

ARE POSTAL WORKFORCE COSTS SUSTAINABLE?

HEARING

BEFORE THE

COMMITTEE ON OVERSIGHT
AND GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

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ARE POSTAL WORKFORCE COSTS SUSTAINABLE?

TUESDAY, APRIL 5, 2011

HOUSE OF REPRESENTATIVES,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, DC.

The committee met, pursuant to notice, at 10 a.m., in room 2154, Rayburn House Office Building, Hon. Darrell E. Issa (chairman of the committee) presiding.

Present: Representatives Issa, Mica, Jordan, Mack, Walberg, Lankford, Amash, Buerkle, Gosar, Labrador, Meehan, DesJarlais, Walsh, Ross, Guinta, Farenthold, Kelly, Cummings, Towns, Maloney, Norton, Kucinich, Tierney, Clay, Lynch, Cooper, Connolly, Quigley, Davis, Braley, Welch, Yarmuth, Murphy, and Speier.

Staff present: Ali Ahmad, deputy press secretary; Robert Borden, general counsel; Molly Boyd, parliamentarian; Lawrence J. Brady, staff director; Steve Castor, chief counsel, investigations; Howard A. Denis, senior counsel; Gwen D'Luzansky, assistant clerk; Adam P. Fromm, director of Member liaison and floor operations; Linda Good, chief clerk; Justin LoFranco, press assistant; Jeffrey Post, professional staff member; Laura L. Rush, deputy chief clerk; Kenneth John, detailee; Kim Yunsieg and Jordan More, interns; Beverly Britton Fraser, minority counsel; Kevin Corbin, minority staff assistant; Ashley Etienne, minority director of communications; Carla Hultberg, minority chief clerk; Lucinda Lessley, minority policy director; Zeita Merchant, minority LCDR, fellow; William Miles, minority professional staff member; Dave Rapallo, minority staff director; Susanne Sachsman Grooms, minority chief counsel; Mark Stephenson, minority senior policy advisor/legislative director; and Cecelia Thomas, minority counsel/deputy clerk.

Chairman ISSA. The committee will come to order.

Mr. Kucinich.

Mr. KUCINICH. I have a point of order, Mr. Chairman.

Chairman ISSA. Please state your point of order.

Mr. KUCINICH. Under rule 11, clause (b), the use of the committee broadcast system shall be fair and nonpartisan. My point of order is that since the majority has signs up behind Mr. Cummings which reflect your point of view and not ours, and since this is being broadcast and you can see the signs behind Mr. Cummings, that it would be fine—you know, it is fine with me, and I'm sure our side, if you want to put all your signs over there that reflect your point of view, but by having them up behind Mr. Cummings, it is actually taking a partisan—assigning to him a partisan posi-

tion since the signs are right behind him. And therefore my point of order relates to rule 11, clause (b).

Chairman ISSA. OK. Noting your point of order, the chair is prepared to rule. Within the committee rules it is—the signs and other areas of this room are within the discretion of the chair and are not appealable. However, the gentleman's point relative to broadcast will be evaluated for broadcast appropriateness. The sign is not within the scope of the gentleman's point of order and thus is not appealable; however, we will evaluate in consultation with the ranking member as to broadcast procedures, which this doesn't affect, but which we certainly want to make sure that we stay within the point of order that you raised, which is again not within the scope of that sign. However, we certainly would like to have a review of broadcast procedures to see if there are any concerns by the chair as to broadcast.

With that, we would begin based on another discretion—

Mr. KUCINICH. Mr. Chairman, did you sustain my point of order then?

Chairman ISSA. No. Actually since it is within the discretion of the chair, it is not subject to a point of order, and we would be glad to give you the line that shows that it is a discretion.

Mr. KUCINICH. I hope you are able to work it out, because, you know, it seems to me that we have a violation of that rule. Thank you.

Chairman ISSA. Thank you.

I thank all of you here today for your patience. This is a time in which the committee has been preempted by the discussion of funding of the government, and nothing ultimately can be of more importance to the American people than whether or not our troops in harm's way continue to be funded after Friday.

With that, it is the discretion and policy of the chair that we begin by reading our oversight committee mission statement.

We exist to secure two fundamental principles. First, Americans have a right to know that the money Washington takes from them is well spent. And second, Americans deserve an efficient, effective government that works for them.

Our duty on the Oversight and Government Reform Committee is to protect these rights. Our solemn responsibility is to hold government accountable to taxpayers, because taxpayers have a right to know what they get from their government. We will work tirelessly in partnership with citizen watchdogs to deliver the facts to the American people and bring genuine reform to the Federal bureaucracy. This is the mission of the Government Oversight and Reform Committee.

Today's hearing is on the U.S. Postal Service, where publicly traded—oh, sorry, today's hearing is on U.S. Post Office and the new contract. Were the post office a publicly traded company, it would be among the 30 largest in America, having revenues of \$70 billion. Its 30-plus thousand post offices exceeds that of Starbucks and McDonald's combined.

Over the years the post office has gone from a growing and thriving industry able to sustain positive cash-flow and effectively positive profits. That is now in our taillights. Today members of the active work force enjoy approximately \$11,000 worth of legacy burden

into their pay, meaning that when the post office looks at its cost of doing business, it, in fact, has legacy costs that very much resemble General Motors' before its bankruptcy.

The post office cannot and will not renege on its promises to those already retired. We cannot and will not renege on the obligation that we have to the American people both under the Constitution and under hundreds of years of tradition of the post office. Every day, 6 days a week, the American people expect that a letter will be delivered directly to their box in front of their house, down the street or off into a chute in their door.

The contract negotiated, not yet ratified, is intended to allow the continuation of a history of collective bargaining, but compromises sufficient to allow the post office to emerge from what is at best break even and, by some estimations, a \$5½-plus billion loss, and to get to a positive position able to meet all of its obligations, both present and legacy costs, in the foreseeable future. This contract falls short of that goal. It is very clear the intention is good. The postmaster has worked diligently to get some concessions. However, we will hear today that we, in fact, under current law may not be able to negotiate the contract that needs to be negotiated.

Additionally, from this position on the dais, we have deep concerns that some of the provisions in the contract might, in fact, be the wrong direction, toward less flexibility, less ability to trim the work force, and less ability to make the kind of investments in the future that we need to make. Having said that, this committee stands ready to make legislative changes that may be needed in order to secure for the post office the kind of abilities to reinvent itself it needs.

Additionally, this committee in the past on a bipartisan basis has been willing to delay certain required deposits in order to allow the post office time to regroup. At the same time, the hundreds of thousands of letter carriers and postal workers deserve to—a level of certainty that allows them to plan their future, a future in which the post office is able to deliver efficiently a product in a reasonable cost and, in fact, meet its obligations. To that extent we intend to hear from all the participants that we can over a period of time. Today we have four, but I assure you, both at the full committee and the subcommittee, we will be hearing many, many, many more.

And with that, I recognize the ranking member for his opening statement.

Mr. CUMMINGS. I want to thank the chairman for yielding and for this hearing.

Ladies and gentlemen the U.S. Postal Service is the Nation's premier mail delivery service, providing universal service to the American people at fair and reasonable rates. Last year the Postal Service delivered nearly 40 percent of the world's mail, serving 150 million U.S. residences, businesses and post office boxes.

Although the Postal Service generated more than \$67 billion in revenue last year, it faced serious financial challenges recently. Since 2007, its revenues have declined because of reductions in mail volume, increasing energy prices and the recent downturn in the U.S. economy. The Postal Service reported losses of \$5.1 billion

in 2007, \$2.8 billion in 2008, \$3.8 billion in 2009 and \$8½ billion in 2010.

I'm encouraged that the Postal Service has taken significant and serious steps to address these challenges. Last year the Postal Service issued a new 10-year strategic business plan that improves productivity, cuts costs in operations, uses more cost-effective retail channels, and consolidates administrative functions. With new leadership in place, we are beginning to witness emergence of a smaller, smarter and more nimble organization that is reinventing itself to become more competitive in an evolving marketplace.

With this in mind, there are some key points I would like to emphasize. First, the Postal Service pays salaries that are comparable to the private sector. A recent review found that the Postal Service letter carriers received a standing—starting salary that was slightly more than FedEx carriers and slightly less than UPS drivers, both on an initial per-hour basis and after several years of service.

I might note that behind me is a chart that says that 80 percent of the Postal Service money goes into employees, and it is interesting that this very committee, Mr. Chairman, 87 percent of our money goes for personnel expenses.

Second, the Postal Service has been aggressively reducing its work force. The current work force is the smallest in 20 years, employing nearly 100,000 field workers in 2008. Since 2000, the Postal Service has reduced its work force by nearly 27 percent. Let me say that again, 27 percent. And it plans to continue reductions through attrition and by extending its current hiring freeze.

Third, the Postal Service is actively examining additional proposals to further reduce costs. For example, GAO recently recommended a host of cost-cutting measures, including a legislative proposal to modify the Postal Service's mandated requirement to prefund retiree health benefits. Currently the Postal Service is the only Federal entity required to prefund retiree health benefits, and these costs are expected to average, ladies and gentlemen, \$5½ billion annually through fiscal year 2016.

Mr. Chairman, as we discuss these proposals today, I would like to offer a note of caution. More than 200,000 members of the American Postal Workers Union are in the midst of voting on a tentative labor agreement concluded with the Postal Service on March 14, 2011. This agreement would institute a 2-year freeze, a 2-year freeze on wages and cost-of-living adjustments, and it is projected to save approximately \$1.7 billion. It would allow the Postal Service to reduce the starting salary of postal clerks even further, from \$40,800 to \$35,300, and it would implement one of the recommendations made by GAO by allowing greater use of noncareer and part-time employees.

While it is appropriate for this committee to conduct oversight of the Postal Service, we must be very, very sensitive to criticism that we are using in today's hearing to improperly shape the outcome of the impending vote. Both management and the union have negotiated in good faith, and we should allow workers to consider this tentative agreement without undue congressional intervention.

Finally, Mr. Chairman, I would like to thank all the postal employees for their dedication and for their hard work. For the sixth consecutive year, the Postal Service, above all other government

agencies, continues to be named as the most trusted and reliable government agency by the American people. That's a hell of a compliment.

The Postal Service is also one of the largest employers of veterans in our country, with approximately 22 percent, or about 114,000 employees, veterans, having previously served in the U.S. Armed Forces. Moreover, approximately 40,000 of these employees are disabled veterans.

I feel strongly that our committee should focus not only on stemming recent losses at the Postal Service, but on pursuing options to create a healthy and profitable Postal Service for the future. And a key component of this new organization must be a reasonable and livable wage for these devoted and trustworthy public servants.

Once again, I say to every single member of the post office community, we thank you for what you do every day, rain or shine, delivering our mail, dogs biting you, the rain, sleet, hail. We thank you over and over again, and may God bless you.

And with that I yield back.

Chairman ISSA. I thank the ranking member.

By previous agreement we will now recognize the ranking chairman—the ranking subcommittee—the subcommittee chairman and the subcommittee ranking member.

Mr. Ross, you're recognized for 5 minutes.

Mr. ROSS. Thank you, Mr. Chairman. Again, thank you for this hearing.

Today the committee will hear from the Postmaster General and two of the Presidentially appointed Board of Governors, who will attempt to lay out their vision for a substantial postal work—substantive postal work force and describe how the APWU contract fits into that vision. This will be the first time in a decade that multiple USPS governors will appear together at a congressional hearing.

We know that the Postal Service is one of the largest organizations and employers out there. It has more than a half million employees, and that exceeds all of U.S. companies except for Wal-Mart. It has a phenomenal marketing and delivery infrastructure, where it goes to every consumer—or goes to 150 million consumers every day.

Unfortunately, due to the ongoing digital revolution, the business model of the Postal Service is fundamentally broken. It is losing billions of dollars every year and now stands on the brink of insolvency. This is not just a short-term problem, as the Postal Service projects growing deficits for the foreseeable future. It is incumbent upon the USPS to develop and implement a new business model as soon as possible.

I commend Mr. Donahoe for what he was done, his commitment to implement strategy that will reduce costs by undertaking major organizational restructuring, reviewing post office closures, and adjusting delivery frequency. I hope we can empower you to do more. At 80 cents on every dollar, work force costs make up a disproportionate share of Postal Service costs. These costs must be addressed head on as part of any serious reform effort. Among these costs are a large postal compensation premium that has been esti-

mated at 34 percent. In fact, in a 2001 arbitration decision, a neutral arbitrator, Stephen Goldberg, stated, "In concluding that there exists a Postal Service wage premium, I join a long list of arbitrators in prior USPS interest arbitrations who have reached the same conclusion."

Regrettably, the tentative the contract USPS recently announced with its largest union, which represents over 200,000 employees, maintains it expands no layoff protections, guarantees wage increases, and ensures that USPS employees continue to pay a lower portion of health care premiums than do other Federal employees.

USPS claims the contract will save them \$3.8 billion over its 4½-year life, but I'm skeptical of that. However, as this chart shows, assuming that all these savings are achieved, it hardly makes a dent in projected USPS deficits. Given this, it is unclear how this deal, which would serve as a template for deals with other USPS unions, will give USPS the ability to immediately reduce work force costs and maintain solvency.

One of the Board of Governors testifying today is James Miller, who is a former head of OMB. In contrast to other USPS executives, Miller has expressed disappointment with the APWU contract, and only endorsed it as the best possible under a broken arbitration system. In a paper Mr. Miller concluded—included with his testimony today, he also outlined options for reforming postal collective bargaining and noted econometric analysis has found USPS employees are paid a significant premium relative to their private-sector counterparts.

I look forward to hearing from Governor Miller and the rest of the witnesses.

I would like to thank the chairman for this hearing, and I do yield back.

Chairman ISSA. I thank the chairman.

[The prepared statement of Hon. Dennis A. Ross follows:]

Thank you, Chairman Issa for holding this important hearing on USPS compensation today. As we all know, the United States Postal Service is approaching what will amount to fiscal insolvency on September 30th. As that day grows nearer, it has become readily apparent the primary driver of a return to financial stability must be cost cutting. While I do believe that there are significant opportunities for USPS to grow revenue through a number of avenues, unfortunately, none of these avenues will likely be able to bear the meaningful fiscal returns USPS needs in the short-term to alter its current fiscal trajectory.

With that in mind, it is imperative that USPS look at all their options when it comes to cost cutting. In particular, this means USPS must make a major effort to address the disproportionate share of labor costs in USPS's budget, costs which amounted to 80 percent of all USPS expenses in FY2010. Before I go on, I do want to be clear that this assertion is not intended as a slight, real or implied, to the hardworking men and women of USPS. Rather, this assertion is a reflection of the difficult times and absolutely unprecedented challenges USPS faces due to the rapid decline of first-class mail and the increasing speed of electronic diversion. Ultimately, this includes a need for the postal service to right size its processing and retail networks in light of diminished demand, a point that has been frequently raised by the U.S. Government Accountability Office, changes which could yield significant labor savings.

Additionally, I share many of the Chairman's concerns that the recently announced APWU contract agreement does not go far enough in allowing USPS to reduce the labor costs in the short-term. Specifically, at a time when the average employee costs USPS nearly \$90,000 and faces a fiscal meltdown, it makes little sense to guarantee wage increases, maintain and expand lay off protections, and insource more than 4,000 positions. Today though, I look forward to hearing testimony from our distinguished panel regarding the continued USPS's vision for a sustainable workforce, the size of USPS's ideal workforce, the existence of a postal compensation premium, and the overall impact of the proposed APWU contract.

Chairman ISSA. And with that, we recognize the ranking member of the subcommittee Mr. Lynch for 5 minutes.

Mr. LYNCH. Thank you, Mr. Chairman.

I want to thank the witnesses for helping the committee with its work. A little over a month ago, the Subcommittee on the Federal Workforce, Postal Service, and the District of Columbia held a hearing on financial condition of the Postal Service, and the news at the time, as most of you know, was less than encouraging, although it was a bit better than what we saw last fiscal year.

At the conclusion of this year's first quarter, the Postal Service had a net loss of \$329 million compared to a net loss of \$297 million for the same period in fiscal year 2010. However, if you exclude the cost of prefunding future retiree health care benefits, as the ranking member has pointed out a burden that no other agency or private business in America is required to carry, and you add the noncash adjustment to the Postal Service's worker compensation liability, the Postal Service would have actually ended the first quarter with a net income of \$226 million—a gain of \$226 million.

Further, over the past couple of years, we've witnessed the Postal Service and its employees work to improve efficiencies and reduce costs by over \$10 billion. Since 2008, the size of the Postal Service work force has decreased by over 100,000 employees, which is probably why many observers point out that the Postal Service actually stands as a model for the rest of the Federal Government in terms of lowering costs and right-sizing its work force and network.

The tentative agreement recently reached between the Postal Service and the American Postal Workers Union is the latest example of postal management and its employees working together to ensure the future viability of an entity that serves as a cornerstone of a trillion-dollar industry and supports over 7½ million private-sector American jobs.

However, let's be clear, there are certain aspects of the Postal Service's compensation and benefits costs that are out of the organization's control. Specifically I'm referring to the hardwired health care benefit payment schedule that forces the Postal Service to prefund future liability at an overly aggressive rate, again a requirement that no other agency or company in America must shoulder.

On top of its prepayment obligation, the Postal Service is also subject to Federal employee pension rules and guidelines, which have resulted in a potential overpayment of both its Civil Service Retirement System and its Federal Employee Retirement System.

So in answer to the question are postal work force costs sustainable, which is the subject of this committee, the answer, I guess, is it depends. It depends if we believe in universal service. It depends if we believe in a reliable manner of delivering the mail. It depends if costs to the consumer will be reasonable. And it depends on whether or not this country still respects its workers and is willing to treat them with basic dignity. For this reason I, along with Congressman Cummings and other Democratic members of the committee, have reintroduced H.R. 1351, the U.S. Postal Service Pension Obligation Recalculation and Restoration Act of 2011.

H.R. 1351 directs the Office of Personnel Management to update the actuarial methodology to be used in calculating CSRS retire-

ment benefit liabilities between the U.S. Postal Service and the Federal Government in accordance with modern actuarial practices and accounting standards. Any resulting surplus from the recalculation would then be transferred over to the Postal Service Retiree Health Benefit Fund.

Last, H.R. 1351 will require that the Postal Service's already agreed-upon FERS surplus of nearly \$7 billion also will be refunded immediately by applying the following: \$5½ billion toward the Postal Service's fiscal year 2011 retiree health benefit payment, \$1.2 billion toward the Postal Service upcoming workers' compensation payment, and any remaining balance toward paying down the Postal Service debt. Since it is the job of this committee to find ways to help ensure the Postal Service remains a valued and viable entity well into the future, I urge all of my colleagues to consider cosponsoring this fiscally responsible legislation.

With that said, I look forward to a constructive and honest discussion on this important topic. And I thank all of the witnesses for coming and providing their input in this morning's hearing.

Thank you. I yield back.

Chairman ISSA. I thank the gentleman.

All Members will have 7 business days to submit opening statements and extraneous material for the record. Without objection, so ordered.

We now recognize our distinguished panel of witnesses. The honorable Louis J. Giuliano.

Mr. GIULIANO. Giuliano, very good.

Chairman ISSA. I don't want to mess that one up—is the chairman of the U.S. Postal Service Board of Governors. The honorable James C. Miller, III, is a member of the Board of Governors of the U.S. Postal Service. Mr. Patrick Donahoe is the Postmaster General and chief executive officer of the U.S. Postal Service and a frequent visitor. And Mr. Cliff Guffey is president of the American Postal Workers Union and critical to today's hearing.

Pursuant to committee rules, all witnesses are required to be sworn. Would you please rise to take the oath. My script says to tell you to raise your right hands, but that usually goes without saying.

[Witnesses sworn.]

Chairman ISSA. Would the record reflect that all witnesses answered in the affirmative?

Please be seated.

Gentlemen, in order to allow time for hopefully everyone on the dais to ask you a series of questions, we'd ask that your entire statements be placed in the record. In some cases you may choose to work off of them, but if you choose to use your 5 minutes for other material, you'd be well served, because then you'll have your cake and submit it, too.

With that, please try to summarize during the yellow light appearing in front of you, and conclude as quickly as you can when it goes to red.

During the question-and-answer session, because we have a large gathering today, I will have a fairly quick gavel. What that really means is if someone is still answering questions until a few seconds before the end of the time, I may say that you have to give a very

short answer, not anything more than a yes or no, or I'll reply for the record.

On the other hand, if you are in the process of making an answer, no matter how long, as long as it is necessary, I will allow you to continue until you've completed your answer so that incentivizes people up here to quit talking in time for you to have a full and complete answer.

Additionally, if somebody would like to also answer a question after the time has expired, it will be the general policy to allow one additional person to comment afterwards. I hope that allows us to average 6 or 7 minutes on a 5-minute-per-Member basis, which is about as tight as we can hold it and be fair to both you and the Members.

So with that, chairman, you're recognized for 5 minutes.

STATEMENTS OF LOUIS J. GIULIANO, CHAIRMAN, U.S. POSTAL SERVICE BOARD OF GOVERNORS; JAMES C. MILLER III, GOVERNOR, U.S. POSTAL SERVICE; PATRICK DONAHOE, POSTMASTER GENERAL AND CHIEF EXECUTIVE OFFICER OF THE U.S. POSTAL SERVICE; AND CLIFF GUFFEY, PRESIDENT, AMERICAN POSTAL WORKERS UNION, AFL-CIO

STATEMENT OF LOUIS J. GIULIANO

Mr. GIULIANO. Good morning, Mr. Chairman and members of the committee. As we've talked about, my name is Lou Giuliano. I serve as chairman of the Board of Governors of the Postal Service. This is my first opportunity to testify before you, and I thank you for the privilege.

The Board shares the concerns expressed by members of the committee about the financial losses at the Postal Service. We also appreciate the fact that some in Congress are concerned about our labor costs, and in particular the tentative contract that has been negotiated with the American Postal Workers Union. For these reasons we feel today's hearing is critically important, and the Board of Governors applauds your willingness to explore these issues in depth.

The tentative contract with the APWU is the best that was achievable under the existing law. Failure to reach a negotiated agreement places us in binding arbitration, an outcome that, Mr. Chairman, we believe would not have allowed us to realize most of the benefits that we did gain in this contract negotiation. This is especially true as it pertains to flexibility of the work force.

The tentative agreement provides the Postal Service with three important things: immediate cost control, a flexible work force and long-term structural change. The Board unanimously supports the tentative agreement, which would produce a cost savings of \$3.8 billion during its life. We believe that both labor and management have demonstrated their determination to right this ship in these negotiations.

We also appreciate the fact that we urge the committee to consider other actions that are necessary to protect the financial viability of this important American institution. On the top of this list is a retiree health care benefit prepayment program. First let me be clear, we have been and will continue to pay our fair share of

health care costs for our employees and retirees. But the \$5½ billion of accelerated payments for future retirees, many of which who have not even been hired, mandated in the 2006 PAEA are an extraordinary burden that no other organization, neither public nor private, is required to make. They constitute a hidden tax that is neither fair nor responsible.

We have been repeatedly told that our prepayments for future retiree health care benefits is a scoring issue. During the last 4 years, in 2007 to 2010, we had total net losses of \$20 billion. This would have been a total profit of \$1 billion had we not paid in expense \$21 billion of retiree health care benefits. Instead of owing \$12 billion today, we would have \$9 billion in the bank.

Only Congress can correct this problem, and I believe it's in everyone's interest to do so. If action is not taken to address this situation immediately, the Postal Service will default on our payments on or before September 30th of this year.

Despite the overpayment of almost \$7 billion, we continue to have to pay \$3 billion per year into the FERS system. We are told that only a change in the law can fix that.

The workers' compensation regulations that we work under are cumbersome, unfair and costly. We have liabilities that no other company that I'm aware of or organization would have. Workmen's compensation represents a \$12 billion liability for the Postal Service and cost us over \$1 billion in cash last year. We ask you to consider the legislation that has been introduced in the Senate to address this issue. It is a governmentwide problem.

We also require action to create a more flexible delivery schedule. We would prefer not to have to go to a 5-day delivery schedule, but, when considering the alternatives, we consider the best. It is the only way and a significant way to help offset the decline of first-class mail.

Management has demonstrated the ability to drive significant improvements in its processes and reduce the size of the postal work force, while improving service levels and adding new delivery points every year. The tentative labor agreement negotiated with the APWU is a solid step to reducing labor costs. We are hopeful that we will achieve further flexibility in our negotiations with our other three unions. We are eager to work with Congress to effectively resolve these and other major issues. It is my hope by working together we can enable this venerable institution to reshape itself to meet the future needs of the American public and leave a legacy about which we can all be proud.

Thank you. I look forward to your questions.

Chairman ISSA. Thank you.

