

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS MEEHAN TO INTERROGATORIES OF
THE ASSOCIATION OF PRIORITY MAIL USERS, INC.
(APMU/USPS-T11-1-14)

The United States Postal Service hereby provides the responses of witness Meehan to the following interrogatories of the Association of Priority Mail Users, Inc.: APMU/USPS-T11-1-14, filed on March 22, 2000.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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April 5, 2000

Response of United States Postal Service Witness Meehan
to
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APMU/USPS-T11-1 With respect to the retroactive assessment for employee benefits of \$347 million noted on page 64 of the United States Postal Service 1998 Annual Report:

- a. Please confirm that this cost is included in your estimate of base year costs. If you do not confirm, please explain.
- b. Please identify the cost segment(s) and sub-segment(s) within which this cost is included.
- c. Please provide the key(s) (and workpaper references) used to distribute the retroactive assessment for employee benefits to products for cost segment and/or sub-segment.
- d. Please describe the methodology used (i) to determine how much of this expense was attributable and (ii) to distribute these costs to classes and subclasses in the base year, and the justification for using this methodology.

Response:

- (a) Redirected to witness Tayman.
- (b) The FY 1998 imputed interest is reflected in component 899, cost segment 20.
- (c) - (d) The cost is 100 percent institutional and thus is not distributed to products.

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APMU/USPS-T11-2 With regard to the Postal Service's Civil Service Retirement System ("CSRS") current liability:

- a. Please confirm that the \$849 million cost that is reported on page 67 of the United States Postal Service 1998 Annual Report is the sum of sub-account 51212 costs across all labor cost segments and sub-segments. (USPS-LR-I-1, Table A-I, p. 10.) If you do not confirm, please explain and provide the dollar cost and appropriate sub-account numbers.
- b. Please confirm that account 51212 only accrues costs for employees hired before January 1, 1984. If you do not confirm, please explain and identify the latest date that a Postal Service employee could have been hired and have his retirement liability be accrued in this account.
- c. Please provide the distribution key for the total \$1,640 billion CSRS current liability costs to classes and subclasses. Please provide the calculations used to develop this distribution key.

Response:

- (a) Confirmed.
- (b) This is essentially correct. However, I am informed that the basic retirement cost of a rehired CSRS employee with a break in service would also be reflected in this account.
- (c) I believe the \$1,640 billion to which you refer is for FERS, and is actually 1,640 "million", not "billion". The expense for CSRS on page 67 of the 1998 Annual Report is \$849 million. CSRS current expenses are included in one account. However, the subaccounts from this account are included in all the personnel cost components. Therefore, there is no one single distribution

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key. There is a distribution key for every personnel-related component in the model.

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APMU/USPS-T11-3 With regard to the Postal Service's Federal Employees Retirement System ("FERS") current liability:

- a. Please confirm that the \$1,640 million cost that is reported on page 67 of the United States Postal Service 1998 Annual Report is the sum of sub-account 51211 and sub-account 51215 costs for all labor cost segments and sub-segments. (USPS-LR-I-1, Table A-I, p. 10.) If you do not confirm, please explain and provide the FERS current liability dollar costs and appropriate sub-account numbers for the base year.
- b. Please confirm that sub-account 51211 only accrues costs related to employees hired after December 31, 1983. If you do not confirm, please explain and identify the earliest date that new employees did not automatically participate in CSRS.
- c. Please confirm that sub-account 51215 only accrues costs related to employees hired before January 1, 1984 who voluntarily chose to join FERS. If you do not confirm, please explain.
- d. Please provide a distribution key for the total \$1,640 billion FERS current liability costs to classes and subclasses. Please provide the calculations used to develop this distribution key.

Response:

(a) I am informed that this is correct.

(b) I am informed that this is correct.

(c) I am informed that this is correct.

(d) I assume you meant to write "\$1,640 million" instead of "\$1,640 billion". With regard to the FERS current liability costs of \$1,640 million, they are handled in exactly the same way as CSRS current liability costs, as described in the response to APMU/USPS-T11-2(c).

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APMU/USPS-T11-4 With regard to the Postal Service's current CSRS liability for employees in the Dual CSRS/Social Security system ("Dual System"):

- a. Please confirm that the \$36 million cost that is reported on page 67 of the United States Postal Service 1998 Annual Report is the sum of sub-account 51214 costs for all labor cost segments and sub-segments. If you do not confirm, please explain and provide the Dual System current liability dollar costs and appropriate sub-account numbers for the base year.
- b. Please confirm that sub-account 51214 only accrues costs related to employees hired between January 1, 1984 and January 1, 1987 who had prior government experience. If you do not confirm, please provide the correct dates and requirements for employees whose pension costs accrued within this account.
- c. Please provide a distribution key for the total \$36 million Dual System current liability costs to classes and subclasses. Please provide the calculations used to develop this distribution key.

