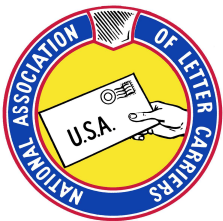


**KEYS TO POSTAL REFORM:  
PRIVATE SECTOR BEST PRACTICE ON MEDICARE  
INTEGRATION AND INVESTING THE PSRHHBF**

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## **USPS Finances Since the Postal Accountability and Enhancement Act of 2006**

<u>Year</u>	<u>USPS Reported Net Income/(Loss)</u>	<u>PSRHB Pre-Funding</u>	<u>FECA Accounting Adjustments</u>	<u>Operating Income/(Loss)</u>
2006 (pre-PAEA)	\$0.9	\$0.0	-\$0.4	\$1.3
2007	-\$5.1	-\$8.4	\$0.1	\$3.2
2008	-\$2.8	-\$5.6	-\$0.2	\$3.0
2009	-\$3.8	-\$1.4	-\$1.1	-\$1.3
2010	-\$8.5	-\$5.5	-\$2.4	-\$0.6
2011	-\$5.1	\$0.0	-\$2.4	-\$2.7
2012	-\$15.9	-\$11.1	-\$2.4	-\$2.4
2013	-\$5.0	-\$5.6	\$0.3	\$0.3
2014	-\$5.5	-\$5.7	-\$1.2	\$1.4
2015 2Q	-\$2.2	-\$2.9	-\$0.8	\$1.4
TOTAL Since PAEA	-\$53.9	-\$46.2	-\$10.1	\$2.3
	Percent of Total	86%		



### MEDICARE INTEGRATION

- 90% of Fortune 1000 provide retiree health insurance
- 100% require retirees to enroll in Medicare Parts A & B at 65
- Plans incorporate an EGWP to gain access to low cost prescription drugs under Medicare Part D law
- **USPS integration: All future retirees and 76,000 existing retirees pay \$1,200-\$1,800/year**

### INVESTING RETIREE HEALTH FUNDS

- 1/3 Fortune 1000 pre-fund
- All invest funds the way they invest pension funds
- Diversified portfolio of private sector stocks and bonds
- **USPS (ratepayers/employees) are Uncle Sam's 3<sup>rd</sup> largest creditor (\$340 billion total)**
  - Earning 2-3% on \$50B in PSRHBF assets
  - Premium costs rising 5-7% annually
  - UFL will grow forever
- **NOTE: Investing the PSRHBF can eliminate future amortization prefunding payments and perhaps even normal cost payments**



