Postal Rate Commission
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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268–0001

POSTAL RATE AND FEE CHANGES
PURSUANT TO PUBLIC LAW 108-18

Docket No. R2005–1

RESPONSES OF POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC. (VP/USPS–T6–1-9)

The United States Postal Service hereby provides the responses of witness Tayman to the following interrogatories of ValPak Direct Marketing Systems, Inc. and ValPak Dealers' Association, Inc., filed on May 24, 2005: VP/USPS–T6–1-9.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE
By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

Scott L. Reiter

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2999, Fax -5402
scott.l.reiter@usps.gov
June 7, 2005

VP/USPS-T6-1. According to the Postal Service's 2004 Annual Report, page 27, the Postal Service "estimated the 2004 present value of future premium payments [for retiree health care] to be between $48 billion and $59 billion."

a. Please confirm that as of the end of Fiscal Year (FY) 2004 with respect to these future retiree health care liabilities discussed in the Annual Report, the Postal Service had not (i) accumulated any financial reserves, nor (ii) reflected any accrued expense in its income statement, nor (iii) reflected any liability on its balance sheet. If you do not confirm any part of the above, please explain fully.

b. To what extent were any of these future health care liabilities incurred during the ten-year period from 1995 through 2004?

c. Are you aware of any other estimate by any other party (*e.g.*, Congressional Budget Office, Government Accountability Office, Office of Management and Budget, Office of Personnel Management) of the Postal Service's unfunded liabilities for retiree health care? If so, please provide those current estimates, along with the source.

Response:

a. Confirmed.

b. To my knowledge, this information is not available.

c. I am aware that both the Congressional Budget Office and the Office of Personnel Management have calculated retiree health care liabilities that they have attributed to the Postal Service. In the Cost Estimate for H.R. 22, Postal Accountability and Enhancement Act, dated April 25, 2005, CBO estimates the "net present value of the unfunded liability for the health care costs of retirees would be $49 billion at the end of 2006." This value is net of an anticipated $21.2 billion asset transfer in 2006 from the Civil Service Retirement and Disability Fund and Postal Service payments in 2006 of $6.4 billion.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

VP/USPS-T6-2. According to the Postal Service's 2004 Annual Report, page 27, the Postal Service spent $1,313 million for health care benefits for existing retirees in Fiscal Year (FY) 2004.

a. Please indicate whether any of this $1,313 million spent for health care benefits for existing retirees in FY 2004 was treated as volume variable. If any were so treated, please state the amount, and state the rationale for treating health care costs for existing retirees as volume variable.

b. Were any of the expenditures of $1,313 million for health care benefits for existing retirees in FY 2004 treated as attributable? If so, please indicate (i) the amount of the attribution, (ii) the rationale justifying such attribution, and (iii) the key used to distribute the attributable portion to the classes of mail.

c. In addition to the $1,313 million of expenditures for health care benefits for existing retirees in FY 2004, did the Postal Service's income statement for FY 2004 include any accrued expense for future health care benefits? If so, please indicate the amount and explain what benefits this amount was accrued for.

Response:

a & b. $743.329 million of the FY 2004 retiree health care costs were treated as volume variable. Annuitant health benefit costs are, and always have been, distributed to the same degree as all volume variable postal labor costs. This treatment is used because health care benefits for retirees are considered part of labor costs since we do not accrue costs for future health benefits of current employees.

c. No.

VP/USPS-T6-3.

a. Please estimate the amount that the Postal Service expects to spend for health care benefits for existing retirees in FY 2005.

b. Please provide the projected amount of the Postal Service's unfunded health care liabilities at the end of FY 2005.

Response:

a. $1,539,773,000.

b. This information is being developed and will be provided as soon as available.

VP/USPS-T6-4.

a. Please provide an estimate of the amount that the Postal Service expects to spend for health care benefits for existing retirees in TY 2006, and indicate whether this amount is included in the roll-forward model for this item.

b. Will any of the anticipated expenditures for retiree health care benefits in TY 2006 be treated as (i) volume variable, and (ii) attributable? If so, please indicate the amount and the basis for attribution.

c. Please provide the projected amount of the Postal Service's unfunded, off balance sheet health care liabilities at the end of TY 2006.

d. During TY 2006, does the Postal Service currently plan to accrue any expense — and set aside any money — for its currently unfunded future retiree health care liabilities?

e. As a hypothetical, please assume that in TY 2006, or some future year shortly thereafter, the Postal Service were to start accruing expenses and setting aside funds for its future health care liabilities. Please (i) state the extent to which you would expect any portion of such accrued expenses to be treated as volume variable or attributable, and (ii) provide the rationale for either attributing or not attributing such expenses.

