expense accounts; most budgetary effects would occur in budget functions 370 (commerce and housing credit), 550 (health), 570 (Medicare), and 600 (income security).

TABLE 1. SUMMARY OF BUDGETARY EFFECTS OF H.R. 5714, THE POSTAL SERVICE REFORM ACT OF 2016

	By Fiscal Year, in Millions of Dollars											
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-2021	2017-2026
OFF-BUDGET INCREASES OR DECREASES (-) IN DIRECT SPENDING [a]												
Estimated Budget Authority	746	-189	-259	-325	-391	-377	-353	-329	-235	-151	-417	-1,859
Estimated Outlays	746	-189	-259	-325	-391	-377	-353	-329	-235	-151	-417	-1,859
ON-BUDGET INCREASES OR DECREASES (-) IN DIRECT SPENDING												
Estimated Budget Authority	28	-13	-102	-10	-19	13	-35	-83	-61	-79	-116	-361
Estimated Outlays	28	-13	-102	-10	-19	13	-35	-83	-61	-79	-116	-361
INCREASES OR DECREASES (-) IN DIRECT SPENDING (UNIFIED BUDGET) [b]												
Estimated Budget Authority	774	-202	-361	-335	-410	-364	-388	-412	-296	-230	-533	-2,220
Estimated Outlays	774	-202	-361	-335	-410	-364	-388	-412	-296	-230	-533	-2,220
INCREASES IN SPENDING SUBJECT TO APPROPRIATION												
Estimated Authorization Level	381	497	409	391	393	394	405	417	419	421	2,071	4,127
Estimated Outlays	381	497	409	391	393	394	405	417	419	421	2,071	4,127

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

a. Cash flows of the Postal Service are classified as off-budget.

b. The federal unified budget is the sum of on-budget and off-budget accounts.

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 5714 will be enacted near the end of calendar year 2016. H.R. 5714 would have effects on off-budget direct spending, on-budget direct spending, and spending subject to appropriation. Provisions related to health care and retirement would simultaneously affect all three types of spending. In the next section we provide details about the budgetary effects for each of the three budget categories. The basis for estimates of the effects on spending for Postal Service operations, health benefits, and retirement benefits are discussed in separate sections devoted to those topics.

Budgetary Effects

Enacting H.R. 5714 would decrease net direct spending for the unified budget by $2.2 billion over the 2017-2026 period. Off-budget spending would decline by about $1.9 billion and on-budget spending would decline by about $0.4 billion.

Off-Budget Direct Spending (Postal Service Fund). CBO estimates that enacting H.R. 5714 would reduce net USPS spending by $1.9 billion over the 2017-2026 period (see Table 2).

Postal Service Operations. Three provisions would directly affect how the Postal Service operates and would decrease its net spending by $7.1 billion over the 2017-2026 period.

Health Benefits. Several provisions would affect how the government pays for the health care expenses of workers and annuitants (both postal and nonpostal) and would increase direct spending by $5.5 billion over the 2017-2026 period.

Retirement Benefits. One provision would affect how the USPS pays for retirement benefits for its annuitants and would, on net, decrease direct spending by $0.2 billion over the 2017-2026 period.

On-Budget Direct Spending. CBO estimates that enacting H.R. 5714 would, on net, reduce on-budget direct spending by almost $0.4 billion over the 2017-2026 period.

Health Benefits. Several provisions would affect how the government pays for the health care expenses of employees and annuitants (both postal and nonpostal) and would decrease direct spending by $0.8 billion over the 2017-2026 period.

Use Postal-Specific Data for Retirement Benefits. One provision would affect how the government pays for retirement benefits for its annuitants. CBO estimates that enacting that provision would increase direct spending by $0.4 billion over the 2017-2026 period.

