CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

January 26, 2012

S. 1789
21st Century Postal Service Act of 2011

As ordered reported by the Senate Committee on Homeland Security and Governmental Affairs on November 9, 2011

SUMMARY

S. 1789 would change the laws that govern the operation of the United States Postal Service (USPS). Major provisions of the bill would:

- Transfer more than $11 billion in surplus retirement contributions from the Civil Service Retirement and Disability Fund (CSRDF) to the Postal Service Fund;
- Change the payments that the Postal Service is required to make to the Postal Service Retiree Health Benefits Fund (PSRHBF);
- Permit the Postal Service to reduce mail delivery from six days per week to five;
- Authorize the Postal Service to offer employees credit for additional years of service as an incentive to retire; and
- Reduce payments to most federal workers receiving benefits under the Federal Employees' Compensation Act (FECA) and reform the administration of that act.

In addition, other provisions of S. 1789 would aim to help the Postal Service reduce its costs and increase its revenues.

CBO estimates that enacting the bill would result in off-budget savings of $25.6 billion over the 2012-2022 period and on-budget costs totaling about $31.9 billion. (USPS cash flows are recorded in the federal budget in the Postal Service Fund and are classified as off-budget, while the cash flows of the PSRHBF, CSRDF, and the FECA account are on-budget.)

Combining those effects, CBO estimates that the net cost to the unified budget of enacting S. 1789 would be $6.3 billion over the 2012-2022 period. All of those effects reflect changes in direct spending. In addition, we estimate that enacting S. 1789 would decrease revenues by $15 million over the 2012-2015 period. Pay-as-you-go procedures apply because enacting the legislation would increase on-budget direct spending and decrease revenues.

S. 1789 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 1789 is shown in Table 1. The costs of this legislation fall within budget functions 370 (commerce and housing credit) and 600 (income security).

TABLE 1. SUMMARY OF BUDGETARY IMPACT OF S. 1789, THE 21st CENTURY POSTAL SERVICE ACT OF 2011

	By Fiscal Year, in Millions of Dollars												
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2012-2017	2012-2022
OFF-BUDGET CHANGES IN DIRECT SPENDING													
Estimated Budget Authority	-5,299	-1,730	-2,123	-2,364	-3,022	-1,932	-1,900	-1,865	-1,830	-1,796	-1,764	-16,469	-25,624
Estimated Outlays	-5,299	-1,750	-2,123	-2,364	-3,022	-1,932	-1,900	-1,865	-1,830	-1,796	-1,764	-16,469	-25,624
ON-BUDGET CHANGES IN DIRECT SPENDING													
Estimated Budget Authority	10,945	3,139	3,311	3,350	3,477	1,272	1,284	1,281	1,280	1,278	1,274	25,494	31,891
Estimated Outlays	10,945	3,139	3,311	3,350	3,477	1,272	1,284	1,281	1,280	1,278	1,274	25,494	31,891
UNIFIED BUDGET CHANGES IN DIRECT SPENDING													
Estimated Budget Authority	5,647	1,410	1,189	986	455	-660	-616	-584	-550	-518	-490	9,026	6,268
Estimated Outlays	5,647	1,410	1,189	986	455	-660	-616	-584	-550	-518	-490	9,026	6,268
CHANGES IN REVENUES													
Estimated Revenues	-4	-5	-5	-1	0	0	0	0	0	0	0	-15	-15
CHANGES IN SPENDING SUBJECT TO APPROPRIATION													
Estimated Authorization Level	0	31	26	27	5	-24	-51	-66	-95	-119	-146	65	-412
Estimated Outlays	0	27	26	27	4	-23	-51	-67	-94	-119	-146	62	-415

Note: Components may not sum to totals because of rounding. For spending, positive numbers indicate increases in costs; negative numbers indicate reductions in costs. For revenues, negative numbers indicate reductions in revenue collections.

