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POSTAL SERVICE REVISES FY 2003 Q III BALANCE SHEET
REPORTS SUPPLEMENTAL PENSION LIABILITY IN FOOTNOTES

WASHINGTON -- The Postal Service announced it has revised its Quarter Three Fiscal Year 2003 balance sheet to remove the amount of its supplemental liability to the Civil Service Retirement and Disability Fund (CSRDF) due to the possible annual variations in the amount and the timing of estimates of the liability.

By this revision, the Postal Service removes from the balance sheet the $5.8 billion asset and the corresponding liability related to deferred retirement costs and now fully discloses and discusses these potential costs in notes to the financial statements.

These circumstances result from alterations to the way the Postal Service funds the Civil Service Retirement System (CSRS) resulting from P.L. 108-18, The Postal Civil Service Retirement System Funding Reform Act of 2003 (the Act), signed into law on April 23, 2003.

In announcing the revision, Chief Financial Officer Richard J. Strasser, Jr. said: "The change has no impact on our Income Statement or our Statement of Cash Flows and does not alter the Postal Service's accounting policy for pension costs. This change acknowledges the fact that any supplemental liability is subject to recalculation by the Office of Personnel Management (OPM) on an annual basis, with up to twelve months allowed to complete the estimate."

The Postal Service accounts for retirement benefits as a participant in a multiemployer plan arrangement, in accordance with Statement of Financial Accounting Standards No. 87- Employers' Accounting for Pensions. "Our accounting policy aligns with the parent-subsidiary relationship that the Postal Service has as an independent establishment of the Executive Branch of the government. OPM administers federal government pension funds." Strasser said.

Prior to enactment of P. L. 108-18, the Postal Service's normal cost contribution to the CSRDF was based on seven percent of employees' basic pay plus additional payments for increases in basic pay and annuitants' cost-of-living adjustment (COLA) increases authorized by Congress. Each year, OPM determined the estimated increase in the CSRDF deferred liability resulting from postal pay increases and billed the Postal Service a specific, fixed amount. The Postal Service recorded the obligation as a deferred retirement cost (asset) and as an offsetting amount payable for deferred retirement benefits (liability). The obligations were amortized and paid in 30 equal annual installments at 5 percent interest for base pay increases and 15 equal annual installments at 5 percent interest for retiree COLA increases.

The Act changed the way the Postal Service funds its contributions to the CSRS retirement plan. It requires the Postal Service to dynamically fund the plan by paying a normal cost contribution of 17.4 percent of employees' basic pay. This increased contribution includes projected funding for both future basic pay increases and annuitant COLAs.

The Act further requires that the Postal Service pay an additional annual amount, if necessary, each September beginning in 2004 as determined by OPM. The additional amount is based on a calculation of any potential supplemental liability. Should one exist, it would represent the excess of the actuarial present value of future benefits over the actuarial present value of future contributions, earnings, and other actuarial factors related to Postal Service participants in CSRS. Such additional obligations, if any, may result due to the deviation of actual results from valuation assumptions used by OPM to determine the CSRS base contributions. OPM has up to 12 months after the fiscal year ends to calculate the supplemental liability and the resulting amount to be paid by the Postal Service will be billed subsequently. Therefore, the supplemental liability will not be known at the time current financial statements are published.

Explaining today's action, Strasser stated, "We note that the economic assumptions used by OPM in calculating the $5.8 billion supplemental liability, 3.75 percent inflation, 4.25 percent salary increases and 6.75 percent interest, do not reflect actual inflation adjustments and are based on federal as opposed to Postal Service salary increase levels. Specifically, OPM's $5.8 billion estimate does not reflect two years of actual inflation adjustments of 1.4 percent in 2003 and 2.1 percent in 2004," he said.

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