Spending Subject to Appropriation. CBO estimates that implementing H.R. 5714 would increase discretionary spending by about $4.1 billion, assuming appropriation actions consistent with those estimates (see Table 3). Over the 2017-2026 period, implementing the bill would:

- Increase agency contributions for retirement benefits by $5.9 billion; those contributions would be recorded as offsetting receipts of an equal amount in the Civil Service Retirement and Disability Fund (CSRDF) and would have no net effect on spending,

- Decrease spending by agencies for the Federal Employees Health Benefits (FEHB) program by $1.8 billion, and

- Increase spending by the Inspector General for the Postal Service by less than $0.1 billion.

TABLE 2. OFF-BUDGET AND ON-BUDGET CHANGES IN DIRECT SPENDING UNDER H.R. 5714

	By Fiscal Year, in Millions of Dollars											
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-2021	2017-2026
INCREASES OR DECREASES (-) IN OFF-BUDGET DIRECT SPENDING												
Postal Service Operations												
Rate Increase	-640	-900	-900	-900	-900	-875	-850	-825	-800	-775	-4,240	-8,365
Enhanced Security	1,400	600	150	150	150	150	150	150	150	150	2,450	3,200
Mail Delivery	0	-10	-50	-125	-200	-250	-300	-350	-340	-330	-385	-1,955
Subtotal	760	-310	-800	-875	-950	-975	-1,000	-1,025	-990	-955	-2,175	-7,120
Health Benefits												
USPS payments to OPM	0	140	580	620	670	720	770	830	890	950	2,010	6,170
PSHB Employees Premiums	0	-20	-80	-100	-100	-100	-100	-110	-110	-120	-300	-840
Medicare Part B Premiums	0	20	60	50	10	0	0	0	0	0	140	140
Subtotal	0	140	560	570	580	620	670	720	780	830	1,850	5,470
Retirement Benefits												
Use Postal-Specific Data for Retirement Benefits	-28	-37	-38	-40	-41	-43	-45	-47	-49	-51	-184	-419
Capital Improvements	14	19	19	20	21	22	23	24	25	26	92	209
Subtotal	-14	-19	-19	-20	-21	-22	-23	-24	-25	-26	-92	-209
Total Changes	**746**	**-189**	**-259**	**-325**	**-391**	**-377**	**-353**	**-329**	**-235**	**-151**	**-417**	**-1,859**
INCREASES OR DECREASES (-) IN ON-BUDGET DIRECT SPENDING												
Health Benefits												
Medicare	0	150	690	870	880	960	980	1,010	1,110	1,180	2,590	7,830
Medicare Part B Premiums	0	-20	-60	-50	-10	0	0	0	0	0	-140	-140
PSRHBF Payments Based on Claims	0	-140	-580	-620	-670	-720	-770	-830	-890	-950	-2,010	-6,170
PSHB Annuitant Premiums	0	-20	-90	-110	-110	-110	-110	-120	-130	-140	-330	-940
FEHB Annuitant Premiums	0	-20	-100	-140	-150	-160	-180	-190	-200	-220	-410	-1,360
Subtotal	0	-50	-140	-50	-60	-30	-80	-130	-110	-130	-300	-780
Use Postal-Specific Data for Retirement Benefits	28	37	38	40	41	43	45	47	49	51	184	419
Total Changes	**28**	**-13**	**-102**	**-10**	**-19**	**13**	**-35**	**-83**	**-61**	**-79**	**-116**	**-361**

Notes: Budget authority equals outlays for all estimates; Components may not add to totals because of rounding.

USPS = United States Postal Service; OPM = Office of Personnel Management; PSHB = Postal Service Health Benefits; PSRHBF = Postal Service Retiree Health Benefits Fund; FEHB = Federal Employee Health Benefits.

