CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 30, 2017

H.R. 760
Postal Service Financial Improvement Act of 2017

As ordered reported by the House Committee on Oversight and Government Reform on March 16, 2017

SUMMARY

CBO estimates that enacting H.R. 760 would increase direct spending for retirees of the Postal Service (USPS) by $11.4 billion over the 2018-2022 period but would have no net effect on direct spending over the 2018-2027 period. Under the bill funds from a government account would be transferred to a privately operated investment fund and later deposited back into the Treasury, including any accumulated earnings.

Pay-as-you-go procedures apply to this bill because those transfers would affect direct spending. Enacting the bill would not affect revenues.

CBO estimates that enacting the legislation would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2028.

H.R. 760 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effect of H.R. 760 is shown in the following table. The costs of this legislation fall within budget function 550 (health).

	By Fiscal Year, in Millions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
INCREASES OR DECREASES (-) IN DIRECT SPENDING												
Estimated Budget Authority	11,420	0	0	0	0	0	0	0	-6,438	-4,982	11,420	0
Estimated Outlays	11,420	0	0	0	0	0	0	0	-6,438	-4,982	11,420	0

Note: The Department of the Treasury would have to pay interest on the additional borrowing necessary to purchase $11.4 billion of private securities. CBO estimates that the borrowing costs for purchasing those private securities would total roughly $3 billion over the 2018-2027 period. However, based on long-standing precedents, CBO does not include the net interest costs associated with the estimated budgetary effects of legislation. In CBO's view, any earnings that result from private investments are equivalent to changes in net interest costs and such earnings are also not shown in this estimate.

BASIS OF ESTIMATE

The Postal Accountability and Enhancement Act (Public Law 109-435) established the Postal Service Retiree Health Benefits Fund (PSRHBF); the fund is administered by the Office of Personnel Management (OPM) and had a balance of roughly $50 billion at the end of fiscal year 2017. The PSRHBF is used to pay the government's share of health insurance premiums for retirees of the USPS, which CBO projects will cost about $4 billion in 2017. PSRHBF assets currently consist solely of securities issued by the federal government. H.R. 760 would direct the Department of the Treasury to use professional asset managers to invest about 25 percent of the available balances of the fund in equity or bond index funds.

CBO expects that the Department of the Treasury would contract with a private entity to invest the PSRHBF balances in one or more privately operated investment funds. The current budgetary treatment of investing federal funds in non-Treasury financial instruments is specified in Circular A-11, published by the Office of Management and Budget. Under that treatment the purchase of private securities are to be recorded as an outlay at the time of the purchase. Thus, investments under H.R. 760 would be classified as an outlay in fiscal year 2018, increasing direct spending in that year. Based on the current balance in the PSRHBF, CBO estimates that the Treasury would invest about $11.4 billion in 2018 under H.R. 760.

Over the 2018-2027 period, the Department of the Treasury would pay interest on the additional borrowing necessary to purchase $11.4 billion of private securities. How the Treasury would finance those purchases in uncertain, but the average cost of borrowing for the Treasury over that period is about 3 percent a year, CBO projects. Thus, CBO estimates that the borrowing costs for purchasing those private securities would total roughly $3 billion over the 2018-2027 period. However, based on long-standing precedents, CBO does not include the net interest costs associated with the estimated budgetary effects of legislation.

After 2018 the balance of the PSRHBF will decline as it is used to pay premiums for USPS retirees. Under the bill, CBO estimates that the PSRHBF would exhaust the balances held with the Treasury by 2026; thus, the PSRHBF would need to transfer those privately held funds back into the Treasury in fiscal years 2026 and 2027.

Those transfers would be recorded as offsetting receipts, which have the effect of reducing direct spending. CBO expects that those transfers back into the Treasury in 2026 and 2027 would be about $3 billion more than the initial $11.4 billion that would have been invested in 2018 because those funds probably would accrue earnings over that time period. With the potential for greater rates of return, government investments in private securities would increase the expected value of budgetary resources, but such investments also would expose the government, future taxpayers, and beneficiaries of federal programs to greater risk. Returns on private investments could be much higher or much lower than those of government funds. When that risk is taken into account, the returns on private securities would be no greater than the returns on government securities, CBO estimates. Thus, enacting H.R. 760 would have no significant effect on investment returns for the PSRHBF.

In CBO's view, any earnings that result from private investments are equivalent to changes in net interest costs and such earnings are also not shown in this estimate. In addition, based on information from the Department of the Treasury about the anticipated fees that would have to be paid to private investment managers, CBO estimates that such fees would cost about $66 million over the 2018-2027 period. We expect those amounts would be paid from investment earnings on the initial $11.4 billion expenditure and the cost of those fees is not reflected in this estimate.

H.R. 760 also would require the Department of the Treasury to hire an independent public accountant each year to audit the financial statements of the investments required by the bill and to prepare a report for the Congress on the performance of the new investments. Based on the costs of similar activities, CBO estimates that the audits and reports, as well as increased administrative costs for OPM, would cost less than $500,000 annually, and would be subject to the availability of appropriated funds.

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 that are subject to those pay-as-you-go procedures are shown in the following table.

CBO Estimate of Pay-As-You-Go Effects for H.R 760, as ordered reported by the House Committee on Oversight and Government Reform on March 16, 2017

	By Fiscal Year, in Millions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
NET INCREASE OR DECREASE (-) IN THE [ON-BUDGET] DEFICIT												
Statutory Pay-As-You-Go Impact	11,420	0	0	0	0	0	0	0	-6,438	-4,982	11,420	0

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

CBO estimates that enacting the legislation would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2028.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 760 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

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