Response:

a. $1,736,364,000 have been included in the roll-forward model for TY 2006 retiree health care premium expense. See page 274 of LR-K-50.

b. $974,691,000 before rates and $968,562,000 after rates have been treated as volume variable. See response to VP/USPS-T6-2, a.

c. This information is being developed and will be provided as soon as available.

d. No.

e. A change in treatment as proposed under this hypothetical could only be determined after careful review of the language and intent of the governing doctrine establishing a change in accounting treatment of these costs.

VP/USPS-T6-5.

a. Please confirm that on September 30, 2003, in response to a request by Congress, the Postal Service submitted "Postal Service Proposal: Use of Savings for Fiscal Years after 2005, P.L. 108-18," containing two alternate proposals, labeled Proposals I and II, respectively, on purposes to which any money accumulated in the escrow fund should be allocated. Please provide a copy of the Postal Service's September 30, 2003 submission to Congress.

b. Please confirm that under Proposal I (which assumes that the existing escrow requirement would be eliminated), beginning in FY 2006, the Postal Service would make annual payments into a new Retiree Health Fund, estimated at $1.2 billion in FY 2006, which would be used to pay for retiree health insurance premiums in the future. If you do not confirm, please explain.

c. Please assume that Congress were to accept the Postal Service's Proposal I. That is, please assume (i) the escrow requirement would be eliminated, and (ii) a new Retiree Health Fund were established to pay future health care liabilities. Would you expect that any future payments into such a Retiree Health Fund would be treated as (i) volume variable, and/or (ii) attributable? Please explain the rationale for either attributing or not attributing such expenses.

Response:

a. Confirmed. Copy attached.

b. Not confirmed. The FY 2006 payment for retiree health benefits under

Proposal I was $5.0 billion.

c. See response to VP/USPS-T6-4(e).

JOHN E. POTTER
POSTMASTER GENERAL, CEO

UNITED STATES
POSTAL SERVICE

POSTAL SERVICE PROPOSAL
USE OF SAVINGS FOR FISCAL YEARS AFTER 2005
P. L. 108-18

BACKGROUND

Public Law 108-18, the Postal Civil Service Retirement System Funding Reform Act of 2003, signed by the President on April 23, 2003, modifies Postal Service funding of its obligations to the Civil Service Retirement System (CSRS) to preclude over-funding of those obligations by an amount that the Office of Personnel Management (OPM) estimates at $78 billion. The Act identifies the amount of the averted potential over-funding as "savings" to the Postal Service. "Savings" are defined as the difference between the contributions that the Postal Service would have made for such fiscal year if this Act had not been enacted and the contributions made by the Postal Service for such fiscal year under the Act.

The funds characterized as "savings" under the Act are nothing more than the potential amount of over-funding of CSRS pension costs in any given year had corrective legislation not been enacted. Accordingly, the Act does not eliminate CSRS over-funding. It describes how the over-funding amounts should be used in Fiscal Years 2003 through 2005, and in any fiscal year after 2005, the Act requires that the "savings" or over-funding amount be considered an operating expense of the Postal Service and, until otherwise provided by law, held in escrow.

REALIZATION OF "SAVINGS" UNDER THE ACT

"Savings" or over-funding under the Act, as calculated by OPM, in FY 2003 through 2005 are consumed by liquidating outstanding debt and maintaining current postage rates. In addition to debt reduction in FY 2003 and 2004, the over-funding will be used to absorb inflationary pressures on expenses as well as normal expense growth associated with delivery network growth in FY 2005. Accordingly, by the end of FY 2005, the $9.2 billion estimated amount of CSRS over-funding generated through current postage

475 L'ENFANT PLAZA SW
WASHINGTON DC 20260-0010
www.usps.com

rates since FY 2002 will have been completely consumed in holding postage rates constant. As noted in the March 27, 2003 committee report accompanying the reform legislation, as the law now stands, it will be necessary to include the "savings" as an expense in the revenue requirement of future rate filings. Therefore, in order to obtain funds to place in an escrow account in FY 2006, a double-digit increase in postage rates will be required unless the escrow requirement has been terminated by legislation prior to that date.