TABLE 3. CHANGES IN SPENDING SUBJECT TO APPROPRIATION UNDER H.R. 5714

	By Fiscal Year, in Millions of Dollars											
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-2021	2017-2026
INCREASES OR DECREASES (-) IN SPENDING SUBJECT TO APPROPRIATION												
Use of Postal-Specific Data for Retirement Benefits [a]												
Estimated Authorization Level	378	522	544	566	588	609	630	652	674	696	2,598	5,858
Estimated Outlays	378	522	544	566	588	609	630	652	674	696	2,598	5,858
Health Care Premiums for Nonpostal Employees												
Estimated Authorization Level	0	-30	-140	-180	-200	-220	-230	-240	-260	-280	-550	-1,780
Estimated Outlays	0	-30	-140	-180	-200	-220	-230	-240	-260	-280	-550	-1,780
USPS Office of Inspector General												
Estimated Authorization Level	3	5	5	5	5	5	5	5	5	5	23	48
Estimated Outlays	3	5	5	5	5	5	5	5	5	5	23	48
Total Changes												
Estimated Authorization Level	381	497	409	391	393	394	405	417	419	421	2,071	4,127
Estimated Outlays	381	497	409	391	393	394	405	417	419	421	2,071	4,127
Memorandum [a]												
Offsetting Receipts Resulting From Higher Employer Contributions	-378	-522	-544	-566	-588	-609	-630	-652	-674	-696	-2,598	-5,858

Notes: Components may not add to totals because of rounding; USPS = United States Postal Service.

a. 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.

Postal Service Operations

Enacting H.R. 5714 would make several change to the operations of the USPS, including an increase in postage rates. In total, CBO estimates that enacting the bill would decrease net off-budget direct spending for those operations by $7.1 billion over the 2017-2026 period (see Table 2).

Rate Increase. In December 2013, the Postal Regulatory Commission approved a 4.3 percent rate hike for first-class mail and other services, including an increase in the price of a first-class stamp from $0.47 to $0.49, but that increase was temporary and expired in April 2016. H.R. 5714 would authorize the Postal Service to reinstate up to 50 percent of that increase.

Based on an analysis of information from the Postal Service about the effects of rate increases on mail volume and revenue, CBO estimates that partially reinstating the recent rate hike would increase net collections of the USPS by $640 million in 2017 and about $8.4 billion over the 2017-2026 period. (Those collections are recorded as offsetting receipts in the budget.) We expect that the increase in net receipts would begin to decline in 2022 and thereafter because of falling mail volume and because some of the savings would probably be spent by the Postal Service or returned to mailers in the form of lower rates rather than accumulated as annual surpluses in the Postal Service Fund.

Enhanced Security. H.R. 5714 would require the Postal Service to improve security for parcels and packages that it transports by air by meeting certain federal standards for information security (Federal Information Processing Standards issued by the National Institute of Standards and Technology) or by requiring mailers to bring those items to post offices or other USPS retail sites and to verify their identity. In 2015 the Postal Service shipped nearly $5 billion worth of parcels and packages by air. To meet the bill's requirements and maintain that revenue stream, the USPS would have to develop information technology systems and acquire new postage meters to replace most of the approximately 1 million meters currently used by the agency, commercial mailers, businesses, and other shippers. The Postal Service also would incur increased labor costs to verify the identities of customers who send packages and parcels from retail sites.

In addition, under the provisions of H.R. 5714, CBO estimates that because of the additional security measures, some customers that currently use the Postal Service to deliver parcels and packages would shift their business to other delivery providers. Thus, we expect that the USPS would lose revenue during 2017 and 2018 and possibly in subsequent years.

Based on information from the USPS and the costs of similar projects, we estimate that the forgone revenue and additional costs would increase net outlays of the Postal Service by $3.2 billion over the 2017-2026 period. Costs would be higher in the first two years, mostly because of the need to acquire new postage meters. Annual spending of $150 million after 2018 would mostly be for system maintenance and increased labor costs.

