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POSTAL REGULATORY COMMISSION
Washington, DC 20268-0001

Office of the Secretary and Administration

August 8, 2018

Megan J. Brennan
Postmaster General, CEO
United States Postal Service
475 L'Enfant Plaza SW, Room 10022
Washington DC 20260-0010

Dear Postmaster General Brennan:

The Postal Regulatory Commission (Commission) transmits the attached independent actuarial report on the liability examination of the assumptions used by the Office of Personnel Management in the valuation of liabilities for the United States Postal Service (USPS) workers under the Retiree Health Benefits Fund. This report was prepared in response to a request[1] from the USPS, in accordance with the Postal Accountability and Enhancement Act of 2006 (PAEA),[2] which requires that the Commission procure the services of an actuary upon receiving such a request from the United States Postal Service.

The Commission finds the report prepared by Segal Consulting, *Retiree Health Benefit Fund Liability Examination*, satisfies the requirements of the law.

Sincerely,

Stacy L. Ruble
Secretary

Attachment

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[1] Docket No. SS2018-2, Request of the United States Postal Service for the Postal Regulatory Commission to Conduct a Review of the Office of Personnel Management's Determination Regarding the Retiree Health Benefits Liability, January 30, 2018.

[2] Pub. L. 109-435, see 5 U.S.C. § 8909a(d)(5)(A).

cc: The Honorable Ron Johnson, Chairman Senate Homeland Security and Governmental Affairs Committee

The Honorable Claire McCaskill, Ranking Member Senate Homeland Security and Government Affairs Committee

The Honorable Trey Gowdy, Chairman House Government Reform and Oversight Committee

The Honorable Elijah Cummings, Ranking Member House Government Reform and Oversight Committee

The Honorable Jeff T.H. Pon, Director, Office of Personnel Management

Segal Consulting

Report to the Postal Regulatory Commission

Retiree Health Benefit Fund

Liability Examination

August 7, 2018

Segal Consulting

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August 7, 2018

Mr. Stacy Ruble
Secretary/CAO
Postal Regulatory Commission
901 New York Avenue NW, Suite 200
Washington DC 20268

Re: **Liability Examination for US Postal Workers in the Retiree Health Benefit Fund**

Dear Mr. Ruble:

We are pleased to present the results of Segal's liability examination of the assumptions used by the Office of Personnel Management (OPM) in the valuation of liabilities for US Postal Service (USPS) workers under the Retiree Health Benefits (RHB) Fund.

Our report includes a review of:

- **Relevant Documents.** We reviewed materials provided by your staff, OPM, and the USPS Office of Inspector General (OIG) actuaries (PRM and Korn Ferry).

- **Actuarial Standards of Practice (ASOP)**. We reviewed the applicable ASOPs to determine compliance with professional actuarial standards of the Actuarial Standards Board.

- **Assumptions.** We reviewed the analysis that was prepared to select the actuarial assumptions for determining the RHB unfunded liability for compliance with generally accepted actuarial principles.

- **Recommendations.** In our professional opinion, it is appropriate to use postal-specific assumptions for determining the RHB unfunded liability.

This review was conducted by Melanie Clark in accordance with the standards of practice prescribed by the Actuarial Standards Board, and reviewed by Daniel Rhodes. Melanie is an Associate of the Society of Actuaries, a Member of the American Academy of Actuaries, and an Enrolled Actuary under ERISA. Daniel is a Fellow of the Society of Actuaries and a Member of the American Academy of Actuaries. Both Melanie and Daniel meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

The assistance of the Postal Regulatory Comission (PRC) is gratefully acknowledged. We appreciate the opportunity to serve as an independent actuarial advisor for PRC and we are available to answer any questions you may have on this report.

