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U.S. POSTAL SERVICE IN CRISIS: PROPOSALS TO PREVENT A POSTAL SHUTDOWN

HEARING

BEFORE THE

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS UNITED STATES SENATE

ONE HUNDRED TWELFTH CONGRESS

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APPENDIX

U.S. POSTAL SERVICE IN CRISIS: PROPOSALS TO PREVENT A POSTAL SHUTDOWN

TUESDAY, SEPTEMBER 6, 2011

U.S. SENATE,
COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 2:02 p.m., in room SD–342, Dirksen Senate Office Building, Hon. Joseph I. Lieberman, Chairman of the Committee, presiding.

Present: Senators Lieberman, Akaka, Carper, Pryor, McCaskill, Begich, Collins, Coburn, Brown, and Moran.

OPENING STATEMENT OF CHAIRMAN LIEBERMAN

Chairman LIEBERMAN. The hearing will come to order. I thank everyone for being here, and I wish you a good afternoon. We are here to consider a very serious question, which is whether the U.S. Postal Service (USPS), an iconic American institution since the 18th Century, can survive in the 21st Century.

It is hard to believe that it has come to this, but it has. So much of our Nation's progress is interwoven with the history of the Postal Service. If you look at some old maps of America, you see that a lot of the roads that we use today started out as colonial-era Post Roads. As our Nation pushed west before the railroads were built, the Post Office created the Pony Express to keep America connected with its frontiers. And the Post Office's subsidies for air mail in the early days of aviation helped jump start that fledgling airline industry.

Through parts of four centuries now, the Postal Service has actually helped make us a Nation, connecting the American people to one another, moving commerce and culture coast-to-coast and to all points in between.

The Postal Service has also bound individual towns and neighborhoods together, with the local post office often serving as a center of civic life.

Over the years, the Postal Service has grown very large. Today the U.S. Postal Service is the second largest employer in the United States, second only to Wal-Mart. And with 32,000 post offices, it has more domestic retail outlets than Wal-Mart, Starbucks, and McDonald's combined.

Sadly, these impressive statistics belie a troubled business on the verge of bankruptcy.

Business lost to the Internet and more recently, of course, to America's economic troubles have led to a 22-percent drop in mail

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handled by the Postal Service and a gross revenue decline of more than $10 billion over the past 5 years.

This year the Postal Service is expected to have a deficit of approximately $8 billion, maybe more, for the second year in a row.

The Postal Service will also soon bump up against its $15 billion credit line with the U.S. Treasury, which could force it to default on a $5.5 billion payment into the health care fund for its retirees, which would normally be due at the end of this month.

The bottom line here is that if nothing is done, the Postal Service will run out of money and be forced to severely slash service and employees. And that is the last thing our struggling economy and our country need right now.

Despite its shrinking business, the Postal Service still remains a powerful force in America's economy and American life. It still delivers 563 million pieces of mail a day. Even with the rise of e-commerce, most businesses do not send bills and most families do not pay those bills, except through the U.S. Postal Service.

While magazine deliveries are down, also because of competition with the Internet and the recession, 90 percent of all periodicals—that is about 300 million paid subscriptions a year worth billions of dollars to the publishing and advertising industries, and bringing about the employment of millions of people—are still delivered by the Postal Service. And only the post office will go that "last mile" to ensure delivery throughout the country, to everyone's address, even using burros in the Grand Canyon and snowshoes in Alaska.

Last year, just to show the diversity—and the American people know this—the Postal Service processed 6.7 million passport applications. Right now, there is no other Federal agency with the national presence that is really ready or able to take on that task.

Now, why are we here today? Before the Governmental Affairs Committee became the Homeland Security and Governmental Affairs Committee, it was called the Government Operations Committee and in that capacity has long had jurisdiction over the U.S. Postal Service, and that is why we are convening this hearing here today.

We are going to hear several proposals this afternoon about what can be done to create greater efficiency, close the Postal Service deficit, and give it the flexibility and tools it needs to survive and thrive in America's future.

Postmaster General Patrick Donahoe recently offered a plan he believes would save $20 billion and return the Postal Service to solvency by 2015, and that plan is the immediate impetus of this hearing—to both give him the opportunity to explain, describe it, argue for it, and to give others the opportunity to comment on it and, indeed, to oppose it, which some will do. The proposal includes: Eliminating Saturday delivery; closing approximately 3,700 post offices; shrinking the workforce by as much as 220,000; pulling out of the Federal Employee health care plan to create a separate Postal Service employees health plan; doing away with a defined benefit retirement plan for new employees and transitioning to a defined contribution plan; and asking that $6.9 billion in overpayments to the Federal Employees Retirement System (FERS) be returned to the Postal Service.

These are self-evidently bold, tough, and controversial proposals. As for myself, I do not feel I know enough about them yet to reach a conclusion, and that is why I look forward to the testimony of the witnesses today. But I do know enough about the real crisis the Postal Service is in to appreciate Postmaster General Donahoe's courage in making these proposals.

I am also grateful that Senators Collins and Carper have been leaders on behalf of this Committee in dealing with Postal Service problems and indeed were the architects of a postal reform bill that passed a few years ago. Each of my colleagues, Senator Collins and Senator Carper, has now introduced legislation to deal with the current postal crisis, and I am encouraged to learn that President Obama will soon offer an Administration plan to respond to the Postal Service's fiscal crisis.

So I have an open mind on the various proposals that have been made, but to me the bottom line is that we must act quickly to prevent a Postal Service collapse and enact a bold plan to secure its future.

The U.S. Postal Service is not an 18th Century relic. It is a great 21st Century national asset. But times are changing rapidly now, and so too must the Postal Service if it is to survive.

Senator Collins.

OPENING STATEMENT OF SENATOR COLLINS

Senator COLLINS. Thank you, Mr. Chairman.

First, Mr. Chairman, let me thank you for holding what is truly an urgent hearing to examine possible remedies for the Postal Service's dire and rapidly deteriorating financial condition. The drumbeat of news about the accelerating losses at the Postal Service underscores the need for fundamental changes.

The Postal Service is seeking far-reaching legislation to allow the Postal Service to establish its own health benefits program, administer its own retirement system, and lay off its employees. This is a remarkable turnabout from its previous proposals. I appreciate that the Postal Service has now come forth with several "big picture" ideas, although many of the details remain unclear.

As we search for remedies, we must keep in mind a critical fact: The Postal Service plays an essential role in our national economy.

If the Postal Service were a private corporation, its revenue would rank just behind Boeing and just ahead of Home Depot on the Fortune 500 list. But even that comparison, or the one used by the Chairman, understates the economic importance of the Postal Service. The Postal Service directly supports a $1.1 trillion mailing industry that employs approximately 8.7 million Americans in fields as diverse as direct mail, printing, catalog companies, paper manufacturing, and financial services. Many of these businesses cannot return to readily available alternatives. They depend on a healthy, efficient Postal Service.

But as vital as a stable Postal Service is to our economy, its current financial status is abysmal. The most recent projections are that the Postal Service will lose some $9 billion this year. That is $700 million more than the deficit that the Postal Service was projecting just at the beginning of this year. This hemorrhaging comes on top of $8.5 billion in red ink last year and $3.8 billion lost in 2009.

Unfortunately, there is little cause to believe that an improvement in the overall economy will stop this slide. The fact is that Americans are unlikely to abandon email and text messaging and return to First-Class Mail. The Postal Service's own projections now assume declining revenue all the way out to the year 2020.

The losses in mail volume are even more dramatic. Last year, the Postal Service handled 78 billion pieces of First-Class Mail. That number is now projected to fall to 39 billion pieces in 2020. This represents a 50-percent decline in First-Class Mail volume over 10 years.

I want to give the new Postmaster General great credit for coming forth with more creative proposals to stem this crisis. At times, however, the Postal Service's responses in the past have been inadequate and even counterproductive. Some would cut directly into the revenue that the Postal Service so desperately needs, while leaving customers with diminished and insufficient service. Consider, for example, the debate over post office closings. Now, let me be very clear. There are undoubtedly some post offices in Maine and elsewhere that can be consolidated or moved into nearby retail stores. But this simply is not an option for many rural or remote areas. In some communities, closing the post office would leave customers without feasible alternatives and access to postal services. That would violate the universal service mandate that is the justification for the Postal Service's monopoly on the delivery of First-Class Mail.

Let me give you a couple of examples from my home State of Maine. The Matinicus Island and Cliff Island post offices in Maine are good examples. Matinicus Island is 20 miles off the coast of Maine. It receives mail 5 rather than 6 days a week, and only in good weather. Closing this post office or moving it into a large retail facility is simply not realistic.

For the residents of Cliff Island, closing their post office would mean more than a 2-hour round trip by ferry in order to send parcels or conduct all but the most simple of postal transactions. The fact is that maintaining all of our Nation's rural post offices costs the Postal Service less than 1 percent of its total budget. That is not where the problems lie. That does not mean that there should not be consolidations, and, indeed, I believe that closing some post offices and moving them into the local grocery store or pharmacy would work very well.

Similarly, the Postal Service's plan to move to 5-day delivery is not without significant downsides. It would harm many businesses unless the Postal Service can mitigate the impact. It would force industries ranging from home-delivery medication companies to weekly newspapers to seriously consider other options. And once these private firms leave the Postal Service behind, they will not be coming back, and the Postal Service will suffer yet another blow to its finances.

The major solution to the financial crisis should be found in tackling more significant expenses that do not drive customers away and lead to further reductions in volume.

Two actuarial studies have found that tens of billions of dollars have been made in overpayments by the Postal Service to the Federal retirement plans. Regrettably, to date the Administration has blocked the bulk of this repayment. I proposed last year a new, more gradual amortization for the Postal Service's annual payments to reduce the unfunded liability for retiree health benefits, but that too is no longer adequate.

More than 80 percent of the Postal Service's expenses are workforce-related. The failure to rein in these costs threatens not only the viability of the Postal Service, but also the livelihoods of the Postal Service workers themselves. The worst possible outcome for these workers would be for the Postal Service to be unable to meet its payroll—and that is a very real possibility next year if we do not all act together to achieve reforms. In my judgment, the most recent contract agreement with the Postal Service's largest union, by and large, represents a missed opportunity to negotiate a contract that reflects the financial realities facing the Postal Service.

The Postal Service has to preserve the value and the service it provides to its customers while significantly cutting costs and streamlining its operations, and that is no easy task. Senator Carper and I have each introduced our own bills to try to avert this crisis, but I am the first to admit that worsening conditions clearly require far more significant reforms.

So, again, Mr. Chairman, thank you for calling this hearing. We do face an urgent task and that is to save this icon of American society and this absolute pillar of America's economy.

Chairman LIEBERMAN. Thanks very much, Senator Collins.

Senator Carper, because you have done such extraordinary work on behalf of this Committee regarding the Postal Service, I wanted to invite you to make an opening statement if you would like at this time.

OPENING STATEMENT OF SENATOR CARPER

Senator CARPER. Thanks very much, Mr. Chairman. To our witnesses, welcome. Thank you for joining us. And, Mr. Chairman, thanks for holding this hearing and breaking from protocol to allow me to deliver an opening statement. I am appreciative to you and to Senator Collins for the attention that you and your staffs have paid to this vitally important economic issue.

For some time now, my Subcommittee and I have been sounding the alarm about the dire financial situation facing the Postal Service. Unfortunately, while a number of bills have been put forward, Congress—including this Committee—has been unable to reach consensus on the kind of dramatic and likely painful reforms that will be needed to avert a looming Postal Service shutdown. In addition, the proposals put forward by the Administration to date have been insufficient.

Today, just a few weeks after narrowly avoiding the first-ever default of the Federal Government, we may be just a few weeks away from the first-ever default of the Postal Service. That default, if permitted to happen, would be embarrassing and dangerous. In fact, it would pave the way for postal insolvency by this time next year, if not sooner.

While the Office of Management and Budget (OMB) unfortunately declined to testify at this hearing to discuss the Administration's plans for preventing the Postal Service from failing, it is my hope that the discussion we have here today will jump-start the process of developing a bipartisan, bicameral consensus around the reforms necessary to restructure the Postal Service's finances and transform its operations to reflect the uncertain future that it faces.

Postmaster General Donahoe will testify today that the Postal Service's finances continue to deteriorate. He is projecting a year-end loss for the Postal Service of some $10 billion—nearly $2 billion more than he projected when our Subcommittee last held a postal oversight hearing, I think, in May. It will not be able to make the $5.5 billion retiree health payment due on September 30. Come October, it will have exhausted its line of credit with the Treasury and will only have enough cash on hand to get by. Then, under what is likely the best-case scenario, cash will be completely exhausted by next summer, and the Postal Service—absent any lifeline from a Congress and Administration that are short on lifelines these days—will likely be forced to close its doors.

If the Postal Service were to fail, the impact on our economy would be dramatic. As Postmaster General Donahoe and others have pointed out time and time again, the Postal Service operates at the center of an industry that employs millions of people. These men and women do not just work at the Postal Service. They work at magazines, at banks, at printing companies, and in businesses large and small across America. They work in every State and congressional district in the country, and as Senator Collins has said, they generate more than $1 trillion in sales and revenue each year.

Given the challenging economy facing our country, we cannot afford to put those jobs and that kind of productivity in jeopardy. In fact, it is our job to do what needs to be done to save this industry, even if doing so involves making decisions that might be difficult politically.

Like it or not—and in a number of ways I do not like it very much myself—the Postal Service needs to re-size to reflect the decreasing demand for the products and services it offers. It needs to shed employees. It needs to downsize its network of processing facilities to reflect the fact that there is less mail to process and that technology has made getting mail to its destination easier to do. And the Postal Service needs to be able to close, relocate, or collocate some of the post offices that are provided in communities across America.

The Postal Service has put forward a plan to eliminate a further 120,000 positions on top of some 100,000 that will be lost through attrition. They have also begun studying some 3,000 post offices out of about 33,000 across the country, for closure or for collocation with other businesses. The Postal Service is expected to propose similarly dramatic changes to its processing network in the next week or so.

We are rapidly reaching the point, however, at which the Postal Service no longer has the authority under current law to do what it needs to do to get by. That is why I have introduced legislation that aims to clean up the Postal Service's finances and help it implement the ambitious reorganization plan it announced last spring. The main provision in my bill—the Postal Operations Sustainment and Transformation Act—aims to permanently address the various pension and retiree health-related issues that have plagued the Postal Service for years.

The Postal Service, the Postal Service's Inspector General (IG), the Postal Regulatory Commission (PRC), and two independent actuaries—one of whom is actually represented here today—have all come to the conclusion that the Postal Service has overfunded its obligations to the Civil Service Retirement System (CSRS) by some $50 billion to $75 billion. In addition, numerous observers and even the Office of Personnel Management (OPM) have pointed out that the Postal Service has paid $7 billion more than it owes into the newer Federal Employees Retirement System.

My bill, and I think the bill that Senator Collins has introduced, would give the Postal Service access to the funds it has overpaid. It would be able to use them to make its required retiree health pre-funding payments, taking upwards of $5 billion off its books each year for the next several years. And once those payments are satisfied, the funds this bill would free up could be used to pay workers' compensation obligations and to retire debt owed to the Treasury.

These reforms, or something very similar to them, can be a vital part of any effort to improve the Postal Service's financial condition in both the short and long term. But stopping with these reforms and avoiding further, potentially more difficult changes will simply not be enough. To anyone taking an honest look at the numbers, it should be clear that more will need to be done. That is why my bill takes important steps towards giving the Postal Service the flexibility that those of us in Congress always say we want to give the Postal Service to adapt to the new realities and operate more like a business.

No business facing the kinds of difficulties the Postal Service faces today would survive for very long if it were told how many retail outlets it should have and where they should be located, or if it was prevented from making operational changes or taking full advantage of the resources and expertise it has at its disposal. Yet that is what Congress does to the Postal Service.

My bill aims to address these problems and to take Congress out of the day-to-day management of the Postal Service. Assuming that the Postal Service can continue to build on its recent cost-cutting efforts, these changes could help set the Postal Service on a more solid footing in the years to come.

But I do not just focus in my bill on cost cutting. The bill also aims to give the Postal Service new authority to leverage for its nationwide retail, logistics, transportation, and delivery network to attract new business. In addition, it gives the Postal Service more flexibility to work with existing customers to keep them in the mail and to partner with State and local governments to find new, potentially profitable uses for the retail facilities that it needs to keep.

I mentioned at the beginning of my statement that there have been a number of bills introduced this Congress to address the Postal Service's financial condition. Susan Collins has one. She and

I have worked on these issues for years, and my hope and prayer is that we will do it again, this time to good effect. Congressman Darrell Issa has another approach. And there are parts of both bills that I do not agree with, but also parts of the bills that I support or that overlap with some of the provisions in my own bill. Starting with this hearing, we need to focus on the areas of agreement and from there, with input from the Administration, from the key stakeholders, build a package that can prevent postal default and insolvency and set the Postal Service on the road towards stability and profitability.

In conclusion, Mr. Chairman, and Senator Collins, especially, let me just say this: The Postal Service is an enterprise. It is a business enterprise. It is an enterprise that has more people than it needs. It needs to reduce its head count. They have tried to do that humanely, and they would like to continue to do it humanely. We need to let them. We have more post offices than we need, and the key is not just closing post offices. The key is to try to provide better service to postal customers in communities across America by collocating the services in drug stores, supermarkets, department stores, and the like.

And, finally, they have more processing centers, probably twice the number of processing centers that they need around the country. They need to reduce the number of processing centers. And as they do those things, we need to get out of the way. There is not a bailout that is needed here, but in large part, what we need is to let the Postal Service act more like a business and then to come up with even more great ideas like flat-rate boxes and last-mile delivery, that kind of stuff. And if you do that, and if we do our job, I think the Postal Service is going to be here for a lot longer.

Thanks so much.

Chairman LIEBERMAN. Thanks, Senator Carper.

Postmaster General Donahoe, we will go to you first. I thank you for being here. It probably does not need to be said, but the fact is that you have made some tough proposals here, but I think everybody listening or in the room should know that you are not some sort of executive that was brought in from outside to coldly go through the post office. You have spent your whole career in the Postal Service, beginning as a clerk 35 years ago in Pittsburgh. Having had that experience, from my perspective, you remain remarkably youthful. Whether I can say that at the end of the next year or so remains to be seen. [Laughter.]

Anyway, thank you for being here, and we welcome your testimony now.

TESTIMONY OF HON. PATRICK R. DONAHOE,[1] POSTMASTER GENERAL AND CHIEF EXECUTIVE OFFICER, U.S. POSTAL SERVICE

Mr. DONAHOE. Mr. Chairman and Members of the Committee, good afternoon and thank you for scheduling this important hearing. I appreciate the opportunity to testify about the financial state of the Postal Service and about the proposals to improve its business model.

[1] The prepared statement of Mr. Donahoe appears in the Appendix on page 71.

America depends on a financially strong Postal Service. The Postal Service provides a vital national delivery platform that is part of the bedrock infrastructure of the American economy. It supports a $1 trillion mailing industry that employs over 8 million people. Every American residence and business depends on regular, secure, and available delivery of mail and packages. This will always be so, even in an increasingly digital age.

Nevertheless, the Postal Service is at the brink of default. Without the enactment of comprehensive legislation by September 30, the Postal Service will default on a mandated $5.5 billion payment to the Treasury to pre-fund retiree health benefits. Our situation is urgent. The congressional action is needed immediately to avoid this default.

Mr. Chairman, the Postal Service requires radical changes to its business model if it is to remain viable into the future. The Postal Service is in a crisis today because it operates with a restrictive business model. As a self-financing entity that depends on the sale of postage for its revenues, the Postal Service requires the ability to operate more as a business does. This applies to the way it provides products and services; allocates resources; configures its retail, delivery, and mail processing networks; and the way it manages its workforce. Unfortunately, the Postal Service today has a limited flexibility to respond to the changing marketplace.

Since 2008, the combination of weak economic conditions and divergence to electronic forms of communication have resulted in unprecedented declines in the use of First-Class Mail and a weakness in the use of standard mail. In response, we have reduced our annual costs by more than $12 billion and our workforce by 110,000 career employees in just the last 4 years. As impressive as these cost reductions have been, we must accelerate the pace of cost reduction over the next few years.

Based on current revenue estimates, the Postal Service must reduce its annual cost by $20 billion by the year 2015 to become profitable and to return to financial stability. Mr. Chairman, we do not have the flexibility in our business model to achieve these cost reductions. To do so requires the enactment of comprehensive, long-term legislation to provide us with needed flexibility. Short-term stop-gap measures will not help. Our long-term revenue picture dictates developing a long-term comprehensive approach. The health of the Postal Service and the mailing industry that we serve depends on it.

The Postal Service has made a number of policy proposals that merit consideration. These include: Giving the Postal Service the authority to determine its delivery frequency and transition to a national 5-day-a-week delivery schedule; allowing the Postal Service to restructure its health care system and make it independent of Federal programs and eliminate the mandatory annual $5.5 billion retiree health benefits payment with this action.

We need to accelerate workforce reduction by as many as 220,000 employees, and we are asking Congress to consider that reductions in bargaining unit employees be governed under the reduction-in-force provisions that are applicable to the Federal competitive service employees.

We are also seeking the authority to provide a defined contribution plan for new hires rather than today's defined benefit plan. We are seeking the return of $6.9 billion in Federal Employees Retirement System overpayments. That will help our cash situation. And we are also seeking to streamline postal governance models to speed pricing and product decisions.

We have advanced these and other proposals to provide the Congress with a range of legislative options, and we are also aggressively doing things that we can do within our own business model. Indeed, by 2015 we intend to capture more than $11 billion in additional cost reductions by optimizing our delivery network, our retail networks, reducing our mail processing footprint by more than 300 processing facilities, and by taking advantage of negotiated workforce flexibility. These are aggressive steps and they are necessary.

America deserves a financially strong and independent Postal Service that can meet the evolving mailing and shipping needs for generations to come. We require the flexibility to operate more as a private sector business would. This would enable the Postal Service to return to profitability and sound financial footing. This would also enable the Postal Service to properly fulfill its mission since the 1970s, which is to operate on a profit-and-loss basis and to function independently of all taxpayer support.

Let me conclude by acknowledging the great commitment and dedication of our employees. During these very difficult times, even as we have consolidated facilities and made substantial workforce reductions, they have delivered at record-high service performance levels.

Mr. Chairman, thank you again for giving us the opportunity to testify here today. I look forward to answering any questions that you might have of me. Thank you.

Chairman LIEBERMAN. Thank you, sir, for your testimony. We appreciate it.

We will go now to John Berry, who is the Director of the U.S. Office of Personnel Management, directly to testify to this subject matter as it relates to OPM, but insofar as he is able, to speak on behalf of the Administration as well.

TESTIMONY OF HON. JOHN BERRY,[1] DIRECTOR, U.S. OFFICE OF PERSONNEL MANAGEMENT

Mr. BERRY. Thank you, Mr. Chairman, for the opportunity to testify regarding the financial challenges facing the U.S. Postal Service.

I have met with the Postmaster General several times recently, and the Administration is committed to exploring ways that can be helpful to the Postal Service. Both the President and I know of the critical importance to our Nation's economy that the Postal Service provides, and we are grateful to the men and women of the Postal Service for the important work that they do for our country.

The President's fiscal year 2012 budget proposed ways to provide Postal Service financial relief, but since those proposals were offered, the financial situation of the Postal Service has deteriorated further. In response to this situation, the Administration plans to

[1] The prepared statement of Mr. Berry appears in the Appendix on page 87.

release a proposal in a few weeks that will ensure a sustainable future for the Postal Service. This proposal will be included as part of the broader $1.5 trillion deficit reduction package that the President has promised to submit to the Congress.

In the interim, the Administration supports delaying for 90 days the Postal Service's $5.5 billion pre-funding retirement health payment that is due on September 30. This will allow the Congress, the Postal Service, and the Administration the time to carefully work through the details of a proposal.

We believe that the Postal Service and its employees and retirees are well served by the existing health benefits program and the retirement system. The Postal Service proposes reducing costs by discontinuing participation in Federal health and retirement benefits. This is a very complex proposal, and it will require further study and analysis to determine if the Postal Service can achieve significant cost savings from these proposals. As such, the Administration does not have a formal position on this proposal at this time.

OPM expects that a withdrawal of the postal population would not have a significant impact on the Federal Employee Health Benefits Program (FEHBP) as a whole. In addition, the overall cost of the FEHBP program would be minimal and would not impact the integrity of our FEHBP program. However, it would have a significant impact on health plans with a large postal population such as Rural Letter Carriers or the American Postal Workers Union plans. If these plans chose not to participate in the FEHBP any longer, it could have a significant impact on the number of choices that are available to our enrollees and overall competition in the program.

The Postal Service's proposal to withdraw its annuitants and employees from CSRS and FERS would pose very significant challenges because Postal and non-Postal Service are integrated in the same retirement system. As such, many employees have creditable CSRS and/or FERS service both in Postal and non-Postal employment, and the Federal Government will have a legal obligation to pay those benefits. Any proposal to remove the postal population from Federal employment health and retirement systems, again, would be complex, and more analysis is required.

As I mentioned earlier, the President's budget proposes improving the Postal Service's financial condition by approximately $5 billion in both 2011 and 2012.

First, we do propose returning to the U.S. Postal Service its surplus in the FERS retirement fund, estimated by OPM now at $6.9 billion. The budget also proposes restructuring the specified retiree health benefits at an estimated cost savings of $4 billion in temporary relief in 2011. Additionally, the President's budget proposes streamlining FEHBP pharmacy purchasing benefits, and we believe this could save the Postal Service an additional $300 million over the next 5 years.

Last, I would like to address a number of reports questioning whether the Postal Service has overpaid its obligations into CSRS. Moreover, I would like to clarify that the term "overpayment" has been used by those who implied that there should be a change to the current allocation that is mandated in the law. OPM applies the method established in the current law for apportioning responsibility for CSRS costs between the Postal Service and the Treasury. After careful review by the Office of Personnel Management's General Counsel, our Inspector General, and our Board of Actuaries, they have all concluded that OPM does not have the administrative authority to make a reallocation of these CSRS costs based on the 2006 Postal Accountability and Enforcement Act. However, if Congress determines that another methodology is more appropriate and explicitly establishes another allocation method, I pledge that OPM will quickly and fully implement those changes.

We look forward to working with the Committee and the Postal Service to develop a solution to this problem and in addressing these fiscal challenges. Thank you for your time, and I will be glad to answer any questions.

Chairman LIEBERMAN. Thanks very much, Mr. Berry. I think you made some significant statements on behalf of the Administration, both in terms of a plan regarding the Postal Service coming forward in the next few weeks which will be submitted simultaneous with the recommendations of the President to the super committee, the Joint Special Committee of 12, and that if we give you the authority to return the money that the Postal Service believes is an overpayment to the CSRS fund, OPM will implement that rapidly. I appreciate that.

Next we are going to hear from Phillip Herr, who is the Director of Physical Infrastructure Issues at the Government Accountability Office (GAO), our independent watchdog/oversight group, but specifically here because under that general title he is GAO's expert on the Postal Service. Thank you for your testimony.

TESTIMONY OF PHILLIP R. HERR,[1] DIRECTOR, PHYSICAL INFRASTRUCTURE ISSUES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. HERR. Chairman Lieberman, Ranking Member Collins, and Members of the Committee, thank you for the opportunity to discuss the serious financial crisis facing the Postal Service.

As mail volume has declined, the Postal Service simply has not generated sufficient revenue to cover many of its obligations. Critical decisions by Congress, the Administration, and the Postal Service are needed to help put it on a path to financial solvency.

First, by most measures the Postal Service's financial condition is grim, as noted earlier, with a cumulative net loss of nearly $20 billion over the last 5 fiscal years, a projected net loss of about $9 billion this fiscal year, and reaching its $15 billion borrowing limit, while not making its mandated $5.5 billion retiree health benefits payment this year.

The Postal Service has released several proposals to address its problems. One proposal is to withdraw from the Federal Employee Health Benefits Program and create its own program using the $42.5 billion fund that has been set aside for future retirees' health benefits. This proposal should be carefully reviewed as it is not clear whether the Postal Service can achieve its planned cost savings or what the implications are for employees, future retirees, and the Federal budget.

[1] The prepared statement of Mr. Herr appears in the Appendix on page 94.

Currently, about 1.1 million postal employees and annuitants participate in the Federal Health Benefits Program, and 300,000 employees are eligible to retire over the next decade. This is a significant obligation. Several legislative proposals would defer pre-funding Postal Retiree Health Benefits Fund as a way of providing financial relief, as seen in Table 1 of my statement.[1] However, deferring payments increases the consequences should the Postal Service not be able to make future payments if its core business continues to decline as expected. This increases risk to the Federal Government, taxpayers, and possibly future retirees.

GAO believes it is important that the Postal Service continue to pre-fund its retiree health benefit obligations to the maximum extent that its finances permit. We acknowledge that this will be difficult until its business model is updated to reflect current realities, however.

Some key questions to consider regarding the proposal to create a separate Postal Health Benefits Program include: How will the Postal Service acquire the expertise needed to manage health benefit programs? What would be the budgetary impact of transferring $42.5 billion from the Treasury-held fund to a postal-administered program that, as proposed, could seek higher returns in the market with potential risks? Can savings realistically be expected from restructuring its health benefits program? Would such a change lower fees compared with those available through OPM? And if it defaults on funding or benefit payments to employees or retirees, or changes them significantly, as is possible, what would be the Federal Government's obligation to 1 million-plus beneficiaries?

The Postal Service has asked for legislation to access its FERS annuity surplus, estimated to be about $7 billion. What is discussed less often is that the Postal Service also has an unfunded CSRS liability estimated by OPM to be about $7 billion. In June 2011, the Postal Service stopped making its payments for the defined benefit portion of FERS, meaning that the FERS surplus has already been reduced by about $800 million.

The Postal Service has also proposed making new employees ineligible for a FERS annuity, raising the question of whether other options have been considered. For example, flexibilities within FERS now accommodate different accrual rates for certain employees.

The Postal Service also seeks to accelerate network and workforce downsizing. We agree that postal networks need to be realigned in light of decreased demand. Frankly, network realignment is overdue and necessary, whether or not actions are taken on the pension and health proposals. When fully implemented, the Postal Service estimates savings from the proposed changes could total $11 billion. Several key areas where savings are expected include: Saving $3 billion by reducing processing plants from 500 to under 200; $3 billion by reducing delivery from 6 to 5 days; reducing delivery costs by $2 billion through route consolidation; and saving $1.5 billion by selling postal services through private businesses and closing up to 12,000 post offices.

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[1] The table referenced by Mr. Herr appears in the Appendix on page 102.

Realigning the vast postal network will require tradeoffs, and the Postal Service has asked for legislation to eliminate the layoff provisions it has negotiated in collective bargaining so it can reduce its workforce by an additional 125,000 career positions. As Congress considers possible changes, some questions include: Is 6-day delivery still appropriate given the changed use of mail? What changes to delivery standards are needed to realize the cost savings derived from network optimization? Are statutory or regulatory changes needed to permit quickly restructuring postal operations while assuring appropriate oversight?

In closing, the stark reality is the Postal Service's business model, which until 2006 relied on continued growth in mail volume, is broken. The gap between its revenues and the expense of maintaining its network has become unsustainable. Difficult choices must now be made, and it is time to decide its future.

Chairman Lieberman, Ranking Member Collins, and Members of the Committee, this concludes my statement, and I am happy to answer questions. Thank you.

Chairman LIEBERMAN. Thanks, Mr. Herr. Unfortunately, I think you have summed up reality pretty well, that the business model which worked for a long, long time for the Postal Service is now broken, and we have to help the Postal Service fix it.

Mr. Levy, thanks for being here.

Mr. Levy is the Senior Vice President and Chief Actuary at The Segal Company, which has done some work that is relevant to our hearing today. Please proceed.

TESTIMONY OF THOMAS D. LEVY,[1] SENIOR VICE PRESIDENT AND CHIEF ACTUARY, THE SEGAL COMPANY

Mr. LEVY. Thank you, Mr. Lieberman. I was the principal author of Segal's 2010 "Report to the Postal Regulatory Commission on Civil Service Retirement System Cost and Benefit Allocation Principles," and I am here today with the encouragement of the Postal Regulatory Commission to discuss Segal's recommendations with respect to this important issue. And apropos of Mr. Berry's comment, let us make it clear. Our assignment was to look from the current point of view at what is fair and equitable, not whether OPM, in fact, implemented the 1974 legislation correctly. I have not heard anything in our studies to suggest that they have done otherwise. So we do not suggest overpayment in the sense of not following Congress' direction. To the extent that I may use that word or our report may, it is using a standard of "fair and equitable" in 2010–2011.

When the U.S. Postal Service was established as an autonomous Federal entity effective in 1971, an important issue was the allocation of Civil Service Retirement System costs between the Federal Government—for workers' service in the Post Office Department (POD)—and the USPS. OPM has consistently done this allocation in accordance with Public Law 93–349 in 1974. Essentially, that allocates to the Federal Government the cost of a frozen pension benefit for each worker as of June 30, 1971, based on service, rate of compensation, and the CSRS benefit formula at that time. The en-

[1] The prepared statement of Mr. Levy appears in the Appendix on page 113.

tire balance of that worker's pension, over and above that frozen amount, has been charged to USPS. Because the benefit design of CSRS has more generous benefits in the later years of a worker's career, and since the USPS was always the second employer, the benefit accrual charged to USPS for a year of service was usually higher than for POD service. Because the CSRS benefit is based on the high 3-year average salary for all years of service, POD or USPS, USPS was, in fact, paying for the impact of post-1971 salary increases on pre-1971 POD pension accruals. In a report for the USPS Office of the Inspector General dated January 11, 2010, actuaries for The Hay Group concluded that this allocation was inequitable in both respects. They estimated that an equitable allocation, accumulated with interest, would have resulted in the USPS' share of the CSRS assets being lower by $75 billion for past payments, with about $10 billion of savings anticipated in future years. USPS requested PRC's opinion on the fairness and equity of the OPM method. And, after taking competitive bids, The Segal Company was selected by PRC to analyze and make recommendations.

We met with the stakeholders and reviewed the actuarial and accounting standards, and we concluded that the most relevant benchmark was the accounting standard applicable to private companies. This was the only one that had as a primary objective the matching of revenues—in the Postal Service's case, selling postage—with the labor costs to produce those revenues. That was our assessment of the appropriate basis for evaluating the fairness of the CSRS cost allocation. The accounting standard provides clear and nondiscretionary direction. With regard to plans such as CSRS that provide non-uniform benefit accruals—in this case, higher accruals in the later years of employment—the expense charge requires following the plan's accrual formula, as OPM was doing. But it also requires that the cost allocation to a time period for a final average salary plan like CSRS must reflect the anticipated future salary at termination or retirement and may not be limited to the cost based on the compensation at the time the work is done. Reflecting future compensation increases in the POD allocation was not part of the OPM methodology.

Based on this analysis, we concluded that the preferred method to allocate CSRS benefits to the Federal Government was to reflect post-1971 salary increases with respect to pre-1971 service, but otherwise to follow OPM's methodology. We indicated that we did not believe that the omission of future salary increases with respect to POD service was fair and equitable. In effect, what that did was that gave the Federal Government a lower cost because of the establishment of USPS than it would have had had the POD continued to operate unchanged. And we did not see anything to suggest that one of the objectives of establishing the USPS was to reduce past postal pension costs. But that is, in fact, what the law, as OPM has applied it, has done.

We also noted that a pro rata reduction of benefit accruals that did not follow the CSRS accrual formula was within the range of fair and equitable alternatives, but it was not our preferred methodology. We did not do any calculations of our own, but roughly estimated that our recommended allocation would result in accumulated savings of $50 to $55 billion for past allocations compared to the OPM methodology, with an additional savings with respect to future payments of $6 to $8 billion.

Mr. Chairman, that completes my prepared testimony. I would be pleased to answer any questions.

Chairman LIEBERMAN. Thanks, Mr. Levy.

We will now go to questions, and let us do 6 minutes since there are a number of Senators here, and I want to give everybody a chance to question the witnesses.

Postmaster General Donahoe, you mentioned in your testimony that without some change, by the end of this month the Postal Service would have to default on that $5.5 billion payment to the health fund. Mr. Berry indicated that the Administration will seek legislation to delay that by 90 days. But assuming that is taken care of—well, let me ask the question another way. What I am really wondering is, if nothing happens, if you receive none of the relief that we are talking about providing, by what date do you think the Postal Service will not just have to default on that health payment but will begin to find it impossible to carry out its normal responsibilities, such as delivering the mail?

Mr. DONAHOE. Here is what we think, Mr. Chairman: Probably next August-September time frame. What we are looking at is even if we push the payment off for the 3-month time period, we have a payment for the Department of Labor (DOL) of $1.2 billion due in October.

Chairman LIEBERMAN. What is that?

Mr. DONAHOE. That is for workers' compensation.

Chairman LIEBERMAN. Workers' compensation, Department of Labor, right?

Mr. DONAHOE. We pay the Department of Labor $1.2 billion. Then we have a couple of payrolls in October, too. So we will be very close, even not paying the pre-payment of the $5.5 billion.

Now, over the course of the winter, if mail volume picks up, we will be able to pick up a little revenue there. But we think that by the August-September time frame next year, given no action, we will be out of cash to pay employees and to pay contractors.

Chairman LIEBERMAN. And if for some reason you do not get the 90-day delay on that $5.5 billion, what is the consequence of that?

Mr. DONAHOE. We are not going to be making that payment. If they delay it, it makes October a little bit more bearable.

Chairman LIEBERMAN. Right. So you are saying here—and I know you have said this before—that there is no way you will have the capacity to make the payment that is due by the end of this month.

Mr. DONAHOE. I will not.

Chairman LIEBERMAN. You have made what we have described as controversial proposals, reducing the deliveries to 5 days a week, closing over 3,000 post offices, reducing the number of distribution centers, and ultimately asking for authority for reductions in force comparable to what exists for other Federal employees up to 120,000, or you would probably use it for that. Help us understand the basis of those requests in this sense: Why are you confident that the result of those cutbacks will not lead to a further drop in business for the post office? In other words, why do you think those changes will not only save money but will really put the post office back on the road to being balanced fiscally or even slightly in surplus?

Mr. DONAHOE. Here is the way we look at this: There are two major things happening right now. One is the decline of First-Class Mail, and I think that we could cut the price in half and not be able to slow it down all that much.

Chairman LIEBERMAN. Well, that is really important. It is all the Internet, right? It is email?

Mr. DONAHOE. It is the technology. Sixty percent of Americans pay bills online today. That is not going to change. That will continue to move in that direction. As a matter of fact, what we are seeing now are a number of companies requesting payments to have a hard-copy statement mailed to one's house.

Chairman LIEBERMAN. That is right.

Mr. DONAHOE. And banks are now starting to charge for checks. You get five checks for free. After that you have to pay. So all of these things will continue to push the First-Class Mail volume down. So we think that is something that we will try to slow, but it is going to continue.

Where we see our business strength going forward is in two direct areas. One is standard mail. We had the drop-off with the economy, but standard mail has leveled off pretty well. And I will tell you, standard mail for the most part is an excellent investment——

Chairman LIEBERMAN. Define standard mail for us.

Mr. DONAHOE. Advertising mail.

Chairman LIEBERMAN. Right.

Mr. DONAHOE. What happens is companies tell us over and over again that they get the best return on investment because it gets in front of a customer's eyes, unlike the Internet, unlike even radio or TV. When it gets in your mailbox, a customer sees it. So we think there is strength in there, as long as we can keep the price relevant. We cannot let the price get too high.

The second thing we know we have strength in is the package business. With e-commerce, we are seeing in our Parcel Select—which is the offering that we make along with FedEx and the United Parcel Service (UPS). We are like the final mile for them.

Chairman LIEBERMAN. You are doing the last mile for FedEx and UPS.

Mr. DONAHOE. We see double-digit increases over the last few years, and we will continue to see that. Our infrastructure is great. Our people do a great job. It is very affordable. So we will see nice growth there.

The third area that we think we will see some growth is potentially in the digital area, and that whole area is open for the Postal Service. We are not talking so much about bill payment as you see being done for free today, but we think there are some opportunities to provide secure digital messaging. It is not going to make up for the First-Class difference, but those are three areas.

So given that, we have plotted out volumes and revenues over the next 10 years. We are using that revenue line as a governor of our business. We do not want taxpayer money. We have to get our finances in order to provide good, dependable service. I think if we provide good, dependable service, which we have an excellent history of doing, on standard mail, on remaining First-Class Mail, and on packages, our business will be fine. We will not have people moving away from us just on account of these changes that we are making.

Chairman LIEBERMAN. Thanks. My time is up. Senator Collins.

Senator COLLINS. Thank you, Mr. Chairman.

Mr. Berry, the failure of the Postal Service would be devastating to our economy. I see you are nodding in agreement. It would pose a threat to the jobs of millions of Americans. Today you have heard the Postmaster General describe a crisis. He says that the Postal Service is on the brink of default, a year from now will not be able to meet its payroll and carry out its operations. Yet this afternoon, you come to us and tell us that the Administration does not yet have a plan. You have opposed several of the fundamental reforms that the Postmaster General has put forth as far as a separate retirement system and changing to a defined contribution system. You have asked for more time to study it. You have asked for a 90-day delay in the $5.5 billion. You have not mentioned your position on relief from the no-layoff provisions that are in the union contracts. You really have not come forth with a plan other than to take a position in opposition to the repayment of the $55 billion to the CSRS system that our actuary here has described.

I just do not understand why the Administration does not have a concrete plan to put before us today given the dire straits that we are in. Senator Carper and I have had bills out there for many months. They are not perfect, and, frankly, I think they have been overtaken by the rapidly deteriorating crisis that we face. But why doesn't the Administration have a plan for us today?

Mr. BERRY. Senator, first, there will be a plan, as I testified. The White House will have that submitted with the deficit reduction package within the next few weeks, and the President will meet his promise to give that to the Congress.

Also, I just want to correct—the Administration has not taken a position on the Postal Service's proposal on withdrawal from FEHBP or the retirement systems. So I am not here in opposition to those.

Senator COLLINS. But you are not supporting it either.

Mr. BERRY. Well, all I did was explain that it will require further study, but there is no formal Administration position of opposition, so I want to be clear on that point.

The other is something we are supporting, and it is in the President's budget, and I think it is reflected in a number of the pieces of legislation, and that is the surplus payment in the FERS retirement fund of what we estimate to be the $6.9 billion. And the Administration does support returning that to the Postal Service. It will require legislation to do that, but we are supportive of that relief. And I think that will go a long way in terms of helping some of the challenge that I know you all are wrestling with that we want to help.

Senator COLLINS. But, Mr. Berry, that $6.9 billion pales in comparison to the $55 billion that Mr. Levy described, and you said that you do not have the authority. I have gone back and forth with OPM on this. I wrote the provision of the 2006 act that gives you the authority in Section 802(c)(2). It says that the Postal Regulatory Commission can hire an actuary—that is what they did—to take a look at it, and it gives you complete authority to then change the formula.

So I just do not understand why the Administration continues to say that it does not have the authority.

Mr. BERRY. Senator, I am not an attorney, and I have to defer to my General Counsel, my Inspector General, and my Board of Actuaries. And in their reading of the law—and I know there is a disagreement in this. But with due respect, they advise me I do not have the authority to determine fair and equitable, as Mr. Levy testified. That authority rests with you and you alone, with the Congress.

I am not here testifying against the Segal report. In fact, we find a lot of value in the Segal report and believe it might be a good basis for the Committee, for the Postal Service, and for us to have our actuaries and staff to work with you to help determine what is fair and equitable. But the Congress needs to set that in the law, and that is where I am stuck.

Senator COLLINS. Mr. Postmaster General, my time is expiring rapidly, but you did not mention the need for reforms in the workers' compensation program. This is an enormous expense. It is supposed to be a safety net for workers who are temporarily out of work, and yet the Postal Service, as the IG has pointed out, has something like 2,000 individuals over age 70 who are receiving workers' comp. Mr. Postmaster General, those people are not coming back to work.

Mr. DONAHOE. We agree with you 100 percent. We need reform with workers' compensation. The proposals that you put forth make a tremendous amount of sense to us. We would like to have that included in comprehensive legislation going forward.

Senator COLLINS. Thank you.

Chairman LIEBERMAN. Thanks, Senator Collins.

For the information of Members, according to our normal custom of calling on Members who arrived before the gavel in order of seniority and after the gavel in order of appearance, if they are here, we will call on Senators Akaka, Moran, Begich, Pryor, Carper, Coburn, Brown, and McCaskill.

Senator Akaka is not here, Senator Moran is not here, so we go to Senator Begich.

OPENING STATEMENT OF SENATOR BEGICH

Senator BEGICH. Thank you very much, Mr. Chairman.

If I can follow up, Mr. Berry, I understand the $6.9 billion, you do not question that. You want to give it to the post office, sooner than later. We all agree on that. The $50 billion, give or take, do you agree on that number? Because I understand you have the process all convoluted between both sides here. So do you agree on the number?

Mr. BERRY. We would need to get the actuaries of all of the parties in a room together to narrow down the exact number.

Senator BEGICH. But you said you had actuarials do the work.

Mr. BERRY. We are following the law because that is what has driven our interpretation, applying the standard of the law. The law has us do this on an annual basis and not look forward in terms of the issues that you heard Mr. Levy discuss on fair and equitable.

Senator BEGICH. So let me try it again. The work that your actuaries did, did they indicate any overage payment, any payment above—$1 million, $10 million, $30 billion, $50 billion, any number?

Mr. BERRY. We would agree there are many ways to accomplish the goal of a fair and equitable——

Senator BEGICH. That is not the question I asked you. Let me ask you this. Can you provide to us the study that your actuaries did in regards to this issue?

Mr. BERRY. Absolutely.

Senator BEGICH. I know we received a letter from you about your legal interpretation, from your counsel to you to then us, but I would like the legal analysis that was given to you.

Mr. BERRY. Absolutely.

Senator BEGICH. So we will get the actuary's documentation which will show how they did their analysis on this question of the money—not the process, on do they believe or not. Are we clear on that?

Mr. BERRY. Yes. And, Senator, if I could, because I am not trying to avoid your question—when you look into the future, you have to make certain assumptions.

Senator BEGICH. I understand.

Mr. BERRY. On inflation rates, on morality rates, on the difference between genders—all of these other things that need to be accounted by actuarial, and that is where——

Senator BEGICH. I understand that part. I will tell you, as a former mayor I had to revamp several retirement programs—police, fire, our whole system, all of it. So I just want to make sure I understand you will have a basis of assumptions that will differ from the union's assumptions, everybody's assumptions. But I want to see if there is a number and how you got there.

Mr. BERRY. Absolutely.

Senator BEGICH. Then we can argue over assumptions—inflation rates, return on investment, all that stuff.

Mr. BERRY. And knowing of the importance of this—and with Senator Collins, the Chairman, and the whole Committee—and appreciating the criticality of this issue, I can pledge to you our actuaries stand ready to be here to help inform your judgment on what is fair and equitable.

Senator BEGICH. Great. I will tell you, in all my years of having to deal with this issue from a smaller perspective, still in the hundreds of millions of dollars, it took many years to resolve these issues between the unions and the individuals as well as the retirees who were out of the system because there was no group representing them. The list goes on and on. So I am very familiar with how this works. I just want to see your assumptions.

Mr. Levy, were you about to say something in regards to this, also?

Mr. LEVY. Yes, I just wanted to make a quick comment. The $50 billion to $55 billion relates entirely to past payments. It has no actuarial assumptions. It is the $6 billion to $8 billion for the future that has actuarial assumptions involved.

Senator BEGICH. Well, do you want to respond to that? Because what I care about, the $6.9 billion, no one disagrees with that. Right? You are just going to pay it at some point if we give authorization. What I am interested in is the $50 billion.

Mr. BERRY. The $50 billion number, in 2003 you all determined on past behavior——

Senator BEGICH. I was not here. [Laughter.]

Mr. BERRY. But there was a determination by the Congress—Senator Collins was here then—that there was an overpayment of $73 billion. You directed us to pay it, and we paid it back.

In 2006, you did the exact same with military service credit, a $28 billion credit, and it was a determination of the Congress that it would be fair and equitable to have that paid by the Treasury, not the Postal Service. It is reasonable that the Congress might decide in this circumstance that a fair and equitable solution would require a new determination of that number, and if it determines it, we will quickly implement it and pay it.

Senator BEGICH. Mr. Donahoe, let me ask you, if I can, in regard to eliminating Saturday service, as you know, we have sent you a letter. We are concerned about this for a variety of reasons, the rural component but also as a small business person, how it will impact a small business owner who really depends on as much delivery time as possible. They are not corporate. They do not have mail runners to go package up their stuff and ship it over to the post office. The owner has to do it, and they have to go do it, and small businesses depend on delivery as well as making sure that they get their mail coming in for supplies and what-not.

How do you respond to that small business owner—and I am talking small, 15 and under employees, not 200 employees, not as the Small Business Administration (SBA) defines it.

Mr. DONAHOE. Again, as we have looked at what would be the best day, if any, to eliminate delivery, Saturday is it. Generally the volume is about 10, 15 percent lower on Saturday than the rest of the week. We will keep post offices open on Saturday so people would have access to our 30,000-plus post offices.

Senator BEGICH. For shipping packages and so forth.

Mr. DONAHOE. Bring them in and ship them, right. And we would be able to provide that service.

Now, we will not be running what we call outgoing mail that night, so that mail would go out on Monday. But they would have the access to our services.

Senator BEGICH. My time has expired, but I have several other questions. I will just submit them for the record and then go from there. Thank you very much.

Chairman LIEBERMAN. Thanks, Senator Begich.

Previously, somebody mentioned a $3 billion figure of savings annually for eliminating Saturday delivery. Is that your number also?

Mr. DONAHOE. That is our number, Mr. Chairman, yes.

Chairman LIEBERMAN. Next, Senator Pryor.

OPENING STATEMENT OF SENATOR PRYOR

Senator PRYOR. Thank you, Mr. Chairman.

Mr. Donahoe, let me start with you, if I may, with some questions about the Federal Employee Health Benefit Plan. I am curious about what you think you could save if you left the FEHBP and went to something else. You probably covered some of this in your opening statement, but tell the Committee once again about how much you think you could save.

Mr. DONAHOE. Here is what we did, Senator: We have been frustrated at the inability to resolve this retiree health benefit payment going forward. Truthfully, like I said in my opening statement, any other company would have been bankrupt. So what we have done is we have gone back and taken a different look. What we did was we sat down and thought, well, rather than arguing about whether or not we can get the money back from the OPM, we will present a different approach. That approach was: How do you eliminate the need for pre-payment by changing the costs in your health benefit program? So we looked at what any other company would do, and this is the way it breaks down.