Mail Delivery. USPS delivers mail to the doors of customers, to sidewalk and curbside receptacles, and to centralized mail receptacles that serve multiple addresses. H.R. 5714 would require the Postal Service to convert most business (but not residential) addresses with door delivery to sidewalk, curbside, or centralized delivery.

In 2015, the Postal Service provided door delivery to about 6 million business addresses. Upon enactment of H.R. 5714, the USPS expects that it would change the means of delivery for about 500,000 addresses in 2017 and an additional 1 million addresses annually over the 2018-2022 period. We anticipate that nearly all the conversions would be to centralized delivery for the affected businesses.

Based on an analysis of information from the Postal Service about the savings per business address from implementing curbside and centralized delivery as compared to door delivery (about $80 per address for centralized delivery and $45 per address for curbside delivery), as well as the costs to install and maintain curbside and centralized mail receptacles (about $70 to $100 per business address for installation), CBO estimates that annual savings under H.R. 5714 would grow to $350 million by 2024 and would total nearly $2 billion over the 2017-2026 period. Beginning in 2025, we expect that annual savings would gradually decline as the Postal Service increased spending or shared savings with its customers in the form of lower rates.

Other Provisions. Several other provisions of H.R. 5714 could help the Postal Service in its efforts to lower its net costs; however, CBO has not estimated additional savings for those provisions because it is not clear that any savings would exceed what we expect will be achieved under current law or under other provisions of the legislation.

H.R. 5714 would authorize the Postal Service to establish a program to provide services for agencies of state, local, or tribal governments for a fee. Implementing this program would require the Postal Service to offer cost-effective alternatives for services to states or localities. This program might increase USPS revenues but also would add to its costs. CBO has no information that would allow us to predict the cost-effectiveness of such new ventures.

The bill also would reform certain Postal Service contracting practices. These changes 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 improve procurement practices.

Health Benefits

Many of the changes in H.R. 5714 would affect how health care is provided to all federal annuitants and employees. As shown in Table 4, those changes would affect direct spending (both on- and off-budget) as well as spending subject to appropriation. CBO estimates that enacting the bill would, on net, increase direct spending (in the unified budget) by $4.7 billion over the 2017-2026 period to provide health care to postal and other federal employees and annuitants. In addition, implementing the bill would reduce discretionary spending by $1.8 billion over the 2017-2026 period for providing health care to federal employees, assuming appropriation actions consistent with that estimate.

TABLE 4. CHANGES IN SPENDING FROM PROVISIONS OF H.R. 5714 THAT AFFECT HEALTH CARE SPENDING

	By Fiscal Year, Outlays in Millions of Dollars											
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-2021	2017-2026
INCREASES OR DECREASES (-) IN DIRECT SPENDING												
Medicare												
Require Participation in Medicare (on-budget)	0	150	690	870	880	960	980	1,010	1,110	1,180	2,590	7,830
Medicare Part B Premiums Paid by USPS (off-budget)	0	20	60	50	10	0	0	0	0	0	140	140
Medicare Part B Premiums Paid by USPS (on-budget)	0	-20	-60	-50	-10	0	0	0	0	0	-140	-140
Postal Service Health Benefits												
Premiums for USPS Employees (off-budget)	0	-20	-80	-100	-100	-100	-100	-110	-110	-120	-300	-840
Premiums for USPS Annuitants (on-budget)	0	-20	-90	-110	-110	-110	-110	-120	-130	-140	-330	-940
Payments Based on Claims (on-budget)	0	-140	-580	-620	-670	-720	-770	-830	-890	-950	-2,010	-6,170
USPS Payments to OPM (off-budget)	0	140	580	620	670	720	770	830	890	950	2,010	6,170
Federal Employee Health Benefits												
Premiums for Nonpostal Annuitants (on-budget)	0	-20	-100	-140	-150	-160	-180	-190	-200	-220	-410	-1,360
Total Changes, Unified Budget	0	90	420	520	520	590	590	590	670	700	1,550	4,690
DECREASES IN SPENDING SUBJECT TO APPROPRIATION												
FEHB Premiums for Nonpostal Employees	0	-30	-140	-180	-200	-220	-230	-240	-260	-280	-550	-1,780

Notes: Budget authority equals outlays for all estimates; USPS = United States Postal Service; OPM = Office of Personnel Management; FEHB = Federal Employee Health Benefits;.