Response:

- (a) I am informed that this is correct.
- (b) This is essentially correct. However, I am informed that account 51214 accrues costs for employees with prior government experience who were hired between January 1, 1984 and January 1, 1987. It also includes some employees who were hired after January 1, 1987, but whose previous government service time was back-counted from their actual hiring date to calculate an "official" hiring date falling within the Dual System range.
- (c) CSRS current liability costs for Dual System employees are handled in exactly the same way as CSRS current liability costs, as described in the response to APMU/USPS-T11-2(c).

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APMU/USPS-T11-5 Please explain what "PESSA" costs are.

Response:

PESSA is an acronym for plant, equipment, servicewide, and selected administrative costs. Workpaper A-4, the "B Report", shows the distributed PESSA costs. These are treated as "Other Costs" in Workpaper A-2, the "A Report". They are distributed to "Volume Variable Costs" in the Workpaper A-4, the "B Report". The sum of the "A Report" and the redistributed "B Report" produces the "C Report", the Cost Segments and Component Report, my Exhibit USPS-11A. PESSA costs are shown on pages 69-75 of my Exhibit USPS-11A.

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APMU/USPS-T11-6 Please identify the exhibit or workpaper and the page and column within the exhibit or workpaper where the calculations used to create the following distribution keys can be found:

- a. Component 526 - All salaries key plus other personnel costs from c/s 1-13, 16, 18, 19.
- b. Component 433 - All salaries key plus other personnel costs from c/s 1-13, 16, 18, 19. (Cost Component 433 is referenced on page 18.1 of your workpaper A-4.)

Response:

- (a) The steps involved in creating component 526 (all salaries plus other personnel costs key) are shown in LR-I-4, pp. 27-29. First, component 525 (all salaries key) is created by summing components 680, 801, 683, 639, 610, 684, 685, 1, 2, 3, 4, 7, 11, 13, 14, 15, 16, 17, 18, 25, 26, 30, 31, 32, 33, 674, 675, 676, 677, 678, 600, 601, 35, 40, 66, 421, 422, 423, 467, 468, 469, 470, 471, 41, 227, 42, 43, 45, 44, 46, 47, 48, 49, 50, 51, 52, 53, 54, 57, 58, 59, 69, 70, 74, 75, 79, 543, 545, 548, 82, 83, 84, 85, 86, 88, 89, and 194. Next, components 9, 29 and 228 are distributed on the newly created 525 key. Then, components 525, 9, 29, 228, 109, 110, 114, 173, 191, 192, 193, 195, 218, and 219 are summed to derive component 526. The same steps are repeated on pp. 44-51 of LR-I-4.
- (b) The steps involved in creating component 433 are shown on p. 52 of LR-I-4. First, the distribution key 431 is created by summing components 74, 79, 194, 427, and 430. Then, component 433 is created by summing the non-total class amounts from components 431 and 526. The "Other" amount in

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component 433 is derived by subtracting the sum of the "Total Volume Variable" amounts in components 431 and 526 from the 526 "Total Costs" amount.

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APMU/USPS-T11-7 a. Please confirm that distribution key 433 is used to distribute the cost sub-segment costs for cost components: 18.3.1, repriced annual leave; 18.3.1, holiday leave; 18.3.2, civil service retirement; 18.3.4, workers compensation; 18.3.5, unemployment compensation; 18.3.6, retiree health benefits; 18.3.7, annuitant life insurance; and 18.3.8, annuitant COLA/principal. If you do not confirm, please identify the correct distribution key.

b. Please provide a list of all cost segments and sub-segments for which distribution key 433 is used to attribute and distribute costs to classes and subclasses of mail.

Response:

(a) Confirmed.

(b) Distribution key 433 is used in component groupings 18.3.1, 18.3.2, 18.3.3, 18.3.4, 18.3.5, 18.3.6, 18.3.7, 18.3.8, and cost segment 20, component 1436.

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APMU/USPS-T11-8 On page 18-8, in section 18.3.3 of USPS-LR-I-1, Summary Description of USPS Development of Costs By Segments and Components. Fiscal Year 1998, volume variable costs for certain personnel benefits are determined to be variable to the same degree as all Postal Service labor costs in base year 1988. For each of the following costs, please explain the rationale for this assumption:

- a. Accrued repriced annual leave and holiday leave adjustment costs;
- b. Current year CSRS unfunded liability costs;
- c. Prior year CSRS unfunded liability costs;
- d. Current year workers compensation costs;
- e. Unemployment compensation costs;
- f. Annuitant health benefit costs;
- g. Annuitant life insurance benefit costs; and
- h. Annuitant COLA costs.

Response:

- a. Accrued repriced annual leave and holiday leave adjustment costs in 18.3.1, are considered variable to the same degree as all postal labor costs. The rationale for this treatment is described in LR-I-1 on page 18-6, section 18.3.1.
- b. These costs, shown in cost segment 18.3.2, are considered volume variable to the same degree as all postal labor costs. The rationale for this treatment is discussed in LR-I-1 on pages 18-6 and 18-7 under Civil Service Retirement. On page 18-7, the current year CSRS unfunded liability cost is described as "the principal payment associated with the first installment due to general pay increases granted during the current year" which would imply they depend on pay raises in the current year and are variable with postal salaries.

