

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

PAEA SECTION 802(C) REQUEST

Docket No. SS2018-1

**REQUEST OF THE UNITED STATES POSTAL SERVICE FOR REVIEW OF THE  
OFFICE OF PERSONNEL MANAGEMENT'S DETERMINATION REGARDING  
CIVIL SERVICE RETIREMENT SYSTEM LIABILITY**  
(November 13, 2017)

Pursuant to Section 802(c) of the Postal Accountability and Enhancement Act (PAEA), Pub. L. No. 109-435, 120 Stat. 3198, 3250-51 (2006), the Postal Service requests that the Commission initiate a review of a determination made by the Office of Personnel Management (OPM) regarding the Postal Service's Civil Service Retirement System (CSRS) liability. On June 28, OPM invoiced the Postal Service for its first CSRS amortization payment since the PAEA, due September 30, 2017. OPM calculated the payment as approximately \$1.7 billion. A copy of OPM's determination is attached to this request.

Section 802(c) of the PAEA contemplates that, upon receiving such a request from the Postal Service, the Commission will procure the services of an actuary to provide a report, which the Commission, after appropriate review and comment, will submit to the Postal Service, OPM, and Congress. OPM then will have the opportunity to reconsider its determination in light of the report.

The Postal Service believes that all stakeholders would benefit from Commission review of certain assumptions underlying OPM's determination. In particular, the Commission should consider whether it is appropriate for OPM to calculate the CSRS supplemental liability on the basis of government-wide demographic and salary-growth

assumptions, rather than those specific to Postal Service CSRS employees and annuitants. OPM's rules now require the use of postal-specific demographic assumptions when calculating the CSRS supplemental liability.<sup>1</sup> OPM has also expressly affirmed that its regulations permit the use of postal-specific economic assumptions when "doing so would be appropriate."<sup>2</sup> The Commission should conclude that (1) it is actuarially appropriate (and, indeed preferable) to use postal-specific economic assumptions regarding general salary growth; and (2) OPM should recalculate its June 28 determination using postal-specific demographic and salary-growth assumptions.

The relevant statute requires the use of postal-specific assumptions in calculating the Postal Service's CSRS liability. The "Postal surplus or supplemental liability" in CSRS that OPM is supposed to calculate is defined to mean the difference between the assets in the Civil Service Retirement and Disability Fund and "the actuarial present value of all future benefits payable from the Fund under this subchapter to current or former employees of the United States Postal Service and attributable to civilian employment with the United States Postal Service."<sup>3</sup> The statute thus expressly links OPM's calculation of the supplemental liability to service with the Postal Service specifically, rather than with the Federal government generally. For this reason, the

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<sup>1</sup> 5 C.F.R. § 831.117(a) (2017) (requiring "each supplemental liability of the Fund" to be calculated "using demographic factors specific to the populations for which the supplemental liability applies"). To the extent that questions might arise about applying this OPM rule to a determination that predated the rule change, it is important to note that the Commission exercises essentially *de novo* review authority as to the actuarial approach that OPM employed. Even if the Commission does not consider the new rule to control the FY2016 liability determination as a matter of law, OPM's final rule has strong evidentiary value as a concession by OPM that postal-specific demographic assumptions are (and postal-specific economic assumptions may be) appropriate as a matter of policy, as discussed below.

<sup>2</sup> Federal Employees' Retirement System; Government Costs, 82 Fed. Reg. 49,277, 49,278 (2017).

<sup>3</sup> 5 U.S.C. § 8348(h)(1)(A) (emphasis added).

Commission should find that there is no legal basis for OPM to use government-wide assumptions over postal-specific assumptions, including a postal-specific general salary growth assumption.<sup>4</sup>

Even if the Commission does not wish to conclude that the statute requires OPM to use postal-specific salary growth assumptions, it should conclude that doing so is actuarially appropriate, and in fact more accurate. As a policy matter, OPM has expressly recognized that Postal Service employees are different from the overall Federal workforce in terms of both demographic and economic factors that affect pension liabilities.<sup>5</sup> In recognition of this fact, OPM recently changed its rules to require the use of postal-specific demographic assumptions and to expressly permit the use of postal-specific economic assumptions.<sup>6</sup> The propriety of full use of postal-specific assumptions in CSRS calculations has been recognized by the Administration<sup>7</sup> and the

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<sup>4</sup> Although OPM purported to “disagree[ ]” with this legal interpretation, which the Postal Service set forth in its comments in the recently concluded rulemaking, that view is entitled to little weight. OPM did not offer an alternative interpretation of the relevant provision, much less a reasoned one. Instead, OPM engaged in misdirection, by pointing to other provisions that require the application of generally accepted actuarial principles and the “inherently actuarial” nature of the matter. 82 Fed. Reg. at 49,278. Besides not addressing the larger question as to the meaning of 5 U.S.C. § 8348(h)(1)(A), OPM does not explain why generally accepted actuarial principles and an “inherently actuarial” nature should be any more of an impediment for economic assumptions than for demographic assumptions. In addition, a requirement to use postal-specific assumptions preserves the Board’s actuarial discretion regarding the specific postal-specific assumptions to employ; it just requires the Board to actually make a determination on that matter, rather than not examining it and instead relying on government-wide assumptions.