BASIS OF ESTIMATE

For the purposes of this estimate, CBO assumes that S. 1789 will be enacted early in calendar year 2012. The bill would affect outlays of the Postal Service Fund, which is off-budget, and of the PSRHBF, CSRDF, and FECA accounts—all of which are on-budget. CBO estimates that the net cost to the unified budget would total $6.3 billion over the 2012-2022 period. In addition, we estimate that enacting the bill would decrease revenues by $15 million over the 2012-2015 period (with no impact on revenues after 2015).

Background on USPS Payments for Employees Health Insurance and Retirement

The following sections present background information relating to the major provisions of S. 1789 that would affect postal finances.

Postal Service Obligations for Retiree Health Care. Under current law, the Postal Service will make annual payments over the 2012-2016 period to two accounts for retirees' health insurance premiums. (USPS spending on those activities is classified as off-budget.) The agency will make a direct payment to the on-budget Federal Employees Health Benefits (FEHB) fund for current retirees. CBO estimates that this payment will be about $2.7 billion in 2012, rising to $3.8 billion by 2016.

In addition, over the 2012-2016 period, the Postal Service is required (under current law) to make specified annual payments that range from $5.6 billion to $11.1 billion to the PSRHBF, an on-budget account established by the Postal Accountability and Enhancement Act (Public Law 109-435) to prefund future retirees' health benefits. Under current law, funds in the PSRHBF may not be expended for retirees' health cost until fiscal year 2017.

Beginning in 2017, the Postal Service will make estimated annual payments to the PSRHBF to cover the "normal costs" of providing health benefits to future retirees. Those payments will be equal to the annual increase in retiree health care liabilities attributable to current employees. In addition, the agency will make annual payments amortized over 40 years to liquidate the unfunded liability for retirees' health benefits. The unfunded liability is the total liability accrued to date for retirees' health benefits minus the PSRHBF balance that is equivalent to the amount that has not been set aside to cover future liabilities. Those payments will be estimated by the Office of Personnel Management (OPM) before 2017.

The payments to the PSRHBF that are required under current law are shown in the memorandum to Table 2.

Postal Service Pension Obligations. Most postal employees participate in the Federal Employees Retirement System (FERS), while some workers with longer tenure participate in the Civil Service Retirement System (CSRS). The Postal Service and its employees make payroll contributions toward FERS and CSRS.

TABLE 2. OFF-BUDGET CHANGES IN DIRECT SPENDING UNDER S. 1789

	By Fiscal Year, Outlays in Millions of Dollars											
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2012-2022
Changes in USPS Payments for Retiree Health Benefits	508	-1,522	-1,615	-1,665	-1,761	-655	-655	-655	-655	-655	-655	-9,984
Net Effect of Transfer of Surplus Retirement Contributions	-5,700	0	0	0	0	0	0	0	0	0	0	-5,700
Reduction in Mail Delivery	0	0	-300	-600	-1,250	-1,250	-1,200	-1,150	-1,100	-1,050	-1,000	-8,900
Increased Credits for USPS Retirees	-107	-214	-215	-108	0	0	0	0	0	0	0	-643
Changes in USPS Payments for Workers' Compensation	0	6	7	8	-11	-27	-45	-60	-75	-91	-109	-397
Total Off-Budget Changes	**-5,299**	**-1,730**	**-2,123**	**-2,364**	**-3,022**	**-1,932**	**-1,900**	**-1,865**	**-1,830**	**-1,796**	**-1,764**	**-25,624**
Memorandum–USPS Payments for Retiree Health Benefits												
Under Current Law												
Estimated Payments to FEHB	2,666	2,911	3,189	3,489	3,792	0	0	0	0	0	0	16,047
Specified Payments to PSRHBF [a]	2,100	5,600	5,700	5,700	5,800	0	0	0	0	0	0	24,900
Estimated Payments for Normal Costs [b]	0	0	0	0	0	4,181	4,410	4,651	4,902	5,165	5,440	28,749
Estimated Amortization Payments [c]	0	0	0	0	0	3,410	3,410	3,410	3,410	3,410	3,410	20,460
Total	4,766	8,511	8,889	9,189	9,592	7,591	7,820	8,061	8,312	8,575	8,850	90,156
Under S. 1789												
Estimated Payment for Normal Costs	3,174	3,368	3,560	3,760	3,970	4,181	4,410	4,651	4,902	5,165	5,440	46,581
Estimated Amortization Payments	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	23,100
Subtotal	5,274	5,468	5,660	5,860	6,070	6,281	6,510	6,751	7,002	7,265	7,540	69,681
Changes in Other USPS Spending	0	1,522	1,615	1,665	1,761	655	655	655	655	655	655	10,492
Total	5,274	6,990	7,275	7,525	7,831	6,936	7,165	7,406	7,657	7,920	8,195	80,173
Changes in Payments for Retiree Health Benefits	508	-1,522	-1,615	-1,665	-1,761	-655	-655	-655	-655	-655	-655	-9,984