[The prepared statement of Mr. Giuliano follows:]

BOARD OF GOVERNORS



**STATEMENT OF
LOUIS GIULIANO, CHAIRMAN
BOARD OF GOVERNORS
U.S. POSTAL SERVICE
BEFORE THE
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
UNITED STATES HOUSE OF REPRESENTATIVES
APRIL 5, 2011**

Good morning, Mr. Chairman and Members of the Committee. My name is Louis Giuliano and I serve as Chairman of the Board of Governors of the U.S. Postal Service. This is my first opportunity to testify before you, and I thank you for the privilege.

The Postal Service is essential to the American economy. It stands at the heart of our nation's trillion dollar mailing industry. It is a critical part of our economic infrastructure and an important part of our social fabric. Therefore, it is essential that every effort be made to ensure its economic viability.

The Board shares the concerns expressed by the Members of this Committee about financial losses at the Postal Service. We also appreciate the fact that some in Congress are concerned about our labor costs, and in particular, the tentative contract that has been negotiated with the American Postal Workers Union (APWU).

For all these reasons, we feel today's hearing is critically important, and the Board of Governors applauds your willingness to explore those issues in-depth. We look forward to working with you to address the situation.

The tentative contract with the APWU, reached after many months of difficult negotiations, is the best that was achievable under existing law. Failure to reach a negotiated agreement places us in binding arbitration – an outcome that would not have allowed us to realize most of the benefits we see under this negotiated agreement.

This tentative agreement provides the Postal Service with three important things: immediate cost control; greater workforce flexibility; and long-term structural changes. Of these, the workforce flexibility and long term structural change offer the most significant potential for lowering total labor costs.

Most importantly, we do not believe these vital changes would have been possible in arbitration. Years of experience have taught us that these types of breakthrough changes in workforce utilization are very unlikely in an arbitrated settlement. Given the law that we negotiate under, we strongly believe that this was the best outcome possible.

At the outset of these negotiations, the Board of Governors established a set of goals consistent with our March 2, 2010 Comprehensive Strategic Plan which laid out seven

key tasks to return the Postal Service to profitability. Throughout the talks, we challenged the negotiating team to adhere to these goals. As in any negotiation, neither side got everything they wanted, but the Postal Service gained significant improvements in labor flexibility.

The Board unanimously supports the tentative agreement.

- This tentative labor agreement achieves one of our most important operational objectives – the ability to apply work hours where and when we need them rather than deal with static work shifts and significant overtime costs.
- It also calls for an immediate two-year real freeze on wages.
- It allows roughly 20 percent of the APWU workforce to be temporary, at a cost 50 percent lower than our permanent employees.
- It establishes a two-tiered workforce, with a lower wage tier for new employees.
- It increases the employee contribution for healthcare.

These provisions of the tentative contract constitute a cost saving of \$3.8 billion. We believe that both labor and management have demonstrated their determination to right this ship.

Our Comprehensive Plan, which we released last year, recognizes the importance of the Postal Service improving its processes and customer service.

Over the last three years, we have taken out more than \$11 billion in costs; and have committed to take out another \$16 billion over the next several years. This has been accomplished while improving delivery performance and adding approximately 3 million more delivery points. This is a tribute to all Postal Service employees.

We have reduced our career workforce by more than 200,000 since 2000, and we have plans to reduce another 170,000 career employees.

Mr. Chairman, we urge the Committee to consider other actions that are necessary to protect the financial viability of this important American institution.

On the top of this list are the Retiree Health Benefits (RHB) pre-payments. First, let me be clear – we are a responsible employer who has been and will continue to pay our fair share for the health care costs of our employees and retirees. But the \$5.5 billion per year accelerated payments, mandated in the 2006 Postal Accountability and Enhancement Act (PAEA), are an extraordinary burden that no other organization – private or public – is required to make. They constitute a hidden tax that is neither fair, nor responsible.

We have been repeatedly told that our pre-payments for future RHB is a scoring issue. During the four years from 2007 thru 2010, we had total net losses of \$20 billion. This would have been a total profit of \$1 billion, had we not paid, and expensed, \$21 billion of RHB pre-funding. Our debt position of \$12 billion at the end of 2010 would have been cash in the bank, with no debt, of \$9 billion. Only Congress can correct this problem and allow the Postal Service to return to profitability.

And it is in everyone's interest that you do so. If action is not taken to address this situation immediately, the Postal Service will default on our payments, on or before September 30 of this year.

Despite the overpayment of \$6.9 billion, we continue to have to pay \$3 billion per year into the Federal Employees' Retirement System (FERS). We are told only a change in the law can fix that. The workers' compensation regulations that we work under are unfair and costly. Workers' compensation represents a \$12 billion liability that cost the Postal Service over \$1 billion in cash last year.

We ask you to consider legislation that has been introduced in the Senate to address this issue. It is a government-wide problem. We also require action to create a more flexible delivery schedule. We would prefer not to go to a five-day delivery schedule, but it is the best of several different alternatives to offset the decline in First-Class Mail.

Management has demonstrated the ability to drive significant improvements in its processes and reduce the size of the Postal workforce – while improving service levels. The tentative labor agreement negotiated with the APWU is a solid step to reducing labor costs. We are hopeful that we will achieve further flexibility in our negotiations with our three other unions. We are eager to work with Congress to effectively resolve these other major issues.

It is my hope that by working together we can enable this venerable institution to reshape itself to meet the future needs of the American public and leave a legacy about which we can all be proud.

Thank you. I look forward to your questions.

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Chairman ISSA. Governor Miller.

STATEMENT OF JAMES C. MILLER III

Mr. MILLER. Thank you, Mr. Chairman.

Good morning, Mr. Chairman and members of the committee. I'm Jim Miller, and I'm responding to your invitation to testify today.

Chairman Giuliano speaks for the Board, he is chairman of the Board, and to the extent that my—the views I express differ in any way from those that Governor Giuliano expresses or expressed by Postmaster General Donahoe, please list those as my own personal views and don't—and they shouldn't be attributed to any other governor or to the Postal Service management.

While I'm on the subject of Board of Governors, I wish to emphasize it works in a very collegial fashion. There are four Democrats right now and four Republicans appointed by President George W. Bush and—or President Barack Obama, but we work in a very nonpartisan way, and we work very, very hard.

Now, thank you for holding this hearing. As Governor Giuliano outlined and other—and Members of the Congress have outlined, the U.S. Postal Service is in dire financial shape. Without some miracle, as Governor Giuliano pointed out, we will default. We will be insolvent and default on September 30th. We will default on the debts that we owe the United States at that—the U.S. Government at that point. And I respectfully submit that only you can avoid that fate.

I have submitted, as you have mentioned, Mr. Chairman—or Mr. Ross of—Chairman Ross mentioned that I have submitted a short statement and an attached paper. Let me just say that what I—the point I'm making, that paper in my statement, is, as Chairman Ross said, the current model for the Postal Service is broken, it is inapplicable. You have a demand that is shrinking. You have the high-profit mail, first-class mail, shrinking. And there just isn't the opportunity to earn those kinds of profits on the high-class mail to subsidize all of the other things that we have done.

To survive, the Postal Service needs systemic reform. Financial relief, in my judgment, is not enough. We need systemic reform. We need freedom to operate as a commercial enterprise.

Now, I realize that there are—some misgivings have been expressed about the latest APWU agreement. My response is that we did the best we could under existing law. Our current system, from all the evidence that we have in times that we went to compulsory arbitration, is that the system is biased in favor of labor and against management. The unions know this, and we know this. And so in our decision to accept the best we could get with our negotiations or go to arbitration, we had to keep this in mind. And so we accepted this agreement as the best deal we could get. I respectfully submit, Congressmen, members of the committee, that if you want a better deal, you have to change the law.

Mr. Chairman, thank you for inviting me here today, I look forward to responding to your questions.

Chairman ISSA. Thank you, Mr. Miller.

[The prepared statement of Mr. Miller follows:]

BOARD OF GOVERNORS



**STATEMENT OF
JAMES C. MILLER III, MEMBER
BOARD OF GOVERNORS
U.S. POSTAL SERVICE
BEFORE THE
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
UNITED STATES HOUSE OF REPRESENTATIVES
APRIL 5, 2011**

Mr. Chairman and Members of the Committee, thank you for holding this hearing into the U.S. Postal Service's fiscal crisis – and in particular, the sustainability of its outlays for workforce compensation.

I am but one member of the Postal Service's Board of Governors. Governor Giuliano, the Board's elected chairman, who is here today, speaks for the Board as a whole. To the extent any of my remarks differ from those of the Chairman's, they are my personal views and should not be attributed to the Board or to any other Governor.

As you may know, Mr. Chairman, the Board works in a very collegial fashion. Currently there are four Democrats, four Republicans, and one vacancy on the Board. These Governors were all nominated by either President George W. Bush or by President Barack Obama and confirmed by the U.S. Senate. But it is not a partisan organization, as our focus is on directing the operations of one of the nation's largest enterprises – and doing our very best, pursuant to law, to serve the American people.

Also, as you may know, Mr. Chairman, over the past several years the Board has focused like a laser beam on the Postal Service's increasingly dire outlook and what to do about it. A little over a year ago, after much discussion and debate, the Board authorized Postmaster General Jack Potter to announce a comprehensive strategic plan designed to restore the Postal Service to profitability. That plan envisioned measures the Postal Service could take on its own initiative, and others that require Congressional/Presidential action.

As Postmaster General Donahoe will describe, we have taken remarkable steps to cut costs – by trimming facilities, by reducing layers of management, and by economizing in other dimensions. We've also taken steps to strengthen our revenue base – by improving services and by acquiring more clients.

But other initiatives require Congressional (and Presidential) action, Mr. Chairman, and I hope this hearing will elucidate some of them. In particular, with respect to workforce compensation I am aware that some Members of the Committee have expressed disappointment with the agreement the Postal Service recently concluded with the American Postal Workers Union.

Let me say that I, too, am disappointed that we did not accomplish more in the negotiations. As everyone involved will confirm, the Postal Service bargained long and hard to achieve more. The reason we did not get more, and the reason we agreed in the end to the contract now out for ratification by the rank and file is that the current law governing our labor negotiations is biased against management and in favor of labor.

As you know, in the event of an impasse in any negotiation, the matter goes to arbitration. The history of arbitration in our case is one where labor wins and management loses. The unions know that, and we know that. Consequently, we did the best we could. If you agree that we need a stronger hand in negotiations, you can help make that happen, and I hope you will look favorably on such a prospect.

Mr. Chairman, with your permission, I ask that a paper I delivered to an academic audience last November be included in the record as an extension of my direct statement. It was given at the Southern Economic Convention in Atlanta, at a session in memory of Professor Roger Sherman, who followed postal issues with interest and care over many years.

Mr. Chairman, that concludes my statement. I shall be happy to address any questions you and other Members of the Committee might have.

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Chairman ISSA. Mr. Donahoe.

STATEMENT OF PATRICK R. DONAHOE

Mr. DONAHOE. Good morning, Mr. Chairman and members of the committee. It is an honor to be here to today to testify about the tentative agreement between the Postal Service and the APWU. I appreciate the invitation to testify about such an important development for the Postal Service.

For the past several years, the Postal Service has been responding to an unprecedented 20 percent decline in mail volume. We have been extremely aggressive in managing costs throughout this period. Since 2008, we have reduced 110,000 employees and \$11 billion in costs. We recently announced the reduction of an additional 7,500 managerial positions, a 35 percent reduction in that group since 2008. Our full-time career complement today is 572,000 employees. We will continue to reduce the number of full-time career employees, thereby reducing our legacy costs. By 2020, the Postal Service work force will be less than 400,000 people. Through process improvement and personnel reductions, we have taken the necessary steps to bring costs in line with declining revenue, and we will continue to do so.

More than 8 months ago, the negotiating team began bargaining to shape the labor contract for 202,000 career employees. The parties negotiated long and hard and dealt responsibly with tough issues. We sought, and we were able to achieve, greater work force flexibility, immediate financial benefit and long-term structural changes.

One of the most important aspects of the tentative agreement is that it provides significant work force flexibility. We will be able to schedule our employees in ways that makes sense for a variable work flow business and will be able to increase the use of non-career employees.

I would like to impress upon this committee that neither side was willing to take the easy way out or simply roll the dice and leave our respective fates to a third-party arbitrator. We need the flexibility to properly schedule our work force, and we achieved that. Interest arbitration is not going to result in flexibility gains of this magnitude.

This tentative agreement also provides for immediate financial benefit by freezing wages for the first 2 years, and leads to a wage savings of \$1.8 billion over the term of the agreement.

We negotiated structural changes that result in a two-tier pay schedule for new employees that is 10.2 percent below existing schedules. We also will be able to increase the use of noncareer employees from the 5.9 percent today with restrictions to a totally unrestricted roughly 20 percent. These changes provide a benefit of \$1.9 billion. I look forward to negotiating with our other three unions to gain similar results.

While it is the nature of negotiations that neither side got everything that they want, I will tell you it is the best possible outcome that we could have achieved given the legal framework of which we operate. This is a responsible agreement.

America needs a healthy Postal Service and a healthy mailing industry, and although we have seen declines in the use of mail, the

mail and physical delivery are extremely important and always will be.

Mr. Chairman, while this morning we are discussing our tentative agreement with the APWU, it is important to recognize that our labor agreements are but one element in a larger strategy to return the Postal Service to profitability. Let me assure you I am doing everything possible to take costs out of this system as quickly as possible, and I will continue to do so.

Our business model is inflexible; we need reform in the laws that govern us. We must get beyond the mandates that require us to prefund retiree health benefits, to overfund our Federal Employee Retirement System, and to deliver mail 6 days a week. Congress plays an important role in our future. The Postal Service is reducing costs, and we want to work with Congress to gain the business model flexibility that we need to best serve our customers.

Let me close by stating the Postal Service has achieved record service and productivity levels over the past few years, while absorbing significant volume loss. The credit belongs to our employees. I will never forget for one moment that we are able to deliver for America, and that is due to the commitment and relentless dedication of our employees.

We are in the process of changing many things about the Postal Service to better serve the American public. This contract and your commitment to continued engagement in postal issues will help us meet their changing needs.

I will be more than happy to answer any of your questions. Thank you very much.

Chairman ISSA. Thank you.

[The prepared statement of Mr. Donahoe follows:]



STATEMENT OF
POSTMASTER GENERAL/CEO PATRICK R. DONAHOE
BEFORE THE
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
UNITED STATES HOUSE OF REPRESENTATIVES
APRIL 5, 2011

Good morning, Mr. Chairman and members of the Committee.

It is an honor to appear here today to testify about the tentative agreement the Postal Service has negotiated with the American Postal Workers Union (APWU). I appreciate the invitation to testify about such an important development for the Postal Service.

For the past several years, the Postal Service has been responding to an unprecedented 20 percent decline in mail volume. We have been extremely aggressive in managing costs throughout this time period.

Since 2008, we have reduced 110,000 employees, and \$11 billion in costs. We recently announced the reduction of an additional 7,500 managerial positions.

Our total full-time career complement today is 572,000 employees. We will continue to reduce the number of full-time career employees, thereby reducing our legacy costs. By 2020, the Postal Service workforce will be less than 400,000.

Through process improvements and personnel reductions, we have taken the necessary steps to bring costs in line with declining revenue. And, we will continue to do so.

More than eight months ago, the negotiating teams began bargaining to shape the labor contract for 202,000 career employees. The parties negotiated long and hard, and dealt responsibly with tough issues. We sought and were able to achieve greater workforce flexibility, immediate cost relief, and long-term structural changes.

One of the most important aspects of this tentative agreement is that it provides significant workforce flexibility. We will be able to schedule our employees in ways that make sense for a variable work flow business, and we will be able to increase the use of non-career employees.

I would like to impress upon this committee that neither side was willing to take the easy way out – to simply roll the dice – and leave our respective fates to a third-party arbitrator. We need the flexibility to properly schedule our workforce – and we have achieved that. Interest arbitration is not going to result in flexibility gains of this magnitude.

This tentative agreement also provides immediate cost relief by freezing wages for the first two years, and leads to wage savings of \$1.8 billion over the term of the agreement. We negotiated structural changes that resulted in a two-tier career pay schedule for new employees that is 10.2 percent below the existing schedule.

We will also be able to increase the use of non-career employees from the 5.9 percent today with restrictions, to roughly 20 percent totally unrestricted. These changes provide a \$1.9 billion benefit.

I look forward to negotiating with our other three unions to gain similar results.

While it is the nature of negotiations that neither side got everything that they wanted, I will tell you this is the best possible outcome we could have achieved given the legal framework in which we operate. This is a responsible agreement.

America needs a healthy Postal Service and a healthy mailing industry. Although we have seen declines in the use of mail, the mail and physical delivery are still extremely important to this country and always will be.

Mr. Chairman, while this morning we are discussing our tentative agreement with the APWU, it is important to recognize that our labor agreements are but one element of a larger strategy to return the Postal Service to profitability.

Let me assure you that I am doing everything possible to take costs out of the system as quickly as possible. And, I will continue to do so.

Our business model is inflexible. We need reform in the laws that govern us.

We must get beyond the mandates that require us to prefund retiree health benefits, overfund the Federal Employees' Retirement System (FERS), and deliver mail six days a week.

Congress plays an important role in our future. The Postal Service is producing cost reductions. We want to work with Congress to gain the business model flexibility that we need to best serve our customers.

Let me close by stating that the Postal Service has achieved record service and productivity levels over the past few years – while absorbing significant volume loss.

The credit belongs to our employees. I never forget for one moment that our ability to deliver for America is due to their commitment and relentless dedication.

We are in the process of changing many things about the Postal Service to better serve the American public. This contract and your continued engagement in postal issues will help us meet their changing needs.

I would be more than pleased to answer your questions. Thank you.

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Chairman ISSA. And the Chair would note that you have added one very good member of your team sitting behind you that we all recognize as the leader on this issue Mr. Stroman.

Mr. DONAHOE. Yes, and we are pleased to have him. Thank you.

Chairman ISSA. Ron, next time you get up and testify, we'll get you sworn in.

Mr. Guffey is recognized for 5 minutes.

STATEMENT OF CLIFF GUFFEY

Mr. GUFFEY. Mr. Chairman and members of the committee, I am Cliff Guffey, president of the American Postal Workers Union. Postal workers are very proud of the fact that we provide an essential service to the American people.

We have faced many challenges over the past decade as a result of the severe economic recession and a decline of first-class mail. From 2008 to 2010, the postal work force was cut by approximately 110,000 jobs. Thousands of workers represented by the APWU were reassigned to jobs far from their homes and families. This resulted in severe hardships for these workers and their families. Despite all this disruption and all this hardship, postal workers' productivity has increased, and on-time service to the American public has remained at excellent levels.

APWU approached the labor negotiations that prompted these hearings with one primary test in mind: What will be right for the employees we represent, the Postal Service and American people it serves. It is a testament to the value of collective bargaining that the APWU and the Postal Service have reached a tentative agreement that meets this test. It gives the Postal Service an opportunity to return to postal employees work that has been contracted out, to save money doing it. Under this agreement APWU would compete aggressively to return work to bargaining unit employees, work that is being performed at a greater cost by contractors and in some instances by higher-paid, nonbargaining unit employees.

The tentative agreement also protects the livelihoods of the people APWU represents, people who have dedicated their working lives to provide postal services to the public. Postal employment has been and continues to be an important source of middle-class employment opportunities. The Postal Service employs more than 129,000 veterans in its career work force. In 2010, these veterans were 22 percent of the postal career work force; 49,000 of these veterans are disabled veterans, and 13,000 of them, including me, are rated as 30 percent or more disabled.

In 2010, women were approximately 40 percent of our work force, and minorities were approximately 40 percent of the work force. I am proud of the fact that this tentative agreement protects the livelihoods of these and all career postal workers.

In review of these negotiations, the postal history will show that since the passage of the Postal Reorganization Act of 1970, postal wages have closely tracked inflation. Meanwhile, Postal Service productivity, including labor productivity, has consistently increased. As a result, postal ratepayers have benefited from excellent service at low postage rates. Since 1970, postage rates have not gone up any faster than the prices in the economy generally.

If this committee wants to help the trillion-dollar-per-year mailing industry, it should relieve the Postal Service of the burden of prefunding retiree health benefits and correct the overfunding of CRSR and FERS. But for the unique and unreasonable and unnecessary requirement to prefund the retiree health benefits, the Postal Service would have had a substantial financial surplus over the past 4 years instead of a substantial deficit.

No one could expect postal employees or postal ratepayers to shoulder the costs of paying billions of dollars into a Federal trust fund unnecessarily. That is a problem that requires a legislative solution.

I would like to add the Congress is again holding hearings on the symptoms of the problem; holding hearings on Social Security, which is a symptom of the problem. Holding hearings on unemployed veterans is a symptom of the problem. The problem in this country is the economy. The economy. The economy that sets up trillions and trillions of dollars to be shipped overseas, while in America, on our side of the ledger, we have more unemployment, underemployment, lower wages and people losing their homes to mortgages. We have problems—our national deficit, trillions of dollars for people overseas and trillions of dollars of deficit here. You correct the problems in the economy, and the Postal Service will take care of itself.

Thank you.

Chairman ISSA. I thank the gentleman.

[The prepared statement of Mr. Guffey follows:]

Before The

THE HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

**TESTIMONY OF CLIFF GUFFEY, PRESIDENT
AMERICAN POSTAL WORKERS UNION, AFL-CIO**

(April 5, 2011)

Mr. Chairman and members of the Committee; I am Cliff Guffey, President of the American Postal Workers Union, AFL-CIO – the APWU. On behalf of the APWU, thank you for providing me this opportunity to testify on behalf of our more than 250,000 members.

Before I address the substance of today's hearing, I want to take a moment to introduce myself to the Committee. 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 3rd 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.

There is no doubt that the Veterans' Preference Act has provided important assistance to veterans. The point preferences given to veterans and disabled veterans, and the restrictions that reserve certain jobs for qualified veterans, if any have applied for them, are important and effective means of ensuring that veterans are provided employment opportunities in the Federal Government, including the Postal Service.

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.¹ As postal workers, we have been able to fulfill the American dream of holding a job that pays a living wage and that provides health insurance for our families and a dignified retirement when we can no longer work.

Postal workers are very proud of the fact that the Postal Service provides an essential service to the American people. We have faced many challenges over the past decade as a severe economic recession and the decline of First Class mail volume

¹ BLS Household Data Annual Averages; 18. Employed persons by detailed industry, sex, race and Hispanic or Latino ethnicity. <http://www.bls.gov./cps/cpsaat18.pdf>

due to electronic transmission have resulted in the loss of many postal jobs. From 2006 to 2010, the postal workforce was cut by more than 110,000. During that same period, thousands of workers represented by the APWU were reassigned to jobs hundreds of miles from their homes. They were forced to sell their homes, uproot their families, and move to communities far from the neighborhoods they called home. This resulted in severe hardships for these workers and their families. But, despite all this disruption and all this hardship, postal worker productivity has increased and on-time service to the American public has remained at excellent levels. We are very proud of these accomplishments.

Now I want to address the questions posed by the Chairman's letter inviting me to provide this testimony. First, the letter raises the question of "the sustainability and affordability of the postal workforce ... in a resource constrained environment."

This inquiry raises the further question: "constrained by what?" As I will explain in a few minutes, the Postal Service is very capable of dealing with the challenges it is facing because of declining mail volumes and a shift to electronic transmissions. What it cannot sustain is the burden of the unique and unreasonable requirement that it pre-fund its retiree health benefits over a ten-year period. No other federal agency is required to pre-fund retiree health benefits; and no known business in the private sector has ever attempted either to pre-fund such a high percentage of retiree health benefits or to achieve such pre-funding over such a short period of time.

Exhibit A to this testimony is a chart that shows the Postal Service's net income for fiscal years 2007 through 2010. As this chart shows, during this period that included

the most severe recession since the Great Depression, the Postal Service had an a net income excluding retiree health benefits pre-funding payments of more than six hundred million dollars (\$600 million). During that four-year period, the statutorily-required payments to pre-fund retiree health benefits totaled nearly twenty-one billion dollars (\$21 billion). In FY 2010, the payment for retiree health benefits consumed 8.2 percent of postal revenue. With the additional payment of \$2.247 billion to fund retiree health benefits for current employees, this meant that the Postal Service was required to pay 11.5 percent of its revenue for retiree health benefits. These payments deprived the Service of capital needed to improve and maintain its distribution networks, and to develop and launch new products; and they resulted in twelve billion dollars (\$12 billion) in debt.

I do not propose to address how the Postal Service and the postal workforce could be sustained in the face of the unique and unreasonable burden placed on it by the retiree health benefits pre-funding requirement. No business could or should be required to sustain this sort of burden. None do. There is a broad consensus in the postal community, among postal executives, major mailers, associations of smaller mailers, management associations, postmasters associations, and postal labor organizations, that relief from the pre-funding requirement is necessary for the long-term viability of the Postal Service.

