



## **BACKGROUND:**

Legislation requires the U.S. Postal Service to pre-fund its retiree health care benefits obligation and fund its retiree health care premiums (at about \$8 billion annually), and provide employee benefits that are comparable to those paid in the private sector. However, these annual payments, coupled with declining revenue, have challenged the Postal Service's ability to meet all its obligations.

Management proposed to decrease costs by over \$63 billion by offering its own health care benefits plan instead of participating in the Office of Personnel Management (OPM) Federal Employees Health Benefits plan. These savings are due primarily to 1) required accounting changes, 2) use of Medicare coverage, 3) impact on employees, future retirees, and retirees, and 4) efficiencies in health care purchasing.

The objective of the review, requested by the postmaster general, was to evaluate the reasonableness of the assumptions in management's proposal and impact on the unfunded health care obligation.

## **WHAT THE OIG FOUND:**

While the \$63 billion in proposed savings is reasonable, we found that management used an incorrect funding interest rate assumption to establish its

future retiree health care obligation. Thus, management understated the adjusted original liability of \$90.2 billion by \$14.1 billion, when it should actually have been \$104.3 billion. This, however, does not impact the overall \$63 billion in cost savings. Subsequent to our review of the proposal, the Postal Service informed us it removed from its proposal the plan to freeze the monthly premium amount it contributes to those retiring after January 1, 2014. Thus, the estimated savings associated with the proposal would be reduced by about 20 percent, or \$11 billion due to this change.

Finally, we noted the Postal Service did not have access to its employee and retiree actual claimant data to ensure it has data available to run its plan.

## **WHAT THE OIG RECOMMENDED:**

We recommended revising the alternative health care plan to include rates appropriate for funding assumptions; clearly communicating the impact of transitioning to the proposed plan to all affected employees, future retirees, retirees, and the government; and obtaining historical claims data from OPM to ensure the Postal Service has the best data available when selecting a provider to administer its plan.