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# Congress of the United States

## House of Representatives

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

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October 14, 2011

The Honorable Jeb Hensarling  
Co-Chair  
Joint Select Committee on Deficit Reduction  
Washington, DC 20515

Dear Representative Hensarling:

Pursuant to the Budget Control Act of 2011, I am offering recommendations to the Joint Select Committee on Deficit Reduction for its consideration.

Taken together, the federal civilian workforce pay and retirement proposals summarized below would provide a minimum of \$375 billion in savings over ten years.

My recommendation is that Postal Service reform not be addressed by the Joint Select Committee, for reasons described herein.

### Federal Civilian Retirement

1. **Change the pension formula salary base to highest-five years' average salary.** The Congressional Budget Office (CBO) has scored this change in the annuity formula as saving \$4.4 billion over ten years. The high-five calculation is much more common in the private sector. This policy was proposed by the President's National Commission on Fiscal Responsibility and Reform and included in the House Budget Resolution.
2. **Increase the employee Federal Employee Retirement System (FERS) contribution by 6.2%.** The federal government will continue to pay the balance of the normal cost (12.7% for FY2012). CBO has scored this policy as saving \$121 billion over ten years. This policy builds on the legislative recommendation offered by the President in his Plan for Economic Growth and Deficit Reduction, and would bring the federal retirement program into closer alignment with private sector retirement plans.
3. **Increase the employee CSRS contribution from 7% to 10% beginning in 2013.** The federal government will continue to pay the balance of the normal cost (25.8% for FY2011). By 2013, all CSRS participants will have had the opportunity to put in thirty

years of service and qualify for full retirement benefits. CSRS participants who are still working for the federal government would be required to share in the sacrifice being made by the federal employees enrolled in FERS. This policy builds on the legislative recommendation offered by the President in his Plan for Economic Growth and Deficit Reduction. The policy has not yet been scored by CBO.

4. **Eliminate FERS for new hires.** Use a portion of the savings from reducing the federal government's cost of the employee FERS contribution to establish a defined contribution option payable at Social Security age to supplement the Thrift Savings Plan. FERS employees with less than five years of service would be transitioned to the defined contribution plan established for new hires. A proportional FERS benefit would be instituted for those with more than five years of service.

The overwhelming majority of private sector companies have already switched to defined contribution plans for new employees. Such a transition would allow the federal government to gradually end the fiscally irresponsible practice of accumulating large unfunded liabilities for retiree pensions.

5. **Limit the FERS minimum supplement to employees subject to mandatory retirement.** Currently, if a federal employee voluntarily retires before the age of 62, he receives each month -- in addition to his FERS retirement benefit -- a payment representing the amount the employee would have received from social security if he were 62 years old on the day he retired. He receives this benefit until he is 62 and can begin receiving his actual Social Security benefit payments. This policy would end FERS supplement payments except for those individuals who are subject to mandatory early retirement, such as federal firefighters and law enforcement officers. This policy is consistent with the legislative recommendation offered by the President in his Plan for Economic Growth and Deficit Reduction. This policy has not yet been scored by CBO, but it would likely save less than \$1 billion per year, based on related cost estimates CBO has done.

### **Federal Workforce Size and Pay**

1. **Reduce the federal workforce by 10% through attrition, hiring one new worker for every three who leave. Also, extend the pay freeze through 2015.** This policy is an elaboration on the President's National Commission on Fiscal Responsibility and Reform proposal to reduce the federal workforce via a two for three attrition rate, and the President's two-year pay freeze policy. CBO has scored a one for three attrition policy combined with a pay freeze through 2015 as saving \$247 billion over ten years.

2. **Eliminate periodic step increases.** More than 99.9 percent of federal employees are awarded periodic “step” increases based on tenure, although the law requires competent work performance in order to qualify. Approximately one-third of the federal workforce becomes eligible each year for a step increase – a raise worth about 3-percent of an individual’s base pay. Although the President temporarily froze federal worker COLAs, periodic step increases continue unabated. Based on Office of Personnel Management data, the Committee estimates \$1 billion in savings the first year from this policy, with the savings increasing significantly in each subsequent year.

### United States Postal Service

The Joint Committee should not include postal reform in its recommendations to Congress. The reforms needed to fix the USPS and prevent its bankruptcy will not reduce the deficit or save taxpayers money. Indeed, the wrong reforms could easily add billions to the deficit this year and cost taxpayers tens of billions in the years to follow. Because the postal service is an independent self-funding entity, unified budget scoring makes it possible to falsely claim that postal reform proposals saves taxpayers billions of dollars by counting reductions in postal service expenses – or increases in postage rates -- as savings to the taxpayer.

The White House proposal to the Joint Committee is an example. It would increase postage rates, end Saturday delivery, and postpone or waive required payments to the Treasury for postal worker pensions and retiree health benefit obligations. Although it would result in a cash loss for the Treasury, it was scored by OMB as saving \$19 billion over ten years on a unified budget basis. The White House concedes that, under current budget scoring, the same proposal would be scored as costing at least \$10 billion. It’s worth noting that even a much larger taxpayer-funded bailout of the postal service would, under unified budget scoring, be viewed as having no cost at all.

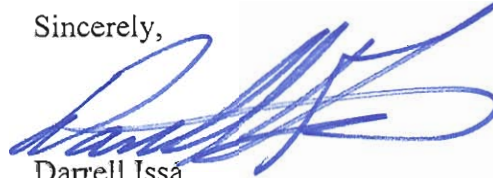
One of the few areas of consensus between House and Senate Republicans and Democrats seems to be that a temporary surplus in FERS contributions should be used to fund efforts to reduce the number of postal workers. The Postmaster General has claimed there are as many as 220,000 more postal workers than are needed to deliver the mail and reducing the size of the postal workforce will be central to any effort to save the postal service. The President’s proposal would spend this temporary surplus to stave off a postal service bankruptcy for a few months, while making hardly any reforms that could contribute to the long-term solvency of the postal service.

Postal reform is necessary to save the postal service from a bankruptcy that is certain to happen in the next year if nothing is done. There are no simple or easy solutions to this looming crisis and much work remains to be done to forge a consensus on how to reform and save the postal service. I am committed to saving the postal service and the Oversight and Government Reform

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Committee is leading efforts to forge this consensus. H.R. 2309, the Issa, Ross, McCain Postal Reform Act which was ordered reported by the committee yesterday, would save the postal service and protect taxpayers. This committee action is an important first step. In the Senate, I know that Chairman Lieberman is also committed to finding a consensus on how to save the postal service. These efforts must not be disrupted by short-term half measures that cost billions now and tens of billions in the future without making fundamental reforms. This is not a task the Joint Committee has the expertise or the means to accomplish.

Sincerely,



Darrell Issa  
Chairman