CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 14, 2014

S. 1486
Postal Reform Act of 2014

As ordered reported by the Senate Committee on Homeland Security and Governmental Affairs on February 6, 2014

SUMMARY

S. 1486 would change the laws that govern the operation of the United States Postal Service (USPS). Major provisions of the bill would:

- Extend a rate increase that would expire under current law;
- 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 customers' doors (for business addresses only);
- Change the payments that the Postal Service is required to make relating to the Postal Service Retiree Health Benefits Fund (PSRHBF);
- Direct the Postal Service to make payments to liquidate its liability for workers' compensation obligations;
- Transfer $2.4 billion in surplus retirement contributions from the Civil Service Retirement and Disability Fund (CSRDF) to the Postal Service Fund;
- Prohibit the Postal Service from closing mail processing facilities for two years;
- Require the use of demographic data specific to Postal Service employees for the calculation of certain retirement benefits;
- Establish a new health benefits program for Postal Service employees, annuitants, and their dependents; and
- Reduce payments to most federal workers receiving benefits under the Federal Employees' Compensation Act (FECA) and modify the administration of that act.

In addition, other provisions of S. 1486 would aim to help the Postal Service reduce its operating costs and increase its revenues.

Effect on the Federal Budget

CBO estimates that enacting the bill would result in off-budget savings of about $36 billion over the 2015-2024 period and on-budget costs of about $19 billion over the same period. (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 and the CSRDF are on-budget.)

Combining those effects, CBO estimates that the net budgetary savings from enacting S. 1486 would be about $17 billion over the 2015-2024 period. All of those effects reflect changes in direct spending. Enacting S. 1486 would not affect revenues. Pay-as-you-go procedures apply because enacting the legislation would increase on-budget direct spending.

Finally, CBO estimates that implementing S. 1486 would have a discretionary cost of $3.3 billion over the next 10 years, subject to appropriation of the necessary amounts.

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

By making a temporary rate increase for mail services permanent and repealing a discount on postal rates for political committees, S. 1486 would impose intergovernmental and private sector mandates, as defined in the Unfunded Mandates Reform Act (UMRA), on entities that send certain mail through the USPS. The bill also would impose a private-sector mandate by requiring postal annuitants who receive health insurance through USPS and are eligible for Medicare to enroll in that program. CBO estimates that the aggregate annual costs of complying with the mandates would exceed both the intergovernmental and private-sector thresholds established in UMRA ($76 million and $152 million, respectively, in 2014, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 1486 is shown in Table 1. The costs of this legislation fall within budget functions 370 (commerce and housing credit), 550 (health), 570 (Medicare), 600 (income security), and 800 (general government).

TABLE 1. SUMMARY OF BUDGETARY EFFECTS OF S. 1486, THE POSTAL REFORM ACT OF 2014

	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	-2,972	-2,504	-2,830	-2,966	-4,037	-4,157	-4,174	-4,139	-4,007	-3,877	-15,309	-35,664
Estimated Outlays	-2,972	-2,504	-2,830	-2,966	-4,037	-4,157	-4,174	-4,139	-4,007	-3,877	-15,309	-35,664
ON-BUDGET CHANGES IN DIRECT SPENDING												
Estimated Budget Authority	4,693	2,601	1,585	1,652	1,259	1,307	1,353	1,473	1,461	1,453	11,789	18,836
Estimated Outlays	4,693	2,601	1,585	1,652	1,259	1,307	1,353	1,473	1,461	1,453	11,789	18,836
TOTAL CHANGES IN DIRECT SPENDING												
Estimated Budget Authority	1,720	96	-1,246	-1,313	-2,778	-2,857	-2,820	-2,667	-2,547	-2,424	-3,521	-16,829
Estimated Outlays	1,720	96	-1,246	-1,313	-2,778	-2,857	-2,820	-2,667	-2,547	-2,424	-3,521	-16,829
CHANGES IN SPENDING SUBJECT TO APPROPRIATION												
Estimated Authorization Level	505	483	352	296	294	281	279	281	271	266	1,930	3,308
Estimated Outlays	502	483	354	300	296	285	281	282	274	268	1,935	3,325

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.

BASIS OF ESTIMATE

For this estimate, CBO assumes that S. 1486 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 and CSRDF. CBO estimates that the net direct spending savings (combining the off-budget and on-budget effects) would total $16.8 billion over the 2015-2024 period.