First, we think with 1 million people in that plan we could pull costs down, our experts have told us, somewhere between 8 and 10 percent. I will write a check this year for $7.2 billion for health care without the pre-funding money. With the pre-funding money, it is almost $13 billion. So you pull the cost down 8 to 10 percent.

The second thing is Medicare. We are one of the largest contributors to Medicare in this country. We do not require our people to use Medicare A nor B. We have about an 80-percent usage for Medicare A, about 75 percent for B. We know that current retirees and future retirees using Medicare will pull those numbers down to the tune of around $20 billion over the course of time.

The third part of our proposal is changing the way that we provide health benefits to current retirees. We would not take anything away from current retirees, but we would freeze them at a certain level, and we would increase the money going to them to pay retiree health benefits based on the costs for our plan. So we would have very good control over it.

The fourth thing would be for people like me, capped payments going forward, so when I retire I will not have that same percentage that you see in the Federal Government, the 72 percent. It might be 60 percent, it might be 55 percent. The way we have worked through this, we have been able to completely eliminate the need for pre-funding—it is about $46 billion—and at the same time pull our overall cost down.

Senator PRYOR. But as I understand your proposal, you would actually leave the FEHBP?

Mr. DONAHOE. That is our proposal.

Senator PRYOR. And do you know what impact that would have on the rest of the FEHBP?

Mr. DONAHOE. I would have to leave that up to Mr. Berry.

Senator PRYOR. Do you know, Mr. Berry?

Mr. BERRY. Yes, Senator. I testified that in terms of dollar impact it would not be significant.

Senator PRYOR. And what about on Medicare? Tell me, Mr. Donahoe, again about the impact you think you would have on Medicare.

Mr. DONAHOE. We will add about $1.1 billion to the Medicare fund this year. We have spent, since 1985, about $24 billion. We know it will increase Medicare, but it is our feeling that we are paying into Medicare now and we should have full benefits of it.

Senator PRYOR. OK. And let me ask about workers' compensation. I think that is an important issue that sometimes gets overlooked. Do you have some ideas on workers' compensation reform?

Mr. DONAHOE. We are in agreement with what is being proposed by Senator Collins. We would also like to explore what a lot of the States do. If you compare us to FedEx or UPS, we are very proud of the fact that over the last 10 years we have improved our safety rates. We are the No. 1 voluntary protection plan by the Occupational Safety and Health Administration (OSHA) as far as we have had more of our facilities certified, and our accident rates have gone down. The problem is our costs have continued to go up. So we need some way to control those costs. But Senator Collins' proposal would be very helpful. We would like to be able to take a wide look, just like we have been looking at the health care. How does the private sector do it? That is the way we would like to do it.

Senator PRYOR. My one bit of warning there would be that you have to always remember when you are doing workers' compensation reform, which States and the Federal Government should do from time to time, that the goal of workers' compensation is to compensate injured workers.

Mr. DONAHOE. Absolutely.

Senator PRYOR. And sometimes in an effort to try to find a lot of savings, the workers can get left out.

Mr. DONAHOE. Key for us is safety. Improve the accident rates, improve the ergonomics, do the right thing. That reduces the accidents, and then hopefully we will have fewer people that would ever have to go on workers' compensation.

Senator PRYOR. And it sounds like you have had a fair amount of success in reducing your accident rate.

Mr. DONAHOE. Yes, I think we have done a great job, we have a lot of good programs, and we are very proud of that fact. And I think from an employee standpoint, it is a great thing. When you have a person come to work every day, you want them to go home to their family healthy every day.

Senator PRYOR. Mr. Donahoe, I know that we have been going through this in Congress, looking at how to find savings and how to cut our spending, and part of this is to make sure that every single thing is on the table, that there are no sacred cows. Senator Coburn has been very adamant about this, as well as Senator McCaskill.

Mr. DONAHOE. Yes, sir.

Senator PRYOR. And from your standpoint, is everything on the table?

Mr. DONAHOE. Everything is on the table.

Senator PRYOR. Including executive items as well as facilities, vehicles, and so forth?

Mr. DONAHOE. We are going to be implementing reductions in health care contributions for our executives. We will be at the Federal rate in 3 years, 10 percent a year, and that was one of the recommendations made where we could cut executive pay.

Senator PRYOR. And I know that there was a news story about relocation expenses for employees. Have you taken care of that?

Mr. DONAHOE. Yes, sir.

Senator PRYOR. Thank you, Mr. Chairman.

Chairman LIEBERMAN. Thank you, Senator Pryor.

Now we will go to Senator Carper and then Senator Coburn—unless Senator Carper would like to yield.

Senator CARPER. I would be happy to yield. We are probably going to ask some of the same questions. Do you want to go ahead?

Senator COBURN. That is all right. I will submit my——

Senator CARPER. No, go ahead, Senator Coburn.

Chairman LIEBERMAN. Please, go ahead. I know Senator Carper is in this for the long haul. [Laughter.]

OPENING STATEMENT OF SENATOR COBURN

Senator COBURN. "Haul" is the operative word.

Some things that I have heard today I just want to put back: Restricted business model. I sit here and think about we are talking about actuarial changes of $55 billion over 40 years. How did it take us 40 years to figure out we were $55 billion off in terms of what was compensated? The absolute stupidity of Congress and what we have done to the Postal Service is just totally amazing to me.

The other thing that I have heard today—and I have had this discussion with every Postmaster General since I have been in Congress—is the revenue estimates. The revenue estimates we have for 2020 are absolutely an exaggeration. That means 400 First-Class pieces of mail 9 years from now will go to every household in this country. I do not believe it. I do not believe it is half that. So unless you are going to double the rate on First-Class Mail, the revenue estimates are totally bogus. And every revenue estimate that I have heard over the last 12 years has been bogus coming from the Postal Service.

And so we are sitting here working with numbers of 39 billion pieces of First-Class Mail and I would bet you $1,000 right now, Mr. Postmaster General, that it will not be half that 9 years from now with the technological changes that are coming. And unless we anticipate, we are going to be here 6 years from now doing the same thing again.

The third point that I would raise is standard mail and parcel service is important to your business, and I know you are worried about the impact of pricing on that business. But the realization is First-Class Mail is going away. And unless the business model adapts to that, it does not matter what we do in either Senator Collins' or Senator Carper's bills, it is going to be a short-term fix, it is going to be short-lived. And so I would just caution us to challenge the assumptions that are being made, like Mr. Herr did, and when we think we have figured it out, then go two or three measurements again before we cut to make sure that we are not like we were in 2006.

And I will remind my colleagues, in 2006 I predicted we would be back here. I actually voted against the postal reform bill because we did not fix what we knew were the problems. As a matter of fact, GAO said we did not at the time. And so here we sit 5 years later not having fixed the problem because we did not measure three times and then cut.

I am not blaming anybody for that. It is because the assumptions changed, because the scenarios that we laid out were too rosy. We fixed a lot of things, and things would have been much worse had we not done it, but now we find ourselves here again. And so just as you said, taking the economy out of the equation, First-Class Mail is going to go away, anyway, regardless of the recession. It is the technological changes.

So I would just caution us. I think we are going to come together with great bipartisan agreement on how we offer the things that are needed. I do not see a partisan issue in front of us. But I think we certainly need to think way down the road, and we certainly need to provide the Postal Service with the effective means of running a business that allows them to make changes based on dynamic changes that they are going to experience in their business. And if we do not do that, we will not have fixed the problem.

With that, I will yield and will submit questions for the record.

Chairman LIEBERMAN. Thank you, Senator Coburn. Senator Carper.

Senator CARPER. One of the great inhibitors to economic growth in our country today is the lack of certainty and predictability. A great deal of uncertainty.

A couple of years ago, when a lot of folks thought the auto companies—Ford, Chrysler, and General Motors (GM)—were going to go out of business, people stopped buying cars. At least they stopped buying their cars. And the first question I would ask, Mr. Postmaster General, is: Given the kind of uncertainty and unpredictability about whether the Postal Service is going to be around a year from now or even 3 or 4 months from now, what kind of impact do you think that lack of certainty and predictability is having on your business and the ability to book more business or new business?

Mr. DONAHOE. I think that uncertainty has a tremendous impact. Just this weekend I got an email from my chief marketing officer, and he was asking about a couple of customers who were worried about doing business with us in the small package area. And I told him, "I will call these two companies and reassure them myself that we will be OK." Your point is absolutely critical. We have to get stability in our systems, and we have to address these issues long term.

To Senator Coburn's point, I agree 100 percent. This cannot be a short-term fix. We have to not only look at revenue through 2020; we have to look at revenue out beyond that and make sure that from a Postal Service standpoint we resolve this issue now and give the Postal Service the business flexibility to manage going out into the future.

Senator CARPER. I would just say to my colleagues, what we need here is not more process; what we need here is not to deal just with the symptoms of the problem. What we need to do is solve the problem. And as dire as this situation is, I certainly believe that this is not a hopeless situation. This is a problem that can be fixed, and there is certainty that can be provided, to some extent by you and the folks who work with you at the Postal Service, but maybe to a great extent by the Congress and the Administration, and working with you and with the other stakeholders.

I am going to go back and talk about the auto industry just for a moment and maybe use some comparisons. It is not a perfect comparison, but there are some points that are relevant.

One, the auto industry 2 or 3 years ago had more workers than they needed given the demand for their product.

Two, the wage/benefit structure for the folks that were working for them was really too rich, too high.

And, three, they had more plants than were needed.

You know, a lot of people think we gave a Federal bailout to the auto industry. Actually, as taxpayers, we are getting back just about every dime that we invested in Chrysler and GM, maybe even with a profit. We are not talking about a bailout here of the Postal Service. What we are talking about is whether or not the Postal Service is going to have access to $50 billion or $60 billion that it appears to have overpaid into the Civil Service Retirement System and into the Federal Employees Retirement System. It is not a bailout.

Should the Postal Service have access to that money? This is money which a lot of people, including some very smart people from Segal and the Hay Group, believe, arguably, could be drawn back and returned to the Postal Service, allowing the Postal Service to pay down their very conservative retirement schedule for retiree benefits. Very conservative approach.

I have said this before. Just like there are three things the auto industry needed to do, there are three things that the Postal Service needs to do. Are we going to let them? And I am not interested in laying off tens of thousands or 100,000-plus postal employees. But you have reduced your workforce, your head count, by about a quarter over the last 6 or 7 years. That is a lot of people. It is 200,000 or so people, roughly. You have about another 100,000 folks that will probably leave through attrition, for the most part people who retire and just say, "That is enough. I am ready to go on with my life." And you have about 120,000 or so people who, if incentivized, if encouraged to retire, would actually retire.

Are we going to make sure that you have the resources that you need? You do not have the cash right now to incentivize those people. But if you just run the numbers, think about this, for what it would cost to incentivize 120,000 people to retire, we could probably look at the auto industry, and they actually had a lot more people who took early retirement than they expected. They met their quotas a lot more easily than was expected. But if you offer retirees $20,000—maybe $10,000 over a 2-year, 3-year period of time—to take early retirement, if they are eligible for retirement, how much would that cost? If you are trying to get 120,000 people to take early retirement, that works out to about $2.4 billion. The overpayment to FERS is about $7 billion. So what we are talking about is using one-third of the overpayment to the Federal Employees Retirement System that would enable you, arguably, to reduce your head count by another 120,000 people beyond the 100,000 that are going to attrition. And that would bring your head count down to—if I am not mistaken here, closer to 400,000 people. And my sense is that would probably enable you to be an ongoing enterprise, much as the auto industry is going forward.

The other thing the auto industry has done is put on their thinking caps. They figured out how to innovate, how to come up with great-looking vehicles, energy efficient vehicles, and electronically just much smarter vehicles. One of your points, your last point, I think, in your testimony, where you talked about how to use digital approach. You were talking about digital and things that would enable you to actually capture some new business.

My friend, Senator Coburn, who is gone, talks about First-Class Mail going away, and it is, and it will probably continue to do so. Are we smart enough at the Postal Service to come up with new products or innovations? And are we smart enough in the Congress to let them market those and use them when they come to work?

Let me ask our friends from GAO, if I can. The people from The Segal Company also have been drawn into this, and, Mr. Levy, thank you very much for coming today. I am glad you were able to come on very short notice. When I was governor and treasurer of Delaware, we used The Segal Company a lot. Great outfit, and thank you for that service, and for this service as well.

Mr. LEVY. Thank you. I was actually in charge of it at that time for the State.

Senator CARPER. Thank you. We used the Hay Group a lot in helping us with a lot of our personnel issues in the State of Delaware, too, and obviously they are one of the other companies along with Segal.

So here we have two independent sources, I think both highly regarded, Segal and Hay Group, and we have the Inspector General, I think, from within OPM who has a different view of has there been this overpayment. Senator Collins and colleagues, we have not asked GAO. Would you take a look at this? Or would you take a look at the work that Segal and the Hay Group has done, or the work that has been done by the auditors from within OPM? Is that the kind of thing that you would be willing to do?

Mr. HERR. We would be happy to work with the Committee and the staff on that question.

Senator CARPER. That is an offer we might want to take advantage of.

Mr. Berry, have you had any opportunity to meet with the folks from Segal and the folks from Hay Group to understand what their assumptions are?

Mr. BERRY. I know our staff has, and there has been a lot of great communication not only with them but the other studies that have been done. But, again, we would welcome GAO's participation in this and with the Committee staff in helping the Committee to decide what that fair and equitable standard should be.

Senator CARPER. All right. Mr. Postmaster General—how am I doing on time? I am over. Let me stop and say thanks so much for giving me a few extra seconds here. Thank you. And thanks for your responses.

Chairman LIEBERMAN. Thank you, Senator Carper. Senator McCaskill.

OPENING STATEMENT OF SENATOR MCCASKILL

Senator MCCASKILL. Thank you.

Mr. Donahoe, we are in the middle of hearings in Missouri on the 167 post office closings that are being proposed in my State. Eighty-five percent of those are in counties of less than 50,000 residents. I spent a lot of time in my State going around outside of the urban areas over the last month, and I guess I am most worried about the transparency of the process. The last time that you testified before us, Senator Pryor asked a question. To my knowledge, that question has not yet been fully answered. Have there been times that places have been removed from the list following public hearing and comment? Has the public hearing and the comment process ever had any impact on the decisions, the initial decisions to close?

Mr. DONAHOE. I am sure that there have been cases, but I will double-check and get back to you.

Senator MCCASKILL. If you would, get back to us on that.

Mr. DONAHOE. Absolutely.

Senator MCCASKILL. I want to make sure that this is not just a dog-and-pony show for these folks. Some of their hearts are breaking over this, that their post offices are going away, and I want to make sure this process is fair and transparent.

The other thing I want to talk about is 5-day delivery. First of all, we have received several numbers about the savings. As you know, there has not been a consistent number. You quote one number, but the Postal Regulatory Commission said it was half that. And I am somebody who is worried about the death spiral of a 5-day delivery. It is a marketing advantage that the Postal Service has, 6-day delivery, and it seems to me that we ought to be focusing on how to take better advantage of that marketing advantage, that niche we have in the market that no one else has. That Saturday delivery is something that nobody else can offer up.

Have you consulted with the newspaper and magazine folks about the impact that 5-day delivery will have on their business models?

Mr. DONAHOE. Yes, we have spoken to both newspaper and magazine industry representatives. There is some concern on their part, especially smaller-town newspapers that have Saturday delivery, generally one day a week.

Senator MCCASKILL. The other thing is—and I know this may sound corny and naive and Pollyanna-ish and all of that, but I had the opportunity not too long ago to go through a box of letters that my mother had from my grandmother's house that were my letters I sent to her in college. And as we went through these letters, I remembered how many times in history courses I had taken that gaps in history were filled in with letters. We have a lot of best-selling books out there that are just letters between everything from our Founding Fathers to soldiers on the battlefield. And I am not sure that there has been a marketing campaign about the value of a written letter and what it means, how it is preserved, and what it means to families. My kids are in college now. I do not have a box like that. In fact, I had to impose a rule: You cannot get money by text message. [Laughter.]

Mr. DONAHOE. Make sure they write for that.

Senator McCASKILL. We were not even having conversations. I was getting like this gibberish spelling, "Need money 2day." You know, it is ridiculous. So I really think that there is a longing out there right now, especially in these uncertain times, for some of the things that have provided stability over the years. And just as we have this place in our hearts about the reliability of the Postal Service, there is also something special about that piece of First-Class Mail, knowing that it has come from somebody you care about, knowing that it is bringing you news. And I think that while you guys have done a great job with your flat-rate delivery—I mean, I am sick of that guy. [Laughter.]

Mr. DONAHOE. We like him.

Senator McCASKILL. "One price, one price, one price." I think it has worked.

Mr. DONAHOE. "If it fits, it ships."

Senator McCASKILL. And has your business model shown that it has worked?

Mr. DONAHOE. Absolutely.

Senator McCASKILL. And have you not really increased the amount of packages that you guys are handling on that one price?

Mr. DONAHOE. Absolutely.

Senator McCASKILL. So I really believe that if somebody would begin to market the value of sending a written letter to someone you love, you might be surprised what it could do for your Christmas season. I know the cards are going to help. Christmas cards are still part of our culture in this country that we all value. But I really think to give up—I disagree with Dr. Coburn. I do not think we should give up on the notion that we are going to sit down, write a letter, and put in it thoughts, prayers, and hopes for somebody we care about and that we are going to just be electronic from here on out. I just refuse to let go of that, and I do not want you to let go of it. And I think if you do that, you might be surprised by how you could stabilize some First-Class Mail. It is more than bill paying.

Mr. DONAHOE. Absolutely. We agree 100 percent. Let me just say, moving away from any of the traditions that we have, the 6-day delivery, the small post office, these are all terribly hard decisions because we do, we touch American lives every day, 6 days a week. We have programs. "We Deliver" is one that we run in schools where we try to teach the kids how to write letters. It has been successful, but it is something we have to keep pushing on because a lot of times schools are interested in teaching kids computer skills versus writing skills. But I will take that under advisement and continue to push on that.

One other thing, we will be advertising mail this fall. We are going to put some advertisements on TV talking about the value of mail, the physical connection, the fact that somebody comes to see you every day and there is a lot of value in that.

The unfortunate thing we do face, though, is just the technology behind the bill payment and bill presentment. First-Class Mail pays so much of our overhead. It pays so much of what we do every day. And I think if we do not look at all these changes, we will never be able to recover financially.

Senator MCCASKILL. And I get that, and I know we have to make some painful decisions here, and I understand that. I just think it is very important that we continue to look at the processing network and maybe moving to the curbside or cluster box delivery. I mean, that is a huge amount of savings that has been estimated also.

Mr. DONAHOE. We agree.

Senator MCCASKILL. I would rather eliminate everything we can that is realistic before we get at the essence of the 6-day delivery, and I feel strongly about that. I know others disagree, but I wanted to go on record that I feel strongly about 6-day delivery.

Mr. DONAHOE. Thank you.

Senator MCCASKILL. Thank you, Mr. Postmaster .

Chairman LIEBERMAN. Thanks, Senator McCaskill. We are open to all suggestions, and yours is wonderful. We should be writing more passionate letters to those we love.

Senator MCCASKILL. Maybe we could get them done around here. Speaker John Boehner—— [Laughter.]

Chairman LIEBERMAN. I was going to suggest you should take a first step and send one to Senator Brown. Then you could move to Speaker Boehner.

Senator MCCASKILL. I think Speaker Boehner knows how I feel about—— [Laughter.]

Chairman LIEBERMAN. I think he probably does. Senator Brown.

OPENING STATEMENT OF SENATOR BROWN

Senator BROWN. Well, thank you, Mr. Chairman, and I do have great respect for Senator McCaskill. [Laughter.]

Just so you know, that was meant to be positive, actually. We had a great time last Congress in our Subcommittee. The Arlington National Cemetery bill was something we worked on and I have great admiration for your efforts there.

I do not know if it was mentioned—I have been wrapping up some meetings in my office, but I think it is important to thank the dedicated postal employees for the work that they do every day. They seem to be getting a little bit lost in this whole mess. I think it is important to note that we have a lot of hard-working people. In my home town of Wrentham, Massachusetts, I know every person there. I have known them for 22 or 23 years. I have been to many retirements. I have been to other communities and seen new postmasters coming in. They are so thrilled to go up through the chain and ultimately be the head of something very special. I do not want that lost in everything we are trying to do.

I understand the challenges. Everybody here that is involved in this, we have met in my office about the very real fiscal challenges, and it is unfortunate. It is kind of sad, and I feel a little bit melancholy in that we have an institution like the Postal Service going through these changes. But here we are.

And that being said, I am wondering, Mr. Donahoe, if the 2015 deadline that you have given yourself to make a lot of these changes is too ambitious or you feel it is just about right. And what type of pushback do you think you will be getting along the way?

Mr. DONAHOE. Well, first of all, let me just comment on your statements about our employees. They do a great job. If people would have looked just in the past couple of weeks with Hurricane Irene—Irene came through and we had people the next day in offices with no power making sure the mail got delivered and processed. They did it through the winter in a bad winter this year. So I appreciate your comments, and it is something we take very seriously.

From a standpoint of our plan, we have laid out a plan that includes changes, both operational changes as well as some changes in compensation and benefits. It is an aggressive plan. What we are looking at, Senator, is trying to get profitable by 2013. When I say "profitable," it may be by $1 billion, maybe by $2 billion, but what that does is that allows us to start paying debt down and allows us to eventually get in a position where we'll be able to make some very important investments. I need to do something about vehicles. The last time I was here I told you that, and there are some other investments we need to make.

But probably more importantly than that is the fact that we want to stabilize our finances. A good, stable Postal Service, as I testified earlier, is critical for the American economy. It is critical for the way people feel about the Postal Service. Every quarter I have to report losses, and every quarter I go through the same discussion. They cannot get their head above water; they are antiquated; they have bad management; the employees do not do a good job. None of that helps because it potentially scares business away.

So I am very focused on getting profitable, getting these changes made in our networks, getting changes made in our flexibility with employees. It is critical that we get to that point as quick as we can because the revenue line will continue to go down. So it is important we get to a point where we get stabilized and then continue to work going forward from that point.

Senator BROWN. I have only been here about a year and a half now, and I have appreciated the thoughtful approach—I have asked a lot of tough questions privately in our offices with folks that have come in and gotten some very direct answers—and it is really important to have those tools to understand the problem and really get up to speed so we can make a proper decision here.

Do you think a lot of these changes such as eliminating Saturday service will prevent a death spiral or just such a reduction in consumer usage that it will kind of get out of control and you will not get to that profitability point or that break-even point?

Mr. DONAHOE. I think that failure to act on a number of these issues to get stable will result in a death spiral. I think that if we continue to just try to make incremental changes without going in with one fell swoop and making some big changes, we will cause, again, every year we will be in a situation where we are reporting losses. So you have to make those cuts and move on from there.

Senator BROWN. And, Mr. Herr, if I could, thank you for coming today. How do you view the Postal Service's proposed plans? Are they in line with getting its workforce right-sized and competitive, do you think, based on the volume of mail, etc.?

Mr. HERR. Right, we have been talking about the need for network realignment for several years now, and I think that is an important step. The proposal to cut plants from 500 to 200 is a very noteworthy step.

Senator BROWN. Is the time frame appropriate in terms of aggressiveness that you wanted?

Mr. HERR. It is going to be tough, I think, by 2015. You have a lot of stakeholders involved. You have a lot of plants. It will take a plan. It will take everybody coming together and saying we think this is important and we are all going to get behind it.

Senator BROWN. What type of time frame—and anyone can chip in on this—do you think we need to move? I mean, no offense. I have been here, as I said, a year and a half. I am kind of disgusted at the way things are done here, the lack of bipartisanship and camaraderie. It has gotten better with certain people, but all in all we should be doing a lot better. What is the time frame? Because I do not see us moving too quickly lately on a whole host of things, and I am hoping it does not come down to, "You know what? Tomorrow the Postal Service is shutting down." And we are going to be then, at the 11th hour, trying to ram something through that does not make sense. Do you have any indication, either Mr. Chairman or the Ranking Member or anyone here? What is your time frame that you need to get this done?

Mr. DONAHOE. As we have proposed, we would love to see long-term, comprehensive legislation by the end of September. We have asked for the ability to let us take over those health care benefits. We can resolve the pre-funding issue that way. Let us move from 6-day to 5-day. It is a tough decision, but it has to be made. Let us move to get the FERS money back. It will stabilize our finances. I am operating right now with a week's worth of cash in a business that is a $65 billion business. Nobody would be doing something like that. That is what we need, action now.

Senator BROWN. So you need Congress to move by the end of this month.

Mr. DONAHOE. Yes.

Senator BROWN. So, Mr. Chairman, whatever we can do, I mean, we have to figure this out. I am tired of waiting until the very last second to get everything done. I am hoping we can work in a bipartisan, bicameral manner and in a manner that the President will sign the bill to get this done. I mean, come on, this is a no-brainer, folks. Thank you.

Chairman LIEBERMAN. Thanks, Senator Brown. Of course, I agree with you. I do not know that we can meet the schedule that the Postmaster General has given us, that is, to have that comprehensive legislation by the end of September. I do not think we can. And I am interested what Mr. Berry has said in his testimony that the President will submit a plan to meet the Postal Service's fiscal crisis along with his recommendation to the Joint Select Committee on Defecit Reduction. I still would like our Committee to mark up a bill that responds to both what the Postmaster General has proposed and other proposals because I think we have, particularly with Senator Collins and Senator Carper, as much or more expertise than most people in the Congress do, and I know you are the Ranking Member on Senator Carper's Subcommittee. So I am committed to moving this along. I mean, the Postmaster General has been very clear that even assuming that he defaults on his $5.5 billion to the health fund—and assume nothing else happens, by next summer, 2012—he is not going to be able to deliver the mail. What I am saying is I agree with you. This fall we should get together on legislation, pass it, and give you the tools in plenty of time before that so you are not at the point where we are saying tomorrow the mail is not going to be delivered.

Senator BROWN. Mr. Chairman, are we going to fight about the post office, too?

Chairman LIEBERMAN. I hope not.

Senator BROWN. I know that you agree. You are one of the guys I was talking about who is trying to work together, as well as the gentleman and lady to my left. There are others here that feel that way. So we need to push our colleagues and leaders to make this a priority. Thank you.

Chairman LIEBERMAN. Thank you.

Senator Akaka, I know you had another hearing, and I appreciate that you have been able to return to ask some questions of this panel.

OPENING STATEMENT OF SENATOR AKAKA

Senator AKAKA. Thank you very much, Mr. Chairman, and I will say a few words before going to questions.

In 2006 Congress passed bipartisan legislation to modernize the Postal Service. Now, as the entire economy faces continued financial challenges, a nearly $5 billion per year pre-funding payment required by the 2006 law threatens the Postal Service with insolvency.

The core of any proposal to save the Postal Service must address the pre-funding issue by eliminating or offsetting the payment. Other reforms likely will be needed, some of which are under the Postal Service's control and some which we may need to enact through legislation.

I have expressed my concerns over some past proposals, including delivery reductions, arbitration changes, and facility closings. As Chairman of the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, I also have concerns over new proposals released by the Postal Service on health and retirement programs and layoffs. Congress must be cautious with any proposal affecting contracts negotiated in good faith.

The House Oversight and Government Reform Committee has also released legislation. However, I do not believe it is a responsible way forward. Placing one of our Nation's largest employers into receivership by stripping postal management of its authority will not address the fundamental problems. The Postal Service needs more flexibility, not more bureaucracy.

The Postal Service is now operating on borrowed time because Congress has not yet acted on any proposals. A failure on our part to enact meaningful legislation could have negative consequences for the larger mailing industry, affecting our Nation's economic recovery.

I remain committed to ensuring a viable future for the Postal Service and look forward to continuing to work with my colleagues to craft legislation to achieve those goals.

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I have a longer statement, Mr. Chairman, which I will submit for the record.

Director Berry, in 1980, six Federal agencies had their own health insurance plan available to employees in addition to FEHBP. At least four of these agencies eliminated their plans, most notably the Federal Deposit Insurance Corporation (FDIC) in 1998. The FDIC had to pay millions of dollars to OPM to bring employees back into FEHBP after they found the independent plan was more costly.

How feasible is breaking postal employees off from FEHBP? And what would be the consequences if they ever wanted to come back?

Mr. BERRY. Mr. Chairman, thank you for your questions, and it is always good to be with you, sir. The FDIC was one of the agencies that you described that broke away from FEHBP and then came back and found that, in fact, the savings that they had projected were not to be had. This is one of the reasons why the Administration is proposing we move extremely cautiously and carefully in this area.

The administrative overhead costs for FEHBP are 0.08 percent. We provide choices and plans in all 50 States and including urban and rural areas to provide health care, and currently the co-payment cost share for the Postal Service is less than provided by Federal employees for the exact same plan. So that is negotiated, but it is a 10-percent differential. In other words, the Postal Service pays 10 percent more than the Federal Government pays. The employees in the Federal plans pay a higher co-pay percentage.

And so when you look at all of those choices, I think we need to move very carefully before we would remove—we have over 9 million employees in our market pool now in the Federal plan. Each year we consistently deliver a rate increase that is below the market rate increase in the country, and we will do that again this year.

I do not see how with 600,000 to 1 million employees going off on their own with an age that is higher than the FEHBP pool they are going to achieve the savings that the Postmaster General, with all due respect, has projected. And so I think we need to move extremely carefully here and be very cautious and study this extremely carefully before we would recommend moving forward.

Senator AKAKA. General Donahoe, the Postal Service also considered leaving FEHBP in the 1990s but never left. Why didn't the Postal Service leave at that time? And would those reasons apply today?

Mr. DONAHOE. Thank you, Senator. In the 1990s we looked at leaving, but there was a decision not to leave. I think it was pretty much the same situation that happened to the Financial Accounting Standards Board No. 106 accounting rules would have required us to put the health care costs on our books. Since then, the fact that we are pre-funding, that issue is no longer the issue that it was back then, and what we have decided to do with exploring the options would be to see if we would be able to take costs down through our own plan.

I do not disagree at all with Director Berry. This is something we have to study carefully, but I also think that we have to study it fairly quickly because what we are proposing is not unlike what any other large corporation does when you go out into the open market and get the best price for a health care plan.

Let me assure you of this: I certainly do not want to do anything that would have a negative effect on either our employees or our retirees. We want to do the right thing, and we are trying to figure out how to manage costs going forward, and this is one of the ideas that we had.

Senator AKAKA. Thank you. I know, Mr. Chairman, my time has expired. I have one more question, if it is——

Chairman LIEBERMAN. How could I say no to you, Senator Akaka? [Laughter.]

Senator AKAKA. Thank you.

Mr. Herr, your testimony once again brought up the issue of modifying the collective bargaining process to require that arbitrators consider the financial health of the Postal Service. The Congressional Budget Office's analysis of S. 1507, a bill in the last Congress containing this provision, did not project any savings on this issue. My understanding is that arbitrators routinely consider the Postal Service's finances.

Has GAO done any analysis suggesting there would be cost savings from this change to the arbitration process?

Mr. HERR. Actually, I did not refer to it in my statement today, but in our business model report issued a year ago, we said that would be an issue for Congress to consider as it thinks about collective bargaining agreements, what is affordable for the Postal Service, and situations where contracts go to arbitration, to ensure that would be put on the table, because, clearly, the precedent in the past has been that there has been mail volume and revenue to pay for cost increases and things of that nature.

We are looking at a very different scenario now, and as the Postmaster General testified and as has been discussed here today, the look forward is not a bright one. It is possible that there will be a letter-writing campaign and people will begin to write more letters. But the fact is many bills are being prepared and distributed electronically, and that has been really the life blood of the Postal Service, and a lot of the financial literature as well, the checks and things of that nature from the banks, those are all moving digitally. So it was in that spirit that we made that suggestion for Congress to consider.

Senator AKAKA. Thank you very much.

Thank you, Mr. Chairman.

Chairman LIEBERMAN. Thanks, Senator Akaka. Finally, Senator Moran.

Senator MORAN. Mr. Chairman, thank you. I know that you are disappointed I returned to the Committee. [Laughter.]

Chairman LIEBERMAN. It is always a pleasure to see you.

Senator MORAN. You are so kind.

Chairman LIEBERMAN. I cannot speak on behalf of the witnesses in the second panel who have been waiting 2 hours, but we are glad you came back.

OPENING STATEMENT OF SENATOR MORAN

Senator MORAN. Mr. Chairman, I have been to an Appropriations Subcommittee hearing on homeland security, and I do want to ask the Postmaster General a couple of questions.

First of all, I would like to commend him for his efforts to find solvency in the U.S. Postal Service. I want to be an ally in working with him to do so. I hope that he is asking his staff at all levels of the Postal Service for their suggestions about efficiency. Many times I think the best and brightest ideas come from the people who will work at the Postal Service for their suggestions about how to improve the bottom line.

Thirty-seven hundred post offices is certainly something that caught my attention. One hundred thirty-four of them are in Kansas, and I do not want to be overly provincial here, but I always want to make certain that rural America does not get forgotten in decisions that are made in our Nation's capital.

My concern, among others, is that while there are lots of community meetings going on—and I have Senate staff at almost every one of those 134 meetings in our communities—I am still unclear as to the criteria. My experience in these community meetings is the Postal Service comes in, explains the plan, and in many instances encourages the audience to contact their congressional delegation to encourage us to vote for some of the things that you have outlined in your proposal today, particularly related to the refunding of the insurance and health benefits. Not that I mind that, but what I would love to know is if there are things that community members can say, evidence that can be garnered, facts that can be told that would then alter the decision made by the Postal Service as to whether or not this particular community's post office is going to continue to be in existence. And my impression in visiting with many people who have attended those meetings is almost without exception that the Postal Service has already made up their mind. They are going through the motions. They are in our town to pretend to listen to us, but we never get any indication that there is anything we can do that would cause them to reach a different conclusion than closing the post office.

What are they missing or what am I missing?

Mr. DONAHOE. I think the key thing is to make sure that our people understand exactly what the community would face with change. I think that when you look at what we have proposed, our criteria for these studies is offices that have less than 2 hours of work on a daily basis, and generally it is under $20,000 in revenue.

One of the things that we have to keep our eye out and make sure that we do not do is make access impossible for people in States like Kansas because you do not want to have two or three post offices within a certain area that get changed, become a village post office or get consolidated, and then have people having to drive, say, 20 or 30 miles to get postal services. So that is a key thing.

I think your constituents need to make sure that whatever we are proposing is reasonable for them, and reasonable meaning a couple miles, a 3, 4, or 5-mile drive to a post office. We take universal service very seriously and want to make sure that we are not shutting our customers off.

The other thing I would encourage is that if customers have ideas, we are all ears. We have been encouraging businesses to step up and say, we will write a contract with you to provide service. What we found with the village post office concept is a lot of times we can provide access 7 days a week where they may only get a couple hours a day in a regular post office. So those are a couple of things I would encourage.

Senator MORAN. Well, if there are written criteria, a checklist that when your postal employees come back from the community meeting, that this community met this criteria but not this criteria, I would love to see what that criteria is so that there is an opportunity for the communities to make the case that matters to the Postal Service. And as you and I visited before this hearing started, I am an ally of yours in finding that win-win combination in which there is a village post office sharing space and personnel with a community grocery store, a drug store, or pharmacy. Those things matter a lot to the community.

I wrote you a letter, Postmaster General, on August 10. You have responded and I thank you for that. But one of the things that I wanted to again raise that I did not understand or did not see the answer to is the U.S. Code provision that says, "The Postal Service shall provide maximum degree of effective and regular Postal Service to rural areas, communities, and small towns where post offices are not self-sustaining. No post office shall be closed solely for operating at a deficit, it being the specific intent of Congress that effective postal service be ensured to residents at both urban and rural communities."

When you are out having these hearings on the list of 3,700 post offices, my experience in 14 years as a Member of the House and just 8 months as a Member of the Senate has been that the post offices that I worry the most about is when I walk in and discover the postmaster is about to retire in a small town or the building has deteriorated.

What is the criteria now? What do you expect to be able to do with this legislative language? And I guess one of the things you might be asking for us is to eliminate that legislative language. But in the absence of that elimination, how do you still see that you can close 3,700 post offices?

Mr. DONAHOE. Well, one of the things we do not want to do is ask you to make changes in that language just because there are post offices out there that lose money that are very large post offices and serve thousands and thousands of people. Most of our offices do lose money. But what we are looking to do from a standpoint of reviewing offices is to come up with a very fair and standard criteria. That was the idea of post offices that have less than 2 hours' worth of business, that have less than $20,000 worth of business coming across the counter. When you have that criteria, then you can look at it very objectively, and then you can look at it like we mentioned earlier. What is the geography? Is there a place we can consolidate? Is there a store out there that we could contract with? And that is the way we want to approach it.

What we do not want to do is have a situation where a postmaster is afraid to retire because we are going to close the post office. I will tell you, in the past we did some things like that. We would rather have a much more transparent criteria so that anybody out there that is facing these kinds of changes knows exactly where we are coming from.

Senator MORAN. I will conclude, Mr. Chairman. I just came, as I said, from an Appropriations Homeland Security Subcommittee where we are worrying about the relief of people who are suffering from disaster. Reading, Kansas, is a town that was struck by a tornado. Never on your list of 3,700. Now that the building was damaged, they are having a community meeting. This to me is the wrong kind of message to tell a town that is trying to figure out how it recovers from significant damage in a tornado that now because we suffered this natural disaster, the Postal Service is now contemplating closing our post office. I would appreciate you taking a look at that.

Mr. DONAHOE. Absolutely. I will look into that right away.

Senator MORAN. Thank you, sir. Thank you, Chairman.

Chairman LIEBERMAN. Thank you, Senator Moran. Thanks for returning.

Senator Collins, do you want to make a brief statement before we move on to the next panel?

Senator COLLINS. Thank you, Mr. Chairman.

I know all of us have so many more questions, and we have a panel that has been waiting for hours. I just wanted to make a comment and also give another assignment to Mr. Herr.

First, I think it is important for everyone to realize that if the Postal Service defaults on the $5.5 billion payment for the retiree health benefits fund, that unfunded liability does not go away; that, in fact, there is an unfunded liability in that fund that I believe is in the neighborhood of $56 billion. And I think that is important because even if we restructure—and I really salute the Postmaster General for his sweeping proposals. I think they are very constructive. Whether I agree with them all or not, they are very constructive in what they need. But the fact is that the Postal Service has huge unfunded liabilities, and I can see general agreement with that.

So my assignment or request to you, Mr. Herr, is: If we were reinventing the Postal Service from scratch, a de novo approach, how would we structure it? Would we have it joined with the Federal Government's retiree health programs, employee health programs, and pension programs? Would we give it access to borrow up to $15 billion from the Treasury? Which is obviously an advantage that private enterprise does not have. Would we give it carte blanche in setting rates and deciding who it delivers to?

I would like you to help us figure out what would be the ideal while still ensuring that we providing this absolutely vital linchpin to our economy—a linchpin that is not only important to the 8.7 million people who work in the mailing industry, but also helps to bind us together as a country. After all, that is why the Constitution mentions the Postal Service.

So I would like your ideas on if we were starting from scratch, how we would set forth this vital institution.

Thank you, Mr. Chairman.

Chairman LIEBERMAN. Thanks, Senator Collins, and I join in that request to GAO.

Mr. HERR. OK.

Chairman LIEBERMAN. Thanks to the panel. You have been very informative and very stark, and I want to say it again: There is a clock ticking. You are going to default on $5.5 billion the Postal Service owes to the retiree health benefit fund. You are not going to be sued because of who you owe it to. But even allowing that, you have told us very clearly today that by next summer, if nothing else is done to help the Postal Service, you effectively have to stop delivering the mail. And that should get us all working, even across party lines. Thank you very much.

The second panel, please come to the table: Cliff Guffey, President of the American Postal Workers Union; Louis Atkins from the Postal Supervisors; Ellen Levine; and Tonda Rush.

[Pause.]

We will ask the room to come to order, and we appreciate very much not only the presence, but at this hour, the patience of the excellent second panel we have, and we look forward to hearing your testimonies now. We will begin with Cliff Guffey, who is the President of the American Postal Workers Union (APWU). I want to just say for the record that, in the interest of not having a marathon hearing, we had to make selections among people who represent workers for the Postal Service, people who are in management, and mailers, etc. We will invite the opinions of others, but have confidence that you will generally—though maybe not totally—reflect the points of view of people who are in the comparable sector that you are, comparable stakeholders in the postal sector of our economy.

So, Mr. Guffey, thank you for being here, and we welcome your testimony now.

TESTIMONY OF CLIFF GUFFEY,[1] PRESIDENT, AMERICAN POSTAL WORKERS UNION, AFL–CIO

Mr. GUFFEY. Mr. Chairman, there are very good reasons to support legislation that will provide financial relief to the Postal Service. Senator Carper and Senator Collins have both introduced legislation that would do that. Representative Stephen Lynch has introduced similar legislation in the House that also has bipartisan support. We strongly support that approach for reasons we have explained in our written testimony.

The mailing industry is vital to our economy. It continued to grow even during the recession. From 2008 to 2010, sales revenue grew 10 percent to $1.1 trillion and jobs grew by 16 percent, an astonishing 1.2 million new jobs to a total of 8.7 million jobs. The mailing industry now accounts for 7 percent of the gross national product and 6 percent of all U.S. jobs. Ninety-one percent of mailing industry jobs are in the private sector.

Most important to this hearing is the fact that 75 percent of the 8.7 million jobs in the mailing industry are in firms dependent upon the Postal Service infrastructure. The Postal Service is the critical heart of this industry. The Postal Service needs access to the overpayments it has made to the retirement programs in order to pre-fund future retiree health benefits and pay other liabilities

[1] The prepared statement of Mr. Guffey appears in the Appendix on page 115.

to the Federal Government. This will provide the Postal Service the capital it desperately needs.

It is counterproductive for the Postal Service to cut its infrastructure to the point where it has to eliminate services and decrease service standards. Newspapers that depend on the Postal Service for delivery will have to radically change their mission or go under. Medicines that are now mailed will have to rely upon more expensive delivery alternatives, raising the prices we pay for drugs. E-retailers may not be able to satisfy their customers with a decrease in service standards.

The Postal Service needs a presence in communities. The poor and other disadvantaged groups will be the most hurt by many of the proposed retail closures because they have the least access to alternatives. Entire communities will be hurt by the loss of jobs, the loss of the community focal point and identity, and the loss of service caused by post office closings.

For many communities, the post office is where the flag flies. It is the face of the government to the people. Senator Carper's bill wisely authorizes and encourages the Postal Service to expand services. None of the bad things that are happening to the Postal Service and its customers are necessary. With access to its excess retirement fund contributions, the Postal Service will be better able to redesign its retail and delivery networks, modernize and optimize its mail processing networks, and offer new services to increase revenues.

Postal networks are an important part of the infrastructure of our country. They should be supported and improved. Proposed service cuts would be self-defeating. If they go forward as planned, more cuts will have to follow as business is lost.

We were asked today to testify about the recent Postal Service proposals to abrogate our collective bargaining agreement by withdrawing from Federal health insurance and retirement programs and eliminating no-layoff protections for postal employees. These proposals are outrageous, illegal, and despicable.

On May 23, the Postmaster General and I signed a new national agreement. The Postal Service estimates the agreement will save the Postal Service $3.7 billion. We worked very hard with the Postal Service to take care of the needs that they asked us about. Our people are not getting raises for 3 years—no raises whatsoever for 3 years. We gave lower entry costs. We provided new entry levels and flexibility in that even our full-time employees could be scheduled in a different manner. If they only need 6 hours a day, we allowed them to post jobs that are 6 hours. We worked very hard to allow the post office to adapt as quickly as they can, and we did that in exchange for certain things, including keeping our health benefits the way they are, even though we are going to pay more for it. We also wanted to stay in the Federal retirement system. The no-layoff clause, all these things were talked about, and we achieved this collective bargaining agreement by giving up certain things, and now they want to come to the Congress and say, "Oh, we got this part of the deal. Give us this part back." We think that is totally improper.

The attempt by the Postal Service to keep what it gained from our bargaining and to unilaterally abrogate what the APWU gained is in utter disregard for the legal requirement to bargain in good faith. Imagine the thoughts of the letter carriers, the mail handlers, and rural carriers as they sit across the bargaining table now from the Postal Service. It is impossible to negotiate if you know the party you are dealing with will feel free to accept your compromises and then attempt to abrogate their own.

The Postal Service claims its proposal to lay off 120,000 employees would not impact veterans because veterans would still have the protections of the Veterans Preference Act. This is misleading. The closing of the facility could result in a layoff of everyone in that facility. The veterans are the last to go, but if everyone goes, the veterans are laid off. More than 25,000 veterans could be among the 120,000 laid off.

The future of the Postal Service is in Congress' hands. We support proposals by Senator Carper and Senator Collins to give the Postal Service access to its excess retirement funds, and we oppose the proposals of the Postal Service that would permit them to withdraw from the Federal health insurance and retirement programs and lay off 120,000 workers. Thank you.

Chairman LIEBERMAN. Thanks, Mr. Guffey. We look forward to continuing the conversation.

Mr. Atkins, we appreciate your presence here, and we invite your testimony now.

TESTIMONY OF LOUIS M. ATKINS,[1] PRESIDENT, NATIONAL ASSOCIATION OF POSTAL SUPERVISORS

Mr. ATKINS. Chairman Lieberman, Ranking Member Collins, and Members of the Committee, thank you for the opportunity to appear before you today. My testimony represents the views of the three management associations that represent the 75,000 managers, postmasters, supervisors, and other non-bargaining unit employees of the U.S. Postal Service.

Without question, the U.S. Postal Service is in a desperate financial situation. It has never reached this state of affairs since its creation as a self-supporting government establishment in 1991. It is only weeks away from not being able to meet the 2006 financial obligations that Congress and the Administration imposed on it.

How did the Postal Service reach such dire straits? A weak economy since 2008 has prompted businesses to send less mail through the postal system, causing revenues to rapidly decline. But undoubtedly, the most important cause has been the statutory mandate established by Congress in 2006 requiring the Postal Service over 10 years to set aside $55 billion to satisfy its future retiree health care obligations beginning in 2016 and continuing over the next 75 years.

Meanwhile, the Postal Service over the course of four decades has overpaid as much as $75 billion into the Federal retirement system for its employee pensions.

Remarkably, those in Washington who oppose a refund of its pension overpayment and a fair approach towards its retirement obligations to the Postal Service label it as a "bailout." Our response to this characterization is simply this: In the real world,

[1] The prepared statement of Mr. Atkins appears in the Appendix on page 133.

when you overpay a bill or overpay your taxes, you deserve a refund. Why should it be any different for the Postal Service?

There is overwhelming support throughout the postal community for a fresh review of how much the Postal Service has really paid into the Federal retirement system, and if a surplus is found to exist, to apply that surplus to the Postal Service's retiree health pre-funding obligations. We applaud the legislative proposals of Senator Carper, Senator Collins, and Congressman Lynch that would require OPM to initiate such a review process, using modern, well-accepted principles of accounting and to require the Postal Service to use any surplus to satisfy its remaining health prefunding obligations under the 2006 law.

In the longer term, the Postal Service will need to continue to reduce costs and innovate to better serve America's communication and logistics needs. Over the past 4 years, the Postal Service has achieved over $12 billion in cost savings. During that time three workforce restructurings have trimmed over 5,000 management positions. These were difficult steps that have streamlined the organization.

Recently, the Postal Service has announced sweeping proposals designed to dramatically cut costs. These have included reducing delivery frequency, closing thousands of post offices, consolidating hundreds of mail processing facilities, and curtailing next-day delivery of mail. The Postal Service also has proposed withdrawing from the Federal employee retirement and health benefit programs, presumably to cut costs through the reduction of employee benefits. The three management employee organizations oppose many of these proposals primarily because they are self-destructive and premature.

We also are deeply concerned by the Postal Service proposals to withdraw from the Federal employees' retirement and health benefit programs. The Postal Service's expectation that a postal-only health plan will have greater leverage on the health care market than FEHBP is highly speculative.

Congress and the President should respond to the crisis by dealing with the root causes. The USPS pension overpayment should be returned for its use to satisfy its retiree health obligations. And to the extent necessary, Congress should realign the Postal Service retiree health pre-funding schedule to a larger time period consistent with what the Postal Service can afford.

In addition, we urge the Committee to intensively scrutinize Postal Service plans to reduce access to comprehensive postal services through the planned reduction of its retail network, including the closing of post offices serving small towns and rural communities.

Thank you for the opportunity to present these thoughts. I will be happy to take any questions from the Committee.

Chairman LIEBERMAN. Thanks very much, Mr. Atkins.

Next is Ellen Levin, who is the Editorial Director of Hearst Magazines, Hearst Corporation, and a legendary figure in the business—at least that is what my staff says. [Laughter.]

And really quite remarkable, being involved in conceiving and launching a series of magazines, including *O: The Oprah Magazine.* So we welcome your testimony. Nice to have you here.

TESTIMONY OF ELLEN LEVINE,[1] EDITORIAL DIRECTOR, HEARST MAGAZINES, HEARST CORPORATION

Ms. LEVINE. Thank you very much, and thanks to your staff. As you said, I am Editorial Director of Hearst Magazines, one of the world's largest publishers of monthly magazines, and in this role my job is to help strengthen current titles, develop new titles, and evaluate opportunities for brand extensions.

In 1994, as remarkable as this may sound, I became the first woman to be named editor-in-chief of *Good Housekeeping* since its first edition in 1885. And as you mentioned, I develop new titles such as *O: The Oprah Magazine,* and actually in the depths of the first recession in 2008, we launched a magazine called *Food Network,* which has proven that, in fact, magazines really can do well even in tough times. Both *O* and *Food Network* magazines are doing very nicely. I have also served two terms as President of the American Society of Magazine Editors.

While membership of the Association of Magazine Media (MPA) is diverse, we share one common objective: Ensuring that we have an affordable and reliable universal postal system.

I am happy to report that magazines and their titles and readership have actually grown over the last decade. While most consumer magazines are also on newsstands, subscription copies, more than 5 billion each year, account for about 90 percent of our circulation, and almost all of these are delivered by the U.S. Postal Service. Magazine publishers need the Postal Service and the Postal Service needs magazines.

The economic bond connecting the Postal Service, magazine publishers, and retail commerce is strong and broad, not only affecting the subscriptions we sell and the advertising dollars we get, but the sales of goods and services promoted on the pages of our brands. For this reason, the MPA has worked with the Postal Service, this Committee, and your House colleagues for many years.

