CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 1, 2017

H.R. 756
Postal Service Reform Act of 2017

As ordered reported by the House Committee on Oversight and Government Reform on March 16, 2017

SUMMARY

H.R. 756 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:

- Permit the Postal Service to raise rates on certain mail categories (direct spending savings of $8.6 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 $4.5 billion and discretionary savings of $1.9 billion); and
- Require the use of demographic data specific to Postal Service employees for the calculation of certain retirement benefits, (net direct spending costs of $0.1 billion, and discretionary costs of $1.5 billion).[1]

Effects on the Federal Budget

CBO estimates that enacting H.R. 756 would reduce direct spending by about $6 billion over the 2017-2027 period; therefore, pay-as-you-go procedures apply. Enacting H.R. 756 would not affect revenues.

1. This estimate reflects a notice of proposed rulemaking published by the office of Personnel Management in December 2016 to use demographic data specific to Postal Service employees to calculate certain retirement benefits. If that rule is finalized before enactment, this provision would have no cost.

The total changes in direct spending over the 2017-2027 period are split between net off-budget savings of about $6.2 billion and net on-budget costs of about $0.2 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. 756 are classified as on-budget.)

In addition, CBO estimates that implementing H.R. 756 would lead to discretionary savings of $0.3 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 by more than $5 billion in any of the four consecutive 10-year periods beginning in 2028.

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

By increasing postal rates for public and private entities, H.R. 756 would impose intergovernmental and private sector mandates, as defined in the Unfunded Mandates Reform Act (UMRA), on public and private entities that send certain mail through the Postal Service. Additionally, the bill would impose a private-sector mandate on some postal annuitants by requiring them to enroll in Medicare, if eligible. CBO estimates that the annual cost to public entities of increasing the postal rates would exceed the threshold established in UMRA for intergovernmental mandates ($78 million in 2017, adjusted annually for inflation) in each of the first five years after the rates become effective. CBO also estimates the aggregate annual cost to private entities of complying with the mandates would exceed the threshold established in UMRA for private-sector mandates ($156 million in 2017, 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. 756 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), 600 (income security), and 950 (offsetting receipts).

TABLE 1. SUMMARY OF BUDGETARY EFFECTS OF H.R. 756, THE POSTAL SERVICE REFORM ACT OF 2017

	By Fiscal Year, in Millions of Dollars												
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2017-2022	2017-2027
OFF-BUDGET DECREASES IN DIRECT SPENDING [a]													
Estimated Budget Authority	0	-910	-801	-461	-557	-633	-628	-614	-600	-525	-441	-3,361	-6,169
Estimated Outlays	0	-910	-801	-461	-557	-633	-628	-614	-600	-525	-441	-3,361	-6,169
ON-BUDGET INCREASES OR DECREASES (-) IN DIRECT SPENDING													
Estimated Budget Authority	0	20	11	-68	44	25	46	38	29	40	32	32	218
Estimated Outlays	0	20	11	-68	44	25	46	38	29	40	32	32	218
DECREASES IN DIRECT SPENDING (UNIFIED BUDGET) [b]													
Estimated Budget Authority	0	-890	-790	-529	-513	-608	-582	-576	-571	-485	-409	-3,329	-5,951
Estimated Outlays	0	-890	-790	-529	-513	-608	-582	-576	-571	-485	-409	-3,329	-5,951
INCREASES OR DECREASES (-) IN SPENDING SUBJECT TO APPROPRIATION													
Estimated Authorization Level	0	131	106	-9	-53	-58	-73	-77	-92	-107	-111	117	-343
Estimated Outlays	0	131	106	-9	-53	-58	-73	-77	-92	-107	-111	117	-343

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. 756 will be enacted by the end of fiscal year 2017. H.R. 756 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. 756 would decrease net direct spending for the unified budget by about $6 billion over the 2018-2027 period. Off-budget spending would decline by about $6.2 billion and on-budget spending would increase by about $0.2 billion.

Off-Budget Direct Spending (Postal Service Fund). CBO estimates that enacting H.R. 756 would reduce net USPS spending by $6.2 billion over the 2018-2027 period (see Table 2).

Postal Service Operations. Two provisions would directly affect how the Postal Service operates and would decrease its net spending by $10.6 billion over the 2018-2027 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 $4.5 billion over the 2018-2027 period.

Retirement Benefits. One provision would affect how the USPS pays for retirement benefits for its annuitants and would, on net, decrease direct spending about $0.1 billion over the 2018-2027 period.