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

CBO estimates that enacting S. 1486 would reduce net USPS spending by $35.7 billion over the 2015-2024 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 S. 1486

	By Fiscal Year, Outlays in Millions of Dollars										
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2024
Extend Rate Increase	0	-1,900	-1,900	-1,800	-1,800	-1,750	-1,700	-1,650	-1,600	-1,550	-15,650
Reduction in the Frequency of Mail Delivery	0	0	0	0	-1,500	-1,500	-1,450	-1,400	-1,350	-1,300	-8,500
Other Changes in Mail Delivery	-30	-150	-300	-500	-550	-700	-800	-850	-800	-750	-5,430
Changes in USPS Payments for Retiree Health Benefits (See Memorandum for details.)	-1,621	-1,720	-252	-254	-255	-256	-258	-260	-261	-263	-5,399
Prefunding for Workers' Compensation Obligations	0	0	0	0	500	500	500	500	500	500	3,000
Transfer of Surplus Postal Retirement Contributions	-2,400	0	0	0	0	0	0	0	0	0	-2,400
Prohibition on Closing Mail Processing Facilities	600	800	0	0	0	0	0	0	0	0	1,400
Use of Postal-Specific Data for Retirement Benefits	478	478	-333	-334	-334	-335	-336	-337	-339	-340	-1,731
Establish PSHB program for USPS	0	-11	-37	-53	-60	-65	-69	-74	-79	-85	-531
Effect of Changes in Workers' Compensation on USPS	0	-2	-8	-26	-38	-52	-61	-69	-79	-89	-424
Total Off-Budget Changes	-2,972	-2,504	-2,830	-2,966	-4,037	-4,157	-4,174	-4,139	-4,007	-3,877	-35,664

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TABLE 2. Continued

	By Fiscal Year, Outlays in Millions of Dollars										
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2024
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]	0	0	3,490	3,490	3,490	3,490	3,490	3,490	3,490	3,490	27,920
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 S. 1486											
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	2,409	2,523	2,625	2,763	2,931	3,111	3,297	3,495	23,153
Estimated Amortization Payments [d]	0	0	3,034	3,034	3,034	3,034	3,034	3,034	3,034	3,034	24,275
Subtotal	0	0	5,443	5,557	5,660	5,797	5,966	6,145	6,331	6,529	47,428
Changes in Other USPS Spending	1,621	1,720	252	254	255	256	258	260	261	263	5,399
Total, S. 1486	1,621	1,720	5,696	5,810	5,914	6,053	6,223	6,404	6,593	6,793	52,826
Changes in Payments for Retiree Health Benefits	-1,621	-1,720	-252	-254	-255	-256	-258	-260	-261	-263	-5,399

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

a. Under current law, the Postal Service is required to pay a total of $11.5 billion to the PSRHBF in 2015 and 2016. However, CBO expects that the agency will not make any of those payments.

b. Those payments are equal to the annual increase in retiree health care liabilities attributable to current employees.

c. Those costs are based on information provided by the Office of Personnel Management.

d. S. 1486 would require the Postal Service to make normal and amortization payments in 2016, but CBO expects the Postal Service would not make those payments.

Extend Rate Increase. In December 2013, the Postal Regulatory Commission (PRC) 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 limited the effect of this change to a period of about two years. S. 1486 would make that increase permanent.

Based on information from the Postal Service, CBO estimates that extending the recent rate hike would increase USPS net revenues by $1.9 billion in 2016 and by $15.7 billion over the 2016-2024 period. We expect that annual savings would decline in 2018 and subsequent years 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 large annual surpluses in the Postal Service Fund.

Reduction in the Frequency of Mail Delivery. Beginning in fiscal year 2018, S. 1486 would permit the Postal Service to deliver mail five days a week, but only if the total volume of first-class mail and periodicals falls below 140 billion pieces over a 12-month period. The aggregate first-class and periodicals volume was about 147 billion in 2013 and has been declining for many years. The Postal Service anticipates that volume will drop below 140 billion pieces sometime in 2018.

Under the bill's provisions, the Postal Service expects that beginning in 2019 it would eliminate most mail delivery on Saturdays but continue to deliver packages six days a week. The Postal Service estimates that this reduction in service would yield net savings of $1.9 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 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 S. 1486 would save about $1.5 billion (or roughly 80 percent of the USPS estimate) annually beginning in fiscal year 2019. Beginning in 2021, we expect that annual savings would gradually decline as some of those funds would probably be spent by the Postal Service or returned to mailers in the form of lower rates rather than accumulating as large annual surpluses in the Postal Service Fund. We estimate that net annual savings would fall to $1.3 billion 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.