Background. Under current law, USPS employees and annuitants receive health insurance benefits through the FEHB program, which also covers nonpostal civilian federal employees and annuitants. Insurance plans that participate in the FEHB program charge premiums that are the same for all participants, regardless of whether the participant is affiliated with the USPS or not, or is an employee or an annuitant. The Postal Service is obligated to contribute to the health insurance premiums of its current and retired employees who participate in the FEHB program. (Postal Service payments to FEHB are off-budget direct spending.) In 2016 the agency made direct payments for retirees' premiums to the FEHB fund totaling nearly $3.5 billion.

Under current law, the Postal Service also was required to make a payment in 2016 to the Postal Service Retiree Health Benefits Fund (PSRHBF) to prefund the health obligations of its future retirees. (Such payments have no effect on the unified budget because the off-budget payments are offset exactly by the on-budget receipt of the payments.) However, because of the Postal Service's poor financial condition, it has not made those statutorily specified payments since 2010, including $5.8 billion for 2016.

Starting in 2017, the Postal Service will no longer make payments directly to the FEHB fund for its annuitants. Rather, under current law, the Postal Service will be required to make payments to the PSRHBF to cover the future health care liabilities accruing to current employees (known as normal costs) and to eliminate the unfunded liability for retirees' health benefits (known as amortization payments). CBO estimates that required payments for normal costs and amortization payments will sum to nearly $7 billion in fiscal year 2017. The PSRHBF will then have to make payments to the FEHB program in 2017 and thereafter for the Postal Service's share of premiums. Because of its poor financial condition, we expect that the Postal Service will not make any of those normal or amortization payments over the 2017-2026 period; nevertheless, CBO estimates that the PSRHBF will pay the required premiums through 2026. (If the Postal Service does not make those intragovernmental payments, CBO expects that it will spend that money on its current operations, including capital improvements, and thus increase federal outlays over the period.)

Postal Service Health Benefits Program. H.R. 5714 would change how the federal government provides health insurance for USPS employees and annuitants. The legislation would direct OPM to establish a new Postal Service Health Benefits (PSHB) program in 2018 (similar to the FEHB program), under which Postal Service employees and annuitants could enroll to receive health insurance from qualifying plans. Premiums in the PSHB program would be set based on the expected health care costs of only those USPS employees, annuitants, and dependents who participate in the program. (Premiums in the FEHB program would be set based on the expected health care costs of the nonpostal enrollees that remained in that program.) In addition, the bill would require all eligible postal annuitants who participate in the PSHB program to enroll in Medicare. Finally, PSHB plans would be required to participate in Medicare Part D and would thereby receive subsidies related to prescription drugs.

Postal Service employees and annuitants would be in the same risk pool, so premiums would be the same for both groups; however, H.R. 5714 would change the basis for providing funds to and making payments from the PSRHBF to cover the cost of health care claims of Postal Service annuitants. CBO expects that the cost of health care claims would be lower for annuitants than for USPS employees because the bill would effectively shift some spending to Medicare Parts B and D. Thus, that change would reduce both the amount that the USPS would have to pay into the PSRHBF and the amount that the PSRHBF would pay to PSHB plans.

