



AMERICANS FOR TAX REFORM

POSTAL NEWSLETTER

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President

USPS Customers are Subsidizing Federal Treasury

The United States Postal Service (USPS) – a supposedly self-supporting agency -- is on track to subsidize the federal treasury by \$150 billion, according to a report released in December by the Saturation Mailers Coalition (SMC), a group of advertising mailers including free paper publishers, shared mailers and coupon mailers.

Following a November, 2002 Office of Personnel Management (OPM) announcement that the USPS' annual pension payments (including principle and interest) were based on erroneous calculations, and that the USPS was set to overfund the Civil Service Retirement System (CSRS) by at least \$70 billion, Congress passed Public Law 108-18, the Postal Civil Service Retirement System Funding Reform Act of 2003. The law suspended overpayments through 2005, and froze postage rate increases for the same time period. However, starting in 2006, the savings from the adjustment would be paid into an escrow account. The legislation also required the USPS (i.e. postal ratepayers) to make payments to the Treasury for the costs of civil service pensions related to military and other government service of postal employees.

Under current law, the USPS is the only self-supporting federal agency that is required to pay the costs of military service for its employees. Since the USPS is required to give preference to job applicants with military service under the Veteran's Preference Laws, a hidden tax is imposed on postal ratepayers to subsidize a significant portion of federal obligations.

As has been reported in this newsletter, there have been rumblings from postal officials that the USPS planned to rapidly increase postage rates in 2006. SMC's report reveals that with no further pension reforms, the USPS would need to increase rates by 6% in 2006 just to cover additional pension obligations. When added to inflationary costs and the USPS' habit of cross-subsidization and unsuccessful business ventures, ratepayers could easily expect to see a double digit rate increase.

The \$150 billion of overcharges to the USPS come in part from the following:

- Annual payments for civil service pensions based on erroneous calculations will be required to be paid into an escrow account after the temporary relief provided by Congress ends in 2005.
- The new obligation created by Congress for military and government service pensions totaling \$28 billion.
- The existing obligation for the USPS to pay for the military and government service portion of employees covered by the Federal Employees Retirement System (FERS).

Like the Civil Service Retirement System Funding Reform Act, the pension overpayments will need to be addressed through an act of Congress. As Congress prepares to address broad postal reform this year, it seems pension reform might present a good place to start.

Postal Reform Panel to Hold Hearings on Reform

A special panel on postal reform and oversight, chaired by Rep. John McHugh (R-N.Y.), will hold three hearings on postal reform in the next two months.

The first hearing will be held on Jan. 28 in Washington, hearing testimony from USPS officials and the General Accounting Office (GAO).

The second hearing will be held in Chicago on Feb. 5, with testimony from USPS employee organizations including the National League of Postmasters.

The third hearing, scheduled for Feb. 11, will hear testimony from mailers, postal-reliant businesses and competitors.

The panel, which reports to House Government Reform Committee chairman Rep. Tom Davis (R-VA), was formed last year, after the Postal Service Subcommittee (also chaired by McHugh) was disbanded in 2001.

The Senate Governmental Affairs Committee is also expected to hold hearings on postal reform in February.