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

S. 1486 would require the Postal Service to convert all business (but not residential) addresses with door delivery to curbside or centralized delivery.

In 2013, the Postal Service provided door delivery for about 6 million business addresses. Upon enactment of S. 1486, the USPS expects that it would change the means of delivery for about 500,000 addresses in 2015 and about a million addresses annually over the 2016-2020 period. We anticipate that nearly all the conversions would be to centralized delivery for the affected businesses.

Based on information from the Postal Service about the savings per business 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 S. 1486 would grow to about $850 million by 2022 and would total $5.4 billion over the 2015-2024 period. Beginning in 2023, we expect that annual savings would gradually decline as some of those funds would probably be spent by the Postal Service or returned to mailers in the form of lower rates. This estimate of savings reflects the assumption that mail would be delivered five days a week as authorized by the bill.

Changes in USPS 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 $5.4 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 Federal Employees Health Benefits (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 those 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 S. 1486. The bill would make several changes in the timing and source of funds for payments for retiree health benefits.

In particular, S. 1486 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 2016 instead of beginning in 2017 (though the new amortization payments would need to cover just 80 percent of the unfunded liability for retirees' health benefits).

Because of the Postal Service's poor financial condition, CBO does not expect that the Postal Service would make the normal and amortization payments to the PSRHBF required by the bill in 2016 (though we expect that such payments will occur under current law and under the bill in subsequent years).

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.

As a result of the PSRHBF payments to the FEHB fund 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. However, that effect would be offset by the bill's requirement to fund 80 percent rather than 100 percent of the unfunded liability and by a relatively small decrease in PSRHBF spending resulting from the new Postal Service Health Benefits (PSHB) program discussed below. After amortizing the lower unfunded liability over a 40-year period, we expect that the Postal Service would be charged lower amortization payments over the 2017-2024 period. In addition, we estimate there would be a small decrease in normal payments stemming from the new PSHB program. CBO estimates that USPS costs associated with those payments would decrease from $51.5 billion to $47.4 billion, or $4.1 billion less, over the 2017-2024 period.

Changes in Other USPS Spending. CBO expects that lowering health care expenses for the USPS 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 expects that enacting legislation to lower health care expenses for the USPS 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 increase in such USPS outlays over the 2015-2024 period would be about half of the potential gross savings—about $5.4 billion.

Prefunding for Workers' Compensation Obligations. The bill would require the Postal Service, beginning in fiscal year 2017, to calculate the actuarial liability of its workers' compensation obligations and to make a series of annual payments that would liquidate 80 percent of the liability over a 40-year period. The agency would start making those annual payments in fiscal year 2018 and subsequent years to a new fund, known as the Postal Service Workers' Compensation Accrued Liability Fund, unless its net income for the previous year (computed on an accrual accounting basis) was less than or equal to $1 billion. For this estimate, CBO anticipates that the fund would be classified as on-budget, consistent with past precedents, and thus that payments from USPS to the fund would represent off-budget costs and on-budget receipts.

Based on USPS projections of net accrual income under current law, and considering the total savings to the agency anticipated from enactment of S. 1486, we expect that the Postal Service's net accrual income would exceed $1 billion for each year over the 2019-2024 period. Based on information provided by the Postal Service on its anticipated liability for workers' compensation obligations in 2019 and subsequent years, we estimate that the agency would make amortization payments of $500 million each year beginning in 2019.

Transfer of Surplus Postal Retirement Contributions. S. 1486 would authorize the Postal Service Fund to receive a transfer of any surplus in the USPS Federal Employees Retirement System (FERS) account within the CSRDF as of the end of fiscal year 2013. Any funds transferred would have to be used to pay off USPS debt to the Treasury. The bill would require 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 any such surplus.

Using data specific to the Postal Service, OPM estimates that the USPS surplus for its FERS account in the CSRDF was $2.4 billion as of September 30, 2013. Under the bill, CBO estimates that $2.4 billion would be transferred from the CSRDF to the Postal Service Fund in fiscal year 2015. That intragovernmental transfer would be classified as a savings of $2.4 billion in off-budget direct spending for the Postal Service Fund in 2015. (The transfer also would result in a cost of $2.4 billion to the on-budget CSRDF as discussed later.)