The $3.2 billion FY 2006 "savings" estimated by the Office of Personnel Management will require an additional postage rate increase of 5.4 percent, including a 2-cent increase in the price of a First-Class stamp that year (on top of whatever is required by any changes in all other cost and revenue elements since the last rate increase). Further, if it is not eliminated, the escrow requirement will permanently necessitate bi-annual postage rate increases between 1.0% and 1.5% just to generate the increase in annual "savings" amounts for the required escrow over the next 15 years.

The table below demonstrates the current estimate of annual and cumulative "savings" or over-funding by fiscal year through 2022.

TABLE A: Annual and Cumulative "Savings" or Over-Funding Under P. L. 108-18

Fiscal	"Savings" or Over-funding		Fiscal	"Savings" or Over-funding	
Year	Annual	Cumulative	Year	Annual	Cumulative
2003	$3.5B	$3.5B	2013	$5.7B	$44.6B
2004	$2.7B	$6.2B	2014	$6.2B	$50.8B
2005	$3.0B	$9.2B	2015	$6.4B	$57.2B
2006	$3.2B	$12.4B	2016	$6.7B	$63.9B
2007	$3.5B	$15.9B	2017	$7.1B	$71.0B
2008	$3.9B	$19.8B	2018	$7.5B	$78.5B
2009	$4.2B	$24.0B	2019	$7.8B	$86.3B
2010	$4.6B	$28.6B	2020	$8.1B	$94.4B
2011	$5.0B	$33.6B	2021	$8.2B	$102.6B
2012	$5.3B	$38.9B	2022	$8.4B	$111.0B

The "savings" requirement of the Act will result in not only increased postage rates but also more frequent postage rate increases as the over-funding amounts escalate. Put another way, looked at from the standpoint of the postal ratepayer, there are no "savings" under P.L 108-18 after FY 2005, so long as the escrow continues in effect as currently written. The purpose of the escrow provision, as we understand it, was to serve as a temporary forcing mechanism to compel all parties to face up to, and the Congress then to take action on, the important financial issues identified in the legislation's statement of the Sense of Congress. Based upon its impact on postage rates and the resulting negative consequences on the mailing industry, the general public, and the economy as a whole, the Postal Service recommends that the escrow requirement be eliminated.

REPORTING REQUIREMENTS

The Act requires the Postal Service to file two proposals to the President, the Congress, and the General Accounting Office on September 30, 2003. One document is to address "...whether and to what extent the Department of the Treasury or the Postal Service should be responsible for the funding of benefits attributable to the military service of current and former employees of the Postal Service that, prior to the enactment of this Act, were provided for under section 8348(g)(2) of title 5, United States Code." The second proposal, which this paper addresses, is the Postal Service proposal on the use of over-funding amounts or "savings" beyond FY 2005 as a result of this Act.

Accompanying this proposal is the Postal Service position addressing the responsibility for funding the cost of CSRS benefits earned by military service. In provisionally relieving the Treasury of its historic responsibility for the costs of military service, the law has created a direct cost transfer of $27 billion from U.S. taxpayers to Postal ratepayers. For reasons explained in the accompanying proposal, the Postal Service recommends that the United States Treasury should be consistently and solely responsible for funding CSRS benefits attributable to military service of current and former employees, whether postal or not. Charging the CSRS cost of military service to the Postal Service is not justified because the military service had no connection with the functions or operations of the Postal Service. Additionally, the overwhelming majority of this cost relates to military service performed before the creation of the Postal Service. This position is consistent with the recommendation contained in the Report of the President's Commission on the Postal Service that concludes, "taxpayers, not ratepayers, should finance military pensions."

This proposal responds to the Act's requirement that the Postal Service submit a proposal detailing how any "savings" attributable to any fiscal year after Fiscal Year 2005 should be expended. The Act indicates that, in preparing its proposal, "...the Postal Service shall consider whether, and to what extent, those future "savings" should be used to address debt repayment; pre-funding of postretirement healthcare benefits for current and former postal employees; productivity and cost saving capital investments; delaying or moderating increases in postal rates; and any other matter; and the work of the President's Commission on the United States Postal Service...."