On-Budget Direct Spending. CBO estimates that enacting H.R. 756 would, on net, increase on-budget direct spending by about $0.2 billion over the 2018-2027 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 $40 million over the 2018-2027 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 $258 million over the 2018-2027 period.

Spending Subject to Appropriation. CBO estimates that implementing H.R. 756 would reduce discretionary spending by $343 million, assuming appropriation actions consistent with those estimates (see Table 3). Over the next 10 years, implementing the bill would:

- Increase agency contributions for retirement benefits by $1.5 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 $1.9 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. 756

	By Fiscal Year, in Millions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
INCREASES OR DECREASES (-) IN OFF-BUDGET DIRECT SPENDING												
Postal Service Operations												
Rate Increase	-900	-900	-900	-900	-900	-875	-850	-825	-800	-775	-4,500	-8,625
Mail Delivery	0	-10	-50	-125	-200	-250	-300	-350	-340	-330	-385	-1,955
Subtotal	-900	-910	-950	-1,025	-1,100	-1,125	-1,150	-1,175	-1,140	-1,105	-4,885	-10,580
Health Benefits												
USPS payments to OPM	0	140	620	670	720	770	830	890	950	1,020	2,150	6,610
PSHB Employees Premiums	0	-40	-190	-240	-250	-260	-280	-300	-320	-340	-720	-2,220
Medicare Part B Premiums	0	20	70	50	10	0	0	0	0	0	150	150
Subtotal	0	120	500	480	480	510	550	590	630	680	1,580	4,540
Retirement Benefits[a]												
Use Postal-Specific Data for Retirement Benefits	-20	-21	-22	-24	-25	-26	-28	-29	-30	-32	-112	-258
Capital Improvements	10	11	11	12	12	13	14	14	15	16	56	129
Subtotal	-10	-11	-11	-12	-13	-13	-14	-14	-15	-16	-56	-129
Total Changes	**-910**	**-801**	**-461**	**-557**	**-633**	**-628**	**-614**	**-600**	**-525**	**-441**	**-3,361**	**-6,169**
INCREASES OR DECREASES (-) IN ON-BUDGET DIRECT SPENDING												
Health Benefits												
Medicare	0	210	920	1,160	1,180	1,260	1,350	1,430	1,540	1,650	3,470	10,700
Medicare Part B Premiums	0	-20	-70	-50	-10	0	0	0	0	0	-150	-150
PSRHBF Payments Based on Claims	0	-140	-620	-670	-720	-770	-830	-890	-950	-1,020	-2,150	-6,610
PSHB Annuitant Premiums	0	-40	-210	-270	-290	-300	-320	-340	-370	-400	-810	-2,540
FEHB Annuitant Premiums	0	-20	-110	-150	-160	-170	-190	-200	-210	-230	-440	-1,440
Subtotal	0	-10	-90	20	0	20	10	0	10	0	-80	-40
Use Postal-Specific Data for Retirement Benefits[a]	20	21	22	24	25	26	28	29	30	32	112	258
Total Changes	**20**	**11**	**-68**	**44**	**25**	**46**	**38**	**29**	**40**	**32**	**32**	**218**

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.

a. Amounts reflect that OPM has published a notice of proposed rulemaking in December 2016 to use demographic data specifc to Postal Service employees to calculate certain retirement benefits. If that rule is finalized before enactment, this provision would have no cost.

TABLE 3. CHANGES IN SPENDING SUBJECT TO APPROPRIATION UNDER H.R. 756

	By Fiscal Year, in Millions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
INCREASES OR DECREASES (-) IN SPENDING SUBJECT TO APPROPRIATION												
Use of Postal-Specific Data for Retirement Benefits [a, b]												
Estimated Authorization Level	127	131	136	142	147	152	158	163	168	174	683	1,498
Estimated Outlays	127	131	136	142	147	152	158	163	168	174	683	1,498
Health Care Premiums for Nonpostal Employees												
Estimated Authorization Level	0	-30	-150	-200	-210	-230	-240	-260	-280	-290	-590	-1,890
Estimated Outlays	0	-30	-150	-200	-210	-230	-240	-260	-280	-290	-590	-1,890
USPS Office of Inspector General												
Estimated Authorization Level	4	5	5	5	5	5	5	5	5	5	24	49
Estimated Outlays	4	5	5	5	5	5	5	5	5	5	24	49
Total Changes												
Estimated Authorization Level	131	106	-9	-53	-58	-73	-77	-92	-107	-111	117	-343
Estimated Outlays	131	106	-9	-53	-58	-73	-77	-92	-107	-111	117	-343
Memorandum [a]												
Offsetting Receipts Resulting From Higher Employer Contributions	-127	-131	-136	-142	-147	-152	-158	-163	-168	-174	-683	-1,498

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.

b. Amounts reflect that OPM has published a notice of proposed rulemaking in December 2016 to use demographic data specifc to Postal Service employees to calculate certain retirement benefits. If that rule is finalized before enactment, this provision would have no cost.