As my fellow witnesses have detailed, the Postal Service is now in a precarious situation. Mail volumes have plummeted and losses are projected to grow. But these volume declines need not be a doomsday scenario. The Postal Service must adapt, as mentioned before, to the reality of lower volume and quickly become smaller, more efficient, and less costly to operate. Incremental improvement is simply not enough.

The Postal Service has made several proposals to adjust and reduce its workforce, which I understand represent most of the postal costs. Although I am not an expert on Postal Service operations, taking advantage of technology to produce cost savings should be supported.

The MPA reaction to the USPS proposals is colored, again, by our dual needs from the Postal Service: Affordability and reliability. Postage is a large expense, and it can account for 20 percent or more of the cost of producing a magazine. Service levels are also crucial. Weekly magazines aim for a consistent delivery day. For monthlies, our subscription business model depends on being able to deliver a new issue to mailboxes before those issues hit the newsstand.

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[1] The prepared statement of Ms. Levine appears in the Appendix on page 138.

Two of the proposed operational changes could affect us: One, shrinking the mail processing network; and, two, 5-day delivery. We encourage the post office and Postal Service to match its processing and delivery capacity to current and future volume levels, but to avoid hurting current mail volume, the USPS should work closely with the mailing industry to guarantee that acceptable services are maintained.

The magazine industry has yet to take a formal position on 5-day delivery, but because we know that the Postal Service must reduce costs—our industry will make the necessary changes should this happen to adjust to 5-day delivery if it is part of a comprehensive plan to promote financial vitality.

The Postal Service suggests it may need to lay off employees. I do not know if this will be needed, but I do know that, like all industries, the Postal Service will have to do more with less. They have to retool, re-engineer, and find a way to stay viable with a smaller network and, yes, fewer employees.

I also understand that the Postal Service is considering ways to reduce benefits. Again, many industries, including ours, have had to do this in recent years. I do think the Postal Service and Congress should evaluate various proposals to lower these costs.

Finally, many experts believe that the Postal Service has overfunded its pension obligations. If true, they should be allowed to use this excess contribution to pay off debts and obligations, but this remedy alone is not enough. The Postal Service must make additional measures to reduce costs and infrastructure.

Thank you for allowing me to speak today, and I am very happy to answer any questions that you might have.

Chairman LIEBERMAN. Thanks very much, Ms. Levine, for that testimony.

And, finally, we go to Tonda Rush, Chief Executive Officer and General Counsel at the National Newspaper Association, which is an organization of community newspapers. You have a great dual background in both law and journalism. I note most significantly on your biography that you owned and managed community newspapers in Kansas from 2004 to 2009 during which time, I presume, those papers were kind and gentle to our own beloved Senator Moran. [Laughter.]

Ms. RUSH. Thank you, Chairman Lieberman. Unfortunately, we were not in Senator Moran's district at the time. We would have been kind and gentle.

Chairman LIEBERMAN. OK, good. Please proceed.

TESTIMONY OF TONDA F. RUSH,[1] CHIEF EXECUTIVE OFFICER AND GENERAL COUNSEL, NATIONAL NEWSPAPER ASSOCIATION

Ms. RUSH. Thank you. I am Chief Executive Officer and General Counsel of the National Newspaper Association (NNA) now, having come back into that role from a period of time of being out of that service. We are in our 125th year. We serve 2,300 newspapers—weeklies, small dailies, mostly family-owned. They serve small communities, urban neighborhoods, and the suburbs.

[1] The prepared statement of Ms. Rush appears in the Appendix on page 143.

Our industry and our communities will be gravely injured if these changes ahead are not carried out without customers in mind. NNA's newspapers use the mail for their primary distribution. Our mail is entered at a local post office. It is presorted for delivery the next day, sometimes even the same day if the bundles are dropped at a dock overnight. We believe our periodicals and standard mail are profitable for the Postal Service.

As you know, a delayed newspaper is useless. Newspapers use their Web sites to update breaking news, but there is no viable economic model for a digital newspaper, so we need the mail.

I have provided in my testimony some examples of newspapers that have already lost subscribers because the copies destined for small towns near the entry point are being delayed because mail now travels so many miles for sorting.

We have the deepest respect for Postmaster General Donahoe and the challenges he faces. The need for a cost-efficient, customer-oriented Postal Service is compelling and urgent. We share the views of many that the Postal Service has been unfairly burdened with the way the benefit structures have been created. And we do not inflexibly oppose the direction of restructuring. We have not yet opposed any post office closing. We agree the mail processing network carries excess capacity. But the Postal Service's solution cannot be to push mail out of the system.

We part company with the Postal Service where an inflexible, one-size-fits-all solution leans heavily into serving very competitive urban areas and fails to take into account the smaller communities and small businesses and others who rely upon universal service. Often, smaller, flexible, and low-cost solutions are needed instead of large industrial ones.

For example, we believe closing smaller and efficiently managed sectional center facilities so that the larger metropolitan facilities can be stacked up with mail to run on a 22-hour basis may not make sense. If the sole purpose is to eliminate jobs and run the machines longer, it does make sense. But if it causes diminished service standards and undependable service, then this change becomes an expense and not a savings.

It makes no sense to transport newspaper bundles from a small town into an urban flat sorting center only to bring them back sorted pretty much the way they were sorted in the first place. It just makes our service completely fall apart.

Closing some small post offices is necessary, although the transparency and the community involvement needed are still inadequate. But when looking at post offices with revenues even under $100,000, it is not clear how the Postal Service is taking into account newspapers that are entered in those post offices, even if the newspaper postage might be enough to carry that office's revenue over a threshold.

When the local offices do close, village post offices or whatever takes their place should be required to receive newspaper bundles for the customers they cover because that is part of the community's need. If the Postal Service plans to close an office where a newspaper is entered, we need an alternative entry option in that community.

Finally, Senators, it is well known that NNA opposes the end of Saturday residential mail delivery. In addition to losing delivery of our newspapers, we believe that the loss of First-Class remittance mail will create cash flow disruptions for our businesses and other small businesses in the communities, and that it will cost the Postal Service a profitable mail stream that will go away and will never return. Many of our small daily newspapers would happily abandon their own carrier force for the mail, but they will not do it in a 5-day mail environment.

I have also made it clear if the Postal Service will not deliver our newspapers on Saturdays, we need the help of Congress to make sure we can do it ourselves.

NNA understands that the need for change is urgent. We seek the assistance of Congress in making our Nation's postal system sustainable. A successful Postal Service must, like all businesses, put its first emphasis on the needs of customers, and it must not abandon small-town America. In the years ahead, the Postal Service is going to need the support of citizens, including those in small towns, to adapt to a new economy. We would urge Congress not to let the Postal Service abandon those who need it the most.

Thank you very much.

Chairman LIEBERMAN. Thank you very much for that testimony. Let us go to the questions, and, again, we will do 6-minute rounds.

Mr. Guffey, you made a point which I wish we had asked the Postmaster General—and I will ask him in writing and have him submit an answer for the record—which is: Why was the agreement signed in May and then the request for this action is being made now which seems certainly to be inconsistent with the agreement? I am curious—since he has made these proposals, particularly about the layoffs—whether you have asked him that question and what his answer is.

Mr. GUFFEY. We have regular meetings based on what is going on in Congress. All of us recognize that we want to save the Postal Service. It has been a good livelihood for all of our members for years and what have you, and we try to work together as close as we can. We feel a little betrayed. I can understand the pressure the Postmaster General is under. I wish he had stayed with the original actions in supporting Senator Collins', Senator Carper's, and Congressman Lynch's approach to this.

I have no idea. I feel, like I said, betrayed. To think that he did not think that this might happen before we signed the agreement, I cannot address that and I will not address that.

Chairman LIEBERMAN. OK.

Mr. GUFFEY. I do know that since then, though, we have been working together on other things to help reduce the number of employees. We are still working and will continue to work together.

Chairman LIEBERMAN. Well, I admire that. In other words, notwithstanding how upset you are about at least one of these proposals you continue to work on other issues.

Mr. GUFFEY. We are definitely going to, and I think the other unions want to, too. I think it always seems like union and management are not always considered a family affair, but I think in the postal realm it almost is a family affair. We are trying to work together to save the Postal Service.

Chairman LIEBERMAN. I want to go for a moment to the question of the repayment from the retirement system to the Postal Service. I support that and I will support legislation to do that. But I do want to say a word of caution here that troubles me, which is that the position of the Administration is not quite clear yet, and the extent to which they are going to be prepared to fight for that legislation, I do not know. I can see opposition, some in the Senate and certainly a significant amount in the House, on the theory that somehow that is a bailout.

If we cannot pass that authorization, we are going to have a really tough time and really have to pull together on it.

Mr. GUFFEY. I agree.

Chairman LIEBERMAN. But let me ask you, what is your response to the allegation that is a bailout?

Mr. GUFFEY. Well, my response to that is all these funds came from the postal patrons, the people who use the Postal Service. The employees earned the money. They have processed the mail. They did everything right, and there was enough money created to put that money off to the side for their retirements and for their health insurance. Now, if you lay 120,000 off, who gets that money? It is there for them. It was earned by them. It was put there by the Postal Service on their behalf. Now, if you lay off 120,000 people who will not be eligible for these future retiree benefits, who gets that money? Does it just become part of the general fund?

I understand if you take our funds out of the health insurance, they are left with 20 percent funded. They are grossly underfunded, the rest of the government. That is why they do not want to take the postal patrons' money out and give it back to the Postal Service, because it will show how underfunded the rest of the Federal Government is.

Chairman LIEBERMAN. Ms. Levine, you said in your testimony that if the Postal Service does implement 5-day delivery, the magazine industry would really need an adequate period of time to prepare for the change. So give us a little more detail about what is an adequate amount of time and what other information you would need to prepare if that happened.

Ms. LEVINE. In general, this shift would need to be rolled out over a period of time, a base minimum of 6 months, perhaps longer in certain instances, to avoid negatively impacting both our industry and the rest of the mailing industry in the United States. For example, baseline magazine publishers would need to change printing contracts. We would need to encourage the advertisers to buy on a different time schedule. Editorial deadlines would have to be shifted as well as all kinds of reporting schedules.

For a colorful illustration, we would have to ensure that Super Bowl winning photos could get on press magazine much quicker than it might have in the past; otherwise, it will not make the mailbox. So at a very baseline, those are examples of time management changes that would be needed.

In addition, these changes come at a significant increased cost so we will be financially invested, and would probably need time to be able to figure out what the increased costs are and how to pay it and perhaps off-lay some of it.

The Postal Service needs to engage the mailers to work out the time and the details, and for this there would also need to be flexibility. As both you, Mr. Chairman, and Senator Collins have mentioned, flexibility needs to be built into the schedule so certain products that come by mail are not slow to be delivered to people who really need them.

Chairman LIEBERMAN. Thank you. That is helpful. My time is up. Senator Collins.

Senator COLLINS. Thank you, Mr. Chairman.

Ms. Rush, it is my understanding that the Postal Service intends to reduce its service standards, moving deliveries out by a day or two. Wouldn't that impose even more pressures on newspapers? You made a comment that a daily newspaper delivered late is really of no value. If the Postal Service is going to loosen or lower its delivery standards, what would be the impact on the newspaper business?

Ms. RUSH. I think the impact would be devastating, and it is true for weekly newspapers as well. A typical weekly newspaper would be printed on a Thursday night, deposited Friday morning for a Friday delivery, and into some communities on Saturdays. So we are already in jeopardy if we lose Saturday mail delivery. If we lose one-day delivery, I do not know how most newspapers would stay in the system. It would be impossible for them to get out the news and the advertising information. It is coupons, it is small businesses' promotions. There is a lot at stake in a timely delivery, and we are hoping very much to work with the Postal Service to see to it that overnight and even same-day delivery is still possible if we can drop in the local post office.

What we are more concerned about, frankly, is that we lose that local post office where our mail is entered, and then we are really just in a world of hurt.

Senator COLLINS. Well, I am very concerned about what the impact would be on weekly newspapers in particular. A lot of daily newspapers use carriers for their delivery, but most weekly newspapers are delivered through the mail. If you do away with Saturday delivery and you have a Monday holiday on top of that where there is no delivery, then it seems to me that the newspaper is completely out of date by the time that it arrives, and advertisers are going to stop using it because if they are doing a sale that weekend, they have lost the opportunity to reach their customers.

What does the Postal Service management say in response to concerns like that to your organization?

Ms. RUSH. Senator, you have the instincts of a newspaper publisher. That is exactly what we are concerned about. We have not had a good response from the Postal Service on the Saturday mail delivery issue. In 2009, when the Postmaster General announced that they wanted to make this change, it was admitted at the time that a lot of small newspapers would be damaged, and I would say that the response has been, "Well, it is too bad, but we cannot help it."

We have more daily newspapers in the mail than many may realize in smaller communities. One of the witnesses that testified before the PRC is, in fact, a 6-day paper in Michigan, and it is not a question for him of shifting off Saturday mail. He loses his most profitable issue if he does not have Saturday mail delivery. And many that do have Saturday editions cannot shift to Fridays because they may not be able to get printing time. Printing press capacity has been dramatically reduced in this country during the recession.

So it is just an impossibility. I think that the reality is that some of them would go out of business. Some would have to convert to a carrier delivery if they could, although it is very difficult for a weekly newspaper to find a carrier force for one day a week.

We have tried to work with the Postal Service to explore some alternatives. We have asked about other days besides Saturday, and we have asked whether there could be a boutique carrier force that would deliver those newspapers, and we have really gotten nowhere.

Senator COLLINS. In my State, where we have a large summer population that subscribes to the weekly newspaper year-round, a carrier system just does not work. It is not as if it is just a local community that you are serving. So I think your points are very well taken.

Mr. Atkins, I want to ask your opinion about an issue involving smaller post offices. It is my understanding that bulk business mail revenues are not considered as part of the revenue stream in the screening process for determining which post offices should be considered for closure, that the line is drawn at post offices with revenues of less than $100,000. So, for instance, the business coming to a post office from a local community newspaper or a local grocer advertiser would not count toward the revenue stream for that post office.

First of all, am I correct about that, if you know the answer to that? And, second, if I am correct, would it provide a more accurate assessment of the revenues of a post office, the value to the Postal Service's bottom line, if those revenues were, in fact, included?

Mr. ATKINS. Senator, from my understanding you are correct, and it would be a better engaged financial judgment if we used both the destinating and originating value. Granted, the originating value is basically walk-in revenue that they use. But coming from Baton Rouge, Louisiana, we never determined the value of the mail that we got from New Orleans. And I use that example because I am a Louisianan. But that value was never determined and has never been used to my knowledge of determining the post office revenues.

Senator COLLINS. Thank you.

Chairman LIEBERMAN. Thanks, Senator Collins. Senator Akaka.

Senator AKAKA. Thank you very much, Mr. Chairman.

President Guffey, I am concerned over the negative consequences to the collective bargaining process if Congress were to legislate changes to existing contracts by altering your layoff provision and health and retirement benefits. If any of these proposals were implemented, could unions and the Postal Service go back to the collective bargaining table to renegotiate these contracts immediately?

Mr. GUFFEY. I do not believe so, and I believe the Postal Service would say, "We got what we got. Your name is on this thing. Congress changed the rules for us over here." Unless Congress changed the other rules.

One of the examples I would like to elaborate on, we gave them 20 percent non-career workforce, which means 20 percent of the people will not have a retirement. If you give them the right to pull out the retirement funds and they say they will have matching funds, will that include these non-career people? They are not going to come back and say, "We are going to give these things to this other group of people that we agreed to give them," unless you all tell them they have to. We do not believe the Congress should be in the middle of the negotiating process. When the Postal Service has problems, they talk to us. We work through those problems as best we can. And I am sure the other unions will do the same thing, as well as the management organizations.

Senator AKAKA. Thank you.

President Atkins, to follow up on my question to Mr. Guffey, as a non-bargaining employee group, how would these proposed changes impact your consultations with the Postal Service? Should a new consultation process happen if any of these proposals are implemented?

Mr. ATKINS. Aloha.

Senator AKAKA. Aloha.

Mr. ATKINS. Senator, we are presently in consultations with the Postal Service on our pay agreement, and the thought process that our members are going through right now is the integrity of the agreement that we would sign. And, in fact, we presently represent 31,000 National Association of Postal Supervisors members. A total of 75,000 non-bargaining members are in consultation right now. And in view of what just happened, there is a lot of skepticism about what we need to do and how fair is it that they get what they want and get to go back and change the rules. We experienced that back in 2009. We had a pay consultation agreement about how we would go through the process of receiving our increase in salary, work pay for performance, and about 4,500 of our members—and I do not know the exact numbers of the postmasters—their rating was changed. It was supposed to have been very objective ratings dealing with hard-core numbers and then those numbers were there saying that you had a rating that, for instance, you got a 4-percent raise. Well, they said, no, you are only going to get a 1- or 2-percent raise. And right now we still have not settled that, or they have not given us a good reason why they do not go back and pay us because that was our agreement, and hard-core numbers were there to dictate to our members that they deserve a better raise than what they got, and that was for fiscal year 2009.

Senator AKAKA. Thank you.

Mr. Guffey, as I am sure you know, I have been a critic of the arbitration language inserted into several versions of various postal bills. While I do not believe this language is appropriate, it seems there is disagreement over the current arbitration guidelines. Do you believe that arbitration favors either unions or management under current law?

Mr. GUFFEY. I do not believe so, and if everyone understood the nature of arbitration—a lot of the arbitrators are conservative because they are certain occupations, let me put it that way. I have been involved in about five of our interest arbitrations over the last 30 years. I guarantee you there is no one in here that would want to sit through the painful 2 or 3 days when Harvard Law economists from the Brookings Institution talked to Harvard Law economists from the Cato Institute and debate the finances of the union. That happens in every arbitration that has ever occurred, whether or not there is money there to do certain things and whether it should happen or it should not happen.

Now, since 2006, the limitations that were put on us in 2006 is the Postal Service cannot raise their rates beyond inflation. Even though we started out with a rate for postage that was well below the rate of inflation from 1970, we could not go above the rate of inflation. That in itself is a huge block in negotiating our contracts because the USPS does not have the money—we cannot project beyond the rate of inflation, and if gas prices go up or anything goes up in the general economy, that limits what the postal workers can get because the Postal Service by law now is restricted from raising the rates yearly beyond inflation.

Senator AKAKA. Thank you, Mr. Guffey. Thank you, Mr. Chairman.

Chairman LIEBERMAN. Thank you, Senator Akaka. Senator Carper.

Senator CARPER. Thank you, Mr. Chairman.

To our panelists, thank you all very much for joining us and sticking in here. You are worth the wait, and we appreciate very much your testimony and your responses to our questions.

I want to come back to the issue of 6-day delivery. The Postal Service tells us they need to go from 6-day to 5-day delivery in order to save what they think is about $3 billion a year. We have had other estimates that are a bit less than that, maybe as low as $2 billion a year. I think the Postal Regulatory Commission said, no, it is more like $2 billion a year. But it is somewhere between $2 and $3 billion a year.

One of the things I have discussed with the current Postmaster General, the past Postmaster General, and the heads of some of the postal unions is whether or not there is a way to continue to provide 6-day-a-week delivery similar to the auto industry, where the United Auto Workers agreed to change the mix of wages and benefits for folks, some of the new hires. And I am not sure if there is a way to structure through negotiations, not mandated by the Congress but through negotiations between the Postal Service and organized labor to find a way to continue 6-day-a-week delivery and at the same time save real money. And it will not be $3 billion a year, but it could be somewhere between $1 and $2 billion a year.

And I am not smart enough here on the fly to figure out if the folks that would be delivering the mail on Saturday would be like how we use our interns that come to us and work throughout the year. We track them. The ones that do a really good job, when we have an opening, we hire them. We bring them in at entry-level positions. I do not know if there is a possibility for the Postal Service to say to the folks that work on Saturday, maybe work for a little bit less money, a little less generous benefits, then they are part of, if you will, the team that we go to recruit for full-time jobs later on.

Mr. GUFFEY. I really hesitate to answer for the letter carriers and rural letter carriers.

Senator CARPER. Who are the unions for the letter carriers and——

Mr. GUFFEY. And the rural letter carriers. The rural letter carriers have that now. They have reliefs who are non-career, and they work on Saturday. The carriers have career employees who rotate through the different various days of the week, and so that is a negotiable item with the letter carriers.

The people that we represent—and I am sure the postmasters do, too—we deliver to 20 million post office boxes, and that will continue on Saturdays, according to the Postmaster General. So there is that opportunity for more people to get post office boxes, which is not convenient for everybody. Do not get me wrong. We also have a job description, and we have new lower levels and stuff like this that they could reinstate special delivery for things like priority mail, express mail, parcels, and drugs and medicines that have to be delivered on Saturday. We can do that at a lower rate. I am sure by the time the USPS gets through negotiating with the letter carriers, they will attempt to do the same thing.

I am just saying within the postal community we can discuss and take care of a lot of the problems ourselves. The post office does need its freedom to take care of its pricing problems and immediately to be able to compete.

Senator CARPER. Let me interrupt you, because I am going to run out of time, but thank you very much for what you just said.

In talking with the Postmaster General, one of the points he makes—and I made this before and I will make it again—three things that the Postal Service needs to be able to do in order to be a viable ongoing enterprise in the future: First, they just have more people than they need on active duty, if you will; second, they have more post offices than they need, and they would like to be able to collocate services in a number of communities to provide better service, not less service; and, third, they want to be able to close some of their distribution sites.

In talking with the Postmaster General, I do not hear any great appetite for laying folks off. I do not hear him say, "We are asking for that as an authority." I think that would be their last choice. And the relationship between management and the postal unions actually has been pretty good over the years. You all have been very constructive partners in trying to find ways to do more with less.

But let me just ask you all to comment on incentivizing early retirements. We have a bunch of people who are at retirement age not retiring, folks who are close to retirement age and do not give any indication they are going to retire anytime soon. Tell us about the attractiveness of using that approach as compared to some other approach, including the layoff approach. Mr. Atkins, Mr. Guffey, I would be pleased to hear from either of you.

Mr. ATKINS. Yes, my understanding, Senator, is that we have about 150,000 employees right now that are eligible to walk out the door. Within the next 5 years, we have another 153,000, so there is a great opportunity to reduce the workforce by offering an incentive. The economic times are against that. I have kids that are coming back to live with me because they lost their jobs. So we need to make sure that the job situation becomes more of a strengthening factor in our daily lives, and that is going to be difficult to do. That is what Congress needs to focus in on a lot. But incentives are there, and there will be some people to take the incentive. There are various types. Years of creditable service can be added, there is always the monetary incentives, and then there are other incentives, like we can offer a retiree the chance to come back and work a certain amount of time, maybe 8 hours a week or 16 hours a week, to reduce the effect on their lower income. So there are different ways that we can do it.

Senator CARPER. Thanks for that.

Mr. Chairman, can I just proceed just a little bit longer? What Mr. Atkins is saying reminds me of something that we did in State government. We had a tough time getting people to come in and be substitute teachers, and the quality of our teachers as substitutes was just way below the quality of full-time teachers. And we talked to a lot of retired teachers and said, "Why don't you come back and be a substitute?" And they would say, "Well, we do not want to come back and be a substitute. We would like to, but if we come back to substitute, then you take off dollar for dollar and reduce our pensions."

So what we did was we said, "All right. Come back and substitute. We will pay you to be a substitute"—not a lot but a reasonable amount of money—"and it does not affect your pension." So there might be a germ of an idea there that——

Mr. GUFFEY. I believe, Senator, that the law has already been changed that we can do that.

Mr. ATKINS. It has been changed to do that. They are able to do that now.

Senator CARPER. All right. Well, we might want to make greater use of that.

Mr. Chairman, I would just add this in closing, if I could just close out with this thought. Eighty percent of the costs of the Postal Service is people. Eighty percent is people. I think everybody on this Committee and certainly folks on the panel, we would subscribe to the Golden Rule: Treat other people the way that we would want to be treated. And as we seek to reduce the head count, to right-size the Postal Service in line with the demands for their product in the 21st Century, I think we need to be humane. We need to put ourselves in the shoes of the folks that would be affected and their families. And I want to do that. I think I speak for all of us in saying that we want to do that.

There is a way to do this that is, I think, humane and is fair and just, and at the end of the day, to actually take to heart what they were able to accomplish in the auto industry. We had a GM and a Chrysler plant in my State. I never thought they would be able to offer incentives and get people to take early retirement and step down, but they did. And I think maybe the same thing could happen here if we would give it a shot.

And the last point that I would make is this: I am pleased today that we have learned that the Administration is going to come to us with their proposal. At least they said here today that the Administration believes that we ought to at least make sure that this $5.5 billion, $6 billion obligation due on September 30, 2011, should be delayed until the end of the year.

What I do not want to do is for us to sort of surrender the responsibility for dealing with this issue to—I call them the 12 apostles—the Joint Select Committee on Deficit Reduction that has been agreed to come back to us around Thanksgiving with their proposals for further deficit reduction. I hope we go well before that.

I asked the Postmaster General, Mr. Chairman, "How is this uncertainty and lack of predictability affecting your business?" And he said, "It is not very good because a lot of customers are basically saying, 'We are not sure you are going to be around a year from now.'" They need certainty, they need predictability, and we need to try to provide that for all of them.

And the last thing I would just say is the situation is dire. I think a number of people have used that word. The situation is "dire." But I would just add it is not hopeless. There is a way not just to get through this—again, a couple of years ago, people would say, "We are not going to have a domestic auto industry in this country. We are not going to have a Ford, Chrysler, and GM, the Big Three." And you know what? They are back. Not as strong as ever, but they are back strong, making great vehicles a lot of people want to buy.

There is a way to do this that makes sense, and we can learn lessons from that industry as well as from others. And my hope is that we will, I guess as they say at Nike, "Just do it," that we will seize this opportunity that is before us. And I have spoken to Senator Collins today in a sidebar conversation just before she left and asked if we might get together and start thinking and talking at the staff level and the Member level to find common ground.

Our friends, Senators Ted Kennedy and Mike Enzi, served for years as the Ranking Democrat and Ranking Republican on the Health, Education, Labor, and Pension Committee—a very productive Committee for many years. And I once asked Senator Enzi, one of the most conservative Republicans in the Senate, "How have you and Ted Kennedy been able to reach agreement on so many issues?" And he said, "Ted Kennedy and I agree on 80 percent of the stuff. Maybe 20 percent we do not agree on. And what we focus on is the 80 percent on which we agree."

My hope is that in today's hearing we maybe have expanded the 50 percent or so that we agree on to maybe closer to 70 or 80 percent, and what we need to do is to focus on that and get this show on the road. Thanks, Mr. Chairman.

Chairman LIEBERMAN. Thank you, Senator Carper. I share your view that though the situation is dire, it is not hopeless. It is actually full of hope, and it is full of necessity, because as the testimonies of Ms. Levine and Ms. Rush indicate, there are a lot of people who are really important in our economy and our culture who depend on the Postal Service. And there are a lot, millions of jobs, really, that are dependent on the businesses that are dependent on the Postal Service. So we have to find a way out of this. It is not going to be easy, and I repeat what I said before, that although I support legislation authorizing and mandating a return of the so-called overpayment from the Postal Service to the retirement fund, that is not going to be a slam-dunk here in this Congress. So we have some work to do, and if that does not happen, then we really have to put our heads together in the spirit that we have been speaking about today.

I know, Mr. Guffey, you said in your testimony that you thought that the Postmaster General—to put it this way—was focusing too much on service cuts and not enough on efficiency. And I think that is going to be the challenge to us because even if we could pass the authorize to compel the return of the billions of dollars from the retirement fund to the Postal Service, that is not going to solve the problem for the long run because we have these enormous changes occurring around us, particularly with email.

On the other hand, I go back to what I said at the beginning. The Postal Service is a great national asset. It has an irreplaceable national network that you have already found creative ways to make money from by covering the last mile for FedEx and UPS, for instance. We have a lot of hard work to do together because the status quo is not going to work, and the loss is going to be our country and our economy, which we cannot afford now.

So I am very committed to having this Committee play a leadership role on this. We have a good tradition, a history of involvement in this subject matter, and we have a healthy tradition of bipartisanship. And I would like to give the Administration a couple of weeks anyway to tell us where they are on this before we go to markup, but sooner than later, I would like this Committee to go to markup to try to bring out a bill that has some bipartisan support to take it to the floor of the Senate, and hopefully to have it receive a fate other than death in the House of Representatives.

I thank the four of you for your testimony, for your concern about our Postal Service. We are going to leave the record of this hearing open for 15 days for any additional statements or questions that you or Members of the Committee would like to add.

With that, I thank you very much. The hearing is adjourned.

[Whereupon, at 5:12 p.m., the Committee was adjourned.]

APPENDIX

United States Senate
Committee on Homeland Security and Governmental Affairs
Chairman Joseph I. Lieberman, ID-Conn.

U.S. Postal Service in Crisis: Proposals to Prevent a Postal Shutdown
Chairman Joe Lieberman
September 6, 2011

The hearing will come to order; I thank everyone for being here and I wish you a good afternoon. We are here to consider a very serious question, which is whether the United States Postal Service, an iconic American institution since the 18th Century, can survive in the 21st Century.

It's hard to believe that it has come to this, but it has. So much of our nation's progress is interwoven with the history of the Postal Service. If you look at some old maps of America you see that a lot of the roads we use today started out as colonial-era Post Roads. As our nation pushed west before the railroads were built, the Post Office created the Pony Express to keep America connected with its frontiers. And the Post Office's subsidies for air mail in the early days of aviation helped jump start the fledgling airline industry.

Through parts of four centuries, the Postal System has actually helped make us a nation, connecting the American people to one another, moving commerce and culture coast to coast and to all points in between.

The Postal Service has also bound individual towns and neighborhoods together, with the local Post Office often serving as a center of civic life.

Over the years, the Post Office has grown very large. Today the United States Postal Service is the second largest employer in the United States, second only to Wal-Mart. And with 32,000 Post Offices, it has more domestic retail outlets than Wal-Mart, Starbucks and McDonalds combined.

Sadly, these impressive statistics belie a troubled business on the verge of bankruptcy.

Business lost to the Internet, and more recently America's economic troubles, have led to a 22 percent drop in mail handled and a gross revenue decline of more than $10 billion over the past five years.

This year the Postal Service is expected to have a deficit of approximately $8 billion, maybe more, for the second year in a row.

The Postal Service will also soon bump up against its $15 billion credit line with the U.S. Treasury, which could force it to default on a $5.5 billion payment into the health care fund for its retirees due which would normally at the end of this month.

The bottom line here is that if nothing is done, the Postal Service will run out of money and be forced to severely slash service and employees.

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And that is the last thing our struggling economy and our country need right now.

Despite its shrinking business, the Postal Service delivers 563 million pieces of mail a day. Even with the rise of e-commerce, most businesses don't send bills and most families could not pay those bills, except for the U.S. Postal Service.

While magazine deliveries are down, also due to competition with the Internet and the recession, 90 percent of all periodicals – that's about 300 million paid subscriptions a year worth billions of dollars to the publishing and advertising industries, and bringing about the employment of millions of people – are still delivered by the Postal Service.

And only the post office will go that "last mile" to ensure delivery throughout the country, to everyone's address, even using burros in the Grand Canyon and snow shoes in Alaska.

Last year the Postal Service processed 6.7 million passport applications. Right now, there is no other federal agency with the national presence that's ready or able to take on that task.

Now, why are we here today? Before the Homeland Security and Governmental Affairs Committee became the Homeland Security and Governmental Affairs Committee, it was the Governmental Affairs Committee. And in that capacity, has long had jurisdiction over the United States Postal Service and that is why we are convening this hearing here today.

We are going to hear several proposals this afternoon about what can be done to create greater efficiency, close the Postal Service deficit and give it the flexibility and tools it needs to survive and thrive in America's future.

Postmaster General Donahoe recently offered a plan he believes would save $20 billion and return the Postal Service to solvency by 2015. And that plan is the immediate impetus of this hearing. To both give him the opportunity to explain, describe and argue for it and to give others the opportunity to comment on it and oppose it, which some will do. The proposal includes: eliminating Saturday delivery; closing approximately 3,700 post offices; shrinking the workforce by 220,000; pulling out of the federal employee health care plan to create a separate postal employees health plan; doing away with a defined benefit retirement plan for new employees and transitioning to a defined contribution plan; and asking that $6.9 billion in overpayments to the Federal Employee Retirement System be returned to the Postal Service.

These are self-evidently bold, tough and controversial proposals. As for myself, I don't know feel enough about them yet to reach a conclusion, and that's why I look forward to the testimony of the witnesses today. But I do know enough about the real crisis the Postal Service is in to appreciate Postmaster Donahoe's courage in making these proposals.

I'm also grateful that Senators Collins and Carper have been leaders on behalf of this Committee in dealing with Postal Service's problems and indeed were the architects of a Postal Reform bill that passed a few years ago. Both of my colleagues have now introduced legislation to deal with the current postal crisis and I am encouraged to learn that President Obama will soon offer an Administration plan to respond to the Postal Service's fiscal crisis.

So I have an open mind on the various proposals that have been made, but to me the bottom line is we that must act quickly to prevent a Postal Service collapse and then enact a bold plan to secure its future.

The U.S. Postal Service is not an 18th Century relic. It is a great 21st Century national asset. But time are changing rapidly now and so too must the Postal Service if it is to survive.

Opening Statement of
Senator Susan M. Collins

U.S. Postal Service in Crisis:
Proposals to Prevent a Postal Shutdown

September 6, 2011

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Thank you, Mr. Chairman. First, Mr. Chairman, let me thank you for holding what is truly an urgent hearing to examine possible remedies for the Postal Service's dire and rapidly deteriorating financial condition. The drumbeat of news about accelerating losses at the Postal Service underscores the need for fundamental changes.

The Postal Service is seeking far-reaching legislation to allow the Service to establish its own health benefits program, administer its own retirement system, and lay off its employees. This is a remarkable turnabout from its previous proposals. I appreciate that the Postal Service has now come forth with several "Big Picture" ideas, although many details remain unclear.

As we search for remedies, we must keep in mind a critical fact: The Postal Service plays an essential role in our national economy.

If the Postal Service were a private corporation, its revenue would rank just behind Boeing and just ahead of Home Depot on the Fortune 500 list. But even that comparison, or the one used by the Chairman, understates the economic importance of the Postal Service. The Postal Service directly supports a $1.1 trillion mailing industry that employs approximately 8.7 million Americans in fields as diverse as direct mail, printing, catalog companies, paper manufacturing, and financial services. Many of these businesses can't return to readily available alternatives. They depend on a healthy, efficient Postal Service.

But as vital as a stable Postal Service is to our economy, its current financial status is abysmal. The most recent projections are that the Postal Service will lose $9 billion this year. That is $700 million more than the deficit the Postal Service was projecting just at the beginning of this year. This hemorrhaging comes on top of $8.5 billion in red ink last year, and $3.8 billion lost in 2009.

Unfortunately, there is little cause to believe that an improvement in the overall economy will stop this slide. The fact is that Americans are unlikely to abandon email and text messaging and return to first-class mail. The Postal Service's own projections now assume declining revenue all the way out to the year 2020.

The losses in mail volume are even more dramatic. Last year, the Postal Service handled 78 billion pieces of first-class mail. That number is now projected to fall to 39 billion pieces in 2020. This represents a 50 percent decline in first-class mail volume over 10 years.

I want to give the new Postmaster General great credit for coming forth with more creative proposals to stem this crisis. At times, however, the Postal Service's responses in the past have been inadequate and even counterproductive. Some would cut directly into the revenue that the Postal Service so desperately needs, while leaving customers with diminished and insufficient service. Consider, for example, the debate over post office closings. Now, let me be very clear. There are undoubtedly some Post Offices in Maine and elsewhere that can be consolidated or moved into nearby retail stores. But this simply is not an option for many rural or remote areas. In some communities, closing the Post Office would leave customers without feasible alternatives and access to postal services. That would violate the universal service mandate that is the justification for the Postal Service's monopoly on the delivery of first-class mail.

Let me give you a couple of examples from my home state of Maine. The Matinicus Island and Cliff Island Post Offices in Maine are good examples. Matinicus Island is 20 miles off the coast of Maine. It receives mail five rather than six days a week, and only in good weather. Closing this post office or moving it into a large retail facility is simply not realistic.

For the residents of Cliff Island, closing their Post Office would mean more than a two-hour roundtrip by ferry in order to send parcels or conduct all but the most simple of postal transactions. The fact is that maintaining all of our nation's rural post offices costs the Postal Service less than one percent of its total budget. That's not where the problems lie. That doesn't mean that there shouldn't' be consolidations—and, indeed, I believe that closing some post offices and moving them into the local grocery store or pharmacy would work very well.

Similarly, the Postal Service's plan to move to five-day delivery is not without significant downsides. It would harm many businesses, unless the Postal Service can mitigate the impact. It would force industries ranging from home-delivery medication companies to weekly newspapers to seriously consider other options. And once these private firms leave the Postal Service behind, they won't be coming back, and the Postal Service will suffer yet another blow to its finances.

The major solution to the financial crisis should be found in tackling more significant expenses that do not drive customers away and lead to further reductions in volume.

Two actuarial studies have found that tens of billions of dollars have been made in overpayments by the Postal Service to the federal retirement plans. Regrettably, to date the Administration has blocked the bulk of this repayment. I proposed last year a new, more gradual amortization for the Postal Service's annual payments to reduce the unfunded liability for retiree health benefits, but that too is no longer is adequate.

More than 80 percent of the Postal Service's expenses are workforce-related. The failure to rein in these costs threatens not only the viability of the Postal Service, but also the livelihoods of Postal Service workers themselves. The worst possible outcome for these workers would be for the Postal Service to be unable to meet its payroll - and that is a very real possibility for next year if we do not all act together to achieve reforms. In my judgment , the most recent contract agreement with the Postal Service's largest union, by and large, represents a missed opportunity to negotiate a contract that reflected the financial realities facing the Postal Service.

The Postal Service has to preserve the value and the service it provides to its customers, while significantly cutting costs and streamlining its operations, and that is no easy task. Senator Carper and I have each introduced our own bills to try to avert this crisis, but I am the first to admit that worsening conditions clearly require far more significant reforms. So again, Mr. Chairman, thank you for calling this hearing. We do face an urgent task and that is to save this icon of American society and this absolute pillar of America's economy.

# # #

Statement of Senator Carl Levin
before
Homeland Security and Governmental Affairs Committee
on
U.S. Postal Service in Crisis: Proposals to Prevent a Postal Shutdown

September 6, 2011

The Postal Service is facing a serious financial crisis. It is a result of declining mail volumes, particularly first class mail, as well as the requirement by Congress for the Postal Service to pre-fund future retiree health benefits at an unsustainable level.

If Congress does not act by the end of this Month, the Postal Service may be forced to default on a $5.5 billion payment towards future Retiree Health Benefits and will be unable to deliver mail as soon as next summer. This hearing is intended to consider proposals put forth by the United States Postal Service to address this fiscal condition.

We must be ready to consider all options to address the funding shortfall being faced by the Postal Service. However, we must be careful to remember the importance of the Universal Service Obligation. While the Postal Service needs to be able to sustain itself as a rate-payer supported organization, not every post office needs to post a profit. While small post offices may not make a profit, they are an important part of the postal system and are an important part of any community.

The Postal Service needs to realign their postal network to fit the needs of a changing world without losing the ability to meet their universal service obligation. Efforts to constrain costs by closing post offices and limiting services may result in an ever decreasing volume of mail and revenue.

I look forward to working with the committee to mark up a bill that assists the Postal Service in returning to solvency.

Statement of Senator Daniel K. Akaka
U.S. Postal Service in Crisis: Proposals to Prevent a Shutdown
September 6, 2011

Thank you, Mr. Chairman. Aloha and good afternoon to our panelists and guests as we discuss the crisis now faced by the Postal Service.

In 2006, Congress was able to come together to construct bipartisan legislation that modernized the Postal Service in order to ensure its future viability. Unfortunately, at that time, we had no idea that an economic crisis was on the horizon that would adversely affect American consumers, mailers, and the Postal Service.

This crisis has erased previous Postal Service surpluses which have been replaced by large deficits. In addition, under one of the reforms written into the 2006 law, the Postal Service must prepay retiree health benefits – payments that no other federal agencies and virtually no businesses make. This nearly $5 billion per year burden threatens to bankrupt the Postal Service.

The core of any proposal to save the Postal Service must address this immediate issue by eliminating or off-setting the payment. To ensure the future health of the Postal Service, other structural reforms likely will be needed, some of which are under the Postal Service's control and some which we may need to enact through legislation.

I have expressed my concerns in the past over some of these proposals, such as reducing delivery service, modifying the collective bargaining process with employees, or eliminating post offices in areas where they are needed. We now have several new proposals from the Postal Service, such as eliminating the Federal health and retirement plans for postal workers, and laying off hundreds of thousands of employees. As Chairman of the Federal Workforce Subcommittee, I have grave concerns over these issues and how and if they should be implemented.

The Postal Service proposed pulling out of the Federal Employees Health Benefit Program (FEHB) in 1990s as well. This idea was never implemented. FEHB is a strong health plan that millions of Federal employees and retirees rely on. Any proposal to pull out a substantial number of individuals could have serious consequences to the overall FEHB Program. The outlook for future benefits under a postal-only plan also would be in doubt.

I have also expressed concern repeatedly over proposed changes to the collective bargaining process, as called for by several legislative proposals over the last few years. The Postal Service's new proposal to override layoff protections in previously negotiated contracts is very concerning to the integrity of labor-management relations at the Postal Service. Moreover, such a move could set a disturbing precedent to the sanctity of collective bargaining agreements throughout the government, should Congress take steps to intervene in contracts negotiated in good faith.

The House Committee on Oversight and Government Reform has also released a legislative proposal that I do not believe is a responsible way forward for the Postal Service. Placing one of our nation's largest employers into receivership by stripping postal management of all of its authority will not save money and will not address the fundamental problems causing the current crisis. The Postal Service needs more flexibility to implement changes, not more layers of bureaucracy.

There is no shortage of proposals to help the Postal Service overcome its current problems. Some of these proposals I disagree with, and some I believe will enact positive reforms. However, the Postal Service is now operating on borrowed time because Congress has not yet acted. The Postal Service has already stopped paying on its Federal Employee Retirement System obligations and may soon stop other payments. Any order to require the Postal Service resume any of these payments could mean immediate insolvency.

A failure on our part to enact meaningful legislation could have negative consequences for the Postal Service, and may be devastating for the wider postal industry, which employs millions across the country, and for our nation's economic recovery.

I remain committed to ensuring a viable future for the United States Postal Service. This means continuing quality universal service for all Americans, a strong postal workforce, and financial stability. I look forward to continuing to work with my colleagues to craft legislation to achieve these goals.

Prepared Statement of
Senator Thomas R. Carper
September 6, 2011

For some time now, my subcommittee and I have been sounding the alarm about the dire financial situation facing the Postal Service. Unfortunately, while a number of bills have been put forward, Congress – including this committee – has been unable to reach consensus on the kind of dramatic and likely painful reforms that will be needed to avert a looming Postal Service shutdown. In addition, the proposals put forward by the administration to date have proven insufficient.

Today, just a few weeks after narrowly avoiding the first-ever default of the federal government, we may be just a few weeks away from the first-ever default of the Postal Service. That default, if permitted to happen, would be embarrassing and dangerous. In fact, it would pave the way for postal insolvency by this time next year, if not sooner.

While the Office of Management and Budget unfortunately declined to testify at this hearing to discuss administration's plans for preventing the Postal Service from failing, it is my hope that the discussion we have here today will jumpstart the process of developing a bipartisan, bicameral consensus around the reforms necessary to restructure the Postal Service's finances and transform its operations to reflect the uncertain future it faces.

Postmaster General Patrick Donahoe will testify today that the Postal Service's finances continue to deteriorate. He is projecting a year-end loss for the Postal Service of $10 billion – nearly $2 billion more than he projected when my subcommittee last held a postal oversight hearing in May. It will not be able to make the $5.5 billion retiree health payment due on September 30th. Come October, it will have exhausted its line of credit with the Treasury and will only have enough cash on hand to just get by.

Then, under what is likely the best-case scenario, cash will be completely exhausted by next summer and the Postal Service- absent any lifeline from Congress or the administration – will likely be forced to close its doors.

If the Postal Service were to fail, the impact on our economy would be dramatic. As Postmaster General Donahoe and other have pointed out, the Postal Service operates at the center of an industry that employs millions of people. These men and women don't just work at the Postal Service. They work at magazines, at banks, at printing companies, and in businesses large and small. They work in every state and congressional district in the country and generate more than $1 trillion in sales and revenue each year.

At such a difficult time for our economy, we can't afford to put those jobs and productivity in jeopardy. In fact, it's our job to do what needs to be done to save this industry, even if doing so involves making decisions that might be difficult politically.

Like it or not – and in a number of ways I don't like it very much myself – the Postal Service needs to rightsize to reflect the decreasing demand for the products and services it offers. It needs to shed employees. It needs to downsize its network of processing facilities to reflect that there's less mail to process and that technology has made getting mail to its destination much easier to do. It needs to close or re-locate post offices, too.

The Postal Service has put forward a plan to eliminate a further 120,000 positions on top of some 100,000 that will be lost through attrition. They've also begun studying 3,000 post offices for closure and are expected to propose similarly dramatic changes to its processing network in the next week or so.

We are rapidly reaching the point, however, at which the Postal Service no longer has the authority under current law to do what it needs to do to get by. That's why I've introduced legislation that aims to clean up the Postal Service's finances and help it implement the ambitious reorganization plan it announced last spring. The main provision in my bill – the Postal Operations Sustainment and Transformation Act, or the POST Act – aims to permanently address the various pension and retiree health-related issues that have plagued the Postal Service for years.

The Postal Service, the Postal Service's Inspector General, the Postal Regulatory Commission, and two independent actuaries have all come to the conclusion that the Postal Service has overfunded its obligations to the Civil Service Retirement System by between $50 billion and $75 billion. In addition, numerous observers and even the Office of Personnel Management have pointed out that the Postal Service has paid $7 billion more than it owes into the Federal Employees Retirement System.

My bill would give the Postal Service access to the funds it has overpaid. It would be able to use them to make its required retiree health prefunding payments, taking upwards of $5 billion off its books each year for the next several years. Once those payments are satisfied, the funds this bill would free up could be used to pay workers compensation obligations and to retire debt owed to the Treasury.

These reforms, or something very similar to them, can be a vital part of any effort to improve the Postal Service's financial condition in both the short- and long-term. But stopping with these reforms and avoiding further, potentially more difficult changes will simply not be enough. To anyone taking an honest look at the numbers, it should be clear that more will need to be done. That is why my bill takes important steps towards truly giving the Postal Service the flexibility those of us in Congress always say we want to give them to adapt to new realities and operate more like a business.

No business facing the kinds of difficulties the Postal Service faces would survive for very long if it were told how many retail outlets they should have and where they should be located. Or if it were prevented from making operational changes or taking full advantage of the resources and expertise it has at its disposal. Yet that's what Congress does to the Postal Service.

My bill aims to address these problems and to take Congress out of the day-to-day management of the Postal Service. Assuming that the Postal Service can continue to build on its recent cost-cutting efforts, these changes could help set the Postal Service on a more solid footing in the years to come.

But I don't just focus on cost-cutting. My bill also aims to give the Postal Service new authority to leverage its nationwide retail, logistics, transportation, and delivery network to attract new business. In addition, it gives the Postal Service more flexibility to work with existing customers to keep them in the mail and to partner with state and local governments to find new, potentially profitable uses for the retail facilities it needs to keep.

I mentioned at the beginning of my statement that there have been a number of bills introduced this Congress to address the Postal Service's financial condition. Senator Susan Collins has one. Congressman Darrell Issa has another. There are parts of both bills that I don't agree with, but also parts of both that I support or that overlap with provisions in my bill. Starting with this hearing, we need to focus on the areas of agreement and from there, with input from the administration, build a package that can prevent postal default and insolvency and set the Postal Service on track towards stability.

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Prepared Statement of Senator Scott P. Brown

"U.S. Postal Service in Crisis: Proposals to Prevent a Postal Shutdown"

September 6, 2011

The Postal Service is clearly at a crossroads. Every day that passes is another day that pushes the Postal Service closer to the brink of insolvency. Many have argued that this is simply a result of burdensome statutory obligations placed on the Postal Service at a time when the economic situation was much different than today. Others have pointed out that the Postal Service is simply being forced to face a new reality brought on by new technology and accelerated by the recession. Regardless which reason you favor, all can agree that some hard choices must be made to allow the Postal Service to continue to serve this country successfully in the future.

The fact remains that first class mail volume, the largest contributor to postal revenue, is on the decline and there is no rebound in sight. This has forced the Postal Service to find ways to right-size its delivery network and reduce capacity to meet current volume levels. Its efforts so far have been fairly successful, saving $12 billion in the last four years. It is clear, however, that additional reductions will be required. This process must move forward in a responsible way that is sensitive to the needs of communities and small businesses and recognizes the valuable service of postal employees.

I appreciate the Postmaster General's efforts to provide Congress with a plan for reducing another $20 billion in costs by 2015. The plan identifies possible cost reduction in all areas of the organization. As Congress continues to debate legislative action, however, I'm afraid the plan may raise more questions than it answers.

Recently proposed compensation and benefits changes may face considerable legal challenges, fiscal scrutiny, and employee opposition. The plan to further optimize the network faces significant questions on how fast changes can be made, how quickly cost savings can be obtained, and how they will impact both postal employees and customers. No doubt, some difficult decisions need to be made soon. Expectations must be kept in check with reality, however, and the possibility of unintended consequences must be thoroughly explored.

That said, the Postal Service can only do so much without some help from Congress. A number of well-intentioned regulatory and statutory mandates have further complicated the Postal Service's ability to adapt to the changing times. If the Postal Service is going to make further progress, Congress must remove some of these roadblocks while being sensitive to the potential impact to federal employee benefit programs and the deficit.

Both Senators Carper and Collins have worked hard to reform the Postal Service over the years, and I appreciate their efforts to find a comprehensive solution to these important issues. Lifting some of these legislative restrictions will give the Postal Service a substantial financial boost in the near term. There is no doubt that declining mail volumes will continue to place significant fiscal strain on the Postal Service in the future. The Service must continue to adapt its business model to ensure both its financial survival and maintain the level of service so many Americans and businesses rely on.