Sincerely,

Daniel J. Rhodes, FSA, MAAA	Melanie Clark, ASA, MAAA, EA
Vice President and Consulting Actuary	Senior Health Consultant and Actuary

cc: Kevin Carrington
Tammy Dixon, FSA, MAAA, EA

Table of Contents

Report to the Postal Regulatory Commission on Retiree Health Benefit Fund Liability Examination

August 7, 2018

Executive Summary

The Postal Regulatory Commission (PRC) retained Segal Consulting (Segal) to conduct an independent liability examination for Postal Service workers covered by the Retiree Health Benefit (RHB) Fund.

PRC specifically requested that we evaluate:

- Whether the current assumptions were developed in accordance with generally accepted actuarial principles and methods set forth in the Actuarial Standards of Practice (ASOPs);

  Finding: In our opinion, the selection of assumptions was in compliance with the relevant ASOPs, as they are currently issued and reflecting the recently proposed revisions to those ASOPs.

- Whether the current assumptions are reasonable and appropriate given the specific structure of the RHB plan of benefits;

  Finding: The current assumptions produce valuation results that are within the range of reasonable outcomes based on generally accepted actuarial principles. However, it would also be appropriate to use postal-specific assumptions.

  The appropriateness of postal-specific assumptions does not imply that government-wide assumptions may not also be appropriate. ASOP 35 notes that actuaries may consider several different assumptions equally reasonable for a given measurement. Actuaries must also consider the purpose of the measurement when determining the assumptions to be used.

- Advantages and disadvantages of using postal-specific assumptions, from both the perspectives of the Postal Service and the government as a whole.

  Finding: We have concluded that, in the context of actuarial standards and evaluation of past experience provided by both the OPM and USPS OIG actuaries, it would be appropriate to use postal-specific assumptions to determine RHB liability. Postal-specific assumptions would provide a more accurate estimate of RHB liability, though if no further action is taken to enroll eligible Postal Service retirees in Medicare, postal-specific assumptions could increase the liability estimate.

  From the perspective of the government as a whole, separate postal-specific assumptions would add complexity to the liability calculations, and may not have a significant impact on the total liability of the Federal Employees Health Benefits Program (FEHB).

We reviewed all information supplied to us. We evaluated the selection of assumptions for compliance with the relevant ASOPs, as they are currently issued and reflecting the recently proposed revisions to those ASOPs. We considered the reasonableness and appropriateness of the demographic and health experience that may serve as the basis for assumptions for determining RHB liability, whether based on the experience specific to U.S. Postal Service workers or based on the experience for all federal government workers.

The balance of this report discusses our review process and our findings in more detail.

Overview

Background

The *Postal Reorganization Act of 1970* (PRA or PL 91-375) established the United States Postal Service (USPS) as an autonomous Federal entity and transferred the responsibilities of the Post Office Department (POD), a U.S. government agency, to the USPS. The USPS currently participates in the Federal Employees Health Benefit Program (FEHB), thus ensuring continuity of retiree medical coverage for Postal Service employees.

USPS employees who meet eligibility requirements may continue health coverage in the FEHB at retirement. The FEHB provides a selection of health care plans including Fee-for-Service PPO plans and HMO plans. Plan availability varies by location, and there may be multiple options.

FEHB coverage is not terminated when a retiree reaches Medicare eligibility, and retirees are not required to enroll in Medicare Parts A and B. A retiree may terminate their FEHB coverage to enroll in a Medicare Advantage plan, and subsequently re-enroll in FEHB if their enrollment in the Medicare Advantage plan is terminated.

The cost of coverage is shared between retirees and USPS. As described in the PRM valuation report, the USPS premium contribution is 72% of the weighted average premiums of all FEHB options, but no more than 75% of the premium for the option elected by the retiree. To the extent that a retiree has Post Office Department or military service, the federal government pays a portion of the USPS premium contribution attributable to that service. The retiree is responsible for the remaining premium after the USPS and federal government portion.