Notes: Components may not sum to totals because of rounding.

USPS = United States Postal Service; FEHB = Federal Employees Health Benefits fund; PSRHBF = Postal Service Retiree Health Benefits Fund.

a. In fiscal year 2012, the Postal Service is required to pay $11.1 billion to the PSRHBF. However, CBO estimates that the agency will be able to pay only $2.1 billion.

b. These payments are equal to the annual increase in retiree health care liabilities attributable to current employees.

c. These costs are based on information provided by the Office of Personnel Management.

Beginning in fiscal year 2017, the Postal Service will make annual payments amortized over 27 years to liquidate any “unfunded liability” (as estimated by OPM) for retirees’ CSRS pensions benefits. The unfunded liability is the total liability accrued to date for retirees’ pension benefits minus the portion of the CSRDF attributable to Postal Service contributions that is equivalent to the amount that has not been set aside to cover future liabilities.

Off-Budget Changes in Direct Spending (Postal Service Fund)

CBO estimates that enacting S. 1789 would reduce net USPS spending by $25.6 billion over the 2012-2022 period; as noted above, USPS spending is classified as off-budget. Details of changes in spending from the Postal Service Fund are summarized in Table 2 and discussed in the following subsections.

Changes in Payments for Retiree Health Benefits. CBO estimates that the bill’s provisions that would change payments to the PSRHBF would result in off-budget savings of about $10 billion over the 2012-2022 period, as discussed below.

Payments to the PSRHBF under S. 1789. The legislation would authorize the Postal Service, over the 2012-2016 period, to make payments to the FEHB fund for current retirees’ health insurance premiums from the PSRHBF (under current law, funds in the PSRHBF are not available for spending until fiscal year 2017). S. 1789 also would eliminate the current specified payments into the PSRHBF for fiscal years 2012 through 2016. In addition, beginning in 2012, the bill would direct the Postal Service to make estimated annual payments to the PSRHBF to cover the normal costs of providing health benefits to future retirees and estimated 40-year amortization payments to cover 80 percent of the unfunded liability for retirees’ health benefits (under current law, those payments would not begin until 2017). The payments required under S. 1789 are shown in the memorandum on Table 2; as detailed in the table’s footnotes, CBO does not expect the Postal Service to be able to make the full payments required in 2012.

The bill’s changes in payments for retirees’ health insurance premiums would lower the Postal Service’s costs for those activities over the 2013-2022 period as shown in Table 2 (see memorandum). For example, under current law, the Postal Service will pay a total of about $8.5 billion in 2013, but under S. 1789, the agency would pay $5.5 billion in that year. CBO also expects that lowering health care expenses would lead to an increase in other USPS costs totaling $1.5 billion in 2013 and about $10.5 billion over the 2013-2022 period. We estimate that enacting S. 1789 would reduce net USPS spending by about $10 billion over the 10-year period. (Those provisions also would affect cash flows of the PSRHBF, as discussed below.)

Changes in Other USPS Spending. CBO expects that lowering health care expenses would lead the agency to modify its ongoing efforts under current law to reduce spending. Faced with an imbalance of receipts from postal customers and operational costs, the Postal Service has made significant efforts to reduce spending in recent years. For example, early in 2009, the Postal Service announced plans to cut spending by $5.9 billion over the 2009-2010 period. Just a few months later, in response to worsening financial conditions, the agency accelerated the plan to cut $5.9 billion in 2009 alone. Since then, the Postal Service has announced the possibility of closing offices, laying off employees, and making major reductions in service.

