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# Highlights

Highlights of GAO-12-146, a report to congressional committees

## Why GAO Did This Study

The Office of Personnel Management (OPM) is responsible for administering the Civil Service Retirement System (CSRS), including the United States Postal Service (USPS) CSRS benefits. Two independent agencies—USPS Office of Inspector General (OIG) and Postal Regulatory Commission (PRC)—have issued reports stating that OPM's current method of allocating responsibility for CSRS benefits allocates a disproportionately large share to USPS. The USPS OIG and the PRC proposed alternate methodologies that they estimate would shift responsibility for from $56 billion to $85 billion in CSRS benefits from USPS to the federal government.

GAO's objectives were to comment on (1) whether OPM's current methodology for allocating responsibility for CSRS benefits between USPS and the federal government is consistent with the law, (2) the analysis used by the USPS OIG and PRC to conclude that OPM should refund the CSRS contributions in question, (3) the potential impacts such a refund would have on the CSRS fund and CSRS stakeholders, and (4) the potential impacts that such a refund would have on USPS's financial outlook. GAO reviewed legislation regarding the allocation of responsibility for CSRS benefits and methodologies used in all three reports. OPM and the OPM OIG agreed with GAO's draft report, but USPS and the USPS OIG stated that OPM's methodology was not consistent with current law and they, in addition to the PRC, reiterated their views that the cost allocation is unfair. GAO continues to believe that its analysis is accurate.

View GAO-12-146. For more information, contact Lorelei St. James at (202) 512-2834 or stjamesl@gao.gov.

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# U.S. POSTAL SERVICE

## Allocation of Responsibility for Pension Benefits between the Postal Service and the Federal Government

## What GAO Found

The current methodology used by OPM for allocating responsibility for CSRS benefits between USPS and the federal government is consistent with applicable law. Congress created USPS in 1971 as an independent, self-sustaining entity, with a package of assets and obligations, as well as competitive advantages and disadvantages. In 1974, Congress explicitly allocated responsibility to USPS for CSRS benefits attributable to post-1971 USPS pay increases and, although it revised aspects of the CSRS funding process in 2003 and 2006, it did not alter the fundamental allocation of responsibility for CSRS benefits.

Although the USPS OIG and PRC reports present alternative methodologies for determining the allocation of pension costs, this determination is ultimately a policy choice rather than a question of accounting or actuarial standards. Some have referred to "overpayments" that USPS has made to the CSRS fund, which can imply an error of some type—mathematical, actuarial, or accounting. We have not found evidence of error of these types. While the USPS OIG and PRC reports make judgments about fairness, the 1974 law also implicitly reflected fairness. Congress considered that USPS was to be self-sustaining and that the federal government, which had no control over USPS pay increases, should not be liable for pension benefits attributable to those increases. Also, the USPS OIG and PRC reports assess the fairness of the allocation in isolation, looking only at pension costs. In the private sector, the fairness of the allocation of pension obligations between two businesses depends on the total package of assets and obligations—both pension and nonpension. Finally, the cost of USPS's CSRS pension allocation based on the 1974 law has already been reflected in postal rates for most of the past four decades.

The key impacts of transferring assets out of the CSRS fund to USPS based on the current proposals would be to increase the federal government's current and future unfunded pension liability by an estimated $56 billion to $85 billion. This liability would then be funded by the federal government using tax revenue, borrowing, or both. Also, CSRS beneficiaries would continue to receive their benefits under current law, even if the federal government's unfunded CSRS liability increases, but this could indirectly create pressure to reduce pension benefits. Furthermore, legislation would be required for the CSRS funds transferred under the recommendations in the PRC and USPS OIG reports to be used by USPS for purposes other than funding the Postal Service Retiree Health Benefits Fund.

Any change in the USPS's share of responsibility for CSRS benefits would provide some temporary relief from the pressures USPS faces because of declining volume, revenue, and inflexible costs, but would not by itself address USPS's long-term financial outlook. Such a transfer of CSRS funds would not be sufficient to repay all of USPS's debt and address current and future operating deficits related to USPS's inability to cut costs quickly enough to match declining mail volume and revenue. Last year, GAO issued a report (GAO-10-455) that outlined a number of options to address USPS's financial viability that Congress could consider—such as realigning its operations, networks, and workforce—so that USPS could modernize to meet changing customer needs.