This is no easy task. There is universal agreement that the time for action is now, yet there is plenty of debate on the combination of solutions necessary. The Postal Service impacts many important stakeholders and thoughtful consideration is required across many viewpoints. I am confident, however, that Congress can find a set of proposals that will finally put the Postal Service on a sustainable fiscal path that will support employees, communities, and businesses alike.

I want to thank the dedicated postal employees for the great work they do every day and the witnesses for their testimony today. Thank you, Mr. Chairman.

Opening Statement of Senator Jerry Moran
Committee on Homeland Security and Governmental Affairs
September 6, 2011

Mr. Chairman, I thank you for calling this hearing today and I thank the Postmaster General, as well as Mr. Foley and Mr. Herr for joining us to have an important discussion about the state of the United States Postal Service.

Mr. Chairman – as you well know, the Postal Service is facing a financial challenges. The Postal Service is being squeezed by increasing costs and decreasing revenues.

Postmaster General Donahoe – I am aware of the legislative proposals that the Postal Service has put forward, and the actions of the Postal Service and this Congress will affect hundreds of thousands of Postal Service employees, as well as millions of customers.

However, solutions to the Postal Service's financial dilemma should not be made at the expense of rural citizens. Over 130 small communities in my home state of Kansas are in threat of losing their local post office. These are communities that heavily rely on their post office, and reduced access in these small communities could bring great hardships to the residents who live there.

In many of these communities, the median age is higher than most urban and suburban communities. These citizens often rely on the timely delivery of medical supplies and prescription drugs. With reduced access, it could prove more difficult for these citizens to receive these supplies in a timely manner.

In the town of Damar, Kansas, local residents have poured time and money into improving their community. Over the past two decades, the town has spent millions of dollars on paved streets, sewer system, a new community building, as well as improvements to their school. Damar residents would view the loss of their post office building as such a blow to their community that the mayor, Brian Newell, has approached school organizations and businesses to encourage creating newsletters to send out to the community, just to increase mail volume for the local post office. This is just one example of the efforts that I hear Kansans are taking to save their community post office.

We have an opportunity before us to improve upon, and to create a more sustainable Postal Service. It is not the intent of this Congress to let the Postal Service fall into insolvency. I look forward to having a conversation with the Postmaster General, as well as directors from the Office of Personnel Management and GAO, on the proposals for the Postal Service while maintaining a critical service to rural residents.

UNITED STATES
POSTAL SERVICE

STATEMENT OF
POSTMASTER GENERAL/CEO PATRICK R. DONAHOE
BEFORE THE
COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

SEPTEMBER 6, 2011

Good afternoon, Mr. Chairman, Ranking Member Collins, and members of the Committee. I appreciate the opportunity to testify today on behalf of the U.S. Postal Service. Thank you for the invitation and thank you, Mr. Chairman, for calling this hearing to discuss various ideas that will help ensure the future of our nation's postal system.

My testimony provides a brief synopsis of where the Postal Service stands today, particularly our serious financial situation. I will describe current projections, in terms of mail volume, revenue, costs, and liquidity as we move into fiscal year 2012 and beyond. I will brief you on a variety of actions taken by the Postal Service to address all elements of operations under our direct control – actions related to both cost savings and revenue generation. Actions we believe will help narrow the gap that currently exists between costs and revenue. Actions which must be supplemented by decisions made here, in Congress, to address areas outside the scope of the Postal Service's control and bring us closer to closing the gap completely.

Finally, I will discuss some new proposals the Postal Service has put on the table in recent weeks. These forward-thinking, unique and creative ideas have generated many comments, which is a good thing. Serious discussions about these critical policy matters, with all stakeholders weighing in, assure that concerns are heard, a wide range of options are examined, and long-term solutions are reached.

The importance of a healthy and thriving Postal Service cannot be overstated. The mailing industry, of which the Postal Service is only one component, depends on the continued evolution, growth and development of our organization. Over 8 million Americans are employed by thousands of companies and businesses which are deeply invested in the mail. The mailing industry, with the Postal Service at its core, is a major driver of the nation's economic engine – generating over $1 trillion each year. Our collective actions – particularly those of the Postal Service and Congress – to secure the future of the nation's postal system will directly affect a significant portion of the American economy. The mailing industry makes up approximately seven percent of the country's Gross Domestic Product (GDP). Failure to act could be catastrophic.

The most recent financial results continue to be grim. The Postal Service ended Quarter III of fiscal year 2011 (April 1 – June 30) with a net loss of $3.1 billion. Net losses for the nine months which ended June 30 amount to $5.7 billion and we are currently projecting a net loss of up to $10 billion by the end of this fiscal year, depending on interest rates. Total mail volume is expected to decline by 2.0 percent, to approximately 167 billion pieces, when compared to last year. This is being driven largely by continued and accelerated drops in First-Class Mail, historically the Postal Service's core product. *[Figure 1]*

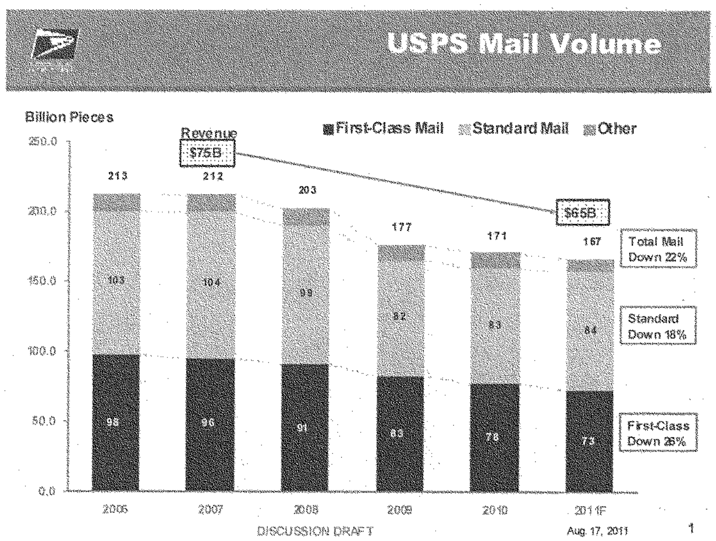

Figure 1

The growth in electronic communications continues to drive the diversion of First-Class Mail. Instead of buying stamps, many consumers pay bills online, send "e-vites" to friends and family, and simply press "Send" when they want to communicate. These shifting customer habits will continue to add to the migration away from traditional First-Class Mail.

In addition, the stagnant economy has held other mail classes to a flat or relatively modest growth pattern. Advertising, or Standard, mail revenue increased slightly by 1.7 percent in the third quarter, and Package Services revenue increased 3.3 percent. Shipping Services, which includes Express Mail and Priority Mail, was another bright spot, increasing 7.2 percent for the quarter. However, these small gains are not enough to offset the dramatic and steep decreases in First-Class Mail, which contributes much more to the Postal Service's bottom line. In the third quarter, single-piece First-Class letter revenue declined 8.7 percent, or $259 million.

Of even greater concern is the looming liquidity crisis that will come to a head in less than one month. By the end of this fiscal year, on September 30, the Postal Service will reach its statutory $15 billion borrowing limit. We are committed to paying our employees and our suppliers first, but without changes to the law, we will be unable to maintain the aggressive Retiree Health Benefits (RHB) pre-funding schedule set forth in the Postal Accountability and Enhancement Act (PAEA).

Without legislative change this year, the Postal Service faces default, as available liquidity at the end of this month will be insufficient to meet our financial obligations. Even our unavoidable default on the required $5.5 billion RHB pre-payment and the suspension of our employer contribution to the defined benefit portion of the Federal Employees' Retirement System (FERS) will not stave off financial disaster. After reimbursing the Department of Labor (DoL) $1.3 billion for workers' compensation payments in October 2011, we will have liquidity equal to approximately one week's operating expenses. Foregoing the RHB pre-payment this year, without fundamental changes in the funding schedule, will likely only forestall insolvency until this time next year. *[Figure 2]* An adverse decision by the Department of Justice on our FERS funding suspension would likely accelerate this date. In the absence of legislation, and before savings from the planned network realignment, the Postal Service projects a $9 billion loss next year, as well as mounting losses which could reach an estimated $16 billion by 2015 and exceed $20 billion by 2020.

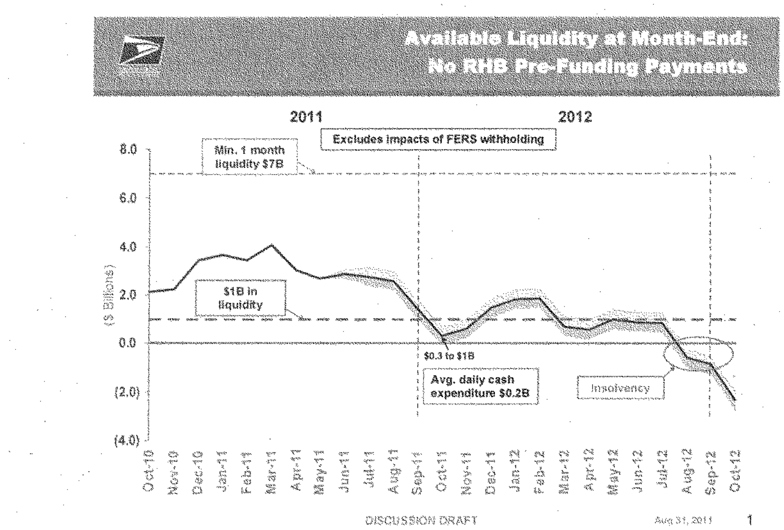

Figure 2

Future mail volume projections show a continued shift to a less profitable mix of mail. In 2010, First-Class Mail contributed $17 billion of profit to offset our institutional costs, while Advertising, or Standard Mail contributed $6 billion. The contribution from each piece of First-Class Mail is generally three times that of Advertising/Standard Mail. As we look to the future, the volume of First-Class Mail will continue to decline significantly while Advertising/Standard mail volume should remain flat. Even with growth in our package business, we cannot replace the profit contribution of First-Class Mail that has been lost over the past few years and will continue to decline in the future. Looking forward, we must build upon our already successful efforts to reduce costs, in order to align anticipated revenue figures with the current expense outlook.

The Postal Service has a proven track record, especially in the past decade, of removing costs from the system and we plan to accelerate those efforts going forward. We know we can significantly narrow the estimated $20 billion gap between revenue and expenses by continuing to implement proven strategies and by introducing new ideas and initiatives. Our actions alone will not be enough, however. This must be a collaborative effort – one which includes legislative changes. Congress must act this year to address these core issues:

- Resolve the pre-funding of Retiree Health Benefits (RHB)
- Return the $6.9 billion overfunding of the Postal Service's obligations to the Federal Employees' Retirement System (FERS)
- Grant the Postal Service the authority to determine delivery frequency
- Allow the Postal Service the flexibility to restructure its healthcare and pension systems
- Permit the streamlining of pricing and product development

For its part, the Postal Service will continue to focus relentlessly on narrowing the future estimated $20 billion revenue and cost gap by responsibly employing a variety of strategies and plans. This includes optimizing the overall network by properly aligning mail processing, retail and delivery operations, in accordance with the realities of consumer habits in the 21st century; continuing to eliminate work hours and employee complement; and pursuing the flexibility to set wages, benefits and employee complement. As a self-supporting entity for more than 40 years, receiving no taxpayer appropriations for our operations, the Postal Service knows how to balance cost management and efficiency increases.

Our employee workforce continues to decline significantly. At the end of June 2011, the total career employee complement stood at 563,402, a reduction of more than 8,000 employees during the quarter. This includes 1,850 administrative employees who left the Postal Service in Quarter III as a result of an early-out incentive. The Postal Service has, over the last four fiscal years, reduced the number of career employees by approximately 110,000, plus an additional 20,500 thus far in 2011. These reductions have been accomplished primarily through attrition and incentives. Similarly, work hour reductions have produced additional savings. The first nine months of 2011 saw the Postal Service use 25 million, or 2.8 percent fewer work hours than in 2010. The combination of significant reductions in work hours and employee complement has produced substantial savings over the last several years. The graph below *[Figure 3]*, shows the accumulation of annual cost savings since 2000; we have reduced annual operating costs by more than $19 billion. Without these savings, our level of huge net losses would, today, be three times worse.

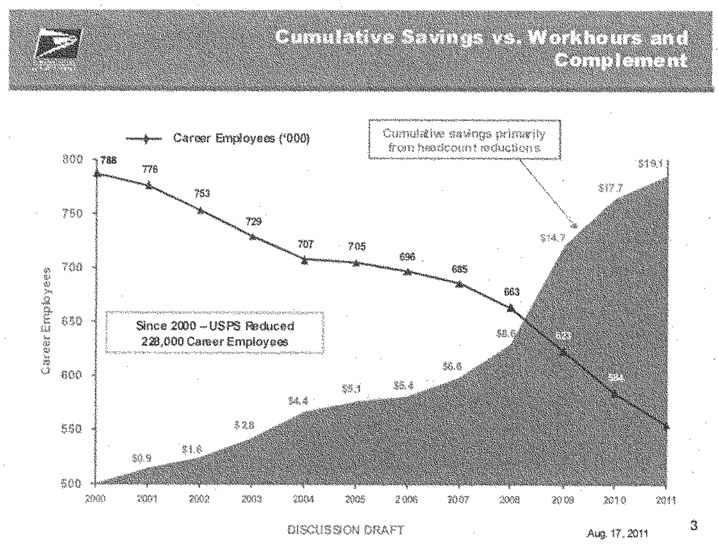

Figure 3

We continue to focus on aligning our infrastructure to more accurately reflect the ways customers use our services. We are accelerating the use of proven and effective tools, such as Area Mail Processing (AMP) optimization studies, as well as reviewing our retail network for opportunities to reduce costs while improving access. Using modern management tools, such as Lean Six Sigma, we have evaluated our processes in hundreds of operational areas and made improvements that save both time and money and increase productivity. By leveraging technology to our advantage, we have enhanced our processes for sorting, delivering and transporting mail.

Working in collaboration with our unions has brought additional savings and efficiency gains. Since 2008, we have worked with members of the National Association of Letter Carriers (NALC) to continually reevaluate delivery routes and capture savings by aligning routes for maximum

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efficiency. This effort has resulted in cost savings of almost $1.3 billion. This year, we reached a new four-year agreement with members of the American Postal Workers Union, AFL-CIO (APWU). This agreement contains a number of positive changes, including freezing wages for two years, lowering Postal health insurance contributions and providing Postal Service management with new flexibility in hiring and staffing. Using this new flexibility, the Postal Service will be able to continue realizing both cost savings and efficiency gains by utilizing the right person, in the right job, at the right location.

Although we have achieved cost reductions totaling $12 billion over the last four fiscal years – results that any company would be proud to claim – we are not slowing down. The Postal Service has a well-supported strategy going forward to build on the successes of the past decade. As always, the focus remains on all areas under our direct control. We have gathered together a number of efforts under the umbrella of Network Optimization. These actions, occurring simultaneously across the organization, will combine to bring the Postal Service to its goal of reducing costs by $20 billion *[Figure 4]* to earn a profit in 2015, rather than losing $16 billion as forecast under the current cost and revenue base. The 2015 profit, of as much as $4 billion, will be used to pay down debt and invest for the future, particularly in delivery vehicles.

$20B of Cost to be Eliminated by 2015

($ Billions)	
Operations:	
Network: Sortation & Transport	$3.0
Retail	1.5
Delivery	2.0
	6.5
Legislative Changes:	
RHB Pre-Funding Resolved	$5.5
Five - Day Delivery	3.0
	8.5
Compensation & Benefits:	
Flexibility, Benefits, Wages	**5.0**
Total Potential Savings	**$20.0**

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Figure 4

Improvements in Operations consist of a variety of initiatives, such as:

Streamlining our Network of mail processing facilities

- Going from 508 processing locations today to approximately 200
- Reduction of career employee complement by 35,000 positions
- Potential annual savings of $3 billion

Modifying Delivery routes (apart from five-day delivery)

- Involves eliminating approximately 20,000 city routes out of 144,000
- Reduction of employee complement by 22,000 positions
- Potential annual savings of $2 billion

Retail network changes

- Reviews of Post Offices; total of 15,000 offices will be reviewed
- Potential annual savings of $1.5 billion
- Enhancing and expanding alternate access sites, including Village Post Offices and *usps.com*
- Exploring franchising

Modifying service standards

- Revision of First-Class Mail (FCM) service standards and entry times
- FCM Standards move from 1-3 days to 2-3 days
- Allows for longer operating windows, which means less equipment needed, fewer facilities needed, and fewer work hours used.

In conjunction with our network optimization effort, the Postal Service continues to explore ways to reduce our greatest cost – that of labor and benefits. Compensation and benefits costs, including workers' compensation and the federally-mandated prefunding of RHB, represent approximately 80 percent of total operating costs. But, with more than 85 percent of career employees covered by collective bargaining agreements, making significant changes to compensation and benefits is challenging.

The new APWU agreement, which was touched upon earlier, also establishes pay levels for new career employees that are approximately 10 percent lower than the existing pay schedule, provides significant workforce flexibility, and allows for increased use of non-career employees. The Postal Service's contribution to employees' health insurance premiums will also decrease. Last month, the Postal Service began labor contract negotiations with two more of our major

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unions, the NALC and the National Postal Mail Handlers Union (NPMHU), whose current contracts each expire on November 20, 2011. These two unions represent 247,000 of the Postal Service's 560,000 career employees. Negotiations with a fourth union, the National Rural Letter Carriers Association (NRLCA), reached an impasse after nearly a year of negotiations and now will be resolved through interest arbitration.

To further reduce costs, the Postal Service is continuing the implementation of its January 2011 plan to significantly realign administrative functions (employees not covered by collective bargaining agreements). We are in the process of reducing headquarters management positions, as well as reducing the number of Area and District Offices, and decreasing the number of administrative, supervisory, and Postmaster positions by approximately 7,500. The organizational redesign, which is being implemented through March 2012, is anticipated to capture annualized savings of over $750 million, beginning in 2012. Over 1,800 employees took advantage of the most recent Voluntary Early Retirement authority (VER) and the Postal Service is eager to maintain the ability to continue offering such packages, in order to further trim the workforce.

In this time of serious financial concerns, the Postal Service is making tough decisions to keep the organization viable into the future. In June 2011, the Postal Service's Board of Governors elected to suspend the employer's contributions to the Office of Personnel Management (OPM) for the defined benefit portion of the FERS retirement obligations, due to the critically low liquidity level projected for October 2011 and the remainder of 2012. According to OPM, the Postal Service had a FERS account surplus valued at $6.9 billion as of September 30, 2009, the most recent actuarial valuation date. Due to the surplus in its FERS account, the Postal Service believes that it has satisfied its current funding obligations, which approximate $3 billion annually. The Postal Service continues to transmit to OPM the employees' contributions to FERS and also continues to transmit employer automatic and matching contributions and employee contributions to the Thrift Savings Plan (TSP). Such decisions are extremely difficult and were made only after much thought and deliberation. These actions underscore the severity of the Postal Service's financial situation.

Our plans and strategies for the future are not limited merely to cost cutting. We are rightfully proud of our achievements in making significant productivity gains while simultaneously reducing work hours. Our employees have worked hard to bring about incredible cost savings while at the same time achieving record levels of service. In fact, something that often gets lost in the discussions about record volume and revenue losses is the point that, even with monumental expense reductions, we continue to maintain excellent service performance. That is quite an achievement – one that belongs to every employee in the organization.

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It isn't enough to simply cut costs. You also have to build your business, grow revenue and develop products and services customers need and want to use. We are doing that as well; continually pursuing new revenue by creating innovative products and building upon existing services. Some examples of this pursuit include:

- Building on the continued success of our Priority Mail Flat Rate Box, with the introduction of additional shipping products, such as Priority Mail Prepaid Forever packaging and Priority Mail Regional Flat Rate Boxes.
- Making it easier than ever to do business with us by introducing products like Every Door Direct Mail (EDDM). Since its inception, EDDM has generated approximately $73 million in revenue.
- Launching a redesigned *usps.com* website, making it the platform for future developments and continued integration into the digital world.
- Proposing new solutions to generate increased use of First-Class Mail by introducing concepts like Reply Rides Free, which allows customers to mail two ounces for the price of one.
- Testing a Direct Mail hub, which shows new business customers how to use the mail to expand their customer base by creating their own unique mail pieces.
- Increasing our presence in the global market by growing international mailing and shipping products, which have seen a 12.3 percent increase in revenue so far in fiscal year 2011.
- Continuing to provide postal products and services where our customers live, work and shop by expanding retail access points, including the Village Post Office concept.
- Leveraging the Postal Service's core elements – trust, dependability, simplicity, and security – to develop digital mail service solutions for today's wired world.

To supplement these innovative ideas, the Postal Service has also sought enhanced flexibility in the area of pricing. The PAEA divided postal products into two broad categories: market-dominant and competitive, with different rules for each. Market-dominant, or mailing services, refers primarily to First-Class Mail, Periodicals, and Standard Mail. Rate increases for mailing services products are tied to a price cap applied to each mail class based on the Consumer Price Index – Urban (CPI-U). Market Dominant products account for about 90 percent of Postal Service revenue.

Competitive, or shipping services, refers to products such as Priority Mail and Express Mail that compete with private carriers. Shipping services products do not have a price cap, but do have a price floor. The Postal Service has repeatedly sought the flexibility to price according to market conditions, in order to maximize revenue. We believe the prices of market dominant products

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should be based on the demand for each individual product and its costs, rather than capping prices for each class at the rate of inflation, although an appropriate degree of regulatory oversight remains necessary. This action would help the Postal Service ensure that products cover their costs.

In addition to ongoing cost savings efforts and revenue generation activities, the Postal Service is putting a variety of new ideas on the table. Our stated goal is to reduce annual costs by $20 billion over the next three years, ultimately driving costs down to under $60 billion per year with a streamlined workforce of approximately 425,000 employees. This can only be achieved through a combination of initiatives, including operational changes, legislative changes, and changes in compensation and benefits. With all of these efforts working in concert, future cost/revenue gaps can be significantly narrowed and eliminated. With $20 billion of cost savings in 2015, the previously projected loss of $16 billion will become a $4 billion profit *[Figure 5]*.

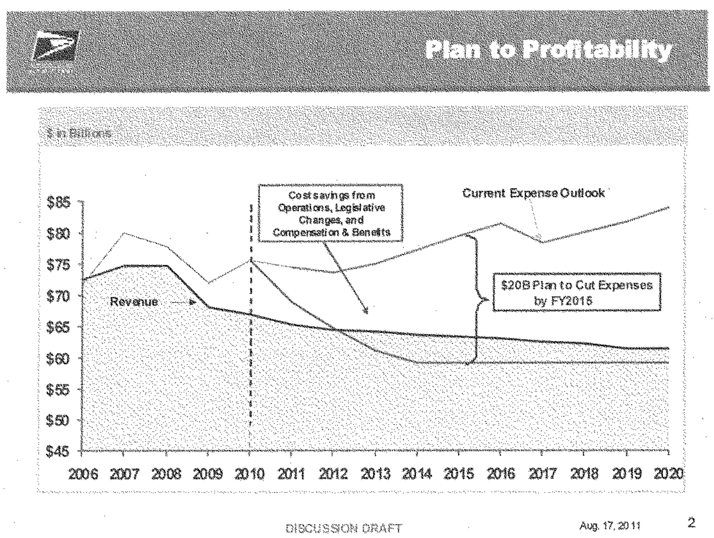

Figure 5

Recently, the Postal Service released two white papers which contained cutting-edge proposals. These proposals are in keeping with our desire to do all that we can to continue adapting to the changing world of communications by reducing the size of our workforce and addressing legacy benefits costs.

The first proposal, which addresses the issue of labor costs and the sheer size of our workforce, calls for the Postal Service to be provided with the ability to more rapidly reduce its workforce. Based on current revenue and cost trends, and with the objective of earning a profit by 2015, the ideal size of the Postal Service workforce, by 2015, is estimated to be approximately 425,000 employees. Current methods of workforce reduction, including attrition and other measures, will allow the Postal Service to achieve only a portion of the reductions needed to reach the desired number of employees. In order to ensure our workforce is aligned with our needs, we must reduce roughly up to 220,000 career positions by 2015. Attrition will result in only a portion of that – approximately 100,000. That means we must be able to reduce up to an additional 120,000 career positions over the next three years, in order to bring the Postal Service back onto sound financial footing.

Current labor agreements prevent the Postal Service from moving swiftly enough to achieve these workforce reductions. Our proposal would address existing collective bargaining prohibitions against layoffs and allow the Postal Service to make these difficult, but absolutely necessary, personnel moves, in order to remain viable. The development and submission of these plans illustrates the Postal Service's commitment to consider a wide range of options and solutions to our ongoing financial difficulties. Although there is disagreement with some of the proposals, the Postal Service is willing to put everything and anything on the table for discussion and consideration. We remain open to other solutions and are committed to working with all stakeholders to advance the common goal of helping the Postal Service to continue to provide universal service to our nation.

It is worth noting that the need to downsize the workforce is not limited to the Postal Service. In August, Office of Management and Budget (OMB) Director Jacob Lew wrote to the heads of all federal departments and agencies, directing them to make tough choices in these tight budgetary times. Reductions of five and ten percent in discretionary appropriations was the goal set forth by the Administration. The Air Force is seeking to eliminate 4,000 positions through a combination of attrition, a hiring freeze, early-out offers and buyouts. The Government Printing Office (GPO) has set an agency-wide target of reducing its workforce by 15 percent. Several other agencies, including the Commerce Department, Housing and Urban Development (HUD) and the Department of Education are also seeking deep cuts in the workforce. The Postal Service has, in fact, set the bar for how to effectively and meaningfully downsize total employee complement. Others are just now beginning to do what we have done for more than a decade.

The second major idea recently presented by the Postal Service addresses an area of tremendous cost – health care benefits plans. Under this proposal, the Postal Service would withdraw from the Federal Employees' Health Benefits Plan (FEHBP) and sponsor its own health

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care plan. Currently, health care benefit costs for the Postal Service annually reach approximately $12.8 billion, consisting of $2.5 billion for health benefit premiums for current retirees; $4.8 billion for health benefit premiums for active employees; and $5.5 billion (the largest portion) for RHB pre-funding, as required by PAEA. In addition, some of the existing health care plan offerings for Postal employees do not reflect a good value to participants, relative to their costs.

Under its proposal, the Postal Service would develop a health care plan for three categories of participants – annuitants, current employees and future employees. We would assume responsibility for 100 percent of the 1971 post-reorganization liability for retiree health care, estimated at $91 billion as of the end of fiscal year 2010. Tied to this assumption of liability would be a transfer to the Postal Service of the assets currently in the Postal Service Retiree Health Benefit Fund (PSRHBF), which approximated $42 billion as of the end of fiscal year 2010. The new Postal Service health care benefits plan would:

- Maintain benefit choices with a consistent alignment between value and cost;
- Simplify the existing plan structures;
- Adopt private sector best practices, including pharmacy benefit management, wellness incentives, disease management, and aggregated purchasing power, among others; and,
- Establish incentives for Medicare eligible employees to fully participate in Medicare benefits, which could save $550 million annually. The Postal Service and its employees currently contribute approximately $1 billion per year to Medicare through payroll taxes.

The proposal for the Postal Service to sponsor its own health care plan would reduce annual operating costs and provide a viable option to significantly **reduce or eliminate** RHB pre-funding. The requirement in the PAEA that the Postal Service pre-fund its RHB liability by $59 billion on an extremely aggressive ten-year schedule has had a significant impact on Postal Service finances. This annual contribution, which is currently $5.5 billion and is in addition to $2.5 billion in annual premium contributions on behalf of current retirees, is a requirement no other entity – public or private – faces. The RHB pre-funding obligation, coupled with the retiree premiums, now exceeds 12 percent of the Postal Service's annual revenue projected for fiscal year 2011. This level of funding simply cannot be sustained, especially in the face of crippling volume losses, reduced revenue and skyrocketing health care costs.

Allowing the Postal Service to gain control of its own health care program would save money annually, **reduce or eliminate** the current RHB unfunded liability, and allow for better management of health care costs going forward. We have laid out a solid structure for governance and oversight of such a plan, to ensure fairness, fiduciary responsibility, and transparency. Providing a stable and dependable health care plan for all employees is a crucial part of our future strategic plans. Having an affordable arrangement, similar in size and scope to FEHBP and utilizing best practices found in the private sector, will serve Postal Service employees well.

For the past few months, the Postal Service has discussed another provision that would further our cost savings into the future. This is the ability of the Postal Service to implement a more cost-effective retirement system for new employees; one that would consist of only a defined contribution system similar to TSP, plus Social Security. The authority to permit the Postal Service to implement such a retirement system is within the purview of Congress.

The proposals put forth in these white papers would allow the Postal Service to address some of the fixed costs that are set by statute, regulation, or contract and, are therefore, beyond the sole control of management. These legacy costs, which continue to inflate year after year, are something we must gain control of now and into the future. These legacy costs are taking an increasingly larger part of every dollar we spend. We need the authority to manage these costs and hold down this rapidly swelling portion of our overall budget. Where the Postal Service has had the ability to manage its costs, it has succeeded. Over the last decade, we have put in place strategies to capture savings, including removing $12 billion in costs over the last four years alone. However, we are rapidly reaching a point where we must look for additional savings in other areas, particularly in the legacy costs associated with certain types of benefits.

For example, despite our success in reducing the number of employees, FERS retirement expenses will increase by approximately $200 million in 2011. This increase is attributable to an OPM-mandated increase of 0.5 percent in the employer contribution rate for the FERS employees, which more than offset the savings achieved through work hour and headcount reductions. This rate will increase an additional 0.2 percent, starting October 1, 2011. These contribution increases are being imposed in spite of the fact that OPM and the Postal Service agree that our FERS retirement program is overfunded by roughly $6.9 billion.

In addition, postal employees injured on the job are covered by the Federal Employees' Compensation Act (FECA), administered by the Department of Labor's (DoL) Office of Workers' Compensation Programs (OWCP), which makes all decisions regarding injured workers' eligibility for benefits. The Postal Service annually reimburses the DoL for all workers' compensation benefits paid to or on behalf of our employees, and we pay an administrative fee to DoL. Benefits available under FECA far exceed those available under state workers' compensation programs or federal retirement programs; FECA has become a de facto alternative retirement system for injured workers. Because injured workers have an incentive to remain on the injury compensation rolls, and because the Postal Service does not have the authority to manage medical costs or settle claims, the Postal Service now has an accumulated workers' compensation liability of over $12 billion. In October 2011, the Postal Service is facing a payment of approximately $1.3 billion to DoL for the Postal Service's annual payment of its workers' compensation liability. In addition, when the Postal Service revalues its liability to reflect current interest rates, it creates significant non-cash fluctuations in our bottom line. For these reasons, we believe that comprehensive FECA reform legislation is necessary. This would benefit not only the Postal Service, but the federal government as a whole.

The volatility and magnitude of these expenses, as well as the inability of the Postal Service to control them, is a driving force behind the creation and submission of our recent proposals to administer our own healthcare and retirement programs. These ideas, in conjunction with ongoing Postal operational initiatives and legislative change, will allow the Postal Service to be effective now and in the future. With the ability to make these necessary changes, we can achieve our goal of removing $20 billion in costs by 2015.

We are committed to working with every stakeholder group to find long-term solutions to our ongoing financial issues. But despite all our efforts, there remain areas that are not under our direct control. These areas must be addressed by the members of Congress. I cannot emphasize enough the importance of action **this year** to help the Postal Service avoid default and insolvency. Without the involvement of Congressional leaders, in just over three weeks, we will reach our debt limit, experience a serious cash shortfall and be unable to make the required $5.5 billion RHB pre-payment.

We are appreciative of the interest of specific members, Mr. Chairman, especially to you for convening this hearing today. As you know, various measures are pending in both chambers that seek to address most of the issues I have discussed today. We are grateful for the bills proposed by Senators Carper and Collins, as well as those brought forward in the House by Representatives. We continue to appeal to Congress for action on a wide array of issues. Specifically, action is needed to address the following areas:

RHB pre-funding: The Postal Service is required to pre-fund health benefits for future retirees on an extremely aggressive schedule, like no other business in America. In the last four fiscal years, the Postal Service contributed $21 billion to the trust fund for RHB, while incurring $20 billion of net losses. This pre-funding requirement has put a stranglehold on our finances and cannot be sustained.

FERS overpayment: Refunding the Postal Service's estimated $6.9 billion overpayment into the FERS would give the Postal Service needed liquidity and provide several options, including paying down its debt.

Delivery frequency: The authority to determine delivery frequency would result in substantial annual savings of $3 billion. A recent Rasmussen Reports poll showed that 75 percent of Americans would prefer to see the Postal Service cut back mail delivery, rather than force the government to cover those losses. This is up considerably from 2009, when just 50 percent favored cutting back mail delivery.

Controlling legacy benefits costs: Allowing the Postal Service to restructure its existing healthcare and pension programs would yield significant long-term cost reductions. A separate Postal Service health care program would control rising fixed costs and provide a viable means to reduce or eliminate the unfunded RHB liability. Additionally, providing new employees with only a defined contribution pension plan (Thrift Savings Plan) and not a defined benefit pension (FERS) would provide an upper limit on future pension obligations.

Streamlining of pricing: The Postal Service should be permitted to price market dominant products based on demand and market conditions, rather than capping prices for each class at the rate of inflation. This would ensure that each class of mail covers its costs and would greatly enhance the ability of the Postal Service to compete for customers in a dynamic marketplace.

The world is changing. The way people work, interact, learn, communicate, do business, and live their daily lives is vastly different than it was for our parents and even for many of us. The Postal Service has a place in this new world, but getting there requires us to change and adapt in ways that might not have been thought of before.

We are at a critical juncture. Action from Congress is sorely needed by the close of this fiscal year. The Postal Service, as I have described in this testimony, has done and will continue to do our utmost to address both cost savings and generation of new sources of revenue. Solving these complex issues will take a truly collective effort, involving the Postal Service, Congress, our mailing industry partners, employees, and union leaders. A healthy Postal Service equates to a healthy mailing industry and to a more robust and vital American economy overall.

The American people have been well served by the Postal Service since the nation's beginning. We plan to continue serving them well into the future. Our future business model will undoubtedly look different from the Postal Service of today, but the core of what we do will not change. Our vast delivery network, reaching every home and business every day is something no one else offers. We intend to build upon that by continuing our evolution to fit the changing needs of the American public. They deserve no less.

I look forward to working with each of you and all our other partners to keep the Postal Service a solid, stable and meaningful symbol of our country's greatness and possibility. Thank you and I will answer your questions at this time.

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UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

STATEMENT OF
THE HONORABLE JOHN BERRY
DIRECTOR
U.S. OFFICE OF PERSONNEL MANAGEMENT

before the

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

on

"U.S. POSTAL SERVICE IN CRISIS: PROPOSALS TO PREVENT A POSTAL SHUTDOWN"

September 6, 2011

Chairman Lieberman, Ranking Member Collins, and Members of the Committee:

Thank you for the opportunity to testify regarding the United States Postal Service (the Postal Service or USPS) proposal to end its participation in the federal employee health and retirement plans and to provide comments on several postal reform legislative proposals currently in Congress. The Office of Personal Management (OPM) recognizes the value of the Postal Service to the Nation's commerce and is sympathetic to the fiscal challenges that the Postal Service faces. I have met with Postmaster General Patrick Donahoe many times to explore ways OPM can be helpful and we are committed to assisting the Postal Service where we can. At the same time, as program administrator and fiduciary for the Civil Service Retirement and Disability (CSRD) and the Federal Employees Health Benefits Trust Funds, OPM has an obligation to avoid any potential adverse impacts that would occur were the Postal Service to withdraw from these programs.

In recognition of the difficulties the Postal Service is facing, the President's Budget proposed specific short-term financial relief measures. These measures would provide financial relief and allow the Postal Service to continue restructuring its operations without severe disruptions.

Current Postal Service Health and Retirement Benefits Obligations

The Postal Service has a legal obligation to make certain payments related to health and retirement benefits. Postal Service expenses with respect to health benefits include annual

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Director
U.S. Office of Personnel Management

September 6, 2011
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premium payments of approximately $7.4 billion constituting the employer contribution for postal workers and retirees, as well as $5.5 billion to pre-fund retiree health benefits. The Postal Service has decided to cover a larger portion of its employees' health care premiums than do federal agencies. On average, Postal employees pay 20 percent of the cost of the premiums, compared to an average of 31 percent for federal employees. The Postal Service Retiree Health Benefit (PSRHB) Fund was established under P.L. 109-435, the Postal Accountability and Enhancement Act (PAEA) of 2006 and required the Postal Service to pre-fund retiree health benefits and make fixed payments through 2016. The purpose of the PSRHB Fund is to cover the Postal Service's liability for the health care costs of current and future retirees under the Federal Employee Health Benefits (FEHB) Program. This pre-funding mechanism is unique to the Postal Service and federal agencies are not required to and do not pre-fund retiree health benefits. OPM calculates that the actuarial liability for the PSRHB Fund value was $91 billion as of September 30, 2010. Subtracting the PSRHB Fund value of $42.5 billion, there remains an unfunded liability of about $48.5 billion.

Postal Service expenses with respect to retirement benefits total approximately $3 billion per year. These expenses are incurred only on behalf of those employees enrolled in the Federal Employee Retirement System (FERS) program. In 2006, Congress discontinued Postal Service contributions on behalf of employees enrolled in Civil Service Retirement System (CSRS). Most employees covered by CSRS pay 7 percent of their salaries toward their pension costs while FERS covered employees pay 0.8 percent of their salaries for the FERS defined benefit and contribute to Social Security payroll taxes, plus elective amounts for the Thrift Savings Plan (TSP). The FERS funding and employee cost sharing requirements are the same as those that apply to all non-Postal agencies and employees.

Postal Service's Recent Proposals

The Postal Service has announced that it would like to pursue establishing and administering its own health benefits program and retirement system. It believes it can realize substantial savings if it (1) withdraws all retirees and active employees and their families from the FEHB Program and establishes its own health benefits program, and (2) withdraws all employees and retirees from the CSRS and the FERS and administers its own retirement system.

OPM believes the Postal Service and its employees and retirees are well-served by the existing health benefits program and retirement system. Currently, OPM overhead costs for the FEHB Program are only 0.08 percent of total health premiums. These very low overhead costs have been achieved by managing programs with very large numbers of enrollees and the accumulated experience of the agency and its staff having managed these programs for decades. In the most recent external review of the FEHB program, expert consultants rated the FEHB Program as being comparable to benefit packages offered by large private sector employers. The FEHB Program offers good value to employees and the taxpayer and is not an excessively costly benefit as compared with other employer plans. In addition, annual premium increases for FEHB plans are typically at or below industry averages.

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September 6, 2011

This is a complex proposal that requires further analysis to determine if the Postal Service can achieve significant cost savings through administering its own health benefits program and retirement system.

Impact of USPS Withdrawal from FEHB to a Postal Plan

OPM expects that a withdrawal of the Postal population would not have a significant impact on the FEHB Program as a whole. In addition, the overall cost impact on the FEHB Program would be minimal. However, a Postal withdrawal would have an impact on health plans with a large Postal population, such as Rural Letter Carriers, National Association of Letter Carriers, and the American Postal Workers Union. While Postal employees and retirees represent less than one quarter of the FEHB covered population, 23 health plans are comprised of 50 percent or more Postal employees and retirees and 56 plans are comprised of one third or more Postal employees and retirees.

If these plans were to choose to withdraw from the FEHB Program, their remaining members would need to choose another health insurer. This might also reduce choices among plans, which reduces competition. A fuller analysis is needed to understand the implications of withdrawal on the health plans in FEHB in which Postal Workers represent a large proportion of members.

The Postal Service has suggested establishing its own Postal Service Health Care Plan (PSHCP). It may be challenging for the PSHCP to have provider networks for employees and retirees located all across the country, especially in rural areas. As stated previously, OPM has developed the systems to provide these numerous, locally-based options at very little administrative cost.

Challenges of USPS Withdrawal from CSRS and FERS

Postal employees are subject to the same rules as Federal employees for the purposes of benefits, employment rights, and other obligations. The Postal Service's proposal to withdraw its annuitants and employees from CSRS and FERS would pose significant challenges because Postal and non-Postal service are integrated into the same retirement system. As such, many individuals have creditable CSRS and/or FERS service both in Postal and non-Postal employment, and the Federal Government has a legal obligation to pay these benefits. It is also possible that the USPS proposal to transfer a portion of the Civil Service Retirement and Disability Fund from the Treasury to the Postal Service would place the Postal Service's ability to pay benefits at the risk of investment returns. These are just a few of the possible complexities and challenges that segregating this large employee population could create given the diversity and size of the population. More analysis would be needed to understand the full scope of possible consequences of the proposed change.

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U.S. Office of Personnel Management

September 6, 2011

Need for Further Analysis and Other Approaches to Address USPS Problems

Any proposal to withdraw from the FEHB and Federal employee retirement systems would be a complex undertaking. It would require careful examination to avoid unintended consequences that could harm the effectiveness of existing benefit systems. Further analysis would be necessary to ascertain whether the Postal Service's proposal to address its fiscal challenges by withdrawing from the FEHB Program is a cost-effective approach to decreasing its health obligations, and to determine the impact on those systems left behind and the employees they cover.

The Postal Service's proposal to remove its employees from CSRS and FERS could create a number of administrative and policy challenges that would also need a careful review to fully understand its effect. Implementing such a proposal would be extremely difficult and complicated because there is no clear distinction between Postal and non-Postal employees, and Postal and non-Postal employment are not mutually exclusive from each other under CSRS and FERS. Countless individuals have creditable CSRS and/or FERS service both in Postal and non-Postal employment. Also, attention needs to be given to long standing statutes that explicitly promise CSRS and FERS benefits in return for deductions as well as the question on whether the Retirement Fund would be expected to assume the costs if the Postal Service failed to meet this obligation.

The President's Budget proposed improving USPS's financial condition by returning to USPS its surplus in the FERS retirement fund, estimated at $6.9 billion as of September 30, 2009. The surplus would be paid to USPS over 30 years, including an estimated $550 million in 2011. The Budget also proposes to restructure USPS retiree health benefits payments that were specified by PAEA. This change would still pre-fund retiree liabilities, but relies more on an accruing cost basis rather than the set amounts fixed in current law, which do not allow for the dramatic shifts in demand or workforce size that USPS has experienced in recent years. This restructuring and near-term deferral would provide USPS with $4 billion in temporary financial relief in 2011.

In relation to the FEHB Program, the Budget included a cost savings proposal to streamline prescription drug costs. Currently, OPM is not authorized to contract directly for prescription drug coverage. The proposal in the President's Budget would give OPM greater authority to bring enhanced competition into the FEHB Program in relation to prescription drug coverage. We estimate that this would save the Postal Service $0.3 billion for both Postal active employees and annuitants over five years (2012 to 2016). OPM has also made clear its intention to work with the Postal Service to reduce the cost of health premiums for its employees.

One of the primary concerns of the Postal Service is the cost of retiree health benefits. There are a number of potential approaches to reduce the cost of retiree health benefits; we are piloting one approach to better coordinate FEHB coverage with Medicare in two of our current FEHB plans.

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The Honorable John Berry
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September 6, 2011

OPM believes that the Postal Service and its employees and retirees can also reduce health care costs while maintaining valuable benefits by staying within the FEHB program

Legislative Proposals on Postal Reform

Several postal reform proposals have been introduced to address the financial challenges that the Postal Service faces through changes in employee benefits. Legislation introduced by Senator Collins, S. 353, the U.S. Postal Service Improvements Act of 2011, has the goal of addressing the Postal Service's funding of CSRS and FERS. Senator Carper introduced S.1010, the Postal Operations Sustainment and Transformation (POST) Act of 2011, which would amend title 5, U.S.C, by revising the methodology for calculating the amount of any Postal surplus or supplemental liability under CSRS and FERS. Representative Lynch introduced H.R. 1351, the United States Postal Service Pension Obligation Recalculation and Restoration Act of 2011, which would also revise the allocation of CSRS costs between Postal and Treasury. H.R. 1351 revises the allocation of CSRS costs between Postal and Treasury, similar to S.1010. H.R. 2309, the Postal Reform Act of 2011, was introduced by Representative Issa and has the goal of saving the Postal Service $6 billion per year by creating the Postal Service Financial Responsibility and Management Assistance Authority (Authority) and Commission on Postal Reorganization (CPR) to restructure USPS and reduce costs.

OPM would like to clarify the term "overpayment" as it has been used because it implies a problem with the current allocation method that OPM uses regarding CSRS benefits paid to former Post Office Department (POD) employees. OPM applies the method established under current law for apportioning responsibility for CSRS costs between USPS and the Treasury. Congress first established this policy in 1974, under P.L. 93-349, and all subsequent legislation has been consistent with this policy. As OPM states in a letter last year to the Chairman of the Postal Regulatory Commission (PRC), after careful review by counsel, we concluded that OPM does not have the authority to make a reallocation of these CSRS costs in the manner suggested in the report commission by the PRC. However, if Congress determines that another methodology is more appropriate, OPM will of course comply with any changes in the current law.

Comments on S. 353, the U.S. Postal Service Improvements Act of 2011

This legislation includes a requirement that OPM shall upon enactment make a determination of the Postal CSRS liability in a manner consistent with the report submitted by the PRC on June 29, 2010. That report recommended a reallocation of the Postal CSRS liability that it estimated would transfer roughly $55 to $65 billion in costs from USPS to the Federal Government. However the language does not explicitly require that the annual determination of the CSRS liability under 5 U.S.C 8348(h) be made on a basis for which the federal government, not USPS, is retroactively responsible for all of the costs attributable to the effect of post-1971 salary increases on CSRS benefits attributable to pre-1971 service. The legislation shifts responsibility from USPS to Treasury, retroactively back to inception of FERS, for FERS military service

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The Honorable John Berry
Director
U.S. Office of Personnel Management

September 6, 2011
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costs. The legislation does not establish authority for OPM to determine a separate FERS normal cost for USPS.

Comments on S.1010, the POST Act of 2011

S.1010 directs OPM to determine CSRS liabilities with the federal government, not USPS, being retroactively responsible for all costs attributable to the effect of post-1971 salary increases on CSRS benefits attributable to pre-1971 service. Similar to S. 353, the legislation also shifts retroactive responsibility from USPS to Treasury, back to inception of FERS, for FERS military service costs. The legislation does not establish authority for OPM to determine a separate FERS normal cost for USPS.

The legislation revises the economic assumption basis under which OPM determines the FEHB Postal retiree health liability and requires OPM's CSRS Board of Actuaries (the "Board") to recommend a medical trend rate. However, because the Board is composed of pension actuaries, choosing a medical trend assumption is beyond the scope of the Board's customary expertise. The Board has also expressed its concerns that actuarial standards of practice would likely statutorily prohibit the Board from directly offering guidance, due to the Board's composition. Savings from CSRS and FERS would be used to lower or replace USPS payments to the Postal Service Retiree Health Benefits Fund.

Comments on H.R. 1351, the United States Postal Service Pension Obligation Recalculation and Restoration Act of 2011

H.R. 1351 revises the allocation of CSRS costs between Postal and Treasury, similar to S.1010. However, the legislation appears to push all of the resulting savings to USPS (with costs going to Treasury) beyond the 10 year budget window. The legislation does not revise the FERS allocation method, but does provide use of the current FERS funding surplus for immediate payment of USPS annual payments into the PSRHB Fund.

Comments on H.R. 2309, the Postal Reform Act of 2011

H.R. 2309 would create the Authority which would have a broad mandate to restructure the Postal Service and reduce costs. It would have to meet certain benchmarks to ensure that Postal Service pension and retiree health benefits were properly funded, and then it would go out of existence. It would also create the CPR to review postal infrastructure and recommend closures and consolidations to Congress that would create cost savings. If Congress does not reject the CPR's recommendations, the recommendations would become law. This proposal would not affect FERS or CSRS or retiree FEHB funding. The only provision affecting benefits involves a limitation on the Postal contribution to FEHB and Federal Employee Group Life Insurance (FEGLI) to the federal non-postal employer contribution. H.R. 2309 does not contain any provisions that alter retirement benefits.

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Conclusion

These are complex issues with effects that could ripple throughout government-wide health and retirement programs, and therefore require further analysis. We look forward to working with the Committee to assist the Postal Service in addressing its fiscal challenges.

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United States Government Accountability Office

GAO

Testimony
Before the Committee on Homeland Security and Governmental Affairs, U.S. Senate

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U.S. POSTAL SERVICE

Actions Needed to Stave off Financial Insolvency

Statement of Phillip Herr, Director
Physical Infrastructure Issues

U.S. Government Accountability Office
GAO 90 YEARS 1921-2011
ACCOUNTABILITY ★ INTEGRITY ★ RELIABILITY

GAO-11-926T

September 6, 2011

GAO
Accountability * Integrity * Reliability

Highlights

Highlights of GAO-11-926T, a testimony before the Committee on Homeland Security and Governmental Affairs, U.S. Senate.

U.S. POSTAL SERVICE

Actions Needed to Stave off Financial Insolvency

Why GAO Did This Study

By the end of this fiscal year—in less than one month—the U.S. Postal Service (USPS) projects that it will incur a $9 billion loss; reach its $15 billion borrowing limit; not make its $5.5 billion retiree health benefits payment; and thus, become insolvent. USPS recently summarized this situation as the equivalent of facing Chapter 11 bankruptcy. In August 2011, USPS outlined new proposals to address the crisis. USPS seeks legislation to remove itself from the federal health benefit program and sponsor its own program; change pension benefits for new employees; and eliminate the layoff provisions it negotiated with its unions in collective bargaining to accelerate its delivery, processing, and retail network and workforce downsizing. Other USPS proposals, such as moving to 5-day delivery, and pending legislation include additional options for consideration.

This statement discusses (1) updated information on USPS's financial crisis and (2) GAO's review and analysis of proposals to address this crisis, including USPS's new proposals, and options in current legislation. The testimony is based primarily on GAO's review of pending legislation, past and ongoing work related to postal issues, as well as USPS's recent financial results and GAO's discussions with senior postal officials regarding USPS's recent proposals. GAO has reported that action by Congress and USPS is urgently needed to restore USPS's financial viability. GAO provided a draft statement to USPS for comments and did not receive any suggested changes.

View GAO-11-926T. For more information, contact Phillip Herr at (202) 512-2834 or herrp@gao.gov.