Almost equally critical is the need to provide the Postal Service access to the substantial amounts it has overpaid into CSRA and FERS retirement accounts. The Postal Service's overpayments into the CSRA Trust Fund are variously estimated to

total \$55 billion (PRC estimate)² to \$75 billion (USPS OIG estimate).³ Either amount, if released for use by the Postal Service would permit the Postal Service to meet its retiree health benefits funding obligations without burdensome and disruptive increases in rates.⁴

In addition, any consideration of the future of the Postal Service should address the unduly restrictive limitation of the Postal Service to the performance of “postal services.” There are many non-postal services that could, and should, be performed by the Postal Service using its existing facilities. The processing of forms for veterans through an arrangement with the Veterans Administration, for example, would produce revenue to help defray the cost of postal facilities while providing a significant improvement in the availability of services to veterans. The law should be liberalized to permit the performance of such functions at postal facilities utilize the processing, transportation, delivery, or retail network of the Postal Service in a manner that is consistent with the public interest.

There remains a significant question that warrants discussion about how the Postal Service and its workforce must adjust to remain sustainable given that First Class mail has been declining due to the electronic transmission of messages. I will address that question; but first I want, in passing, to qualify everything I say about this question by pointing out that the economic environment is changing. Because our

² Report to the Postal Regulatory Commission on Civil Service Retirement System Cost and Benefit Allocation Principles
June 29, 2010

³ OIG Report No. FT-MA-002 (September 30, 2010).

⁴ Relief from FERS overfunding would provide approximately \$5.5 billion of additional relief. See USPS OIG Report No. FT-MA-10-002 (Sept. 30, 2010).

economy, and in particular our banking and real estate industries, have not recovered from the effects of the recent recession, it is too soon to be sure how deep the reduction in First Class mail volume will be over the near term. Nor is it possible to predict with certainty how robust advertising mail volume will be as the economy continues its recovery. Having said this, we nevertheless recognize, as postal management has, that it is necessary to take steps to constrain costs.

Before I address the question of next steps, however, with all due respect, I need to correct some factual errors in the Chairman's letter of invitation. The letter makes reference to a failure to constrain unit labor costs in recent years. The Postal Service has had a remarkable record of achievement in constraining costs since it was created in 1970, and that achievement has continued to the present.

Exhibit B to this testimony is a line graph that shows the rate of Total Factor Productivity and Labor Productivity growth since 1971. As you will see from this graph, with the exception of 2008 when the Postal Service was dealing with an unexpectedly sharp drop in volume caused by the recession, the rate of productivity increase has been increasing in recent years as the Postal Service has aggressively cut costs by closing or consolidating facilities and by reducing its workforce. It is clear that Labor Productivity increases have been a significant contributor to Total Factor Productivity increases. As I mentioned, the Postal Service has cut its workforce by approximately one hundred ten thousand (110,000) workyears in the past five years. Those cuts, most of which have been in APWU bargaining units, are reflected in the fact that the Postal Service has succeeded in constraining costs in recent years.

The Chairman's letter also states that "workforce compensation expenses continue to comprise 80 percent of all USPS costs." That point conceals more than it reveals about postal finances, for several reasons. First, it should be understood that the Postal Service is necessarily a labor-intensive industry because it is a service industry. Some postal commentators have sought to compare the Postal Service to Federal Express and UPS with regard to the percentage of costs that come from workforce-related costs. In case anyone has that comparison in mind, I want to point out that it is not a valid comparison for at least two reasons. One is that those postal competitors own their own fleets of airplanes, which makes them more capital-intensive than the Postal Service.

In addition, FedEx and UPS do not deliver to every address every day as the Postal Service does. While they do some sortation of packages and expedited messages, they do not have to provide sortation of the many billions of First Class and standard mail letters the Postal Service sorts.

A unique and extremely valuable feature of the Postal Service is that it provides universal service to the American public. Every year, the Postal Service must absorb the cost of adding as many as two million new delivery points. In contrast, FedEx and UPS deliver only to a small fraction of those points and then only to those for which they are paid a sizeable premium over the cost of First Class mail. They cater to the most profitable segment of the industry. In many instances every day, FedEx and UPS use Postal Service delivery services to make deliveries to points it is not economical for FedEx and UPS to reach. Thus, the cost structure of the Postal Service is not

comparable to the cost structures of FedEx and UPS.

In recent years, the Postal Service has, through automation and facility consolidation, significantly constrained the portion of its workforce costs, largely mail processing costs, that are amenable to reduction. As Exhibit C to this testimony shows, APWU bargaining units (clerks, maintenance and motor vehicle workers) accounted for 39.8 percent of Postal Service compensation in 2000. Ten years later, by last year, APWU bargaining units comprised 31.8 percent of Postal Service compensation costs, an eight percentage point reduction.

The reduction of costs attributable to the APWU bargaining units is also shown in Exhibit D to this testimony. As you will see, the total annual postal compensation costs have been reduced by more than four billion dollars (\$4 billion) from 2006 through 2010. Approximately three and one-half billion dollars (\$3.5 billion) of that reduction has come from APWU bargaining units. As you will see from Exhibit E to this testimony, workhours dedicated to mail processing operations, where many APWU-represented clerks are employed, were reduced by more than 33 percent from 2005 to 2010. Significant reductions also occurred in customer service workhours as retail facilities were closed or consolidated and services to the public were cut back. Delivery workhours were much less amenable to reduction, as Exhibit E shows, because of the mission of the Postal Service to provide universal postal services to the American people.

These data show that the Postal Service has been very successful in constraining growth in unit labor costs in recent years.

It also bears emphasis that real postal wages have closely tracked wages in the rest of the economy and the Consumer Price Index (CPI) for the entire history of the Postal Service. Exhibit F shows that the average straight-time wage for the APWU bargaining unit has increased less than wages and salaries of private sector workers as measured by the Employment Cost Index (ECI) since that measure of employment costs was first published in 1975. Exhibit G to this testimony graphs increases in nominal and real wages of postal workers from the effective date of the last legislated wage increase in 1970 through 2010. As you will see, real wages have increased slightly over that period of time. However, as Exhibit B shows, Postal Service Total Factor Productivity and Labor Productivity have grown far more over the same period of time. Thus, postal workers have shared the benefit of increased postal productivity in the form of slight increases in real wages since 1970. And the American public also has benefitted from the fact that postal wages have been constrained as postal productivity has increased. As Exhibit H shows, postage rates today are, in real terms, no higher than they were in 1972.

These data belie any contention that there is a postal wage premium. That sort of argument is the stuff of collective bargaining rhetoric management can be expected to use, but it does not reflect reality. The reality is that in a labor-intensive service industry both wages and postage rates have closely tracked cost-of-living increases in the economy generally for the entire 40-year history of the Postal Service.

This is not to say that the APWU and the Postal Service did not have some work to do in collective bargaining as we addressed the reality of slumping First Class mail

volume. Through the collective bargaining process, postal workers were able to have a voice in decisions that will have an important effect on their lives and livelihood. We also wanted to find ways to maintain postal facilities and postal services in areas, such as rural areas, that rely on postal services and that are in danger of losing service. As President of the American Postal Workers Union, I approached the negotiations with one primary question in mind: what is the right thing to do? What will be right for the Postal Service and for the American people it serves - and also right for the employees who depend on the Postal Service for their livelihood?

A congressional hearing provides neither the time nor the place for a detailed analysis of a complex collective bargaining agreement like the agreement between the Postal Service and the APWU. We negotiated for five months beyond the expiration date of the previous agreement. It is many-faceted agreement. It also must be ratified by the APWU membership, voting in a referendum, before it can take effect.

The agreement helps the Postal Service meet its immediate need to constrain costs by freezing wages for the first two years of the agreement. This means that most postal workers will not receive any wage increase for a period of three years, from November 2009 until November 2012. It also follows the pattern set in earlier postal collective bargaining agreements of reducing the percentage contribution of the Employer toward health insurance by one percentage point for each year of the contract. The agreement also will give the Postal Service the right to employ a substantially larger percentage of temporary workers who will be paid relatively low wages.

These and other features of the tentative agreement will give the Postal Service a more flexible and lower-cost workforce that will make it possible for it to address the problem of declining First Class mail volume. But legislation is needed to provide the Postal Service relief from the unique and unreasonable burden of having to fully pre-fund retiree health benefits over a compressed period of time. We urge Congress to address that urgent need in the interest of preserving universal postal service.

In closing, I want to thank the committee for providing the APWU this opportunity to testify. We hope that our testimony will place the Committee's inquiry in a useful perspective.

I am available to respond to any questions the Committee may have.

EXHIBIT A
 TESTIMONY OF CLIFF GUFFEY
 ON BEHALF OF AMERICAN POSTAL WORKERS UNION, AFL-CIO

	2007	2008	2009	2010	Cumulative
Revenue	74.973	74.968	68.116	67.077	285.134
Net Income	(5.142)	(2.806)	(3.794)	(8.505)	(20.247)
Payments to Retiree Health Fund					
8.358	5.600	1.400	5.500	20.858	
Percent of Revenue	11.15%	7.47%	2.06%	8.20%	7.32%
Net Income excluding Retiree Health Fund Payments					
3.216	2.794	(2.394)	(3.005)	0.611	

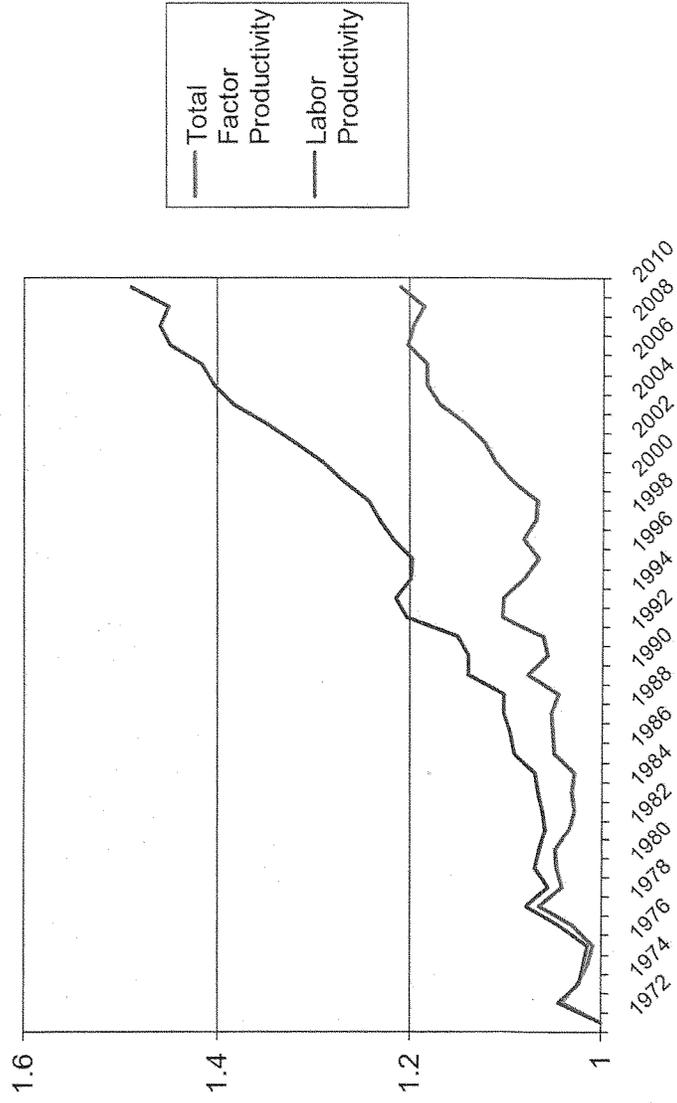
Source: USPS 2010 10-K Report

Future PSRHF Commitments as reported in the 2010 10-K (does not include President's budget proposal):

2011 5.5 billion
 2012 5.6 billion
 2013 5.6 billion
 2014 5.7 billion
 2015 5.7 billion

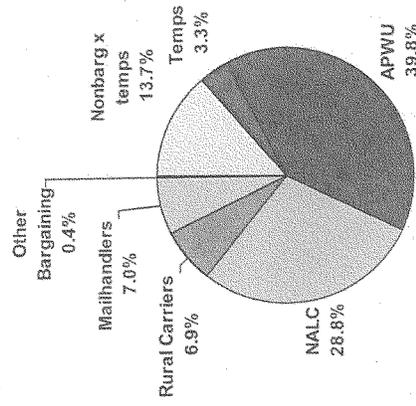
After 2015 5.8 billion

Exhibit B: Postal Service Productivity Growth—Total Factor and Labor Productivity
1972-2010 (1972=1.0)



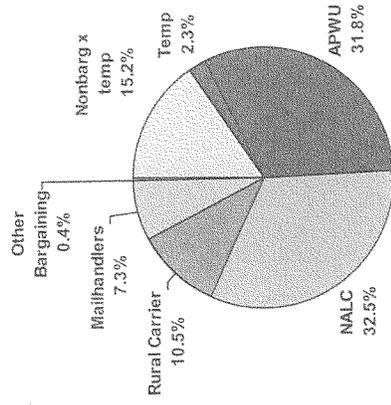
Source: USPS-Total Factor Productivity Tables

Exhibit C: Share of Total Compensation Attributable to Each Employee Group



2000

Source: USPS-National Payroll Hours Summary



2010

**Exhibit D: Change in Compensation Bill from 2006 to 2010 for USPS
and by Major Employee Category
APWU is 78.5 Percent of the Total Improvement
(in Billions of \$)**

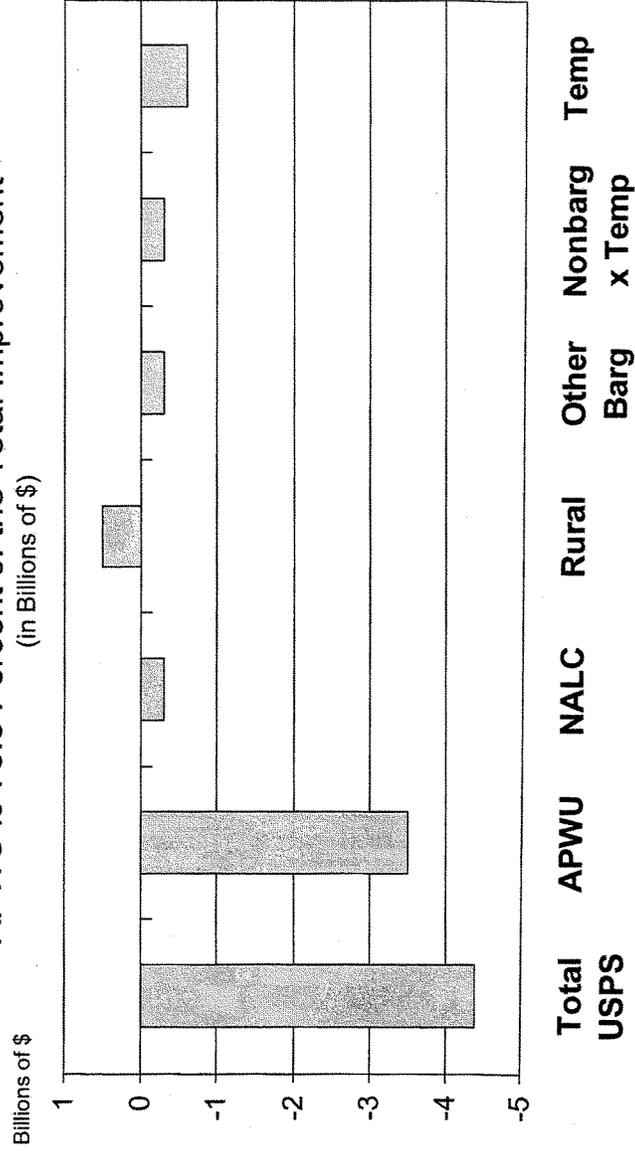
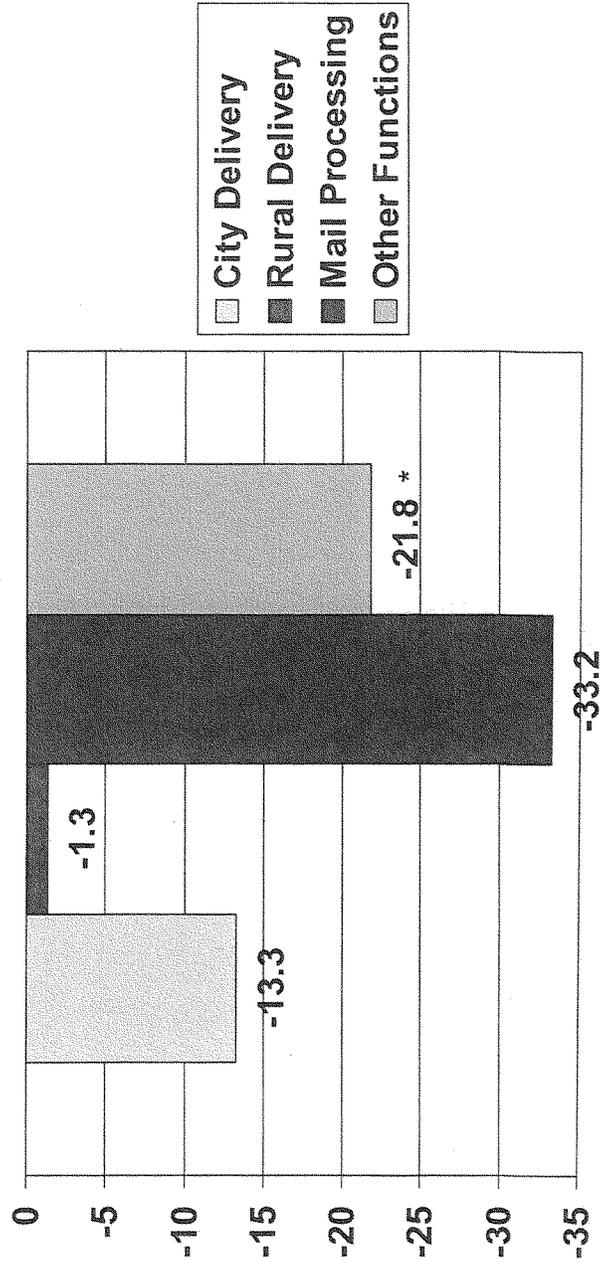


Exhibit E: Percent Decline in Workhours 2005-2010 by Function

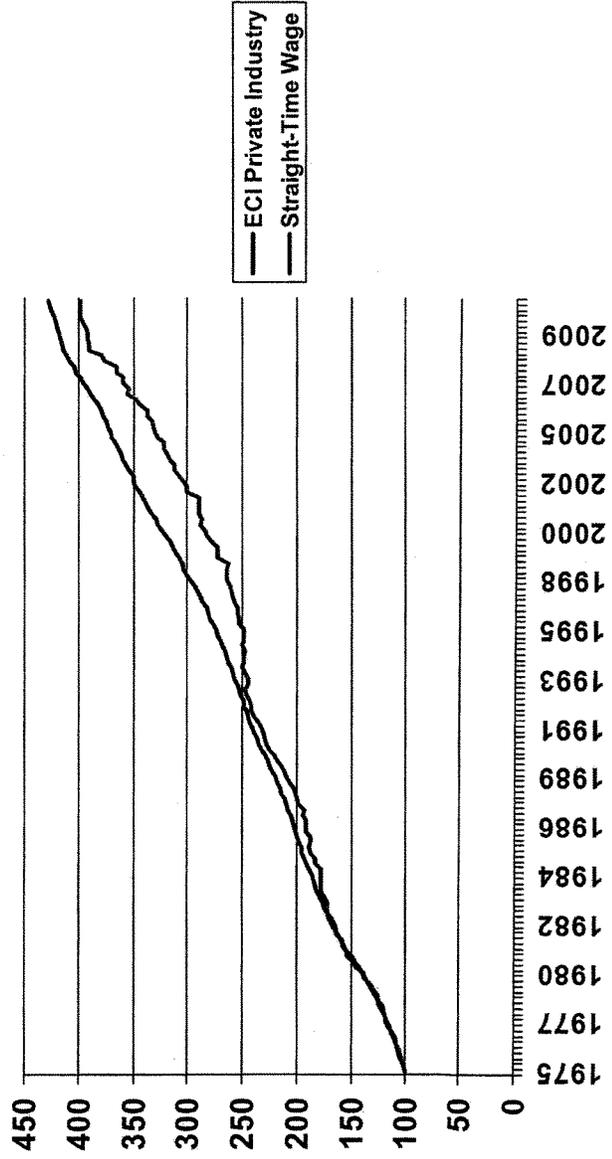


2005-2010 % Change

* Much of the decline in this group comes from Customer Service where workhours declined 21.2% from '08-'10

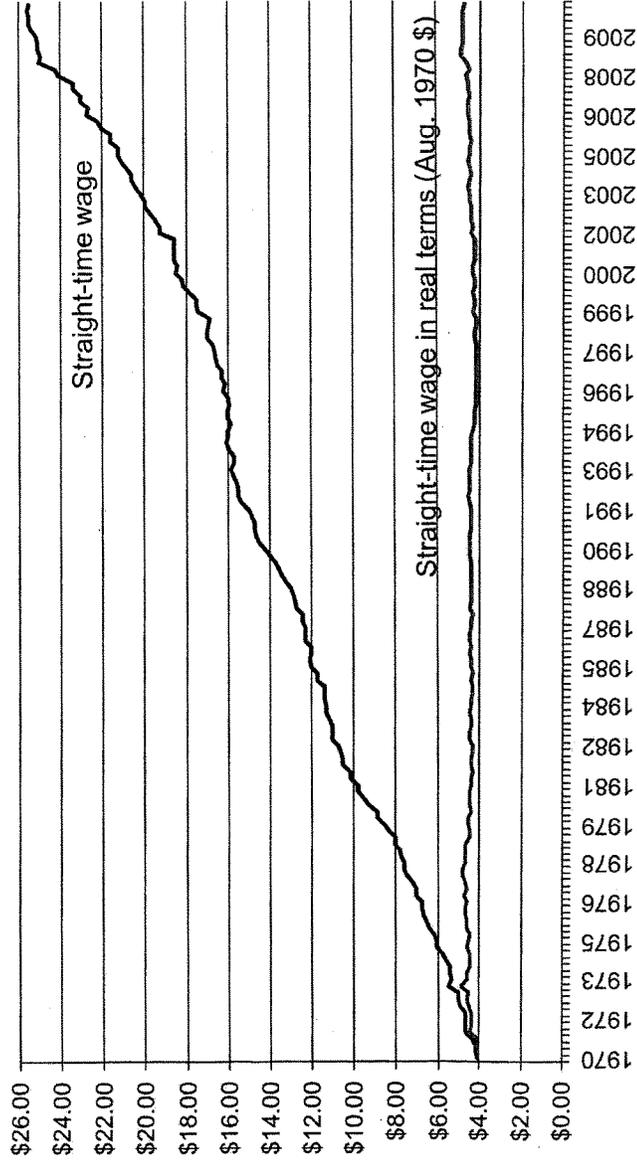
Source: Annual Reports of the Postal Service

Exhibit F: Increase in the Wages and Salaries of Private Industry Workers Compared to the Increase in the Average Straight-Time Wage for the APWU Bargaining Unit
(Sept 1975=100)



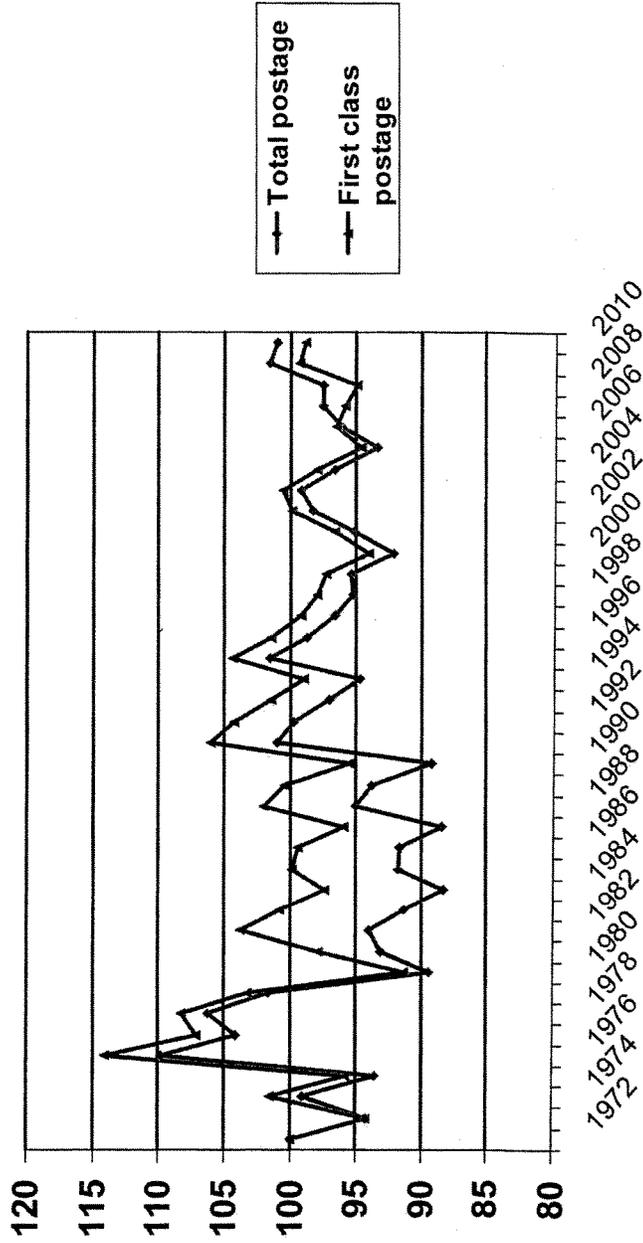
Source: Bureau of Labor Statistics, DOL and USPS-National Payroll Hours Summary

Exhibit G: Straight-time Hourly Wage of the APWU Bargaining Unit in Current Dollars and After Adjustment for Inflation



Source: Straight-time wage is calculated from USPS National Payroll Summary Hours Converted to real terms using the CPI-W from the Bureau of Labor Statistics

Exhibit H: In Real Terms (Adjusted for Inflation) Postage Costs are at 1972 Levels
(1972=100)



Source: Bureau of Labor Statistics-Producer Price Indexes for USPS and CPI-W

Chairman ISSA. I now recognize myself for 5 minutes for a round of questioning.

