

TESTIMONY

U.S. Postal Service in Crisis

Congressional testimony before the U.S. Senate, Committee on Homeland Security and Governmental Affairs, Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security (August 6, 2009)

**BY INSPECTOR GENERAL
DAVID C. WILLIAMS**

Mr. Chairman and members of the subcommittee, I appreciate the opportunity to discuss the Postal Service's retiree health care liabilities. The Postal Service's financial stability is currently threatened by the disruptive effects of new communication technologies and the massive and sudden economic downturn.

This situation has turned into an immediate crisis because of the significant diversion of cash to pay for future retiree health care benefits. For example, the first 6 months of this year's payment to the Postal Service Retiree Health Benefits Fund was \$2.7 billion. If not for this payment, the Postal Service would have made \$400 million instead of losing \$2.3 billion in the first half of 2009.

The *Postal Accountability and Enhancement Act of 2006* requires the Postal Service to make 10 annual payments of over \$5 billion each in addition to the \$20 billion already set aside for prefunding its retiree health benefits. The size of the \$5 billion payments has little foundation, and the current payment method is damaging to the financial viability of the Postal Service even in profitable times.

- The payment amounts were not actuarially based. Instead, the required payments were built to ensure that the Postal Act did not affect the federal budget deficit. This seems inexplicable since the Postal Service is not part of the federal budget, does not receive an appropriation for op-



erations, and makes its money from the sale of postal services.

- The payment amounts are fixed through 2016 and do not reflect the fund's earnings or estimates of the Postal Service's liabilities as a result of changing economic circumstances, declining staff size, or developments in the health care and pharmaceutical industries.
- The payments do not take into account the Postal Service's ability to pay and are too challenging even in normal economic times. In the current economic climate, the Postal Service is forced to borrow and place its solvency at risk. Borrowing to pay a debt that will be incurred in the

future is a controversial practice — not seen in business or government.

Beyond the problems with the payments, we believe it is important to know if the Postal Service's obligation is reasonably estimated. My office asked an actuarial consulting firm, the Hay Group, to:

- Benchmark OPM's assumptions against those commonly used in the public and private sector;
- Review OPM's estimates of the Postal Service's liabilities;
- Estimate how well the Postal Service will have funded its retiree health obligations when the mandated payments end; and
- Estimate proper funding levels given adjustments to assumptions.

In brief, the actuaries found that:

- OPM's assumption that health care inflation will average 7 percent indefinitely is unreasonably high when compared to the 5 percent health care inflation rate commonly used by Fortune 100 companies, state and local governments, and public utilities.
- The payments are aggressive, reducing the Postal Service's unfunded liabilities more quickly than typical prefunding plans.
- When the broadly accepted 5 percent for growth of health care costs is used, the estimates show the Postal Service will have overfunded its obligations by an extravagant \$13 billion at the end of 2016.
- Resetting payment levels will provide a more achievable financial goal.
- New payments will take into account the substantial annual earnings of the fund. Last year, the fund earned \$1.3 billion.
- Payments should be reset periodically to recognize factors such as
 - Medical/technical innovations and breakthroughs;
 - Current efforts to reduce inflation within the medical sector; and
 - Changing interest rates on the fund.

By the end of 2016, the current payments will have essentially created an accidental annuity. At 5 percent interest, the \$104 billion fund will earn more than \$5 billion a year. This is a significant amount of money to cover retiree premiums, which are predicted to be \$2 billion this year.

The punishing payments threaten Postal Service solvency in the current crisis. Because the Postal Service has been forced to borrow during its profitable years, borrowing levels are now stressed during times of need.

Resetting the annual payments from over \$5 billion to \$1.57 billion will leave only \$26 billion unfunded by the end of 2016.

The Postal Service must meet its retiree benefit obligations, while acting like a business and paying its expenses from the sale of postal services. As a result, retiree health benefit obligations and all other Postal Service liabilities should be derived mathematically and not politically. I am aware that there were voices on your committee and in the House that called for the proper payment level to be set at the time that the payments were distorted. I am hopeful that these voices will now be heard to correct this debilitating problem. If this distortion is corrected, the Postal Service can more realistically address the remaining serious challenges and opportunities before it. Thank you. ✎



David C. Williams

David C. Williams was sworn in as the second independent Inspector General for the U.S. Postal Service on August 20, 2003. His organization's mission is preventing, detecting, and reporting fraud, waste, and misconduct, and promoting efficiency in Postal Service operations.

Mr. Williams' staff of more than 1,100 employees—located in offices nationwide—independently audits and investigates the largest civilian federal agency with \$75 billion in annual revenues, a workforce of more than 760,000 employees and contractors, and 37,000 postal facilities.

In his last position, Williams served as the Deputy Assistant Administrator for Aviation Operations at the Transportation Security Administration from August 2002 until August 2003, where he managed the Aviation Inspection Program at federalized airports.

Williams served in the U.S. Army Military Intelligence and began his civilian federal career as a Special Agent with the Secret Service.

A Bronze Star and Vietnamese Medal of Honor recipient, Mr. Williams previously served as Inspector General for five federal agencies: the U.S. Nuclear Regulatory Commission, Social Security Administration, Department of the Treasury, Tax Administration of the Department of Treasury and acted as IG for the Department of Housing and Urban Development.