Postal Service Operations

Enacting H.R. 756 would make changes 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 $10.6 billion over the 2018-2027 period (see Table 2).

Rate Increase. In December 2013, the Postal Regulatory Commission approved a 4.3 percent rate surcharge for first-class mail and other services that was effective through April 2016. H.R. 756 would authorize the Postal Service to increase current rates by up to 50 percent of the 2013 surcharge.

Based on an analysis of information from the Postal Service about the effects of rate increases on mail volume and revenue, CBO estimates that increasing rates as permitted by the bill would increase net collections of the USPS by $900 million in 2018 and about $8.6 billion over the 2018-2027 period. (Those collections are recorded as offsetting receipts in the budget, which are treated as reductions in direct spending.) We expect that the increase in net receipts would begin to decline in 2023 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.

Mail Delivery. The USPS delivers mail to the doors of customers, to sidewalk and curbside receptacles, and to centralized mail receptacles that serve multiple addresses. H.R. 756 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. 756, the USPS expects that it would change the means of delivery for about 500,000 addresses in 2018 and an additional 1 million addresses annually over the 2019-2023 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. 756 would grow to $350 million by 2025 and would total nearly $2 billion over the 2018-2027 period. Beginning in 2026, 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. 756 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. 756 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. 756 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 $4.5 billion over the 2018-2027 period to provide health care to postal and other federal employees and annuitants. In addition, implementing the bill would reduce discretionary spending by $1.9 billion over the 2018-2027 period for providing health care to federal employees, assuming appropriation actions consistent with that estimate.

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 recorded in the budget as off-budget increases in direct spending.) In 2016 the agency made direct payments for retirees' premiums to the FEHB fund totaling nearly $3.5 billion. Starting in 2017, the Postal Service will no longer make payments directly to the FEHB fund for its annuitants; rather, the Postal Service Retiree Health Benefits Fund (PSRHBF) will make those payments.

Postal Service Health Benefits Program. H.R. 756 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.

TABLE 4. CHANGES IN SPENDING FROM PROVISIONS OF H.R. 756 THAT AFFECT HEALTH CARE SPENDING

	By Fiscal Year, Outlays in Millions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
INCREASES OR DECREASES (-) IN DIRECT SPENDING												
Medicare												
Require Participation in Medicare (on-budget)	0	210	920	1,160	1,180	1,260	1,350	1,430	1,540	1,650	3,470	10,700
Medicare Part B Premiums Paid by USPS (off-budget)	0	20	70	50	10	0	0	0	0	0	150	150
Medicare Part B Premiums Paid by USPS (on-budget)	0	-20	-70	-50	-10	0	0	0	0	0	-150	-150
Postal Service Health Benefits												
Premiums for USPS Employees (off-budget)	0	-40	-190	-240	-250	-260	-280	-300	-320	-340	-720	-2,200
Premiums for USPS Annuitants (on-budget)	0	-40	-210	-270	-290	-300	-320	-340	-370	-400	-810	-2,540
Payments Based on Claims (on-budget)	0	-140	-620	-670	-720	-770	-830	-890	-950	-1,020	-2,150	-6,610
USPS Payments to OPM (off-budget)	0	140	620	670	720	770	830	890	950	1,020	2,150	6,610
Federal Employee Health Benefits												
Premiums for Nonpostal Annuitants (on-budget)	0	-20	-110	-150	-160	-170	-190	-200	-210	-230	-440	-1,440
Total Changes, Unified Budget	0	110	410	500	480	530	560	590	640	680	1,500	4,500
DECREASES IN SPENDING SUBJECT TO APPROPRIATION												
FEHB Premiums for Nonpostal Employees	0	-30	-150	-200	-210	-230	-240	-260	-280	-290	-590	-1,890

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

Postal Service employees and annuitants would be in the same risk pool, so premiums would be the same for both groups; however, H.R. 756 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. 756 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. 756 would require PSHB plans to participate in Medicare Part D.