The Act records as the Sense of Congress that, "...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...." Although the President's

Commission did not directly address the use of "savings" in their report, they did recommend that the Postal Service consider funding a reserve account to finance its retiree health benefit obligation, to the extent its financial condition allows, so that future ratepayers are not forced to pay for postal services delivered to the nation today.

The Postal Service responds to all of these concerns in the proposals for "savings" utilization presented here.

PROPOSED OVER-FUNDING OR "SAVINGS" UTILIZATION

The Postal Service has developed the following two proposals pertaining to the use of "savings" for fiscal years after 2005. The first proposal assumes the current legislation is amended and that the United States Treasury funds the CSRS costs associated with the military service of Postal employees and retirees. The second proposal assumes that responsibility for funding military service costs is transferred to the Postal Service.

In these proposals, to determine "savings" under the Act, the Postal Service has used OPM's "Projected Postal Service Payments", provided in Appendix A. Actual "savings" in any particular year will be determined by OPM's annual calculation of the Postal supplemental liability, the first calculation to be made by June 30, 2004. With the exception of reporting on "savings" utilization in fiscal year 2003, it will be these calculations on which the Postal Service will base its reporting on the utilization of "savings" or over-funding in its Annual Report as required by the Act. For FY 2003, the "savings" amount will be based on the value in Appendix A.

In developing these proposals, the Postal Service was guided by the "matters to consider" and the Sense of Congress stated in the Act. Further, it evaluated the financial and economic implications associated with the possible utilization of the "savings". The Postal Service also placed significant emphasis on the recommendation of the President's Commission regarding financing retiree health benefit costs and on the previous recommendations of the General Accounting Office (GAO), made when it placed the Postal Service on its "High-Risk" list because of growing financial and operational difficulties.

Specifically, the President's Commission recommended that if the financial condition of the Postal Service improves, it should consider funding a reserve account to begin paying down its obligation for retiree health benefits. That recommendation was consistent with the January 2003 report "High-Risk Series: An Update", in which GAO indicated that the Postal Service should "address long-term financial concerns, such as outstanding debt and postretirement health benefit obligations."

The Act is very specific in addressing outstanding debt by requiring that the FY 2003 and 2004 "savings" be used to reduce outstanding debt. The Postal Service has complied with this direction. In its FY 2004 Integrated Financial Plan, the Postal Service estimates that it will end FY 2004 with outstanding debt well below the levels required by the Act. The other primary emphasis in the Act relates to funding retiree health benefits. As stated in the FY 2002 Annual Report of the Postmaster General, the Postal Service obligation for postretirement health benefits is estimated to be between $40 and $50 billion, depending on the long-term medical inflation assumption used, at the end of FY 2002. Both proposals address funding this obligation.

The proposals presented here by the Postal Service place a priority on addressing these important concerns of Congress, the President's Commission and GAO. At the same time, they are designed to provide the maximum benefit to the nation's postal system, its customers, employees, taxpayers and the economy as a whole.

Proposal 1: (Preference) If U.S. Treasury Funds CSRS Cost of Military Service

As reported by the General Accounting Office, the modification of prior law by P. L. 108-18 to provisionally begin charging the Postal Service for the CSRS cost associated with military service would produce a cost transfer of $27 billion from the United States Treasury to the Postal Service. With reversal of this charge, as proposed by the Postal Service, the "savings" or over-funding to be realized under the Act would increase from $78 billion to $105 billion and it would be necessary to recognize that the Postal Service had not only fully funded its CSRS obligations as of the end of FY 2002; it had over-funded these CSRS obligations by $10 billion.

While the Postal Service believes the military service charge should be returned to the Treasury, it proposes that the $10 billion in over-funding not be withdrawn, and that it remain in the Civil Service Retirement and Disability Fund in a separate account designated as the "Postal Service Retiree Health Benefit Fund." With this change, the Postal Service would be in a financial position to pre-fund retiree health benefits for employees and retirees. This would satisfy concerns underlying the expression of the Sense of Congress for the use of "savings" under the Act. This change would also significantly reduce the Postal Service net postretirement health benefit obligations and outstanding debt, a major source of concerns identified by the Comptroller General regarding the Postal Service's financial condition.