On January 30, 2018, the Postal Service requested that the PRC initiate a review of a determination made by OPM regarding the Postal Service's RHB liability as of September 30, 2017. The request was filed pursuant to 5 U.S.C. §8909(d)(5)(A), requesting the PRC to assess whether it is appropriate for OPM to determine RHB liabilities attributable to the Postal Service using postal-specific assumptions rather than government-wide assumptions. The PRC then utilized a RFP process to engage the services of Segal Consulting to conduct this review and determine the advantages and disadvantages of using postal-specific assumptions as summarized in this report.

OPM Regulations on Funding

OPM and the Board of Actuaries for FERS and CSRS set the assumptions for the actuarial valuation of the retirement systems. The assumptions used for the retiree health benefits are to be consistent with those retirement system assumptions.[1]

The Postal Accountability and Enhancement Act of 2006 (PAEA) established the Retiree Health Benefit Fund (RHBF), to fund retiree health benefits for Postal Service employees, retirees and dependents. The RHB is administered by OPM, who calculates the Postal Service liability each year, and determines the Postal Service contribution. Under 5 U.S.C. §803, for Fiscal Years 2007 through 2016, the Postal Service was required to make specified annual payments to the RHBF. Beginning in FY 2017, the law requires payments to be made by USPS based on the normal cost plus an amortization of the remaining $56.9 billion unfunded liability. The FY 2017 calculated

[1] 5 U.S.C. §8909a(d)(4).

payment of $4.260 billion consists of $3.305 billion in normal cost and $955 million in amortization of unfunded liability.[2]

On October 25, 2017 the OPM released a final rule that amends the USPS process for determining supplemental liability under the Federal Employees Retirement System (FERS) established under 5 U.S.C. §8423(b). The final rule amends OPM regulations to provide for the use of postal-specific assumptions regarding demographic factors in the calculation of the USPS supplemental liability.

Actuarial Concepts

An actuarial valuation of a retiree health program is an estimate of the benefits expected to be paid at various future times under a particular set of actuarial assumptions. The calculation is performed as of a valuation date and takes into account the effect of advancement in age, anticipated future health care costs, and health plan participation and enrollment decisions. An actuarial cost method is used to allocate the present value of future benefits to various time periods. The "normal cost" is the share of the total value of benefits allocated to the valuation year, without regard to any surplus funding or deficit position. The "actuarial liability" is the accumulated normal costs for the current set of active employees that is allocated to years before the valuation date. The "unfunded liability" is the shortfall between the assets set aside for funding the program and the actuarial liability.

The Postal Accountability and Enhancement Act of 2006 (PAEA) requires the portion of the Federal Employees Health Benefits (FEHB) unfunded liability allocated to the USPS to be paid off by 2056. In addition, the USPS is also responsible for paying the annual normal cost of its participants. The OPM annual actuarial valuation is prepared for financial reporting purposes under Statement of Federal Financial Accounting Standards 33 in accordance with 39 U.S.C. §3654(b).

[2] Fiscal Year 2017 Financial Analysis of USPS Financial Results and 10-K Statement, p. 10.

Review of Documents

OPM Office of the Actuary Materials

We were provided the documents described below and were able to discuss the reports with OPM Actuary Ron Gresch, ASA, EA, MAAA. Mr. Gresch was helpful in providing us with a verbal summary of the OPM procedures for preparing the Post-Retirement Health Obligation Information.

- *FY 2017 USPS Post-Retirement Health Obligation Information,* prepared by Ron Gresch.
- *Grant Thorton LLP Memorandum to Audit Files*, prepared November 7, 2017 by Raymond Berry, ASA, EA, MAAA, MSPA.
- OPM slides presented by Greg Kissel to the Board of Actuaries at their April 12, 2018 meeting. The 2006-2015 experience was used for the 2018 Board meeting presentation. The slides presented included separate Postal Service experience.

USPS Office of Inspector General Materials

We were provided with the reports identified below prepared by Adam Reese, FSA, FCA, MAAA, EA and Robert Sanford, FSA, MAAA, who were contracted by the USPS to prepare estimates of the retiree medical benefit obligations and projected funding cost.