What GAO Found

USPS has experienced a cumulative net loss of nearly $20 billion over the last 5 fiscal years, including an $8.5 billion loss in 2010, and a net loss of $5.7 billion in the first 9 months of fiscal year 2011. USPS does not now have—nor does it expect to have—sufficient revenue to cover its costs without legislative changes. To conserve cash, USPS discontinued making its employer's contribution for the defined-benefit portion of the Federal Employees Retirement System (FERS) in June 2011, which it estimated would reduce its costs by about $800 million this fiscal year. USPS has said that mail volume decline has outpaced even its most pessimistic forecasts. USPS urgently needs to restructure its networks and workforce as its financial condition and outlook have reached a crisis level.

A variety of proposals have been made to address USPS's financial crisis. These proposals affect USPS cost savings, postal rates, customer convenience, pension benefits for new employees, employee health benefits, collective bargaining agreements, and delivery and retail services. GAO has identified key issues needing consideration in determining the merits of these proposals. Examples of specific proposals and key considerations include:

- USPS proposal to sponsor its own health benefit plan: USPS expects to save costs by increasing employee contribution rates, fully utilizing Medicare benefits, and administering its plan more efficiently than OPM. However, it is not clear whether USPS can achieve planned cost savings and what the implications are for the federal budget, as USPS has requested about $42 billion in retiree health benefit assets be transferred from Treasury to a USPS Fund.
- USPS proposal to seek reimbursement of its $6.9 billion FERS surplus: Reimbursing the entire surplus all at once is a risk as the current FERS surplus is an estimate that could change as economic or demographic assumptions change. The President's Fiscal Year 2012 Budget Request proposed amortizing the reimbursement over 30 years, which would be consistent with the approach taken for any deficits.
- USPS proposal on workforce optimization: USPS expects to reduce costs by closing about 300 mail processing plants and 12,000 retail facilities; reducing service; and eliminating layoff protections in collective bargaining agreements so that it can reduce its total workforce by about 125,000 career employees by 2015. This proposal accelerates the pace of USPS actions in this area, but it is not clear how USPS will address public resistance to facility closures that could lengthen the timeframes for implementation; employee resistance to making legislative changes to layoff protections; and potential loss of customers if service declines or costs increase.

Little time remains to prevent USPS—the largest federal civilian employer—from insolvency. The stark reality is that USPS's business model is broken. The decline in mail volumes is continuing. The gap between revenues and expenses is growing. USPS cannot continue providing services at current levels without dramatic changes in its cost structure. Difficult choices must be made. Now is the time to decide USPS's future.

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Chairman Lieberman, Senator Collins, and Members of the Committee:

I am pleased to be here today to participate in this hearing focused on the challenges facing the U.S. Postal Service (USPS). USPS is in a serious financial crisis, and as mail volume continues to decline, it has not generated sufficient revenue to cover its expenses and financial obligations. In less than a month, USPS officials project that it will be insolvent and default on its statutorily-mandated retiree health payment. USPS has concluded that extraordinary steps must now be taken to restore it to sound financial footing. Critical decisions by Congress and USPS are needed to both avoid this projected default of the largest federal civilian employer and address USPS's financial and operational challenges.

This testimony discusses (1) updated information on USPS's financial crisis and (2) our review and analysis of proposals to address this crisis that include pending congressional legislation and recent USPS proposals that would allow it to withdraw from the federal health benefit program and sponsor its own program, change the pension program for new hires, and accelerate its network and workforce optimization efforts. The testimony is based primarily on our review of pending legislation, GAO's past and ongoing[1] work, as well as GAO's review of USPS's recent financial results and our discussions with senior postal officials regarding USPS's recent proposals.

We performed this work from August 2011 to September 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[1]We have several ongoing reviews that are assessing USPS's plans and actions to (1) close retail facilities; (2) expand access to retail alternatives operated by private contractors; (3) reduce mail processing excess capacity and close unneeded facilities; and (4) consolidate area and district administrative offices.

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USPS's Financial Crisis Has Worsened, and USPS Is Likely to Face Insolvency

As we have noted previously, USPS urgently needs to restructure its networks and operations as its financial condition and outlook have reached a crisis level. USPS has experienced a cumulative net loss of nearly $20 billion over the last 5 fiscal years, including an $8.5 billion loss in 2010; and a reported net loss of $5.7 billion in the first 9 months of fiscal year 2011. By the end of this fiscal year, USPS projects that it will incur a $9 billion loss, experience a substantial cash shortfall, reach its $15 billion borrowing limit, and not make its statutorily mandated $5.5 billion retiree health benefits payment to the federal government. USPS summarized its situation as the equivalent of facing Chapter 11 bankruptcy.

USPS's financial problems are related to customers' changed mail use—that is, mail volume is declining as people shift to electronic communications and payment alternatives rather than using USPS. Total mail volume peaked in fiscal year 2006 at 213 billion pieces and declined by almost 20 percent to about 170 billion pieces by the end of fiscal year 2010. In the first 3 quarters of this fiscal year, the volume for First-Class Mail—USPS's most profitable product that accounted for 49 percent of USPS operating revenue—has declined by 6.5 percent compared to the same period last year. USPS has said that mail volume declines and changes in the mail mix have outpaced even its most pessimistic forecasts. USPS has projected a further drop in total mail volume to about 133 billion pieces by 2020.

USPS does not now have—nor expects in the future to have—sufficient revenue to cover its costs without legislative changes. These costs include compensation and benefits for a workforce of about 653,000 total employees, a network of about 33,000 USPS-operated retail[2] and processing facilities, and 6-day delivery services to about 150 million locations, which expands by roughly 1 million new residences and businesses each year. USPS had $67 billion in revenue in fiscal year 2010 and $75.5 billion in expenses, resulting in a loss of $8.5 billion, which it expects to grow to a $20 billion loss by 2015. USPS also faces a variety of challenges, including difficulties reducing costly excess capacity in its networks; closing facilities due to stakeholder resistance or statutory

[2]USPS-operated retail facilities include (1) main post offices, where local postmasters oversee retail operations in the geographic area; (2) postal stations located within a municipality's corporate limits; and (3) postal branches located outside a municipality's corporate limits.

and regulatory requirements that restrict closings; and making the annual prefunding retiree health benefit payments of about $5.5 billion required since 2006.[3] For these reasons, we placed USPS's financial condition and outlook on our list of high-risk programs and agencies in 2009, and it remains on our updated list in 2011.[4]

Proposals to Address USPS's Financial Crisis

We have reviewed a variety of proposals to address USPS's ongoing financial difficulties by reducing costs and improving operational efficiency, but the overall effects of these proposals are uncertain because many questions remain. In August 2011, USPS released two discussion drafts that outline major proposals to (1) seek legislative authority to withdraw USPS from the Federal Employee Health Benefit (FEHB) program and sponsor its own program and change pension benefits for new employees, and (2) seek legislative authority to eliminate the layoff protections it negotiated with its unions in collective bargaining to accelerate network and workforce downsizing.[5] USPS has not fully developed these proposals, so answers are not available to many of the questions that have been raised. We also reviewed other proposals including

- USPS proposals to seek reimbursement of the surplus in its Federal Employees Retirement System (FERS) account and reduce costs by moving to 5-day delivery, restructuring its retail network, and reducing excess capacity in its mail processing network;

[3]In 2006, Congress established a 10-year schedule of USPS payments into a fund (the Postal Service Retiree Health Benefits Fund) that average $5.6 billion per year through fiscal year 2016. Starting in fiscal year 2017, USPS's share of the health benefit premiums for current and future retirees will be paid from this fund and USPS will also fund the actuarially determined normal cost plus an amortization of any unfunded liability. Pub. L. No. 109-435, § 803(a).

[4]GAO, *High-Risk Series: Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability*, GAO-09-937SP (Washington, D.C.: July 28, 2009). *High-Risk Series: An Update*, GAO-11-278 (Washington, D.C.: February 2011).

[5]See *http://about.usps.com/news/national-releases/2011/pr11_wp_hbretirees_0812.pdf* and *http://about.usps.com/news/national-releases/2011/pr11_wp_workforce_0812.pdf*.

- pending legislation, including bills introduced in the Senate by Senators Carper and Collins and in the House of Representatives by Representatives Issa and Lynch;[6]
- the President's Fiscal Year 2012 Budget Request;
- our recent work, including our April 2010 report on USPS's business model which (1) concluded that this model is broken and that USPS needs to take more aggressive action to better align costs with revenues[7] and (2) discussed a series of options that included restructuring USPS's retiree health prefunding payments, adjusting its workforce mix to more part-time staff, closing unneeded retail and mail processing facilities, and moving to 5-day delivery; and,
- reports by the U.S. Postal Service Office of Inspector General (USPS OIG) and the U.S. Office of Personnel Management Office of Inspector General (OPM OIG) related to changing the funding of USPS's pension and retiree benefits.[8]

Proposals Related to Reducing Benefit Costs

The key considerations of the USPS benefit-related proposals include the financial impact on USPS, its employees, future hires, retirees, the federal budget, and benefit programs and USPS's ability to administer its own program. USPS costs for participating in the federal government-sponsored pension, health benefit, and workers' compensation programs totaled about $22 billion in fiscal year 2010, almost 30 percent of its total expenses. This total included $5.8 billion for retirement benefits (FERS, Social Security, and the Thrift Savings Plan), $12.8 billion for health benefits, and $3.6 billion for workers' compensation expenses. USPS was

[6]On May 17, 2011, Senator Carper introduced the Postal Operations Sustainment and Transformation Act of 2011. S. 1010, 112th Cong. (2011). On February 15, 2011, Senator Collins introduced the U.S. Postal Service Improvements Act of 2011. S. 353, 112th Cong. (2011). On June 23, 2011, Representative Issa introduced the Postal Reform Act of 2011. H.R. 2309, 112th Cong. (2011). On April 4, 2011, Representative Lynch introduced the United States Postal Service Pension Obligation Recalculation and Restoration Act of 2011. H.R. 1351, 112th Cong. (2011).

[7]GAO, *U.S. Postal Service: Strategies and Options to Facilitate Progress toward Financial Viability*, GAO-10-455 (Washington, D.C.: Apr. 12, 2010).

[8]U S. Postal Service Office of Inspector General, *"Management Advisory – Substantial Savings Available by Prefunding Pensions and Retirees' Health Care at Benchmarked Levels,"* Report Number FT-MA-11-001 (Arlington, VA: November 23, 2010) and U.S. Office of Personnel Management Office of the Inspector General, *"A Study of the Risks and Consequences of the USPS OIG's Proposals to Change USPS's Funding of Retiree Benefits"* (Washington, D.C.: Feb. 28, 2011).

not required to make any payments for Civil Service Retirement System (CSRS) pensions in fiscal year 2010.[9]

Employee Health Benefits

USPS currently has approximately 600,000 active employees and 480,000 annuitants participating in the FEHB program. In fiscal year 2010, USPS recorded over $12.8 billion in health care costs: $5.1 billion in costs for current employees, $2.2 billion in premium costs for current retirees, and $5.5 billion for prefunding premium costs. USPS employees paid about 20 percent of their premium costs in fiscal year 2010 as compared to about 28 percent paid by other federal employees. USPS reported in its fiscal year 2010 annual report that its Retiree Health Benefits Fund had assets of $42.5 billion. USPS's proposal stated that these assets would cover 47 percent of all future liabilities for current and future retirees. Going forward, USPS's health-related benefit costs will continue to face pressure from rising health care premiums, continued prefunding requirements, and increasing number of retirees (USPS estimates that about 300,000 employees will be eligible to retire over the next decade).

USPS has proposed establishing and managing its own health benefits program. Its proposal briefly discusses USPS's rationale, how it would go about creating such a program, the governance and oversight structure, and it views of the unions' role under the proposed process. While the Postal Service believes it currently has authority to withdraw from the FEHB program pursuant to section 1005(f) of title 39 of the United States Code, it has stated that it will seek specific statutory authority to do so. USPS is authorized to vary, modify, or add to certain fringe benefits, but is prohibited from making any changes to fringe benefits that on the whole are less favorable than the fringe benefits in effect when the Postal

[9]In 2002, OPM estimated that, under statutory pension funding requirements applicable to USPS at the time, USPS was on course to overfund its CSRS pension obligations. Congress responded by enacting the Postal Civil Service Retirement System Funding Reform Act of 2003, which changed the prior method of estimating and funding the USPS CSRS pension obligations. Pursuant to the Postal Accountability and Enhancement Act, USPS is not required to make contributions for CSRS employees' retirement through fiscal year 2017 when the Office of Personnel Management (OPM) is required to perform an actuarial valuation to determine whether USPS has a pension surplus or liability. If USPS has a pension liability, OPM must establish an amortization schedule by 2017 for additional payments. Pub. L. No. 109-435, § 802(a) (Dec. 20, 2006).

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Reorganization Act of 1970 was enacted.[10] The Postmaster General has stated, however, that USPS may alter benefits for certain categories of employees under any health benefits program it would administer.

Our April 2010 report on USPS's business model discussed several options and related issues pertaining to assigning financial responsibility for benefits to USPS, its employees, and current and future ratepayers. Key considerations include improving USPS's poor financial condition while keeping rates affordable, ensuring adequate funding to fulfill its financial obligations pertaining to employee benefits, and minimizing risk to the taxpayer if USPS would be unable to meet its responsibilities. USPS has said it cannot afford its required prefunding payments to the Retiree Health Benefits Fund on the basis of its significant mail volume and revenue declines, large financial losses, and difficulties in reducing costs. We have reported that Congress should consider a package of actions, which could include providing financial relief to USPS by modifying its retiree health benefit cost structure in a fiscally responsible manner.

Several legislative proposals have been made to defer costs by revising statutory requirements, including extending and revising prefunding payments to the Retiree Health Benefits Fund, with smaller payment amounts in the short term followed by larger amounts later. Deferring some prefunding of these benefits would serve as short-term fiscal relief. However, deferrals also increase the risk that USPS will not be able to make future payments as its core business declines. Therefore, it is important that USPS continue to fund its retiree health benefit obligations—including prefunding these obligations—to the maximum extent that its finances permit. At this point, however, USPS will be challenged to make these payments and says it will not be able to this year.

[10]This provision authorizes USPS to vary, modify, or add to certain components of federal unemployment compensation, life insurance, and certain components of health insurance, subject to provisions in title 39. The provision, however, states that "[n]o variation, addition, or substitution with respect to fringe benefits shall result in a program of fringe benefits which on the whole is less favorable to officers and employees than fringe benefits" in effect upon enactment of the Postal Reorganization Act of 1970. In addition, for employees covered by a collective bargaining agreement, variations, additions, or substitutions may only be made by agreement between the collective bargaining representative and the Postal Service. 39 U.S.C. § 1005(f).

Table 1 describes health benefit-related proposals from USPS, pending legislation (bills introduced in 2011 by Senators Carper and Collins and Representatives Issa and Lynch), the President's Fiscal Year 2012 Budget Request, GAO's report on USPS's business model (GAO-10-455), and a report by the USPS OIG,[11] along with key issues that we have identified.

Table 1: Proposals to Modify USPS's Health Benefit Structure and Key Issues to Consider

Proposals	Key Issues to Consider
Allow USPS to sponsor its own health benefit program: • USPS has proposed establishing its own health benefit program (thus removing it from the federal program administered by the Office of Personnel Management), which would differentiate benefits based on category of participant. • To implement this proposal, USPS said that it would have to receive the $42.5 billion in assets currently in the Postal Service Retiree Health Benefits Fund.	• USPS did not provide an estimate of the financial benefits related to its proposal. • USPS believes it could achieve higher returns on invested assets and lower costs from simplifying the plan structure, achieving discounts on drug purchases, requiring eligible retirees to fully utilize Medicare benefits, and reducing retiree health benefits for employees after 2013.
Transfer surplus CSRS funds to USPS Retiree Health Benefits Fund: • Pending legislation would transfer any surplus CSRS funds (if Congress transfers responsibility for the effect of post-1971 salary increases on pre-1971 pension service) to USPS's Retiree Health Benefits Fund, and if it is fully funded, USPS could use the surplus to make its workers' compensation payments or reduce its debt.	• There are two variations on this proposal, involving technical details of the CSRS benefit formula, with estimated impacts ranging from $50 billion to $75 billion.
Use a "pay-as-you-go" approach to revise retiree health benefit payments: • In March 2010, USPS proposed shifting to a pay-as-you-go system (for its retiree health benefits), and paying premiums as they are billed for current retirees. • GAO discussed different variations on a pay-as-you-go approach in its April 2010 report (GAO-10-455), such as using the Retiree Health Benefits Fund to pay USPS's share of retiree health premiums for current retirees until the Fund is exhausted and then reverting to USPS funding future premiums from its operations by paying the FEHB Fund directly.	• GAO estimated that one pay-as-you-go approach would reduce USPS's total payments by over $44 billion dollars through fiscal year 2020, but would also result in a $66 billion increase in USPS's unfunded obligation in fiscal year 2020. • Any deferral of the currently required prefunding payments could impact the federal budget.

[11] USPS OIG, FT-MA-11-001.

Proposals	Key Issues to Consider
Use an actuarial approach to revise retiree health benefit payments: • The President's Fiscal Year 2012 Budget Request proposed restructuring the mandated prefunding payments to an accrual cost basis, which would save USPS $4 billion in 2011. • GAO's 2010 report discussed this option, whereby payments include 1) amounts for "normal costs," that is, the costs to finance the future retiree health benefits attributed to the service of current employees and 2) amortization amounts to liquidate unfunded obligations over a 40-year period.	• The President's Budget Request estimated the deficit effect of this proposal would be $5 billion over the fiscal year 2011 to 2021 budget period. • GAO estimated this actuarial approach would reduce USPS's total payments compared to current law by nearly $10 billion dollars through fiscal year 2020, but would also increase USPS's unfunded obligation by $15 billion in fiscal year 2020.
Increase employees share of health benefit premiums: • Pending legislation would require USPS employees to pay the same health insurance premium percentage as other federal workers. • GAO's 2010 report discussed an option that would more closely align USPS's share of the health insurance premium payments with that paid by most federal agencies. Collective bargaining agreements require USPS to pay a more generous share of employees' health insurance premiums than most other federal agencies (USPS paid, on average, 80 percent of health benefit premiums in fiscal year 2010 compared with 72 percent by other federal agencies).	• USPS estimated that decreasing its share of health benefit premium payments from 80 percent to 72 percent would have saved USPS about $560 million in fiscal year 2010.
Change prefunding required for retiree health benefits: • In a November 2010 report, the USPS OIG recommended that USPS prefund its retiree health benefits at 30 percent of its liability.	• Using a funding target of less than 100 percent can have the effect of passing along costs of current services to future ratepayers. • Reducing the level of prefunding could increase the risk that taxpayers may have to fund this liability if USPS defaults.

Source: GAO analysis

Note: The proposals reviewed for this table include USPS August 2011 discussion paper regarding Health Benefits and Retirement Programs; legislative proposals from the Postal Operations Sustainment and Transformation Act of 2011, S. 1010; the U.S. Postal Service Improvements Act of 2011, S. 353; the United States Postal Service Pension Obligation Recalculation and Restoration Act of 2011, H.R. 1351; the U.S. Postal Service Improvements Act of 2011, S. 353; the Postal Reform Act of 2011, H.R. 2309; the President's Fiscal Year 2012 Budget Request; GAO report (GAO-10-455); and USPS OIG report (FT-MA-11-001).

Some of the key questions that should be considered by Congress, USPS, and other stakeholders regarding USPS's recent proposal to create its own health benefit program include:

- Legal authority – While USPS has stated that it will request legislative authority to withdraw from FEHB and start its own health benefit program, what other legal and regulatory provisions (e.g., its retiree health prefunding requirements[12]) may be affected by such a withdrawal?

[12]Pub. L. No. 109-435, § 803.

- Budgetary – What impact would such a move have on the federal budget, particularly transferring $42 billion in assets from the current Treasury-held Fund to the proposed Postal Service-administered health benefits program?
- Financial impact to USPS – What savings would USPS expect from such a shift, both in the short-term and in the longer-term? How would such a change impact USPS health benefit contribution rates and costs? How would the current costs paid by USPS to OPM to administer the program compare to those USPS expects to incur by administering the program itself?
- Employee impacts – What would be the expected impact on employees' contribution rates, costs, and benefits? What would be the impact of this proposal on collective bargaining?
- Impact on other federal employees – How would the benefits, contribution rates, and costs of other federal employees enrolled in FEHB be impacted by this proposal? Also, how would non-USPS federal employees[13] who are currently enrolled in postal union sponsored FEHB plans be impacted?
- Fiduciary responsibility – How does USPS plan to acquire the experience needed to sponsor health benefit programs for over 1 million participants? Who would decide what the required funding level and investment strategy should be? Also, if USPS defaults on benefit payments, what would be the federal government's obligation?
- Oversight – How would disagreements between the proposed Plan Management body and USPS and/or employees be resolved, e.g. scope of coverage, procedures, etc.?

USPS Pension Benefits

Approximately 84 percent of eligible USPS employees are enrolled in FERS, and about 16 percent are enrolled in CSRS or the Dual CSRS/Social Security program; these programs are administered by the Office of Personnel Management (OPM). At the end of fiscal year 2009, OPM estimated that USPS had an unfunded CSRS liability of $7.3 billion

[13]Three of the four major postal-union sponsored FEHB plans are open to all federal employees.

and a FERS surplus of $6.9 billion.[14] USPS has asked Congress to enact legislation that would allow it to access the FERS surplus. To conserve cash immediately, however, in June 2011, USPS discontinued making its employer contribution payments for the defined benefit portion of FERS.[15] The current $6.9 billion FERS surplus is approximately equal to 2 years of USPS's FERS contributions that it has stopped making. Thus, if USPS continues not to make its FERS payments, its FERS surplus will be reduced by a commensurate amount. USPS estimated this would reduce its costs by about $800 million in the current fiscal year but would not impact current or future postal retirees.[16] Both USPS and the OPM agreed to seek a resolution of the legal issues surrounding USPS's decision to discontinue its FERS payments by requesting a legal opinion from the Office of Legal Counsel at the Department of Justice.

USPS has proposed legislation that would make new employees eligible only for the Thrift Savings Plan (possibly modified) and Social Security. New employees would not be eligible for the FERS defined benefit annuity or CSRS. USPS's proposal included a brief description of why USPS is requesting this change as well as what postal officials perceived as inconsistencies between the current pension system and the "pay comparability"[17] factor and what they have characterized as "over-payment" concerns. There is disagreement regarding whether USPS has "overpaid" CSRS between $50 billion and $75 billion. The USPS OIG and Postal Regulatory Commission have asserted that the current method of allocating pension costs for pay increases after 1971[18] results in the

[14]These annual OPM estimates for the CSRS liability and FERS surplus are subject to change based on experience and future estimates of various economic and demographic factors, such as interest rates, inflations rates and cost-of-living adjustments, longevity, and retirement behavior. The current CSRS liability makes it more likely than not that additional CSRS payments would become necessary beginning in 2017 (see footnote 9).

[15]FERS is a three-tiered retirement plan consisting of a defined benefit annuity, the Thrift Savings Plan, and Social Security.

[16]However, the deferral of these payments increases the risk to either plan participants or to Treasury, should the USPS portion of FERS go into deficit (because of either adverse experience or as additional benefits accrue) and USPS is unable to make up the value of these missed payments in the future.

[17]USPS is required by law to maintain compensation and benefits for its officers and employees comparable to the private sector. 39 U.S.C. § 101(c).

[18]Responsibility for paying for the increase in retirement benefits for pre-1971 service of postal employees due to increases in postal salaries since July 1, 1971 was transferred from the U.S. Treasury to USPS by statute in 1974. Pub. L. No. 93-349 (July 12, 1974).

inequitable allocation of pension obligations to USPS, and the USPS OIG proposed an alternative allocation methodology. In response, the OPM OIG has asserted that OPM does not have the authority to adopt this proposal without further legislation, that a change in the allocation methodology would shift substantial pension funding costs from USPS to the U.S. Treasury, and that using the federal retirement program as a vehicle through which to implement other policy objectives would be unwise, inefficient, and harmful to the program itself.[19]

Table 2 describes key provisions from USPS's retirement-related proposals, pending legislation (bills introduced in 2011 by Senators Carper and Collins, and Representatives Issa and Lynch), the President's Fiscal Year 2012 Budget Request, GAO's report on USPS's business model (GAO-10-455), and a report by the USPS OIG,[20] along with key issues that we have identified.

Table 2: Proposals to Modify USPS's Pension Plan and Key Issues to Consider

Proposals	Key Issues to Consider
Revise pension plan for new hires: • In August 2011, USPS proposed legislation to change the pension plan for new hires from a defined benefit plan to a defined contribution plan, which would eliminate the FERS annuity, and give USPS more flexibility to determine contributions to the Thrift Savings Plan. The retirement plan for USPS's existing CSRS and FERS employees would stay the same.	• USPS did not provide an estimate of the financial benefits related to its proposal. • USPS's savings would come from eliminating the FERS annuity for new hires and possibly modifying participation in the Thrift Savings Plan
Revise USPS's CSRS liability and transfer any surplus to Retiree Health Benefits Fund: Several pending bills would • adjust the methodology OPM uses to reflect a shift in responsibility for these benefits from USPS to the federal government. (USPS has disputed who is responsible for the impact of post-1971 salary increases on pension benefits tied to pre-1971 service.) • allow any resulting CSRS surplus to be transferred to USPS's Retiree Health Benefits Fund.	• This proposal is expected to make the federal government responsible for a greater share of USPS's CSRS pension obligation, with cost estimates ranging from $50 billion to $75 billion. • Any authorized transfer of CSRS funds to USPS would have an impact on the federal budget.

[19]OPM OIG, *A Study of the Risks and Consequences of the USPS OIG's Proposals to Change USPS's Funding of Retiree Benefits.*

[20]USPS OIG, FT-MA-11-001.

Proposals	Key Issues to Consider
Reimburse USPS for the current surplus in OPM's FERS Fund – estimated $6.9 billion: • USPS proposed giving it immediate access to the FERS surplus. • The President's Fiscal Year 2012 Budget Request proposed an annual appropriation (an estimated $550 million in 2011) amortized over 30 years to reimburse USPS for its current FERS surplus.	• The FERS surplus is an estimate that could change as economic or demographic assumptions change. Amortizing any reimbursement over a longer time period would be consistent with the actuarial approach taken for any deficits. • USPS's proposal does not specify how surplus funds would be used.
Allow USPS to prefund the CSRS and FERS pension programs at 80 percent of their liability: • The USPS OIG proposed reducing the prefunding target for CSRS and FERS from 100 percent to 80 percent so that USPS could meet its obligation while conserving cash and improving its financial condition. According to the USPS OIG, if USPS implemented this change in prefunding, it would save $51.4 billion.	• Reducing prefunding amounts would provide USPS with short-term financial relief but would increase the long-term risk of funding these payments. • Any changes to the required prefunding levels could affect the federal budget. • Requiring USPS to fully prefund its retiree liabilities provides important protection for taxpayers by guaranteeing that USPS will continue to pay its own expenses. • Using a funding target of less than 100 percent can have the effect of passing along costs of current services to future ratepayers.

Source: GAO analysis

Note: The proposals reviewed for this table include USPS August 2011 discussion paper regarding Health Benefits and Retirement Programs; legislative proposals from the Postal Operations Sustainment and Transformation Act of 2011, S. 1010; the United States Postal Service Pension Obligation Recalculation and Restoration Act of 2011, H.R. 1351; the President's Fiscal Year 2012 Budget Request; GAO report (GAO-10-455); and USPS OIG report (FT-MA-11-001).

The following questions provide a starting point to consider USPS's proposal to withdraw from the federal pension programs:

- USPS legal authority – USPS would require new statutory authority to withdraw future employees from the federal pension annuity.[21] USPS proposes to eliminate the FERS annuity for new employees so that their benefits are comparable to the private sector. Is additional clarification needed to determine whether USPS's pension proposal for new employees is comparable to the private sector?
- Budgetary – What would be the impact on the federal budget of transferring the $6.9 billion FERS surplus to USPS?

[21] 39 U.S.C. § 1005(d)(1).

- Financial impact to USPS – What savings would be expected from eliminating the FERS annuity for new hires?
- Employee impacts – How would such a change impact employees' and USPS's contribution rates to the Thrift Savings Plan for new hires?

Further analysis may also be needed of other options that could be considered to reassess USPS's current pension program. For example, flexibilities within FERS can accommodate different accrual rates for certain groups of employees (e.g., law enforcement officers and congressional employees). Thus, through legislation, FERS benefits for USPS employees could potentially be modified.

Other Employee Benefits

USPS also provides other benefits to employees, including workers' compensation and life insurance (which cost nearly $3.6 billion and $210 million respectively in fiscal year 2010). Although neither of these benefits is discussed in USPS's recent draft proposals, legislation[22] has been introduced that would convert employees on long-term workers' compensation to federal retirement programs when they reach retirement age. Furthermore, USPS offers employees life insurance coverage through the Federal Employees' Group Life Insurance (FEGLI) Program. USPS pays 100 percent of employee basic life insurance premiums, while other federal agencies pay about 33 percent. One option discussed in our April 2010 report would be for USPS to work with its unions in collective bargaining to increase employee premium payments for these benefits—and, in doing so, reduce USPS's share to levels paid by most federal agencies. USPS estimated that this would have saved about $130 million in fiscal year 2010.

Proposals to Reduce Costs through Network and Workforce Optimization

We have noted in a number of reports and testimonies that USPS needs to eliminate costly excess capacity in its networks due to declining mail volume, increased automation, and incentives that allow mailers to bypass USPS processing by entering 83 percent of Standard Mail, (primarily advertising) closer to its destination in return for a discount. Technological innovations such as advanced sorting machines can rapidly process and sequence mail, leaving less manual work for USPS employees. Moreover, although customer visits and retail revenue have

[22] The U.S. Postal Service Improvements Act of 2011, S. 353, 112th Cong. (2011).

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declined, USPS has not made commensurate reductions in its retail facilities. USPS reports that about 35 percent of its retail sales are performed at sites other than a traditional post office, such as stamp purchases at grocery stores or on the Internet. Together, these and other developments have resulted in the need for a smaller postal operational network and workforce.

During the past 12 years, USPS reported that it reduced its workforce by 235,000 career employees, primarily through attrition. Currently, USPS has about 653,000 total employees, and has a goal of reducing that number to 425,000 by 2015. USPS plans to increase the ratio of non-career to career employees and expects attrition to eliminate about 100,000 employees. In order to meet its 2015 goal, USPS has asked for legislation to eliminate the layoff provisions it has negotiated with its unions in collective bargaining so that it can accelerate reducing its workforce by an additional 125,000 career positions. Currently, USPS's collective bargaining agreements with three of its major unions contain a provision stating that USPS bargaining unit employees, who were employed as of September 15, 1978, or, if hired after that date, have completed 6 years of continuous service, are protected against any involuntary layoff or force reduction. The collective bargaining agreement with its fourth major union states that that no bargaining unit employees employed in the career work force will be laid off on an involuntary basis during the period of the agreement.

USPS has proposed initiatives to remove more than $11 billion in costs from its networks and workforce. USPS plans to reduce the number of processing plants from over 500 to fewer than 200 and has proposed changing service standards to increase delivery time. USPS has announced plans to streamline its postal-operated retail facilities from 32,000 to fewer than 20,000 by 2015, and has already begun studying 3,700 retail facilities for possible closure. It also plans to continue increasing the number of locations where postal services are provided in privately owned businesses. We recently reported on similar retail restructuring efforts by some foreign posts and the lessons learned to facilitate the transitions, which took time to phase in and gain acceptance.[23] In addition to these network operations proposals, USPS is

[23]GAO, *U.S. Postal Service: Foreign Posts' Strategies Could Inform U.S. Postal Service's Efforts to Modernize*, GAO-11-282. (Washington, D.C.: Feb. 16, 2011).

also continuing to examine the locations of its area and district offices—where it has recent made progress by closing some of these offices.

USPS initiatives and legislative proposals outline significant changes in the retail, delivery, and processing network and workforce to achieve cost savings, including enhancing USPS's ability to close unneeded facilities and layoff employees. Coordination with customers will be important so that USPS efforts to reduce its costs will not result in significantly increasing costs or decreasing services to customers. Further, USPS has proposed increasing the efficiency of mail delivery by reducing delivery service from 6 to 5-days[24] and consolidating routes. Delivery remains the most costly activity for USPS and involves more than 310,000 carriers accounting for approximately 47 percent ($23 billion) of USPS's total salary and benefit expenses in fiscal year 2010. Key proposals and related issues are presented in Table 3.

Table 3: Key Network Optimization and Workforce Proposals

Proposals	Key Issues to Consider
Restructure retail network: • USPS recently announced an initiative to study 3,700 retail facilities for possible closure or conversion to contractor-operated postal units and reduce the total number of postal-operated retail facilities from 32,000 to fewer than 20,000 by 2015. • Several pending bills facilitate network-wide restructuring and require retail restructuring plans. One bill would set up a commission to recommend to Congress a list of retail facilities to be closed. This list would not be subject to the appeals process. If approved, USPS would be required to complete the closures within 2 years and achieve $1 billion in annual savings. • Pending legislation calls for expanding retail alternatives.	• USPS did not provide an estimate of the cost savings related to its retail closure initiative. • Revenue from customer visits to postal-operated facilities has declined as revenue from alternative retail locations has increased to about 35 percent of total revenue. • USPS plans to expand retail alternatives, which it estimated would save $1.5 billion annually and enhance service. • The closures under USPS's initiative would likely face public resistance and would be subject to the appeals process, which includes individual facility reviews, and may be time consuming.

[24]USPS annual appropriations have specified that "6-day delivery and rural delivery of mail shall continue at not less than the 1983 level." See e.g., Pub. L. No. 111-117, 123 Stat. 3200 (Dec. 16, 2009).

Proposals	Key Issues to Consider
Restructure processing network: • USPS proposed reducing the number of its processing plants from over 500 to below 200. • USPS has also proposed changing its service standards, such as extending the overnight delivery standard for First-Class Mail to 2 days, to reduce its processing network and transportation costs. • Pending legislation would establish an independent commission to recommend to Congress a list of processing plants for closure or consolidation. If approved by Congress, USPS would be required to complete these changes in 2 years and achieve $1 billion in annual savings.	• We have reported that USPS has a processing network that is too large to support current mail volumes. • USPS estimated that closing nearly 300 processing plants (and achieving related reductions in staff, equipment, and processing) would save $3 billion annually in costs. It is not clear how these changes would affect its customers' costs and service. • The timeframe proposed to achieve these savings could be ambitious given the planned reductions in workforce and potential public resistance to closures.
Adjust delivery frequency and other actions to increase delivery efficiency: • USPS proposed adjusting delivery frequency from 6 to 5 days a week. • USPS plans to eliminate 20,000 city delivery routes out of the current 142,000 city routes. • Other options discussed in GAO-10-455 include expanding the use of more cost-efficient modes of delivery, such as moving door deliveries to centralized deliveries.	• USPS estimated that it could reduce costs by more than $3 billion annually by moving to 5-day delivery and $2 billion annually from route adjustments. • Changing delivery frequency would require legislative and regulatory actions. • Past GAO work has noted that changing delivery frequency could reduce volume and revenue and negatively affect some customers, as well as reduce USPS's advantage over competitors that do not offer Saturday delivery.
Eliminate layoff protections and reduce workforce: • USPS seeks legislation to eliminate the layoff protections in collective bargaining agreements so its workforce could be reduced by more than 125,000 employees at an accelerated pace in conjunction with network reductions. • Pending legislation would establish a financial authority that could require renegotiation of existing collective bargaining agreements to achieve workforce flexibility and economic savings. Another provision would require an arbitration board, established to provide binding arbitration if the parties fail to reach agreement through collective bargaining, to consider USPS's current and long-term financial condition in its decision.	• Eliminating union layoff protections may have an impact on future negotiations with the postal unions. • GAO reported that Congress should consider revising the statutory framework for collective bargaining to ensure that binding arbitration takes USPS's financial condition into account.

Source: GAO analysis

Note: The proposals reviewed for this table include a USPS August 2011 discussion paper titled, *Workforce Optimization*; legislative proposals from the Postal Operations Sustainment and Transformation Act of 2011, S. 1010 ; the U.S. Postal Service Improvements Act of 2011, S. 353; the Postal Reform Act of 2011, H.R. 2309; and GAO report (GAO-10-455).

These proposals require making trade-offs among USPS cost savings, customer convenience and costs, employee agreements, and expectations related to the level of services USPS can afford to provide. Some unresolved issues and questions to consider include:

- Universal service: What aspects of universal service, including 6-day delivery, are appropriate given the changed use of mail? What, if any, changes are needed to delivery standards to optimize USPS's processing network? Can USPS's proposed retail optimization improve customers' access to postal products and services through alternatives while also maximizing costs savings?

- Statutory and regulatory changes: What statutory or regulatory changes are needed to give USPS the flexibility it needs to restructure its operations, networks, and workforce, while also assuring appropriate oversight? Are changes needed to facilitate more timely review of appeals of retail facility closures and consolidations?
- Stakeholder involvement: What role, if any, should Congress, the Board of Governors, and the Postal Regulatory Commission have in developing, approving, or reviewing decisions to modernize and realign postal services? What input should postmasters and other postal employees, mailers, and the public have in these decisions?
- Accountability: What oversight mechanisms are needed to assure USPS decisions are consistent, transparent, and supported by reliable data? For example, are USPS's decisions on facility closures sufficiently transparent to the public?

The cost reduction proposals put forth by USPS offer options to help start USPS on a path—admittedly a long one at this point—to financial solvency. USPS is also looking at ways to enhance its revenue generation capabilities, including product enhancements, increasing market share in the parcel delivery market, and rate incentives. However, USPS has already discontinued FERS payments and has said that it is going to default by not making its mandated retiree health benefit payments at the end of this month. A projected default by USPS could increase risks to federal retirement and workers compensation programs and diminish USPS's trusted reputation and vital role in our economy, as well as the quality of postal services provided to the nation.

The stark reality is that USPS's business model is broken. The decline in mail volumes is continuing. The gap between revenues and expenses is growing. USPS cannot continue providing services at current levels without dramatic changes in its cost structure. Difficult choices must be made. Now is the time to decide USPS's future.

Chairman Lieberman, Ranking Member Collins, and Members of the Committee, this concludes my prepared statement. I would be pleased to answer any questions that you may have at this time.

Testimony of THOMAS D. LEVY before the Senate Committee on Homeland Security and Governmental Affairs, September 6, 2011

U.S. Postal Service in Crisis: Proposals to Prevent a Postal Shutdown

My name is Thomas D. Levy. I am Senior Vice President and Chief Actuary of The Segal Company, an international benefits consulting firm. I was the principal author of Segal's June 29, 2010 "Report to the Postal Regulatory Commission on Civil Service Retirement System Cost and Benefit Allocation Principles," and am here today with the encouragement of the PRC to discuss Segal's recommendations with respect to this important issue.

When USPS was established as an autonomous Federal entity effective in 1971, an important issue was the allocation of Civil Service Retirement System (CSRS) costs between the Federal government (for workers' service in the Post Office Department - POD) and the USPS. OPM has consistently done this allocation in accordance with P.L. 93-349 (1974). Essentially, that allocates to the Federal Government the cost of a frozen pension benefit for each worker as of June 30, 1971 based on service, rate of compensation, and the CSRS benefit formula at that time. The entire balance of that worker's pension (the effect of all service and compensation changes after that date) has been charged to USPS. Because the benefit design of CSRS has more generous benefits in the later years of a worker's career, and since the USPS was always the second employer, the benefit accrual charged to USPS for a year of service was usually higher than for POD service. Also, because the CSRS benefit is based on the high three-year-average salary for all years of service, USPS was in fact paying for the impact of post-1971 salary increases on POD pension accruals. In a report for the USPS Office of the Inspector General dated January 11, 2010, actuaries for The Hay Group concluded that this allocation was inequitable in both respects. They estimated that an equitable allocation, accumulated with interest, would have resulted in lower contributions paid into CSRS for all subsequent years - the USPS' share of the CSRS assets being lower by $75 billion for past payments at the end of FY2009, with about $10 billion of savings anticipated in future years. USPS requested PRC's opinion on the fairness and equity of the OPM method. After taking competitive bids, The Segal Company was selected by PRC to analyze and make recommendations.

We met with the stakeholders and reviewed the actuarial and accounting standards, and we concluded that the most relevant benchmark was the accounting standard applicable to private companies. This was the only approach that had as a primary objective the matching of revenues with the labor costs to produce those revenues – our assessment of the appropriate basis for evaluating the fairness of the CSRS cost allocation. That standard provides clear and non-discretionary direction. With regard to plans such as CSRS that provide non-uniform benefit accruals, the expense charge requires following the plan's accrual formula, as OPM was doing. However, it also requires that the cost allocation to a time period for a final average salary plan like CSRS must reflect the anticipated future salary at termination or retirement, and may not be limited to the cost based on the compensation at the time the work is done. These future compensation increases were not reflected in the POD allocation as part of the OPM methodology.

Based on this analysis, we concluded that the preferred method to allocate CSRS benefits to the Federal Government was to reflect post-1971 salary increases but otherwise to follow OPM's methodology. We indicated that we did not believe that the omission of future salary increases with respect to POD service was fair and equitable. We also noted that a pro-rata reflection of benefit accruals that did not follow the CSRS accrual formula (effectively, use of an "average" accrual rate over the participant's working career) was within the range of fair and equitable alternatives, but it was not our preferred methodology. We did not do any calculations of our own, but roughly estimated that as of the end of FY2009 our recommended allocation would result in accumulated savings of $50-$55 billion for past allocations compared to the OPM methodology, with an additional savings with respect to future payments of $6-$8 billion.

Thank you. That concludes my statement and I would be happy to take any questions.

Before The

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

UNITED STATES SENATE

TESTIMONY OF CLIFF GUFFEY, PRESIDENT

AMERICAN POSTAL WORKERS UNION, AFL-CIO
(September 6, 2011)

Mr. Chairman, Ranking Member Collins, and members of the Committee; I am Cliff Guffey, President of the American Postal Workers Union, AFL-CIO – the APWU. Thank you for providing me this opportunity to testify on behalf of our more than 250,000 members. Your letter inviting me to testify states that the purpose of this hearing is to review pending legislative proposals and to review proposals being advocated by the Postal Service. I understand that you particularly want to receive our views on what impact the Postal Service's most recent proposals on workforce reductions, health insurance, pension plans, and consolidation or closure of postal facilities would have on postal operations and postal employees.

I want to first talk about pending legislation and then turn to the more particular questions posed in your letter of invitation.

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The Postal Service has been affected by a loss of mail volume due to electronic diversion and, more temporarily, the recent deep recession from which we have not fully recovered. But the loss of mail volume is not why we are here today. We are here because the Postal Service needs immediate relief from the requirement that it pre-fund its retiree health benefits obligation over a short period of time. No other federal agency is required to pre-fund its retiree health benefits obligation, and very few private sector firms do so. None of them would attempt to fund this obligation over such a short time period. The Postal Service needs relief from this requirement. The Postal Service also has other important needs, including the need to modernize its mail processing operations, the need to replace its aging fleet of delivery vehicles, and the need to develop new products that will help it replace revenue lost to declining First Class letter mail.

Because of these critical needs, attention has focused on the fact that the Postal Service has substantially over-paid its obligations to the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS). The Postal Service and the Postal Service Inspector General estimate that the Postal Service has over-funded the CSRS by $75 billion. The Postal Regulatory Commission has independently estimated the overfunding of CSRS at $50 billion or more. In addition, there seems to be general agreement that the Postal Service has overfunded FERS by approximately $6.9 billion.

In addition to needing relief from is retiree health benefits pre-funding obligation, the Postal Service urgently needs access to these over-funded amounts to make needed investments in the postal infrastructure.

There is fairly broad bipartisan agreement that the Postal Service should be permitted to have access to the excess contributions it has made into the Civil Service Retirement Fund and the Federal Employees Retirement Fund. The central postal issue of the day is whether Congress will do what is right and necessary to preserve and protect the United States Postal Service by permitting the Postal Service to apply its CSRS and FERS overpayments to meet its retiree health benefits pre-funding obligation and to reduce its debt. If that is done, every other necessary change in the Postal Service can be done deliberately and with due regard to the public interest. If that is not done, then other steps will prove to be half-measures in stabilizing the Postal Service's finances and will do unnecessary damage to the Postal Service and its customers and employees.

On the central issue of the overfunding of pensions by the Postal Service, we are fortunate to have the strong bipartisan leadership of Chairman Carper of the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, and of Senator Collins on the full committee. It is significant that Senators Carper and Collins both have introduced legislation that would provide the Postal Service access to these much-needed funds.

There is also bipartisan support for this sort of legislation in the House. Representative Lynch has introduced legislation, H.R. 1351, that would give the Postal Service access to the amounts by which it has overfunded the CSRS Fund. Mr. Lynch's legislation presently has 193 co-sponsors, including members of both parties.

Enactment of legislation to provide the Postal Service access to these funds is the most important postal legislation under consideration by Congress. In addition to meeting the Postal Service's immediate need for financial liquidity, these funds will provide an opportunity for the Postal Service to make more efficient changes in its retail and mail processing networks that will avoid unnecessarily heavy impacts on service. As Senator Collins said, "[i]t is simply unfair both to the Postal Service and its customers not to refund these overpayments."[1]

In lieu of legislation that would provide this financial relief, the Postal Service has stated that it will take steps to curtail service as a means of cutting costs. These proposed service cuts, including elimination of Saturday delivery, closure of thousands of small post offices, and rapid and extreme consolidation of mail processing facilities threaten to de-value and weaken the Postal Service in ways that could exacerbate its revenue problems.

Eliminating Saturday delivery, for example, would save about 5 percent of the postal budget, but it would eliminate 17 percent of delivery service. Saturday delivery

[1] Cong. Rec. Senate December 2, 2010, S8398.

is important to many small businesses, and it is very important to individuals who receive their prescription medications through the mail. The mail order pharmacy business provides a good example of the need for Saturday delivery.[2] Inevitably, small businesses will find other ways to obtain Saturday deliveries, and mail order pharmacies and their customers, will be finding other ways of getting medicines delivered when people are home to receive them.

It is very important to the economy and to the American people that the Postal Service be stabilized and preserved. As Senator Collins observed when she introduced her legislation on this subject, "the Postal Service is the lynchpin of a $1 trillion mailing industry that employs approximately 7.5 million Americans in fields as diverse as direct mail, printing, catalog companies, paper manufacturing, and financial services."[3] Remarkably, those numbers have been updated and they show that the mailing industry has continued to grow. The most recent published data show that, by 2010, the industry had grown to $1.2 trillion and was generating 8.7 million jobs. Most of those jobs, 75.8 percent of them, are in firms that depend on the Postal Service delivery infrastructure. There has been job growth in private mail centers, catalogue and e-commerce fulfillment, and mail services activities.

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[2]. Despite Postal Service statements to the contrary, the mail order drug industry opposes the elimination of Saturday delivery. The General Counsel of Medco Health Solutions stated, for example, that "Medco remains unwavering in the belief that the Saturday delivery elimination plan is harmful to consumers, third party payors, mail-dependent companies such as Medco, and the USPS overall." Testimony submitted to the PRC and then withdrawn after USPS served Medco with 22 interrogatories in response. Docket No. N2010-1.

[3] Id., S8397.

The mailing industry supports over seven percent of the U.S. Gross Domestic Product and about six percent of all U.S. jobs.[4]

We have now reached the point in postal cost-cutting where further cuts are going to have a negative effect on service. Since 2008, the Postal Service has reduced its complement by more than 110,000 employees and cut its costs by more than $11 billion. It is very clear, however, that the strategy of aggressively making cuts has passed the point of diminishing returns and has begun to be counterproductive. The Postal Service, having been engaged in several years of cost cutting, has become like the man whose only tool is a hammer. To him, everything looks like a nail.

A case in point is the Postal Service drive to close or consolidate small rural post offices and small stations and branches that are not "profitable" for the Postal Service. This is an area that deserves close congressional scrutiny. To begin with, we do not agree with the Postal Service method of accounting for the revenue generated by a post office. A small post office may be credited with only the revenue that is recorded as paid in that office. In fact, it is on the receiving end of a lot of mail that has been paid for elsewhere, and to which it adds the value of being the final destinating office. . It is estimated that these small offices serve as the delivery point for more than 900,000 households to which the Postal Service does not currently provide street delivery because of the difficulties and hazards of such delivery. The Postal Service provides free PO boxes to these customers. Closure of any office

[4] 2010 U.S. Mailing Industry Job Study, provided by the EMA Foundation Institute of Postal Studies (2011)

providing this service would mean change of addresses for these customers; relocating to box elsewhere; or where street delivery is initiated, the construction of curbside mail box.

Present law requires that both rural and urban communities be provided effective postal services. There is much that can be done to make small post offices less costly and more effective than simply closing them. The new collective bargaining agreement between the APWU and the Postal Service makes provision for a less costly, more flexible workforce that will permit the Postal Service to operate post offices for longer hours – keeping them open when people are able to use them.

Most Senators and Representatives probably have seen first-hand the negative impact a post office closing can have on a rural community. Loss of service, loss of a community focal point, and a diminution of community identity, as well as a loss of jobs in the community, all have their negative effect. These impacts are well-understood and strongly felt by community leaders and postal patrons in these communities. Citizens are often very vocal in their opposition to closing their post office.

In more urban areas, opposition to the closing of stations and branches tends to be less concentrated; but studies have shown that post office closings have the most negative impact on the elderly and those whose mobility is impaired. The Postal Service is an important public utility. Congress should continue to insist that effective services be provided to all communities.

Too little has been done to make post offices more viable by expanding their use. In this regard, Senator Carper's bill would authorize the Postal Service to expand the products and services it could offer through its retail network and to partner with state and local governments to offer more government services through post offices. These are important changes that should be enacted. It would be very unfortunate to close post offices to save money in the short run and by doing that lose these opportunities to expand public services and make post offices more financially viable.

The savings that could be realized by closing thousands of small post offices and stations and branches would be less than one percent of postal costs. This is not enough to justify the loss of service to the communities served by those offices. This is an area where the Postal Service is cutting services and cutting access to postal services in ways that will damage the Postal Service in the long run. In another example of overzealous, cost cutting, the Postal Service also is undertaking an overly-aggressive program of closing mail processing facilities. We recognize that decreased mail volumes and the changing world will require postal change. But, once again, as in the area of post office closings, the Postal Service is being driven to consolidate by a lack of funds to do otherwise. As in the case of small post office closings, a major part of the costs saved by the Postal Service will be borne by the public in the form of degraded postal services and increased costs to postal customers.

To cut mail processing facilities as deeply as the Postal Service has proposed will require a change in service standards. This reduction in service would be compounded if it were to be combined with the cessation of Saturday delivery, as the Postal Service also has proposed, Our point is that the Postal Service should be seeking greater efficiency in order to deliver services to the public at the least cost; instead, they are so determined to cut costs that service has become a decidedly secondary consideration. This is not a formula for success in any service industry.