Medicare. Because H.R. 5714 would require Medicare-eligible annuitants who had been employed by the Postal Service to participate in Medicare Part B, Medicare would become the primary payer for certain services. The PSHB plans would pay cost-sharing for those beneficiaries' health care services. In addition, the bill would require the USPS to contribute towards the Medicare Part B premiums of annuitants that newly enroll in Medicare under the legislation. The mechanism by which the Centers for Medicare and Medicaid Services (CMS) would collect those premium payments is not specified, but for purposes of this estimate, CBO assumes that the USPS would make the required payments for Medicare premiums and that CMS would collect the remaining premiums from USPS annuitants. Finally, H.R. 5714 would require PSHB plans to participate in Medicare Part D. As a result, Medicare Part D would make certain payments to those PSHB plans.

Based on an analysis of Medicare spending and an estimate of the number of annuitants who would gain Medicare coverage under the legislation, CBO estimates that enacting H.R. 5714 would:

- Increase on-budget direct spending for Medicare by about $7.8 billion over the 2017-2026 period, net of Medicare Part B premiums that would be paid by postal annuitants;

- Increase off-budget direct spending by $0.1 billion over the 2017-2026 period for the portion of Part B premiums that the USPS would pay under the bill; and

- Decrease on-budget direct spending by $0.1 billion, reflecting receipts of Part B premiums paid by the USPS.

PSHB. CBO anticipates that shifting the primary responsibility for covering certain health care services from PSHB plans to the Medicare program would decrease costs to the Postal Service. As a result, CBO estimates that the PSHB premiums for postal employees and annuitants would be lower than the FEHB premiums those people will face under current law. The legislation is unclear whether PSHB plans would receive payments related to prescription drugs under the Retiree Drug Subsidy (RDS) program or the Employer Group Waiver Plan (EGWP) program. For purposes of this estimate, CBO assumes that plans would participate under the RDS program. Enacting H.R. 5714 would:

- Decrease net off-budget direct spending for the Postal Service by $0.8 billion over the 2017-2026 period because of a reduction in premiums for current postal workers; and

- Decrease on-budget direct spending $0.9 billion over the 2017-2026 period for payments from the PSRHBF because of a reduction in premiums for annuitants in the Postal Service.

Under the bill, Medicare would pay most of the health care costs for eligible beneficiaries and PSHB plans would pay for the cost sharing (for example, copayments and deductibles) when those beneficiaries receive health care services. Consequently, the health claims paid by PSHB plans would be less for annuitants than for postal employees. Because premiums would be based on the expected claims for all people participating in PSHB plans (current USPS employees and annuitants), the premiums would be higher for annuitants and lower for employees than their expected health claims. As discussed previously, payments from the PSRHBF would only cover the health claims of USPS annuitants; therefore, the total payments into the PSHB fund would not be sufficient to cover the required payments for premiums for annuitants. Insurance plans probably would not agree to participate in the PSHB program if premiums were not paid in full—consequently, CBO expects that the USPS would have to make additional payments to cover the difference. For purposes of this estimate, CBO assumes the USPS would make those payments to OPM, and that OPM would make premium payments to PSHB plans. Based on an analysis of FEHB premiums and the health care spending of USPS annuitants, CBO estimates that enacting the bill would:

- Decrease on-budget direct spending by $6.2 billion over the 2017-2026 period, for payments from the PSRHBF to PSHB plans; and

- Increase off-budget direct spending by the same amount—$6.2 billion over the 2017-2026 period—for payments from the USPS to OPM.

FEHB. Creating two different groups of federal employees for the purpose of calculating health insurance premiums (FEHB and PSHB) would effectively lower the cost of providing insurance to the nonpostal enrollees who remained in the FEHB program. Premiums charged to nonpostal enrollees in the FEHB program would be based on expected health costs of the employees, annuitants, and dependents remaining in the FEHB program. Because nonpostal enrollees cost FEHB plans slightly less than postal enrollees, on average, CBO estimates that premiums in the FEHB program would be lower than under current law.