<sup>5</sup> Cong. Budget Office, Cost Estimate, H.R. 756: Postal Service Reform Act of 2017 (June 1, 2017), at 13 (recounting OPM’s view that “Postal Service employees tend to have lower salaries and higher mortality rates (when retired) compared with the averages for all federal employees”). Although this OPM statement arose in the context of the Federal Employees Retirement System, the same general expectations about Postal Service and the overall Federal workforce apply in the CSRS context.

<sup>6</sup> See *supra* footnotes 1-2.

<sup>7</sup> Office of Management and Budget, Budget of the U.S. Government, Fiscal Year 2018, Appendix (May 23, 2017), at 1207 (proposing to require OPM to use postal-specific demographic and economic assumptions when calculating the Postal Service’s CSRS and other pension liabilities).

Office of the Inspector General for the Postal Service,<sup>8</sup> and the Government Accountability Office has likewise lent its “support [to] using the most accurate numbers possible” in the context of the Postal Service’s pension liabilities.<sup>9</sup> There is substantial reason to believe that OPM’s use of government-wide assumptions overstates the Postal Service’s CSRS liability.

For all of these reasons, the Postal Service requests that the Commission initiate the procedures set forth in Section 802(c) of the PAEA. The Postal Service respectfully submits that the Commission should find (1) that it is appropriate (and in fact more accurate) to determine the CSRS supplemental liability using postal-specific salary-growth assumptions in addition to demographic assumptions and (2) that OPM should redetermine the most recent supplemental liability determination through the use of such assumptions. If the Commission believes that any further information from the Postal Service would be useful, the Postal Service will be happy to provide the information at its disposal.

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<sup>8</sup> *E.g.*, Office of the Inspector Gen. of the U.S. Postal Serv., No. FT-AR-17-007, Update for Measuring Pension and Retiree Health Benefits Liabilities (May 2, 2017), at 15 (recommending the use of postal-specific assumptions as a means to “more accurately and fairly address[ ] Postal Service retirement liability reform”).

<sup>9</sup> Gov’t Accountability Office, No. GAO-13-872T, U.S. Postal Service: Health and Pension Benefits Proposals Involve Trade-offs (Sept. 26, 2013), at 9; see *also* Gov’t Accountability Office, No. GAO-14-398T, U.S. Postal Service: Action Needed to Address Unfunded Benefit Liabilities (Mar. 13, 2014), at 6.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Washington, DC 20415

**JUN 28 2017**

Chief Financial  
Officer

Joseph Corbett  
Chief Financial Officer  
Executive Vice President  
United States Postal Service  
475 L'Enfant Plaza SW – Room 8021  
Washington, DC 20260-8021

Dear Mr. Corbett:

OPM is required by statute to make an annual determination of the supplemental liability of the United States Postal Service (USPS) for the Civil Service Retirement System (CSRS). Specifically, the statute provides that by June 15, 2017, OPM must determine the amount of the funding payment for the CSRS required from the USPS. There was no such CSRS supplemental liability payment due from the USPS for prior years.

Section 8348(h) of Title 5, U.S.C. provides that OPM will determine, by June 15, 2017, the amount of the USPS supplemental liability for CSRS as of September 30, 2016. The supplemental liability is required to be amortized with initial payment by September 30, 2017, to provide for liquidation of the liability by September 30, 2043.

OPM has determined that the USPS supplemental liability for CSRS under Section 8348(h) of Title 5, U.S.C., is \$26.9 billion as of September 30, 2016. This supplemental liability consists of an actuarial liability of \$199.3 billion as of September 30, 2016, less an asset balance of \$172.4 billion (at par value). The actuarial liability is determined according to the actuarial assumptions recommended at the June 1, 2017 meeting of the Civil Service Retirement System Board of Actuaries. These include demographic assumptions and economic assumptions that have been revised from the previous valuation. The long term economic assumptions are: 4.50% interest, 2.50% inflation, and 2.75% general salary increase. A general salary increase of 2.10% is assumed for FY 2017.

The CSRS supplemental liability of \$26.9 billion as of September 30, 2016, results in the establishment of a schedule of 27 equal annual payments of \$1,740,954,000 beginning on September 30, 2017, as amortized at the valuation interest rate of 4.50%.

USPS is required to pay \$1,740,954,000 to the CSRDF no later than September 30, 2017.

Please be advised, that OPM will determine the USPS supplemental liability for the Federal Employees' Retirement System (FERS) in September 2017. At such time, OPM will determine an amortization schedule for FERS payments beginning September 30, 2017, in addition to the previously scheduled amortization amounts.

Any questions regarding these matters should be directed to Tonya Johnson, Associate Chief Financial Officer, Financial Services, (202) 606- 1531.

Sincerely,

Dennis D. Coleman  
Chief Financial Officer