Prohibition on Closing Mail Processing Facilities. S. 1486 would require the Postal Service to maintain the delivery service standards for first-class mail and periodicals that were in effect on October 1, 2013, for at least two years after the bill's enactment. The bill also would block the Postal Service from closing or consolidating any postal facility that was open on October 1, 2013, for at least two years after the bill's enactment. Based on information from the Postal Service, we estimate that those new requirements would cost $1.4 billion over the 2015-2016 period by delaying the agency's plans to close facilities and implement slower mail delivery service.

Use of Postal-Specific Data for Retirement Benefits. S. 1486 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 is required to make to federal retirement accounts under FERS and the Civil Service Retirement System (CSRS). The bill also would change the schedule of CSRS amortization payments currently required of the Postal Service.

For 2013, the Postal Service made nearly $2.9 billion in contributions to the CSRDF for FERS employees. The agency currently makes no contributions for CSRS employees; under current law, beginning in fiscal year 2017, 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.) S. 1486 would require the Postal Service to begin annual payments in 2015, amortized over 40 years, to liquidate the unfunded liability.

Based on information from OPM, CBO estimates that enacting S. 1486 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 $630 million per year (the bill would lower the anticipated amortization payment from $1.62 billion to $990 million). Those reductions would occur because Postal Service employees tend to have lower salaries and higher mortality rates (when retired) compared to the averages for all federal employees and because the CSRS amortization period would be longer. In addition, CBO estimates that, under the bill's provisions, the Postal Service would make annual CSRS amortization payments of about $990 million in 2015 and 2016, thus significantly increasing its costs in those years compared to current law.

Over the 2015-2024 period we estimate this provision would result in potential savings of $3.4 billion. 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. Thus, we estimate net savings to the Postal Service of about $1.7 billion over the 2015-2024 period, or about half of the potential gross savings.

Establish a Postal Service Health Benefits Program. Section 104 of S. 1486 would make several changes to the health insurance program for USPS employees and annuitants. The legislation would direct OPM to establish a new PSHB program in 2016, under which USPS employees and annuitants could enroll to receive health insurance from qualifying plans. Premiums in the PSHB program would be set based on expected health costs of only the USPS employees, annuitants, and dependents participating in the program. In addition, the bill would require all eligible postal annuitants who participate in the PSHB program to enroll in the Medicare program.

CBO estimates that those changes would reduce USPS spending for health insurance premiums by $1.1 billion over the 2015-2024 period. CBO expects that lowering health care expenses for the USPS would lead the agency to reduce other spending less aggressively than it would without the legislation. Thus, we estimate the net reduction in USPS spending over the same period would be about $0.5 billion, or about half of the potential gross savings from this policy.

CBO anticipates that savings to USPS under section 104 of the legislation would result, in part, from shifting the primary responsibility for certain Medicare-covered services from the PSHB plans to the Medicare program. In addition, PSHB plans would be required to participate in Medicare Part D (in an aspect of the program that other employer sponsored plans can participate in) and would thereby receive subsidies and discounts related to prescription drugs. As a result of both that shift to Medicare and the subsidies and discounts for prescription drugs, CBO estimates that PSHB premiums for postal employees and annuitants would be lower than the FEHB premiums those people would face under current law. (The resulting shift of such costs to Medicare is discussed below under On-Budget Changes in Direct Spending.)

Effect of Changes in Workers' Compensation on the USPS. The bill would make several changes to the Federal Employees' Compensation Act, which provides wage replacement and medical benefits to federal employees who are injured in the course of their work. Under FECA, agencies reimburse the Department of Labor (DOL) for expenses incurred on behalf of their employees.

Based on information from DOL, CBO estimates that the changes in S. 1486 (which are discussed below in greater detail in the section on On-Budget Changes in Direct Spending) would reduce gross outlays under FECA by $1.2 billion over the 2015-2024 period. Those gross savings would be mostly offset by reduced reimbursements from federal agencies of $1.1 billion during that period, for net savings to the FECA account over 10 years of $172 million.

Based on historical spending patterns under FECA, CBO estimates that about 40 percent of the gross FECA savings (and, accordingly, the reduced reimbursements) would accrue to the USPS. Thus, CBO estimates that, under provisions of S. 1486, the USPS would pay about $0.4 billion less in reimbursements to the FECA account over the 10-year period.