## Medicare Integration Would Save USPS \$7.4 billion this Year

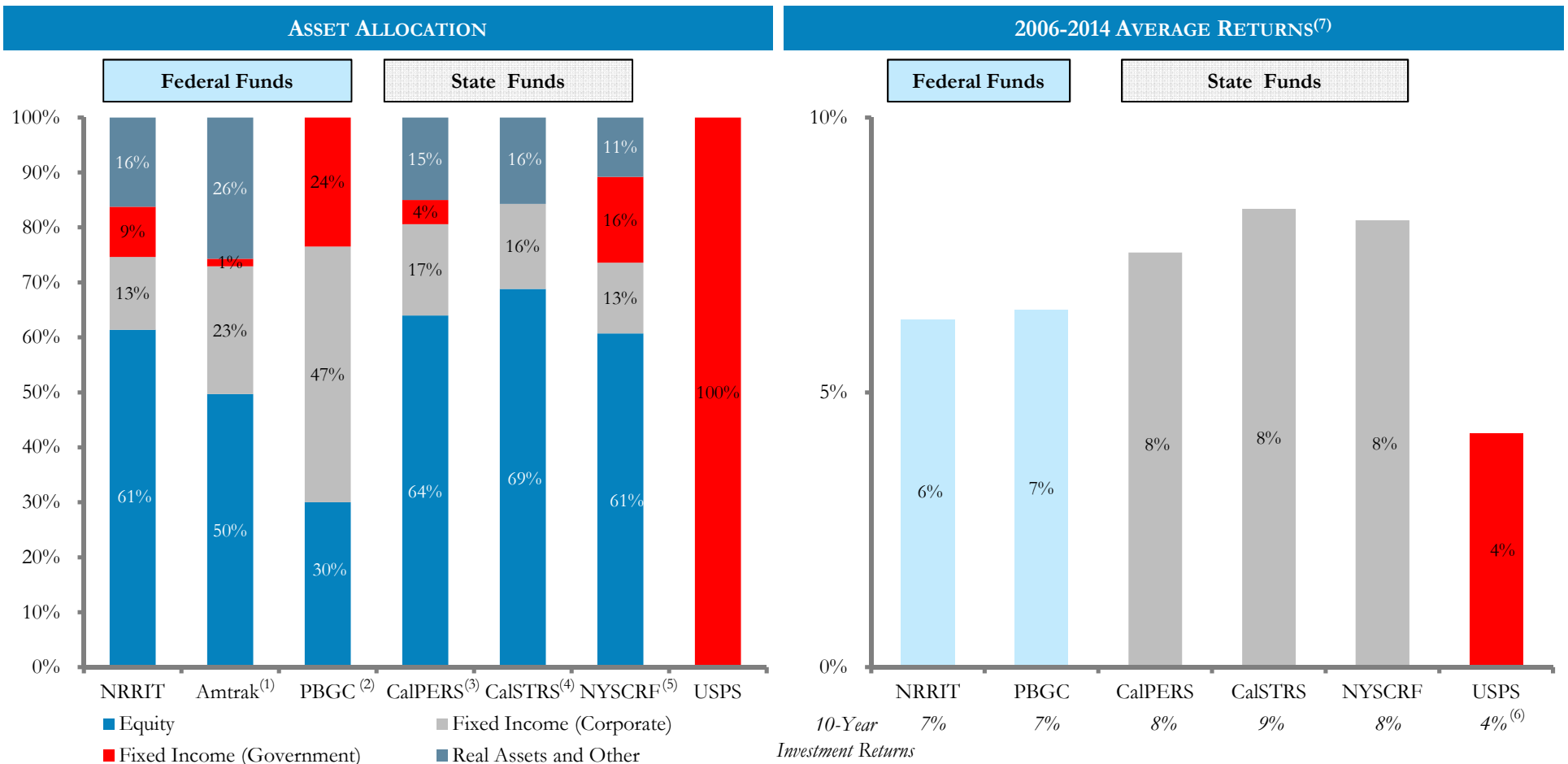
### IMPACT OF MEDICARE INTEGRATION

Benefit Obligation	9/30/15 Liability (\$mil)	9/30/15 Assets (\$mil)	9/30/15 Unfunded Liability (\$mil)	2016 Funding Obligation (\$mil)
Accounting Liability	\$101,273	\$51,415	\$49,858	\$9,022 (\$5,800 PAEA +\$3,220 premium payment)
Funding Liability	\$93,795	\$51,415	\$42,381	\$9,022 (same as above)
Liability under Medicare Integration	\$51,798	\$51,415	\$383	\$1,597 (normal cost + amortization payment)



# Most Recent Asset Allocation and Historical Returns of Various Funds

Major quasi-governmental pensions and other assets funds invest in diversified portfolios including corporate securities; average returns have exceeded that of the Postal Service Retiree Health Benefits Fund (“PSRHBF”) since its inception in 2006



Source: Annual reports and press releases, US News Global Asset Fund Allocation Guidelines.

(1) Amtrak trust funds provide post-retirement benefits for non-unionized employees; total assets under management: \$394m.

(2) PBGC (Pension Benefit Guaranty Corporation) guarantees pension benefits for American employees and retirees in ~24,000 plans; total assets under management: \$81.5b.

(3) CalPERS (California Public Employees’ Retirement System) is comprised of multiple-employer plans based in CA; total assets under management: \$313.7b.

(4) CalSTRS (California State Teachers’ Retirement System) provides pension benefits to California full-time and part-time public school teachers; total assets under management: \$189.1b.

(5) NYSCRF (New York State Common Retirement Fund) provides benefits to 3,000 state and local government-participating employers; total assets under management: \$181.3b.