CBO expects that lowering health care expenses would lead the agency to alter its cost-reduction program by cutting spending less aggressively than it would without the legislation. CBO anticipates that enacting this legislation would lead the USPS to increase its net operational spending relative to current law. We estimate that the net increase in such USPS outlays over the 2013-2022 period would be about half of the reduction in health care payments—about $1.5 billion in 2013 and $10.5 billion over the 2013-2022 period.

Net Effect of Transfer of Surplus Postal Retirement Contributions. For each of fiscal years 2011 through 2013, S. 1789 would authorize the Postal Service Fund to receive a transfer of any surplus in the USPS FERS account within the CSRDF as of the end of the fiscal year. S. 1789 would permit the Postal Service to use the transferred amounts to fund employee buyout plans, pay off its debt to the U.S. Treasury, make payments for workers' compensation benefits, and for other expenses.

OPM estimates that the Postal Service's surplus for its FERS account in the CSRDF was $11.4 billion as of September 30, 2011. Under the bill, CBO estimates that $11.4 billion would be transferred from the CSRDF to the Postal Service Fund in fiscal year 2012. This intragovernmental transfer would be classified as a savings of $11.4 billion in off-budget direct spending for the Postal Service Fund in 2012. (This transfer also would result in a cost of $11.4 billion to the on-budget CSRDF as discussed below.)

As with the bill's provision to lower the health care expenses, CBO expects that the transfer would lead the agency to alter its cost-reduction program by cutting spending less aggressively than it otherwise would and thus increase other expenses relative to current law. We estimate that this increase in other expenses would be about half the $11.4 billion that would be transferred—$5.7 billion in 2012; we estimate that the net effect of this provision would be a savings of $5.7 billion in 2012 (as shown in Table 2).

CBO has no basis for estimating whether there would be any surplus in the USPS FERS account in fiscal years 2012 and 2013 to transfer to the Postal Service Fund.

Reduction in Mail Delivery. S. 1789 would authorize the Postal Service to deliver mail five days per week, beginning no earlier than two years after enactment. Before any change in service, however, the Government Accountability Office (GAO) would have to evaluate the financial need for such a change and the Postal Regulatory Commission (PRC) would have to determine that a reduction in mail delivery would be necessary for the Postal Service to achieve long-term financial solvency. In addition, the bill would require the Postal Service to develop measures to reduce any disproportionate effects that five-day delivery would have on certain customers and communities.

CBO estimates that reducing mail delivery to five days per week would result in savings of about $1.3 billion by fiscal year 2016. Estimated savings in 2015 and 2014 would be lower—about $600 million and $300 million, respectively—as the Postal Service gradually increases efficiency under the new delivery system. Beginning in 2018, we expect that annual savings would gradually decline as those funds would probably be spent by the Postal Service or returned to mailers in the form of lower rates rather than accumulating as large annual surpluses in the Postal Service Fund. We estimate that annual savings would fall to $1 billion by 2022.

Implementation of five-day delivery under S. 1789 would depend upon evaluations by GAO and PRC, and we cannot predict the actions of those agencies. However, we expect that there is a 50 percent chance that GAO and PRC actions would lead to five-day delivery. The anticipated savings of about $1.3 billion in 2016 is based on estimates prepared by the Postal Service and the PRC, reduced by 50 percent to reflect the uncertainty of future actions by GAO and the PRC.[1]

Increased Credits for USPS Retirees. For certain employees who retire before 2015, section 102 of S. 1789 would authorize the USPS to offer credit for additional years of service as an incentive to retire. As discussed below, the provision would affect spending from the CSRDF and would result in several thousand USPS employees retiring over the 2012-2014 period a few years earlier than expected under current law. Over that period, the Postal Service would make lower employer contributions toward retirement and would spend less in salaries and benefits. CBO estimates that provision of S. 1789 would save the USPS about $640 million over the 2012-2015 period.

Changes in Workers' Compensation for the USPS. The bill would make several changes to the Federal Employees' Compensation Act, which provides wage and medical benefits to federal employees who are injured in the course of their work.