Returning the funding of CSRS costs of military service to the Treasury increases the "savings" under the Act, and makes available additional funds that can be used to pre-fund retiree health benefits for both CSRS and FERS employees. Under this scenario, which is fair and justified, the Postal Service would be the only federal agency to both fully recognize and fund all pension and postretirement health benefits for its employees and retirees. Additionally, with this modification, the budgetary scoring of the legislation should be virtually unchanged, and over time should in fact improve the unified federal budget position based on accelerated funding by the Postal Service for postretirement health benefit obligations.

Consistent with the Act, this proposal assumes that "savings" in FY 2003, 2004 and 2005 are used to reduce outstanding debt and defer postage increases. Additionally, it assumes continuation of the CSRS dynamic normal cost contributions and the supplemental liability payments for these three fiscal years. This accomplishes two objectives. First, it should not appreciably alter federal budgetary scoring of the proposed legislation for the years relied upon when the law was enacted. Second, these contributions would be reclassified as part of the new Postal Service Postretirement Health Benefit Fund, responding to concerns underlying the expressed Sense of Congress.

With these additional payments being converted to the Health Benefit Fund in FY 2006, when pre-funding of Postal Service postretirement health benefits would start, the beginning balance of the fund is estimated at $18 billion ($10 billion CSRS over-funding at the end of FY 2002 plus $5.5 billion in CSRS payments in FY 2003, 2004 and 2005 plus interest of $2.4 billion). In FY 2006, the "savings" from the Act would be used to fund the "full cost" of retiree health benefits on a current basis. The remaining "savings" amount would be used to reduce debt, as reflected in Table 2.

NOTE: "SAVINGS" AMOUNTS ARE BASED ON VALUES CONTAINED IN APPENDIX A ADJUSTED TO REFLECT FULL FUNDING BY THE POSTAL SERVICE OF ALL CSRS OBLIGATIONS.

TABLE 1: USPS Proposal for "Savings" Assuming Treasury Funds CSRS Cost of Military Service

Fiscal Year	Savings	Retiree Health Benefits	Debt Reduction	Total
2006	$5.2B	$5.0B	$0.2B	$5.2B
2007	$5.4B	$5.2B	$0.2B	$5.4B
2008	$5.7B	$5.3B	$0.4B	$5.7B
2009	$5.8B	$5.5B	$0.3B	$5.8B
2010	$6.0B	$5.6B	$0.4B	$6.0B

Having addressed the financial obligations for funding all postretirement benefits, and having addressed other major considerations contained in the Act, these reforms should replace the present escrow requirement of the Act, which accordingly, should be repealed.

The Postal Service considers this proposal to be in the public interest and recommends that it be adopted.

Proposal 2: If Postal Ratepayers Are Required to Fund Military Service Costs of CSRS

Under this scenario, the Postal Service proposes the use of "savings" or over-funding realized under the Act, in priority sequence: first, to fund and pre-fund postretirement health care benefits; second, to repay debt; and third, to fund productivity and cost saving capital investments. Under this proposal, there is an indirect benefit achieved that addresses the consideration of Congress relating to delaying or moderating increases in postal rates. This results from the proposed utilization of "savings" for funding the annual cash payment of retiree health benefits, and the allocation of funds to reduce debt and fund cost reduction capital investments. By debt reduction, interest expense is reduced. With cost reduction capital investments, cost savings are achieved, thus minimizing expenses and freeing up traditional funding sources for capital investments, such as depreciation. These funds would then be used for financing inflationary expense growth as well as the cost to serve an increasing delivery network required to maintain universal service.

To address the larger retiree health benefit obligation, this proposal implements a solution for fully funding postretirement health benefits. This proposal pre-funds the current service cost of these benefits, beginning in FY 2006, for all new employees hired after FY 2002. These costs will be fully funded for all new hires dating from FY 2003, the effective date of P. L. 108-18. Additionally, it provides a funding source for the annual cost of these benefits for all retirees, accomplishing a fully financed postretirement health benefit program.

Table 2 provides the consequent allocation of "savings" to each category among Postal priorities for FY 2006 through FY 2010.

NOTE: "SAVINGS" AMOUNTS ARE BASED ON VALUES CONTAINED IN APPENDIX A. ACTUAL "SAVINGS" AMOUNTS WILL BE CALCULATED BY OPM ON AN ANNUAL BASIS.