Once again, the release of postal overpayments presently being held in the CSRS and FERS funds is critical. The Postal Service needs to rationalize its mail processing network and to modernize it. But it cannot do that most effectively unless it has sufficient funds to make capital improvements and capital investments. Merely closing and consolidating existing mail processing facilities inevitably will result in a far less than ideal mail processing network. In the meantime, postal customers and postal employees are forced to deal with substantial disruptions and changes that still do not result in the most effective or efficient network.

I will turn now to a discussion of the Postal Service's most recent proposals on workforce reductions, and separate postal health insurance and retirement plans. As a preface to that discussion, I need to talk about the recently-concluded collective bargaining agreement between the APWU and the Postal Service. On March 14, 2011, the APWU and the Postal Service reached agreement on a new National Agreement that will expire on May 20, 2015. That contract was ratified by APWU members in May of this year and signed by the Postmaster General and me on May 23, 2011.

That agreement was reached after lengthy negotiations on health benefits, including negotiations on a Postal Service proposal to create its own health plan outside the FEHB Program. The APWU never has agreed with the Postal Service contention that such a plan could be as good as the FEHB Program. As part of the give and take of negotiations, the Postal Service dropped its proposal for a separate postal health plan; but the APWU agreed that employees would contribute more toward the cost of insurance premiums, and the parties agreed on creative new ways of providing new workers health coverage at low cost to the Postal Service.

No-layoff protection was also a subject of our negotiations. The Postal Service proposed to eliminate no-layoff protections, and we proposed to continue them. The parties talked about the number of career employees who would be likely to retire and talked about the fact that non-career employees would not be protected against layoff. As part of the give-and-take of negotiations, the APWU agreed to a new category of bargaining unit employees. These employees, who will have an opportunity eventually to become career employees, will not in their temporary status be protected from layoff, nor will they qualify for retirement benefits. This means that they will be free to reduce its workforce by 20 percent if it chooses to do so, and that there will be no legacy costs associated with that 20 percent of the workforce that is comprised of temporary workers. So the Postal Service agreed to continue no layoff protection for career employees, and the Postal Service got a more flexible workforce and reduced legacy costs.

The APWU obtained a Memorandum of Understanding by which the Postal Service agreed not to lay off career postal workers who were on the postal employment rolls as of the beginning of the new contract period. And Article 6 of the contract, which protects postal employees who have six years of uninterrupted service, was continued unchanged.

I am emphasizing the health benefits and no layoff parts of the new contract between the APWU and the Postal Service because those areas are of special interest to the Committee today –. These are matters that were the subject of intense negotiations between the APWU and Postal Service, negotiations that culminated in the contract that I signed with the Postmaster General on May 23, 2011.

In his testimony about this new contract before the House Committee on Oversight and Government Reform, Postmaster General Donahoe reported that the new agreement will save the Postal Service $3.7 billion. In summary, he said "[w]e sought and were able to achieve greater workforce flexibility, immediate cost relief, and long-term structural changes." In testimony before a Subcommittee of this Committee, the Postmaster General took credit for "[r]eaching an historic agreement with the American Postal Workers Union (APWU) that will enhance workforce and work hour flexibility."[5]

Since May, I and other APWU officers here in Washington and around the country have been working intently to implement our new contract. As with any

[5] Hearings before the Senate Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, May 17, 2011.

groundbreaking and historic agreement, we are in the midst of changes that will be difficult to implement and that will require substantial adjustments by postal workers. It was in this context that we learned that, without letting the APWU know in advance, the Postal Service had begun circulating on Capitol Hill proposals to repeal our no-layoff protections and to replace our health benefits and retirement benefits plans.

I am at a loss for adjectives sufficient to the task of describing these actions by the Postal Service. Several that come close are outrageous, illegal and despicable.

The attempt by the Postal Service to keep what it gained from our bargain and to unilaterally abrogate what the APWU gained is in utter disregard for the legal requirement to bargain with the APWU in good faith. It also is illegal in the sense that not even the legislation they seek would succeed in freeing them from their contractual obligations. We can only wonder at the reactions of the National Association of Letter Carriers and the Mail Handlers Union which recently began collective bargaining negotiations with the Postal Service. It is impossible to negotiate if you know the party you are dealing with will feel free accept your concessions and then attempt to abrogate their own.

I am very tempted, for these reasons, to decline to make any substantive comments about the Postal Service proposals for legislation to permit it to implement separate health insurance and retirement plans. However, since others will be discussing these ideas, I do want to make a few points about these suggestions.

The Congress would be well-advised to study very carefully the ramifications of permitting the Postal Service to withdraw from the FEHBP. The APWU is, of course, a proud sponsor of a fee for service plan in FEHBP. We regularly receive high marks for delivering a valuable plan for a relatively low price. So we know quite a bit about what it takes to manage a good and efficient health plan. We also know that the FEHB Program has often been cited as a model of efficiency created by competition among multiple vendors in the program.

The withdrawal of postal employees and retirees from the FEHB Program would have very serious negative and destabilizing effects on that important federal program. The principal financial effect would be to impose hundreds of millions of dollars of additional costs on the federal government due to the withdrawal from FEHB Program of postal workers who are or could be enrolled in Medicare. The Postal Service also hopes to demand the Part D subsidy from HHS that is provided to private sector employers who continue to provide prescription drug coverage for their employees through health insurance.

A recent article in the Washington Post on line (federaldiary@Washpost.com) quotes a noted authority on the FEHBP, Walton Francis, who is the author of The Consumer's Checkbook Guide to Health Plans for Federal Employees. Mr. Francis reportedly said, in a summary that I would find it difficult to improve: "[T]here is no evidence to support any of the FEHBP conclusions of the so-called 'White Paper' of the USPS. Anyone who is expert in health insurance will recognize that it is nonsensical propaganda, written by someone who didn't even know what he or she was talking about. This proposal is not about better health insurance. It is about finding ways to get money from someone, whether that be the public, the Treasury, or the employees. It is not about delivering an equivalent health insurance product at lower costs, since that is not within their competency."[6]

We also adamantly oppose the Postal Service proposal to leave the federal retirement programs. In addition to the fact that it is illegal for the reasons described above, this is nothing more than an attempt to impose very large benefit cuts on postal employees. This is unfair and completely unwarranted. The Postal Service has overfunded its retirement programs; those programs, being fully funded, are not the source of the Postal Service's current financial problems.

It would be a cruel irony for the Postal Service to withdraw from a pension program it has overfunded, using in part contributions from postal workers, and then to expose its employees to the risk of losing their retirement benefits. There is a long list of employers, some of them very prominent, whose employees have suffered that fate. We adamantly reject any suggestion that postal workers should be removed from the federal retirement program.

Finally, I want to turn to the topic the Postal Service refers to as "Managing Complement." We are outraged by the Postal Service's attempt to abrogate the

[6] For a useful discussion of FEHBP as a model program that serves as an effective model of managed competition, see *The Federal Employee Health Benefits Program: A Model for Workers, Not Medicare*, K. Davis, et al., The Commonwealth Fund, November 2003.

agreement on the subject of layoff protections for APWU bargaining unit members we signed only a few months ago. Furthermore, this effort by the Postal Service is not only outrageous, it is ridiculous. As we sit here today, the Postal Service already employs tens of thousands of workers who do not have any protection against being laid off. The Postal Service is simultaneously crying that it needs greater power to lay off employees and failing to exercise the power it already has to lay off employees.

Furthermore, during the term of our agreement, approximately 100,000 postal workers will be eligible to retire. The APWU and the Postal Service just agreed to increase the complement of temporary workers to 20 percent of the total complement. Those workers are all vulnerable to being laid off. Because they are not career employees, the no layoff protection in the contract does not protect them.

This situation makes it clear that what the Postal Service is really saying is that it wants the Congress to authorize it to lay off 120,000 career postal employees and replace them with temporary workers without retirement benefits. This would be in addition to the large numbers of temporary employees the Postal Service already employs. As matters stand, the Postal Service already has plans to reduce its complement by 100,000 workers by 2014. If the Postal Service were serious about its claim that it needs the right to lay off an additional 120,000 workers, that would mean a reduction of 220,000 postal employees by 2014. Such a drastic reduction would catastrophic for the employees laid off, for the Postal Service, for individuals and small businesses; for the mailing industry that depends on the Postal Service, and for our economy.

To place these proposals in context, I will reiterate testimony I presented to the House Committee on Oversight and Government Reform last April. At that hearing, by the way, the Postal Service joined me in explaining the importance of our new contract and how it would go a long way toward solving the Postal Service's financial and operational problems. Here is what I said:

"I was born in rural Oklahoma. My father served as a Navy pilot in Korea and retired as a career Navy pilot. I served as a rifleman with the Second Battalion of the Third Marines in Vietnam in 1968 and 1969. Service to this country is a proud tradition in my family. My father fought in Korea, and I fought in Vietnam, because we knew that it was important to preserve the American way of life, and American freedoms.

"Like hundreds of thousands of other veterans, when I returned from war I was able to find employment with the newly-created United States Postal Service. In the Postal Reorganization Act of 1970, Congress had raised postal pay from near-poverty levels to provide a living wage and had given postal workers the right to have collective-bargaining. Postal workers, and among them hundreds of thousands of veterans of foreign wars, were able to join the middle class.

"It is no coincidence that so many of us are veterans. The Postal Service has been an important source of middle-class jobs for American veterans. The 2010 comprehensive statement on postal operations reported that in 2010 there were 129,886 veterans in the postal career workforce. These veterans were 22 percent of the postal career workforce. 49,119 of these veterans are disabled veterans and 13,303 of them, including me, are rated as 30 percent or more disabled.

"The Postal Service is also one of the leading employers of racial and ethnic minorities and of women. In 2010, women were approximately 40 percent of the workforce; and minorities were approximately 40 percent of the workforce. As postal workers, we have been able to fulfill the American dream of holding a job that pays a living wage and provides health insurance for families with a dignified retirement when we can no longer work."

Those were my words when the Postal Service seemed to be standing by its agreement with the APWU. I stand by those statements. The APWU will oppose with every resource at our disposal any effort to destroy our health benefits program, to lay us off and replace us with temporary workers, or to undermine our retirement.

And make no mistake about it, the layoff of 120,000 postal employees would hit all postal workers, including veterans. The Postal Service is wrong when it says that the veterans' preference laws will continue to provide layoff protection for veterans even if our contract is abrogated. Whenever the Postal Service closes a whole plant, as they have said they want to do, all the employees in that plant, including veterans, would be subject to being laid off.

We support the efforts of Subcommittee Chairman Carper and Ranking Member Collins to make past Postal Service overpayments to CSRS and FERS available to meet the Service's most immediate financial obligations. That is a necessary first step in solving the Postal Service's problems. We very much appreciate their efforts and the efforts of Chairman Lieberman to address this important issue.

I am available to answer any questions the Committee may have.

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STATEMENT OF

LOUIS M. ATKINS, PRESIDENT

NATIONAL ASSOCIATION OF POSTAL SUPERVISORS

BEFORE THE

COMMITTEE ON HOMELAND SECURITY

AND GOVERNMENTAL AFFAIRS

UNITED STATES SENATE

"U.S. POSTAL SERVICE IN CRISIS:

PROPOSALS TO PREVENT A SHUTDOWN"

SEPTEMBER 6, 2011

Representing supervisors, managers and postmasters in the United States Postal Service

Chairman Lieberman, Ranking Member Collins and Members of the Committee:

Thank you for the opportunity to appear before you today. My testimony expresses the views of the three management associations that represent the 75,000 managers, postmasters, supervisors and other non-bargaining unit employees of the United States Postal Service. Those management organizations are the National Association of Postal Supervisors, the National Association of Postmasters of the United States and the National League of Postmasters.

Without question, the United States Postal Service is in a desperate financial situation. It has never reached this state of affairs since its creation as a self-supporting government establishment in 1970. It is only weeks away from being unable to meet the 2006 financial obligation that Congress and the Administration imposed on it. As a result, it will default on that payment.

How did the Postal Service reach such dire straits? A weak economy since 2008 has prompted businesses to send less mail through the postal system, causing revenues to rapidly decline. But undoubtedly, the most important cause has been the statutory mandate established by Congress in 2006, requiring the Postal Service, over 10 years, to set aside $55 billion to satisfy its future retiree health care obligations beginning in 2016 and continuing over the next 75 years. As a result of those retiree health care prefunding payments, the Postal Service will default on the required payment on September 30 when the 2011 prefunding payment is due. No other federal component or private enterprise is saddled with this health benefit prefunding obligation.

Without this huge retiree health prefunding burden, the Postal Service would not be in the perilous shape it is today, despite the recession and the impact of the internet. During the past five years, the Postal Service has paid nearly $30 billion for obligations arising far, far into the future. Without those payments, the Postal Service would have been at a point of breaking even since 2006. Media reports of huge financial losses by the Postal Service have suggested that the Postal Service has mismanaged its affairs. That is far from the truth. The dominant cause of the Postal Service's decline has been these onerous and far too aggressive health prefunding payments.

Meanwhile, the Postal Service over the course of four decades, has overpaid as much as $75 billion into the federal retirement system for its employee pensions, as rigorously documented by the Postal Regulatory Commission and the Office of Inspector General of the Postal Service. These overpayments arise from how much the Postal Service should have paid and should continue to pay for the pensions of former employees of the former Post Office Department. The employment of these workers predated the creation of the United States Postal Service in 1970. Both the Postal Regulatory Commission and the Office of Inspector General have found that obsolete accounting methods have been continuously used by past and current administrations in assessing the Postal Service's pension payments. The equitable refund of these pension overpayments to the Postal Service would restore the Postal Service's financial stability.

Remarkably, those in Washington who oppose a refund and fair allocation of retirement obligations to the Postal Service label it a "bailout." Our response to this characterization is straight-forward: In the real world, when you overpay a bill, or overpay your taxes, you deserve a refund. Why should it be any different for the Postal Service?

There is overwhelming support throughout the postal community for a fresh review of how much the Postal Service has really paid into the federal retirement system and, if a surplus is found to exist, to apply that surplus to the Postal Service's retiree health prefunding obligations. We applaud the legislative proposals of Senator Tom Carper, Senator Susan Collins and Congressman Stephen Lynch that would require the Office of Personnel Management to initiate such a review process, using modern, well-accepted principles of accounting, and require the Postal Service to use any surplus to satisfy its remaining health prefunding obligations under the 2006 law.

Many in the postal community have urged Congress for the past two years to set in motion this fair and responsible process for addressing these overpayment errors. In the meantime, the Postal Service's financial condition has deteriorated. Taking those steps now will restore billions of dollars to the Postal

Service, stabilizing its financial condition. Temporarily postponing and re-amortizing the 2011 health prefunding payment will provide some additional short-term relief.

In the longer term, as electronic diversion continues, the Postal Service will need to continue to reduce costs and innovate to better serve America's communication and logistics needs. Over the past four years, the Postal Service has achieved over $12 billion in cost savings. During that time, three workforce restructurings have trimmed over 5,000 management positions. These were difficult steps that have streamlined the organization.

Recently, the Postal Service has announced sweeping proposals designed to dramatically cut costs. These have included reducing delivery frequency, closing thousands of post offices, consolidating hundreds of mail processing facilities, and curtailing next-day delivery of mail. The Postal Service also has proposed withdrawing from the federal employee retirement and health benefit programs, presumably to cut costs through the reduction of employee benefits. The three management employee organizations oppose many of these proposals, primarily because they are self-destructive and premature. They will cause the irreversible decline of the Postal Service and the quality of its service, eliminate thousands of jobs at great cost to the economy, and wreak havoc on communities across America.

The financial crisis afflicting our nation's postal system has been caused by a number of external factors outside of the control of the Postal Service. Congress and the Administration remain the only parties that bear ultimate responsibility for resolving the present postal crisis. Congress created the far too burdensome schedule of retiree health prefunding payments that has blown a hole in the Postal Service's financial assets. The former Civil Service Commission and the current Office of Personnel Management for four decades have negligently administered obsolete and flawed accounting methods that have caused the Postal Service to significantly overpay its pension obligations. The Postal Service cannot and should not be expected to unilaterally claw its way out of this crisis, devising alternative methods that will contribute to a death spiral.

Congress and the President should remedy past Congressional and Administration acts. The Postal Service's pension overpayments should be returned for its use to satisfy its retiree health obligations. And to the extent necessary, Congress should realign the Postal Service's retiree health prefunding schedule to a larger time period consistent with what the Postal Service can afford. Fairness, responsible action and common sense should prevail. We urge this Committee to act promptly in adopting these steps.

In addition, we urge the Committee to intensively scrutinize Postal Service plans to reduce access to comprehensive postal services through the planned reduction of its retail network, including the closure of post offices serving small towns and rural communities. The Postal Service's promotion of "village post offices" and "alternative retail channels" are not replacements for secure and reliable post offices, staffed by trusted representatives of the federal government. Moreover, these private outlets do not have the capacity, or the authority, to provide the quality and level of service provided by their current post office.

We also are deeply concerned by Postal Service proposals to withdraw from the federal employees' retirement and health benefit programs. Under its proposal, the Postal Service would eliminate the availability of a menu of plans to choose from, which is the hallmark of the FEHBP. In addition, greater reliance on Medicare coverage, potentially through a barebones Medigap plan for Medicare Part B-eligible individuals, would reduce coverage for postal retirees. Plan stability, characterized by premiums that rise at a lower rate than private sector health plans, would be at risk. Walton Francis, author of *Consumers' Checkbook Guide to Health Plans for Federal Employees*, has called the proposal to leave FEHBP "nonsensical," saying, "The notion that the Postal Service can design a health insurance program that will outperform FEHBP isn't credible." In summary, the Postal Service's expectation that a postal-only health plan will have greater leverage on the health care market than the FEHBP is highly speculative.

Thank you for the opportunity to present these thoughts. I will be happy to take any questions from the Committee.

Testimony of Ellen Levine, Editorial Director, Hearst Magazines
before the
Committee on Homeland Security and Governmental Affairs, United States Senate
September 6, 2011

Mr. Chairman and Members of the Committee, my name is Ellen Levine. I am editorial director of Hearst Magazines, a unit of Hearst Corporation. My company is one of the world's largest publishers of monthly magazines, with 20 U.S. titles and more than 300 international editions. In my role as editorial director, I am responsible for strengthening current titles, developing new titles domestically and internationally, and evaluating opportunities for brand extensions, books, and digital expressions.

In 1994, I became the first woman to be named editor-in-chief of Good Housekeeping since the founding of the magazine in 1885. During my tenure at Hearst, I have conceived and helped launch several new titles, including O, The Oprah Magazine, in 1999 (the most successful magazine launch ever), and Food Network Magazine in 2008. I also have served two terms as president of the American Society of Magazine Editors.

I am pleased to be here today to testify on behalf of the MPA – The Association of Magazine Media, the industry association for multi-platform magazine companies, and I thank you for the opportunity. Established in 1919, MPA represents approximately 225 domestic magazine media companies with more than 1,000 titles, nearly 50 international companies and more than 100 associate members.

MPA's membership is broad and diverse, but all magazine publishers share one common objective: ensuring that we have an affordable and reliable postal system providing universal service throughout America.

I'm happy to say that magazines are still important and valued in this information-rich era. Ninety-three percent of adults read magazines, and the percentage for young adults (under 35) is even higher. Magazine readership has also increased over the last decade, as has the total number of magazine titles.

Nearly all publishers use the United States Postal Service to deliver their magazines to subscribers. While most consumer titles are also available on newsstands, mail subscriptions will remain the major component of hard-copy magazine circulation in the United States for the foreseeable future. For the industry as a whole, subscription copies have grown to about 90 percent of circulation. Almost all of these copies are delivered to readers by the United States Postal Service.

The Internet has not eliminated the need for mail delivery of magazines. Although magazine publishers are increasingly using the Internet to communicate with readers, these digital initiatives have not dampened our readers' desire for bound versions of magazines. According to MPA's annual Handbook, nearly ninety percent of people who are interested in reading magazines on a digital device still want the printed copy as well. Seventy-five percent of consumers feel that digital content complements print. Confirming readers' love of print, Deloitte's 2011 State of Media Democracy Survey found, "Since 2007, 80+% of consumers who read a magazine in the past six months state that reading the printed copy is their favorite method." MPA's members are committed to the written word and the print medium, and intend to continue hard copy dissemination of our magazines and related mailings for a long time to come.

Magazines will also continue to play a crucial role for the Postal Service. More than one Postmaster General has referred to magazines as the "anchor of the mailbox" – one of the main reasons people enjoy opening their mailbox. This value has been confirmed by the Postal Service's Mail Moment study, which shows that magazines rank behind only personal correspondence and greeting cards as the type of non-package mail households like most. Magazine publishers need the Postal Service and the Postal Service needs magazines.

I think the direct economic effect of a viable and affordable Postal Service on the magazine industry is fairly obvious. In the US, there are about 300 million paid subscriptions serviced each year, representing billions of dollars of circulation revenue. But the indirect economic impact of a viable and affordable Postal Service, while perhaps less obvious, is even greater. Most consumer magazines carry advertising, about $20 billion worth in 2010. Every dollar of this advertising affects the spending patterns of nearly five people and drives them to action: 77 percent of people at some point have purchased a product after seeing or reading about it in a magazine. Without a way to distribute magazines and the advertising therein… I don't think any of us want to quantify the lost sales that would result.

Not surprisingly, therefore, the magazine industry has been committed to a viable and affordable Postal Service for a very long time. Our activities in support of this goal have run the gamut. MPA and magazine publishers have worked collaboratively with the Postal Service to improve its performance. We've actively participated in proceedings at the Postal Regulatory Commission and its predecessor commission. We've contributed to studies of the Postal Service by its Office of Inspector General and the Government Accountability Office. And of course, MPA has worked on postal policy issues collaboratively and constructively with this committee, and with your House colleagues, for many, many years.

As my fellow witnesses have detailed, the Postal Service is now in a precarious financial situation. Mail volumes have plummeted over the past five years, and are expected to decline further over the next decade. I understand that the Postal Service now expects to lose more than $9 billion this fiscal year and without major change, annual USPS losses are projected to grow, not shrink.

But these volume declines need not be a dooms-day scenario for the Postal Service: I understand that even the Postal Service's pessimistic forecast of mail volume at the end of the decade exceeds 100 billion pieces. The Postal Service and its many stakeholders must, however, adapt to the new reality of lower volume. The Postal Service can continue as an important American institution, but must quickly become much smaller, more efficient, and less costly to operate. From the perspective of the magazine industry, incremental improvement is not enough. In short, the Postal Service must make tough decisions to respond to the sluggish economy, the same way that every MPA member company has altered its businesses to respond to economic realities.

The Postal Service has made several proposals to adjust its operations to the new reality and reduce its substantial workforce costs, which I understand have been estimated at as much as 80 percent of Postal Service costs. Although I am not an expert on Postal Service operations and costs, a strategy to take full advantage of today's advanced technologies and re-engineer operations to do more with less seems a move in the right direction, and the cost saving efforts should be supported.

The reaction of magazine publishers to these proposals is colored by our dual needs from the Postal Service – affordability and reliability. Postage is a large expense for magazine publishers and can account for 20 percent or more of the cost of producing the magazine. Service levels are also important to publishers. Weekly magazines have short production schedules and aim for a consistent delivery day. Monthly magazines are also affected by the service levels provided by the Postal Service. The paid subscription business model depends on being able to deliver a new issue to subscribers before it is available at newsstands. And our subscribers know when a new issue is coming – especially if they also visit our websites – and look for it. We don't want to disappoint them.

Two of the operational changes proposed by the Postal Service could affect magazine publishers – (1) shrinking the mail processing network; and (2) five day delivery. Magazine publishers have long urged the Postal Service to adjust its network to eliminate costly excess capacity. I encourage the Postal Service to aggressively pursue rightsizing its processing networks to match current and future volumes. To avoid driving away mail volume, the Postal Service should work closely with the mailing industry to guarantee that acceptable service levels are maintained.

The magazine publishing industry has not taken a formal industry position on five-day delivery because of its potential effect on service. Like many other types of mail, weekly magazines are targeted for delivery on a certain day of the week. Consumer magazines, for example, are often targeted for delivery just before or on the weekend, when readers have more time to read the magazine. Business magazines are often best received early in the week to provide useful information a reader can use during the workweek. Magazine publishers, however, are fully aware that the Postal Service must reduce its costs. I believe that our industry will make the necessary changes to adjust to five-day delivery if it is implemented as part of a comprehensive plan to ensure the Postal Service's financial viability, and with an adequate period of time to prepare for the change.

I understand that the Postal Service has suggested that it may need to lay off employees to fully realize the savings from these operational changes. The magazine industry has no intention to dictate how downsizing should be accomplished. We simply recognize that the Postal Service, like all industries, will have to continue to find ways to do more with less. Magazine production has been revolutionized over the past years and decades, from the days of glue and line by line layout to the high-tech digital world in which we now operate. If our magazines were being produced today the way they were when they were launched, we'd probably be out of business. To remain viable, the Postal Service must do more with technology and with smaller networks, and yes, with fewer employees. I don't know if layoffs will be needed, but they may be the only way for the Postal Service to reduce its workforce costs quickly enough to match expected declines in volume and workload.

I also understand that the Postal Service is considering ways to reduce employee benefit costs. Again, this is something that many industries, including the magazine industry, have had to do in recent years. It appears that benefits comprise a large portion of USPS' labor costs and that any comprehensive solution to the Postal Service's financial problems will need to address these costs as well. While I'm not qualified to evaluate specific proposals, I do think the Postal Service and Congress should look for ways to bring down these costs.

And, as discussed by others today, I understand that the Postal Regulatory Commission and the Postal Service's Office of Inspector General have found that the Postal Service has overfunded its employees' pensions by tens of billions of dollars. The Postal Service should be allowed to use these excess pension contributions to pay off its debts and other obligations. Fixing this is the right thing to do and will help the Postal Service remain viable. But this remedy, by itself, is not enough. The Postal Service must still take additional measures to reduce its costs and infrastructure, as discussed above.

Thank you for allowing me to speak today on behalf of the magazine industry and I am happy to answer any questions you may have.

TESTIMONY OF THE NATIONAL NEWSPAPER ASSOCIATION

BEFORE THE UNITED STATES SENATE COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

SEPTEMBER 6, 2011

EXECUTIVE SUMMARY

- **Local newspapers will be among the hardest hit if USPS reforms are not well thought out and properly implemented.**
- **Small newspapers play an essential role in their communities.**
- **With regard to their relationship with USPS, they are unique because they are:**
  - **Nearly completely dependent on mail delivery;**
  - **Closely tied to their local post offices;**
  - **Highly presorted and presented delivery-ready at post offices;**
  - **Need to have full service at these local post offices, and,**
  - **Are disproportionately located in rural areas and so will be particularly hard hit by a move to five-day delivery.**
- **Nevertheless, NNA recognizes the need for and supports fundamental USPS reform.**
- **Reforms, however, must focus on customer needs, and USPS cannot push more of its cost onto its customers.**

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Good afternoon, Mr. Chairman, Senator Collins and members of the committee. Thank you for the opportunity to appear this afternoon. My name is Tonda Rush. I am CEO and general counsel of the National Newspaper Association. NNA is celebrating its 125th birthday this year. It represents 2,300 members, comprising weekly and small daily newspapers from across the nation. Our members are in America's small towns, urban neighborhoods and suburbs. The unifying factor that brings them to NNA is their focus on local news and information. At NNA, we believe in newspapers.

We appreciate the hard work that this Committee has already devoted to understanding and addressing the problems of the Postal Service, and in seeking solutions that work for the customers and stakeholders. The challenge is daunting.

NNA supports a great deal of the work you have already begun, particularly measures to achieve some financial breathing room for the Postal Service by recalculating overpayments that may reside in existing retirement programs and lifting some or all of the unique burden on the Service to pre-fund retiree health benefits.

Community newspapers are small businesses that will be among the first to feel the impacts of the changes ahead. They are the most vulnerable to severe damage if changes are not well thought out and properly executed.

NNA realizes that strategic restructuring of the Postal Service is urgently and imminently necessary. Dramatic rebuilding of the way USPS moves mail, manages its workforce and serves its customers is needed. We support steps toward the sustainability of our valuable national asset, but the steps must be taken with customer needs in mind.

I have three messages today:

- A community newspaper's local mail is its bread and butter. To remain viable, the newspaper must be able to enter its mail at a local post office, prepared in delivery-ready form, and have it delivered from that office. About 80 percent of a typical community newspaper's readership is in its core market. We are concerned about the manner in which local post offices are being chosen for closing.

- To reach smaller communities around the newspaper, we must have the ability to drop that mail at smaller offices whether they are USPS-owned, contract offices, Village Post Offices or some other option, and to find successful workarounds with USPS as mail processing facilities are closed, relocated or merged. About 15 percent of a typical community newspaper's readership is in smaller, more rural satellite communities. These communities are in grave danger of losing significant services. We are concerned that rural America is being thrown overboard by a postal system too eager to lavish its assets onto highly competitive urban areas. Within this context, the loss of Saturday residential delivery would be a major blow.

- For longer distance mail, the industry is working rapidly toward electronic delivery options, as the ability of the Postal Service to deliver a newspaper to zones outside a core area has long deteriorated, and with these new changes may be non-existent. We need the cooperation of USPS to have these electronic copies recognized as circulation, as USPS provides our primary circulation reporting system.

I am proud that our organization is a member of the Coalition for a 21st Century Postal Service, and we were also active participants in the Affordable Mail Alliance that focused in 2010 on the exigency postal rate proposal. We are charter members of the Mailers Technical Advisory Committee, and I want to emphasize that our relationship with the Postal Service and its employees has been typically productive and pragmatically-oriented to keeping newspapers moving through the mail stream. We have enjoyed and we continue to value the problem-solving attention of executives at L'Enfant Plaza, in local post offices and in Business Mail Entry Units. We have the deepest respect for Postmaster General Patrick

Donahoe, and empathize with the enormous challenges faced by our nation's mail system.

However, the storm clouds over us turn out to be more than the aftermath of Hurricane Irene. They are indications of trouble ahead for our mail, and potentially devastating consequences for many small newspapers.

Most NNA newspapers rely upon the US Postal Service for distribution of issues to readers. The predominant circulation is through the mail. Other copies are distributed by newsstands, retail outlets and some private distribution. Our mail is unique within the Postal Service's 167 billion piece mail business. Though the community newspaper industry comprises a wide range of business styles and circulation patterns, about 80 percent of a typical newspaper's distribution is entered into the mail stream locally and delivered locally. Of the remainder, most copies go to homes in surrounding communities more rural than the home town community. A remaining fraction goes to people who have moved away, are in summer or winter homes or are students staying in touch with the home town.

When a community newspaper mailing is delivered by publishers to the Postal Service it is typically ready for delivery. The Postal Service statistics for our most commonly used mail subclass, or product, the Within County Periodicals rate, shows that more than 75 percent is credited with discounts for sorting to the carrier's route. This mail is typically also sorted even more finely than the breakdown by carrier route and is sequenced precisely to the carrier's order of delivery.

We rely upon Periodicals mail to reach subscribers and Standard Enhanced Carrier Route mail to reach non-subscribers or to provide total market coverage on a day separate from newspaper publication. Members typically pay twice as much in Standard Mail postage as in Periodicals, and this revenue to USPS is in jeopardy if the newspaper mail overall is in jeopardy. And, of course, we use First-Class mail for invoicing and remittance, which is critical to our cash flows.

Community newspapers in general, and NNA in particular, have a historic relationship with the Postal Service. Benjamin Franklin, the first postmaster general, was a newspaperman before he was a postmaster, and the colonial posts and newspapers worked symbiotically to inform the public.

Newspapers have been involved in shaping postal policy since recorded history of the Post Office Department. Moreover, newspapers have a strong and long-standing relationship with Congress, which intentionally spurred the development of the frontier by anchoring newspapers in new counties through favorable postal rates. Congress has emphasized again and again since the founding of the Republic the importance of keeping newspapers in the mail. Even in today's digital age, with information flying around the globe in nanoseconds, the importance of these two relationships--with the Postal Service and with Congress--to community newspapers is as critical as ever in keeping the nation informed. Scholars, analysts, political scientists and members of this body have expressed growing concern over the past half-decade about the threats to civic life and democracy if the local journalism that newspapers practice goes away. In many cases, the community newspaper is the only source of local journalism. That point was most recently driven home by a study of the Federal Communications Commission's report, "Information Needs of Communities, The Changing Media Landscape in a Broadband Age."

Besides carrying out a fundamental role in tying communities together with information, newspapers and the industries that support them--in printing, computer technology, distribution and advertising agencies--represent significant numbers of jobs. In small communities, where good jobs are growing scarcer, the newspaper's contribution to the local economy is significant. The Bureau of Labor Statistics in

2010 credits the industry with about 260,000 jobs in total. Those figures may represent primarily daily newspapers, and not weeklies. Our industry estimates give us a rough guess of 50,000 jobs within companies that publish smaller newspapers, and that does not count the commercial printers, independent delivery contractors, ad agencies and designers and the like whose livelihoods depend upon these newspapers. Nor does it count the small businesses that need the community newspaper to drive traffic. And it does not, of course, in any way measure the quality of life that a newspaper brings to a community.

So it is not taken lightly when our industry decides to support the Postal Service in bringing about the massive changes, even though we still need it to keep delivering newspapers. NNA believes there must be serious change, including reforms in the workforce, and it has been supportive of many of the initiatives the Service has taken to Congress and to the Postal Regulatory Commission. We recognize that the Postal Service, like our industry, is being reshaped by changing information technology.

We also believe the Postal Service, like our industry, has to face these changes by taking steps that are painful over the short-term but restorative over the long-term. In our industry, in fact, we have seen a decade of downsizing of the workforce, layoffs, furloughs and salary cuts, as the economic changes in real estate, the auto industry, classified ads and retail have diminished our advertising base. We are keenly familiar with the agonizing impact upon our own workforce, but we understand that reluctance to take critical but carefully-designed steps in workforce management can drive a company past the point of no return. In our industry, we cannot afford to be driven to that point if we are going to continue to deliver the news.

So, like newspapers, USPS must change to survive.

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However, making changes without focusing on customer needs is no restoration, and protecting an inflexible network that ignores the needs of the American public and postal customers is not reform--it is an admission of defeat. The Postal Service cannot solve its problems by off-loading more costs onto its customers. Nor can it retain the customer loyalty it needs if it strategically chooses to drive some mail out of its system.

If what we have seen this summer is an indication of what is ahead, we fear for the future.

Permit me to cite a few examples.

- Last week, the Coalfield Progress, operating in the tip of southwest Virginia, learned that its mail was already being shifted from a Bristol, VA/TN, Sectional Center Facility to Johnson City, TN. The publisher was not notified before the change, but when subscribers began to phone to cancel, Jenay Tate began looking for the source of the problem. She was told her mail would not only travel nearly 40 miles further for processing, it would not return to her circulation area for two days after entry. She later learned it was sent on to Knoxville, TN, before returning to Bristol, which accounts for much delay. Here the note Jenay received from a manager of one of her three weekly newspapers:

  FYI: Just had a subscriber from Vansant call to cancel his paper. He still hasn't received his from last week. He already knew about the post office problems (his wife had called previously), but said there's no need to get a paper that's two weeks old. He was polite, but understandably agitated. Tried to talk him out of it, but it didn't work. Don't know how things are for Coalfield and Post, but we are OVERWHELMED with calls about late delivery.

- The Milton Times, Milton, MA, and the Westmore News, Port Chester, NY, got only a week's notice that their deadlines had to move back an entire day because newspapers would no longer be handled at the local post office, but would be shipped to a Flats Sequencing Facility in the nearest city. In both cases, delivery was disrupted while the newspapers traveled to the FSS, sat for 1-2 days and were sent back to the local post office, unsorted. In both cases, NNA's intervention helped to put these newspapers back on track to be handled at the local post office, but this patch is intensive and hands-on, and may not hold forever. And during the time the problem remained unsolved, it was extremely disruptive to the newspaper's business.

- The High Plains Sentinel, serving the small town of Wright, Wyoming, was prohibited from dropping newspapers at the local post office, which was a contract office, for delivery to households served by that office. Instead, the newspapers were required to be entered at Gillette, 39 miles north. The publisher was ok with having the paperwork for verification of postage handled in Gillette but needed the newspaper issues to remain in the contract office so they would not be delayed a day. When she learned the Gillette mail would be shifted to Casper, however, she asked NNA for help. The Gillette postmaster, working with Headquarters executives, as of today is able to allow High Plains Sentinel stay in Wright, where it has been handled since 2005, despite the fact that contract post offices evidently are not required by contract to accept newspaper mail bundles.

- The Review in Plymouth, WI, has struggled for years to keep its long-standing practice of entering mail at the end of the press day for delivery the following day. No processing by USPS is needed other than casing and delivering the Review. But new rules driven by Sarbanes Oxley requirements have caused many post offices to insist upon earlier entry times for newspapers, not because the mail takes longer to handle, but because the paperwork seems to take a great deal of time. Last week, The Review suffered a press breakdown, but hastened to get its issues to the post office because readers in that economically-stressed town needed news of a new retraining program at a local manufacturer. After an unbroken two year record of on-time entry, the newspaper arrived four minutes late--but still an hour before the truck to take mail to the processing plant was to leave. The post office refused to accept the mail. The newspaper's delivery was delayed by a day.

These examples are just last week's in-box at NNA. Across the country, we are learning daily of newspapers losing readers because of mail delays. Whenever a mail processing change happens, newspapers suffer. As Senator Collins knows, for example, the changes in Maine mail processing caused delays and major headaches for Maine newspapers as processing transferred to traffic-snarled Boston, and had to be trucked back over great distances.

A day is an eternity in the news business. A two day delay makes a newspaper stale. Two weeks make a newspaper useless. Newspapers can use their websites to post breaking news, but they are already competing with bloggers and pirates that scrape news off the newspaper sites for their own commercial purposes. Fixing a delivery problem by posting a news story on line is trading print advertising dollars for digital dimes--and can quickly drive a newspaper into insolvency. The printed newspaper is in demand by readers and advertisers. The printed newspaper pays the bills--as well as the postage. And in smaller, rural communities, in a nation where fully a third of rural households have no broadband service, a web-published news story is no story at all.

These are early precursors of the troubles to come, we fear, as USPS cuts out two thirds of its processing plants, and then closes another 7,000 post offices beyond the ones already announced.

NNA does not inflexibly oppose post office closings. We have not yet participated in a post office appeal at the Postal Regulatory Commission, though we will participate in the PRC's current advisory opinion on the process needed for these closings. Nor do we necessarily oppose plant closings. We agree with our colleagues in the mailing industry that the network carries the heavy weight of excess capacity. However, the system leans heavily into inflexible one-size-fits-all solutions, when a leaner, more flexible institution is what the economy wants, and our industry requires.

Here are some examples of problems emerging for us, and better solutions than the ones we so far have seen.

- Forcing an automation scheme where the scheme cannot succeed for us is deadly for our business. Flats Sortation Sequencing machines typically are not used to sort newspapers. But some publishers have already been forced to send walk-sequenced newspapers to those plants just to sit while other mail is sequenced, only to be brought back to the plants untouched, and nothing to gain for the new routing but lost delivery time. Many publishers fear this requirement is in their futures. A better solution is to keep the local newspapers in local post offices, where some manual handling will be needed in some cases--but not always. Newspaper bundles sorted to the carrier sequence can be taken out directly by carriers on motor routes.

- Closing smaller, efficiently-managed Sectional Center Facilities so larger metropolitan plants can be stacked up with mail for a 22-hour

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processing clock may help trim downtime at the bigger city plant. But it is going to bog down mail delivery to the smaller communities. A better solution would be to keep Origin-Entered mail destined for close destinations in smaller well-designed plants, but develop more flexible work schedules to handle the mail that is there.

- Closing some small post offices is clearly needed. No NNA newspaper, to our knowledge, has yet opposed the closings of the 3,650 offices on the list before the PRC. But when USPS targets an office for closing because its revenues are under $100,000, it evidently does not count the revenue from the Periodical newspaper or Standard Mail shopper being entered there, nor the revenues from other locally-entered business mail. An office could easily have less than a $100,000 revenue stream from stamps and packages, but $100,000+ from newspaper postage alone. Targeting that office for closing, regardless of the community size, makes no sense.

- When local post offices do close and then contract post offices or Village Post Offices replace them, newspapers should be permitted to drop bundles for the PO Box customers there. Paperwork can be processed electronically at a larger office. But the physical newspaper issue cannot make a 100 mile round trip for processing and still achieve a timely delivery.

- The emergence of Village Post Offices as replacements for smaller USPS-owned offices may be precisely the type of creative solution we seek. We are looking forward to learning details. A number of NNA members, including me, in July requested the materials explaining how to propose such an office. None of us have received a response, to my knowledge, and details on the potential remain fuzzy and vague. If a plan to replace the small post office is expected, it should be in place before the shut-downs are discussed. Community concern will not be salved by promises of details to come.

- Finally, it is well known that NNA opposes the end of Saturday residential mail delivery. We believe the lost First-Class remittance mail will create cash-flow disruptions for small businesses. The loss of a Saturday issue day will cost small newspapers their most important revenue day. Frozen weekend mail streams will result in considerable delay for all mail. Some mailers will be able to adjust. Many will not. They will simply leave the mail, and take lucrative postal business out of the system forever. And the many small dailies poised to convert to mail distribution will never make that shift, which will cost a volume-starved Postal Service even more business.

For NNA's purposes, we have stated the need for a palliative solution if 5-day mail delivery becomes a reality. We request Congress to require an extension of an existing privilege for limited use of the mailbox by local Periodicals newspaper permit holders so that we can deliver our own newspapers on Saturday. This extension does not threaten the sanctity of the mailbox, as it merely extends an existing practice; it will help daily newspapers to remain in the mails by maintaining a consistent delivery point, and it will demonstrate good faith by the Postal Service that it does not intend to unreasonably restrict access by those who need self-help to stay in business.

NNA notes that the urgent needs for delivery of Saturday mail by newspapers, pharmacy mailers and others cry out for more creative solutions by USPS than the wholesale elimination of a delivery day. We hold out hope that such creativity will develop.

- The process by which USPS is exploring post office closings needs tweaking. NNA hopes the advisory opinion of the Postal Regulatory Commission will assist in fine-tuning the opportunities for community input. However, we take this opportunity to note that if full community involvement is the goal, the Postal Service must make a much greater effort to notify the public, and it is imperative that it create an open and transparent atmosphere for news media coverage. It is clear from anecdotes we've received that much more has to be done to satisfy community needs for participation.

In conclusion, NNA fully appreciates the challenges ahead. We are seeking solutions that are sustainable, practical and useful for customers. The need for change is urgent and the Postal Service needs the help of Congress create that change. We do need for this Committee, the Postal Service and the Postal Regulatory Commission to be mindful of the impact of these changes on small businesses and rural America, and particularly on the community newspapers. We look forward to working with the Committee in the months ahead.

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American Forest & Paper Association

American Forest & Paper Association
Donna Harman, President & CEO
Statement Submitted for the Record
Senate Committee on Homeland Security and Governmental Affairs
U.S. Postal Service in Crisis:
Proposals to Prevent a Postal Shutdown
September 6, 2011

The American Forest & Paper Association, Inc. (AF&PA) is pleased to submit this written statement to the Senate Committee on Homeland Security and Governmental Affairs concerning the financial crisis facing the U.S. Postal Service and potential for postal shutdown.

AF&PA is the national trade association of the forest products industry, representing pulp, paper, packaging and wood products manufacturers, and forest landowners. Our companies make products essential for everyday life from renewable and recyclable resources that sustain the environment. The forest products industry accounts for approximately 5 percent of the total U.S. manufacturing GDP. Industry companies produce about $175 billion in products annually and employ nearly 900,000 men and women, exceeding employment levels in the automotive, chemicals, and plastics industries. The industry meets a payroll of approximately $50 billion annually and is among the top 10 manufacturing sector employers in 47 states.

The U.S. Postal Service (USPS) is the essential component of a $1 trillion mailing industry that employs 8.7 million Americans in large and small business enterprises as diverse as advertising, printing, paper manufacturing, publishing, and financial services. Approximately one-third of consumer demand for printing and writing paper is delivered through the mail system.

With financial losses exceeding $8.5 billion in 2010, USPS is facing unprecedented challenges to adapt to the evolving nature of how people communicate and conduct business. AF&PA recognizes that the highly mobile and internet-enabled economy has forever changed the dynamics of volume, mix, and cost to deliver mail and supports legislative measures that will help the USPS achieve financial stability by encouraging new revenue sources, attracting customers, and realizing cost savings.

Vision for the future

Successful resolution of the postal financial crisis will require Congress, USPS leadership, and regulatory authorities to work together to enable USPS to operate within the new market realities. Changes in service standards, network and processing

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infrastructure, reduction and integration of postal office services into a more effective business footprint, new revenue opportunities, and changes in labor cost structure must all be considered as Congress works to find a solution. Uncertainty about the reliability of the Postal Service and the costs to transact business through the mail must be eliminated as soon as possible to prevent mail volume and revenue losses from accelerating even faster.

We applaud Senator Susan Collins for her long term leadership role in authoring reform legislation to enhance USPS efficiency and reduce costs. We support the collaboration between Senator Collins and Senator Tom Carper in trying to address the USPS overpayments to the Civil Service Retirement System and the Federal Employment Retirement System.

Other legislative proposals offering comprehensive changes to USPS authority need to be carefully considered, and we support the elimination of statutory constraints and impediments to lowering labor costs and realigning the Postal Service infrastructure to match current and expected mail volume. That authority should be granted so that changes can be made quickly and transparently, with objectives that balance the needs to reduce costs and preserve (and grow) mail volume.

Setting the new course for the U.S. Postal Service

AF&PA supports postal reform measurements that take into account the following:

- Recognition that USPS is a critical supply chain partner in the mail economy that must right-size its infrastructure to align with current and expected demand. While mail volume is declining, mail currently supports, and will continue to support a huge level of commerce. Labor and facility capacity must change with the evolving realities of communications and business transactions. The paper industry has faced the same capacity realities and has reduced and optimized production.
- USPS must collaborate with business to preserve mail volume and drive new revenue. Just as our industry has used innovation to find new markets and applications for our products, so must the Postal Service seek new avenues to revenue to replace that of declining mail volume. The business community can offer valuable insight into best practices in seeking new markets.
- USPS must create pricing models that recognize competitive alternatives and collaborate with the mailing community to lower and cover attributable costs for all classes of mail. The Postal Service must change its outdated costing system, and utilize outsourcing resources to maximize efficiencies. Rate stability and predictability is essential for business to "stay in the mail" and USPS must recognize, as has our industry, that raising prices to address declining demand is not a successful strategy.
- Reducing service levels to 5-days must realistically weigh cost savings against accelerated decline in volume. Regularity and reliability is the central value proposition of the Postal Service. Reduction in service risks lost business and foregone revenue the Postal Service can ill afford, and we have concerns that the magnitude of that loss could be far greater than USPS forecasts. This option

should be considered only after other, higher value cost reduction measures have been exhausted.

- Hard targets for employment levels, post office facilities, and mail processing infrastructure must be developed to re-calibrate USPS capacity with current and expected volume demand. Goals and accountability to achieve them will be critical in restoring confidence and credibility in a sustainable postal strategy.
- Employee costs, benefits, and future obligations must be brought in line with market competition. The handcuffs and unreasonable burdens of the current statutory requirements must be changed so that the USPS can have a chance to be competitive with private sector business.

AF&PA urges Congress to quickly implement the needed changes to avert insolvency of the U.S. Postal Service. We will work closely with Congress and USPS leadership to identify and support initiatives that will ensure the financial viability and affordability of the postal system upon which we all depend.

Statement of

Fredric V. Rolando

President, National Association of Letter Carriers, AFL-CIO

Senate Homeland Security and Governmental Affairs Committee

September 6, 2011

Introduction

I submit this statement on behalf of 280,000 active and retired letter carriers, including the 200,000 hard-working men and women who serve every household and business in America six days a week. As the democratically elected president of the National Association of Letter Carriers whose members live and work in all 50 states and every other jurisdiction of the country, I had hoped to participate in your September 6th hearing directly. Given the crisis facing the Postal Service caused by the legal mandate which requires the USPS to pre-fund its future retiree health costs on a crushing schedule despite the worst recession in 80 years, letter carriers wanted to be heard. This desire grew exponentially when the Postmaster General took the outrageous action of proposing radical legislative changes to Congress aimed at reducing my members' job security, health insurance coverage and pension benefits instead of addressing those issues at the collective bargaining table. Following three harrowing years in which we have worked with the Postal Service to overcome the economic crisis, acting responsibly to adjust delivery routes and reduce employment by more than 15,000 positions in response to the sudden decline in mail volume, this profound act of bad faith by the PMG has deeply angered my membership.

That the Postal Service would release these proposals with virtually no warning during the same week that it opened bargaining with NALC for a new collective bargaining agreement revealed a profound lack of respect for the men and women who deliver the mail. Nonetheless, we are committed to rising above the anger caused by this outrageous provocation to find solutions to the Postal Service's problems at the bargaining table this fall.

We hope Congress will act quickly to do its part to solve these problems as well. But it should not reward the Postal Service's bad faith on issues that can and should be addressed in collective bargaining by acting on the radical ideas outlined in its August "white papers." Each of those white papers makes misleading and/or false claims about postal collective bargaining and the nature of postal employee benefit plans that should raise grave doubts about the credibility and competence of the Postal Service's senior management. We believe it is possible for the Senate to address the immediate financial crisis caused by the retiree health pre-funding mandate without dismantling the United States Postal Service, an institution that has served the economy and country well for decades, or destroying the middle class living standards of that postal employees have worked hard to achieve.

I had hoped to outline our views of what must be done to save the Postal Service in person. Instead I will submit this statement and hope that each member of the Committee will commit to giving our organization a chance to testify at any and all future hearings about legislation affecting us and the United States Postal Service. As workers who are deeply committed to serving our nation and our fellow citizens and who are proud of the high quality service we provide at the most affordable rates in the world, we deserve no less.

The Nature of the Postal Crisis and How to Respond

The Postal Service faces a near-term financial crisis caused by the PAEA's retiree health pre-funding mandate and a long-term structural challenge posed by the internet. It is like a house that is being devoured by flames. The immediate issue is the need to put the fire out. Once the "financial" fire is extinguished, we can focus on how to rebuild the USPS "house" for the long-haul.