Based on information from the Department of Labor (DOL), CBO estimates that the changes proposed in S. 1789 would reduce gross outlays under FECA by $1.2 billion over the 2012-2022 period. That gross savings would be partially offset by reduced

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1. The Postal Service estimates that eliminating mail delivery on Saturdays would eventually result in net savings of $3.1 billion annually, mostly in personnel and transportation costs. The PRC estimates that reduction of mail delivery from six to five days per week would save only $1.7 billion per year. The PRC estimates lower net savings largely because it disagrees with the Postal Service's assumption that most mail currently delivered on Saturday could be delivered on Mondays with minimal increased costs. PRC's estimate therefore includes a bigger expected offset to the gross savings for eliminating Saturday deliveries.

reimbursements from federal agencies, including the Postal Service, of $1 billion during that period, for net savings to the FECA account over 10 years of about $200 million. Based on historical spending patterns, CBO estimates that about 40 percent of the gross FECA savings would accrue to the USPS, which, accordingly, would pay about $400 million less in reimbursements to the FECA account under S. 1789 over the 2012-2022 period as shown in Table 2.

On-Budget Changes in Direct Spending and Revenues

CBO estimates that enacting S. 1789 would increase on-budget direct spending by $31.9 billion over the 2012-2022 period. Those costs would result from changes in the cash flows of PSRBHF, CSRDF, and FECA accounts as summarized in Table 3 and discussed in the following subsections.

Changes in USPS Payments to PSRHBF. As discussed previously, the bill would change payments that the Postal Service makes for retiree health benefits, and CBO estimates that those changes would decrease net on-budget direct spending by about $500 million in 2012 but would increase direct spending by about $20.5 billion over the 2012-2022 period. Those costs result from changes in cash flows of the PSRHBF as displayed in the memorandum to Table 3; as detailed in the table's footnotes, CBO does not expect the Postal Service to be able to make the specified payments required in 2012. S. 1789 would not affect the net cash flows of the FEHB fund (although under the bill's provisions, the payments to this fund would be made out of the PSRHBF rather than the Postal Service Fund).

CBO estimates that the payments to FEHB from the PSRHBF would range from $2.7 billion in 2012 to $3.8 billion in 2016. The bill would eliminate the specified payments required under current law from the Postal Service Fund into the PSRHBF over the 2012-2016 period (which total $24.9 billion). In addition, S. 1789 would direct the Postal Service, beginning in 2012, to make estimated annual payments to the PSRHBF to cover the costs of providing health benefits to future retirees. (Currently, payments for those so-called "normal costs" will not be made until 2017.) Based on information from OPM, CBO estimates that those payments would grow from $3.2 billion in 2012 to $5.4 billion by 2022. Under the bill, the agency also would make estimated 40-year amortization payments toward the unfunded liability for retirees' health benefits beginning in 2012 rather than in 2017 as under current law. OPM estimates that those payments would be $2.1 billion annually.

