# U.S. Postal Employees’ Retirement Assets Are Invested More Cautiously Than Those of Their Foreign Counterparts

         By [Amelia Gruber](https://www.govexec.com/voices/amelia-gruber/2376/)

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The U.S. Postal Service is by law forced to use a lower risk, but also potentially lower return, strategy than its foreign counterparts when investing employees’ retirement assets, according to a new watchdog report.

USPS participates in the governmentwide Civil Service Retirement System and the Federal Employees Retirement System, and assets from those plans are held in a trust fund managed by the Office of Personnel Management and the Treasury Department, the U.S. Postal Service Inspector General said in the [white paper](https://www.uspsoig.gov/sites/default/files/document-library-files/2018/FT-WP-19-001.pdf). OPM and Treasury are legally required to invest the assets from this fund in special-issue, fixed rate Treasury securities or other interest-bearing obligations of the U.S. government, the report said.

This strategy is not risky, the IG noted. “However, this investment approach comes at a price–low returns at a time when retirement assets do not fully fund retirement liabilities by billions of dollars,” the white paper stated. “For example, in a previous OIG report on retirement funds investment strategies, we projected the 20-year annual compounded rate of return for special issue Treasury securities at 3.3%, while the compounded returns on medium-risk diversified portfolios was 5.4% to 6.4%.”

The U.S. Postal Service had $278.9 billion in CSRS and FERS assets in fiscal 2017, the report said, which was $41.3 billion less than its pension liabilities. The IG looked at 11 other countries’ approaches to managing their postal service employees’ pensions to see if they could offer any lessons to USPS as it looks to reduce the gap between its assets and liabilities.

The 11 countries the IG studied all diversified their postal employee pension investments more than the United States. All of the other countries invested their pension funds in at least two different asset classes, with seven using all four investment types studied (bonds; equities; real estate; and other assets such as bank loans, direct lending, commodities and derivatives).

This resulted in more volatile returns on the other countries’ investments. For instance, Canada Post’s annual returns on pension investments varied between -19.3% and 16.9% from 2004 to 2017 while USPS’s annual returns over that period ranged from 2.9% to 6.1%.

The white paper does not make a recommendation on whether the U.S. Postal Service should diversify its retirement asset investments in hopes of higher returns. It does note that legislation would be necessary if USPS wanted to change its investment strategy.

Legislation “would, in turn, require successful resolution of certain public policy issues,” the white paper noted. “Implementation of asset diversification would also require sound governance, including appropriate focus on benchmark selections and investment management fees. Broader diversification would likely result in additional volatility but could allow the Postal Service to improve returns on their pension assets.”

U.S. Postal Service management agreed with the observations in the white paper.