Mr. Giuliano, you said several times things along the line in your opening statement of no company would have to bear this. Isn't it true that a company would have to, under law, fully fund its liabilities in real cash transfers for a defined benefits program? Isn't the pension law one in which you must pay in advance every day for what you eventually will pay out for—in retirement and in health care, if that's part of your benefits plan?

Mr. GIULIANO. The big different in this case, Congressman, is that we—no company that I'm aware of would be required to pay for future retiree health care.

Chairman ISSA. OK. Well, maybe we will go to Governor Miller. Isn't it true that every company that has a defined benefit plan does have to pay for future retirees? Not future employees, which you said, which we'll look into. But General Motors I can recall taking a, I think it was, \$5½ billion hit one time by a change in the accounting rules that caused them to have to recognize more into the defined benefits plan, and ultimately by the time they went into bankruptcy, that was their greatest cost differential between themselves and the Japanese was having to pay into the defined benefit plans. Would you like to comment on that?

Mr. MILLER. Yes, Mr. Chairman, to my knowledge your characterization is accurate.

Chairman ISSA. So maybe the question here today for this committee, which also oversees FERS and so on, is shouldn't every government entity have to fully recognize at least on paper the legacy costs they are creating today with employees who will retire in the future? Is there anyone that disagrees with at least accounting for that? I understand your concern is paying for it, but does anyone disagree with the accounting of knowing what the future costs were going to be? Let me ask—

Mr. MILLER. Mr. Chairman, I think you make an important point. We are a commercial enterprise, so we have a bottom line. Most government agencies are not, so it would be an accounting entry. But to have Congress and everyone else recognize that government agencies, other government agencies, have these liabilities would be a good idea.

Chairman ISSA. And I think that's something this committee needs to look at broadly is the truth in accounting of what our legacy costs would be.

Mr. Donahoe.

Mr. DONAHOE. If I could comment, too, Mr. Chairman. I think there are a couple of things we have to look at here. No. 1, when you look at the entire retirement liability that the Postal Service has, we feel that we are overfunded into the Civil Service Retirement Fund. I know Mr. Lynch has a bill coming up to ask the GAO and the White House to go back and look at those accounts. Somewhere between \$50 and \$75 billion, from our estimates—

Chairman ISSA. Mr. Donahoe, the question for you, since the administration, I understand, has already rejected the argument, you're asking them to go back and relook at something they've already rejected?

Mr. DONAHOE. Yes, sir. Yes, sir.

Chairman ISSA. OK. I think it was Einstein that said that if you keep doing the same thing over and over again expecting a different result, that's the definition of insanity.

Let me take my limited time and go on with just a couple more things.

Mr. GIULIANO. Mr. Chairman—

Chairman ISSA. No, no, please. There will be plenty of time for followups.

Mr. Donahoe, you said, and Mr. Miller said, and I think Mr. Giuliano said that this was the best you could do under existing law. Isn't it true that in binding arbitration, two provisions could not have happened: the provision for insourcing janitorial services that Mr. Guffey referred to as outsourced at a greater cost—and I object to it being a greater cost. If it is, then we need to address that. But that could never have been achieved except through this agreement, the insourcing. That was not, in fact, a part of the collective bargaining. It became part because it was put on the table.

Also in the case of a change from a statutory approved category of people that were not eligible to be under collective bargaining to this new category, who most assuredly will become eligible under collective bargaining. As I understand it, the provision that you negotiated creates an absolute requirement: If you don't join the union, you lose out on \$3,000 of free benefits. So isn't it effectively that this new category of workers that was estimated be 35,000 at the end of 1 year immediately costs us at least 3,000 more before you do a pay raise, so that by year 3 our estimation is this group will cost you more, not less? Mr. Donahoe, do you want to comment on that?

Mr. DONAHOE. Yes. A couple things. First of all, we set out in this agreement to achieve three basic—

Chairman ISSA. I appreciate all of that, and you'll get plenty of time on that. But, one, isn't it true those two times could not have been done by mandatory arbitration; they couldn't have ordered those two changes?

Mr. DONAHOE. In mandatory arbitration it is roll the dice. We maintain—

Chairman ISSA. OK. Mr. Miller, would you disagree with that? In arbitration could those have been on the table? They weren't part of the collective bargaining agreement. Could they have become part, essentially mandating new union employees and a new category?

Mr. MILLER. Mr. Chairman, I'm not an attorney, but my understanding is that if a provision is part of the package that the union was advancing, the arbitrator could take these items and include it in the final determination.

Chairman ISSA. Historically arbitration is about the pay and benefit of those covered, not those not covered. So the likelihood, at least from the advice I'm getting, is that there were two things which increased the number of Mr. Guffey's union workers, and that is that you're substantially insourcing 4,000 people who previously were just contract employees to clean and do other janitorial work, and this category that now will most assuredly be added to the union and undoubtedly be in the next bargaining contract asking to be treated fairly and equally with their brothers.

Mr. Donahoe, if you could answer briefly?

Mr. DONAHOE. First off, it's important to note that we maintained all outsourcing provisions in the contract going forward. What we looked at in the case of the custodial employees was the financial benefit to bring the work back into the Postal Service with newly negotiated, substantially lower wage rates. We did that with everything we looked at from an insourcing standpoint. We compared costs, like we do with everything. We always keep our eye on the bottom line.

Chairman ISSA. My time has expired. I want to be thoughtful of that.

Mr. Cummings.

Mr. CUMMINGS. Thank you very much.

You know, it is very interesting that when you look at the fact that since 2008 there have been a reduction of 100,000 employees, that's a lot of people, that's a lot of families.

And as I listen to what has been going on this morning, you know, sometimes you can begin to cut to the bone. At some point you begin to cut through the bone.

Last year, the Government Accountability Office released a detailed report on options and strategies that could potentially improve the Postal Service's future financial viability. A significant portion of this study focused on reducing the Postal Service's compensation and benefits cost. For example, the GAO study recommended creating a two-tiered system that would pay new hires lower wages, while grandfathering current employees under the existing pay system.

Mr. Donahoe, how does the tentative labor agreement reached between the Postal Service and APWU carry out that recommendation?

Mr. DONAHOE. Thank you, Mr. Cummings.

We have two things that we have been able to reach agreement with the APWU in terms of flexibility and structural change. The first is we have been able to negotiate a percentage of each of the crafts represented by the APWU. Twenty percent of the clerk craft, which is the largest portion of the APWU, will now be noncareer flexible employees. We have 10 percent in the motor vehicle and 10 percent maintenance. So that is one large structural change, as you have noted, with the GAO study.

The second thing we have been able to do is negotiate an entry wage rate of 10.2 percent less that never changes. It is a two-tier wage rate going on from now until a person retires from the Postal Service, again, giving us an opportunity for financial relief and flexibility going forward.

Mr. CUMMINGS. So you mean that new person coming in will make 10 percent going through?

Mr. DONAHOE. Forever.

Mr. CUMMINGS. Forever.

Mr. DONAHOE. Forever.

Mr. CUMMINGS. And what impact will that have on the postal system? I am just curious. With the last piece there.

Mr. DONAHOE. The last piece, what we were concerned about was long-term structural change. In the short term, in the next 3 or 4 years, we will continue to hire very few career employees. But

when you get out to 2016 through 2020 and out beyond that, as you hire career employees, you will be able to save that differential.

Mr. CUMMINGS. GAO also recommended greater use of noncareer or part-time employees going forward in order to reduce the Postal Service's compensation-related expenses. The Postal Service's 10-year strategic plan made similar recommendations. What steps has the postal system taken to accomplish this goal? And I remind you that this committee itself, this committee, 87 percent of our money goes to employees. You are at 80 percent. Are you trying to reduce that further?

Mr. DONAHOE. What we do, being the labor-intensive organization we are, we constantly look to shrink the pie. So you will always be higher from a percentage standpoint. The idea is you are trying to shrink the total cost. And we have accomplished that through a number of ways: the productivity improvements that people have noted, head count reductions, as well as this negotiation.

Going forward, from a flexibility perspective, I mentioned the percentages before that we have been able to work out with the APWU. The other big change is the fact that within our regular employment structure, we are working with the APWU to provide flexible assignments. Currently you have a number of people that will work 5 days a week, 8 hours a day on the same schedule. Our needs change daily. We have been able to work out an agreement with the APWU that provides flexibility, work hours anywhere between 30 to 48 a week, with changing hours daily. That meets our customers' needs.

Mr. CUMMINGS. President Guffey, if ratified, the tentative contract you negotiated will bring the new APWU rehires in at a much lower pay scale. What does this new pay system say about the Postal Service and the APWU's commitment to reducing compensation? Because we keep hearing people banging on public employees, and it seems to me that this is going a long way. People are literally making less money. I know there has been—there is a freeze, is that right, Mr. Donahoe, for 2 years?

Mr. DONAHOE. Yes, sir.

Mr. CUMMINGS. So I am just wondering. You are representing your union. I just want to know how—you know, what does that say about your union?

Mr. GUFFEY. First, I would like to correct one thing Mr. Issa said. He said that they would have to join the union to get this health insurance. Our health insurance plan that we are providing to the noncareer people is a nonprofit plan that is low-cost, and no one will have to join the APWU to get the benefit of that plan. In other words, the parties decided that was—I insisted that these new people would have to have insurance, and so we would provide it in the lowest cost. But we cannot require these employees to join the union to get that insurance.

Having—you know, as part of your followup answer, as a labor organization we have no desire to destroy the company that we work for. We entered into these negotiations knowing that the Postal Service was under dire financial straits by the prefunding requirements, and that we would have to work our way through it. And in doing so, we wanted to ensure the future.

Now, some of the other corrections are that—we discussed inflexibility. The old work rules that were five within eight, that may not allow the Postal Service to keep windows open, say, to 6, 7 o'clock, and, by doing so, turning away customers. So we allowed them to do this without overtime. A lot of other issues.

Mr. CUMMINGS. I see my time has expired. It is called shared sacrificed. Thank you.

Chairman ISSA. I thank the gentleman.

We now recognize the gentleman from Florida Mr. Mack for 5 minutes.

Mr. MACK. Thank you, Mr. Chairman. And I, for one, like the placement of your signs and hope that Members on the other side, if you don't like the signs, then maybe help us craft solutions to changing the signs.

Last month, Mr. Donahoe, when you were here testifying, you acknowledged labor costs as a large contributing factor to the Postal Service budget problems, and that your No. 1 priority was to address these costs; is that correct?

Mr. DONAHOE. Yes, sir.

Mr. MACK. So since your last visit, what steps have you taken to reduce the amount, 80 cents on every dollar, that the USPS spends on labor costs?

Mr. DONAHOE. As we have been talking here today, Congressman, one of the things that we have focused on going forward is our overall comprehensive plan which addresses labor costs, among many other things. We have worked through a very good agreement with the APWU to reduce labor costs in a 4½ year period at a minimum of \$3.8 billion. Since the last time—

Mr. MACK. Let me ask you a question, and I will let you continue on it. So this is the best deal that you could have struck under current law?

Mr. DONAHOE. Yes, sir.

Mr. MACK. But now you are saying that it is a good deal. So regardless of the current law, you think this is a good deal?

Mr. DONAHOE. This is the best deal that we could construct under the law. We think it allows the Postal Service to continue to reduce labor costs, while giving us the opportunity to increase flexibility. That was our goal going into these negotiations.

Mr. MACK. If the law was changed, would you consider a better deal?

Mr. DONAHOE. I will tell you, if you would change the law, I would love to see you address retiree health benefits, my FERS overpayments, and our delivery flexibility. That is where the big money is.

Mr. MACK. In your negotiations with the American Postal Workers Union, is it true that you extended your policy not to lay off workers with 6 years of experience, and also guarantee that there wouldn't be any layoffs for an additional 7,000 workers?

Mr. DONAHOE. Yes, we did. And I will tell you why we did that.

Mr. MACK. That was my next question.

Mr. DONAHOE. I will tell you why we did that. Our goal in this negotiation was work force flexibility, immediate cost reduction, and structural change. We know that you don't get that through an arbitrated decision. So we originally approached the APWU at the

very beginning and talked about the layoff clause. And I will leave Mr. Guffey to provide his end of the story, but we got the immediate feedback that was a nonstarter. So our feeling was we wanted to go ahead and get a negotiated contract that achieved our goals.

The other thing you have to keep in mind, when you throw things into arbitration, you lose time. It could have taken us a year and a half. And the money that we were able to negotiate out of these labor costs would have been delayed perhaps a year and a half, and we would have never got the same kind of a deal that we got through negotiation.

Mr. MACK. So I heard the panel, as all of you in your testimony, continue to say the best deal you could get under current law. Have you asked the committee for changes to current law so you can strike a better deal with the unions?

Mr. DONAHOE. There have been recommendations made in the past—

Mr. MACK. In writing to the committee?

Mr. DONAHOE. No, sir, we have not.

Mr. MACK. Well, if you are going to come here before the committee and say, we need changes to the law so we can strike a better deal, then maybe you ought to submit what those are to the committee in writing so we can have a discussion about what those changes are.

Mr. DONAHOE. We will submit those, along with the other recommendations to relieve the Postal Service of the mandates that are really causing this problem.

Mr. MACK. So if you are going to default September 30th, why is it taking so long to ask for changes to the law so you can strike a better deal?

Mr. DONAHOE. We have been asking for changes to the law for the past few years, Congressman, and will continue.

Mr. MACK. But never in writing to the committee.

Mr. DONAHOE. We will followup in writing to you.

Mr. MACK. Not to me. To the entire committee.

Mr. DONAHOE. To the chairman. Thank you.

Mr. MACK. Yes. That would be helpful.

So the last question is, I guess—so I just got a nice little article on my iPhone here talking about a post office that is going to be closed on Vanderbilt Beach Road in my district. So wouldn't it be better that negotiations with the union would take place in such a way that people wouldn't lose their jobs, but we were able to get some of the costs under control?

Mr. DONAHOE. I would like to answer that question. Here is what we are looking at from a Postal Service access and convenience standpoint, and that is what we are focusing on. There are many different ways that you could provide access to the American public. What we have to do as part of our financial responsibility as we have laid out in our comprehensive plan is to look at how much money we spend to provide that access. When you read about closing a post office, what we are proposing to do is take a good look at each community where we don't have enough revenue coming in and perhaps provide that service in another way.

Mr. MACK. I understand that. But for the unions themselves, it sounds like the heads of the union would rather see people lose their jobs than to renegotiate contracts.

Mr. DONAHOE. Part of the NCE, the lower-cost employee that we have talked about, would help us to maintain post office operations. What we are looking at is much smaller places where you don't even have any union employees, where you are looking at trading off, say, a postmaster for a contract at a local store where we can provide better access at a lower cost. Thank you.

Chairman ISSA. The gentleman's time has expired.

With that, we recognize the former chairman of the full committee Mr. Towns for 5 minutes.

Mr. TOWNS. Thank you very much, Mr. Chairman. And let me thank you for having this hearing.

And also, let me just sort of commend the Postal Service for the outstanding job that they have done under these adverse conditions. And let me tell you that they are definitely adverse. No doubt about it. And to think about the fact that you have already eliminated 100,000 positions since 2008, I mean, that within itself.

Let me begin by asking, I guess, you, Mr. Miller, in your written testimony, you mentioned that the Postal Service has taken steps to strengthen its revenue base by offering more services and acquiring more clients. You also mentioned providing services in response to customers and entering into partnerships with other service providers.

I am very interested in the concept of offering different services other than mail delivery as a means of creating a strong revenue source. Like every other large private entity, the Postal Service needs to adapt to the changing times in order to remain financially viable in the future. We know that the Postal Service already takes passport applications. I would like to see this expanded to other things. Could you give us some examples of additional services that can be provided that would result in a reliable income stream for the Postal Service?

Mr. MILLER. Mr. Chairman, thank you for raising that. When I wrote that, I had in mind the mailing services, the new mailing services that we have initiated. For example, the box that you see advertised on television a lot; it doesn't matter how much it weighs, if it fits, it ships. Things of this—click and ship. Things of this nature.

I think what you are talking about are products that are ancillary to our business. I think, my own personal view, as long as we have the monopoly on mail, I would be careful about going beyond that. And as an economic proposition, I would be careful about going too far.

For example, there have been people that suggest that we get in the banking business. I think that is—that would be disaster. But on the other hand, some things that you were hinting on, like the passports and thinking of this nature, I think there are other opportunities that we have that perhaps do not fit within the current legislative definition of permissible services that might be considered. And I would have to discuss that with my colleagues, but I think that there might be opportunity for us to consider that and get back to you in writing, Mr. Chairman.

[The prepared statement of Hon. Edolphus Towns follows:]

**Committee on Oversight and Government Reform
Hearing on April 5, 2011, at 9:45 a.m.
“Are Postal Workforce Costs Sustainable?”**

Statement of Mr. Towns

“Neither snow, nor rain, nor heat, nor gloom of night, stays these couriers from the swift completion of their appointed rounds.” These words are inscribed on the General Post Office facility in New York City but they have come to characterize the tireless efforts of Postal workers all over this land. We all have an ongoing expectation that no matter the weather condition, even when the population has been warned to stay indoors, that the mail will be delivered. The Postal Service has always delivered.

In FY 2010, the Postal Service delivered nearly 40 percent of the world’s mail through 672,000 workers and generated more than \$67 billion in revenue. Although impressive, this represents a revenue decline for the Postal Service. In the last decade or so, as our electronic world has grown larger, fewer people communicated by first class mail. Today, in a world of e-mail, instant messages, Facebook and Twitter, direct bank deposits and electronic credit card statements, people rely less on the Postal Service to communicate. The revenue decline may continue into the foreseeable future and the Postal Service must make adjustments in order to remain viable.

In 2010, a GAO report found that the Postal Service must address employee compensation and benefit costs to ensure solvency in the future. GAO suggested that the cost

reductions could be achieved through workforce size reductions, wage adjustments, workforce flexibilities and health and life insurance benefits changes.

Based on the written testimony provided to this Committee, it is clear to me that the Postal Service is well on its way to significant cost savings in harmony with GAO suggestions. Since 2008, the workforce has been reduced by 110,000 employees at a savings of \$11 billion. At the recent contract negotiations with one of its unions, even more savings have been achieved through frozen wages and 10 percent lower pay for new employees. Greater workforce flexibility was negotiated so that overtime costs would be reduced. I applaud these accomplishments.

However, I do believe that there is more work to be done. GAO recommended changes to employee life and health insurance benefits that would result in significant savings. GAO also suggested changes in the requirements for pre-funding employee health benefits. This Committee and this Congress can assist the Postal Service achieve greater financial viability with the appropriate legislation. I look forward to being a part of this.

In every single one of our districts, we have Postal workers, people who support their families and this country through their work. Whatever we do to help stabilize the financial outlook of the Postal Service, let us not forget the real men and women behind the mail.

Mr. TOWNS. And let me just say this, too, in that hearings like this is to sort of get information, get ideas, and to see how we can work together. It is not about whether you sent us a letter already or not. It is about what you need to send to be able to move forward from this point on. So I don't want to get mixed up here. I want to make certain that we stay focused on what we really need to focus on. So on that point, Mr. Donahoe, what is it that we can do here on this side that you think that needs to be done in order to help you to become viable?

Mr. DONAHOE. The key issue is to address the congressional mandates around the retiree health benefits, to address the overpayment of FERS, and to allow us the delivery flexibility. Those are the key things for us going forward.

I will say this. We have been very responsible stewards of this organization. We take very seriously our requirements for the American public for service and our requirements for the American public to provide efficient service, just what the chairman said, one of the visions of your committee. So we take that seriously. What we need is your help on these big issues that are beyond our control.

We have excellent employees, we have excellent working relationships with our four unions and our three management associations. We know how to get things done. The things that we can't control are the mandates, the \$5½ billion in the retiree health benefits. Get those things out of the way, and you will never see us again. All you will hear about is accolades about how good of an organization that the U.S. Postal Service is providing service to the American public.

Mr. TOWNS. Well, let me say this. I think you are serious about it because you hired one of our best in terms of Ron Stroman. So I think you are committed.

On that note, Mr. Chairman, I yield back, unless there is somebody that disagrees with the fact that there should be additional service, or you should not think about additional services. Is there anybody that disagrees with that? I would like for you to respond very quickly.

Mr. DONAHOE. I think that, to the chairman's point, he mentioned all the facilities we have out there. There are plenty of opportunities in our lobbies to provide services for other people to come in. We are exploring those. There is definitely opportunities. We know there is still is a ton of value in the mail, and I guarantee you we'll work on that.

Mr. TOWNS. Thank you.

Chairman ISSA. Thank you.

We now recognize the chairman of the Transportation Committee and a long-time member of this committee. No, you are too young to be senior. Mr. Mica for 5 minutes.

Mr. MICA. That is just using a lot of Just for Men.

I don't know if our witnesses know this, but the group that has been feeding dinosaurs from the House of Representatives is no longer here. And, unfortunately, it looks like the post office is somewhat becoming a dinosaur. It's not your fault. Everybody has one of these, and you get most of your messages. I didn't send any letters to my nieces and nephews today; I sent them an e-mail.

I notice, from what I read and heard when I was sitting in the back, you have 572,000 employees, and it should be down to 400,000 just to deal with the kind of traffic that you have now; is that correct?

Mr. DONAHOE. Yes, sir.

Mr. MICA. And I didn't see a specific plan on how you get rid of 172,000. I saw the average cost is 89,845 per employee today. You did mention how you get rid of some of the cost for the 572, but that still doesn't help them out.

The other thing, you're \$6 billion in the hole this time, right?

Mr. DONAHOE. Yes, sir.

Mr. MICA. And I understand, I asked, well, how are you financing that? And they said you get sort of a line of credit with Treasury for \$15 billion. That runs out in September. What is going to happen in September when we stop feeding the dinosaur?

Mr. MILLER. We don't pay the Federal Government all that it is due.

Mr. MICA. So just default?

Mr. MILLER. Yes.

Mr. DONAHOE. We will deliver the mail.

Mr. MICA. Speaking of delivering the mail, Saturday and Tuesday, is that all off the—

Mr. DONAHOE. No. We are still very interested in working with Congress.

Mr. MICA. Which is it going to be?

Mr. DONAHOE. It would be Saturday. That is the best day.

Mr. MICA. But we have been talking about these things. We talk about them. Some years ago I had the opportunity—actually, I went down to the post office. I think—I forget who the Postmaster General was. I mean, we just about had to buy him Depends at the time because he had never seen a Member of Congress in his office. But I was stunned by the vacant desks. And they took me around and showed me how many people they got rid of.

Usually, if you look at some of the overhead—now, you have a lot of postal people on the ground, and people do have to do a good job, and they do good job in delivering, but sometimes you can get rid of the administrative overhead. Do you have a specific plan for doing away with that?

Mr. DONAHOE. Yes, sir.

Mr. MICA. How many have you got in the administrative positions?

Mr. DONAHOE. We have been very focused on that. We have administratively about 15,000 people, and that includes everybody from operations to payroll.

Mr. MICA. How many have we got in Washington, DC?

Mr. DONAHOE. About 1,100. We just are going through a process of reduction here right now, sir.

Mr. MICA. So I can come down and see a lot more empty desks?

Mr. DONAHOE. I will tell you this. You will see empty buildings. In the past 2 years, we have taken four buildings, eliminated leases, moved them into the building we are in now, and we are downsizing again.