(6) Figures for 2005-2006 reflect US Treasury returns.

(7) USPS transferred \$3.0 billion into the PSRHBF on April 6, 2007, \$17.1 billion on June 29, 2007, and \$5.4 billion on September 30, 2007.

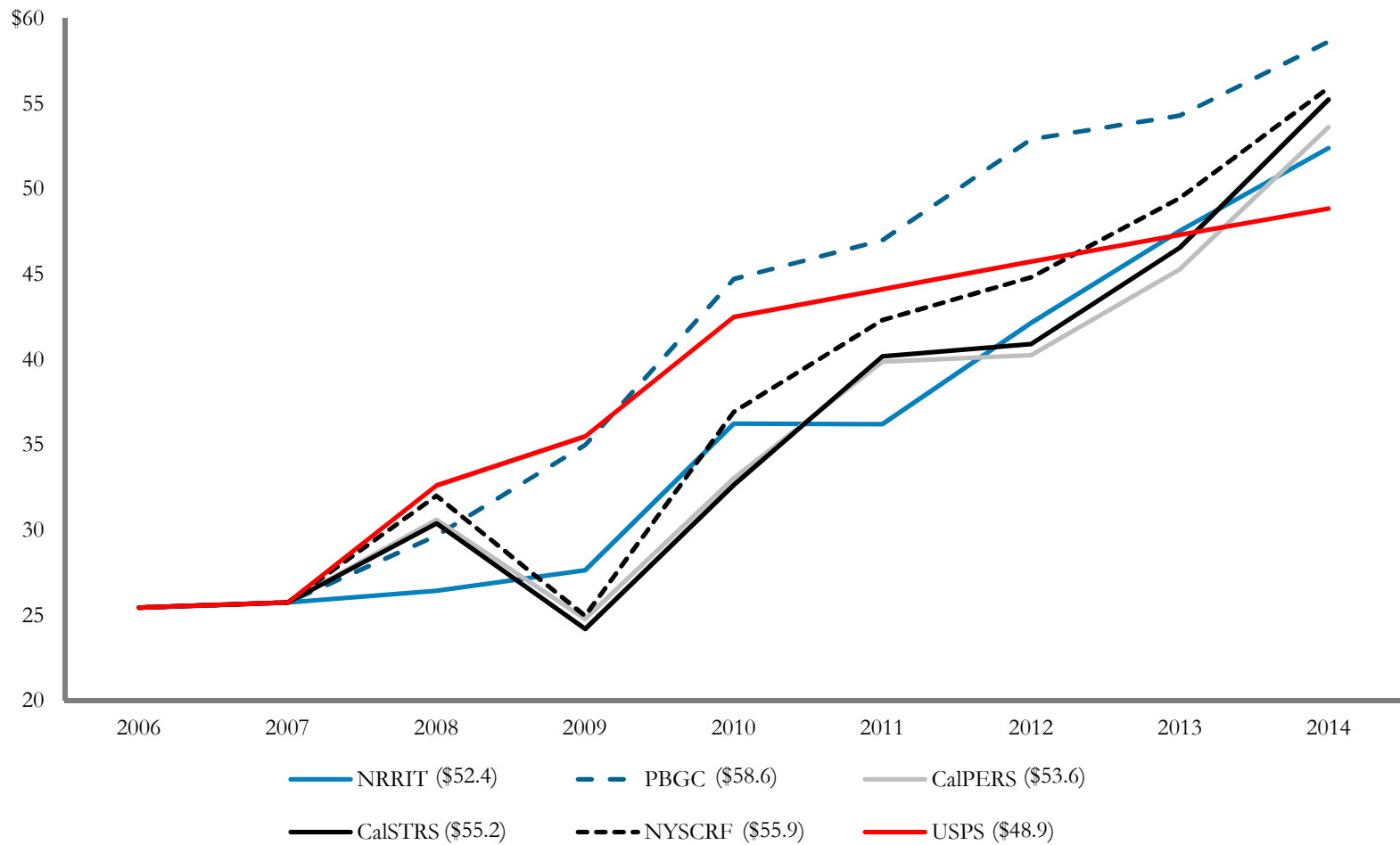


# PSRHBFB Assets over Time

(\$ in billions)

