

## Pre-Funding Retirement Health Benefits and Medicare Integration

### Background

Postal Service retirees receive complete health insurance coverage as long as they meet minimum eligibility requirements. This is an employee benefit offered to fewer and fewer government and private sector retirees. In 2006, Congress passed the Postal Accountability and Enhancement Act (PAEA), which requires the Postal Service to fully prefund retiree health benefits (RHB). This prefunding requirement is not imposed on other governmental entities or private-sector businesses who still provide retiree health benefits. It has also contributed significantly to our losses and represents a significant portion of our unpaid obligations.

Additionally, unlike virtually all state and local government and private sector retirees, postal retirees are not required to enroll in Medicare at age 65. In fact, despite the Postal Service and our employees paying over \$34 billion in Medicare taxes since 1983, only 74 percent of postal retirees choose to enroll. This results in an overpayment to the Medicare Trust Fund, to which the Postal Service is the second largest contributor. It also results in retirement benefits being significantly more costly for the Postal Service, postal employees, and postal retirees than for their non-federal counterparts. Integration of all postal retirement health plans with Medicare would provide significant relief while only increasing the annual cost to the Medicare Trust Fund by 0.12%, or less than half of one day's worth of claims per year.

### Impact to Postal Service finances

In FY 2020, the Postal Service's total healthcare expense was \$9.8 billion, or 13 cents of every revenue dollar. As of September 30, 2020, the Postal Service has defaulted on \$51.9 billion of payments due to the RHB Fund. We defaulted on these payments to preserve liquidity necessary to ensure that our Congressionally-mandated universal service obligation was not placed at undue risk.

**Congress should eliminate the RHB prefunding mandate and prospectively require enrollment in Medicare to retain FEHB coverage, with the savings flowing to the Postal Service and its employees and retirees. The following key benefits flow from this change:**

#### For postal employees and retirees

- By easing near term financial burden, continued funding for health benefits would be ensured into the future (Medicare Integration and prefunding repeal).
- Premiums would be reduced for active employees, retirees, and the Postal Service by more equitably sharing costs between participants, the Postal Service, and Medicare (Medicare Integration).
- Savings would be offered through the opportunity to select an FEHB plan with a lower premium cost while maintaining 100 percent coverage (Medicare Integration).

#### For the Postal Service

- Savings of approximately \$4 billion would be yielded in annual RHB savings each year after integration (Medicare Integration).
- Cumulative expenses would be reduced by \$36.3 billion over 10 years based on FY2021 enactment and 2022 implementation (Medicare Integration).
- The estimated USPS retiree health benefit unfunded liability would be reduced by \$8 billion over 10 years (prefunding repeal).

Requiring Medicare integration has received strong bipartisan Congressional support in previous years but has failed to reach the President's desk. Other legislation that passed in the House sought to solely eliminate the RHB prefunding requirement. The Postal Service supports the enactment of both measures in tandem. To ensure our financial sustainability to serve the American people while treating our employees and retirees fairly, the 117th Congress must enact legislation that both requires Medicare integration and eliminates the RHB prefunding mandate.

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**2<sup>nd</sup>** Largest contributor the  
Medicare Trust Fund

The Postal Service and its employees  
have paid \$34.6 billion in Medicare taxes  
since 1983.

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**0.12%** Increase in costs  
to Medicare

Or less than half of one day's worth of  
Medicare claims per year, a miniscule  
cost.