Of course, the Postal Service and its critics employ a more direct analogy from the world of business: We are, they say, like a private business facing bankruptcy – much like the auto companies in 2008. We believe this is profoundly wrong. If the Postal Service were a private company, it would not be in the kind of financial distress it faces today and it would not be filing for bankruptcy protection. Why? Because the Postal Service's recent financial woes are primarily the result of postal-specific legislation that requires it to uniquely, massively and excessively pre-fund future retiree health benefits. It is being forced to pre-fund a 75-year liability over a 10-year period. No other company or agency faces such a crushing burden. This is the driving force behind the crisis, not the internet or the Great Recession.

If it were a private company, the Postal Service would not have had to funnel $21 billion into a retiree health benefits fund over the past four years, and it would not have borrowed massively to do so (see the chart below). As a private company participating in a multi-employer health plan, it would have been allowed to pay these costs on a pay-as-you go basis, it would have preserved its cash, and it would have used credit as well as aggressive cost-cutting to ride out the Great Recession as many other companies have done.

Unlike the auto companies, the Postal Service and its employees have more than fully funded pensions – indeed, there is irrefutable evidence from the Hay/OIG and Segal/PRC audits of 2010 that we have massively over-funded our pensions (by $55-$75 billion). And while the auto companies had huge unfunded liabilities for future retiree health benefits, the Postal Service would not face such liabilities if it were a private company – because it would have employed the corporate best practice of using its huge pension surpluses to cover those liabilities. Of course, two-thirds of large private companies don't prefund future retiree health benefits at all (according to the 2010 Towers Watson survey of Fortune 1000 companies), but among those that do, the median funding level is only about 33 percent of projected costs.

Pre-funding Payments to the Postal Service Retiree Health Benefit Fund (PSRHBF) Are Driving USPS Finances

(Figures in $Billions)

Year	Reported Net Income	Payments to PSRHBF	Net Income w/o Payments to PSRHBF	Added USPS Debt*
2007	-$5.1	$8.4	$3.3	$2.1
2008	-$2.8	$5.6	$2.8	$3.0
2009*	-$3.8	$1.4	- $2.4	$3.0
2010*	-$8.5	$5.5	- $3.0	$3.0
Total	**-$20.2**	**$20.9**	**$0.7**	**$13.2**

*Notes: A law enacted in 2009 reduced the prepayment from $5.4 to $1.4 billion. Pre-funding accounted for 65% of the loss in 2010, while most of the rest resulted from a non-cash accounting adjustment related to workers compensation costs triggered by falling interest rates. The USPS has a $15 billion statutory debt limit.

The only value to thinking about the Postal Service as if it were a private business is to consider what the USPS would do right now if could act on its own without Congress. It would likely pay down its debt by drawing from its very well-funded retiree health fund (PSRHBF) – which now has $42.7 billion in it, enough to pay the USPS's retiree health insurance premiums for decades. It would use its ability to borrow to finance the restructuring of its networks, update its vehicle fleet and invest in new product development for the long haul. It would make plans to use its huge pension surpluses to responsibly cover the long-term cost of retiree health benefits and other significant obligations (such as workers' compensation costs). And It would work with is employees and solicit new partners to find new ways to serve its customers.

Congress should not be bamboozled by false analogies to failing private companies, and it should avoid a panicked response to the current crisis that does more harm than good. But it should be guided by what a good private company would do if it were in the Postal Service's shoes. It should put out the financial fire and work with the entire $1.2 trillion postal industry to develop a long-term plan for the Postal Service based on careful analysis on what's in the best interest of the country.

We know that the Postal Service faces severe long-term challenges that will have to be met at the bargaining table and in the halls of Congress, but the first task must be to deal with the immediate financial crisis – the cash crisis that will cause the Postal Service to miss payments due under current law in September and October. Congress unintentionally caused this crisis in 2006; it must deliberately and quickly fix the problem in 2011. Given the economic conditions facing the country, the pre-funding burden should be suspended, at least until the Postal Service recovers from the economic crisis, and the USPS should be given the financial flexibility to adapt to the evolving needs of the nation's businesses and households.

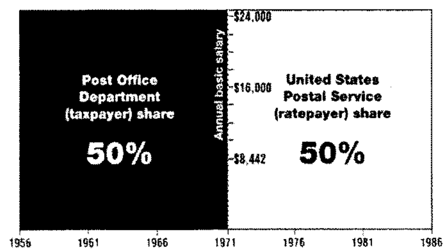
Pending Legislation and the Immediate Crisis

The core financial provisions of both Senator Tom Carper's bill, S 1010, and Senator Susan Collins' bill, S. 353, would address the immediate cash crisis without the need for any taxpayer funds. The Postal Service and its employees don't want a taxpayer bailout – we have NOT received ANY taxpayer funds in nearly 30 years. We want to use our own surplus pension funds–calculated using fair methods–to pay for the heavy cost of pre-funding.

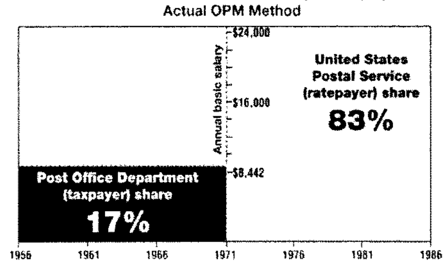
Both the Carper and Collins bills would allow the USPS to meet the prefunding mandate by using surplus pension funds identified by the Hay/OIG and Segal/PRC audits. Both of those audits rejected the methods used by the OPM to allocate pension costs between the Postal Service and the Treasury Department for workers with CSRS service both before and after postal reorganization. All sides agree that the cost of pre-1971 service for the P.O.D. is the responsibility of taxpayers while the cost of post-1971 service for the Postal Service is the responsibility of postage ratepayers. But when it came to measuring the cost of pre-1971 benefits, the OPM shifted a huge amount of the P.O.D. pension costs to the Postal Service by calculating benefits based on 1971 salaries – not the high-three average salaries in place at the end of the workers' careers, the actual average salaries used by the CSRS benefit formula to determine pension benefits.

The OPM method ignored the fact that the cost of prior service rises as wages rise. Postal wages rose in line with inflation after 1971, but the cost of P.O.D. pension benefits for pre-1971 service was frozen at 1971 wage rates. This unfairly shifted the cost of wage inflation on P.O.D. benefits to the USPS. As the charts below indicate, the OPM methods were grossly unfair to the Postal Service using the example of a letter carrier employed between 1956 and 1986. The first chart shows the fairest way to split the cost of pension benefits for such a letter carrier who worked 15 years for the P.O.D. and 15 years for the USPS. This fair way to allocate the costs is to split them proportionally – what the Hay Group calls the "service ratio" method. In this case, the split would be 50-50, half and half. The second chart shows how the OPM actually splits the costs – by using 1971 wage rates to compute the cost of pre-1971 service. This method is blatantly unfair to the Postal Service – shifting an additional 33% of the cost to the Postal Service.

The Cost of CSRS Benefits for a 30-year Employee
Service Ratio Method



The Cost of CSRS Benefits for a 30-year Employee
Actual OPM Method



The OPM claims that a 1974 law mandates it to use the unfair methods for allocating CSRS pension costs to the USPS – and that Congress must change the law before it can adopt the modern methods endorsed by the private audits. NALC and most of the postal industry disagrees with OPM's legal analysis: A 2003 statute (Public Law 108-18) that reformed the Postal Service's pension contributions to prevent massive pension overfunding repealed the 1974 law cited by OPM. Moreover, the 2006 postal reform law gave the OPM broad authority to make "*any determination or redetermination*" regarding its cost allocation methodology, a view that is shared by both Sens. Susan Collins and Tom Carper who were intimately involved in passing both the 2003 and 2006 laws. (Source: September 28, 2010 letter from Sen. Collins to OPM Director John Berry.) Nonetheless, the Carper bill would overcome the OPM's objection. It would require the agency to fairly calculate the postal surpluses but keep them in CSRS while allowing the USPS to pay its pre-funding payments out of the surplus funds. This minimizes the negative impact on the CSRS funding balance and addresses the Office of Management and Budget's (OMB) concern that a massive shift of funds between the two trust funds (CSRS and the Postal Service Retiree Health Benefits Fund or PSRHBF) will increase the deficit since the Treasury must amortize any increase in the CSRS's unfunded liability over 30 years. This approach is broadly consistent with that taken by H.R. 1351 in the House of Representatives, a bill drafted by Rep. Stephen Lynch that has attracted nearly 200 co-sponsors from both parties.

The Postal Service's pension surpluses are not restricted to the CSRS system. A 2011 report from the OPM revealed that the USPS has a $6.9 billion surplus in the other federal pension plan, the Federal Employees Retirement System (FERS). There is no dispute about this surplus. Indeed, citing this surplus, the Postal Service announced in June 2011 that it would suspend making FERS pension contributions to preserve its cash reserves. We believe the FERS surplus should be immediately refunded to the Postal Service so that it can manage its debt and cash flows in a responsible manner.

Other Reforms: Delivery Frequency and Interest Abitration

NALC acknowledges that other changes to the business model of the Postal Service are necessary, but these changes must be studied and implemented carefully over time to prevent serious damage to the Postal Service and the huge industry it supports. Measures to give the Postal Service more freedom to innovate, to find new ways to serve its customers and to maximize the value of its unmatchable networks would be especially welcome. Relaxing the PRC's incredibly tight price indexing formula based on general inflation in favor of a more reasonable Consumer Price Index for Delivery Services might also make sense. But we oppose measures that would damage the interests of postal customers or unfairly tilt the collective bargaining process in favor of postal management.

Indeed, we strongly object to two policy changes now under consideration in the Senate – the delivery frequency provision of S. 1010 and the interest arbitration amendments contemplated by both S.1010 and S. 353.

The Carper bill would permit the Postal Service to unilaterally adjust the frequency of mail delivery with no oversight from Congress or the PRC. The USPS would be empowered to reduce delivery from six days a week to five days, four days or even three days per week. Leaving aside the tens of thousands of good jobs that would be lost, we think any reduction in delivery service would be a strategic blunder of the first order – saving very little money and risking the loss of much more revenue over time. Cutting service is not a way to strengthen the Postal Service. In America, business is conducted 24 hours a day, seven days a week. Many businesses, especially small businesses such as e-Bay retailers, rely on Saturday delivery and reducing the speed and quality of service will simply drive customers away. We have already seen some customers begin to drift away, on the false assumption that 5-day delivery is a done deal. *The Economist* magazine has already opted out, outsourcing its Saturday deliveries to contractors in this area, and we can expect private delivery firms that use the USPS for cost-effective last-mile delivery to reconsider their business plans. Weekly newspapers and direct advertisers who value Saturday delivery will follow suit.

At a time when the nation is suffering an acute jobs crisis, throwing another 80,000 decent jobs away in a moment of panic does not make sense. Both the Obama administration and a bipartisan near-majority of the House of Representatives who have co-sponsored H. Res 137 oppose the elimination of Saturday delivery. We urge all of you to reject this proposal as well.

Similarly, NALC opposes the proposed changes in the interest arbitration process included in both Senate bills. Both would tilt the process in favor of management by mandating future arbitration panels to give special weight to management bargaining objectives – the financial condition of the USPS in particular – without any balancing consideration for workers' objectives. This change is being motivated on the basis of misinformation from the Postal Service, which claims that arbitration panels (which always include a management-designated arbitrator) do not always consider postal finances in their decisions to resolve collective bargaining disputes. This is preposterous and the Postal Service knows it. NALC believes the existing language in the law should be left alone, but we have provided the committee with more balanced language if changes are adopted over our objections.

A Proposed Division of Labor for 2011

We do not expect Congress to relieve us of our responsibility to adapt and adjust to the impact of the Great Recession or the challenge posed by the internet. The postal unions have demonstrated over the past three years that we will step up to the difficult challenges before us. Just as companies and their unions in the private sector have done, we have worked hard to adjust to the financial crisis in recent years. We have reduced employment by more than 110,000 jobs since the recession began and have dramatically increased productivity in response to declining demand. As Postmaster General Donahoe told the House of Representative's postal sub-committee in March 2011, "our employees have done a great job from a productivity standpoint" and the quality of service has remained very high.

But we do think Congress should resolve the pension and retiree health prefunding issues that have unfairly weighed us down. That is a division of labor that Postmaster General Donahoe embraced in March when he testified before the House. He told the postal sub-committee: "What we need is your help with the big issues that are beyond our control. We have excellent employees. We have excellent working relationships with our four unions and three management associations. We know how to get things done." We believe the Postal Service should return to this stance and abandon its transparent attempt to extract from Congress benefit and job security changes that can be negotiated directly with the unions. If Congress does its part to preserve one of America's greatest institutions, we will do ours.

Conclusion

We urge Congress to act. At a time of deep partisan division, fixing the Postal Service in a bipartisan way would send a positive signal to the country that we can make our government work. The Post Office is one of our oldest and greatest institutions. Traditionally, it has been a non-partisan issue in our politics. Indeed, as the chart below indicates, the American public has an extremely favorable view of the Postal Service.

Pew Research Center
Survey on Federal Agencies

Public Favorability Ratings, March 2010

Agency/Department	Percent Favorable
U.S. Postal Service	83%
Centers for Disease Control	67%
Department of Defense	67%
Federal Bureau of Investigation	67%
NASA	61%
Food & Drug Administration	58%
Environmental Protection Agency	57%
Veterans Administration	57%
Central Intelligence Agency	52%
Justice Department	51%
Social Security Administration	49%
Internal Revenue Service	47%
Department of Education	40%

Source: Pew Research Center poll, 3/18/10 - 3/21/10

Taking action to resolve the Postal Service's finances is not just pro-employee, it is also pro-business. There is a $1.3 trillion mailing industry in the U.S. that supports between 7 - 8 million private sector jobs that is heavily dependent on a healthy and efficient Postal Service. Permanently fixing the prefunding mess will help keep the economic recovery on track and the business mailers whose postage payments helped fund our pension plans deserve fairness as much as our members do.

Failing to act, on the other hand, could have very negative consequences for both the Postal Service and the national economy. Indeed, if no action is taken, the USPS will fail to make the next $5.5 billion payment that is due on September 30, 2011 and could miss a $1.1 billion payment to the Department of Labor's workers' compensation program. This could set off a firestorm of bad publicity that will have disastrous economic feedback effects. Indeed, there is growing evidence that fears about the viability of the USPS are already leading businesses to exit the mail system, cutting jobs and hurting a weak national economy. A crippled Postal Service would also threaten the economy's financial payments system. More than half of all monthly bills are paid through the mail, safely and efficiently facilitating trillions of dollars of transactions each year.

Finally, a USPS "default" would also undermine public confidence not just in the USPS but in the U.S. government as a whole. America needs a strong Postal Service. But it also needs a Congress that works to solve the nation's problems. Now it's time to ensure that we have both.

NAPUS

NATIONAL ASSOCIATION OF POSTMASTERS OF THE UNITED STATES

TESTIMONY OF

ROBERT RAPOZA

NATIONAL PRESIDENT

HEARING

SENATE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS
DISTRICT OF COLUMBIA
WASHINGTON, DC

SEPTEMBER 6, 2011

Chairman Lieberman, Senator Collins and Committee Members, the National Association of Postmasters of the United States (NAPUS) appreciates the opportunity to share with you the deep concern that my 38,000 members have about the future of a universal Postal Service. The combination of a stagnant economy, falling postal revenue, shrinking mail volume, and the inability of the Postal Service to market innovative products and services have conspired to place the institution on the brink. A viable Postal Service is not simply the keystone of a $1 trillion postal economy, but continues to be the linchpin, providing far-flung towns an identity, civic connectivity and economic sustenance. Indeed, the Post Office is an essential public hub, particularly in small towns and rural areas.

For two years, Congress and the Administration have permitted a constructive legislative fix to slip through their grasp. The House, the Senate, and the White House have had the data, the opportunity, and the means to alleviate the impact that the recession and mail diversion has had on the Postal Service and on the mailing public. Two independent evaluations of the Civil Service Retirement Trust Fund documented historic and substantial U.S. Postal Service pension overpayments. In addition, the Postal Service is harmfully-burdened with a unique and unparalleled requirement to pre-fund 80 percent of its retiree health benefits within a narrow 10-year span. Moreover, these egregious prefunding payments were mandated during the depth of a broad recession that devastated our entire economy. Our nation's Postmasters call upon the Administration and the Congress to finally acknowledge, though belatedly, the pension overpayments and permit the Postal Service to apply portions of that surplus to offset the pre-funding requirements. In addition, the nation's Postmasters request that Congress re-amortize the pre-funding requirement to a more reasonable amount of time. Enabling legislation is pending before the Congress; NAPUS urges this committee to promptly approve those sections of the bills that address the overpayment and prepayment issues.

As this Committee seeks solutions to alleviate the monumental challenges confronting the Postal Service, it is crucial to note the constitutional mission of the agency, which is to provide the American public with a universal postal system. The performance of this mission is an inherently government function and must not be delegated to commercial interests. The Postal Service and its employees are entrusted by American public to accept, process, and deliver mailed matter. NAPUS primarily represents those trusted third parties who accept, process and deliver mail through the community Post Office. While Post Offices have always represented the cornerstone of the postal network, Postmasters fully recognize that the modernity, mailing patterns, and economic reality makes it necessary to re-evaluate how the Postal Service provides the service to which Americans expect, and to which they are entitled. Accessibility to postal products is no longer limited to bricks-and-mortar facilities; alternative channels, including the internet and non-postal retail outlets exist. As a consequence, we recognize that size of the Postal Service's retail network, by necessity, will contract. We will continue to work with Postal Headquarters to responsibly calibrate postal presence in sync with demographic shifts and local needs.

It is important, however, that such postal retail contraction and alternative access expansion respond to the wishes of its fundamental constituency, its residential customers and small businesses. Two successive Gallup Polls illustrate strong opposition to Post Office closures, and the American public knows full well that the closure of every single small and rural Post Office will yield only 0.7% savings to the Postal Service's bottom-line. Communities throughout the nation are deeply concerned about the Postal Service's proposal to close as many as 2,800 independent Post Offices and have expressed their dismay to elected representatives. Current law provides specific guidelines for the Postal Service's conduct as it seeks to reduce its retail footprint. The law expresses strong support for a universal postal system that does not disenfranchise millions of Americans who reside or work in small towns and rural areas. NAPUS strongly supports the preservation of the statutory protections afforded to Americans through sections 101(b) and 404(d) of Title 39 of the United States Code.

As you may know, the Postal Service has requested an Advisory Opinion on its Retail Access Optimization initiative. NAPUS has actively participated in the proceedings as an intervener and has filed four sets of interrogatories in the matter. Our line of inquiry primarily concerns the criteria by which the 2,800 Post Offices were designated for discontinuance review, and how the Postal Service measures the impact of closures on effected communities. If Post Offices are proposed for closure, they should be closed for the right reasons, not arbitrarily or in ways that would adversely impact rural communities and small towns. The Postal Regulatory Commission plans to provide its advice to the Postal Service by early November.

NAPUS is deeply concerned about the recently unveiled Postal Service proposal to withdraw from the Federal Employees Health Benefits Program and the Federal retirement systems. These proposals will wreak havoc on the stability of postal employee health protection and retirement security.

The proposal to abandon FEHBP is not novel. It was raised in a 1988 by report commissioned by President Reagan's Office of Personnel Management. In addition, the Postal Service testified in favor of a postal-only plan before a House Subcommittee in 1990. And, over the past 20 years, the Postal Service has been toying with such a proposal. Nevertheless, the proposal shared with Congress two weeks ago and with employee associations last week, is still not ready for prime time.

The Postal Service believes that, using its market leverage, it would be able to negotiate a far better deal than OPM is able to bargain on behalf of the federal employee and retirees. In the early 1980s, the Federal Deposit Insurance Corporation had the same bright idea; in 1982, it left the FEHBP and created its own health plan. The FDIC had an advantage that the USPS does not currently enjoy, a comparatively young and healthy workforce. Over time, the FDIC health plan, which was managed by two successive insurance companies, discovered it could not negotiate premiums and benefits as effectively as OPM, and did not operate as efficiently as the FEHBP. As a result, its premiums rose and its benefits were squeezed. In the late 1990s, Congress enacted legislation permitting the FDIC to rejoin the FEHBP. The cost to re-enter the system was $170 million. The employees of the Federal Reserve Board also suffered the same type of buyer's remorse, as they returned to the FEHBP through the same legislation as the FDIC. The Postal Service might argue that it would have better luck than the FDIC or the Federal Reserve, since it has a large enrollee universe. However, it is also true that, unlike the other two independent agencies, health plan administration would be costlier and Postal employment is more widely distributed. It is doubtful that Postal Service leverage can exert more pressure on health care providers than is currently exerted by FEHBP plans. Moreover, it is uncertain that the Postal Service will be able to uncover new health improvement programs that have yet to be employed by FEHBP plans – particularly since the most likely candidates to administer a Postal Service-sponsored plan would be insurers who already participate in the FEHBP.

One of the hallmarks of the FEHBP is plan choice and that the competition among the plans restrain costs and enhance benefits. In fact, Congress has always pointed to the federal system as a model to be replicated. So, it is a bit counter-intuitive to embrace a Postal Service plan that denies consumer choice and will result in reduced benefits. By that same token, NAPUS is troubled by the Postal proposal to force postal retirees into Medicare Part B and provide only a Medigap plan for these individuals. We are also concerned that the Postal Service may use a retiree health plan to eliminate prescription drug coverage and will force retirees into Medicare part D. However, NAPUS does support the Postal Service's proposal that it should be eligible of the Medicare Part D employer subsidy for the benefits it will provide, under the current FEHBP regime.

Another Postal proposal that is troubling is the agency's desire to withdraw from the Federal Employees Retirement System. While current employees would be able to continue to participate in the Civil Service Retirement System and the Federal Employees Retirement System, new employees would not be eligible to participate in the modest defined benefit portion of the retirement plan. In addition, continued participation in the Thrift Savings Plan is uncertain. Uncertainty is serious flaw in any retirement system.

As this Committee continues its quest to address the Postal Service's financial challenge, it must note that the agency still is the most highly-respected and trusted governmental operation. As a consequence, the Congress should tread lightly on actions that would jeopardize its service to the American public.

STATEMENT

OF THE

NATIONAL POSTAL MAIL HANDLERS UNION

BEFORE THE

SENATE COMMITTEE ON

HOMELAND SECURITY

&

GOVERNMENTAL AFFAIRS

U.S. POSTAL SERVICE IN CRISIS: PROPOSALS TO PREVENT A POSTAL SHUTDOWN

September 6, 2011

Chairman Lieberman and members of the Committee. The National Postal Mail Handlers Union appreciates the opportunity to submit this testimony.

The Postal Service is facing some severe economic realities. The worst American recession since the Great Depression and a larger-than-expected decline in mail volume caused, in part, by electronic diversion have combined to test the Postal Service's financial well-being. In little less than a month, at midnight on September 30, 2011, absent Congressional action the Postal Service will not be able to meet its statutory obligation to continue the pre-funding of its retiree health benefits.

Initially the Postal Service, and then the press, have labeled this a point of insolvency for the Postal Service. But that so-called insolvency, if it occurs, has not been caused by either the Postal Service or its employees.

Before the current fiscal year, the Postal Service had operational surpluses over the past four years. Even with the most severe recession in eighty years, and even with unexpectedly large drops in mail volume, the Postal Service generally has taken in more money from its postal operations than it spends. Over the last four years, revenues derived from mail processing and delivery have exceeded costs by more than $800 million. To be sure, during the first nine months of the current Fiscal Year 2011, with mail volumes continuing to decline, the Postal Service's net results from operations have not been as positive, but they could easily be managed if not for the Retiree Health Benefits Fund.

The more than $20 billion in losses over the last few years have nothing to do with a failing business model or the obsolescence of the mail. They also have nothing to do with Mail Handlers or other postal employees, who continue to work productively and efficiently, while more than 130,000 of their colleagues have been lost through attrition. In 2006, Congress mandated that the Postal Service pre-fund future retiree health benefits for the next 75 years, and also mandated that the Postal Service do so within 10 years. This is something that no other public agency or private firm does, or would ever do, if allowed to adopt and implement a rational financial plan. As a result, the Postal Service has more than $42 billion in its Retiree Health Benefits Fund. That's the difference between a positive and a negative financial outlook.

The Mail Handlers Union understands that the Postal Service agrees with this analysis, because it is factually accurate. For several years, we have worked closely with the Postal Service in an effort to convince Congress to change the funding formula for the Retiree Health Benefits Fund and adopt Title 1 of S. 1010 (and H.R. 1351). That legislation needed to be enacted yesterday (and Senator Collins is correct that OPM has the authority to recalculate and should relinquish the money back to the USPS). Congressional action is uncertain, especially given the anti-worker, anti-government, and anti-Postal Service stance that has been adopted by some elected and unelected policy makers.

One casualty of the inability of Congress to reverse the error of the 2006 PAEA – and the inability of the Postal Service to effectively convince Congress of that mistake – is the announced plan to downsize the network. Unfortunately, it is another example of USPS management's "death spiral" thinking, similar to service reductions such as five-day delivery. Why cut service at a time when improving service is necessary to be competitive, i.e., to retain, and attract, business? Service is what keeps the USPS relevant; these plans essentially propose to eliminate "Service" from the "U.S. Postal Service." To throw service standards into the trashcan sounds preposterous. What business that wants to stay in business would act in such a bizarre manner and call it a "future business model"? But those changes are only the tip of the iceberg, as every day seems to bring a new proposal from the belly of L'Enfant Plaza. Now they also want Congress to believe that they are the innocent victims of a rigged collective bargaining process, *despite the fact that they have an equal voice in every phase of that process.*

Eliminating a majority of processing plants is an irrevocable decision. It is not likely to be reversible should the economy turn around, and/or should efforts to stem the loss of mail and increase volume through innovative schemes work, some of which are contained in legislation pending before the House and Senate, be successful.

To address the funding issues in Congress, a fully united front – amongst the Postal Service, its customers or mailers, and its employees – has never been more necessary. Yet somehow, the Postal Service has used its current financial predicament as an excuse for launching an unprecedented attack on its employees and the collective bargaining process. Just weeks before the

NPMHU began bargaining, the Postal Service asked Congress to abrogate the no-layoff clause, and to terminate the Postal Service's participation in federal health and federal retirement programs. To adopt these proposals would be wrong-headed; to promulgate these proposals, in any forum other than through the upcoming negotiations, is wholly unjustified. Pulling out of the federal health and retirement programs is one of the worst ideas that has ever come out of Postal Service Headquarters. Everyone knows that with economies of scale and a larger risk pool, both postal and federal employees are much better off being in the same programs. Why would the Postal Service wish to add to their administrative costs by running their own plans? The answer is simple, ultimately: they want to cut benefits. Dedicated postal employees deserve better, and, even assuming that the Postal Service wishes to propose such changes, it is at the bargaining table where these matters must be discussed. Bargaining in good faith has never been more necessary, yet the Postal Service seems to be throwing that tenet out the window.

The Mail Handlers Union will continue to work in the legislative arena to obtain relief from the Retirees Health Benefit Fund, and to retrieve the overpayments made for CSRS and FERS. It is at the bargaining table where other issues belong. We kicked off the bargaining process last week, on August 30, 2011. As stated at the opening ceremony, "The goals of the Mail Handlers Union in this year's round of bargaining, however, can be stated simply. We seek a negotiated agreement that is both protective and constructive. It should protect career Mail Handlers who have dedicated their lives to the Postal

Service, and it should protect the Postal Service against those who seek its demise. It should construct practical solutions to the problems faced by the Postal Service and postal employees, so that the Postal Service and all of its employees can continue to provide the American public with the service that they have come to expect." What the American public have come to expect is timely processing of their mail so your constituents get safe and secure mail delivery six days a week.

We look forward to working with Congress going forward, to not only help the Postal Service survive, but to grow and thrive. Our mutual commitment to the American people should not change.

NATIONAL RURAL LETTER CARRIERS' ASSOCIATION

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Written Statement of
Jeanette Dwyer, President
National Rural Letter Carriers' Association

Before the

Senate Homeland Security and Governmental Affairs Committee

September 6, 2011

Chairman Lieberman and members of the Senate Homeland Security and Governmental Affairs Committee, my name is Jeanette Dwyer, and I am President of the National Rural Letter Carriers' Association (NRLCA), which represents 123,000 bargaining unit rural letter carriers. Our members work in rural, suburban, and urban areas throughout the United States and function as a "post office on wheels" because rural letter carriers offer Postal customers all of the services performed over the counter at a post office. We sell stamps and money orders, accept express and priority mail, offer signature and delivery confirmation, registered and certified mail, and, of course, collect our customers' parcels.

Despite the Postal Service's financial challenges, it remains one of the largest employers in the United States and a major player in the global economy. According to CNN Money, the Postal Service would rank 109th on the Global 500 list of businesses in the world[1], with approximately $67 billion in annual revenue.

The NRLCA recognizes that the Postal Service's financial challenges are in large measure a result of billions of dollars in overpayments into the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS), an overly aggressive prefunding schedule for its retiree health benefits, and declining mail volume. Congress has the power to address and resolve the pension miscalculation and prefunding issues that will help to put the Postal Service back on a firm financial footing.

First, Congress must pass legislation to remove the single greatest obstacle to the Postal Service's financial health and well-being: the onerous pre-funding obligation to the Future Retiree Health Benefits Fund. Over the last four years, the Postal Service reported losses of $20 billion at the same time it pre-funded the Future Retiree Health Benefits Fund to the tune of $21 billion. The Postal Service actually would have made a profit over that same four year period if not for this pre-funding requirement, a requirement that no other government entity or private business must satisfy. Currently, the Postal Service has approximately $44 billion pre-funded, enough to cover retiree benefits for the next 20 years. The pre-funding requirement must be modified so that the Postal Service can pay-as-it-goes as compared to the current requirement that the Postal Service pre-fund based on arbitrary numbers.

According to the Postal Service Inspector General, the Postal Service has already reached the benchmark "gold standard" for pre-funding pension obligations at 99%. This percentage far exceeds what other federal agencies, including OPM and OMB, and other private sector companies have pre-funded. In addition, the Postal Service has pre-funded its health benefits by 41%, once again more than other federal agencies and the private sector. In fact, according to a Watson Wyatt 2009 Accounting and Other Post-Retirement benefits study, 63% of companies **do not** pre-fund. As a whole, the Postal Service has $300 billion set aside for its pension and healthcare liabilities, and it is just $55 billion short of 100% pre-funding. If Title 1 of S. 1010 or S. 353 is passed, returning the CSRS and FERS pension surpluses back to the Postal Service, resulting in an infusion of $50-55 billion and $6.9 billion respectively, the Postal Service would be 100% pre-funded, and the burden of having to pre-fund would be eliminated completely.

[1] CNNMoney http://money.cnn.com/magazines/fortune/global500/2011/full_list/101_200.html

Senators, you have the power to rectify this injustice now without interfering with six-day mail delivery or collective bargaining rights. The Postal Service is threatening to cut 220,000 jobs, close post offices and facilities, and leave the FEHB and government retirement programs. Let me be clear: this is the way to destroy the Postal Service not save it.

The Postal Service can ill-afford to eliminate six-day mail delivery. There is great debate about how much money the Postal Service might save by reducing service. We firmly believe that any savings occasioned by reducing delivery days will be offset by the lost revenue that will occur when consumers and businesses flock to the Postal Service's competitors to have their mail, packages, and products delivered. Reducing service now will mean less market share and a more uncertain future. At a time when unemployment hovers at 9%, this is no time for massive layoffs. The NRLCA alone would experience the loss of approximately 50,000 jobs if service were reduced. I must also point out the severe hardships that would be visited on rural America if our customers and small businesses lost a day to send and receive mail. Their livelihoods depend on the Postal Service for their communication and delivery needs. There are no alternatives in many communities. We cannot afford to move backwards. We must continue to provide the service our customers expect. To do otherwise would be to add insult to injury and further undermine the financial health of the Postal Service I want desperately to succeed.

The Postal Service is looking to circumvent current collective bargaining agreements with its unions by having Congress legislate what the Postal Service and its unions have negotiated over for the past 40 years. The Postal Service's plan to leave the FEHB will not enhance health care options for rural carriers. It will undoubtedly mean substandard benefits at a greater cost. The negotiating and purchasing power of the FEHB is unparalleled. There is little precedent for abandoning FEHB. However, the Federal Deposit Insurance Corporation (FDIC) withdrew from the FEHB in 1982, claiming a third party administrator would reduce expenses. By 1997, the FDIC concluded that it was no longer cost-effective to provide health insurance as a self-insured entity, and sought to rejoin the FEHB. It took Congressional legislation to allow the FDIC to return to the FEHB at an estimated cost to the FDIC of $170 million for its approximately 5,700 employees. The FDIC realized that the FEHB was better positioned to bargain for lower premiums and better benefits. It truly was a failed experiment. The fact is that the Postal Service simply can't compete – even if it had the health insurance experience – with the FEHB. Moreover, we have no interest in putting retiree health benefits at risk each and every time we negotiate over health benefit contribution levels.

Pension benefits for rural craft employees would also be put at risk if the Postal Service succeeds in its proposal to provide a new retirement plan for all new employees. It would be a catastrophic mistake to abandon the Thrift Savings Plan (TSP), and substitute a different defined contribution plan. The TSP continues to be one of the largest and best-administered defined contribution plans in the world. The Plan has extremely low administration costs. In fact, TSP administration costs cost mere cents on the dollar, making TSP perhaps the least expensive defined contribution plan in the nation. The only way I can envision the Postal Service saving money by launching its own Plan is to reduce the employer's share of matching contributions.

Finally, I am deeply disturbed that the Postal Service now seeks to have Congress interfere again with collective bargaining by stripping away the no-layoff clause protection that the NRLCA secured after hard-bargaining and considerable financial sacrifice. Our craft paid dearly for this protection. As part of a ratified contract that provided for no-layoff protection, we agreed to a cap on cost of living adjustments that an arbitrator *did not* impose on the other three major Postal unions. As a result, for more than 30 years, rural carrier salaries have lagged behind their brother and sister postal employees. Additionally, it must be noted that no-layoff protection unfortunately does not protect rural carrier associates who comprise more than 40 percent of our bargaining unit.

Mr. Chairman, and members of the Homeland Security and Governmental Affairs Committee, I know the economy is causing great uncertainty, and solutions must be found to keep the Postal Service moving forward. However, you have the power now to relieve the Postal Service of a huge financial obligation by relieving the Postal Service of its unfair pre-funding mandates and returning the CSRS and FERS pension monies that rightfully belong to the Postal Service. By doing so, you will not only give the Postal Service a fighting chance, you will guarantee that the Postal Service will be able to pre-fund 100% of its post-retirement liabilities. No other federal agency or corporation in America will be able to make that claim.

Thank you for allowing me to submit testimony, and I would be happy to answer any questions.

Statement of

The National League of Postmasters

Before the Committee on Homeland Security and

Governmental Affairs

Of the United States Senate.

September 6, 2011

Statement of the National League of Postmasters
September 6, 2011

Chairman Lieberman, Ranking Member Collins, thank you for allowing the National League of Postmasters to submit this Statement for the Record to your committee in conjunction with your September 6, 2011 Hearing, "U.S. Postal Service in Crisis: Proposals to Prevent a Postal Shutdown." The National League of Postmasters has been representing postmasters and working with Congress on postal issues since the later part of the 19th century. We represent tens of thousands of active and retired postmasters throughout the country.

There are times in every country's history where conditions combine to form very dangerous and very difficult circumstances, the type of times that try men's souls, as Thomas Paine once said. We are clearly in the midst of such times, and the fate of our country and our economy rests on Congress doing the right thing, at the right time, on a variety of issues.

For legislators, these times present unique, unusual, and demanding challenges. Conquering these challenges require vision, fortitude, and courage. It requires making the right decisions at the right time, and making those decisions despite unpopular political consequences. Not making the right decision in such times can be extremely dangerous and the unintended consequences that follow bad decisions disastrous.

During such turbulent periods, one commonly finds great institutions caught up in the winds and currents of the times, often through no fault of their own. Subject to great stresses, some of these institutions emerge from the turmoil strengthened and revitalized, while others emerge crippled and depleted.

The Postal Service is one of those institutions. Whether it will emerge from this turmoil strengthened and revitalized, or crippled and depleted will depend upon the decisions that this

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Congress, and in the first instance this Committee, make in the near future. Make the wrong decisions and the Postal Service will never recover.

The problems the Postal Service faces are well known and well documented. They need not be reiterated in detail here, except to say that they hinge upon the pension and retiree health benefits payments that the Postal Service must pay each year, in the context of 1) the recent recession-caused decrease in volumes, and 2) the fact that the Postal Service has overpaid into its pension funds by up to $75 billion. The fact that these payments must continue to be made, despite the recession, despite the pension overpayments in the past, and the accumulated pension overpayments of up to $75 billion is difficult for the laymen and our members to comprehend. But for these payments, the Postal Service would be facing challenging times during this recession, but no critical emergency. It surely would be trimming and adjusting its system and product offering for the future, with the post recession recovery in mind. Instead it is panicking as it runs out of cash, and creates a postal crisis. This postal crisis will in turn negatively affect the overall economy, thus further slowing the recovery.

It is important to reiterate that all this is happening not because the Postal Service's recessionary income doesn't cover its operating expenses. Rather it is happening because the Postal Service's recessionary income doesn't cover its operating expenses, plus the multi-billion dollar "stamp tax" that the Congress has effectively levied on the Postal Service by its inability to deal with the pension overfunding issue. Congress should be relieving the economic tensions in the country, not increasing them.

It is time for Congress to do the right thing and the right thing to do is twofold. First, define the amount by which the Postal Service's pension fund is over-funded, and allow those funds to be used to prefund its retiree health benefits. Second, relieve the Postal Service of its annual pension and retiree health benefit payments. Allowing the Postal Service to do this will alleviate the Service's short-term stress and allow the Postal Service to make the intelligent, non-panic ridden decisions that it needs to make to tailor its system and offerings to the future. It will also help the country's overall economic position, in as much as postal markets and postal-related jobs are an important part of the overall economy. There are a variety of bills in both the House and Senate that do this, including bills by Senators Collins and Carper, and provisions from those bills on this issue should be passed, and passed before the end of the month.

The League does understand that although this transfer would be a simple intra-governmental transfer, and involve only Postal Service monies, not tax dollars, the action would nevertheless create a significant budgetary "score," according to the Congressional Budget Office (CBO). This score would be caused by the on/off budget status of the Postal Service and its pension and health benefit plans. Clearly, this "score" makes this decision a difficult political decision, because to the uninformed, it might look as if the government is spending billions on the Postal Service, instead of just allowing the Postal Service to transfer its own funds from one account to another. But this decision is one that this Committee and Congress must make if the Postal Service is to survive. The economics of the postal markets are such that those markets cannot support a multi-billion dollar annual "stamp tax" without crumbling. Indeed, we would suggest that there are no markets in the country, and no institution in the country—private or public— that could bear such a burden

Just consider the consequences. The Postal Service has already proposed eliminating six day delivery, which would have a significant and negative impact on thousands of businesses, and consequently on the American economy. The Postal Service has already proposed closing half its post offices, which would have a devastating impact on tens of thousands of small communities, mostly in rural areas. That must stop.

The League has submitted testimony for years about the negative impact that closing small rural post offices would have on rural America. Indeed, coalitions of local towns and communities are being formed, as we speak, all over America to stop these closures. If one monetized the negative publicity and the damage to the Postal Service's image and reputation that these closing are creating, the amount would surely be in the hundreds of millions of dollars, if not more.

Additionally, the Postal Service just recently floated the idea of pulling out of the Federal Health Benefit Plan and out of the federal retirement system. These actions, were they to be allowed, would devastate those federal plans and cost the federal government staggering sums of money. The Postal Service is already a key member of one of the best and most efficient health benefits plans in the world. Going it alone would only result in less efficient and more expensive plans, less coverage, and unnecessary higher costs for the government, the Postal Service and for us. Moreover, pulling out of the federal retirement plan would create the same problem of a "score" that exists today with the proposal to transfer the pension overpayment to the retirement health benefit plan, and it simply makes no sense to create such a score in order to simply allow the Postal Service to go it alone, and perhaps create another Enron situation at some point in the future. There are millions of current and retired postal employees and their families that are looking to Congress to protect the retirement benefits that they have already earned and that are already paid for. We have attached the text of a letter to the majority leader from a retired Officer of the Postal Service who was a Senior Operations Executive. This letter expresses that person's concern and is one of thousands that we are seeing.

Allowing the Postal Service to pull monies out of retirement funds to cover operating expenses is not an appropriate solution to the current crisis. Allowing the Postal Service to use its pension overpayments to prefund its retiree health benefits is an appropriate solution.

Finally, the Postal Service also has recently proposed laying off hundreds of thousands of workers, because the Postal Service's current income cannot fund both its operations AND the current "stamp tax" and thus it feels it has to radically pare down the system to try to support the "tax." Such an effort is self-destructive, because that action will in turn lead to smaller and smaller revenue, as quality and service suffer, and as customers seek electronic alternatives. The net result could be the death spiral of the Postal Service, not because it has become outdated and out-of-fashion, but because Congress effectively has imposed a stamp tax by not dealing with the pension overpayment situation.

Chairman Lieberman, Ranking Member Collins, enough is enough. Congress must act. The time to act is now and the action to take is to allow the Postal Service's pension overpayments to be transferred to its retiree health benefit fund.

Thank you for considering our views.

August 25, 2011

The Honorable Harry Reid
Majority Leader, US Senate
522 Hart Senate Office Building
Washington, DC 20510

Dear Senator Reid;

I am a retired thirty five year USPS employee that served in many high level executive assignments and retired after eight years as an Officer with responsibility for the largest postal operation in the country. As such, I am very familiar with the financial realities facing USPS.

The 2006 Postal Accountability and Enhancement Act has crippled the Postal Service's ability to manage the extreme challenge of the digital migration of messages, remittances and advertising from the mail stream. A crisis has been created by the unconscionable requirement to pay approximately $5.5 Billion in additional annual payments to the Postal Retiree Health Benefit Fund over and above the approximately $2.5 Billion paid annually to fund current postal retiree health benefits.

The Postal Service reported a cumulative deficit for the four years of FY 2007 to FY 2010 of $20.247 Billion which included $19.3 Billion in additional PAEA Act Retiree Health Benefit payments. This resulted in the Postal Service maximizing and exhausting their borrowing authority under the current Statutory Debt Limit. Subsequently, the Postal Service was not allowed an increase in the Statutory Debt Limit nor was it allowed a rate increase to offset any portion of these assessments. Thus, **the inevitable crisis in FY 2011 was created**.

How can any organization, public or private, be expected to survive suffering these incredible levies? How can the Postal Service survive with no recourse to any borrowing or rate increases? The Postal Service is being required to pre fund retiree health benefits by $55.8 Billion in the ten years through 2016. Again, these payments are over and above continuing to make annual health benefit premium contributions for present retirees approximating $2.5 Billion. This combination of circumstances coincident to the accelerating loss of volume and revenues caused by digital migration **guarantees the destruction of the Postal Service as we know it.**

The Postal Service has been left with no options other than to propose unilaterally changing the Collective Bargaining Agreements, closing thousands of post offices, adopting five day mail delivery and reducing service standards. Now, the Postal Service is also capitalizing on this "artificial" PAEA Act imposed crisis by proposing to take over and create postal retirement and health benefit programs and "relieve the federal government of any responsibility" for these programs. A cornerstone of this proposal is the return of the over $313 Billion in the Postal Retiree Health Benefit Fund, CSRS Trust and FERS Trust Funds to "fund" the postal equivalent programs. USPS readily admits any surplus of these funds would be used to "address immediate cash needs". That USPS is facing grim financial realities is undeniable. Under the USPS proposal, however, **any eventual decision that USPS is financially unsustainable would result in the loss of pension and other benefits for all retirees! This cannot be allowed to happen.**

There are provisions in Senate Bill S 1010 introduced by Senator Tom Carper and Senate Bill S 353 introduced by Senator Susan Collins that would mitigate the worsening financial crisis. Unfortunately,
neither S 1010 or S 353 does anything to reduce or eliminate the crippling prepayment requirement. Yet, both provide a mechanism to allow some of the estimated $55 to $75 Billion in over funding of postal CSRS and FERS pensions to be applied to the future retiree health benefit assessments. This would give USPS much needed relief allowing focus on the core issue of declining volume and revenue.

I urge you to champion these legislative efforts to allow the CSRS and FERS Funds to be recomputed and the overpayments to be credited to the Postal Retiree Health Benefit Fund under funding.

Over a million current and retired postal employees and their families are looking to Democratic Leaders such as you to mitigate these unprecedented and unnecessary attacks on the Postal Service which have now precipitated a subsequent attack on the pay and benefits of current and retired postal employees.

Sincerely,

Craig G. Wade

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Post-Hearing Questions for the Record
Submitted to the Honorable Patrick R. Donahoe
From Senator Carl Levin

"U.S. Postal Service in Crisis: Proposals to Prevent a Postal Shutdown"
September 6, 2011

(1) According to your testimony, the Postal Service may post a net loss of $10 billion in Fiscal Year 2011 and $9 billion in FY 2012. You also state that the Postal Service will be unable to make its $5.5 billion payment to the Postal Service Retiree Health Benefit Fund at the end of this month and may be unable to continue delivering mail by next summer. You have proposed several remedies that will require Congressional action. Even with Congressional action, it is my understanding that the savings from some actions may not be available in the immediate future, but may take time to be realized.

> How much money will each of your proposals save the Postal Service and how long it will take for those savings to be realized?

The Postal Service is targeting $20 billion in annualized cost reductions by 2015, assuming these changes can be made expeditiously. The Postal Service is moving forward rapidly in those operational areas that are under its control. These include Network, Retail and Delivery Optimization initiatives. Together, we estimate that these efforts will produce annualized savings of $6.5 billion by 2015. The rapidity with which these savings can be achieved is constrained somewhat by the procedural and regulatory processes we must follow to insure that the concerns of our customers are heard and addressed. The Postal Service is also pursuing through collective bargaining and other means savings of up to $5 billion from wages and benefits, workforce flexibility and nonpersonnel costs.

Other measures required to secure the Postal Service's financial future require Congressional approval. These measures include:

a. **A final resolution of the retiree health benefits prefunding issue that, if legislative action is not taken will require payments of $11.1 billion in FY 2012 ($5.5 billion due November 18, 2011 and $5.6 billion due September 30, 2012).**

b. **Authorization for the Postal Service to determine the appropriate delivery frequency. Moving to a five days per week delivery schedule is estimated to save approximately $3.0 billion annually.**

c. **Return of the $6.9 billion FERS overfunding.**

d. **Authorization for the Postal Service to sponsor its own health benefits program, independent of FEHBP. This initiative alone could essentially eliminate the $50 billion unfunded retiree health benefits obligation and resolve the pre-funding issue.**

e. **Streamlining of the rules and regulation surrounding pricing and product development.**

f. **Authorization to utilize reduction-in-force rules applicable to federal civilian employees to expedite the downsizing of the postal workforce to a level commensurate with current and projected mail volumes.**

(2) In July 2011, the Postal Service announced the review of 3,652 retail postal locations for possible closure. It was estimated that the closing of that many postal locations would result in savings of over $200 million annually.

(a) Is that still the position of the Postal Service?

This is correct.

(b) What percent of the Postal Service deficit does $200 million represent?

Based on the preliminary loss projections, this $200M represents 6.7% of the operating loss.

(c) How many postal locations does the Postal Service have?

31,500 Postal Owned Retail locations.

(d) Have you given a quota to each Post Service Region of how many post offices need to close or be converted to Village Post Offices?

No.

(e) What criteria are being used in making this determination?

Management is required to follow the PO - 101 Handbook, which provides concise steps in reviewing retail locations for possible discontinuance. PO 101 also considers Title 39 requirements.

(f) Can you provide details on what services would be offered at a Village Post Office?

Village Post Offices typically provide the current purchase patterns of communities they represent.

Offerings include retention of Zip code and mail naming convention (retains local municipality name for mailing and return), collection box, Post Office boxes, signage, priority flat rate products, package and mailing drop off, sale of stamps, aviation security validation.

(g) What services currently offered at a Post Office will not be available at a Village Post Office?

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The weighing of products, selling of special services (including Certified, Registered, Express Mail, and C.O.D.), passport sales and money orders are not offered at a Village Post Office. These products are not typical/daily purchases in communities for whom we believe a Village Post Office would be appropriate.

(3) Assume that Congress passed legislation that allowed the Postal Service to use $50 billion in overpayment to the Civil Service Retirement System fund and the $6.9 billion in overpayment to the Federal Employee Retirement System fund to prepay the Postal Service Retiree Health Benefit Fund and to pay down debt.

(a) Can you provide an estimate of what the net loss or gain would be for the Postal Service in FY 2012?

The impact on the Postal Service's reported financial results would vary depending on exactly how the legislation is written and how the transfers of the overpayments are handled. For the purposes of this response, we will assume that the $50 billion CSRS overpayment is transferred directly into the PSRHBF by OPM. In this case, the transfer of assets itself would have no direct impact on the Postal Service's books. Presumably, the $5.5 billion prefunding payment due November 18, 2011 and the $5.6 prefunding payment due September 20, 2012 would be legislatively eliminated under this scenario. In such as case, the $11.1 billion expense for RHB prefunding in 2012 would come off the Postal Service's books.

Next, we will assume that the $6.9 billion FERS overfunding is refunded to the Postal Service, so that it can be used to pay down debt. In this case, because the funds are being returned to the Postal Service to pay down a debt that is already on the organization's balance sheet, it would potentially flow through the income statement, as a reduction to expenses, since it would be a reimbursement of amounts expensed in prior years. The exact accounting treatment of this, or any other legislative change, could vary depending on the final form of the written legislation.

The combined effect of these two changes could be to change the $14.1 billion loss projected for 2012 and convert it to a $3.9 billion profit. The potential impact of these items is illustrated below.

($ in billions)	Preliminary 2012 Financial Plan	Elimination of RHB Prefunding	Refund of FERS Overpayment
Revenues	$ 64.0	$ 64.0	$ 64.0
Expenses	67.0	67.0	60.1
(Loss) Income Before Prefunding	(3.0)	(3.0)	3.9
RHB Prefunding	(11.1)	-	-
Net (Loss) Income	$ (14.1)	$ (3.0)	$ 3.9

(b) If you expect there would still be a net loss, would it be possible for the Postal Service to achieve the additional savings necessary to bring it to solvency without the assistance of Congress?