On-Budget Changes in Direct Spending

CBO estimates that enacting S. 1486 would increase on-budget direct spending by $18.8 billion over the 2015-2024 period. Those costs result mostly 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 $10.8 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.

Under the bill, CBO estimates that the PSRHBF would pay the FEHB fund $3.2 billion in 2015 and $3.4 billion in 2016 toward health premiums for postal annuitants enrolled in those years. CBO does not expect that the Postal Service will make any of the currently specified payments into the PSRHBF in 2015 or 2016, 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 2016 would have no effect on the PSRHBF. Beginning in 2017, however, we estimate that amortization payments to the PSRHBF would decrease by about $450 million annually—mostly because the bill would require liquidation of 80 percent of the unfunded liability for retirees' health benefits (rather than 100 percent as required under current law). Normal payments to the fund also would decrease as a result of the new Postal Service Health Benefits program.

TABLE 3. DETAILS OF ON-BUDGET CHANGES IN DIRECT SPENDING UNDER S. 1486

	By Fiscal Year, Outlays in Millions of Dollars										
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2024
Changes in PSRHBF Spending (See Memorandum)	3,241	3,439	505	507	509	512	515	519	523	527	10,797
Postal Service Health Benefits Program	0	124	429	516	601	642	683	788	781	764	5,328
Use of Postal-Specific Data for Retirement Benefits	-957	-956	666	667	669	670	672	675	677	680	3,463
Prefunding for USPS Workers' Compensation Obligations	0	0	0	0	-500	-500	-500	-500	-500	-500	-3,000
Effect of Changes in Workers' Compensation on Non-Postal Agencies	6	-8	-17	-40	-22	-19	-19	-11	-22	-20	-172
Transfer of Surplus Postal Retirement Contributions	2,400	0	0	0	0	0	0	0	0	0	2,400
Federal Property Asset Management Reform	2	2	2	2	2	2	2	2	2	2	20
Total Changes	4,693	2,601	1,585	1,652	1,259	1,307	1,353	1,473	1,461	1,453	18,836
Memorandum: PSRHBF Cash Flows											
Under Current Law											
Specified Payment from USPS [a]	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	-23,625
Amortization Payments	0	0	-3,490	-3,490	-3,490	-3,490	-3,490	-3,490	-3,490	-3,490	-27,920
Total, Current Law	0	0	-5,948	-6,064	-6,169	-6,309	-6,481	-6,664	-6,854	-7,056	-51,545
Under S. 1486											
FEHB Payment [b, d]	3,241	3,439	0	0	0	0	0	0	0	0	6,680
Normal Payments [c]	0	0	-2,409	-2,523	-2,625	-2,763	-2,931	-3,111	-3,297	-3,495	-23,153
Amortization Payments [c]	0	0	-3,034	-3,034	-3,034	-3,034	-3,034	-3,034	-3,034	-3,034	-24,275
Total, S. 1486	3,241	3,439	-5,443	-5,557	-5,660	-5,797	-5,966	-6,145	-6,331	-6,529	-40,748
Changes in PSRHBF Spending	3,241	3,439	505	507	509	512	515	519	523	527	10,797

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.

a. For fiscal years 2015 and 2016, the Postal Service is required to pay a total of $11.5 billion to the PSRHBF. However, CBO expects that the agency will not make any payments.

b. Under current law, the FEHB payment would be made from the PSRHBF beginning in 2017, so S. 1486 would not affect cash flows over the 2017-2024 period.

c. S. 1486 would require the Postal Service to make normal and amortization payments in 2016, but CBO expects the agency will not make those payments.

d. Section 104 would also reduce payments from the PSRHBF for health premiums for postal annuitants enrolled in the new PSHB program. Those effects are included in Table 3 under effects from the Postal Service Health Benefits Program.

Postal Service Health Benefits Program. CBO estimates that establishing the new PSHB program, requiring USPS annuitants who enroll in the PSHB program to participate in Medicare, and requiring PSHB plans to participate in Medicare Part D would, on net, increase on-budget direct spending by about $5.3 billion over the 2015-2024 period.