- *Finance Directorate Retirement Projections*, prepared in March 2017 by Adam Reese, of PRM Consulting Group and Craig Graby, FCA, MAAA, EA of Korn Ferry/Hay Group.
- *Post-Retirement Benefit Plan 2017 Actuarial Valuation*, prepared in May 2018 by Adam Reese and Robert Sanford of PRM Consulting Group.
- *Actuarial Report of Postal Employees in the Federal Employees' Retirement System*, prepared in March 2018 by Adam Reese of PRM Consulting Group and Craig Graby of Korn Ferry/Hay Group.
- *Update for Measuring Pension and Retiree Health Benefits Liabilities*, Audit Report FT-AR-17-007 prepared May 2017 by OIG.

Review of Assumptions

A critical component in measuring the actuarial liabilities for RHB is the selection and the application of the actuarial assumptions. With respect to the assumptions, we independently reviewed the reasonableness of each of the demographic and health assumptions and the appropriateness of using postal-specific or government-wide assumptions. Additionally, the PRC retained Segal in May of 2018 to provide a separate independent review of the demographic assumptions for the *Civil Service Retirement System Demographic and Salary Assumptions* project. This report incorporates observations from that report, in addition to expanding the observations to include the Federal Employees Retirement System assumptions.

Demographic Assumptions

The demographic assumptions used to value liabilities should reflect the expected occurrence of various events among participants. The assumptions should reflect specific characteristics of a system and participant groups, and produce reasonable results.

The types of demographic assumptions used to measure pension and other post-employment obligations include, but are not limited to the following:

- Mortality
- Mortality Improvement
- Military Service
- Retirement
- Termination of employment (withdrawal)
- Disability

Mortality

- Postal Service worker mortality is higher than non-postal mortality for male employees, male non-disability annuitants, and their survivors.

- The differences between Postal Service and non-postal mortality for female employees and non-disabled annuitants are less pronounced; postal-specific experience at ages 50 to 65 is similar to that of non-postal pensioners, while the postal-specific experience is somewhat higher after age 65.

- Disability annuitant mortality is lower for Postal Service annuitants, perhaps because non-postal, white-collar worker disabilities are generally of a more serious threat to overall health. The lower postal-specific experience is particularly noticeable with female annuitants, but is modest for males at younger ages. At older ages male postal-specific mortality rates are higher.

Mortality Improvement

- When compared to non-postal experience, the Postal Service experience shows male Postal Service retirees generally have demonstrated far less mortality improvement than non-postal service retirees.
- For females, the differences in Postal Service and non-postal service mortality improvement experience are not as pronounced at older ages. We suspect that data for those older, female annuitants may be less credible due to limited experience.

Military Service

- The number of USPS employees with prior military service is greater than the number of other civilian federal workers with prior military service. Since the USPS is not charged for benefits attributable to military service, use of a postal-service specific assumption would reduce USPS costs.

Other Demographic Assumptions

- The normal retirement experience rate of Postal Service employees eligible for normal retirement benefits under either FERS or CSRS who decide to retire has been relatively stable except for a few years that align with retirement incentives (2010 and 2013). The retirement experience of other federal government employees is considerably less stable.
- Early retirement compared to normal retirement will not have a significant impact on liability. Any Postal Service employee who is eligible for an immediate annuity and has been enrolled in the health benefits program as an employee is eligible to continue healthcare coverage at retirement. If a member retires prior to normal retirement, they will receive the same benefit as if they waited until normal retirement age, commencing at normal retirement age. As such, the benefit payment pattern is not affected by early retirement experience.
- Disability rates are generally higher for Postal Service employees when compared to the experience of non-postal service employees. This reflects the nature of each group's employment. Non-postal service employees are generally white-collar employees with low disability rates.
- Termination rates are much lower for Postal Service employees than for non-postal service employees.