Mr. MICA. That is the big picture. On the local level—and you hear from Members. I have tried not to contact you on some con-

solidations or take a position, because you have to do your thing. And it's tough. Hundreds of people show up at these things. But I don't know if you could sit down with Members or others that are close to the subject. I can give you examples.

I have been trying to—I've got a post office in St. Augustine, Florida. I have been trying for 8 years to get you out of a congested corridor where you can't move traffic, where it is expensive to operate. Just the traffic backup in trying to get in and out just doesn't make sense. But I don't have time. I used to be a real estate developer. I could put a deal together in no time.

But you ought to have some people—my observation is the post office doesn't initiate anything on the local level to bring about cost-effective changes. I could put you in a retail center. I have tons of vacant space. But somebody has to have the brains to put this together. I have tried peripherally, and I don't have time to cut these deals. We did one in DeLand, Florida, years ago, and that was a huge success. It vitalized the whole center and that side of town.

I have Daytona Beach. Here is another example. I have gone from 1,100 bureaucrats in Washington to 15,000 down to smaller projects. Daytona Beach, you have a post office that is a beautiful site in downtown and has had the second floor vacant. I tried to get some folks in there, talked to people about doing something with it, and it sits vacant. So we produced in our committee a report called "The Federal Government Must Stop Sitting on Its Assets." I don't think we had a chapter in there for you, but maybe we could write one.

Mr. DONAHOE. I would be more than happy to come over and sit down and walk through all the buildings that we have sold, vacated, land deals we have. We have a couple great ones going on. Mr. Lynch up in Boston, we are talking with some opportunities right now. We have a lot of those things done.

Mr. MICA. I applaud you.

Mr. DONAHOE. And I am open to any other suggestions you have.

Mr. MICA. No, I applaud you. And the big ones, fine. We need a better handle of getting rid of excess property, excess space, excess employees.

And the last thing would be buyouts. What is the status of buyouts?

Mr. DONAHOE. We do have an option on the table for some of the people that we are working through right now with the downsizing. And the buyout provision would be \$20,000 that would be paid over a 2-year period. So that spreads our cash out.

Mr. MICA. For how many?

Mr. DONAHOE. We have the offer up to 8,000 people. We don't think anywhere near that will take it.

Mr. MICA. So you are about 160,000 short. Thank you.

Chairman ISSA. I thank the gentleman. And I might note that you probably haven't heard in your committee about their sales, because they get to keep the money, unique to the post office, that they sell and internally use those dollars.

With that, we recognize the distinguished gentleman from the metropolis of Cleveland Mr. Kucinich.

Mr. KUCINICH. Thank you very much, Mr. Chairman.

In listening to this discussion, what strikes me is that I haven't heard the people in charge of managing the post office about the moral obligation that you have to those who delivered the mail for 20, 30 years or more with respect to their full health benefits and their full retirement benefits. And people are retired, and they put all that time in. For the life of me, I don't understand why they should have to go begging to the government to assure that all the things that they worked a lifetime for are going to be there. I keep hearing this theme.

I had steel workers in my office the other day tell me now they have to deal with the Pension Benefit Guaranty Corporation; they are going to be lucky if they get 40 percent of their retirement benefits.

See, what is happening here is—by the way, Mr. Donahoe, is it your goal to see the Postal Service privatized eventually?

Mr. DONAHOE. No, that is not my goal. My goal is to provide excellent—

Mr. KUCINICH. Let me ask you some questions. Have you met with people concerning broader privatization of Postal Service functions? Have you had any meetings about that?

Mr. DONAHOE. I have not.

Mr. KUCINICH. Have you or any of the governors? Mr. Giuliano.

Mr. GIULIANO. Congressman, as part of—approximately 2 years ago, when we started looking at all the alternatives that we put into our comprehensive plan, we looked at all the alternatives. One of those was privatization. Another part of it was other types of products. The conclusion—

Mr. KUCINICH. That's all I wanted. I just wanted to see if somebody had some meetings you talked about privatization, because I think what is going on here is that there's actually an attack on this very idea of universal service, because once you privatize, then you can legitimize knocking down wages and benefits, cutting services.

Look, it's already started. I don't know about any of you, but in my neighborhood you see post boxes taken out of neighborhoods, then you see branches closed. I have seen private delivery service boxes outside of branches. What is that about?

You're operating with 100,000 less employees, so jobs are cut, wages aren't moving up. And the burden here in these discussions seems to keep focusing on the workers. I like that Mr. Towns raised the question about trying to find ways of bringing some income in to assure the Postal Service. But the tone of these hearings characterizing this service as something that is so much in the past that it is a dinosaur really belies the fact that millions of Americans rely on this as a service. You might be able to communicate by e-mail, but not everyone does.

We understand there is a huge social divide in America in terms of people who use the Internet to communicate and those who do not, and we want everyone working together. We have to do that. I am glad to see you are negotiating. And from what I see, it sounds like it's in good faith, and you are trying to solve within the context of the system.

But, Mr. Guffey, are you concerned that these kind of talks, these kind of hearings could be trying to set the stage for privatization, broader privatization, of the Postal Service?

Mr. GUFFEY. I believe it is leading to an attack on the labor movement as a whole, just as the workers in Wisconsin, the firemen, the teachers, and the police, and the State troopers are being attacked in those States.

Mr. KUCINICH. What about the Postal Service?

Mr. GUFFEY. The same with the Postal Service. I believe that's what's happening.

I'd like to say there is great opportunity. You know, the post office is where the flag flies in every little community across this country. Opportunities for putting in other government services into the post office is there. Doing the TSA work, the verification work that TSA could do could be done in the local post offices.

Mr. KUCINICH. Could you give this committee, through the chair, of course, the ideas that you presented that can expand the revenue of the Postal Service? Could you do that?

Mr. GUFFEY. Sure.

Mr. KUCINICH. And I just want to add this in my 15 seconds that are left. You're right about this broad attack on workers, but it's also an attack in the public sphere. If you look at the Michigan bill, it sets the stage for broad privatization of everything that's owned by the public. People pay for it once, and they'll end up paying for it again through privatization. And inevitably cost of the service goes up, quality of the service goes down.

I thank you. I yield back my time.

Mr. WALBERG. The gentleman's time has ended, and I will take the opportunity to question now. And I appreciate the panel for being here. This is an open hearing with a great opportunity.

I would quickly add that I appreciate the fact of having a rural mail carrier that services in my home, and services not only with the mail, but in many human ways that add, I think, some real special additional effects to what a mail carrier can do. And I appreciate the work that is involved there.

I also have a daughter who lives in a Third World country and works there, and I know for a fact that her mother and I are unable to send her mail with anything of value in it, knowing that it probably won't reach her. We don't worry about that in the United States. So I applaud you for that, and I thank you for the service that you provide.

But we also have to understand that we've got to make it work for the taxpayer, too. And I appreciate the efforts, and that is why these hearings are being undertaken.

I received a letter just recently from a constituent in my district that operates a family owned mail transportation business and employs 45 people in doing that business. His business performs services at a fraction of the cost of USPS employees, and this tentative contract, which insources 600 highway contract routes, could have negative impact upon his small business.

Mr. Miller, as you rightfully stated in your testimony, using contractors helps lower the USPS's costs. Can you quantify how much contracting saves USPS overall, and explain how the tentative

agreement with the APWU that insources at least 4,000 jobs will help attain fiscal responsibility?

Mr. MILLER. Mr. Chairman, I will be glad to do that in writing. I haven't those numbers on the top of my head.

[The information referred to follows:]

[NOTE.—The information referred to was not provided to the committee.]

Mr. MILLER. On the second part of your question, there was some give and take in this agreement. We gave a few things the APWU wanted. We took some things, and they took some things that we asked for.

As I think the Postmaster General has described this morning—and if not, we will send you additional information—the unions have to compete for this insourced work. They have to demonstrate that they will provide it at least the same cost that we could go outside and get it. I think it's very important that we be—

Mr. WALBERG. That's the same costs at this point in time, but not dynamically.

Mr. MILLER. At the same costs it could be contracted for at whatever point that it might be.

Mr. WALBERG. But the concern that, as we look at the budget dynamically in the future, that indeed can be a low cost put in now, taking these jobs away without the incentive in the future because of the contracting situation.

Mr. MILLER. Mr. Chairman, you are absolutely right, and we have to be very careful the way we execute that provision. But you put your finger on something, and that is the importance of our being able to continue contracting out, and contracting out in some areas where the service is now provided by postal employees. This is a way of our lowering costs and keeping a restraint on labor wage and benefit demands.

And I will come back to a point that in response to Congressman Mica's raising about the sale of assets and about relocation, etc. We have been very troubled, the Postmaster General, the previous postmaster General, the Board of Governors, by the propensity of Congress to put riders on appropriations preventing our doing these things, and that is one reason we haven't done as much as we might have. And if there could be a moratorium, like a moratorium on earmarks—if there could be a moratorium on these riders, I think we could move more swiftly and effectively and efficiently in the areas that Congressman Mica identified and in the area that you are identifying, that's contracting out.

Mr. WALBERG. That's certainly worth looking at in part of the process.

But let me just jump here quickly in the few remaining seconds. We've talked about contracts. What would a good contract look like to you, Mr. Miller? And then I want to jump over to Mr. Donahoe.

Mr. MILLER. A contract would be one in which the service provider would be at least as good as what we're accustomed to having, and the price would be lower than what we're paying now.

Mr. WALBERG. Mr. Donahoe.

Mr. DONAHOE. Thank you, Mr. Chairman.

We have 30,000 contracts in the U.S. Postal Service. So we contract everything from using FedEx's planes—we're their largest

customer—all the way down to a number of mom-and-pop contracts like you talked about. We take every one of those contracts very seriously.

What we looked at in this negotiation with the APWU, as far as bringing some work back in, was our ability to absorb work into the existing framework. The flexibility that we got in truck schedules allows us to schedule people in a much different way than we had in the past. We used to schedule 5 days a week, 8 hours a day. The new schedules give us a lot more flexibility. I can absorb in the 8-hour timeframe smaller contracts with HCR and save me bottom-line money without adding any people at the same time absorbing those costs. That's what we've looked at. We have embraced the process management in this organization across the board, and we have rooted out numerous costs and identified these opportunities, and that's what we pursue.

The other thing that's important, we did not give up any ability to outsource. As a matter of fact, the APWU has asked that they are able to compete on a same basis with any outsourcings going forward. And I welcome Mr. Guffey to come in with those proposals.

Mr. WALBERG. Thank you, Mr. Donahoe.

My time has expired. We'll move on to Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman.

And again, I thank the witnesses for your help.

You know, the Postal Service goes into every American business and every American home 6 days a week, and I think if there was any illustration of the value of having a public system, having the current postal system, it occurred on and after September 11th.

As most people know, I have an extraordinary number of people in my family that work for the Postal Service, my aunts and cousins, my uncles, and my mom, my two sisters who are still there. My mom is a retiree. But going back to September 11th, which is the day I was elected in the primary, and after that we had attacks on the Postal Service, anthrax attacks. And down here at the Brentwood facility, we lost two brave postal workers from inhalation of anthrax. And I remember talking to some of the local unions leaders with the American postal workers, and letter carriers, and mail handlers, and supervisors and the postmasters, and they were very concerned about going to work, because in many of these facilities, many of these plants, you had the risk of anthrax.

And so the question was posed to the union leadership at the APWU, and National Association of Letter Carriers, and the mail handlers; they said: Should we send our people in to work? Should we send them in to work when we know that there's—especially with the Brentwood example—there's lethal danger? And it was a very precarious time because we in government were afraid that if the mail did not get delivered to every American home and business, that the economy would seize up. This is when President Bush was saying get out there and try to stimulate the economy.

Well, if the American postal worker had not gone to work, it would have seized up our economy. And I think it was a very proud moment that the union leaders at the Postal Service asked their members to go into work. And I know my sisters—one of my sisters had two young kids at the time, and I know that was a vexing situ-

ation for the union leadership and the workers themselves. But God bless them. They went to work, and they kept the mail being delivered, and we got through that tough spot.

But with all this talk of privatization, I wonder how that would have gone if those were private employees for some contractors? Because they make the same commitment to deliver the mail in a tough situation. Do they handle the security and the special responsibility that they have with respect to our Nation as do the postal employees? And I think it's remarkable, as one of my colleagues noted, that for the sixth consecutive year postal workers are again rated—I think it is the Pew poll. The Pew Foundation does a polling on the popularity or the reliability of Federal employees, all employees, in regard to the American people, and they continue to rate the postal workers the highest 6 years in a row.

But we're talking today at least in one part about going to 5-day delivery, and I am wondering if that is just one way of if the Postal Service isn't going to deliver on Saturday, then who is? And I think there will be a private entity that will want to take up that space.

So, Mr. Donahoe, do you have any thoughts on that about losing market share for the post office by considering going to 5-day delivery?

Mr. DONAHOE. Well, thank you first, Congressman Lynch, about the excellent comments about our employees. They do a great job. We are very proud of them. And even this winter up your way, that mail got through every day in really trying conditions.

The Saturday issue is an issue we've wrestled around with, and it has been a concern. The big concern we have is that there's a changing marketplace, and the first-class volume we have lost over the last few years has really pressed us in terms of revenue for delivery, and that's why we have looked at making these changes.

The one thing we would do in this process would keep our post offices open so you could still come in and buy stamps. If you needed to get mail, we'll have post office boxes open. We'll be able to do that. And, of course, we would still be delivering things like Express Mail.

As we examine the demand for mail going forward, it does press us on some of those choices. We have looked at things like asking the American public to move their mailbox. We have done some surveys in that area. People say they don't want that. We've talked about changing service standards to save us some money there. We have some feedback there that wouldn't work. And, of course, we hear about the post offices.

So it's an ongoing process. We continue to look at that. But as we have laid out in our comprehensive plan, we think that just the nature of the changing demand for mail would force us to move to a 5-day delivery schedule.

Mr. LYNCH. Thank you.

I see my time has expired. I yield back.

Chairman ISSA. I thank the gentleman.

We now recognize the chairman of the subcommittee Mr. Ross of Florida for 5 minutes.

Mr. ROSS. Thank you, Mr. Chairman.

And, gentlemen, I thank you all for being here.

You know, I take very seriously, as you all do, the issue of the prefunding of the health care and the pension. And assuming that we are able to address that, because I believe it's something that we need to address, Mr. Donahoe, it doesn't necessarily, though, resolve the long-term issues of the U.S. Postal Service, does it?

Mr. DONAHOE. No, it doesn't.

Mr. ROSS. I mean, we still have to make some systemic changes.

Mr. DONAHOE. Absolutely.

Mr. ROSS. We still have to address workers' compensation.

Mr. DONAHOE. We have to address that. Absolutely.

Mr. ROSS. Overcapacity.

Mr. DONAHOE. And we're doing that.

Mr. ROSS. Underperforming facilities and labor costs.

Mr. DONAHOE. Yes.

Mr. ROSS. So while we're able to identify that there's a big issue out there, the bigger issue is really the systemic changes we need to make to the Postal Service for the long-term viability.

Mr. DONAHOE. That's what we've laid out in our comprehensive plan, and this agreement with the APWU, from one union, helps us to get in that direction.

Mr. ROSS. Now, you and I have been able to meet several times, and I appreciate not only you and your staff for the cooperation you have given me and my understanding for my subcommittee responsibilities. We discussed a pay-for-performance plan that has been in existence for about 10 years with managers and supervisors, I guess, about 65,000 of them. Could you briefly describe how that's worked?

Mr. DONAHOE. We have established a pay-for-performance plan in the Postal Service. To your point, we have 65,000 people. That's postmasters, that's supervisors, that's administrative people, all of the nonbargaining employees in that.

What we do yearly is set goals. We have national goals on service, on finances, and on people, a balanced scorecard. And we also have individual goals at the unit level. We have constructed a process that all 65,000 people have an individual rating, and that's how they are compensated. So it is strictly a pay-for-performance system. We have no COLA, we have no step increase. All of our managers in this organization are compensated on pay for performance.

Mr. ROSS. And what has been your experience with those managers? Do they like it?

Mr. DONAHOE. They like it. It is competitive, and they are on that Web site all the time seeing how they do. And it has produced tremendously good benefits for the Postal Service and, more importantly, for our customers.

Mr. ROSS. Now, translating that mindset to the collective bargaining negotiations that you have, has this type of pay for performance ever been introduced or discussed in a collective bargaining situation?

Mr. DONAHOE. Mr. Guffey and I have had some discussions, and we talked about what—going forward in that area.

The changes that we have been able to effect with this negotiation are the most we have ever seen. The fact that we have been able to change flexibility and long-term pay structure indicates that

there is a willingness for the APWU to really take into effect our customers and our business going forward.

Mr. ROSS. But never was it put on the bargaining table, a pay-for-performance plan, was there?

Mr. DONAHOE. Well, we had some discussions. But, like some of the other things, it's a give and take, and I certainly—

Mr. ROSS. And, Mr. Guffey, you mentioned in your remarks that, of course, if the economy were to get better, then that would change things. But, in fact, it's much more than the economy. I mean, if it were just the economy always being the driving force, we may still be riding around in horse-drawn carriages or having mail delivered by bicycles. But it really has to do with market changes, with technology. And is it not true, then, that in order to adapt, the U.S. Postal Service and its employees have to adapt to changing trends in the market; not only the Internet, but technology as a whole?

Mr. GUFFEY. It's true that there are some Americans who will never use the Postal Service again, but they're not required to pay for it, because the Postal Service does not receive one dime of taxpayer money. It's everything, the benefits, the wages, the buildings, everything is paid for by postage. And while the market, those individuals in the market who will use the Postal Service—

Mr. ROSS. But it's more than just the economy. In 2006, we had a good economy, and yet the first-class mail started declining significantly.

Mr. GUFFEY. But we could rebound from the decline in first-class mail if we didn't have the \$5 billion weight put upon the Postal Service.

Mr. ROSS. But it's more than that. I mean, let's be honest, it's a lot more than that.

And let me ask you this now. How do you feel about—

Mr. GUFFEY. We're both going to be honest?

Mr. ROSS. Sir?

Mr. GUFFEY. I'm going to try.

Mr. ROSS. I'll ask the questions.

Mr. GUFFEY. OK.

Mr. ROSS. Thank you.

Now, how do you feel about this agreement?

Mr. GUFFEY. I feel like the agreement was a give and take. I feel like the agreement—we gave some flexibility in exchange for the security of our people for various things. A lot of talk has been talked about the no layoff clause.

Mr. ROSS. And you told your employees it's a pretty good deal, didn't you?

Mr. GUFFEY. I have told my people exactly what it is.

Mr. ROSS. And you think it's an excellent deal so much so that you are going to pay your members to vote; are you not?

Mr. GUFFEY. I'm not paying anybody to vote.

Mr. ROSS. You're not paying your members? Have you looked at your Web site where it says: To encourage participation in the contract ratification process, APWU president Cliff Guffey is encouraging locals to get out the vote. The national union will reward the locals that are most successful in mobilizing members to vote, with

the top three locals at each of several categories receiving monetary compensation to be used on behalf of the local members.

So you are buying their vote; are you not?

Mr. GUFFEY. They can vote no. If every one of them votes no, they vote no.

Mr. ROSS. In addition to buying their vote, are you not also using it as a member drive?

Mr. GUFFEY. Sir, that's an affront to say I'm buying people's votes. I realize that's a common practice on your side of the table, but it's not with mine.

Mr. ROSS. Does your Web site not offer compensation to vote?

Mr. GUFFEY. It offers people to encourage people to vote. It encourages locals to vote, not one way or the other.

Mr. ROSS. I yield back.

Chairman ISSA. The chair would suggest that neither side get into rationale behind somebody's intention, and I would expect that on both sides of this debate. And I appreciate that you are both very interested in getting it right, but I would make that caution.

The chair now recognizes the gentleman Mr. Davis for 5 minutes.

Mr. DAVIS. Thank you very much, Mr. Chairman. And let me thank all of the witnesses for being here with us.

These are obviously difficult and complex issues and serious problems. I have always been told that there are no simple solutions to complex problems.

Governor Giuliano, do I understand and did I understand you to suggest that if we did not have to prefund the retiree benefits for the Postal Service, they did not have to prefund those benefits, and although we thought we were putting in some good provisions in the Postal Accountability and Enhancement Act, that instead of a deficit we would be talking about profits in terms of the Postal Service?

Mr. GIULIANO. My statement was, over the last 4 years, that would be true, Congressman.

Mr. DAVIS. What would be the downsides to not having that requirement? If that requirement was not present, what would—

Mr. GIULIANO. I don't believe there is any downside. We are funding on an annual basis to the excess of \$2 billion health care benefits for our employees. We commit to—we have been paying them; we continue to pay for them.

Private corporations do not have to prefund retiree health care benefits. They have to account for them on their balance sheet. It is not a cash output. And, in fact, because that is such a burden, in 1992—I may not have the year right, but in the early 1990's, there was an accounting rule change that said companies had the option, a one-time option, to cap forever retiree health care benefits, because if they couldn't do that, if they didn't do that, they would have an unbounded liability on their balance sheets, and there would be no way to be able to tell whether they were a going concern.

Most corporations in this country took that option and capped them in 1992. And whether you retired in 1980, 2000, or 2040, the company has no more responsibility for those health care benefits than what the cap was in 1992.

Mr. DAVIS. And while this would obviously not solve the problem in terms of our long-range conditions, but it would be movement, and we would not be standing still. We would be moving.

Mr. GIULIANO. It would be significant progress. We have made progress with the \$3.8 billion in this union negotiation; \$5.2 billion—\$5.4 billion payment per year would make a significant progress. We also need to move forward with 6 to 5. We also need to stop overpaying for FERS. These are the drivers.

There's lots of changes that need to be made. They are all comprehended in our plan. We've considered all these things. We've offered what we believe to be the most rational choices. We don't want to have to do 6 to 5, but considering all the alternatives, when we polled the American people, when we took our surveys, when we had outside experts look at that, they said out of all the alternatives, raising prices, changing delivery standards and a whole bunch of others, this was the least painful. This was the best we could do.

Mr. DAVIS. Mr. Donahoe and Mr. Guffey, let me commend both of you on the tentative contract that has been negotiated. I think that it is one of the most positive labor-management movements that I have seen in a long time. And I know that there are efforts on the parts of some people in our country to diminish the role of unions, who have fear, but it seems to me that you struck an accord that suggested that both sides understood that it was not a win-lose situation, but it is a win-win situation for the American public. And I think that's where we have to go.

So how would both of you come at briefly relative to being able to reach that agreement?

Mr. GUFFEY. Just real quickly. I think that American labor and industry has to come together and work together to bring back industry and commerce to this country. And I hope this is a step to show other people that it can happen.

Mr. DONAHOE. I would agree with Mr. Guffey. We have great employees in this organization, and they want to do a great job for the American public, and I think that as we sat down and talked through things that we needed from a Postal Service perspective for flexibility and cost-benefits going forward, we were able to achieve that. And Mr. Guffey was able to achieve what he needed for his employees, and it was a win-win. And it is a very good thing for the American public and our customers.

Mr. DAVIS. I commend you both, and I yield back the balance of my time.

Chairman ISSA. I thank the gentleman.

We now recognize the gentleman from Tennessee Dr. DesJarlais.

Mr. DESJARLAIS. Thank you, Mr. Chairman.

I would like to take just a few minutes and maybe put some things in perspective. We are facing a tough battle this week on the budget, and certainly the country right now is hurting in many ways, and people are scrambling to cover themselves and make sure that financially they can be as stable as possible. We go back to districts with high unemployment, 9 percent across the country, several counties in my district are upward to 20 percent, and times are certainly tough, and I sympathize with everyone.

According to committee calculations, the average employee costs for USPS is \$89,845 per year, or close to \$45 per hour in benefits. Is the total compensation averaging out more than \$80,000 per postal employee per year including wages and all benefits, including retiree health benefits, Mr. Donahoe?

Mr. DONAHOE. Yes. I would have to double-check those numbers and get back with you on that. But the way we calculate our costs, it is wages and full benefits, including retirement.

Mr. DESJARLAIS. So if that is true, then, the average work hour for USPS employee that is publicly reported is about \$40 per hour?

Mr. DONAHOE. We consider a fully loaded hour right around there, yes.

Mr. DESJARLAIS. Do you think that's generally a fair amount in terms of trying to keep the Postal Service running when you are doing these negotiations, talking to employees? Nobody wants to give up anything. It's hard to take things away from people once they have them. But is that as low as people are willing to go to keep their jobs?

Mr. DONAHOE. I think that, again, to the point we have been making, when we went into this negotiation, our goal—three goals. We were looking for immediate financial relief, we were looking for flexibility, and we were looking for long-term structural change. And we achieved those.

We've got a substantial change in the way that we will be compensating noncareer employees, and that pulls that loaded factor down significantly, by 53 percent.

