



OFFICE OF INSPECTOR GENERAL  
UNITED STATES POSTAL SERVICE

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February 6, 2012

Senator Bernie Sanders  
332 Dirksen Building  
United States Senate  
Washington, DC 20510

Dear Senator Sanders:

For several days last week, I met with you and your staff to discuss solutions to the current financial crisis within the Postal Service. At the conclusion of those discussions, you requested that our office focus on one of the solutions that we presented which examined an option to address the current benefit fund financing. This proposal would eliminate the requirement for the Postal Service to make annual \$5.5 billion payments into its retiree health benefit fund, and allow the \$44 billion currently in the fund to grow with interest. No payments would be made from the fund until it is deemed to be fully funded, and the Postal Service would continue to directly pay the healthcare premiums for retirees. An additional element of the proposal would allow current overpayments of \$13.1 billion in the Postal Service pension funds to be refunded to the Postal Service. Any future overpayments would also be refunded in the year of occurrence.

Our analysis of this proposal shows that if it were adopted, the amounts in retiree healthcare fund would grow from \$44 billion to the \$90 billion estimated current liability, in 21 years. This \$90 billion projected liability is not a static or precise figure, as there are forces that will increase and decrease the liability. Historically, the figure has risen, but we note that the \$90 billion has not changed significantly over the last 3 years (\$87 billion in 2009, \$91 billion in 2010, and \$90 billion in 2011).

This solution is one option to provide needed short-term flexibility for the Postal Service to address its current financial crisis. It would alleviate payments due of nearly \$30 billion over the next 4 years, and provide an additional \$13 billion to address current needs. Though this would provide substantial relief, additional actions would be necessary to address remaining financial gaps between projected revenues and expenses during the next four year period.

To put the pension and retiree health funding issue into perspective, my office has conducted benchmarking to evaluate the Postal Service's prefunding levels as compared to both the public and private sector. The Postal Service has

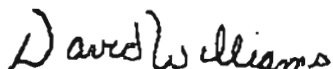
significantly exceeded pension and retiree healthcare benchmarked funding levels of both public and private sector organizations. Using ratepayer funds, it has built a war chest of over \$326 billion to address its future liabilities, prefunding combined pension and retiree healthcare obligations at 81 percent. This is an astonishingly high figure for a company with such a large employee base.

For example, the Postal Service is currently over 100 percent funded in its pension funds. The federal government is funded at a much lower 42 percent level, and the military is funded at 27 percent. The average Fortune 1000 pension plan is funded at 80 percent, and only 6 percent of the Fortune 1000 companies have pension plans that are 100 percent funded.

Prefunding retiree healthcare is rare in the public and private sectors. We have been unable to locate any organization, either public or private, that has anything similar to the Postal Service's required level of prefunding of retiree healthcare benefits. The Postal Service is currently funded at 49 percent of its estimated current liability. The federal government does not prefund its retiree healthcare liabilities at all, and the military is funded at a 35 percent level. Only 38 percent of Fortune 1000 companies who offer retiree health care benefits prefund the expense at all, and the median funding level for those organizations is 37 percent.

I appreciate the opportunity to analyze this proposal, and describe it further. If you have any questions, please do not hesitate to call me or Wally Ollhovic, at 703-248-2201.

Sincerely,



David C. Williams  
Inspector General