Conclusions

- Postal-specific experience seems to indicate lower improvement in mortality rates compared to government-wide experience. Adopting postal-specific assumptions recognizing this experience would project fewer annuitants and dependents receiving post-retirement benefits in the future, which would result in a lower post-retirement benefit liability than when government-wide assumptions are used.
- Postal Service members appear to have higher incidences of disability and lower incidences of termination. Both of these measures result in more Postal Service annuitants receiving post-retirement benefits, when compared to using government-wide assumptions.

- Adopting postal-specific mortality and mortality improvement would reduce the size of liabilities assigned to the USPS. Adopting postal-specific disability and termination rates would increase post-retirement benefit liability assigned to the USPS.

Health Assumptions

Claims Experience

- The Congressional Budget Office has estimated that non-postal service retiree costs are slightly less than costs for Postal Service retirees.[3] This is not surprising given that, in general, USPS workers have characteristics of blue-collar workers, where other federal workers are more characteristically white-collar workers.

  For the determination of Postal Service liability, in accordance with 5 U.S.C. §8909a, the cost of benefits is measured differently than for government-wide financial statements.[4] Under the government-wide method, liabilities are based on annuitant member costs less annuitant premium payments, whereas for postal-specific liability, the average government share of premium payments is used.

  The premium payments are determined specifically for each plan, reflecting the experience of the members participating in each plan. Postal Service and non-postal member experience is not separated in these calculations, and one aggregate set of premium rates is determined for each plan. As such, under the Postal Service's method, no calculation specific to Postal Service experience can be determined.

  If postal-specific medical claims data could be collected and analyzed separately from other non-postal experience, it would be possible to calculate a postal-specific liability using the government's method. Based on the estimate that non-postal retiree medical costs are slightly less than costs for Postal Specific retirees, liability using Postal Service costs would be higher than liability using non-postal costs.

Medical Trend

- The OPM actuary used the Society of Actuaries' "Getzen Model"[5] for establishing the medical inflation assumptions, which begin with 4.9% in 2017 and gradually reduce to 3.4% in 2075. The equivalent level rate for 63 years is 4.8%. In our opinion, a 4.8% trend through 2075 is reasonable. The input parameters for the Getzen Model were:

Rate of Inflation	1.8%
Rate of Growth in Real Income	1.6%
Income Multiplier for Health Spending	1.3%
Expected Health Share of GDP in 2020	18.5%
Health Share of GDP Resistance Point	25.0%
Year for Limiting Cost Growth to GDP Growth	2075

[3] June 1, 2017 estimate prepared by CBO on HR 756.
[4] *FY 2017 USPS Post-Retirement Health Obligation Information.*
[5] https://www.soa.org/research-reports/2016/research-hlthcare-trends/.

We note the 1.8% rate of inflation parameter for the Getzen Model is based on a 10-year look back, as prescribed by the accounting standards. ASOP No. 6 suggests a forward-looking approach, similar to what the PRM actuaries use to determine their 2.5% inflation rate. This would result in a higher trend rate and higher liability (unless offset by a reduction in one of the other input parameters). Otherwise, the inputs for the model are based on an overall macroeconomic variable that should not vary between postal-specific and government-wide use.

Plan Choice

- Eligible retiring Postal Service employees may elect to continue their health care coverage at retirement. The main options for health care are Fee-For-Service (FFS) or Health Maintenance Organization (HMO) plans. The FFS plans are Preferred Provider Organizations (PPO), which provide benefits through a network of providers. PPOs offer separate benefit levels for in-network or out-of-network benefits. HMOs generally offer in-network only benefits. There may be multiple plan options for a given area, varying by coinsurance, copay and deductible amounts.

- In setting the assumptions for retiree plan choices, the OPM actuary reviewed three years of experience data which was last updated three years prior to the valuation (2010 – 2012). We would recommend that this data be updated and reviewed for postal-specific enrollment trends. Factors that may influence retiree choices include retirement income, health history, dependent health history, health care provider preferences, and plan cost. If postal vs. non-postal experience differs significantly, it could have an impact on liability if measured using postal-specific assumptions.

