The Heritage Foundation

Postal Service Retiree Health Benefits

Pre-Funding Is Responsible; Reforms Are Necessary

Calls for a taxpayer-funded bailout of the United States Postal Service (USPS) are often coupled with references to requirements that the USPS pre-fund retiree health benefits for its employees. This narrative that pre-funding is the cause of the USPS's financial difficulties is false and put forward in an attempt to obscure long-term structural problems that have resulted in the USPS losing billions of dollars per year. Congress should implement reforms that help USPS operate like a business, rather than write a blank check.

CLAIM: USPS only loses money because they have to pre-fund retiree health benefits.

REALITY: USPS has not paid into the retiree health fund since 2012, yet it has still lost billions of dollars every year since then—while also accumulating $69 billion in unfunded health and pension liabilities.

CLAIM: USPS should be able to pay retiree health benefits on a pay-as-you-go basis.

REALITY: Pre-funding not only guarantees that the benefit will be there in the future, but by setting aside the funds when the benefits are earned, the contributions can earn a positive return over time. Considering that over 60 percent of retirement benefits come from investment earnings, this means lower contributions are required if they are pre-funded. A pay-as-you-go approach would put USPS, its workers, and taxpayers at great risk.

CLAIM: The USPS has to pre-fund 75 years of benefits, so it is paying for workers that are not even born yet.

REALITY: Pre-payments are only for the benefits of current employees. Meeting the 75-year standard involves planning for the fund's long-term liabilities and solvency but does not mean funding benefits 75 years in advance. Rather, USPS must pay for a given worker's future benefits as the worker earns them.

CLAIM: Pre-funding of retiree health benefits is an unfair burden not required for private businesses.

REALITY: Retiree health benefits for private-sector workers are typically a discretionary fringe benefit that can be reduced or eliminated. In contrast, the retiree health benefit for USPS employees is akin to a pension, which means that USPS is obligated to provide and fund the benefit like a public or private pension.

CLAIM: The pre-funding requirement was imposed by anti-union lawmakers.

REALITY: The 2006 Postal Accountability and Enhancement Act passed both chambers unanimously, and with the support of the Postmaster General.

CLAIM: Retiree benefits for other federal workers are paid with general fund revenues, so USPS workers should receive the same treatment.

REALITY: USPS is designed to be self-supporting, with its monopoly on first- and second-class mail providing a revenue base to build from. Using general funds to subsidize USPS employee benefits would expose taxpayers to $119 billion in total retiree benefit liabilities and fundamentally transform the service. In addition, federal workers pay part of their salary toward retirement funds, while USPS employees do not.

To address the solvency of USPS retiree health benefits, Congress should:

- Reform USPS operations and enforce the requirement that it pre-fund retiree health benefits;
- Eliminate retiree health benefits for newly hired workers, make the retiree health benefit plan optional for current workers, and require that those who opt in make contributions; and,
- Allow USPS to invest a portion of its retirement funds into exchange-traded index funds to increase the rate of return over the long term.

ADDITIONAL READING

1. Romina Boccia, David Ditch, James Gattuso, and Rachel Greszler, "Congress Should Free the Postal Service, Not Bail It Out," Heritage Foundation *Backgrounder* No. 3495.