TABLE 3. CHANGES IN DIRECT SPENDING FOR ON-BUDGET ACCOUNTS UNDER S. 1789

	By Fiscal Year, Outlays in Millions of Dollars											
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2012-2022
Changes in USPS Payments to PSRHBF	-508	3,043	3,229	3,329	3,522	1,310	1,310	1,310	1,310	1,310	1,310	20,475
Transfer of Surplus Retirement Contributions	11,400	0	0	0	0	0	0	0	0	0	0	11,400
Increased Credits for USPS Retirees	53	80	81	27	-1	-1	-1	-1	-1	-1	-1	234
Net Changes in FECA	0	16	1	-6	-44	-37	-25	-28	-29	-31	-35	-219
Total Changes in On-Budget Costs	**10,945**	**3,139**	**3,311**	**3,350**	**3,477**	**1,272**	**1,284**	**1,281**	**1,280**	**1,278**	**1,274**	**31,891**
Memorandum–PSRHBF Estimates												
Under Current Law												
Specified Payment from USPS [a]	-2,100	-5,600	-5,700	-5,700	-5,800	0	0	0	0	0	0	-24,900
Normal Payments	0	0	0	0	0	-4,181	-4,410	-4,651	-4,902	-5,165	-5,440	-28,749
Amortization Payments	0	0	0	0	0	-3,410	-3,410	-3,410	-3,410	-3,410	-3,410	-20,460
Total	-2,100	-5,600	-5,700	-5,700	-5,800	-7,591	-7,820	-8,061	-8,312	-8,575	-8,850	-74,109
Under S. 1789												
FEHB Payment [b]	2,666	2,911	3,189	3,489	3,792	0	0	0	0	0	0	16,047
Normal Payments	-3,174	-3,368	-3,560	-3,760	-3,970	-4,181	-4,410	-4,651	-4,902	-5,165	-5,440	-46,581
Amortization Payments	-2,100	-2,100	-2,100	-2,100	-2,100	-2,100	-2,100	-2,100	-2,100	-2,100	-2,100	-23,100
Total	-2,608	-2,557	-2,471	-2,371	-2,278	-6,281	-6,510	-6,751	-7,002	-7,265	-7,540	-53,634
Changes for PSRHBF	-508	3,043	3,229	3,329	3,522	1,310	1,310	1,310	1,310	1,310	1,310	20,475

Notes: Components may not sum to totals because of rounding.

PSRHBF = Postal Service Retiree Health Benefits Fund; USPS = United States Postal Service; FECA = Federal Employees' Compensation Act; FEHB = Federal Employees Health Benefits Fund.

a. In fiscal year 2012, the Postal Service is required to pay $11.1 billion to the PSRHBF. However, CBO estimates that the agency will be able to pay only $2.1 billion.

b. Under current law, the FEHB payment would be made from the PSRHBF beginning in 2017, so S. 1789 would not affect cash flows over the 2017-2022 period.

Transfer of Surplus Postal Retirement Contributions. As discussed previously, S. 1789 would transfer to the Postal Service Fund any surplus in the USPS FERS account within the CSRDF as of September 30, 2011. Based on information from OPM, CBO estimates that $11.4 billion would be transferred from the CSRDF to the Postal Service Fund in 2012. This transfer would increase on-budget spending from the CSRDF by $11.4 billion in 2012.

Increased Credits for USPS Retirees. For certain employees who retire before 2015, section 102 would authorize the USPS to offer credit for additional years of service as an incentive to retire. Eligible USPS employees in CSRS could be offered up to one year of additional service credit, and eligible employees in FERS could be offered up to two years of credit; those years of service would be used to determine eligibility for retirement and would be included in the calculation of any retirement annuity. Employees who accept the additional service credit offer could not also receive a voluntary separation incentive payment (cash buyout) available under current law.

Accepting an additional service credit would boost an employee's retirement annuity by about 2 percent; on average, that increase would add $1,000 to $2,000 per year to the employee's pension. Based on the response to recent buyout offers, CBO estimates that a relatively small number of USPS employees would accept the service credit offer and that it would mostly appeal to employees who are within a year or two of eligibility for full retirement.

CBO estimates that under this provision direct spending would increase by $234 million over the 2012-2022 period; employees who accept the service credit would begin receiving retirement benefits from the Civil Service Retirement and Disability Trust Fund earlier than under current law.

The payment of employee retirement contributions made on behalf of participating employees would end earlier than expected under current law. The payment of employee contributions toward retirement are recorded in the budget as revenues. CBO estimates that enacting S. 1789 would lower revenues by $15 million over the 10-year period because of early retirement.

Changes in Workers' Compensation for Agencies Other Than USPS. The bill would make several changes to the Federal Employees' Compensation Act, which provides wage and medical benefits to federal employees who are injured in the course of their work. Proposed changes include:

- Reducing benefits to 50 percent of a claimant's pre-injury wage upon reaching retirement age (as defined in the Social Security Act);

- Eliminating augmented benefits to claimants who have dependents (so that all claimants who are below retirement age—except certain exempt individuals—receive a benefit equal to two-thirds of their pre-injury wage);

- Improving cross-matching of data to identify cases where individuals are wrongly receiving benefits;

- Increasing benefits under the disfigurement compensation schedule and for funeral expenses;

- Establishing a schedule for managing disability reviews, including requiring periodic medical exams; and

- Improving the ability of the government to recapture compensation costs from responsible parties.