The other thing, of course, is the 10 percent differential going forward. That also will pull those down.

We realize that labor costs are high, and as we worked with the APWU, they understand where we were coming from.

The other thing that's important is we also have real opportunity with the flexibility that we have negotiated in there, so that if you have a full-time employee, they can now work between 30 and 48 hours a week, which is very different than we have had in the past.

So, Doctor, we are looking at every possible way to provide great service in an efficient and effective way.

Mr. DESJARLAIS. Can you speak just briefly to the graph that is behind us here, the private sector versus the Postal Service?

Mr. DONAHOE. It would be interesting to see the numbers, but it almost looks like the blue line starts going up when we began to prefund employee health benefits. That is the first thing that I see.

We have been very—it is critical to understand that the Postal Service is focused not only on total labor costs in terms of wages, but we have focused on head count. We have reduced head count in this organization by 30 percent since the year 2000. That is legacy costs.

Mr. DESJARLAIS. Mr. Guffey, when I go back home and talk to my folks, it has been mentioned that the Postal Service doesn't cost the taxpayer a dime. What is going to happen if you default on September 30? Who does that burden shift to?

Mr. GUFFEY. Well, I believe Mr. Miller stated it would be a miracle for these things to happen, and, you know, I think Congress can work together and resolve the problems of our country and the

post office, and I think that's what America wants you to do right now. I think they want their post offices in rural Tennessee. I think they want to have their mail delivered. I think they want this sort of thing.

Mr. DESJARLAIS. You had mentioned earlier that you employ 100,000-plus veterans, which I think is great. That's fantastic. What do we say to the Active military personnel whose wages are far less than what we're talking about here in the \$40 per hour?

Mr. GUFFEY. Well, I'm not sure if you take the weighted average of the military benefits that are involved, their retirement and their health benefits, which are all provided by the government, too. If you put it all together, I'm not sure their package would not be the same.

I'm just saying that, yes, we would like to have good jobs for these people to have when they do come home. Talking about the custodial jobs, they were maybe priced a little higher than they should be, but they were jobs that were reserved for the veterans so the veterans could come home to these good jobs.

Mr. DESJARLAIS. Well, when you're talking about concerns about your employees losing their pensions and their benefits, what do we say to the private sector who faces losing Social Security and Medicare benefits?

Mr. GUFFEY. Well, I think they only face the losing of Social Security and Medicare because of the economy, and that our jobs, like, say, hundreds of thousands of jobs are now overseas, trillions of trillions of dollars of American money is overseas right now as opposed to being working in this economy and lifting up this next generation through the pay, and you broaden your tax base so you can afford Social Security and Medicare for these people. That's the real problem in this country right now, not the fact that public workers are making too much.

Mr. DESJARLAIS. You don't think the government spends too much?

Mr. GUFFEY. There's a lot of things I think that the government spends money that they shouldn't be spending on. Like I said, this hearing is costing more right now in tax dollars than what the Postal Service is getting in on tax dollars.

Mr. DESJARLAIS. And that's a big part of the problem, and that's what we are here to solve.

Chairman ISSA. I thank the gentleman.

The chair would note that the graph that was on the screen does not include the prefunding. That is a pay-as-you-go cost. And I appreciate the gentleman who—by the way, I think we are both on salary, so I'm pretty sure that whether we show up here for a hearing or not, the cost is substantially the same.

The chair now recognizes the distinguished gentleman from Massachusetts Mr. Tierney for 5 minutes.

Mr. TIERNEY. I thank the chair for that. And I thank all the members of our panel.

First, let me say that I think that the way that you have collaboratively worked toward a tentative agreement is to be commended. I think that's what the collective bargaining process is all about. And it seems to me from listening to your testimony and reading it here today that everybody made concessions, which is, in es-

sence, what the American people expect out of public-service employees and employers. When they go to these negotiations, they want everybody to be reasonable. And I also seem to think there looks to be downsides for both of you if you decided to push the button and go on to arbitration. And I think that was a trigger to getting things done here. So I think that's at least a positive that we can take out of this, and knowing that there were constraints seen by management under—what they perceived to be some legal constraints, and I think the union's under—obviously under constraints, not wanting to risk going to arbitration and coming down with far less than what you got.

But I want to talk about—I'll leave to the testimony that's already given and the questions asked about the pension retirement contributions and how much that would go toward solving the issues that you have here. When we had a hearing back on April 15, 2010, John Potter, who was then the Postmaster General, was one of our witnesses on that. And I asked him a little bit about the privatization and what would be the cost to the American citizens if the thing was privatized, and he talked—and I'm going to just synopsis a little bit here. He talked about the fact it would be fair to expect that you wouldn't get mail necessarily delivered to your doorstep. Prices in all likelihood would significantly go up; that not all areas would, in fact, be served. These would all be—so universal—the service would be threatened. So these would all be decisions that management could make on that.

I then wondered whether or not there wasn't some price tag, that what we got in terms of universal service, and a large retail distribution situation, and 6-day mail, and all those things that we get for having this type of service as opposed to a privatized service, if somebody hadn't put a value to that. And Mr. Potter said: We put a price tag on that of about \$4 billion. And then he said smaller—now, in today's dollars, it is like \$4½ billion on that basis.

Do you gentlemen agree with that?

Mr. DONAHOE. That's the—when the Postal Service was first formed back in the early 1970's, there was a universal service option that we could have asked for continued appropriations to actually cover our universal service. And if you look forward, with the value of money going up or through inflation, it would turn out to be about that amount.

Mr. TIERNEY. Well, you know, I wondered why we hadn't gone forward. But Mr. Potter then said that the—they ended up in very poor condition in the late 1960's because of difficulty in getting appropriations, and they were reluctant to ask for it.

Mr. DONAHOE. Our issue has always been one of a self-sustaining entity. If the government does not pass the budget this week, the mail will still get delivered. We have been self-sustaining. What we have been asking for is for Congress to act on these mandates around the prefunding requirements, the 6 to 5 being the first. As I said before, if we get those resolved, we know that we will be a viable, ongoing business. We still provide excellent service for the American public. That is the help we need from Congress.

Mr. TIERNEY. You look at it another way, though. People—I think people by and large want the service that they are getting, the universal service, the 6-day mail, all those things on that basis.

So you have a customer out there that owes you about \$4½ billion a year that you are not collecting. I don't know what kind of business decision, management decision that is.

Mr. GUFFEY, do you have a comment on that?

Mr. GUFFEY. Well, it would be nice and refreshing to see that the money was coming from the government to the Postal Service instead of just from the Postal Service to the government.

Mr. TIERNEY. Mr. Donahoe, you are smiling at that. But you do have a customer out there that we put a value of \$4½ billion in services that you render to them without ever collecting a dollar for it.

Mr. DONAHOE. Well, the reason I'm smiling is because we have some other bills that have been owed over the years, and sometimes they don't get paid. So we would like the Congress to feel that the Postal Service can stand on its own and do a great job for the American public without any kind of appropriation. That's what we are asking for.

Mr. TIERNEY. So I guess it's all semantics. You can look at it as an appropriation, or you can look at it as paying value for what you are getting in return. So you've decided, I guess, that it's not worth the political hassle to ask the American people to pay \$4½ billion a year for services they're getting; it's much easier to try to run starting with \$4½ billion in the hole and try to build around that.

Mr. DONAHOE. Here's the thing. We have paid into the retiree health benefits \$43 billion. What we would love Congress to do is to take a look and see that \$43 billion, along with what the chairman mentioned are ongoing payments—we think when you go ahead with a 400,000-person Postal Service going forward, we are already covered with that. So we don't want any money. We want no taxpayer money. We just want Congress to remove that burden that we are being forced to pay. FERS, I owe \$6.9 billion—or you owe \$6.9 billion back to me in FERS overpayments. I got a bill last week from the OPM increasing my premiums. I mean, I'm already overpaying. Just treat us fairly. We will do a good job for you.

Mr. TIERNEY. Well, I already cosponsored that bill, so let's see what we can do with the rest of them. Thank you.

Chairman ISSA. I thank the gentleman.

Mr. Braley.

Mr. BRALEY. I assume you're referring to Mr. Braley, Mr. Chairman?

Chairman ISSA. I'm sorry. I apologize. I know better.

Mr. BRALEY. No need to apologize.

I'm one of those people who thinks that, in order to know where you are going, you have to know where you come from. And I think it's interesting to note that on July 26, 1775, the Second Continental Congress appointed Benjamin Franklin as the Postmaster General at an annual salary of a whopping \$1,000. Mr. Donahoe, I am sure a lot of colonists thought that he was grossly overpaid for that work, but we all know how important it was in the evolution of this country.

In 1808, the Select Committee on Post Office and Post Roads was established by the House of Representatives, and it was the beginning of a surface transportation program that has benefited this country ever since.

One of my wife's grandfathers was a first-generation American, whose father came from Germany, and he left to go back to fight the Kaiser in World War I, the war to end all wars; came back and became a letter carrier in Dubuque, Iowa, and became president of his letter carriers local. And when they started renovating the White House under the Truman administration, the people he worked with thought so much of him, they spent the whopping sum of \$2 to get some of the timber from the White House to make a gavel for him that I'm fortunate to have in my possession.

When my father left the small rural community in Iowa that he lived in to go to Iwo Jima at the age of 18, he got letters from his mother that I am thrilled to have in my possession that only got to him halfway around the world because of the hard work and efforts of men and women in the Postal Service and postal delivery system. That's why I love letter carriers and postal workers.

My dad came back and became a substitute rural letter carrier. And I know from growing up in a small town that postal delivery service was often a lifeline that got you much-needed services that you needed to do your work and to function in society.

But I am very impressed with the fact, as the ranking member of the Veterans' Affairs Economic Development Committee, that unlike many Federal agencies, the Postal Service has done an extraordinary job of employing veterans. And you brought this up in your testimony, Mr. Guffey. And here at a time when returning Iraq and Afghanistan veterans have an alarming unemployment rate of 22 percent, I am trying to figure out why my friends on the other side of the aisle want to add to our unemployment problem by firing veterans, by firing women, and firing minorities, who make up a large percentage of the Postal Service work force. That's a question we all need to be concerned about.

Some of my colleagues have argued that a union would never lay off a hardworking veteran postal worker. We know that's not true. We know that it happens, because that's the way the Postal Service has had to make tough decisions. We also know that if we are going to fire middle-class American veterans that work for the post office, it's not going to fix our budget crisis. And that's why we have to fix this problem with prefunding, because we know that it is the low-hanging fruit. It is the most clear, obvious opportunity we have to make an impact, and that's what we should be focused on.

According to two independent offices and an OIG report, the Civil Service Retirement Service is overfunded by \$50 to \$75 billion, and the post office's FERS program is overfunded by \$6.9 billion. We should let the post office transfer that budget surplus to fund their future health care obligations, and make sure at the same time that we're doing everything to promote efficiency.

And, Mr. Donahoe, I remember when my daughter graduated from high school 5 years ago, and I was thrilled to find out that I could get customized stamps of her and her friends to give them as graduation gifts that they were thrilled to receive. So we know there's been a lot of innovation going on at the Postal Service to try to address these market pressures to modernize and to come up with new revenue streams.

Can you give us some examples of what other things the Postal Service is looking at, like that stamp program?

Mr. DONAHOE. Sir, I would like to. One of the things that we have been focusing on from a revenue perspective is simplicity and making sure that we can really grow the business to consumer channels, especially for small business. So we've just introduced a new product out there called Every Door Direct, and the idea is that in a very simple way, if you're a small business, you can reach within a couple of ZIP codes everybody that lives there.

We are also conducting Grow Your Business Days right now at thousands of post offices across the country all summer long, teaching people how to use eBay, Amazon to grow their small business. Congressman Mica showed me before he got that e-mail on his BlackBerry.

One of the products we're working on right now is the opportunity to show you what's coming in your mailbox today. We have that technology. We have that as a product going forward.

So we know that we can do things for small business, we can also do things for people who like to have a little bit of digital in their products, too.

Mr. BRALEY. Thank you.

My time has expired. I yield back.

Chairman ISSA. Thank you.

Mr. Mica.

Mr. MICA. Well, first of all, Mr. Guffey, I have to take great exception with you, your comments on this is some sort of assault on labor, whether it's in Wisconsin or in—or this hearing.

Mr. Guffey, do you know what the financial differences between the States and the Federal Government is?

Mr. GUFFEY. Most—the big difference, there is not a whole lot of difference. The American taxpayers pay the costs for both.

Mr. MICA. The big—

Mr. GUFFEY. You have to have taxpayers employed to pay the taxes so the payroll can be done.

Mr. MICA. That's true. And we spent the last several years paying people not to work, rewarding failure and penalizing success, and we have been great keeping the unemployment up about 10 percent, not to mention other areas that are 20 and 30 percent.

The big difference is the Federal Government, we just keep printing the money. If we go out the door here and go down the end and go out on Independence, you can almost hear those presses going day and night printing funny money. We've indebted this country \$5.3 trillion in, what, 24, 30 months. We're borrowing—so the big difference is that the States have to have a balanced budget. We're printing the money, OK? So the States—you call this an assault on labor, but they're making the tough decisions dealing with their biggest cost factor, which is their employee base. It's not pleasant for anybody. This is not a hearing that's intended to do an assault on labor.

Do you know how much we're borrowing for every dollar we're spending, Mr. Guffey?

Mr. GUFFEY. Way too much.

Mr. MICA. It is about 42 to 43 cents per dollar we're borrowing, most of it from foreign sources.

This is not an assault on labor. You know, I've been in the transportation area. We used to have—we kept firemen on trains. Even though we didn't use coal or anything, we had the fire for many years. We had conductors in cabooses even though we had adopted electronic means of communicating with the train workmen. You're aware that it wasn't an assault on labor when we had to eliminate some of those positions. Would you say that was an assault on labor?

Mr. GUFFEY. Well, when you use 70-year-old examples, I don't think that—I can't relate to some of those 70-year-old examples.

Mr. MICA. Again, OK, let's use a modern example. They're telling me they can run the post office with 400,000 people, and I have 572,000. I've got to make some changes. Is it just make work? I mean, more and more is going over this. They're even going to this. When they go to this, they'll need fewer than the 400,000.

Mr. GUFFEY. You can order your medicines over that, but you cannot get them delivered to your home.

Mr. MICA. That's—

Mr. GUFFEY. The mail volume is going to change. The type of mail is going to change.

Mr. MICA. That's true, and that's why I usually use FedEx or UPS.

But this is no affront. I love postal people. George Coleman was my postman for 17 years. He went on to be the mayor of DeBary. My postman who came to our home in upstate New York wrote me a birthday card until the year he died. I can't think of people I like better than some of the postal people—workers we know.

Mr. GUFFEY. We try.

Mr. MICA. But this is not an assault on them. This is a change in the whole dynamics of communication and our society. We stop—we can't feed dinosaurs; we can't afford to do that. So, again—again, Ben Franklin, you know, was a Postmaster in 1775, appointed by—in 1775, it was interesting, Ben actually arranged to have mail delivered from Philadelphia to New York and same-day service; did you know that?

Mr. GUFFEY. Yes, but he did it as the King's represented Postmaster, not as the U.S. Postmaster.

Mr. MICA. Yes, I know, but he could still do it. And even though he had the position, I think his son had the position, they could deliver the mail in the same-day service, which we still can't do today in the United States.

But what you have to do is adapt, and the post office is becoming a dinosaur and will soon be extinct if it doesn't adapt.

Mr. GUFFEY. And we're working very hard to adapt with the—

Mr. MICA. The money tree in the back yard died, and we got to find a better way to deal with \$6 billion and your \$15 billion credit limit, or whatever it is, is about to run out, and there's no more coming from here.

Thank you. I yield back.

Chairman ISSA. I thank the gentleman.

Mr. MICA. Yield back.

Chairman ISSA. I now go to the gentleman Mr. Yarmuth for 5 minutes.

Mr. YARMUTH. Thank you, Mr. Chairman. Thank you all for your testimony. And I'm glad that Mr. Mica brought up UPS and FedEx.

I have a very special interest in this hearing because I happen to represent the district which is the home of the global hub of UPS, and UPS is our largest single employer. And I'm also an honorary member of the Letter Carriers Union, and very proud of that. So I have multiple interests.

Mr. Mica said he likes to rely on UPS and FedEx, and I'm glad he relies on UPS, but I went back and checked, and the least you can spend to mail anything or deliver anything with UPS is \$5.17. And the lowest price that FedEx will deliver anything for is \$7.22.

Mr. Donahoe, what do you think would be the impact on American business, charities, local governments, utility companies and so forth if for every piece of mail they had to send out, it would cost \$5.17?

Mr. DONAHOE. We wouldn't be talking about 1 day fewer delivery. We would be probably talking 1 day a week. It would be very dramatic. We are very proud of the fact that we have been able to hold our postage rates down at 44 cents. And we are also very proud of the fact that we provide excellent package services for businesses, too. We work well with FedEx and UPS; we deliver a lot of their packages.

Mr. YARMUTH. This relates to the question Mr. Tierney asked a while back, and he talked about the 4 billion-plus subsidy essentially that goes to users of the Postal Service. How would you break down the users of the postal service? What percentage of them are commercial enterprises? Which percentage of them would be private individuals sending individual personal correspondence?

Mr. DONAHOE. It's probably close to 95 percent of the mail that comes into the system is mail by a commercial entity. The customer business—the mail that goes between residences today is a lot smaller. You know, let me take that back, it's probably 90 percent, because there is about 10 percent of customers still use the Postal Service to pay their bills. So me paying a bill or me sending you a card, that represents about 10 percent of the volume.

Mr. YARMUTH. So essentially what we're talking about here, whether it's \$6 billion or \$3 billion, or whatever it amounts to a year, forgetting the argument about FERS and the prepayment of retirement benefits, we're talking about an enormous subsidy to American business.

Mr. DONAHOE. I would not say it in those terms because I think that the American customers enjoy getting what's in their mailbox. It's a great way for people to advertise. It's a great way for people to correspond, even if it's just to say, hey, check my Web site out. We feel that the Postal Service is very important for the American economy, the bill payment side, bill presentment. So it's an excellent platform for all users in this country.

Mr. YARMUTH. I don't disagree at all about those statements, but the fact remains that if all those businesses who were sending advertising—and I was in the advertising business as a publisher at one point, also took advantage of—

Mr. DONAHOE. Thank you.

Mr. YARMUTH [continuing]. The rate given to publications. But they are sending those advertisements, those solicitations, and

they're billing mailings as well at a rate that would be—is far lower than they could get anywhere in the private sector in a free-market situation.

Mr. DONAHOE. Yes, but, again, what we've been asking for in terms of the mandates that Congress has with us on the retiree health benefits, we think that there is a resolution around this without having any effect on our customers.

Mr. YARMUTH. I understand. You continue to offer that very low rate, and I'm very proud of that. I don't want my time to expire.

When we talk about the great Republican Lincoln said the legitimate role of government is to do for the people what they can't do for themselves. And essentially I extend that to mean the private sector can't do. And the private sector can't deliver a piece of mail for 44 cents across the country or around the globe.

Mr. DONAHOE. Probably not.

Mr. YARMUTH. Probably not.

One question quickly, Mr. Guffey, on the issue of retirement benefits. And this is—disturbed me a great deal in light of what's happened in Wisconsin, and Ohio and Indiana.

The notion that somehow these are overly generous benefits, when we are hiring, asking police officers, firefighters, mail carriers and the like to embark upon a career which requires a great deal of physical exertion, and to have basically a shortened career as opposed to something they might otherwise do, and part of the tradeoff, part of the way you get people to embark upon those jobs, is to guarantee that there is a healthy retirement for them. Otherwise you would have police officers—if it weren't a healthy retirement—police officers at 75 years olds chasing criminals, and 75-year-olds delivering the mail, and 80-year-olds climbing into buildings. I mean, isn't this part of the consideration here in order to get people to do some of the public-service jobs, some of these quasi public-service jobs in your case?

Mr. GUFFEY. I think that is the pride—I think that is a great consideration, but there is also a pride in knowledge of serving America. I'm from that era of John F. Kennedy, you know, see what you can do for your country. I went to Vietnam, I tried to serve the country in the Postal Service. And retirement? My retirement I take home \$1,600 a month, and I pay my health insurance \$300 or about \$250, something like that, out of my own health insurance, my part of the payment. So it is not a huge retirement by any means, but it is a satisfactory life of serving your country and your fellow Americans.

Mr. YARMUTH. I thank you for that answer.

Thank you, Mr. Chairman.

Chairman ISSA. I thank the gentleman.

We now recognize the younger of two near identical twins here and present today. I tell you apart mostly by your ties, both of which are stunning, but your father, I think, won, edged you out a little on the ties. Mr. Clay.

Mr. CLAY. Thank you so much. I'll have to catch up with him on my haberdashery.

Let me applaud Mr. Guffey for the comprehensive and thoughtful testimony submitted to this committee for today's hearing. I think it shows a serious commitment that the APWU has to work in

partnership with the U.S. Postal Service to address the challenges that it currently faces.

I stand firmly in support with working with our families in the postal unions. And I am committed to supporting the Postal Service's reorganization to meet the challenges of today and tomorrow. However, I am very concerned with some of the elements of this hearing.

This Congress in 1970, through the Postal Reform Act, took action, in essence, to take politics out of the Postal Service. It also gave workers collective bargaining rights. I'm afraid that some here today are seeking to return politics back to the Postal Service and perhaps strip those rights.

This committee certainly has a welcomed responsibility to perform oversight duties for the Postal Service, and I don't think anyone would question that. I think many here, like you, want to see the Postal Service succeed. The service that USPS so admirably and consistently provides personifies the best of America.

What's disturbing is that some want to use this hearing to attack something else that best personifies America, a worker's rights and the freedom that comes with collective bargaining. I hope I'm wrong, and I hope that we're here today to help the Postal Service and its workers find the right path to sustainability and to success. I don't think that involves getting in the middle of the collective bargaining process, and I don't see how that helps.

Mr. Guffey, your testimony demonstrates quite clearly that the Postal Service labor force has made some remarkable gains in productivity in the last few years. In fact, the work force has been reduced by close to 120,000 employees since 2008 to 572,000 employees. This represents a 27 percent reduction since 2000. Total costs have also been reduced by \$11 billion since 2009, including a reduction of \$4 billion in labor costs.

Mr. Donahoe, you also mentioned in the written statement that the post office has achieved record service and productivity levels in recent years; is that right?

Mr. DONAHOE. Yes, sir.

Mr. CLAY. And yet on the wage side of the equation, Mr. Guffey, you testified that since 1970, there has been only a fairly modest increase in straight-time wages in real terms. Do you agree that—

Mr. GUFFEY. That's correct, that's correct.

Mr. CLAY. Mr. Donahoe, do you agree with that analysis?

Mr. DONAHOE. Yes. Our employees have done a great job from a productivity standpoint, and they have enjoyed raises that have tracked fairly close to the rate of inflation.

Mr. CLAY. And wouldn't you say the Postal Service has gotten a pretty good deal out of their employees over the years?

Mr. DONAHOE. I think the American public has gotten a very good deal from the Postal Service and the employees. They are very dedicated. They've done great job from a standpoint of productivity and service.

Mr. CLAY. I thank you. I thank you both for your responses.

Mr. Chairman, I yield back.

Chairman ISSA. I thank the gentleman, and I certainly think that you do have to keep pace on the haberdashery side. You have

a haberdashery history with President Truman, and that alone as a Missourian is critical.

Mr. CLAY. Yeah. We do have something in common. We're from the same State.

Chairman ISSA. I thank you.

We now recognize the gentlemen from Vermont for 5 minutes.

Mr. Welch.

Mr. WELCH. Thank you very much, Mr. Chairman. I thank the witnesses for their excellent testimony.

My view, this is a practical problem to be solved. I don't see that we should be coming at this trying to take away wages and benefits, and I don't see that it should be attacked by trying to take away delivery services that Americans have really come to rely on.

I'm from a rural State, in Vermont, and I don't know how the letters—we a lot of snow this year. I mean, we had a lot of snow this year. We had 10 feet of snow. In fact, it is snowing now. And somehow, some way on my 8-mile dirt road, you managed to deliver the mail. So I don't know who's responsible for that, but it wasn't you guys, I can tell that. It was those people in these little post offices back in Hartland, Vermont, and Norwich, Vermont. It is quite astonishing. So there's been a—I don't know, a festive atmosphere here talking about what's good and bad, but the bottom line is the mail is getting delivered.

The other thing that's quite amazing is you're doing it on these snow days for 44 cents, a first-class piece of mail. That's a pretty good deal. And it's business, and it does personal letters that we don't get as many of, but we all love to receive.

And the other thing that is amazing, and I think it has just got to be acknowledged, it gets sort of swept aside when we get in these discussions, is that the things that the commercial deliverers don't want to provide—to deliver, you guys do. A lot of times it's frustrating when we go to our mailbox, and there's more, quote, junk in there than we want, but it is a part of commercial life in this country. So I think those have to be acknowledged when we're trying to wrestle with this problem.

