



**Legislative Bulletin.....April 3, 2003**

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**H.R. 735—Postal Civil Service Retirement System Funding Reform Act**

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**H.R. 735—Postal Civil Service Retirement System Funding Reform Act  
(McHugh)**

**Order of Business:** The bill is scheduled to be considered on Thursday, April 3<sup>rd</sup>, under a rule (already passed by unanimous consent) making two amendments in order (summarized below).

**Summary:** H.R. 735 would amend chapter 83 of title 5, United States Code, to reform the funding of benefits under the Civil Service Retirement System (CSRS—the federal employee retirement system for those hired prior to 1984) for employees of the United States Postal Service (USPS). Specifically, the bill would model the USPS’ funding of its CSRS obligation after its funding of its Federal Employee Retirement System (FERS—the federal employee retirement system for those hired after 1983) obligation. Instead of the current static formulas, a series of new “dynamic assumptions” and computation methods would be utilized to more accurately forecast rates of pay, investment yields, and price inflation. “This would result in considerable savings to the Postal Service,” according to the House Committee on Government Reform, since the USPS would make lower annual payments to the CSRS.

The Office of Personnel Management (OPM) recently determined that the Postal Service would **overpay** its obligations to the CSRS by well over **\$70 billion**, based on payments required by existing law and due to higher-than-expected returns on assets held in the CSRS. OPM suggested this legislative fix to reduce the Postal Service’s annual obligation to the CSRS, reduce USPS expenditures, and delay the need for a postal-rate hike.

Savings accruing to the USPS as a result of this legislation would have to be:

- used to reduce the postal debt (in consultation with the Secretary of the Treasury), to the extent that such savings are attributable to fiscal year 2003 or 2004, and the USPS could not incur additional debt to offset the use of the savings to reduce the postal debt in fiscal years 2003 and 2004;
- used to continue holding postage rates unchanged and to reduce the postal debt, to the extent that such savings are attributable to fiscal year 2005, to such extent and in such manner as the Postal Service shall specify (in consultation with the Secretary of the Treasury); and

- considered to be operating expenses of the Postal Service, to the extent that such savings are attributable to any fiscal year after fiscal year 2005, and, until otherwise provided for by congressional action (mandated by the legislation), be held in escrow and without being obligated or expended.

The USPS would have to report to the President and Congress by the end of fiscal year 2003 how it plans to use savings attributable to fiscal year 2006 and beyond (report subject to review by the General Accounting Office). Congress would then be required to take legislative action on these postal savings within 180 days of receiving the GAO review.

The legislation would express a sense of Congress that:

- “the savings accruing to the Postal Service as a result of the enactment of this Act will be sufficient to allow the Postal Service to fulfill its commitment to hold postage rates unchanged until at least 2006;
- “because the Postal Service still faces substantial obligations related to postretirement health benefits for its current and former employees, some portion of the savings...should be used to address those unfunded obligations; and
- “none of the savings...should be used in the computation of any bonuses for Postal Service executives.”

CBO anticipates that the USPS would use the savings from H.R. 735 to:

- Repay \$2 billion of its outstanding debt in fiscal year 2003;
- Invest \$1 billion in fiscal year 2003 and \$2 billion in 2004 in additional capital projects or other activities aimed at improving productivity; and
- Delay the next postal rate increase (anticipated late in fiscal year 2004) until fiscal year 2006.

The bill would also shift from Treasury to the Postal Service the responsibility for retirement costs related to the military service of postal employees covered by CSRS.

#### **Amendments Made in Order under the Rule:**

1) Henry Waxman (D-CA): This amendment would undo the bill’s provisions in Section 2(c) that would shift from Treasury to the Postal Service the responsibility for retirement costs related to the military service of postal employees covered by CSRS. That is, the amendment would leave current law on this matter in place.

The Waxman amendment is the same that was offered and withdrawn in committee mark-up. It is expected that Rep. Waxman will also withdraw this amendment on the floor, once he and supporters have made on-the-record comments about it.

2) Tom Davis (R-VA): This amendment, reportedly drafted in conjunction with committee Democrats, would require that the USPS, Treasury Department, and OPM each report to the President, Congress, and GAO (by the end of this fiscal year) on whether and to what extent the Treasury Department or the Postal Service should be responsible for the funding of

benefits attributable to the military service of current and former USPS employees. GAO would have to evaluate for Congress each such report.

The Davis amendment would also clarify that the USPS report discussed above (on how the Postal Service would use savings attributable to fiscal year 2006 and afterwards) would also have to be submitted to GAO.

**Additional Background:** Because CSRS is not a fully funded pension system, agency and employee contributions alone are not enough to finance the program's benefits. To make up the shortfall between contributions and benefits for its current and former employees, the Postal Service makes lump-sum payments to CSRS each year (\$3.9 billion in 2002).

In 2002, about 30% of the USPS workforce was covered by CSRS, and the rest were under FERS.

**Committee Action:** On March 6, 2003, the Government Reform Committee amended and favorably reported the bill by voice vote. The summary above reflects the amended version of the bill.

**Administration Position:** According to the Government Reform Committee, H.R. 735 incorporates much of the language approved by the Administration.

**Cost to Taxpayers:** CBO reports that, by reducing USPS payments to the CSRS, H.R. 735 would reduce the Postal Service's costs (which are considered off-budget) by about \$12 billion over the 2003-2008 period. But enacting this bill would increase on-budget costs by about \$19 billion (in mandatory spending) over the same period. Therefore, **the net effect on mandatory spending in the unified federal budget would be an *increase* of about \$7.1 billion over the 2003-2008 period**, largely because on-budget offsetting receipts—representing payments from the Postal Service to the CSRS—would be reduced. The net budgetary effect in fiscal year 2003 would be about a \$1.0 billion increase in mandatory spending.

Over the 2003-2013 period, enacting H.R. 735 would combine off-budget savings of about \$34 billion with on-budget costs of around \$41 billion to produce a net cost of about \$7.2 billion, according to CBO. **Note that the ten-year cost is just \$0.1 billion more than the five-year cost (mainly because CSRS expenditures will decrease as older workers and retirees pass away).**

The House Committee on the Budget released the following statement regarding H.R. 735:

This bill exceeds the allocation of budget authority to the reporting committee, Government Reform, under the current budget resolution. Accordingly, the bill violates the Congressional Budget Act and gives rise to a 302(f) point of order under that Act. This point of order applies against any legislation that causes a committee to breach its allocation of budget authority. Both the House and Senate budget resolutions for fiscal year 2004 accommodate this provision, and it is expected that a conference report on the budget will do so as well. If so, no violation will then occur.

**Does the Bill Create New Federal Programs or Rules?:** The bill would make adjustments to how the Postal Service contributes to the Civil Service Retirement System.

**Constitutional Authority:** The Government Reform Committee, in House Report #108-49, cites constitutional authority in Article I, Section 8, Clauses 1 (“to pay the Debts”) and 18 (“necessary and proper for carrying into Execution the foregoing Powers”).

**Outside Organizations:** According to the Government Reform Committee, this legislation “has the support of the Postal Service as well as postal labor unions, management groups, and postal consumers.” The Postal Service released a letter of support for H.R. 735, though it expressed concerns about the escrow provision described above.

**RSC Staff Contact:** Paul Teller, [paul.teller@mail.house.gov](mailto:paul.teller@mail.house.gov), (202) 226-9718