Waiver of Coverage

- At retirement, eligible employees must make a positive election to continue their medical coverage into retirement. In setting the assumptions for retiree waivers, the OPM actuary reviewed five years of experience data which was last updated three years prior to the valuation (2008 – 2012). Additionally, retirees may lapse coverage after retirement. For this assumption, the OPM actuary reviewed data from 2009 – 2013.

- Premium rates posted on the opm.gov website[6] show Postal Service employee bi-weekly premium rates that are 5 – 10% lower than non-postal employee bi-weekly premium rates. Plan cost and other factors that influence enrollment patterns prior to retirement could in turn also influence post-retirement enrollment decisions. We would recommend that waiver of coverage data be reviewed for postal-specific experience. If postal vs. non-postal experience differs significantly, it could have an impact on liability if measured using postal-specific assumptions.

Medicare Participation

- Under current law, Medicare-eligible Postal Service retirees are not required to participate in Medicare Parts A or B. Medicare Part A covers hospital expenses, and is primarily funded through Medicare taxes paid by the employee and employer prior to retirement. Without payment of these taxes, there may be a monthly premium for Part A coverage. Medicare Part

[6] https://www.opm.gov/healthcare-insurance/healthcare/plan-information/premiums/.

B provides coverage for medical expenses, and is primarily funded through annual appropriations by Congress and by enrollee premiums. When a retiree is covered under Parts A and B, Medicare will provide primary coverage, with the FEHB Plan paying secondary to Medicare. Medicare coverage thus lowers costs to the FEHB Plan.

- Government-wide, approximately 10% of FEHB FFS members and 40% of FEHB HMO members who are Medicare-eligible do not purchase Medicare Part B coverage.[7] The May 2018 PRM report indicates that a higher percentage of Medicare-eligible Postal Service retirees enrolled in large plans are not covered by Medicare Part B (23% of FFS members and 56% of HMO members).[8]

- OPM factors the mix of participation into its starting health costs. If fewer Postal Service retirees are participating in Medicare Part B compared to the government as a whole, then costs for the Postal Service retirees could be higher than assumed in the FEHB projections.

- Medicare-eligible Postal Service retirees are also not required to enroll in Medicare Part D, and the FEHB plans currently do not coordinate with Medicare Part D. CMS subsidizes Medicare Part D prescription drug benefits either through payment of a retiree drug subsidy (RDS) or through the administration of an Employer Group Waiver Plan (EGWP). In addition to Medicare payments, manufacturers provide rebates for Part D plans. In 2016, these manufacturer rebates accounted for nearly 20% of total prescription drug costs.[9]

- While coordination with Medicare would add some additional costs (Medicare premiums, late-enrollment penalties, potential Medicare Education Programs), the benefits and subsidies provided by Medicare would reduce overall program costs for Medicare-eligible participants.

Conclusions

- Postal-specific experience indicates that health care costs for Postal Service retirees are higher than for the government employees as a whole, and reflect lower Medicare enrollments. Adopting postal-specific assumptions recognizing this experience would increase USPS post-retirement benefit liability.

- Postal Service retirees may have different enrollment and waiver of coverage patterns than the government as a whole. This data should be collected and reviewed to set postal-specific assumptions, and may influence the cost of benefits.

[7] *FY 2017 USPS Post-Retirement Health Obligation Information.*
[8] *Post-Retirement Benefit Plan 2017 Actuarial Valuation.*
[9] *2018 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, p. 143.*

Review of Actuarial Standards of Practice

Actuarial Standard of Practice (ASOP) No. 6, Measuring Retiree Group Benefits Obligations and Determining Retiree Group Benefits Program Periodic Costs or Actuarially Determined Contributions

Actuarial Standard of Practice (ASOP) No. 6 provides guidance to actuaries for measuring retiree medical obligations. ASOP No. 6 was modified in May 2014 and is applicable for actuarial valuations with measurement dates on or after March 31, 2015.