PSRHBFB asset balance was \$48.9 billion as of September 2014. If the PSRHBFB had been invested similarly to selected other quasi-governmental funds since its inception, the balance would be between \$52 and \$59 billion

ILLUSTRATIVE PSRHBFB BALANCES ASSUMING DIVERSIFIED INVESTMENT MIX  
(HYPOTHETICAL PSRHBFB 2014 BALANCE IN PARENTHESES)





## Appendix: Summary Metrics

(\$ in billions)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	8-Year Average	10-Year Average	
<b>Illustrative PSRHHF Ending Balances Assuming Diversified Investment Mix (1)</b>	<b>NRRIT</b>	-	-	\$25.7	\$26.4	\$27.7	\$36.2	\$36.2	\$42.1	\$47.5	\$52.4	-	-
	<b>PBGC</b>	-	-	25.7	29.7	35.0	44.7	47.0	52.9	54.3	58.6	-	-
	<b>CalPERS</b>	-	-	25.7	30.6	24.8	33.0	39.9	40.3	45.3	53.6	-	-
	<b>CalSTRS</b>	-	-	25.7	30.4	24.2	32.6	40.2	40.9	46.6	55.2	-	-
	<b>NYSCRF</b>	-	-	25.7	32.0	25.0	36.9	42.3	44.8	49.5	55.9	-	-
	<b>USPS</b>	-	25.5 <sup>(2)</sup>	25.7	32.6	35.5	42.5	44.1	45.7	47.3	48.9	-	-
<i>USPS PSRHHF Contributions and Transfers</i>	-	-	-	5.6	1.4	5.5	-	-	-	-	-	-	
<b>Actual Fund Returns</b>	<b>NRRIT</b>	14%	10%	16%	(19%)	(1%)	11%	(0%)	16%	13%	10%	6%	7%
	<b>PBGC</b>	9%	4%	7%	(7%)	13%	12%	5%	13%	3%	8%	7%	7%
	<b>CalPERS</b>	12%	12%	19%	(3%)	(24%)	11%	21%	1%	13%	18%	8%	8%
	<b>CalSTRS</b>	11%	13%	21%	(4%)	(25%)	12%	23%	2%	14%	19%	8%	9%
	<b>NYSCRF</b>	9%	15%	13%	3%	(26%)	26%	15%	6%	10%	13%	8%	8%
	<b>USPS<sup>(3)</sup></b>	6%	5%	5%	5%	5%	4%	4%	4%	4%	3%	4%	4%

Notes:

Assumes diversification in PSRHHF asset allocation began September 30, 2007.

All pension funds have varying fiscal year ends: March (NYSCRF), June (CalPERS, CalSTRS), and September (NRRIT, PBGC, USPS).

(1) Ending Balances are calculated by applying selected fund return % to PSRHHF Beginning Balance and adding PSRHHF Contributions & Transfers for said year.

(2) Illustrative 2006 Beginning Balance is actual 2007 PSRHHF Contributions & Transfers figure. USPS transferred \$3.0 billion into the PSRHHF on April 6, 2007, \$17.1 billion on June 29, 2007, and \$5.4 billion on September 30, 2007.

(3) 2005-2006 figures reflect US Treasury Returns.



## Prefunding Payments Under Current Law (CBO Score)

### Payments in \$billions

Year	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	2015-2024
Retiree Premiums	3.241	3.439									6.680
Normal Cost Payments			2.458	2.574	2.679	2.819	2.991	3.174	3.364	3.566	23.625
Payments to Amortize Unfunded Liability			3.490	3.490	3.490	3.490	3.490	3.490	3.490	3.490	27.920
Total Payments	3.241	3.439	5.948	6.064	6.169	6.309	6.481	6.664	6.854	7.056	58.225

**Bottom Line:** Adopting private sector best practice on Medicare integration and investment of the retiree health fund would reduce annual PSRHBF costs to just \$1.5 billion per year (revised normal cost after Medicare integration). Savings: \$4.5 – 5.6 billion per year.