The estimated reduction in federal costs results from lower federal payments for the government's share of FEHB premiums. In 2015, the federal government contributions to the premiums of the nonpostal enrollees in the FEHB program averaged 71 percent of premiums. In total, CBO estimates that:

- Enacting the bill would reduce on-budget direct spending for the premiums of nonpostal annuitants by about $1.4 billion over the 2017-2026 period. Premium payments for annuitants are classified as direct spending; and

- Implementing the bill would reduce federal outlays for health insurance premiums for nonpostal employees by about $1.8 billion over the 2017-2026 period. The government's contributions for those premiums for active employees are subject to appropriation and thus classified as discretionary spending.

Retirement Benefits

Enacting H.R. 5714 would affect the contributions for retirement benefits made by the Postal Service and other federal agencies (see Tables 2 and 3). In total, CBO estimates that enacting the bill would increase net direct spending for federal retirement benefits (in the unified budget) by $0.2 billion over the 2017-2026 period. Additionally, implementing the bill would increase discretionary costs related to retirement benefits by $5.9 billion for increased contributions by federal agencies to the Civil Service Retirement and Disability Fund (CSRDF), subject to the availability of appropriations. (Those increased contributions would be recorded as offsetting receipts to the fund and would have no net budgetary impact.)

Background. H.R. 5714 would direct OPM to use economic and demographic factors specific to Postal Service employees, rather than government-wide data, to calculate annual contributions that the USPS is required to make to federal retirement accounts under the Federal Employees Retirement System (FERS).

For 2015, the Postal Service made about $3.5 billion in contributions to the CSRDF for FERS employees and also was required to make an amortization payment of about $240 million for those employees. The agency currently makes no contributions for employees in the Civil Service Retirement System (CSRS). Beginning in fiscal year 2017, the Postal Service is required to 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 balance of the CSRDF attributable to Postal Service contributions.)

Because of the Postal Service's poor financial condition, CBO expects that the USPS will not make the amortization payments for FERS or CSRS over the 2017-2026 period. We expect the Postal Service to continue to contribute to the CSRDF for FERS employees each year.

CSRDF Payments. Based on an analysis conducted by OPM in 2014, CBO estimates that enacting H.R. 5714 would lower the Postal Service's annual employer contribution for FERS employees by between 0.1 percent and 0.2 percent of salary because Postal Service employees tend to have lower salaries and higher mortality rates (when retired) compared with the averages for all federal employees. CBO estimates that enacting this provision would:

- Decrease off-budget direct spending for Postal Service contributions to the CSRDF by about $420 million over the 2017-2026 period; and

- Increase on-budget direct spending by $420 million over the 2017-2026 period because offsetting receipts in the CSRDF would decline by the same amount the Postal Service saved.

However, CBO expects that lowering retirement expenses for the USPS would lead the agency to modify its current efforts to reduce spending. In recent years, the agency has implemented severe measures such as curtailing capital spending, closing mail processing facilities, making major reductions in service standards, and either deferring or failing to make certain required payments to certain funds in the Treasury. CBO expects that enacting legislation to lower retirement expenses for the USPS would lead the agency to alter its cost-reduction program by cutting spending somewhat less severely than it would without the legislation. Thus, CBO estimates that under the proposal, the Postal Service would decrease off-budget spending by about half of the savings in retirement contributions— about $210 million over the 2017-2026 period.

Payments by Federal Agencies. Because H.R. 5714 would require the use of postal-specific economic and demographic factors to calculate the employer contribution toward retirement that the USPS makes on behalf of its employees, the amount of employer contributions required from most other federal agencies would be increased. OPM expects that using economic and demographic factors that exclude postal workers from the calculation of the contributions required of other agencies would raise their contribution rates by about 0.3 percent of salary. Based on that assumption, CBO estimates that such an increase in contributions would increase spending subject to appropriation by about $5.9 billion over the 2017-2026 period. (That cost would be offset by additional receipts to the CSRDF and thus would have no net effect on future deficits.) However, the basis of such a disparate effect on the change in contribution rates between the USPS and nonpostal agencies is unclear to CBO. OPM has noted that their assumptions could change upon an updated analysis and review of the USPS and nonpostal experience.