The other thing, you've pointed out that you've had about a 30 percent head count, 100,000 fewer employees since 2008. You know, Governor Miller, that's an amazing thing. You know, we sit up here on the dais and act as though it's time to change because it's a new era. And it's true that we have to change, but that is hard. I mean, these are livelihoods. People have built their lives around a system that we put in place in a way that made sense, and not just individual employees, but businesses, homeowners. I mean, I think that's a significant accomplishment that demonstrates real good faith. I mean, what are your views on that?

Mr. MILLER. I agree with you, Congressman. It's a remarkable achievement. It's something that has been done in a compassionate way. Most of it has been done by attrition. Some have been re-assigned. But it's a remarkable achievement.

The unfortunate thing is that the volume of mail has contracted faster when you consider the productivity increases than we've been able to keep up with.

Mr. WELCH. And that's the new role that we're in, so further adjustments have to be made. But my sense here is that no one is

easing off on the gas pedal in trying to make these changes. Would you agree with that?

Mr. MILLER. Yes, sir, I would. And I think Postmaster General Donahoe has done a great job. He was in charge of this as Deputy Postmaster General, and I'm sure that Governor Giuliano or Chairman Giuliano would agree with that and might have something to add.

Mr. WELCH. Well, thanks. No, that's all right. Let me go into another one.

You know, one of the issues here is do we go to a 5-day delivery to save money? And I understand there is some debate about how much money that we would save, but let me ask you this question. I'll ask you, Mr. Donahoe. What would be the impact on losing market share to your competitors if we went to a 5-day week?

Mr. DONAHOE. FedEx and UPS don't deliver on Saturday now, so we don't think that there would be much of a change. We think that, again, customers have the opportunity, if they'd like, for the Postal Service to have a post office box to get their mail in, and we still would be offering Express Mail service. So Saturdays is our lightest day. It's the day that, from an advertising mail standpoint, that's the lightest day of the week where advertisers try to hit a mailbox, because generally people are out and about on Saturday. Monday through Friday they come home, they look at their mail, and then they do their shopping on the weekend.

Mr. WELCH. Mr. Guffey, how about you? What's your sense on that. I know that on Saturday I have more time on my hands. The Saturday delivery is something I like.

Mr. GUFFEY. I hate to see any service cut to the American people unless it's absolutely necessary. There are other means of—it would create a situation where private companies, Mail Boxes Etc. and these places that provide their own boxes would not receive the mail, which is good for us because then the people who have those would have to come get post office boxes if they wanted them on Saturday. But I hate to see any services cut to the American people when there's opportunities to keep providing those services.

Mr. WELCH. Chairman Giuliano, you've been talking, as we all have, about the first over—overpayment of contribution, right?

Mr. GIULIANO. Correct.

Mr. WELCH. I mean, this is an amazing situation. You can be overaggressive or too passive, and it seems like we're making you front money beyond what actuarially by any standard should be required; is that more or less the case?

Mr. GIULIANO. That's my understanding. Congressman, there's a pattern behind this. This is not new. In 2003, it was determined that CSRS was overfunded by—I can't remember the number, but it was over \$50 billion.

Mr. WELCH. So what's the problem of changing that?

Mr. GIULIANO. We're told by OMB and Treasury that it takes a change in the law.

Mr. WELCH. And that's it.

Mr. GIULIANO. Well—

Mr. WELCH. Mr. Chairman, we can help solve this problem if we change that law. Thank you.

Chairman ISSA. I thank the gentleman, and I trust that in the President's budget somewhere hidden, I didn't see it, he had considered that, but, like I say, I missed that.

We'll now see the gentlelady from New York for 5 minutes.

Mrs. MALONEY. Thank you very much.

And I would like to ask the Postmaster General Mr. Donahoe the questions on the wage rates in comparison to competitors. And I know that some of your private-sector competitors are nonunion, but it is also my understanding that the wage rates of the Postal Service are roughly equivalent to the private-sector competitors. And as the postal magazine study showed, that Postal Service letter carriers start at \$15.85 an hour, while the starting pay for a UPS driver and a FedEx carrier are roughly \$16.14 respectively.

And I would like to ask you does the fact that the USPS is required by statute to deliver universal service and to do a 6-day-a-week drive-up, that their compensation costs put them possibly at a competitive disadvantage, that actually, compared to the postal magazine, you're very competitive; in fact, you're lower than one of your major competitors. So I would like your comments on that, Mr. Donahoe.

Mr. DONAHOE. Yes, thank you, Congresswoman Maloney.

We do realize that we have a competitive rate of pay, and that's something very important to us. As we've sat down and negotiated with the APWU, the key thing for us was to achieve some short-term financial benefit from the contract, as well as increased flexibility and some work force structure going forward, and we were able to do those.

Labor costs do drive costs in this organization because we are such a labor-intensive organization. I think that we work very well with this union to come up with some good solutions going forward to reduce costs and help keep the Postal Service viable for the American public.

Mrs. MALONEY. Thank you.

And as the majority has pointed out repeatedly, 80 percent of the Postal Service's operating costs are related to work force compensation. But just so that we are clear on this point, I am informed that less than two-thirds of that 80 percent is for compensation of the Postal Service's unionized work force; is that correct?

Mr. DONAHOE. That's true.

Mrs. MALONEY. So the unionized work force of the Postal Service accounts for roughly 50 percent of the operating costs, not 80 percent, as some would imply; is that correct?

Mr. DONAHOE. In any business you're going to have wages. We've got wages that—generally and benefits make up about 70—70 percent of our costs. We have another 10 percent of our costs, roughly 9.1 percent, we prefund retiree health benefits. The other 20 percent cover transportation supply services, fuel, like any other company.

Mrs. MALONEY. Well, I think that it's important that we are clear about the actual labor costs represented by the unionized work force, and you have helped us do that. And I would like to open it up to the other members of the panel to comment on this issue, if you would, please.

Mr. GUFFEY. Clearly our bargaining unit only represents about 30 percent of the costs, I think about 29 percent of the costs.

Mrs. MALONEY. Other comments?

Mr. GIULIANO. Congresswoman Maloney, I would just comment that we think that the percentage of costs is not the issue, it's how the total cost relates to our financial position. We think that today's tentative agreement that we're talking about makes good steps to reducing those labor costs in a fair way, while out—while maintaining flexibility in using that work force.

Mrs. MALONEY. And Governor Miller.

Mr. MILLER. Congresswoman, I think, No. 1, we have to look at every opportunity for the Postal Service to reduce costs, given our dire financial straits.

Second, I would think that it would be—frankly, whether we were in dire financial straits or not, it would be irresponsible for us not to look at costs at every opportunity for a contract negotiation.

Ms. MALONEY. Well, my time has expired. Thank you very much.

Chairman ISSA. I thank the gentlelady, and we'll now go into a second round. Double-check to make sure that no one else came in.

OK. I want to tidy up a few things. The gentlelady from New York talked about unionized work force. Mr. Donahoe, it doesn't matter whether your labor is unionized or not, does it? If it's 80 percent, it's 80 percent, right?

Mr. DONAHOE. It's—it is. It represents 70 percent of our total costs, yes, sir. The other 10 percent is in the retiree health benefit cost.

Chairman ISSA. Right. Well, but she actually said unionized work force, which confused me a little, because you have plenty of non-union workers, because they are management, and they are represented by associations.

Mr. DONAHOE. Yes, sir.

Chairman ISSA. Second, I think there was a lot of dialog back and forth, and I want to set one thing clear from the center of the dais. This is not about the hard-working men and women of the post office. This hearing is not even about the union negotiations per se. Our committee's primary jurisdiction in the area of concern is is the post office right sized for the future? And one of our concerns, one of my concerns, goes to this, and, Governor Miller, maybe you can help me with this. In the union negotiation they negotiated a no layoff. Now, the problem is if we go from 6 days to 5 days, and you score savings of 60,000 workers, and you can't lay off workers, how do you get the savings?

Mr. MILLER. Well, Mr. Chairman, first the no layoff provision was an extension of the previous contract.

Chairman ISSA. No, I understand. But just narrowly, you can't score savings if you can't get rid of the people, especially when you already have 100,000 too many today. I've asked my staff to look at a lot of areas that we may legislate, which would include—and for the Postmaster General, I know you're looking for legislation. I have to tell you, what we probably need to do is bite the bullet one time and figure out how we're going to retire people that are over 55 and have over 20 years of service to help get your number down. Voluntary departures aren't working. The fact is you have

less than 1 percent—slightly more than 1 percent. You have the lowest attrition; any private company would love to have the attrition you have. Basically, I mean, you still have two people that are 98 years old on the payroll. I mean, people don't retire, do they, Mr. Donahoe?

Mr. DONAHOE. They do retire, Mr. Chairman. We have reduced the head count in this organization by about 215,000 since—

Chairman ISSA. But today you're carrying over 100,000, almost 200,000 more people than you would need if you started the organization—wait a second, hear me out—if you started the organization to do the job that you currently need to do, you built the facilities you needed, and you hired the work force you needed, you would need between 170,000 and 200,000 less people. You're shaking your head no. Governor Miller, if you built from ground up, you'd need a lot less people, wouldn't you?

Mr. MILLER. Right. You're right, Mr. Chairman. And you're right on the basic principle. But I will defend, as I understand it, Pat can correct me if I am wrong, but the \$3.8 billion estimate includes the problems of diminishing the number. So under this contract, because business is contracted, you don't realize all the flexibility benefits right away. But your point is correct if you think about it, and that is if you're going to be contracting very fast, how do you bring down the number of employees as rapidly as—

Chairman ISSA. OK. But I've got two more things in the short time remaining. Mr. Guffey, you said you have a \$1,600 retirement.

Mr. GUFFEY. Sixteen, seventeen hundred.

Chairman ISSA. Now, that's your retirement basically from your military service, right?

Mr. GUFFEY. No.

Chairman ISSA. That is your Postal Service retirement?

Mr. GUFFEY. It's my Postal Service retirement.

Chairman ISSA. OK. Do you have any other entitlement coming now or in the future from your service at the post office?

Mr. GUFFEY. No.

Chairman ISSA. That's it. OK. I just wanted to make sure we understood that.

I've got a chart I want to put up very briefly, because this is the crux of one of our challenges. All of you have been talking about prefunding and overfunding. When you look at that chart through 2016, which is the end of the prefunding period, it is higher, and then it drops down. You all see that.

I want us to understand that every year you don't prefund between now and 2017, you have to add it back on in the later years. So one of the challenges I'm looking at is if we were to abate today all your prefunding from now until 2017, although you would drop down, in 2017 we'd be looking for \$9 or \$10 billion and every year going up. So one of the challenges is even if we were to smooth it out, unless we were to forgive essentially what you're going to have to pay, essentially you're lowering it now, you will be raising it then. Does anyone disagree with that?

Mr. MILLER. Yes. Because that chart includes a track that would result in substantial overfunding of the account.

Chairman ISSA. OK. I'm going to ask one exit question here. Chairman, you talked in terms of private corporations, and you've

been very good on it, so I want to hold you to it. Are you willing to do what they did in 1992, have Congress statutorily tell you that if we're not going to stand behind the pensions; whatever you pay in, you pay in? Because if what you're asking to do is to not prefund, and you want to sort of be there where 1992 made it, those private corporations, and I believe including United Airlines who stuck the American people in their bankruptcy and others, basically they limited their contribution, and a default meant that the retirees got less. If you don't, as you call it, prefund, and then the post office continues to drop off to where it's not able to pay in the amount because it simply would be too big a burden to have postal carrying make sense, wouldn't we ultimately end up with a Federal responsibility?

In other words, today you're saying you don't want to—you call it prefund, we call it fully fund on our side of the aisle—if you don't pay in now, and we were to say, you know what, we'll give you the abatement, but we'll tie it to the default being a default that doesn't pay out, how would the letter carriers and others feel if what we said was, you know, because you don't want to pay it in, we'll do that, but then we won't stand behind it with full faith of the American people? How would they feel there?

Mr. GIULIANO. I don't know how they would feel, but let me—

Chairman ISSA. Oh, you know how they'd feel, don't you, chairman?

Mr. GIULIANO. Yes, I know.

Chairman ISSA. You'll hear. You'll hear unless you say, I know they wouldn't like that.

Mr. GIULIANO. I know they wouldn't like there. But there is some confusion, Mr. Chairman, I would like to straighten out, in all honesty.

Chairman ISSA. Of course.

Mr. GIULIANO. You're referring to funding pensions, fully funding pensions.

Chairman ISSA. But we were talking health care, but you used the analysis of the pensions earlier on—

Mr. GIULIANO. No, no, no.

Chairman ISSA [continuing]. In health care.

Mr. GIULIANO. I—1992—it might not be the exact year—

Chairman ISSA. All right.

Mr. GIULIANO [continuing]. But close to that.

Chairman ISSA. That's when General Motors had this huge hit—

Mr. GIULIANO. That was—that was—that's right. It was a book hit, it was a balance sheet hit, it was not a cash hit. They chose to determine what the liability levels were going to be for retiree health care benefits, not pensions. Pensions are governed by a whole different set of pension accounting rules, which for most public companies only require 80 percent funding based upon the upon the actuarial needs.

Chairman ISSA. And that's where I came up with what happened in the case of United Airlines and others.

The fundamental question—my time has long expired, but the fundamental question, I think, that we're going to leave unanswered, but anyone can respond for the record, is isn't it true that

if we don't fully fund by some way—not overfund, but fully fund—

Mr. GIULIANO. That's it.

Chairman ISSA [continuing]. That we leave the taxpayers of America on the hook should the post office not be able to pay in the future?

Mr. GIULIANO. We are paying. We are fully funding. The Postal Service is fully funded for pensions and—overfunded for pensions, both FERS and CSRS, and overfunded for retiree health care benefits.

All we're saying is, as I said in my statement, we're more than willing to continue paying. Of that \$7.9 billion in 2011, that's \$5½ plus \$2, plus some other billion dollars that we are paying to make sure that we're fully funding the retiree health care benefits on the actuarial needs.

What we're concerned about, and what we're asking for fairness and a level playing field, is the \$5½ billion that came across in the 2006 PAEA that on an accelerated basis required to us prefund. That's what nobody else has to do. We want to stand behind these responsibilities, we have been, we think we can.

Chairman ISSA. And I appreciate that.

I apologize, but I really have exceeded my time.

Mr. Cummings.

Mr. CUMMINGS. Let me ask you this, Mr. Donahoe. You are not asking to eliminate prefunding, but to pay your retiree health benefits over—on a true-cost basis and spread it over 30 to 40 years versus tackling the liability in 10 years; is that accurate?

Mr. DONAHOE. What we're looking to do is get a true accounting of exactly what we owe. We would not shirk our responsibility.

When we talk about 400,000 employees, that would include a Postal Service that delivers mail 5 days a week, that has a substantial number of noncareer employees that would be not adding onto that liability, and we could recalculate everything that we've got going forward. That's what we need to do, because until we do that, you don't really have an idea of exactly what's owed.

Mr. CUMMINGS. Let me say this to you, Mr. Donahoe. I, too, join my colleagues in applauding you for—and I say this very, very seriously—for hiring Ron Stroman. He did an outstanding job for us. Sorry to see him leave. He helped us through our transition. He was absolutely magnificent. And that means a lot to us to know that he's there, and we really do appreciate that.

Mr. DONAHOE. We agree with you. We're very happy to have him.

Mr. CUMMINGS. One of the things that I wanted—both sides of the aisle have said that this is not an attack on postal employees, and it's not. I don't want one single postal employee—I have some in my family, and I know how hard they work. Mr. Guffey, I understand, I really do understand, your emotion. You don't have to apologize for that, because you're representing some people who have already given a lot. They've given a lot.

I think anybody who looks at the fact that we—that 100,000 people—100,000 people, that's a lot of people—since 2008 are no longer working for the post office, that's 100,000 families. I sit, Mr. Guffey, on the Joint Economic Committee, and, you know, something interesting that I've noticed is that when the employment

rate is 8.8 for the Nation, it's 15 point something for African Americans, and the Hispanic rate is close behind. And then, you know, so when you tell me, Mr. Donahoe, that we've got 40 percent minorities, that's very, very significant.

I want to see the unemployment rate come down also, just like all of us do. And when I hear about women, women, many of them, I'm sure, single head of households, struggling every day, trying to make it, many of them have lost their jobs; you know, when we talk about these loss of jobs, I don't want it to just be like collateral damage.

Then we're talking about veterans. Until I got deeply involved, I didn't know the post office hired this many veterans and took care of the disabled veterans and gave them some dignity, instead of having them, as I see them in the AMVET center in my district, many times unable to find jobs and whatever. All of that is very important. And I—and it would be—I cannot walk out of this room without telling you all that I'm proud of the negotiations that you've been involved in.

And, Governor Miller, I thank you for what you've said. I know you have some differing opinions here and there. But you said several things. You said we are a collegial body. But you said something else that is so significant. You said, I think, I really believe, that Mr. Donahoe is doing a great job. And that's what it's all about.

What I'm saying to you is that sometimes—one of the things I try to do with my kids is I try to be careful that I just don't say the negative when they do something wrong; I try to make sure I compliment them for doing something right. And sometimes I get a little bit upset that we don't root for the home team, for the team that is doing it right.

And you said something to me, Mr. Donahoe, yesterday that I hope you don't mind me sharing. You said that if all the unions work with you like Mr. Guffey's union worked with you, we could solve all kinds of problems. And so I just—again, Mr. Guffey, the reason why I'm talking about this is because I know that there are people—you have employees who are sitting there saying, you know, we're going to get 10 percent; new people saying, we're going to get 10 percent less. I know they are sitting there saying, we're not going to get a raise for 2 years. They're sitting there saying, you know, a lot of our colleagues have already gone for whatever reasons. But I want them to know that a grateful Congress appreciates what they do every day.

When I look at my mailman in the rain and snow, and although I was kidding a little bit, I'm serious, seeing dogs run after them—I don't know how many Members of this Congress would walk up and down steps, up and down steps in the hot sun delivering mail, and then many instances going through all kinds of difficult circumstances. In my neighborhood, I live in the inner city of Baltimore, you may not even find a mailbox to put the mail in. But some kind of way they do it over and over and over and over again. They get up and they do it. And I think that we need to take a time-out and applaud them for what they do.

And I just—I know that public employees are catching hell from all levels and being constantly told that they are not doing this, not

doing that, but the fact is they are doing a lot of wonderful great things. And again, I want to thank you, Mr. Chairman, for calling this hearing, and may God bless you.

Chairman ISSA. I thank the ranking member.

I would like to thank the witnesses for their testimony.

In closing, I would like to echo what the ranking member just said. This hearing has said in no uncertain terms hard-working men and women of the post office, not just this particular union that we—contract we talked about, but all of the workers—I think on both sides of the aisle we've talked in terms of how do we get to a fair pay-in for the various future obligations of the post office, and, in fact, how do we get to the right number of postal workers.

I think we can all be proud on both sides of the aisle. This has not been about any kind of cheap shots on the post office, postal workers, who have dramatically improved their productivity, whose rating by the American people continues to be high for customer satisfaction, but simply a matter of how do we get to the right number and the right recognition of obligations now and in the future to meet a mandate that this Congress has voted for and reiterated repeatedly when it came to the self-sufficiency of the post office. The ranking member and I take very seriously our unique obligation to oversee the post office and to, in fact, bring such laws as may be necessary to incorporate that.

In closing, we did talk about one particular piece of legislation. I believe that both the Republicans and Democrats here are going to have to work on a number of pieces of legislation in order to help the post office control its own destiny, free up the post office to enter markets appropriately, and, most importantly, to get to the right number. I can't from the dais—and I know the ranking member would share this with me—we can't tell you what the right number to pay in is. We can't tell you whether the administration's refusal to look at FERS is appropriate or not. But this committee will hold hearings, we will get—reach out to the experts to try to find those right numbers, and if those numbers need to be adjusted, you have my assurance, and I believe you have the assurance of every member on this committee, that we will work for those right numbers regardless of the scoring or other technical hurdles, because we do want the independence of the post office to be about your taking responsibility for your costs and us staying out of your way.

So once again I thank you. You've had many questions unanswered. I would invite you to use the next 7 days to revise and extend in any way you see fit, and they will, without objection, all be included in the record.

We stand adjourned.

[Whereupon, at 12:46 p.m., the committee was adjourned.]

[The prepared statements of Hon. Dan Burton and Hon. Cathy Morris Rodgers, and additional information submitted for the hearing record follow:]

Opening Statement
Rep. Dan Burton
House Committee on Oversight and Government Reform
"Are Postal Workforce Costs Sustainable/"
Thursday, April 5, 2011

Mr. Chairman, thank you for holding this hearing today. As you know, for six years as Chairman of this Committee I fought hard to reform the Postal Service so that it had the tools to financially survive. While I was able to make significant progress towards an agreement, I was regrettably unable to push the ball across the goal line before my time as Chairman ended.

It wasn't until 2006, after more than 12 years of wrangling over this issue, that Congress, the Administration, the Postal Service, the employee unions and even the Postal Service's major competitors United Parcel Service and Federal Express, were finally able to come together behind a bipartisan compromise bill that, it was hoped, would modernize the postal system and help it remain healthy and viable well into the 21st century.

Unfortunately, I fear that those efforts may have been too little too late. Before the Postal Service could really begin to use these new tools, the global financial meltdown of 2008 spurred a rapid decline in first-class mail volume which, combined with a congressional mandate to prefund postal retiree health care costs, has significantly undermined the Postal Service's finances. In fact, over the last four years, the Postal Service has lost more than \$20 Billion dollars and is projected to lose an additional \$6.4 Billion this fiscal year. These losses have brought the Postal Service to the brink of insolvency.

Some of my colleagues on the Committee may say that the Postal Service is a relic that has no place in the digital age and therefore it should go the way of the dodo bird. I respectfully disagree. The United States Postal Service has been a cornerstone of the U.S. economy for over 200 years.

Currently, the Service employs approximately 572,000 Americans and helps sustain a \$900 billion direct mail industry that employs another 9 million workers nationwide. Overall, the direct and indirect activities of the U.S. Postal Service represent more than 8 percent of our nation's Gross Domestic Product.

I do not believe that we should allow the United States Postal Service to become extinct. But the reality is that the United States Postal Service must modernize in order to survive and thus perform its core function of providing mail delivery to every American address.

The responsibility to reshape the Postal Services lies with the Members of this Committee; and we must step up to the challenge; and we must do it now because we cannot afford to wait another 12 years or there will simply be no Postal Service to save.

As Governor Miller said in his testimony, the solution to the ills facing the Postal Service, "requires a new approach, not fine-tuning." I agreed, and that means that everything from reducing labor costs, to relaxing congressional mandates on the Postal Service, to streamlining the facilities consolidation process, to giving the Postal Service more flexibility to offer products and service outside its core mission of delivering the mail, should be put on the table for discussion; everything. To do otherwise would be a disservice to the American people.

**Committee on Oversight and Government Reform
“Are Postal Workforce Costs Sustainable”
Tuesday, April 5, 2011**

2154 Rayburn House Office Building

**Statement for the Record from Congresswoman Cathy McMorris Rodgers
Submitted: Monday, April 11, 2011**

I want to thank the House Committee on Oversight and Government Reform for the opportunity to submit a statement for the record. For the past several years, the U.S. Postal Service (USPS) has been on the brink of insolvency. After running modest profits from FY2004 through FY2006, the USPS lost \$20.4 billion between FY2007 and FY2010. While I understand the fiscal realities that our nation is facing and know that cost-cutting measures must be implemented, I request that particular attention be paid to the postal services provided to our rural communities before selections are made.

Representing a largely rural district, I have seen first-hand how post offices can serve as a cornerstone for rural communities. Additionally, Congress has made clear that residents of rural communities *must* have access to basic postal services, including the availability of postal supplies, postage, and post office boxes within a reasonable distance. Permanently closing rural post offices often forces residents to travel considerable distances in order to receive their mail. To that end, while I know that sacrifices must be made, post offices serving rural communities should be closed only as a last resort. And, during the process, every effort should be made to allow alternative options to be evaluated.

Let me provide an example for the record. In Eastern Washington, there is a post office located in Washtucna, Washington that is facing permanent closure. The Washtucna Post Office has served as a cornerstone of the community for the last 117 years. Yet because of structural issues, USPS has decided to close the facility, despite the fact that Washtucna residents will have to travel over twenty-miles round trip for basic postal services. I believe this is unacceptable. USPS should work with the community to identify viable alternatives and in the process weigh cost incurred by residents when a facility like Washtucna is permanently closed. Cost containment should not mean automatic closures. In the 112th Congress, USPS should work closely with the Committee to identify viable solutions.

Thank you for your time and consideration.