TABLE 2: USPS Proposal for Savings Assuming It Funds CSRS Cost of Military Service

		Retiree Health Benefits			
Fiscal Year	**Savings**	**Pymt.**	**New Empl.**	**Debt & Cap.**	**Total**
2006	$3.2B	$1.8B	$0.1B	$1.3B	$3.2B
2007	$3.5B	$2.0B	$0.1B	$1.4B	$3.5B
2008	$3.9B	$2.3B	$0.2B	$1.4B	$3.9B
2009	$4.2B	$2.6B	$0.2B	$1.4B	$4.2B
2010	$4.6B	$2.9B	$0.3B	$1.4B	$4.6B

OPM DETERMINATION OF "SAVINGS" METHODOLOGY AND USPS RIGHT TO REQUEST RECONSIDERATION

To determine the amounts representing "savings", the Act requires the Office of Personnel Management to "...formulate a plan specifically enumerating the actuarial methods and assumptions by which the Office shall make its computations...." The Act further requires that the OPM plan "...be formulated in consultation with the Postal Service and shall include the opportunity for the Postal Service to request reconsideration of computations...."

The Postal Service disagrees with the plan developed by OPM. Specifically, the Postal Service finds that the allocation methodology used by OPM to attribute CSRS pension costs of the pre-July 1, 1971 (Postal Reorganization Date) service assigns an unreasonably low portion of that benefit to be paid to the Postal Service. The Postal Service, in a letter dated July 22, 2003, requested OPM to reconsider its proposed methodology and consider an alternate allocation methodology proposed by the Postal Service. That proposed alternative allocation methodology was consistent with the approach previously used by OPM to allocate the increase in CSRS pension costs created by annual cost-of-living-adjustments (COLAs) granted to retirees. On July 31, 2003, OPM rejected this Postal Service proposal.

Recognizing that both the OPM methodology and the Postal Service proposal based on OPM's methodology for allocating COLAs represented the two extreme methodological approaches for allocating pension costs, the Postal Service subsequently submitted a new alternate proposal. This formal proposal more equitably allocates the CSRS pension costs for the pre-July 1, 1971 and post-June 30, 1971 between the Postal Service and the Post Office Department.

The Act entitles the Postal Service to request the Board of Actuaries of the Civil Service Retirement System to review and make adjustments to OPM computations. Such a request must be accompanied by a signed report prepared by professional actuaries. The filing of such an appeal remains under consideration.

