POSTAL PENSION FUNDING REFORM

Highlights of GAO-04-281, a report to the Committee on Governmental Affairs, United States Senate, and the Committee on Government Reform, House of Representatives

November 2003

Review of Military Service Funding Proposals

Why GAO Did This Study

The Postal Civil Service Retirement System Funding Reform Act of 2003 (the Act) required the United States Postal Service, Department of the Treasury, and Office of Personnel Management (OPM) to prepare proposals detailing whether and to what extent the Treasury and Postal Service should fund the benefits attributable to the military service of the Postal Service’s current and former Civil Service Retirement System (CSRS) employees. The Act required GAO to evaluate the proposals. Our objective in doing so was to assess the agencies’ positions and provide additional information where it may be useful.

What GAO Found

The positions taken by OPM and Treasury and the Postal Service were driven in part by differing views on the nature and extent of the relationship between military service and an entity’s operations. The Postal Service favors returning the responsibility for funding benefits attributable to military service to the Treasury, making arguments that include Treasury’s historic responsibility for these benefits, the legislative history surrounding the Postal Service’s funding of retirement benefits, the fact that the majority of military service by CSRS employees was rendered before the current Postal Service was created, and that military service has no connection to the Postal Service’s functions or operations. OPM and Treasury favor the recently enacted law, arguing that the Postal Service was intended to be self-supporting, military service is a benefit like other CSRS benefits that should be allocated proportionally over an employee’s career, and the current law is one in a series that developed today’s approach to funding the Postal Service’s CSRS costs.

GAO observed that there is no direct relationship between an employee’s military service and an entity’s operations, but an indirect relationship is established once an employee is hired into a position whose retirement plan provisions credit military service when computing a civilian benefit. GAO has long held the position that federal entities should be charged the full costs of retirement benefits not covered by employee contributions in the belief that it enhances recognition of costs and budgetary discipline at the same time it promotes sounder fiscal and legislative decisions. However, our previous recommendations and matters for congressional consideration did not specifically address whether the cost of military service benefits should be included in CSRS employee benefit costs. Currently there is inconsistency in how various self-supporting government entities treat these costs.

GAO observed that there is no direct relationship between an employee’s military service and an entity’s operations, but an indirect relationship is established once an employee is hired into a position whose retirement plan provisions credit military service when computing a civilian benefit. GAO has long held the position that federal entities should be charged the full costs of retirement benefits not covered by employee contributions in the belief that it enhances recognition of costs and budgetary discipline at the same time it promotes sounder fiscal and legislative decisions. However, our previous recommendations and matters for congressional consideration did not specifically address whether the cost of military service benefits should be included in CSRS employee benefit costs. Currently there is inconsistency in how various self-supporting government entities treat these costs.

The military service of many Postal Service retirees was already creditable to a civilian pension when the Postal Service began operations in 1971. OPM’s current approach, however, allocated the years of creditable military service of these employees over their entire civilian careers. If Congress decides that the Postal Service should be responsible for military service costs applicable to its employees, then consideration of an allocation alternative reflecting the extent to which the military service of current and former employees was already creditable towards a civilian pension when the Postal Service began operating would enhance the decision-making process.

www.gao.gov/cgi-bin/getrpt?.GAO-04-281

To view the full product, including the scope and methodology, click on the link above. For more information, contact Linda Calbom at (202) 512-8341 or calboml@gao.gov.