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. 756 would:

- Increase on-budget direct spending for Medicare by about $10.7 billion over the 2018-2027 period, net of Medicare Part B premiums that would be paid by postal annuitants;

- Increase off-budget direct spending by $0.2 billion over the 2018-2027 period for the portion of Part B premiums that the USPS would pay under the bill; and

- Decrease on-budget direct spending by $0.2 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. Additionally, under the bill, PSHB plans would be required to participate in the Employer Group Waiver Plan (EGWP) through Medicare Part D and would receive subsidies from Medicare and discounts from manufacturers of brand name 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. Enacting H.R. 756 would:

- Decrease net off-budget direct spending for the Postal Service by $2.2 billion over the 2018-2027 period because of a reduction in premiums for current postal workers; and

- Decrease on-budget direct spending $2.5 billion over the 2018-2027 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. Under the bill, 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 $6.6 billion over the 2018-2027 period, for payments from the PSRHBF to PSHB plans; and

- Increase off-budget direct spending by the same amount—$6.6 billion over the 2018-2027 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 2016, 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 2018-2027 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 $1.9 billion over the 2018-2027 period (the government's contributions for premiums for active employees are subject to appropriation and thus classified as discretionary spending).

Retirement Benefits

Enacting H.R. 756 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 $129 million over the 2018-2027 period. Additionally, implementing the bill would increase discretionary costs related to retirement benefits by $1.5 billion for increased contributions by federal agencies to the Civil Service Retirement and Disability Fund, 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. 756 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). In December of 2016, however, OPM published a notice of proposed rulemaking that, when finalized, would require the agency to make the same USPS-specific calculations for the Postal Service's contributions to employee retirement as required under the bill. If that rule were finalized before the bill's enactment, these provisions would no longer generate any costs or savings. Thus, the estimated budgetary effects reflect 50 percent of the total estimated effects to account for the possibility of the rule becoming final prior to enactment.

In 2016, the Postal Service made about $3.7 billion in contributions to CSRDF for FERS employees and also was required to make an amortization payment of about $250 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 funds in CSRDF that are 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 2018-2027 period. We expect the Postal Service to continue to contribute to CSRDF for FERS employees each year.

CSRDF Payments. Based on an analysis conducted by OPM in 2014, CBO estimates that enacting H.R. 756 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 $258 million over the 2018-2027 period; and

- Increase on-budget direct spending by $258 million over the 2018-2027 period because offsetting receipts in the CSRDF would decline by the same amount the Postal Service saved.

Capital Improvements. 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 increase off-budget spending by about half of the savings in retirement contributions—$129 million over the 2018-2027 period.

Payments by Federal Agencies. Because H.R. 756 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 between 0.1 and 0.2 percent of salary. Based on that assumption, CBO estimates that such an increase in contributions would increase spending subject to appropriation by about $1.5 billion over the 2018-2027 period. (That cost would be offset by additional receipts to CSRDF and thus would have no net effect on future deficits.) However, the basis of such a disparate effect on the overall change in contributions from the USPS versus 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; the updated analysis also could affect calculations in the previous section (CSRDF payments).

USPS Office of Inspector General

H.R. 756 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 $4 million in 2018 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. 756, the Postal Service Reform Act of 2017, as ordered reported by the House Committee on Oversight and Government Reform on March 16, 2017

	By Fiscal Year, in Millions of Dollars												
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2017-2022	2017-2027
NET INCREASE OR DECREASE (-) IN THE ON-BUDGET DEFICIT													
Statutory Pay-As-You-Go Impact	0	20	11	-68	44	25	46	38	29	40	32	32	218

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

CBO estimates that enacting the legislation would not increase net direct spending or on-budget deficits by more than $5 billion in any of the four consecutive 10-year periods beginning in 2028.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

By increasing postal rates for public and private mailers, H.R. 756 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 ($78 million in 2017, adjusted annually for inflation) in each of the first five years after the rate increase becomes effective. CBO estimates the aggregate annual cost to private entities of complying with the mandates (including the rate increase) would exceed the threshold established in UMRA for private-sector mandates ($156 million in 2017, 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. 756 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 mailers would total about $870 million annually from 2018 through 2022, with lower amounts in subsequent years. (Those figures exclude additional amounts paid for other postal services and amounts paid by the federal government for postal services.) Taking into account the GDP of state and local governments as a percentage of the economy, CBO estimates that the intergovernmental mandate would cost about $100 million annually from 2018 through 2022. For private mailers, CBO estimates that the increase in postal rates would total about $770 million annually from 2018 through 2022.

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 $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 cost for those annuitants would be offset by those contributions.

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