Appendix A

Projected Postal Service Payments

	dollars in billions							
	Old Law				New Law			Change in Total USPS CSRS Payment
Fiscal Year	7% Agency Contribution	30-Year Payments	15-Year Payments	Total USPS CSRS Payment	17.4% Agency Contribution	40-Year Amortization Payment	Total USPS CSRS Payment	
2003	0.754	2.724	1.275	4.753	1.314	0.000	1.314	-3.439
2004	0.714	2.783	1.432	4.929	1.775	0.422	2.197	-2.732
2005	0.671	2.872	1.600	5.144	1.668	0.422	2.090	-3.054
2006	0.625	2.822	1.758	5.205	1.555	0.422	1.977	-3.228
2007	0.578	2.862	1.965	5.405	1.437	0.422	1.859	-3.546
2008	0.528	2.923	2.206	5.657	1.313	0.422	1.735	-3.922
2009	0.476	2.856	2.461	5.793	1.183	0.422	1.605	-4.188
2010	0.422	2.887	2.733	6.042	1.050	0.422	1.472	-4.570
2011	0.368	2.927	3.033	6.328	0.916	0.422	1.338	-4.990
2012	0.315	2.830	3.349	6.494	0.784	0.422	1.206	-5.288
2013	0.265	2.855	3.713	6.833	0.659	0.422	1.081	-5.752
2014	0.218	2.841	4.122	7.180	0.543	0.422	0.965	-6.215
2015	0.177	2.557	4.502	7.236	0.439	0.422	0.861	-6.375
2016	0.141	2.527	4.843	7.511	0.351	0.422	0.773	-6.738
2017	0.112	2.501	5.227	7.839	0.278	0.422	0.700	-7.139
2018	0.088	2.352	5.669	8.109	0.219	0.422	0.641	-7.468
2019	0.069	2.316	5.982	8.367	0.171	0.422	0.593	-7.774
2020	0.054	2.286	6.272	8.612	0.133	0.422	0.555	-8.057
2021	0.042	2.176	6.538	8.755	0.104	0.422	0.526	-8.229
2022	0.032	2.066	6.775	8.873	0.080	0.422	0.502	-8.371
2023	0.025	2.025	6.981	9.031	0.061	0.422	0.483	-8.548
2024	0.019	1.970	7.153	9.141	0.046	0.422	0.468	-8.673
2025	0.014	1.837	7.289	9.140	0.035	0.422	0.457	-8.683
2026	0.011	1.611	7.388	9.010	0.026	0.422	0.448	-8.562
2027	0.008	1.578	7.449	9.035	0.020	0.422	0.442	-8.593
2028	0.006	1.527	7.472	9.005	0.015	0.422	0.437	-8.568
2029	0.004	1.480	7.459	8.943	0.011	0.422	0.433	-8.510
2030	0.003	1.372	7.409	8.785	0.008	0.422	0.430	-8.355
2031	0.002	1.350	7.326	8.677	0.005	0.422	0.427	-8.250
2032	0.001	1.278	7.212	8.491	0.004	0.422	0.426	-8.065
2033	0.001	1.148	7.070	8.219	0.002	0.422	0.424	-7.795
2034	0.001	1.020	6.902	7.923	0.002	0.422	0.424	-7.499
2035	0.000	0.897	6.712	7.609	0.001	0.422	0.423	-7.186
2036	0.000	0.781	6.501	7.282	0.000	0.422	0.422	-6.860
2037	0.000	0.671	6.272	6.942	0.000	0.422	0.422	-6.520
2038	0.000	0.569	6.027	6.596	0.000	0.422	0.422	-6.174
2039	0.000	0.476	5.769	6.245	0.000	0.422	0.422	-5.823
2040	0.000	0.393	5.499	5.892	0.000	0.422	0.422	-5.470
2041	0.000	0.320	5.219	5.539	0.000	0.422	0.422	-5.117
2042	0.000	0.257	4.933	5.190	0.000	0.422	0.422	-4.768
2043	0.000	0.205	4.641	4.845	0.000	0.422	0.422	-4.423
2044	0.000	0.161	4.346	4.507	0.000	0.000	0.000	-4.507
2045	0.000	0.126	4.050	4.175	0.000	0.000	0.000	-4.175

VP/USPS-T6-6. The GAO report on the Postal Service's proposed options for disposition of the "savings"(Report No. GAO-04-238, p. 3, issued November 26, 2003) states that: the legislation [P.L. 108-18] stated that the Service should also consider the work of the President's Commission on the United States Postal Service (the Commission), whose report, issued in July 2003, identified the need for the Service to operate more efficiently.4 [Footnote 4 omitted.] The Commission's report recommended, among other things, that:

- "the Service should review its current policy relating to the accounting treatment of retiree health care benefits, and work with its independent auditor to determine the most appropriate treatment of such costs in accordance with applicable accounting standards and in consideration of the Postal Service's need for complete transparency in the reporting of future liabilities; and
- the Postal Service should consider funding a reserve account for unfunded retiree health care obligations to the extent that its financial condition allows...."

a. Has the Postal Service reviewed and prepared a report on its current policy relating to the accounting treatment of retiree health care benefits, and determined the most appropriate treatment of such costs in accordance with applicable accounting standards? If so, please provide a copy of such report and the current policy relating to the accounting treatment of retiree health care benefits.

b. Please explain what consideration, if any, the Postal Service has given to funding of a reserve account for retiree health care obligations since release of the above-referenced GAO report.

Response:

a. The quote cited above was taken out of context in the GAO report. The above statement was directed to "the new Board of Directors." Further, on page 124 of the Commission's report, they recognized the following:

> [T]he retiree health care obligation is funded on a "pay-as-you-go" basis that focuses on obligations due today rather than the larger figure of obligations earned by and owed to employees today. The Commission wishes to make clear that the Postal Service's independent auditor has indicated that such an approach is in compliance with current applicable accounting standards governing the reporting of retiree health care costs.

b. As referenced in the “Postal Service Proposal: Use of Savings for Fiscal Years after 2005, P.L. 108-18,” two alternate proposals, labeled Proposals I and II presents consideration given to funding a reserve account for retiree health care obligations. Proposal I requires that the retroactive transfer of CSRS military service costs imposed on the Postal Service under Public Law 108-18 is returned to the U.S. Treasury. Under this proposal, the Postal Service would fund the current service cost of post-retirement health benefits and the net interest on the unfunded obligation. Proposal II is based on the Postal Service’s funding of $27 billion in CSRS military service costs. With this added burden, the Postal Service proposed funding the current service cost for Postal Service employees hired after FY2002.