The provisions of S. 1486 that require certain USPS annuitants to participate in Medicare would increase Medicare spending by about $7.9 billion over the 2015-2024 period, CBO estimates. Under the legislation, Medicare would become the primary payer for Medicare-covered services for USPS annuitants who enroll in Medicare Part B (medical insurance). However, the PSHB plans would pay cost-sharing for those beneficiaries' health care services. Additionally, Medicare Part D would make certain payments to PSHB plans because those plans would be required to participate in the Employer Group Waiver Program under Part D.

The effect of the legislation on federal on-budget payments for health insurance premiums in the FEHB program would partially offset the increase in Medicare spending. Premiums charged to non-postal enrollees in the FEHB program would be based on expected health costs of the employees, annuitants, and dependents remaining in the FEHB program after the health care costs of USPS workers, annuitants, and their dependents are shifted to the PSHB program. Because non-postal 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. Thus, the amount the federal government would contribute toward its share of annuitant premiums would be lower.

CBO estimates that federal payments for health insurance premiums for non-postal annuitants enrolled in the FEHB program would be reduced by about $1.6 billion over the 2015-2024 period. (The government's share of FEHB premiums for annuitants is classified as direct spending. Federal spending for active workers participating in the FEHB program is included in the appropriations for federal agencies and, therefore, is classified as discretionary.)

In addition, CBO estimates that the bill would reduce payments from the on-budget PSRHBF for USPS annuitants' health insurance premiums by about $1.0 billion over the 2015-2024 period. That is because CBO expects premiums for USPS annuitants to be lower under the legislation because of the requirement that they enroll in Medicare if they enroll in the PSHB.

Use of Postal-Specific Data for Retirement Benefits. As discussed above, S. 1486 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. The bill also would require the Postal Service to begin making amortization payments to liquidate any unfunded liability for retirees' CSRS benefits in 2015 rather than in 2017.

Based on information from OPM, CBO estimates that the Postal Service would make higher payments to the CSRDF in 2015 and 2016 of about $960 million per year, but the lower payments allowed under the bill from 2017 to 2024 would result in net costs for the CSRDF of nearly $3.5 billion over the 2015-2024 period as a whole.

Prefunding for USPS Workers' Compensation Obligations. As discussed above, the bill would require the Postal Service, if certain financial conditions are met, to make a series of annual payments designed to liquidate 80 percent of the estimated liability for its workers' compensation obligations over a 40-year period. We expect the agency would begin making those payments in 2019 to the Postal Service Workers' Compensation Accrued Liability Fund. CBO estimates that the new fund would receive payments from the Postal Service of $3 billion over the 2019-2024 period.

Effect of Changes in Workers' Compensation on Agencies Other than USPS. The bill would make several changes to the Federal Employees' Compensation Act, which provides wage replacement and medical benefits to federal employees who are injured in the course of their work. The Department of Labor administers the program, and federal agencies reimburse DOL for expenses incurred on behalf of their employees.

Under current law, FECA provides compensation of up to 75 percent of a worker's pre-injury salary if that person can no longer work because of debilitating injuries sustained on the job. (Injured workers without dependents receive two-thirds of their salary as a wage-replacement benefit; those with dependents receive the higher, augmented benefit.) In addition, the worker may receive medical benefits and certain death benefits. Most of the expenses incurred on behalf of the worker are charged back to the employing agency. In 2013, both gross FECA benefits and reimbursements from agencies totaled about $3.0 billion, resulting in net FECA outlays that year of only $20 million.

Enacting the bill would result in a number of changes to the FECA program; most of those changes would reduce benefits, though some of the changes would increase them. The changes include:

- Reducing benefits to 50 percent of a claimant's pre-injury salary when that claimant reaches full retirement age (as defined by the Social Security Act);

- Eliminating augmented benefits for most claimants who have dependents (so that claimants below the retirement age would receive a benefit equal to two-thirds of their pre-injury salary);

- Increasing benefits under the disfigurement compensation schedule and for funeral expenses;

- Establishing a schedule for managing disability reviews, including requiring periodic medical exams;

- Improving the ability of the government to recapture compensation costs from responsible parties; and

- Enhancing cross-matching of data to identify cases where payments are being made inappropriately.

Based on information from DOL, CBO estimates that the changes in S. 1486 would reduce gross FECA outlays by $1.2 billion over the 2015-2024 period. Those savings would be partially offset by reduced reimbursements from employing agencies of about $1.0 billion during that period, resulting in net savings to the FECA account of $172 million over the 2015-2024 period.

