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ONE HUNDRED ELEVENTH CONGRESS

## Congress of the United States

### House of Representatives

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

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September 14, 2009

Dear Colleague,

In light of the recent one page document distributed by Representative Mike Pence criticizing the Postal Service and the committee reported version of H.R. 22, we would like to provide you with the following information about H.R. 22:

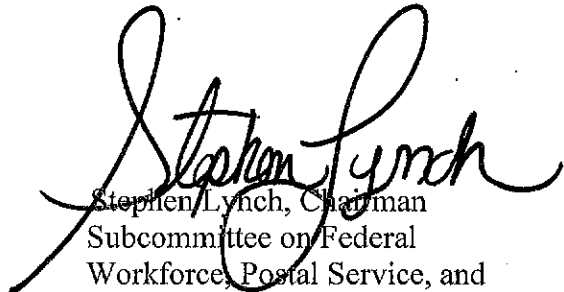
- A substitute amendment to H.R. 22 will be considered on the House floor on Tuesday, September 15. H.R. 22, as amended, would lower the payment the Postal Service must make into the Retiree Health Benefits Trust Fund (trust fund) from \$5.4 billion to \$1.4 billion in FY 2009. **The Congressional Budget Office has confirmed that the amendment will not violate the pay-go rule.**
- The bill is not a bailout. No taxpayer funds will be provided to the Postal Service. The Postal Service operates on revenues from sales of its products and services. It receives appropriations only in reimbursement for free services for the blind and service members serving overseas and has not received an operating subsidy in over 25 years.
- Without legislative relief, the Postal Service will default on a \$5.4 billion payment due on September 30<sup>th</sup>. This would occur despite an estimated \$6 billion in cost-cutting the Postal Service will achieve in FY 2009 by cutting work hours, freezing hiring, and closing administrative offices.
- The Postal Accountability and Enhancement Act (PAEA) required the Postal Service to prefund the cost of health care benefits for future retirees by depositing postal, not taxpayer funds, into the trust fund. Starting in 2017, payments into the trust fund will be based on a 40-year amortization schedule.
- From 2006 through 2016, the payments are based on a schedule required by the previous administration to make the PAEA budget neutral, rather than actuarial science. These mandated payments amount to \$55 billion over 10 years.

- The Postal Service has paid \$10 billion into the trust fund over the past two years. It suffered a combined loss of \$7.9 billion over those two years. Without the onerous payments into the trust fund, the Postal Service would have made a net profit of more than \$4 billion over that period.
- No other government agency or private company is required to prefund retiree benefits on such an aggressive schedule. The trust fund currently contains about \$32 billion.
- The Postal Service Inspector General has analyzed the payment schedule established by the PAEA. The Inspector General concluded that the PAEA overstated the amount that the Postal Service must pay into the fund in order to reach the level of prefunding foreseen by the Act. The Office of Personnel Management (OPM) had projected that the Postal Service would prefund about 73 percent of the retiree health liability by 2017 under the current payment schedule.
- The Inspector General questioned OPM's assumptions regarding the size of the postal workforce in the future and the inflation rate of health care costs for postal employees. Using revised assumptions based on the historical and current declines in the postal workforce (which is down by 175,00 employees since 1999) as well as corporate best practices, the Inspector General concluded that the a 72 percent level of prefunding could be achieved by 2016 if the Postal Service pays \$1.57 billion per year into the trust fund.
- H.R. 22, as amended, will lower the payment for 2009 to a level that is close to the Inspector General's recommendation and will prevent the Postal Service from defaulting on a \$5.4 billion payment due on September 30. Even with the lower payment for 2009, after including the payments for 2007 and 2008, the Postal Service will be on track to prefund the trust fund through 2016 by over \$9 billion more than the Inspector General's recommendation.
- The bill is in line with the actions of many large businesses, including the Postal Service's competitors, which have temporarily reduced or suspended payments for retiree benefits or pensions during the recession.
- The \$4 billion difference between the \$5.4 billion required under current law and the \$1.4 billion required by H.R. 22 would be added to the 40-year amortization schedule which begins in 2017.

Sincerely,



Edolphus Towns, Chairman  
Committee on Oversight and  
Government Reform



Stephen Lynch, Chairman  
Subcommittee on Federal  
Workforce, Postal Service, and  
the District of Columbia