Summary of the President's Budget Proposal
Budget of the United States Government, Fiscal Year 2012

Proposal Provides Financial Relief to the Postal Service

The Administration recognizes the enormous value of the Postal Service to the Nation's commerce and communications, as well as the urgent need for reform to ensure the future viability of USPS. Therefore, the Budget proposes specific short-term financial relief measures, grounded in principles of fiscal responsibility as well as sound financial management, and the Administration will work with the Congress and postal stakeholders to secure necessary reforms. As to the structure of relief, the Budget would improve USPS financial condition by returning to USPS surplus amounts it has paid into its OPM account for its share of Federal Employee Retirement System costs. OPM has determined this surplus is approximately $6.9 billion, which would be paid back to USPS over 30 years, including an estimated $550 million in 2011. Secondly, the Budget proposes to restructure USPS retiree health benefits payments that were specified by the 2006 Postal Act. This change would still prudently pre-fund retiree liabilities, but on an accruing cost basis rather than the arbitrary amounts fixed in current law, which do not allow for the dramatic shifts in demand or workforce size that USPS has experienced in recent years. This restructuring and near-term deferral would provide USPS with $4 billion in temporary financial relief in 2011. Over the 2011 to 2021 budget period this proposal has an estimated deficit effect of $5 billion.

These steps to provide USPS with the breathing room necessary to continue restructuring its operations without severe disruptions must be coupled with meaningful reforms to its business model to make USPS viable for the medium- and long-term. Postal volumes have dropped precipitously in the last few years due to the economic crisis and longer-run shifts in communication technologies and use shifts that have created new challenges even as they propel innovation and revolutionize our economy.

The Postal Service needs the flexibility to adapt to these changes and higher public expectations for customer service. To that end, the Administration's discussions with the Congress and others will be guided by the goals of allowing the Postal Service to: 1) Realign its infrastructure, facilities, processing and delivery systems to continuously improve efficiency; 2) Promote an adaptive, 21st Century workforce; and 3) Accelerate value creation and enhance service to the public while respecting fair competition in the marketplace. ***(USPS, pg. 1285)***

The Budget proposes to shift how the Postal Service (USPS) pre-funds its retiree health benefits unfunded liability (UFL). Under current law, from 2011 to 2016, USPS must make a stream of payments set in statute toward paying down retiree health benefit unfunded liabilities, as well as pay annual premiums for current retirees. Also under current law, starting in 2017, USPS must pay the per capita accruing costs (or normal cost) to fund future retiree health benefits of current employees and a 40-year amortization of the remaining UFL for current retirees.

Under the proposal, starting in 2011, USPS would pay the normal costs for the future retiree health benefits of current employees and also a stream of payments associated with paying down the remaining UFL for current retirees. Further, USPS would be provided temporary financial relief as the 2011 payment would be adjusted so that USPS would pay $4 billion less than what it would have paid to this Fund under current law. USPS would make up this $4 billion payment to the Fund by paying larger amounts in future years. Beginning in 2022, USPS would pay the remaining UFL, amortized over 40 year period.

This proposal provides the following benefits to USPS: 1) USPS would be provided temporary financial relief in the form of a lower payment in 2011; 2) The new calculations of normal cost and UFL are based on new actuarial assumptions that reflect that USPS has fewer employees than in 2006, when the prefunding mechanism was originally adopted—therefore the actual annual payments for the normal costs would be reset each year based on the number of USPS employees; 3) This Fund would pay the premiums for current USPS retirees now, rather than starting in 2017—this accelerates what would have occurred anyway in 2017 under current law. ***(OPM, page 1154)***

Continue Six-Day Delivery of Mail

Provided further, that six-day delivery and rural delivery of mail shall continue at not less than the 1983 level:

Convert OWCP Beneficiaries to "Regular" Annuity

The 2012 Budget incorporates longstanding General Accounting Office, Congressional Budget Office, and Labor Inspector General recommendations, amending FECA to convert prospectively retirement- age beneficiaries to a retirement annuity-level benefit, establish an up-front waiting period for benefits, streamline claims processing, permit the Department of Labor to recapture compensation costs from responsible third parties, authorize DOL to cross-match FECA records with Social Security records to reduce improper payments, and make other changes to improve and update FECA. The 2012 reform legislation will also include a provision to allow DOL to add an administrative surcharge to the amount billed to Federal agencies for their FECA compensation costs, thereby shifting FECA administrative costs from DOL to Federal agencies in proportion to their usage. If enacted, the surcharge would not be applied until Fiscal Year 2013 to give agencies an opportunity to plan for the change.

End Revenue Foregone Appropriation

Termination: Revenue Forgone from Reduced Rate Mail. The Budget proposes terminating the $29 million annual appropriation to reimburse the Postal Service (USPS) for prior years' lost revenue from legislatively mandated reduced postage rates for non-profit mailers.

This appropriation was authorized to compensate USPS for lost revenues that occurred in the early-1990s and ended in 1998, and is not related to any current USPS activities.

While the funds serve to very marginally increase postal revenues, the Budget proposes far greater, though temporary financial relief to USPS to provide it an opportunity to evaluate and adjust its overall business framework.

Justification

In 1994, the Congress authorized $1.2 billion to be appropriated to USPS in $29 million increments over a 42-year period. The purpose of this authorization was to compensate USPS for congressionally-mandated postage discounts that USPS was required to provide to a growing non-profit sector in the 1980s. As of the end of 2010, USPS has been reimbursed $493 million. In 2010, the $29 million appropriated to USPS represented only 0.04 percent of USPS' gross revenue of $69.2 billion.

Budgetary Treatment of the Postal Service Fund

The Administration proposes reform of the Postal Service, necessitated by the serious financial condition of the Postal Service fund. The policy proposals are discussed in the Postal Service and Office of Personnel Management sections of the Appendix.

As a matter of law, the Postal Service is designated as an off-budget federal agency. This designation and budgetary treatment was most recently mandated in 1989, in part to reflect the policy agreement that the Postal Service should pay for its own costs through its own revenues and should operate more like an independent business entity. The current deep recession and the ongoing evolution to paperless written communications have made this goal increasingly difficult to achieve. To address its current financial and structural challenges, the Administration proposes specific short-term financial relief measures and to work with Congress and stakeholders to secure necessary Postal Service reforms. The Administration also proposes that the PAYGO scoring of Postal legislation be done on a unified budget basis to better reflect how and when such legislation will affect overall deficits and debt. That is, for the purposes of entering amounts on the statutory PAYGO scorecards, the applicable estimates should include both the off-budget and the on-budget costs and savings produced by the legislation. This scorekeeping change would be accomplished by a directive contained within Postal reform legislation.

The Administration proposes terminating this appropriation because the Budget provides USPS with $4 billion in temporary financial relief in 2011 by returning to it, on an installment basis, surplus amounts it has paid for its share of Federal Employee Retirement System costs, and restructuring retiree health benefits payments to match its accruing costs, with a one-year deferral of the new payment. These measures will provide USPS with time for needed restructuring of its operations and business model to make it viable for the medium- and long-term.