Transfer of Surplus Postal Retirement Contributions. S. 1486 would transfer to the Postal Service Fund any surplus in the USPS FERS account within the CSRDF as of September 30, 2013. Based on information from OPM, CBO estimates that $2.4 billion would be transferred from the CSRDF to the Postal Service Fund in fiscal year 2015. That transfer would increase on-budget direct spending from the CSRDF by $2.4 billion in 2015, but is matched by off-budget savings in the Postal Service Fund (as discussed above).

Federal Property Asset Management Reform. S. 1486 would amend the Federal Property and Administrative Services Act (property act) to facilitate the disposal of federal real property. The legislation would expand the duties and responsibilities of the Federal Real Property Council, provide new authorities to the General Services Administration (GSA), and establish a five-year pilot program with the goal of expediting the disposal of surplus federal property. CBO estimates that enacting the bill would increase direct spending by $20 million over the 2015-2024 period because the legislation would authorize GSA to spend proceeds from the sale of federal property that are expected to be collected but not spent under current law.

Based on information from GAO, the Office of Management and Budget, GSA, and other landholding agencies, CBO expects that little additional property would be sold under this program. That expected result reflects a variety of factors, including: (1) many of the largest landholding agencies would opt to continue to use their own enhanced-use authorities, (2) the new financial incentive provided to non-GSA agencies to sell real property would not be significant, and (3) since 2010, the President has directed agencies to dispose of unneeded property, reduce operating costs, and adopt more efficient real estate management practices. It is not clear how the new authorities would accelerate disposal of properties beyond what would occur under current law.

Other Provisions That Could Affect Direct Spending

Several other provisions of S. 1486 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 would be achieved under current law or under other provisions of the legislation.

S. 1486 would authorize the Postal Service to ship alcoholic beverages and to establish a program to provide services for agencies of state, local, or tribal governments for a fee. Implementing these programs would require the Postal Service to compete with private businesses that currently ship alcoholic beverages and to offer cost-effective alternatives for services to states or localities. 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.

Spending Subject to Appropriation

CBO estimates that S. 1486 also would affect discretionary spending, which is subject to future appropriation actions. We estimate that implementing the bill would have net discretionary costs of about $3.3 billion over the 10-year period, assuming the necessary amounts are appropriated.

TABLE 4. SPENDING SUBJECT TO APPROPRIATION UNDER S. 1486

	By Fiscal Year, Outlays in Millions of Dollars										
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2024
Use of Postal-Specific Data for Retirement Benefits											
Estimated Authorization Level	483	502	524	547	571	596	622	649	677	704	5,875
Estimated Outlays	483	502	524	547	571	596	622	649	677	704	5,875
Postal Service Health Benefits Program											
Estimated Authorization Level	0	-38	-177	-229	-242	-256	-272	-289	-308	-327	-2,138
Estimated Outlays	0	-38	-177	-229	-242	-256	-272	-289	-308	-327	-2,138
Effects of Changes in Workers' Compensation on Non-Postal Agencies											
Estimated Authorization Level	19	19	5	-22	-35	-59	-71	-79	-98	-111	-432
Estimated Outlays	16	19	7	-18	-33	-55	-69	-78	-95	-109	-415
New Commission											
Estimated Authorization Level	3	0	0	0	0	0	0	0	0	0	3
Estimated Outlays	3	0	0	0	0	0	0	0	0	0	3
Total Changes											
Estimated Authorization Level	505	485	352	296	294	281	279	281	271	266	3,308
Estimated Outlays	502	483	354	300	296	285	281	282	274	268	3,325
Memorandum [a]											
Increase in Offsetting Receipts Resulting From Higher Employer Contributions	-483	-502	-524	-547	-571	-596	-622	-649	-677	-704	-5,875

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.

Use of Postal-Specific Data for Retirement Benefits. Under the provisions of S. 1486 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 $5.9 billion over the 2015-2024 period. However, that cost would be offset by additional receipts to the Civil Service Retirement and Disability Trust Fund and thus would have no net effect on future deficits.

Postal Service Health Benefits Program. CBO estimates that section 104 of the bill would reduce federal outlays for health insurance premiums for non-postal employees enrolled in the FEHB program by about $2.1 billion over the 2015-2024 period. The government's contributions for those premiums for active employees are subject to appropriation and thus classified as discretionary spending.