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- c. Ideally, the prior year CSRS unfunded liability costs would be divided into pools of dollars that reflected at least the year of retirement. The costs associated with each year could then be distributed on the total salary costs for the specific year of retirement and summed together to provide total distributed prior year CSRS unfunded liability costs. As a practical matter, this is not possible. Therefore, the best available distribution key is the current year all salaries key. Further, assuming that labor force attrition and postal hiring and resignation practices remain constant, as volume changes, so will total employment and, therefore, the number of potentially retired postal workers.
- d. Current year workers' compensation costs, shown in cost segment 18.3.4, are considered variable to the same degree as total postal labor costs. The rationale for this treatment is described in LR-I-1 on page 18-7, in the section titled, "Workers' Compensation".
- e. Unemployment compensation costs, shown in cost segment 18.3.5, are considered variable to the same degree as total postal labor costs. The rationale for this treatment is described in LR-I-1 on page 18-7 in the section titled, "Unemployment Compensation".
- f. Annuitant health benefit costs, shown in cost segment 18.3.6, are considered variable to the same degree as total postal labor costs. Ideally, annuitant health benefit costs would be divided into pools of dollars that reflected at least the year of retirement. The costs associated

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with each year could then be distributed on the total salary costs for the specific year of retirement and summed together to provide total distributed annuitant health benefit costs. As a practical matter, this is not possible. Therefore, the best available distribution key is the current year all salaries key. Further, assuming that labor force attrition and postal hiring and resignation practices remain constant, as volume changes, so will total employment and, therefore, the number of potentially retired postal workers receiving benefits. These costs are also discussed in LR-I-1 on pages 18-7 and 18-8 in the section titled "Annuitant Benefits".

- g.** Annuitant life insurance benefit costs, shown in cost segment 18.3.7, are considered variable to the same degree as total postal labor costs. See the response to APMU/USPS-T11-8(f) above for rationale.
- h.** Annuitant COLA costs, shown in cost segment 18.3.8, are considered variable to the same degree as total postal labor costs. See the response APMU/USPS-T11-8(f) above for rationale.

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APMU/USPS-T11-9 For each of the following costs, please explain the rationale for the current methodology for distributing volume variable costs to classes and subclasses.

- a. Accrued repriced annual leave and holiday leave adjustment costs;
- b. Current year CSRS unfunded liability costs;
- c. Prior year CSRS unfunded liability costs;
- d. Current year workers compensation costs
- e. Unemployment compensation costs;
- f. Annuitant life insurance benefit costs; and
- g. Annuitant COLA costs.

Response:

Please see the response to APMU/USPS-T11-8.

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APMU/USPS-T11-10 Please confirm that the accrued interest expenses of retirement costs found in accounts 58111 and 58114 are for liabilities accrued prior to the base year. If you do not confirm, please explain.

Response:

Confirmed for FY 1998 expenses.

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APMU/USPS-T11-11 USPS-LR-I-1, Summary Description of USPS Development of Costs By Segments and Components, Fiscal Year 1998, indicates on page 20.5, section 20.5.3, that volume variable costs for retirement interest expenses are variable to the same degree as all Postal Service labor costs. Please explain the rationale for this assumption.

Response:

Please see the response to APMU/USPS-T11-8.

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APMU/USPS-T11-12 Please explain how either changes in the total labor costs accrued in the base year or the mix of mail handled in the base year would affect the total interest costs found in accounts 58111 and 58114 in the base year.

Response:

Please see the response to APMU/USPS-T11-8.

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APMU/USPS-T11-13 In USPS-LR-I-1, Summary Description of USPS Development of Costs By Segments and Components, Fiscal Year 1998, on page 18.8, section 18.3.1, annuity protection program costs are stated to be unrelated to volume. Does this statement indicate that these costs are unrelated to volume (i) in the base year only, or (ii) in any year? Please explain.

Response:

The statement to which you refer means that the costs are not treated as volume variable. As the FY 1998 Summary Description discusses FY 1998 costs and methods, the statement applies to FY 1998. However, in the base year 1998 CRA, these costs are also treated as nonvolume variable.

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APMU/USPS-T11-14 a. Please explain why annuitant COLAs and annuitant health benefit costs are variable to the same degree as base year labor costs, when other costs such as annuity protection program costs are instead considered to be institutional.

b. Please provide all documents, reports and studies which you believe support your response to part "a" of this question.

Response:

(a) For the rationale of the treatment of annuitant COLAs and annuitant health benefit costs, please see my response to APMU/USPS-T11-8f. Although one could treat the annuity protection program similarly by treating it as variable with all labor, it has historically been treated as institutional. If the annuity protection program expenses were treated as volume variable, the \$8.6 million expense would be distributed over all labor and would likely have a small impact on volume variable costs.

(b) Library Reference I-1, pages 18-7 and 18-8 provides the support for my response.

DECLARATION

I, Karen Meehan, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Karen B Meehan

4/5/00

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

A handwritten signature in black ink, appearing to read "Susan M. Duchek", is written over a horizontal line.

Susan M. Duchek

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April 5, 2000