The first item in the ASOP No. 6 guidance in Section 3.2 General Procedures states that the actuary should "*identify the purpose of the measurement.*" The ASOP includes actuarially determined contributions as one example of a measurement purposes. Since the OPM is measuring RHB obligations for the purpose of determining the USPS amortization payment, we feel it is appropriate to use postal-specific assumptions in estimating those costs. ASOP No. 6 refers actuaries to ASOP No. 35 for guidance on selecting demographic assumptions and to ASOP No. 27 for guidance on selecting economic assumptions.

Section 3.12.1 states that the actuary should consider separate health care cost trend rates for major cost components, including Medicare integration, and even if one aggregate trend rate is used, individual components should be considered for the development of the aggregate rate.

Actuarial Standard of Practice (ASOP) No. 35, Selection of Demographic and Other Non-Economic Assumptions for Measuring Pension Obligations

Actuarial Standard of Practice (ASOP) No. 35 provides guidance in developing demographic assumptions. ASOP No. 35 was modified in September 2014 and is applicable for actuarial valuations with measurement dates on or after June 30, 2015. A proposed revision was submitted to members of the actuarial profession for comments and suggestions in April 2018.

The standard recommends that the actuary follow a general process for selecting demographic assumptions. The first step of this general process is to identify the types of assumptions to use. The actuary should consider relevant System provisions that will affect timing and value of any potential benefit payments, the likelihood of all contingent events - such as retirement, disability or death - that trigger the payment (or cessation) of participant benefits, and the **characteristics of the covered group**.

The next step in the process is to identify the relevant assumption universe. The assumption universe may include experience studies based on populations considered **representative of the group at hand**, or general studies of trends relevant to the specific type of demographic assumption, and System experience to the extent that it is credible.

The third step in the process is to consider the assumption format. Section 3.3.3 specifies that *"In many situations it is appropriate for the format to include assumptions for different segments of the covered population. For example, it may be appropriate to have different mortality tables for males and females or different turnover tables for salaried and hourly employees."*

The final step in the process is to select assumptions and evaluate the reasonableness of each assumption. The specific experience of the Systems should be incorporated but not given undue weight if recent experience is attributable to a phenomenon that is unlikely to continue. For example, if recent rates of termination were due to a one-time reduction in workforce, it may be unreasonable to assume that such rates will continue.

Section 3.4 also acknowledges that an actuary "may consider several different assumptions equally reasonable for a given measurement." This section also notes that there is a range of reasonable assumptions and that different actuaries may apply different professional judgement in the selection of reasonable assumptions.

Actuarial Standard of Practice (ASOP) No. 51, Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions

Actuarial Standard of Practice (ASOP) No. 51 provides guidance to actuaries with respect to the disclosure of risk that actual future measurements may differ significantly from expected future measurements. ASOP No. 51 was issued in September 2017 and is applicable for actuarial valuations with measurement dates on or after November 1, 2018.

The standard recommends the actuary identify risks that may be reasonably anticipated to significantly affect a pension plan's future financial condition, and includes as an example *longevity and other demographic risks*.

ASOP No. 51 does not directly apply to valuation of other post-employment benefits. Nonetheless, we encourage the OPM Actuary to consider the new guidance and risk assessments as an area of expanding actuarial practice. One risk measure currently provided by the OPM actuary is showing the actuarial valuation results if the medical trend rate was one percent lower or higher than the assumption. Other risks associated with the RHB include continuing declines in the number of USPS employees and the sensitivity of results to changes in the discount rate.

Segal's View and Recommendations

The demographic and health assumptions selected by OPM Office of the Actuary generally comply with the Actuarial Standards of Practice.

In setting postal-specific demographic assumptions, the FERS and CSRS Board of Actuaries was able to review actual demographic experience over the past 20 years (or shorter time frames periods when credible data was not available). The experience data over a 20-year period is a reasonable basis for most of the assumptions. Where the reliability of the 20-year data was in question, the experience period was adjusted to no fewer than 10 years.

For setting the assumptions on plan choice and waiver of coverage at retirement, OPM used three and five years of data, respectively. These time-frames provide a reasonable basis for assumption setting pursuant to actuarial standards of practice.