The estimated reduction in costs results from lower federal payments for the government's share of health insurance premiums for federal employees not employed by USPS. Currently, the federal government makes contributions to the premiums of employees that participate in the FEHB program, and in 2013 those contributions averaged 71 percent of premiums. Under the bill, as discussed above, premiums charged to non-postal employees in the FEHB program would reflect the expected health care costs of non-postal employees, non-postal annuitants, and their dependents. On a per-enrollee basis, those costs would be lower than the expected health care costs including postal beneficiaries. CBO estimates that federal spending to cover the government's share of premiums would be lower than under current law.

Effect on Changes in Workers' Compensation on Agencies Other than USPS. The changes to FECA in S. 1486 would result in agencies paying $1.0 billion less in reimbursements to DOL for expenses incurred on behalf of their employees over the 2015-2024 period. Based on historical spending patterns, CBO estimates that about $0.4 billion of the reduction in reimbursements would be from the USPS. The balance of those payment reductions—about $0.6 billion—would be from federal agencies' discretionary salaries and expenses accounts.

Those savings would be partially offset by additional discretionary costs of about $0.2 billion over the same period. Most of those costs would be incurred by DOL to institute and manage the disability review process and other administrative provisions required by the bill.

In addition, provisions in the bill that would extend the period of time that injured workers in zones of armed conflict would be in "continuation of pay" status would result in small increases in discretionary costs to agencies that employ such workers.

New Commission. S. 1486 would authorize the appropriation of $3 million from the Postal Service Fund for fiscal year 2015 to establish a Strategic Advisory Commission on Postal Service Solvency and Innovation. The commission would offer guidance to improve USPS finances. CBO estimates that the commission would spend $3 million in 2015, assuming appropriation of the authorized amounts.

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 S. 1486, the Postal Reform Act of 2014, as ordered reported by the Senate Committee on Homeland Security and Governmental Affairs on February 6, 2014

	By Fiscal Year, in Millions of Dollars												
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2014-2019	2014-2024
	NET INCREASE IN THE ON-BUDGET DEFICIT												
Statutory Pay-As-You-Go Impact	0	4,693	2,601	1,585	1,652	1,259	1,307	1,353	1,473	1,461	1,453	11,789	18,836

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

By increasing postal rates for public and private mailers, S. 1486 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 aggregate annual costs to comply with the mandates in the bill would exceed both the intergovernmental and private-sector thresholds established in UMRA ($76 million and $152 million, respectively, in 2014, adjusted annually for inflation).

Mandates on Public and Private Mailers

S. 1486 would make permanent an increase in postal rates for certain products, including those for which the Postal Service has a statutory monopoly. That increase is set to expire near the end of 2015. 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 incremental cost of mailing those items. Based on projections from the USPS 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 amount to about $1.8 billion in the first year of the extension of the higher rates. (That figure excludes additional amounts paid for other postal services and amounts paid by the federal government for postal services.) Of the $1.8 billion, CBO estimates that the permanent increase in postal rates would cost state and local governments approximately $200 million in the first year, with slightly lower costs in subsequent years. Similarly, CBO estimates that the increase in postal rates would cost private mailers about $1.6 billion in the first year, with slightly lower costs in later 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 information from a political committee and the USPS, CBO estimates that the cost of the mandate would average about $4 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 costs for those annuitants would be offset by those contributions.

PREVIOUS CBO ESTIMATE

On June 23, 2014, CBO transmitted a cost estimate 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. Nearly all the off-budget savings of H.R. 2748 would result from two provisions: reducing mail delivery to five days per week and phasing out delivery of mail to customers' doors. In contrast, the largest contributor to off-budget savings for S. 1486 would be the bill's provision to permanently extend a 2013 postal rate increase.

Table 5 compares CBO's estimates of the major budgetary effects of the two bills over the next 10 years, showing that both bills would have net budgetary savings of about $17 billion over the 2015-2024 period—although the on-budget and off-budget effects for the two bills would be significantly different. S. 1486's significantly higher on-budget cost, as compared to H.R. 2748, primarily reflects the differences in the two bills' provisions related to health care benefits for USPS workers and retirees.

TABLE 5. SUMMARY OF CBO COST ESTIMATES FOR S. 1486 AND H.R. 2748

	By Fiscal Year, in Billions of Dollars		
	Off-Budget 2015-2024	On-Budget 2015-2024	Total 2015-2024
S. 1486	-35.7	18.8	-16.8
H.R. 2748	-23.6	6.6	-17.0

ESTIMATE PREPARED BY:

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