While the two measures described in Question 4(a) would likely allow the Postal Service to earn a net income in 2012, prefund retiree health benefits at a high level, and provide a measure of financial stability in the short-term, comprehensive structural change to the Postal Service's business model would still be needed.

The fact is that mail volume, particularly First-Class Mail volume is in a long-term state of decline. By 2020, we project that First-Class Mail volume will be approximately one-half of what it is now. Therefore, the Postal Service must continue to focus relentlessly on reducing costs by rightsizing postal operations to match ever lower levels of demand. This includes optimizing the overall network by properly aligning mail processing, retail and delivery operations, in accordance with the realities of consumer habits in the 21st century; continuing to eliminate work hours and employee complement; and pursuing the flexibility to set wages, benefits and employee complement. We continue to believe that establishment of a separate Postal Service health benefits plan presents significant opportunities to lower costs and continue to provide a high level of benefits for our employees and retirees and their families.

(4) Regarding the establishment of a Postal Service Health Benefit Plan, the Postal Service draft document states that the Postal Service would need to receive the $42.5 billion from the Postal Service Retiree Health Benefit Fund.

(a) Would such a transfer result in a loss to the taxpayer?

The funds currently held by the Postal Service Retiree Health Benefits Plan (PSRHBF) were contributed by the Postal Service and hence by Postal ratepayers, together with interest on the invested funds. The transfer of funds contributed by postal ratepayers into a Postal Service health benefits plan would be entirely appropriate. No taxpayer dollars were ever contributed to the PSRHBF, hence there would be no taxpayer loss from such a transfer.

(b) If so, does the Postal Service have a proposal on how it can be paid for?

As noted above, the funds contributed to the PSRHBF are not taxpayer funds.

(5) Under the Federal Employee Health Benefit (FEHB) plan, the Postal Service pays about 80% of the premium costs of its employees compared to approximately 72% paid by federal agencies. This greater cost is attributable to collective bargaining agreements entered into between the Postal Service and its workforce. According to the Discussion Draft that the Postal Service released on Postal Service Benefits and Retirement Programs, the Postal Service would continue to bargain with its employees over the allocation of premium contributions after the initial establishment of the plan. The draft also states that the Postal Service will obtain savings by running its own health plan by implementing "best practices" identified from the private sector.

(a) Please provide cost estimates as to how much it will cost to create a health benefit plan for the Postal Service and how much to administer that plan annually.

The ongoing cost of USPS Health Care Program administration will be made up of two components: administrative fees paid to the claims administrator and the USPS cost to manage the plan. Similar to fees paid by other large self-insured employer plans, we expect that the administrative fees paid to the claims administrator will range from $25 to $31 per contract per month, principally dependent on the suite of services provided in the arrangement (depending in part on whether items such as disease management programs, wellness programs, and durable medical equipment purchases included are part of the contract). Given the size of the Postal Service's participant population, we expect that the monthly costs will come in at the low end of the competitive range, and the exact amount of the administrative fee will be determined as part of a formal competitive bidding process. We also estimate that the USPS' internal cost to manage the health plan will range from $3 to $4 per employee per month, irrespective of whether USPS uses internal resources alone or outsources some or all of the employee data management work that is involved. Establishment of a separate plan will require engaging outside expert consulting assistance. Our estimate of the cost for consulting assistance is $5 million.

(b) Please provide examples of the best practices referred to in the discussion draft.

Working closely with our outside consultants, the Postal Service has identified a number of "best practices" referred to in our "White Paper." These "best practices" are described below.

J. Best Practices and New Initiatives

A separate USPS health plan would allow USPS to adopt many of the best practices used by private sector and state and local government plan sponsors to improve the quality of health care for employees and their families. We describe some of those available below.

Health Promotion/Wellness Incentives

The majority of healthcare spending growth in the past 15 years has been due to modifiable population risks such as obesity and smoking. Plan sponsors have increasingly realized that they must address behavior risks and chronic illness if they want to stand a fighting chance against expenditure growth. In a survey conducted by National Business Group on Health and Towers Watson in 2010, it was found that employers with well constructed health and wellness programs spend $1,000 less annually per employee than companies with less effective programs.

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The typical components of an effective program would include:

Component	Best Practices
1. Web Content/ Education	➥ Depth & breadth; credible, peer reviewed literature ➥ Easy to navigate; links to nationally recognized reference sites
2. Health Assessment	➥ Science-based/statistically valid; HIPAA compliant ➥ Comprehensive; completion time of 20 minutes or less
3. Biometric Screening	➥ Finger stick vs. venipuncture; ➥ Fasting vs. non-fasting
4. Personalized Feedback Report	➥ Immediate and personalized; comprehensive ➥ Easy to read; useful information ➥ Risk score included
5. Self-paced Lifestyle Programs	➥ Most common behaviors include: tobacco cessation, weight management, nutrition, exercise, stress management ➥ Tracking tools provided (e.g., food tracker, exercise tracker) ➥ Program durations pre-established (e.g., 6 months)
6. Telephonic Healthcare Coaching	➥ Outreach for high and moderate risks ➥ Integration and referral process established with patient care management services

Even if USPS implemented all of the programs listed above, savings to USPS from improved employee and dependent health status would be significantly diluted due to USPS' participation in FEHB. In addition, many employers partner with their health plan administrator to provide many of these services. As USPS has no direct relationship with any of the health plans offered to employees, they would have to find an alternative way to provide these services. Given the number of health plans currently providing coverage to USPS employees, it would be hard to provide a standard set of services across all plans at any rate. These issues all go away in a new and separate plan.

Condition/Disease Management Programs

Plan members with chronic conditions account for 40% to 60% of medical plan costs. Many employers are putting disease management programs in place to assist in managing costs and utilization related to these members as well as to reduce the significant losses in productivity attributable to chronic disease. Disease management programs have been able to improve healthcare outcomes for members with chronic conditions by:

- Reducing hospital admissions by 10-15%
- Reducing ER visits by 15-25%
- Improving compliance with evidence based medicine by 10%

Disease management firms use claim and pharmacy data to identify members who have specific conditions which will benefit from self-care efforts and are prevalent in that employer's population. The components of an effective disease management plan would typically include:

Component	Best Practices
1. Asthma **2. Diabetes** **3. Coronary Artery Disease (CAD)** **4. Congestive Heart Failure (CHF)** **5. Chronic Obstructive Pulmonary Disease (COPD)**	→ Identify members w/chronic disease → Prioritize outreach and intervention → Active outreach by vendor: - Identified members are sent letters to introduce the program → Onsite health coaching more common → Client reporting (participation, activity and outcomes) → Plan sponsors consider mandatory participation for chronically ill

As a participant in FEHB, USPS has no access to claims data for its covered population and no information on whether these conditions are being targeted or whether there is any improvement in health status over time. Within FEHB plans the disease management programs vary widely from none to some targeted programs for chronic conditions, but they are not well communicated and are strictly voluntary. A separate USPS plan could include best in class disease management programs that would target chronic conditions and provide measures on return on investment.

Carve out and Consolidation of Pharmacy Benefit Management

Pharmacy costs currently make up 20% to 30% of the total cost of a health plan and continue to increase every year. Employers have increasingly turned to specialized pharmacy benefit managers (PBMs) to provide pharmacy claims administration and management. In addition to their ability to provide electronic point of sale retail pharmacy claims adjudication and mail order pharmacy dispensing, PBMs are able to provide a wide variety of pharmacy management programs including generic and mail order incentive programs. In addition to their ability to manage prescription drug utilization, PBMs have been effective in negotiating discounts and rebates with retail pharmacies and drug manufacturers. These savings are typically based on the size of the PBM's whole book of business. Individual employers, plan sponsors and, increasingly, even the health insurance carriers negotiate pricing terms with PBMs that spell out the amount of discounts and rebates that will be shared with the employer sponsor and with the member, if the plan design is based on coinsurance. Typically, the larger the employer or book of business (e.g., a coalition of employers) and their drug spend, the better the discounts and rebates. Plan design and steerage towards specific drugs also can affect the savings.

In FEHB, each FEHB plan negotiates its own contract with its selected PBM. Savings due to discounts and rebates are not optimized but instead diluted by the numerous different plans and PBMs that currently provide administration. A separate USPS plan could negotiate a single contract that greatly increases our leverage and optimizes the savings due to the large covered population. Even a plan covering just active APWU members would be larger than most current FEHB plans and should be able to achieve additional savings over current FEHB pricing due to volume.

Optimal network coverage and provider discounts

Establishing a separate USPS plan will allow USPS to evaluate and implement the best in class provider networks available and will allow for full knowledge of the network discounts and coverage available for USPS' population. Currently, USPS has no information about the provider networks used by its employees and retirees in FEHB. Within FEHB provider networks vary greatly between plans and many plans use numerous networks to ensure adequate coverage. Levels of discounts can also vary greatly.

In addition to overall savings and network coverage, a separate health plan will allow USPS to review networks based on outcome measures and the potential for centers of excellence for services such as:

- Joint replacement
- Cardiac surgery
- Organ transplants
- Bone marrow transplants
- Bariatric (weight loss) surgery

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In addition to the opportunities discussed above there are many new and innovative ways that employers are trying to both lower the rate of increase in medical care for their population and to try and improve their overall health status. Under a separate USPS plan, USPS can more easily adopt new ideas and practices and work with available data to analyze and continue to improve the benefits to its covered population.

We believe the advantages of a USPS Health Care Program can be grouped into: i.) Economic Issues (aggregated purchasing power and integration with Medicare); ii.) Value and Flexibility (a more rational plan design that aligns value with cost); iii.) Simplicity (a simplified plan structure, no longer burdened by the legacy issues in FEHB, making the USPS Program easier to understand); iv.) Innovation and Best Practices (disease management, pharmacy management, durable goods purchasing, health promotion/wellness incentives, optimal network coverage and provider discounts etc); and v.) Communications (a more rational plan structure combined with robust communications allows our employees and annuitants to make better choices).

(c) Can these practices be implemented through the FEHB?

We do not believe the practices noted above can be implemented within FEHB given the number of plans, the FEHB Medicare approach, the sharing of any cost savings initiated by USPS throughout the entire FEHB participation base, and the dilution of group purchasing power across multiple health plans.

(d) If the major cost savings would be realized from the cost of premium payments, would the best avenue for reducing these costs be obtained through the collective bargaining process?

The major cost savings do not come from lower premiums. The major savings components come from integration with Medicare; aggregated purchasing power and accounting standards changes associated with a single employer plan; freezing existing annuitant contributions going forward with an annual inflation adjustment and establishing new levels of USPS contribution amounts for future annuitants.

(6) In the discussion draft on Postal Service Health Benefits and Retirement Programs, the Postal Service indicates that the private sector is trending towards only offering defined contribution plans. While it is true that an increasing number of private sector companies have been freezing their defined benefit plans and offering defined contribution plans only, approximately 60 percent of Fortune 1000 companies still maintain a defined benefit plan in addition to a defined contribution plan. Some private sector companies also manage more than one retirement plan, offering one plan to their hourly workforce and a different plan to their salaried employees and yet another to their executives.

(a) Please provide a cost estimates for the administration of a postal service retirement plan.

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We anticipate that the costs associated with a USPS Defined Contribution Retirement Plan will be very modest because we would design the Plan to provide an enhanced Employer match to the existing TSP Program, along with Social Security.

(b) What criteria were used in comparing the Postal Service to private sector employers?

We used the same criteria that applies in Interest Arbitration under the Postal Reorganization Act—the broad private sector (large and small employers alike throughout the country employing comparable employees with similar skills, education, years of service etc.) We utilize BLS and BNA statistics and note trends for existing employees, new hires and annuitants.

(c) Is the Postal Service considering the creation of different plans for different classifications of workers or a separate plan for executives?

The Postal Service is only considering a single defined contribution plan for all new career hires regardless of job classification, bargaining unit, or executive status. The Postal Service's singular goal is to gain control over its legacy costs going forward and avoid the terrible financial burdens associated with shouldering the investment risk for defined benefit pension plans and retiree health care for a next generation workforce. As a non-appropriated entity that, by law, must make a profit or loss from customer revenues, the Postal Service cannot be tied to a governmental benefit structure that it can no longer afford.

Post-Hearing Questions for the Record
Submitted to the Honorable Patrick R. Donahoe
From Senator Mark Begich

"U.S. Postal Service in Crisis: Proposals to Prevent a Postal Shutdown"
September 6, 2011

1. Under any new USPS run health insurance program what assurances would you be giving employees that they would not see any decrease in benefits after leaving FEHB? Additionally, how many plan options would you expect to offer?

We would assure all existing annuitants and active employees that the USPS Health Care Program would provide comparable choices and benefit levels to existing choices and benefit levels within FEHB. For example, the USPS Health Care Plan would provide (through a single Administrator) a high option, standard option, and value plan. The Plan would also contract with HMOs, such as Kaiser, in appropriate geographic areas. All of the USPS options would align the value of the benefit levels with the cost of the option. The Administrators that we would invite to competitively bid the Plan would, for example, include Aetna, United Healthcare, Blue Cross/Blue Shield, and Cigna. The Plan would fully coordinate with Medicare Parts A, B, and D by incenting Medicare eligible retirees to enroll in those programs, thereby making Medicare primary coverage and the USPS Plan secondary coverage. There are three common methods for Medicare integration: a.) COB—Full Coordination of Benefits; b.) Exclusion; and c.) Carve-Out. The USPS would reserve the right to establish new levels of coverage and benefit levels, particularly retiree health care, for new hires, reflecting private sector trends. We would also reserve the right to make changes in a USPS Plan that reflects changes in FEHB generally. In this regard, we believe FEHB must inevitably change given the rising cost of health care, the lack of any pre-funding for retiree health care within the federal government as a whole, and the dated practices of a multi-employer plan structure that pre-dates Medicare.

2. When considering estimates in savings from creating a Postal Service Health Benefits plan did you take into consideration the provisions from Patient Protection and Affordable Care Act also being implemented in 2014?

We did take into consideration the Patient Protection and Affordable Care Act. That law entails both potential costs and savings. The principal factors considered are the: a.) coverage of non-career and other part-time employees; b.) nature of that coverage and cost; c.) cost of covering adult children through age 26; d.) value of Part D changes eliminating the "donut hole" through 2020; and e.) uncertainties associated with the numerous tri-agency regulations issued to date and currently under consideration.

3. Like many federal agencies, the USPS has unused properties, are you actively pursuing the selling of these properties as a way to gain liquidity? As you are currently reviewing post offices, and soon processing facilities, around the country for possible closure, are you taking into consideration the ability of these properties to sell?

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Yes.

4. Have you considered the impact on employee retention if you change from a defined benefit to a defined contribution plan?

We have considered the impact. We believe that a properly constructed defined contribution plan with an attractive employer match to the Thrift Savings Plan, combined with Social Security, can compete with both public sector and private sector pension programs. Indeed, this is the most common form of retirement coverage in the private sector. Obviously, we have to combine the defined contribution program with an overarching human resource program that provides competitive wages and benefits, advancement, training, mentoring, performance pay, and a solid career opportunity. The USPS needs to be financially viable to achieve those human resource objectives. We cannot remain financially viable with ever growing legacy costs over which the Postal Service has no control.

5. What is the total workforce reduction over the next 5 years by retirements? How many each year?

Currently there are 155,142 employees optionally eligible to retire. Below is a breakdown of optional retirement eligibles by retirement types in future years:

Year	CSRS	FERS	Total
2012	8,680	19,718	28,398
2013	8,058	21,358	29,416
2014	5,823	22,058	27,881
2015	3,190	24,557	27,747
2016	2,350	24,772	27,122

6. What is the amount of revenue from "collector stamps"?

In 2010 the Postal Service sold approximately $340 million of commemorative stamps. Some portion of that amount was retained by collectors, but accurate estimates are difficult to determine.

7. What new "strategic business partners" have you reached out to? Have you gone after businesses that don't ship to certain parts of the USA – i.e. Alaska? What about those that do not ship to PO boxes?

The Postal Service enters into strategic alliances that are consistent with meeting customer needs and generating new revenue. These strategic alliances are aligned with our

overarching strategic plans and the guidelines of our current business model. At any given time, the Postal Service is engaged with numerous entities in exploring new business opportunities that offer the potential to reduce costs, improve service, or optimize our assets and capabilities.

Recent business alliance partners include:

Apple Inc.

Apple Inc. introduced a "Cards" app on Oct. 12 which allows users to create personalized greeting cards with their own text and photos and have them delivered by First-Class Mail. Int'l delivery is also available.

Smartphone Apps

Building on the success of its iPhone, Android, and smart phone apps, the Postal Service recently expanded its public mobile device application to include BlackBerry devices. With these mobile apps, smartphone users are able to track and confirm package delivery, locate nearby Post Offices and find a ZIP Code. The Blackberry app marks the fourth mobile platform deployed by the Postal Service.

Hallmark

Through an alliance with Hallmark, the Postal Service continues to expand its Greeting Card Program. Hallmark greeting cards are now available at 1,500 participating Post Offices nationwide. Hallmark offers a range of greeting cards at these locations, including a recently added line of cards priced as low as $2 and range to $3.75. USPS launched its Greeting Card Program in 2009 at 500 Post Offices.

American Express

- The Postal Service will expand the American Express Gift Cards sales program to an additional 3,000 Post Offices starting this week. With the expansion, customers are able to purchase and mail gift cards at nearly 5,000 Post Offices.

- While the Postal Service can expand the market test to other vendors, American Express is the first company to participate in the program. American Express Gift Cards are sold in denominations of $25 and $50 and in variable load denominations, with a minimum denomination of $25 and a maximum denomination of $100. The Postal Service operates only as a sales agent and receives a negotiated portion of the purchase price of $3.95 for the $25 denomination, $4.95 for the $50 denomination and $5.95 for the variable load cards.

Start Sampling Inc.

- The Postal Service and Start Sampling, Inc., a promotional marketing firm, formed an alliance in 2010 to distribute boxes of free product samples to U.S. households.

- The first 250,000 "Sample Showcase" boxes were mailed in April 2011 to targeted households in Austin, Denver and Chicago. Each Sample Showcase package contains a variety of food and personal care products from major consumer goods manufacturers including Starbucks, Procter & Gamble and Lever Brothers. A second mailing of Sample Showcase boxes to targeted consumer demographics is scheduled for November, 2011.

- StartSampling built and hosts the program's website through which households can request samples and provide feedback on the process and the products. The company also handles recipient surveys to help participating marketers evaluate the program.

- Companies whose products are included in Sample Showcase boxes pay for the products, along with the postage and shipping costs, the boxes themselves, the labor to fill the boxes, warehousing the products and maintaining the website.

Direct Mail Hub

- Working with Progressive Impressions International Inc. and Mailer's Haven LLC, the Postal Service is currently market testing an online fulfillment solution designed to support small businesses in the design, creation, and mailing of direct mail. The Direct Mail Hub is located online at usps.com, and is being promoted in the Austin TX and Raleigh NC markets. If the market test proves successful, the solution will be launched nationwide early 2012.

- Progressive Impressions International Inc. hosts the "DirectmMail2Go online solution, which allows businesses to design direct mail campaigns. Mailer's Haven LLC incorporates a supplier network solution into the Direct Mail Hub that provides customers with the ability to request pricing quotes from authorized mail service providers for services customized to support direct mail campaigns.

eBay.cn

- In 2010, the Postal Service entered an alliance with eBay Greater China and Southeast Asia (eBay GC), and China Post to create a simplified shipping platform for international tracking and delivery of lightweight goods U.S. consumers order from Chinese eBay sellers.

- More than a year later, the platform has resulted in increased revenue for USPS. According to a report in *Ecommerce Bytes.com*, nearly 40 percent of eBay sellers in

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China are using the service to ship parcels to the U.S. Each package takes an average of 5-10 days to deliver.

- China Post dispatches these shipments to USPS International Service Centers as inbound foreign letter-post small packets. USPS then processes each package for domestic delivery using First-Class Mail service standards. Shippers of small parcels weighing 4.4 pounds or less can get delivery confirmation information online at *usps.com*. Sellers using eBay GC track their shipments online at *eBay.cn*.

Recently we also have been very active with respect to our retail network in developing new strategic business partnerships in both our established programs like Stamps on Consignment, Contract Postal Units, and Approved Shippers as well as our new initiative the Village Post Office. All of these efforts are focused on reducing the overall cost in serving our customer throughout our retail network while at the same time providing more convenient access to Postal Service products. The Village Post Office in particular reaches out to small businesses within smaller communities to provide customers to convenient access to our products and services.

We also work with business partners who play different roles in the mail value chain ranging from printers to letter shops to fulfillment houses to consolidators to ad mail services. In the past year, we have added many additional partners.

The sales group continues to use value price selling advantages for Alaska, Hawaii, and Caribbean to gain new business from customers as well as target the service advantage for PO Box delivery. This is a standard approach used and taught in our value chain selling. We have significant customers where we have sold this value such as Shutterfly, Macy's, Medco, Amazon.COM, Netflix, and Barnes&Noble.COM.

8. If you lay off folks, what will your ability be to hire back if business increases?

Article 6 of the collective bargaining agreements provides for the maintenance of recall lists of laid off employees for two years. Within that time, if positions are re-established, employees on a seniority basis are recalled to fill existing vacancies. Moreover, the Postal Service generally has not found it difficult to fill its hiring needs.

9. What is the amount of money needed to early retire up to 100,000 people?

By way of history, in fiscal years 2009 and 2010, approximately 21,000 employees from two of our largest unions accepted a retirement / termination incentive offer of $15,000. We have not made a decision to offer another such incentive and as a result have not fully quantified the costs. However, the future cash outlay for such an incentive program would vary depending on the number of people taking advantage of the incentive and the amount of the incentive. The cost to the Postal Service would be the amount of the incentive plus applicable payroll taxes. For example, an incentive of $10,000 to $15,000 for 100,000 employees would cost approximately $1.1 billion to $1.65 billion.

Post-Hearing Questions for the Record
Submitted to the Honorable John Berry
From Senator Mark Begich

"U.S. Postal Service in Crisis: Proposals to Prevent a Postal Shutdown"
September 6, 2011

1. Does withdrawing employees from both the retirement and FEHB solve the current problems facing USPS? Won't their costs be greater in the long run because of this change?

   As noted in the testimony, a withdrawal by USPS from the FEHB and Federal employee retirement systems would be a complex undertaking. To avoid unintended consequences that could harm the effectiveness of existing benefit systems would require careful examination. Indeed, much work would also be required to determine the impact on those systems left behind and the employees they cover.

   At this point, it is not clear whether the Postal Service's proposal to address its fiscal challenges by withdrawing from the FEHB Program is a cost-effective approach to decreasing its health obligations. A careful review would also be needed to fully understand the full effect of the proposal to remove Postal employees from CSRS and FERS, although it would clearly create a number of administrative and policy challenges.

2. I would like to request a copy of the legal opinion regarding CSRS overpayment calculations as well as a copy of your actuarial study.

   The requested documents follow. Also, we refer the Committee to an October 13, 2011 report from the U.S. Government Accountability Office, *U.S. Postal Service: Allocation of Responsibility for Pension Benefits between the Postal Service and the Federal Government* (GAO-12-146), that further addresses the Postal Service's payments to CSRS and FERS.

   [SEE INSERTS 2A AND 2B.]

3. Can you please expand on the "restructuring" of the USPS retiree health benefits payments laid out in the President's Budget which you mentioned in your opening statement?

   While the President's FY 2012 Budget did include a proposal to restructure USPS pre-funding payments for retiree health benefits, the September 19, 2011 "President's Plan for Economic Growth and Deficit Reduction" included a more fundamental restructuring commensurate with USPS' worsening financial condition.

The following is a technical explanation of what the proposal would do in regard to restructuring of retiree health benefit pre-funding payments. In net terms, the proposal would defer a total of $13.8 billion in USPS funding payments through 2013. USPS would make up these payments through the current-law 40-year amortization of the remaining unfunded liability that USPS would pay beginning in 2017.

SEC. 101. POSTAL SERVICE RETIREE HEALTH BENEFITS.

Section 101 restructures how the Postal Service (USPS) pays its retiree health benefits premiums and pre-funds its retiree health benefit liabilities. Section 101(a) provides for the Postal Service Retiree Health Benefits Fund (the Fund) to pay annual premiums for retirees instead of being directly paid for by USPS. This change accelerates what would have occurred in FY 2017 under current law.

Section 101(b) replaces the current law statutory prefunding payment stream for USPS to pre-fund retiree health benefits between FY 2012 and FY 2016 with a new payment stream during those same years. Section 101(b) is consistent with enactment in the FY 2012 Continuing Resolution of the requested provision that would change the due date of the September 30, 2011 $5.5 billion USPS payment to OPM to December 31, 2011. Taken together with the accelerated implementation of the normal cost payment stream discussed in the next paragraph, this new payment schedule would result in overall lower near-term payments by USPS to the OPM Fund, including the $5.5 billion originally due by September 30, 2011, that the Continuing Resolution has deferred until at least November 18, 2011, $4.3 billion of the payment due by September 30, 2012, and $4.0 billion of the payment due by September 30, 2013. This is accomplished by lowering the prefunding payment stream to $0 for the December 31, 2011, payment, $856 million for the September 30, 2012, payment, and $1.276 billion for the September 30, 2013 payment. USPS payments for FY 2014 through FY 2016 would be the same overall as under current law.

Section 101(b) further requires USPS, beginning in FY 2012, to pay into the Fund the per capita accruing costs (normal costs) of USPS employees. This change accelerates what would have occurred in FY 2017 under current law. Finally, Section 101(b) continues the current-law requirement that USPS pay down its remaining health benefit unfunded liabilities through a 40-year amortization payment beginning in FY 2017.

INSERT 2A

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

The Director

SEP 24 2010

Honorable Ruth Y. Goldway
Chairman
Postal Regulatory Commission
Washington, D.C. 20268-0001

Dear Ms. Goldway:

Thank you for your letter transmitting the report from The Segal Company (Segal) regarding "the allocation of the costs of Civil Service Retirement System (CSRS) benefits paid to former Post Office Department (POD) employees." OPM's principal roles in this matter are those of a program administrator and trust fund fiduciary. As such, our principal concerns must be for the efficient operation and reliable funding of the retirement and insurance programs. As a trust fund fiduciary, our principal relevant concern is with the adequate funding of the program and not with the source of that funding.

The Segal report provides a useful discussion of issues that have been raised regarding the current formula used to allocate funding shares between the Postal Service and the Treasury for CSRS. The report, however, is also narrowly focused, addressing only one aspect of a complex arrangement. The Segal report acknowledges as much when it states that its "recommendation is, in essence, a 2010 fresh look, and does not attempt to deal with the history accumulated over forty years since the PRA was enacted." We are happy to support a re-examination of the current policy regarding Postal Service funding of CSRS taking into account the relevant circumstances, but must note that the Segal report discusses only a subset of those circumstances.

Legislative History

OPM determines the Postal Service's responsibility for CSRS costs in accordance with current law. OPM's methodology is based on the determinations made by prior Congresses that the Postal Service is responsible for CSRS costs attributable to pay increases granted by the Postal Service. Congress first established this policy in 1974, under Public Law 93-349, and no subsequent legislation has established an alternative policy.

In 2003, the Congress enacted the Postal Civil Service Retirement System Funding Reform Act of 2003 (P.L. 108-18). P.L. 108-18 established separate accounting of all USPS payments and outlays to and from CSRS from the creation of the Postal Service in 1971. The law cancelled prior payment requirements that if continued would have ultimately over-funded the Postal Service's liabilities by $78 billion. The law made no provision to change the allocation of costs between the government and the Postal Service. The Senate Committee Report notes that P.L. 108-18 "continues the Postal Service's liability for the retirement costs attributable to its employees covered by the CSRS, which was imposed when the Post Office Department became the self-supporting United States Postal Service in July 1971." [S.Rep. No. 108-35, at 3 (2003)]

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Following enactment of P.L. 108-18, OPM in 2003 provided a report to Congress detailing its methodology for allocating CSRS costs to the Postal Service. In 2004, the Postal Service appealed this methodology to OPM. OPM reviewed its methodology, and found that it was correctly applying the methodology consistent with Congressional intent.

In 2006, the Congress again addressed Postal CSRS funding, via the Postal Accountability and Enhancement Act (PAEA; P.L. 109-435), which included a provision for the Treasury to take responsibility for the cost of military service credit in the computation of CSRS annuities. This Congressional action was implemented by OPM and resulted in a savings of $28 billion to the Postal Service. The legislative history of that bill does not indicate that the Congress questioned the allocation methodology used to determine Postal CSRS obligations. The cost figures incorporated in Congressional reports associated with both P.L. 109-435 and P.L. 108-18, were based upon calculations using the current methodology. If the current methodology could have been changed by either law, the cost would have been reflected in the Congressional reports.

CSRS Allocation Policy

The Segal report argues that the current allocation methodology is not fair and equitable "except in the context of Congressional legislation" and the 1974 law. That is, Segal acknowledges that Congress spoke clearly on how the allocation was to be determined, and OPM has consistently followed these directions.

As you are aware, the original transfer of pension obligations to the Postal Service was but one part of a larger transaction between the Postal Service and the taxpayer. When the Postal Service was created in 1971, it assumed certain liabilities, such as those associated with the future CSRS accruals for its workforce, but it also received certain considerations. Without further obligation, all assets of the Post Office Department were transferred to the Postal Service. The Postal Service was granted a monopoly over first-class mail. The Postal Service remained exempt from Federal, State, and local taxes and vehicle licensing fees, among other things. As in private sector merger and divestiture transactions, pension obligations were considered in the context of the larger set of transactions.

Reprinted in a Senate Committee Report on H.R. 29 (subsequently enacted as P.L. 93-349) is a March 27, 1973, letter from the Postal Service stating its position:

> "This legislation has been proposed on the ground that the Postal Service should operate on a financially self-sufficient basis, meeting its operating costs out of its revenues and not out of hidden subsidies. After careful consideration—and in full awareness of the financial burdens enactment of the bill will impose—the Postal Service has concluded that it is proper, as a matter of principle, for these costs to be imposed on postal ratepayers rather than the taxpayers." [S.Rep. No. 93-947, at 9 (1974)]

As for making judgments about how equitable the allocation methodology is, the Segal recommendation relies heavily on Financial Accounting Standards Board (FASB) financial accounting standards, which require advance recognition of expected future salary increases in corporate reporting of private sector pension liabilities. The Segal Report notes also, however, that actual funding of private sector pensions is governed by the provisions of the Pension Protection Act of 2006, which Segal notes provides "little or no allowance for the impact of future salary increases." Thus, arguments based on current private pension funding practices can go either way, for or against, the existing CSRS allocation method as it is currently administered by OPM.

The Segal report estimates that an alternative allocation method would result in a reduction of the Postal Service obligation to CSRS of approximately $55 billion. Given that the exact determination of the impact of the alternative methodology would involve the analysis of nearly 40 years of accounting records, we cannot confirm the absolute accuracy of this estimate. We do, however, believe that the Segal analyses were professionally conducted and provide a reasonable order of magnitude basis for Congress to evaluate the cost of Segal's alternative allocation method.

To recap, in 2003, Congress directed OPM to make changes to the accounting of Postal Service CSRS obligations that led to a $78 billion decrease in future Postal CSRS funding payments. Then in 2006, Congress directed OPM to change how military service costs should be allocated under CSRS that led to a $28 billon adjustment. In both cases, the magnitude of the adjustment was understood by Congress when the laws were passed. It appears to OPM that when Congress intends to make adjustments of the magnitude suggested by the Segal report, it does so by taking specific legislative action.

Redetermination Provisions

We believe that the implication that OPM has the discretion to make basic changes in the allocation method between the Postal Service and the Treasury goes beyond the intent of, and the authority provided to OPM in, the 2006 Postal Accountability and Enhancement Act. That law included a provision, section 802(c), allowing the Postal Service to appeal to OPM its annual determination of the Postal Service CSRS supplemental liability under 5 U.S.C. 8348(h)(1).

Section 802(c) provides in pertinent part:

> (A) Request for review.--Notwithstanding any other provision of this section (including any amendment made by this section), any determination or redetermination made by the Office of Personnel Management under this section (including any amendment made by this section) shall, upon request of the United States Postal Service, be subject to a review by the Postal Regulatory Commission under this subsection.

Footnote 1 of the PRC transmittal indicates that their action is based upon:

> Request of the United States Postal Service for the Commission to Conduct a Review Pursuant to PAEA Section 802(c) of OPM Determinations Regarding CSRS, February

23, 2010; Clarification of Request of the United States Postal Service for the Commission to Conduct a Review Pursuant to PAEA Section 802(c) of OPM Determinations Regarding CSRS, March 2, 2010.

Our view is that, section 802(c) is intended to permit review of specific calculations made by OPM of the annual supplemental liability determination according to the established Fund allocation methodology. The Segal report is something entirely different, a review of what methodology should be employed generally in evaluating one aspect of Postal Service CSRS obligations. Nevertheless, OPM is providing this response in the manner as would be applicable under section 802(c)(2).

Conclusion

After careful review by counsel, we have concluded that OPM does not have the authority to make a reallocation in the manner suggested in the Segal report. However, if Congress determines that another methodology is more appropriate, OPM will of course comply with any changes in the current law.

Once again, thank you for the opportunity to provide our views. Copies of this letter will be furnished to the relevant committees of the Senate and House of Representatives, and to the United States Postal Service.

Sincerely,

John Berry

John Berry
Director

cc: Committee on Homeland Security
and Governmental Affairs
United States Senate

Committee on Oversight
and Government Reform
United States House of Representatives

United States Postal Service

INSERT 2B

United States
Office of Personnel Management

Washington, DC 20415-0001

In Reply Refer To: Your Reference:

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CORRESPONDENCE #
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SEP 16 2004

The Honorable John E. Potter
Postmaster General, CEO
United States Postal Service
475 L'Enfant Plaza, SW.
Washington DC 20260-0010

Dear Mr. Postmaster General:

This is in regard to your letter of January 26, 2004, addressed to the Board of Actuaries of the Civil Service Retirement System (Board of Actuaries), in care of the undersigned. In your letter, you requested that the Board of Actuaries reconsider the "Postal supplemental liability" and the methodology and computations for determining the amount of Postal Service obligations to the Civil Service Retirement System (CSRS) and the amount of Postal Service over funding of the Civil Service Retirement and Disability Fund (CSRDF) that resulted from computations in effect under prior law and which now, under the Act, are to be realized by the Postal Service as "savings." The "Act" refers to the Postal Civil Service Retirement Funding Reform Act of 2003, Public Law (P.L.) 108-18 (April 23, 2003).

In your letter, you maintain that the Office of Personnel Management's (OPM's) methodology understates the Federal share of the liabilities for pre-July 1, 1971, employees and proposed that a "service ratio" method should be used instead. Under your proposal, the Treasury would be allocated a share of the cost of retirement benefits attributable to salary increases granted by the Postal Service since June 30, 1971, while under the OPM methodology, the Postal Service would be responsible for these costs.

Your request for reconsideration fails to recognize the existence of P.L. 93-349 (July 12, 1974). Under this law the Postal Service was required to finance, through 30-year amortization payments, all increases in retirement liabilities that are attributable to salary increases granted by the Postal Service. The increases in liabilities were determined without regard to the amount of service the employees may have had before or after the Postal Service became independent on July 1, 1971.

House Report 93-120 (April 11, 1973), issued by the House Committee on Post Office and Civil Service, entitled "Postal Service Payments to Retirement Fund," on the legislation ultimately enacted as P.L. 93-349 states, at page 2, that "The purpose of this legislation is to clearly establish the responsibility of the U.S. Postal Service to finance increases in the liability of the Civil Service Retirement and Disability Fund, caused by administrative action of the Postal Service, as apart from increases in unfunded liabilities which are incurred by act of Congress." The Report continues by stating, at

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Finance, USPS

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April 2004

page 4: "*The situation with respect to the Postal Service is quite unique and results from passage of the Postal Reorganization Act. The Congress now has no control – no oversight whatsoever – with respect to the pay machinery in the Postal Service. Since each future pay raise, negotiated or otherwise granted to employees in the Postal Service, will result in a specific unfunded liability and a new drain on the Retirement Fund, the cost of this liability should properly and equitably be borne by the Postal Service.*"

Under the static funding method used in the law in effect prior to the enactment of P.L. 108-18, not only was the Postal service required to finance the cost of increases in retirement liabilities attributable to the salary increases that it granted, but it was also required to finance the cost of COLAs for retired Postal employees. The financing of COLAs was established through a series of Omnibus Budget Reconciliation Statutes passed in the early 1990's. Unlike the method for determining the Postal Service liability for salary increases under P.L. 93-349, the pro-rata approach was used to determine the Postal service liability for COLAs.

The approach recommended in your appeal would determine the Postal Service's liability for salary increases for pre-1971 hires based on the pro-rata approach that had been used for determining the Postal Service liability for COLAs. However, we believe that it is inappropriate to apply the methodology that had been used for allotting the funding of COLAs, which are controlled by a formula which is a part of CSRS, for the purposes of determining the Postal Service's liability for salary increases that were exclusively under the control of the Postal Service. Under the provisions in effect prior to the enactment of P.L. 108-18, the question of how to determine the Postal Service liability for salary increases is specifically addressed in P.L. 93-349, and Congress chose not to apply a pro-rata approach with regard to salary increases.

You have asked that we submit your appeal of OPM's methodology to the Board of Actuaries, and we have done so, although OPM takes the position that the Board lacks specific jurisdiction to review the methodology developed by OPM under section 3(b) of the Act for computing the amount of any annual savings realized by the Postal Service. At best, the allowable review goes to the computations derived from the OPM methodology. However, we also conclude that the Act does not forbid the Board of Actuaries from again analyzing the methodology in conjunction with our response to your appeal.

The Board of Actuaries has undertaken such analysis, and their conclusions are set forth in the enclosed letter to the undersigned. As you can see from that correspondence, the Board of Actuaries again considered OPM's methodology and approved that methodology, as well as the computation of the resulting Postal supplemental liability. The Board clearly concluded that the methodology OPM used this year is valid and follows the intent of the Act. We believe the Board of Actuaries' conclusion and OPM's concurrence with that conclusion resolves all substantive issues between our different approaches both for fiscal year 2003 as well as for future years.

Although you addressed your January 26, 2004, letter to the Board of Actuaries, I am responding, on behalf of the Director of OPM, in order to avoid any possibility that a constitutionally suspect action be taken by the Board of Actuaries. As the President noted in his statement issued upon signing P.L. 108-18, the Supreme Court stated in Edmond v. United States, 520 U.S. 651 (1997) that final decision-making authority for the United States must be vested in, or be subject to the control of, a principal officer of the United States, i.e., one who is appointed by the President subject to confirmation by the Senate. Because the Board of Actuaries is not composed of principal officers, a decision on a appeal under 5 U.S.C. § 8348(h)(4) and/or § 3 (b) of the Act must be subject to review by the Director of OPM or her designee under 5 U.S.C. § 1103(a).

We trust that this determination by OPM concerning the methodology and computations of the Postal Service obligations, clearly consistent with the conclusions of the Board of Actuaries, will be accepted by the Postal Service at this time. If you or your staff have any additional questions or concerns, my staff and I would be pleased to further discuss this matter.

Sincerely,

Ronald P. Sanders
Associate Director
for Strategic Human Resources Policy

Enclosure

BOARD OF ACTUARIES
United States Civil Service Retirement System
U.S. Office of Personnel Management
Washington, DC 20415-0001

Douglas C. Borton, FSA, Chairman
A. Norman Crowder III, FSA
Mary S. Riebold, FSA

August 18, 2004

Dr. Ronald P. Sanders,
Associate Director for Strategic Human Resources Policy
U.S. Office of Personnel Management
1900 E Street NW, Room 6566
Washington, DC 20415

Dear Dr. Sanders:

The Board of Actuaries has reconsidered in detail the methodology used by the U.S. Office of Personnel Management to determine the obligations of the United States Postal Service under the United States Civil Service Retirement System. When private sector plans are transferring participants to a new employer, it is a common practice to allocate liabilities by using a method which reflects the fact that all obligations arising from future salary increases are the responsibility of the new employer. We find this approach to be the most appropriate way to determine the obligations of the Postal Service and further confirm our prior finding that this method clearly follows the intent of Congress in Public Law 93-349.

The OPM methodology was reviewed and described by the General Accounting Office in its report of January 31, 2003. This report was distributed to the Postal Service and members of Congress. Although the GAO suggested some adjustments to the OPM's calculations, it did not question the OPM methodology.

Sincerely yours,

Douglas C. Borton

Douglas C. Borton
Chairman, Board of Actuaries

cc: A. Norman Crowder, III
Mary S. Riebold
Michael R. Virga

Post-Hearing Questions for the Record
Submitted to Cliff Guffey
From Senator Mark Begich

"U.S. Postal Service in Crisis: Proposals to Prevent a Postal Shutdown"
September 6, 2011

1. What impact will the change from a defined benefit to a defined contribution have on the workforce? Do you believe that workers will choose to stay with the USPS in the long run?

We observe, first, that the question is posed as though there will be a change from a defined benefit to a defined contribution plan for postal employees. We recognize that the Postal Service has proposed such a change, but we are confident that Congress will not adopt that proposal for a number of reasons.

A change from a defined benefit to a defined contribution plan would result in a drastic loss of retirement security for postal employees. Where employers offer defined contribution plans, some employees do not participate and many participate with minimal contributions. To provide adequate retirement income, an employee should contribute a substantial percentage of pay; get a decent match from the employer; make wise investment decisions; and make more conservative investment decisions as retirement approaches. However, the problem caused by the fact that fewer employees participate in defined contribution plans is made worse by the fact that fewer than half the people who do participate make any personal contributions to such plans.

The Federal Reserve's Survey of Consumer Finances showed that only 56 percent of American families have any retirement account assets. In 2009, the median value of those savings was $48 thousand, which was about a 5 percent decrease (in real terms) from the median value of family retirement accounts in 2007. The average American worker does not have the financial education to fully understand the savings required for retirement years nor the investment decisions that will help those savings reach a comfortable retirement. http://www.federalreserve.gov/pubs/feds/2011/201117/201117pap.pdf

Recent studies show that workers are not good about knowing how much money they need to save for retirement http://www.ebri.org/pdf/FFE.196.27Apr11.RCS-SvgsAtts.Final.pdf. This is why fully 70 percent of workers say they are not where they should be in saving for retirement. http://www.ebri.org/pdf/FFE.197.03May11.RCS-OnTrack.pdf. Workers are not good about knowing how much money they need to save for retirement.

Postal employees share in these difficulties. Only 20% of postal employees who are eligible to participate in TSP do not. Only 1.6% of participants make use of "catch up" contributions while 38% have loans outstanding against their TSP accounts. (Percentages derived from Postal Service Active Employee Statistical Summary August 2010.) In APWU bargaining units 24.3% of eligible employees do not make any contributions to TSP.

For these reasons, it would be unfair and regressive to remove postal employees from the federal retirement program. It should be the government's goal to help promote more savings by workers for retirement security not less. When the Postal Service says it wants to adopt a defined contribution plan for its employees, what it is really saying is that it wants to consign them to an inadequate plan that will be less expensive for the Postal Service and will not provide a dignified retirement for postal employees.

2. What amount of room is there to allow certain levels of layoffs?

The Postal Service is misrepresenting its alleged need for relief from its contractual commitments to no layoff protection for postal workers. We do not accept at face value the Postal Service contention that it needs to reduce its workforce by 220,000 employees by 2015.

That number actually reflects a dollar savings the Postal Service would like to obtain by some means. It would be very destructive of the Postal Service for it to cut its workforce that rapidly. Service would decline so seriously that a downward spiral in postal volume and postal revenue could result.

It also is pertinent to this question that a realistic increase in postage rates would solve part of the problem the Postal Service is seeking to attack through layoffs. Since the passage of the PAEA in 2006, rate increases have been stifled by an artificial CPI cap that must be applied separately to each class of mail. As a result, rates have increased less than CPI since 2006. Rates paid by some classes of mail do not cover their attributable costs, in violation of law. Other unlawfully low rates benefit large presort mailers whose discounts are larger than the costs avoided by the Postal Service. This, too, violates the PAEA. There is a pending exigency rate case in which the Postal Service has proposed a 5.6 percent increase in rates. Although that increase has been rejected by the Postal Regulatory Commission, the Commission's decision has been vacated by the U.S. Court of Appeals for the D.C. Circuit, and the case has been remanded to the PRC. Any increase in rates will provide the Postal Service more flexibility and should help alleviate the need to reduce the workforce so rapidly that service is adversely affected.

Layoffs will be unnecessary for other reasons as well. Through 2015 about 100,000 employees can be expected to leave by normal attrition. Through 2015 a third of the workforce – about 175,000 career postal employees will be eligible for retirement. Many more, as many as 100,000 will be eligible for early retirement. Through the inevitable process of normal retirements plus possibility of early retirements that can be accelerated by offering incentives, the Postal Service will be able to reduce its workforce as rapidly as it can while still maintaining service to the public.

Even if normal retirements plus early retirements do not reduce the workforce enough, layoffs still will not be necessary. The Postal Service employs 90,273 temporary workers who are not protected from layoffs. (Source: ORPES PP20-2011) Those workers could be laid off today if the Postal Service truly were overstaffed. Under the APWU National Agreement, temporary employees can be up to 20 percent of the workforce. This will provide the Postal Service with a lot of flexibility if, despite its aggressive cost-cutting initiatives, normal and accelerated retirements, and reasonable rate increases it still finds a need to reduce its workforce.

3. Have any of the bargaining units considered taking over management of your health care benefits by creating a health care trust? I know in Alaska the "Alaska Laborers-Construction Industry Health & Security" fund provides stable affordable benefits for laborers and their dependents.

The Alaska Laborer-Construction Industry Health & Security fund is a Taft-Hartley Multi-Employer Health and Welfare plan established by the construction unions to provide portable benefits for workers who typically do not stay very long with the same employer. It is very common for workers in the building and construction trades to belong to such a group health plan. These Taft-Hartley Health and Welfare plans are most often established to accommodate multiple employers for individual workers. Each employer contributes funds to cover the cost their employees' health care and other benefits. In the Postal Service's case, there is one employer and the workforce is relatively stable, working for that one employer. The principal rationale for a health and welfare trust is therefore not present.

Many issues need to be taken into consideration when one considers assuming the responsibilities of establishing a health care trust for workers. One of the more significant issues would be shifting the current and future underwriting risk and responsibility from the Federal

Employees Health Benefits Program to the employer (the Postal Service) and to the Trust and Trustees. Underfunded contributions or extremely adverse benefit experiences could create a large financial underwriting liability. Contributions would still be required from the Postal Service to cover the "employer's proportionate share of the health care cost. The formulation of the Trust would not relieve the Postal Service from its fiduciary responsibility to pay for the health care costs of its active employees and retirees.

The establishment of a trust does not inherently lower the cost of health care to cover the workers and retirees of the Postal Service. As a whole, individuals with the same benefit coverage are going to use the same amount of medical care whether covered by a Trust or covered by a FEHBP carrier. The medical cost under both programs would be virtually the same. Lowering the costs paid by the program would have to come from reducing benefits, thereby shifting the financial burden on to the worker or retiree. The other non- palatable option available would be to increase the employee's contribution level substantially, which also would shift the burden on to the worker or retiree. This is something that the Postal Service alluded to in their White Paper issued on August 2, 2011.

Furthermore, removing the postal plan from the protection of FEHBP law would add more costs to the program. Under the Federal Employees Health Benefit Program, there are numerous preemptions from state and local laws, regulations and taxation. Many states add taxes or fees to medical bills to cover the uninsured. These taxes are paid by private and trust type of insurance groups but they are preempted under FEHBP law. States can also mandate broader coverage requirements than currently mandated under the Federal Employees Health Benefit Program. Private insurers must comply with these state and local mandates but Federal Employees Health Benefit Program carriers are not required to comply. There are added reporting responsibilities and certifications required of trusts that would increase the cost of legal, accounting and actuarial professional fees. Additionally, the Trust could be open to securitization of its premium to costs ratios for active workers and retirees. If the premium to cost ratio of one subgroup is out of proportion to the other subgroup than this could invite the splitting of rate instead of a blended rate for the whole population (active/retiree). This could cause a shifting of total premiums costs between the active employee population and the retiree population. One group may have to pay higher total premiums than the other group.

Finally, we observe that Postal Service contentions that it could save money by having a health plan that adopts "best practices" in the health insurance industry is wrong. The FEHBP is widely regarded as a model health program because of its aggressive but fair cost containment programs and the competition it fosters among plans. In FEHBP, the Postal Service has a plan that uses the best practices in the industry.

Post-Hearing Questions for the Record
Submitted to Louis M. Atkins
From Senator Mark Begich

"U.S. Postal Service in Crisis: Proposals to Prevent a Postal Shutdown"
September 6, 2011

1. What impact will the change from a defined benefit to a defined contribution have on the workforce? Do you believe that workers will choose to stay with the USPS in the long run?

Several proposals have surfaced that would eliminate the Federal Employees Retirement System (FERS) annuity supplement. The annuity supplement was established in 1987 as a smaller, comparable component in the transition from the Civil Service Retirement System (CSRS) to FERS. The annuity supplement represents a decidedly less generous defined benefit pension compared to that available under CSRS. Today about 20 percent of the federal and postal workforce remain in CSRS, with the remaining majority participating in FERS. We believe it crucial that the FERS annuity supplement remain part of the retirement package for current active employees and retirees. Any reductions in the annuity supplement should begin with newly hired employees, as the President has proposed to the Joint Select Committee on Deficit Reduction.

2. What amount of room is there to allow certain levels of layoffs?

Our organization is concerned about any possibility that the Postal Service would employ layoffs as a method to right-size the workforce. In the case of the major union, the APWU, there are provisions in their contract that prohibit layoffs. As far as right-sizing the workforce, the overall employee population of the Postal Service includes thousands of employees who are already retirement eligible but these individuals have chosen to remain actively employed. This is also the case with management employees. The sad fact is that many of the retirement eligible employees cannot afford to retire as they still are paying mortgages, student loans and, in some cases, are still supporting their parents and their children as the economy dictates.

We believe that the right-sizing of the management workforce of the Postal Service can be accomplished through incentives to entice retirement eligible employees to leave the service and that the use of layoffs would not be necessary.

3. Have any of the bargaining units considered taking over management of your health care benefits by creating a healthcare trust? I know in Alaska the "Alaska Laborers-Construction Industry Health & Security" fund provides stable affordable benefits for laborers and their dependents.

Our organization would like to defer this question to the postal unions as we do not sponsor any health plans. We do object to the Postal Service's proposals to create a postal health program as we believe that the FEHB provides good coverage with low administrative costs.

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