USPS Office of Inspector General

H.R. 5714 would merge the Office of Inspector General (OIG) of the USPS and the OIG of the Postal Regulatory Commission and would require the newly formed office to comply with certain hiring, employment, and contracting practices under Title 5 of the United States Code. This would increase costs for the administration of personnel benefits for about 1,200 employees. Based on an analysis of information from the OIG for the USPS, we estimate that total costs would be about $3 million in 2017 and about $5 million annually thereafter, assuming appropriation of the necessary amounts (see Table 3).

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. Only on-budget changes to outlays or revenues are subject to pay-as-you-go procedures. The net changes in outlays that are subject to those pay-as-you-go procedures are shown in the following table.

Table 5. CBO Estimate of Pay-As-You-Go Effects for H.R. 5714, the Postal Service Reform Act of 2016, 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 ON-BUDGET DEFICIT												
Statutory Pay-As-You-Go Impact	28	-13	-102	-10	-19	13	-35	-83	-61	-79	-116	-361

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

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

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

By increasing postal rates for public and private mailers, H.R. 5714 would impose intergovernmental and private-sector mandates as defined in UMRA. The bill also would impose mandates on some postal annuitants by requiring them to enroll in Medicare, if eligible. CBO estimates that the annual costs to public entities of complying with the mandate that increases postal rates would exceed the threshold established in UMRA for intergovernmental mandates ($77 million in 2016, adjusted annually for inflation) in four of the first five years after the rate increase becomes effective. CBO estimates the aggregate annual costs of the mandates on private entities (including the rate increase) would exceed the threshold established in UMRA for private-sector mandates

($154 million in 2016, adjusted annually for inflation) in each of the first five years the mandates are in effect.

Mandates on Public and Private Mailers

Section 207 of H.R. 5714 would make permanent an increase in postal rates for certain products, including those for which the Postal Service has a statutory monopoly, increasing the postage rate for first-class mail and other market dominant products by 1 cent. Because the USPS holds a statutory monopoly on first class mail, standard mail, and periodicals placed in USPS mail boxes, an increase in postal rates would constitute a mandate on public and private entities that mail those items through the USPS. The cost of the mandate would be the additional cost of mailing those items.

On the basis of projections of the amount of first class mail, standard mail, and periodicals that are expected to be sent at the increased rate, CBO estimates that the additional cost to public and private entities would total about $620 million in 2017, increasing to about $870 million annually through 2021 and falling thereafter. (Those figures exclude additional amounts paid for other postal services and amounts paid by the federal government for postal services.) Taking into account the size of state and local governments as a percentage of the economy, CBO estimates that the intergovernmental mandate would cost about $70 million in 2017 and increase to about $100 million annually over the next four years. For private mailers, CBO estimates that the increase in postal rates would total about $550 million in 2017 and increase to about $770 million annually over the next four years.

The bill also would impose a private-sector mandate on national and state political committees by repealing their current discount on postal rates for third-class letters (standard mail). Based on the information from political committees and the USPS, CBO estimates that the cost of the mandate would average about $5 million annually.

Mandate on Postal Annuitants

The bill would require all postal annuitants enrolled in Postal Service health plans to enroll in Medicare, if they are eligible. Those postal annuitants would be required to pay new premiums associated with mandatory Medicare enrollment and additional amounts for health care services. However, Postal Service health plans pay a share of the cost of annuitants' health care services, and CBO estimates that the aggregate additional cost for those annuitants would be offset by those contributions.

ESTIMATE PREPARED BY:

Federal Costs:
- Paul Masi—Health care provisions
- Amber Marcellino—Retirement (discretionary effect)
- Mark Grabowicz—All other

Impact on State, Local, and Tribal Governments: Zachary Byrum

Impact on the Private Sector: Paige Piper/Bach

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