Other Large Public Sector Retiree Health Systems

In our experience, it is common for large post-retirement medical plans not to conduct separate actuarial reviews of experience to set assumptions for mortality and other demographic assumptions. Rather, it is common for those types of studies to be conducted by defined benefit retirement plans. To the extent that participants in the post-retirement medical plans are also participants in the retirement plans, it is reasonable to use the same assumptions incorporated in the retirement plan valuation.

With regard to health specific assumptions, it is common to look at the plan's own claims experience for establishing per capita health care costs (or for plans that are part of a larger pool, such as the Postal Service workers in the FEHBP, the claims experience of the entire pool). Long-term health care cost trend assumptions are generally based on a macroeconomic model (such as the aforementioned Getzen model) incorporating assumptions on real economic growth, inflation, and health care's share of GDP.

Segal's Recommendation

After reviewing the reports provided by OPM and other relevant documents, and discussions with the OPM actuaries, we have concluded that, in the context of actuarial standards and our experience, it is appropriate to use postal-specific assumptions based on the observed demographic and health experience for determining the RHB supplemental liability.

We were not asked to perform a recalculation of the RHBF unfunded liability; however, we do anticipate that use of postal-specific assumptions will have a material impact on USPS amortization payments. The USPS OIG Financial Directorate Retirement Projections from March 2017 indicate that the September 30, 2016 RHBF liability would decrease by approximately 2%, from $104.0 billion based on a change from the government-wide assumptions at that time, to $101.7 billion based on postal-specific assumptions recommended by the USPS OIG actuaries.

Conclusion

We have concluded that, in the context of actuarial standards and our own professional experience, it may be appropriate to consider postal-specific experience in the development of the RHB liability. The appropriateness of postal-specific assumptions, however, does not imply that government-wide assumptions may not also be appropriate. ASOP 35 notes that actuaries may consider several different assumptions equally reasonable for a given measurement. Actuaries must also consider the purpose of the measurement when determining the assumptions to be used.

Under the current law, beginning with Fiscal Year 2017, the USPS is required to make payments to the RHBF equal to the actuarially calculated normal cost and amortization payments. The USPS share of FEHB premium payments is to be paid from this Fund. OPM determines the Postal Service's share of the actuarial liability for the FEHB based on the same assumptions used for the government-wide calculation.

Key assumptions that would have financial implications for RHB, if they were to be determined from postal-specific experience, are described in the table below.

Summary of Assumptions			
	Assumption	**Postal-Specific Experience Relative to Non-postal Experience**	**Estimated RHB Cost Impact**
Demographic:	Mortality Rates	Higher	Decrease
	Mortality Improvement	Lower	Decrease
	Disability Rates	Higher	Increase
	Turnover Rates	Lower	Increase
	Retirement Rates	More Stable	Not material
	Prior Military Service	Higher	Decrease
Health:	Claims Experience	Higher	Increase
	Medical Trend	Not applicable	Not applicable
	Plan Choice	Unknown	Unknown
	Waiver of Coverage	Unknown	Unknown
	Medicare Participation	Lower	Increase

From the Postal Service perspective, adopting postal-specific disability rates, termination rates or health assumptions, including Medicare participation rates, would increase their RHB post-retirement liability while postal-specific mortality and mortality improvement would reduce the liability. Postal-specific data on enrollment and waiver of coverage would need to be collected and reviewed to determine the potential impact of postal-specific assumptions on costs. Regardless of any change in the USPS liability, better assumptions will yield a better picture of the RHB funding needs, while allowing for improved financial projections.

From the perspective of the government as a whole, the valuation of RHB liabilities using postal-specific assumptions would provide a more accurate measure of the cost of retiree health benefit obligations.

We acknowledge the cooperation and information shared in our discussions with the staff at the PRC and review of materials from actuaries at OPM, PRM and Korn Ferry. We look forward to discussing these matters in briefing sessions as requested.

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