Under current law, FECA provides compensation for lost wages of up to 75 percent of a worker's salary if that person can no longer work because of debilitating injuries sustained on the job, as well as medical expenses relating to the injury and certain death benefits. In 2010, governmentwide benefits totaled $2.9 billion; most of those expenses are charged back to the beneficiaries' employing agency, so that in 2010, net FECA outlays (gross outlays less reimbursements from agencies) totaled $216 million.

Based on information from DOL, CBO estimates that the changes proposed in S. 1789 would reduce gross outlays under FECA by $1.2 billion over the 2012-2022 period—which would be partially offset by reduced reimbursements of $1 billion during that period—for net savings to the FECA account of about $200 million over the period (see Table 3).

Other Provisions That Could Affect Direct Spending

The bill would direct arbitrators involved in future labor negotiations to consider the financial condition of the Postal Service when mediating disputes between USPS and its labor unions and would reform certain Postal Service contracting practices. Those provisions might reduce USPS costs, but CBO expects that any net savings probably would be indistinguishable from savings that could result from the Postal Service's current efforts to negotiate more favorable labor contracts and improve procurement practices.

In recent years the Postal Service has attempted to reduce its workforce by offering incentives for employees to retire early. (The agency has reduced its employee complement by more than 100,000 workers over the past three years, mostly through attrition.) CBO expects the Postal Service will continue to offer such incentives to lower its costs. As discussed earlier, S. 1789 would permit the Postal Service to use amounts transferred from its FERS account within the CSRDF to pay for employee buyout plans (including payments of up to $25,000 per employee). It is possible that enacting S. 1789 could increase the number of employees who retire during the next several years and thus lower USPS labor costs, but CBO has no basis for estimating any such effects.

S. 1789 also would authorize the Postal Service to establish a program to provide services for agencies of the federal government or the states for a fee. Implementing this program would require the Postal Service to offer cost-effective alternatives for services to state or federal agencies. Those proposed programs might increase USPS income but also would add to costs. CBO has no information to predict the net budget impact of such new ventures if any were undertaken by the Postal Service.

Spending Subject to Appropriation

Changes to FECA in S. 1789 would result in lower discretionary costs of about $600 million over the 2012-2022 period to federal agencies' salaries and expense accounts because of the lower reimbursements that would be required. However, S. 1789 would require DOL to institute and manage the new disability reviews, appeals from the procedures, and other requirements of the bill. CBO estimates that implementing those provisions would increase spending by about $200 million over the 2012-2022 period, assuming appropriation of the necessary amounts, resulting in an estimated net discretionary savings of $415 million over the 2012-2022 period.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays and revenues that are subject to those pay-as-you-go procedures are shown in the following table. Only on-budget changes to outlays or revenues are subject to pay-as-you-go procedures.

CBO Estimate of Pay-As-You-Go Effects for S. 1789, the 21st Century Postal Service Act of 2011, as ordered reported by the Senate Committee on Homeland Security and Governmental Affairs on November 9, 2011

	By Fiscal Year, in Millions of Dollars												
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2012-2017	2012-2022
NET INCREASE OR DECREASE (-) IN THE ON-BUDGET DEFICIT													
Statutory Pay-As-You-Go Impact	10,941	3,134	3,306	3,349	3,477	1,272	1,284	1,281	1,280	1,278	1,274	25,479	31,876

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 1789 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would impose no costs on state, local, or tribal governments.

PREVIOUS CBO ESTIMATE

On December 1, 2011, CBO transmitted a cost estimate for H.R. 2309, the Postal Reform Act of 2011, as ordered reported by the House Committee on Oversight and Government Reform on October 13, 2011. We estimated that enacting H.R. 2309 would result in off-budget savings totaling $26.2 billion and on-budget costs of $7.7 billion over the 2012-2021 period for a net savings to the unified budget of $18.5 billion.

ESTIMATE PREPARED BY:

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Impact on State, Local, and Tribal Governments: Elizabeth Cove Delisle

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