



UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

RUTH Y. GOLDWAY
CHAIRMAN

June 30, 2010

John E. Potter
Postmaster General and Chief Executive Officer
United States Postal Service
475 L'Enfant Plaza, SW
Washington, DC 20260-1100

Dear Mr. Potter:

The Postal Regulatory Commission transmits the attached independent actuarial report on the allocation of the costs of Civil Service Retirement System (CSRS) benefits paid to former Post Office Department (POD) employees. This report was prepared in response to a request¹ from the United States Postal Service (USPS) in accordance with the Postal Accountability and Enhancement Act (PAEA).²

Upon receipt of this request the Commission issued a request for proposals and awarded the final contract to The Segal Company (Segal), a highly respected actuarial firm with over 70 years of pension fund experience. The Commission finds the report prepared by Segal, *Civil Service Retirement System Cost and Benefit Allocation Principles* (Segal Report), satisfies the requirements of the law, and recommends that it be used to guide adjustments to current allocations of CSRS benefits.

¹ Request of the United States Postal Service for the Commission to Conduct a Review Pursuant to PAEA Section 802(c) of OPM Determinations Regarding CSRS, February 23, 2010; Clarification of Request of the United States Postal Service for the Commission to Conduct a Review Pursuant to PAEA Section 802(c) of OPM Determinations Regarding CSRS, March 2, 2010.

² Pub. L. 109-435, 120 Stat. 3198, 3250-51 (2006), sec. 802(c), not codified; *see* 5 U.S.C.A. 8348 note.

The Commission offers the following comments. The Commission notes that the PAEA directs the Office of Personnel Management (OPM) to compute the "Postal surplus or supplemental liability" for each fiscal year after 2007, *see* 5 U.S.C. 8348(h)(2)(B); and further, that such computation should reflect appropriate amounts as determined by OPM "in accordance with generally accepted actuarial practices and principles." 5 U.S.C. 8348(h)(1)(B)(iii). The Commission finds that the Segal Report provides a persuasive statement of the relevant generally accepted actuarial practices and principles and how they should be used to develop the current postal surplus or liability.

Segal considers the OPM allocation a reasonable methodology for implementing legislation enacted in 1974. Viewed in light of modern actuarial practices and principles, Segal finds it produces an inequitable allocation of responsibilities. Segal recommends that the costs of CSRS benefit payments for former POD employees be allocated using the pension plan's accrual formula (as currently done by OPM) and include POD responsibility for post-1971 salary increases (not currently done by OPM). Segal finds that the current allocation overstates USPS responsibility for CSRS payments to former POD employees, and estimates assets currently allocated for that purpose fall short of an equitable allocation by \$50 to \$55 billion.

Segal recognizes that computing the actual surplus or liability is not a simple, straightforward exercise. Segal suggests that one or more simplifying approaches may be appropriate to account for complex interrelated retirement compensation liability causation factors such as salary increases mandated by Congress and salary increases negotiated by USPS management. *See* Segal Report at 7. The Commission concurs with Segal that the allocation of subsequent salary increases between past and future employers requires information that only OPM may be able to access. Establishing an equitable allocation may involve an agreement among the parties adjusting for the unavailability of relevant data.

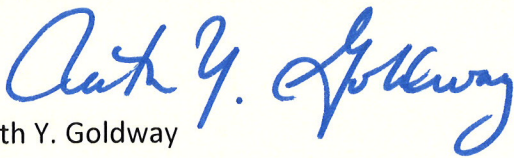
The Commission recommends that future OPM annual calculations of the appropriate surplus or liability adopt the modern methods for allocating responsibility between past and future employers. Present allocations that were deemed reasonable before the development of modern practices but that do not reflect application of currently understood best practices and principles should not be retained given enactment of the PAEA.

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Finally, the Commission suggests that Congress may wish to consider whether to alter the schedule established in the PAEA for potential transfers from the Retirement Fund to the Retiree Health Benefits Fund. Currently, even if a surplus in the Retirement Fund is found, no transfer of any portion of that surplus may take place until the close of the fiscal year ending September 30, 2015. 5 U.S.C. 8348(h)(2)(C). Bearing in mind national budgetary concerns, it may be appropriate to review this limitation in light of the recent Congressional adjustment to the schedule of annual payments the USPS must make into the Retiree Health Benefits Fund pursuant to 5 U.S.C. 8909a(d)(3)(A), and the general expectation that further adjustments may be necessary.³ Should Congress re-evaluate that schedule, it also could provide clarifying language to resolve any areas of continuing disagreement between OPM and USPS.

The Commission is prepared to provide further analysis and guidance on these issues.

Sincerely,



Ruth Y. Goldway

³ See An Act Making Appropriations for the Legislative Branch for the Fiscal Year Ending September 30, 2010, and for Other Purposes, Pub. L. 111-68, 123 Stat. 2023 (2009).