VP/USPS-T6-7. Please suppose the Postal Service is viewed as having two kinds of expense obligations, regular operating expense obligations and escrow expense obligations. Suppose further that the appropriate procedure for covering these expenses is in two steps. First, rates are set in a normal Commission proceeding to cover the regular operating expenses. Second, layered on top of the first step, a uniform proportionate surcharge is applied to cover the escrow.

a. If at some point in the future the escrow expense were removed, please explain why it would not be appropriate to remove the proportionate surcharge as well.

b. If the government placed a 10 percent surcharge on all postal rates in order to help pay for a war, please explain why you would not expect the surcharge to be removed after the war ended.

c. If the escrow obligation was not removed and additional revenues were needed, please explain whether the analysis supporting the rate change should focus on the base rates or on the rates plus the surcharge.

Response:

a. It would not be appropriate if the regular and escrow rates were not covering Postal Service operating costs.

b. Based on past experience with the federal budget process, it might be more likely that the size of the federal budget deficit, as opposed to the end of the war, would determine if the surcharge were removed. It could also be possible that the surcharge would not be removed, and a new requirement would be established for funds generated from the surcharge to be held in "escrow."

c. The analysis supporting the rate change would be based on all sources of revenue and expense.

VP/USPS-T6-8.

Please suppose that the Postal Service is viewed as having two kinds of expense obligations: (i) regular operating expenses; and (ii) escrow expenses.

a. Can you envision any outcome in which the escrow funds ultimately would not be expended for a purpose that otherwise would appropriately be funded by ordinary (non-escrow) revenues?

b. If you can envision such a possibility, please explain and indicate the likelihood of such an outcome. If you cannot envision such a possible outcome, then why is it reasonable to view the requirement to set aside escrow funds as different from any other expense obligation? Please explain.

Response:

a & b. In accordance with Public Law 108-18's provision that Congress shall decide how the escrow funds will be expended, it is possible that these funds could be expended for a purpose that otherwise would not be funded by ordinary (non-escrow) revenues. A case in point would be the retroactive charge for CSRS military service costs that by law were previously the responsibility of the U.S. Treasury and transferred by Public Law 108-18 to the Postal Service. Another example would be the transfer of Post Office Department workers' compensation costs to the Postal Service.

VP/USPS-T6-9.

a. As a hypothetical, please assume Congress were to enact legislation that relieved the Postal Service of its $3.1 billion obligation to the escrow account, but required that $1.2 billion be paid into a new Retiree Health Care Fund, as suggested by the Postal Service in its Report to Congress "Postal Service Proposal: Use of Savings for Fiscal Years after 2005, P.L. 108-18," September 30, 2003.
   (i) Under these circumstances, would you see good reason for the Postal Service to amend and reduce the revenue requirement to reflect the lower Congressional mandate?
   (ii) Regardless of whether you were to see good reason to reduce the revenue requirement or keep it unchanged, would you still consider an across-the-board rate increase to be appropriate under these circumstances? Please explain why or why not.
   (iii) Under what legislative scenario would there be good reason for withdrawing the pending request and resubmitting a more traditional rate case; i.e., one that did not reflect an across-the-board rate increase?

b. As a second hypothetical, please assume Congress were to enact legislation requiring that the entire $3.1 billion payment in FY 2006 be paid to a new Retiree Health Care Fund. Under the circumstances of this hypothetical, would you still consider an across-the-board rate increase to be appropriate?

Response:

a. (i) Assuming that the $1.2 billion payment cited above relates to the difference between our proposed funding of $5.0 billion less former CSRS and retiree health benefit premium payments, it would be appropriate for the Postal Service to withdraw this case and file a new case.

(ii) See response to part (i). The timing of when such legislation were enacted and other provisions contained in that legislation would determine what course of action the Postal Service would take.

(iii) See response to part (i).

b. See response to part (a)(ii).

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.

Scott L. Reiter

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
June 7, 2005