Questions for Board of Governors Chairman Giuliano

Chairman Darrell Issa

Committee on Oversight and Government Reform

Hearing on "Are Postal Workforce Costs Sustainable?"

1. What is your vision of the U.S. Postal Service (USPS) a decade from now?

Answer:

My vision for the Postal Service in the future is a much leaner, responsive and flexible organization able to respond rapidly to changing market conditions, while maintaining its universal service obligation. It would have a much simpler, more responsive governance structure. The Postal Regulatory Commission would be an advisory organization with final decisions being vested in a Board of Governors that had the skills and experience necessary to govern a large, industrial organization with Profit and Loss (P&L) responsibility. A P&L statement and market conditions would dictate pricing, network structure, service standards, new products and employee pay and benefits.

2. USPS has projected that the volume of profitable First-Class Mail will decline 37 percent by 2020. How will USPS be able to reduce its costs enough to continue providing affordable universal service?

Answer:

In our Strategic Comprehensive Plan issued on March 2, 2010 (*Ensuring a Viable Postal Service for America—An Action Plan for the Future*), we discussed our financial situation, which is driven significantly by the decline of First-Class Mail. We project cumulative losses of some \$200 billion through 2020, but have committed to reduce that figure by at least half through aggressive management actions. We outlined a number of aggressive steps to adjust to lower volume and revenue by improving productivity through ongoing reductions in workhours and other resources. These steps will be taken without any deleterious service impact.

Management actions cannot completely fill the financial gap experienced by the Postal Service, especially with insolvency only five months away. There needs to be changes to existing laws. These changes include: refunding our Federal Employees' Retirement System (FERS) pension overfunding of \$7 billion; allowing us to move to 5-day mail delivery; and eliminating our pre-funding of retiree health benefits payments of some \$5.5 billion annually. Additionally, we need the ability to adjust our physical network, enhance customer access, and increase the flexibility of our workforce.

3. When is USPS going to lay out a detailed plan showing the specific actions it will take to become financially viable? What is the responsibility of the Board of Governors to develop and communicate this plan?

Answer:

The Comprehensive Strategic Plan specified actions that need to be taken to bring the Postal Service back to profitability. Continued aggressive management actions, including the benefits of the tentative APWU agreement, show the Postal Service being profitable in 2014 given certain legislative changes. To make this happen, the Plan included several hard choices. Other choices not included in the Plan would cause even more adverse implications for the Postal Service's future and for service levels for the American public.

I believe the Postal Service is ahead of schedule in achieving plan performance, except in areas that require Congressional approval, such as addressing the Retiree Health Benefit Plan Fund pre-payment requirement, the return of FERS overpayments, and delivery frequency flexibility.

The Board of Governors was actively engaged in the development of the Plan, and is regularly provided a status and update as part of every Board meeting. Likewise, the Board is involved with communicating the Plan. I personally participated in the announcement of the Plan as the Chairman of the Board with then-Postmaster General Potter, who was also a member of the Board. We continue to communicate aspects of the Plan in open Board sessions, speeches, and to Congress.

4. Postal analyses have estimated that postal employees receive a 34 percent premium on compensation and benefits. Current data are not available. Do you agree that postal employees are paid a substantial premium in compensation and benefits compared to their counterparts in the private sector? If so, why should USPS agree to guarantee raises and COLAs?

Answer:

Generally, I do believe that many postal employees enjoy a compensation premium relative to their counterparts in the private sector. This has been the Postal Service's position at the bargaining table and in interest arbitration for some time. It is a position that has been sustained in interest arbitration although no arbitrator has ever determined the size of the premium or defined "the private sector" for comparison. There are many scholarly publications on the issue that both parties refer to in arbitration.

My own experience in the private sector suggests that much of the premium is in the retirement benefits defined by Congress—the statutory benefits—such as defined benefit pensions with cost of living protection and retiree health care over which the Postal Service has no control in bargaining or interest arbitration.

Both pensions and retiree health care are statutorily provided by Congress and the Postal Service is obligated by statute to pre-fund them. When you look at the private sector over the last two decades, the biggest compensation trends were in the area of employee benefits. In the pension area, the private sector aggressively moved away from defined benefit pension plans to defined contribution plans—specifically 401(k) and cash balance plans. With regard to retiree health care, the private sector either eliminated it (because it was not a vested right) or capped the liability. The Postal Service has not followed this trend and, by law, could not follow it. Like all Federal government agencies, the Postal Service still has many of its employees under the Civil Service Retirement System (CSRS) defined benefit pension plan and all of its employees (with five or more years of service) entitled to retiree health care. FERS employees also received a defined benefit as part of their retirement package. The Postal Service asked for the right to bargain over both of these issues in the recommendations made to the President's Commission back in 2003. Those suggestions were not included in the *Postal Accountability Enhancement Act (PAEA)* legislation.

To the extent there is a wage premium, I do not know the percentage differential. That would depend on the private sector positions to which postal roles are being compared. The tentative agreement with the APWU will over time diminish the wage premium because of the two-year wage freeze, the two-tier wage for new career hires, and the lower wage and benefit level for non-career employees. My experience has been that it is far more effective to reduce costs by gaining flexibility in the utilization of the workforce rather than trying to reduce pay. This is true whether in a union or a non-union environment.

5. From your experience in the private sector, would a private business facing insolvency be giving guaranteed raises and COLAs to its employees?

Answer:

In the private sector, our union negotiations would not have been constrained by the requirement of either reaching agreement or going to arbitration. A change in the law would enhance the Postal Service's ability to negotiate more like a private sector company, and would result in a different outcome. My experience in the private sector has taught me that it is not necessarily the amount of pay an employee gets, but the productivity and flexibility of the workforce. Compensation costs are always a factor to be considered, but in a collective bargaining atmosphere, trade-offs must be weighed. The data shows that additional flexibility gained by increasing the percentage of non-career employees, and allowing for more flexible schedules for career full-time employees, far outweighs the relatively small increases included in the last two years of the tentative agreement. This is how a cost savings of \$3.8 billion was achieved with this tentative agreement.

6. Do you believe that USPS has more employees than currently it needs? How many more?

Answer:

If volumes stay at levels forecasted in the Comprehensive Strategic Plan, staffing levels are about right. However, overtime utilization needs to be reduced. This is what we expect to be able to achieve with the workforce flexibility component of the tentative APWU agreement. The Postal Service has reduced more than 200,000 employees since 2000, while keeping service levels at or near record levels. This trend is in the right direction, and the Board is confident that management has demonstrated its expertise in getting headcount down. By 2020, the Postal Service expects to reduce an additional 170,000 career employees, but this is contingent upon Congress passing legislation to provide flexibility to implement 5-day delivery.

The Postal Service currently processes and delivers more than 170 billion pieces of mail a year. While I believe that there is currently room to reduce the workforce in some major processing facilities, the bigger issue is reallocating the workforce to where the work is being done. In part, our network consolidation efforts will ease this problem. The mandate to deliver mail six days a week hampers the Postal Service's ability to reduce letter carriers, and in light of the growth of over 3 million deliveries over the past three years, the Postal Service is getting short-staffed in delivery personnel in places. The Postal Service will be able to avoid hiring delivery employees at a time when volumes are declining only if it receives the network flexibility it seeks.

7. How many years will it take for USPS to downsize its workforce by 170,000 employees? Why should it take this long, considering USPS is on the brink of insolvency and expects huge, growing deficits?

Answer:

The current staffing is needed based on the volume of mail the Postal Service currently is receiving and the number of addresses to which it delivers. Projections for future staffing reductions are based on an anticipated reduction in the volume of mail and the maintenance of service standards. The Postal Service projects that the existing career complement of 571,000 can be reduced to approximately 400,000 career employees by 2020 consistent with our plan to move from 6- to 5-day delivery and to expand the use of non-career employees in all bargaining units. However, the Postal Service's ability to reduce the complement to this level is dependent on Congressional action permitting the move from 6- to 5-day delivery and easing the restrictions on closing unprofitable post offices and branches.

The Service will be able reduce its employee complement to match declining volumes between now and 2020 if the requested Congressional actions are enacted. Based on Service projections, over 300,000 career employees will retire or otherwise leave the Service between now and 2020. The APWU contract provisions on layoffs will not adversely impact the Service's ability to rightsize the workforce.

8. USPS pays 100 percent of health insurance premiums for its executives and 79 percent for most employees, compared to 72 percent for other federal employees. Do you believe that top postal executives should lead by example? If so, why is the Board continuing a policy to pay 100 percent of their health insurance premiums while asking the rank-and-file to pay less every year?

Answer:

The Postal Service already adopted a policy that will reduce the employer contribution for executives' health benefits to the federal level over the next three years. This will insure that top Postal executives lead by example. The Postal Service has also restrained salary increases for executives starting in 2008. In certain cases, this has been a freeze; in others increasing reliance upon performance-based lump-sum bonuses. These initiatives have been taken even though Postal Service pay and benefits at the executive level pale in comparison to the private sector.

The Postal Service is at a point where it must concern itself with the ability to recruit, retain and motivate the next generation of leadership and it cannot do that by indefinite wage freezes and benefit cuts at the executive level. As the Postal Service moves increasingly away from reliance upon First-Class Mail to competitive products, particularly packages and parcels, it desperately needs to attract and retain talent. Increasingly, that talent needs to come from the private sector. The wise course for the Postal Service to follow is the private sector model—reduce the network footprint, downsize the workforce to optimal staffing, retain and recruit the best and the brightest, and then put in place a wage and benefit package that motivates and rewards the executives devoted to the long-term success of the organization.

9. The USPS Board of Governors has long been criticized for not providing strong leadership. Do you believe that the Board of Governors is providing strong leadership for the Postal Service, and if so, what specific examples can you give?

Answer:

The Board of Governors has been and is fully engaged and actively involved in governing the Postal Service. The most important example of its leadership is the recent selection and transition of the new Postmaster General. This is the most important function of any Board, and we are pleased and proud of the work that allowed someone as able and capable as Pat Donahoe to be named Postmaster General. The Board has overseen the development of effective succession planning and management development processes, and is actively involved in getting to know key employees to monitor their development. The Board also has actively sought to add expertise from outside the Postal Service when necessary. Examples include Tom Samra, Facilities Vice President; Joe Corbett, Chief Financial Officer; and most recently, Ron Stroman, Deputy Postmaster General.

The Board was the policy driver behind the Comprehensive Strategic Plan, the Forever stamp, the continuous improvement strategy—which has resulted in over \$10 billion in savings over the last 3 years, and an effective SOX implementation strategy that actually saved more money than it cost. The Board of Governors demanded significant change in our labor negotiation strategy, resulting in the recent tentative APWU contract, an agreement that will result in a \$3.8 billion labor savings.

The area of disappointment for the Board has been our failure to have legislation enacted that would change language to the arbitrator, stop requiring payments to an overfunded FERS account, move from 6- to 5-day delivery, and eliminate the unusual requirement to pre-fund future retirees' health care benefits. In times of severe financial distress, and a structural change in the marketplace, these are changes that any organization responsible for its own economic viability would make.

10. Do you think the Board of Governors has all the expertise it needs to address the Postal Service's financial crisis? If not, what should be done to remedy this deficiency?

Answer:

The Board of Governors has a very strong and diverse membership. Each member brings expertise to the Board as a whole, and their individual strengths and perspectives contribute to the success of the committees to which they are assigned. Enhancements could be made to the Board by ensuring more timely appointments to vacant Governor positions, and by appointing more members with significant business experience.

11. USPS has projected cumulative deficits of \$43.2 billion in FY2011-2015. Even taking USPS's initial estimate of \$3.8 billion in savings from the APWU contract at face value, USPS projects it will still lose \$39.4 billion. Why did USPS enter into an agreement with APWU that does so little to avert looming insolvency? Was this a missed opportunity?

The Board of Governors knew it would take a comprehensive plan to return to profitability. In the Comprehensive Strategic Plan announced on March 2, 2010, the Board identified seven fundamental changes all of which were necessary to address the cumulative deficit between now and 2020. Those changes were in the following areas:

- Retiree Health Benefits Pre-funding,
- Delivery Frequency,
- Expanded Access,
- Pricing,
- Expanded Products and Services,
- Streamlined Regulatory Oversight, and
- Workforce.

The APWU agreement is one of the "Workforce" components. The APWU agreement makes important strides to restructure labor costs—a two-year wage freeze, two-tier wage structure, and a dramatic increase in lower cost, more flexible non-career employees. The contract saves \$3.8 billion between now and 2015 and the parties have another opportunity to achieve further savings consistent with the ten-year plan in the 2015 round of bargaining. The agreement also sets an internal precedent for the other three major unions—the NALC, the NRLCA, and the NPMHU—where additional savings are anticipated and required.

But even with all of the savings from the APWU settlement and its application to the other major unions, more will be needed to address the total projected deficits. The Board must look to other sources of cost savings and revenue enhancements—5-day delivery, improved pricing, new products, and a smaller footprint in retail and mail processing. The Postal Service cannot eliminate the entire projected operating deficit between now and 2020 on concessions from its workforce.

In this light, and consistent with our Comprehensive Strategic Plan (which was endorsed by McKinsey, Boston Consulting and Accenture), the solution to the Postal Service's financial situation is going to require contributions from all of our stakeholders—not just the unions. The Plan calls on Congress to pass legislation which will allow the Postal Service greater flexibility to manage its finances and operate its business, and that requires Congress to address such issues as the pension overpayment, the aggressive pre-funding requirement for retiree health benefits, and the number of required delivery days.

12. Will the tentative agreement with APWU—which includes no layoff protection, limits on excessing of employees, limits on outsourcing, return of thousands of jobs that were subcontracted back to postal employees, and elimination of many of the current part-time or temporary positions—provide USPS with sufficient flexibility to effectively realign its workforce? Will this lock in restrictions on flexibility for the next 4½ years regardless of whether mail volume and workload decline even faster than USPS has anticipated?

Answer:

Even with the provisions identified in the question, this tentative agreement provides management with a much greater degree of flexibility than it had before. The ability to hire up to 20 percent of the workforce with a fully flexible, non-career employee who has no layoff protection adds greatly to management's ability to realign the workforce as needed. The new provision allowing the establishment or restructuring of career work schedules between 30 and 48 hours a week and of varying hours per day significantly enhances management's ability to more precisely match work hours and workload. Finally, given the demographic of the APWU bargaining unit, retirements and other voluntary attrition will outpace volume declines even in the most pessimistic scenarios.

13. Given USPS's expected financial shortfalls, why did USPS agree with APWU to continue paying a larger share of health insurance and life insurance premiums than other federal agencies? Is not parity long overdue?

Answer:

The statutory standard set by Congress in 1971 with the passage of the *Postal Reorganization Act* (PRA) and left unchanged in 2006 in the PAEA is comparability to the private sector, not parity to other agencies of the federal government. Specifically, the PRA states: "It shall be the policy of the Postal Service to maintain compensation and benefits for all officers and employees on a standard of comparability to the compensation and benefits paid for comparable levels of work in the *private* sector of the economy." 39 U.S.C. section 1003(a)(emphasis added).

It is worth noting that the 76 percent contribution rate achieved in the tentative APWU agreement is consistent with what our consultants say is the percentage paid by employers in the private sector who contribute to health insurance premiums.

Notwithstanding the standard, we did propose that employer contributions be reduced to the federal level. Ultimately, in the overall context of the negotiated tentative agreement, we accepted a continuation of the phased reduction of the employer's contribution that had been agreed to in the last contract and in the interest arbitration precedent. Three points should be borne in mind when evaluating this decision. First, while the savings from such a move would not be insignificant, the savings from the increased non-career workforce, the two-year wage freeze and, ultimately, the two-tier workforce are much greater. Second, this agreement makes good progress in reducing the employer's health insurance premium contribution—from 81 percent to 76 percent (and down from 85 percent as recently as 2007). Third, accepting the premise that the comparison should be to other federal agencies is not a one-way street. Federal employees enjoy many benefits that Postal Service employees do not.

14. What are USPS's views on Senator McCain's legislation that would require USPS not to pay a larger share of health insurance benefits than federal agencies? How much would USPS save each year if such a change was made? What about USPS paying a larger share of life insurance benefits than federal agencies?

Answer:

The Postal Service certainly is not opposed to any legislation that would reduce our overall costs. However, the McCain amendment would state that in any year when the Postmaster General cannot certify that the employer contribution to the Federal Employees' Health Benefits program (FEHB) and the Federal Employees' Life Insurance program (FELI) is no greater than the Executive branch, the Postal Service could not receive appropriations and could not borrow any money from the Treasury. The prohibition on borrowing from the Treasury would have an immediate negative impact on the Postal Service's cash flow, yet the amendment does not change current law with regard to the private sector (rather than federal sector) comparability standard which the Postal Reorganization Act establishes as postal policy, and does not alter the Postal Service's collective bargaining obligations to comply with existing agreements. This is not a workable approach.

15. Do you consider the USPS-APWU agreement to be a model for what USPS should obtain in forthcoming agreements with the three other major postal labor unions?

Answer:

While each union has its own set of unique issues, the Postal Service must achieve its three principal goals with each in the upcoming rounds of bargaining. Those goals are: a) short-term labor cost savings; b) long-term structural labor cost reductions; and c) workforce flexibility changes to increase productivity. The overall objective is to insure that the total dollar contributions from the "workforce" component of the seven-point plan are consistent with our seven-point business plan of returning the Postal Service to profitability as soon as possible. We will need assistance from Congress on the remaining items—pension overpayments, retiree health benefit pre-funding, 6- to 5-day delivery, streamlining regulatory oversight and expanding access while reducing the post office and branch infrastructure to achieve our objective.

16. If this was the best agreement that could be achieved under the current arbitration mechanism, why did USPS not formally request a change in the collective bargaining process from Congress?

Answer:

The Postal Service has made requests for legislative change. Attachment A lists copies of these communications. As far back as 2003, the Postal Service testified before the *President's Commission on the Reform of the Postal Service* and specifically asked for a number of changes to the *Postal Reorganization Act* that would change the collective bargaining process. Included in those suggested changes was the requirement that the Interest Arbitrator take into account the financial condition of the Postal Service in rendering an award, that the parties be free to negotiate over pension and retiree health care, and that the interest arbitration process be streamlined to allow for a quicker resolution of the dispute and for a mediation/arbitration procedure. The Commission adopted all of the Postal Service's recommendations which were included in a report to the President and to Congress. None of these recommendations were included in the PAEA.

17. What specific changes does USPS support in the statutory framework for collective bargaining, and why?

Answer:

Under current law, there is no requirement for the arbitrator to consider the financial condition of the Postal Service when making decisions; therefore, looming financial losses and declines in demand are not necessarily factored into pay increases, benefits, or work rules by an arbitrator. The Board has already gone on record as asking for this change through our Comprehensive Strategic Plan and other published materials.

This is no longer enough. As mentioned in the answer to question 16, the Postal Service recommended before the President's Commission in 2003 that it be given authority to adjust through collective bargaining the eligibility and contribution levels for pensions and retiree health insurance. The President's Commission approved that recommendation, but no legislative action has occurred. This change is absolutely essential to the Postal Service's ability to address legacy costs in a manner consistent with the private sector.

18. USPS has asked Congress to revise the requirements to pre-fund the retiree health benefits for your employees. Given USPS's volume forecast for a continuing decline in mail volume, particularly for profitable First-Class Mail, will USPS be able to pay annual costs of at least \$8 billion for its retiree health benefit premiums a decade from now, when it says it cannot pay what it owes this year? Would a deferral not increase the risk and size of a USPS bailout paid for by the taxpayers?

Answer:

We are a responsible employer who has been and will continue to pay our fair share for the health care costs of our employees and retirees. But the \$5.5 billion per year accelerated payments, mandated in the 2006 Postal Accountability and Enhancement Act (PAEA), are an extraordinary burden that no other organization—private or public—is required to make. They constitute a hidden tax that is neither fair, nor responsible. This issue must be addressed.

The Postal Service has requested changes to the provision that requires pre-funding of retiree health benefits (RHB) over a ten-year period. This requirement amounts to approximately \$5.5 billion a year, in addition to the \$2.4 to \$3.6 billion we pay annually for the health benefits of current retirees. The compression of these payments in so short a time has had a crippling impact on our cash flow. We have funded 47 percent of our total RHB obligations, with over \$40 billion on deposit with the Treasury. However, in doing so, we have depleted our borrowing authority such that we will not be able to make the \$5.5 billion RHB pre-funding payment that is due on September 30, 2011.

Conversely, our other retirement plans have been significantly overfunded at great expense to postal customers. Our CSRS pension has been overpaid by \$50 to \$75 billion, as noted in two independent actuarial reports. Our FERS pension has been overfunded by \$7 billion, as noted by the Office of Personnel Management.

Bills have also been introduced in Congress that would correct Postal Service overpayments to its pension systems and allow the Board of Governors to apply those overpayments to satisfy the RHB pre-funding payments. We fully support these moves.

19. Many USPS executives should lead by example, especially when they are asking for the rank-and-file to accept a wage freeze. Did any postal executives receive pay increases or bonuses in FY 2009 and FY2010? If so, why is USPS increasing executive compensation when it is on the brink of insolvency? How much did these increases and bonuses cost USPS in each fiscal year? For each USPS officer at the level of Vice President and above in FY 2009 and FY2010, separately report (i) annual salary, (ii) each pay increase, (iii) each bonus, including lump sum pay-for-performance awards, spot awards, and other bonus awards, and (iv) each award of deferred compensation.

Answer:

The Postal Service reacted promptly to the financial crisis of 2007 and the resulting volume degradation and loss of revenue. The following is a year by year analysis of Postal Service initiatives to restrain executive salaries. It shows quite clearly that the sacrifice has been borne at the top of the organization. Moreover, the initiatives precede the federal wage freeze as well as the sacrifice asked of both bargaining unit employees in negotiations and non-bargaining unit employees under consultative agreements.

In fiscal year 2008, the Postal Service implemented a salary freeze for executives. In fiscal year 2009, Officers did not receive any performance-based lump-sum payments. In fiscal year 2010, Officer salaries were again frozen and the entire executive salary range was frozen similar to the federal wage freeze.

The answer above clearly shows that the Postal Service is acting responsibly to restrain executive pay, reduce executive ranks and, at the same time, retain and motivate the remaining talent. This is a difficult challenge. It is made all the more so given that postal executives do not receive cost-of-living allowances, locality pay, or longevity-based step increases. For the Postal Service's executive employees, the only annual pay adjustment is a Pay-For-Performance award, which is tied to the Organization's balanced scorecard of performance measures as well as the employee's overall contributions and performance. While financial performance is one of the key measures of our program, so are customer service, productivity, and workplace improvements. All of these performance criteria are critical to the long-term viability of the Postal Service.

These increases and lump-sum payments cost the Postal Service as follows:

For fiscal year 2009, salary increases totaled \$3.9 million (0.005% of total 2009 expenses) and Pay-For-Performance lump sum payments totaled \$3 million. (0.004% of total expense)

For fiscal year 2010, salary increases totaled \$2.8 million (0.004% of total 2010 expenses) and Pay-For-Performance lump sum payments totaled \$7.3 million. (.01 percent of total expense)

The Board is very mindful, based on efforts to hire externally, how low compensation levels are for senior leadership positions compared with the private sector.

You also ask: For each USPS Officer at the level of Vice President and above in FY 2009 and FY 2010, separately report (i) annual salary, (ii) each pay increase, (iii) each bonus, including lump-sum Pay-For-Performance awards, spot awards, and other bonus awards, and (iv) each award of deferred compensation.

In response to the Committee's request, we are providing individual salary, bonus, and other payment information pertaining to each Postal Service officer at the level of Vice President and above for fiscal years 2009 and 2010. While current salaries and non-performance-based bonuses (such as signing or retention bonuses) of Federal and postal employees are matters of public record, any payments based on individual performance generally are entitled to protection from public disclosure. Accordingly, the Postal Service respectfully requests that the Committee not make performance-based payments, including annual pay increases, of individual Postal Service officers a matter of public record.

20. Will USPS freeze any future pay increases and bonuses for its executives for at least as long as APWU pay is frozen? Please explain your answer.

Answer:

As I noted above, the Postal Service has restrained salary increases for its executives since the financial crisis and volume degradation began in 2008 and will continue to do so during this time of necessary fiscal restraint.

It is my view, however, that salary increases and bonuses must be considered each year based on the financial condition of the Postal Service, retention and attraction of key employees, and the pay gap between postal executives and executives in the private and public sectors. We are in a difficult and challenging time. There will be a tremendous turnover in personnel over the next five years and we must take the long view which necessarily requires us to invest in our most important asset—our people. We cannot expect to attract, recruit, and retain the talent the Postal Service so badly needs with indefinite salary freezes and benefit cuts. We have to find other sources of cost cuts and revenue enhancements consistent with our Comprehensive Strategic Plan announced on March 2, 2010. This is not only my view, but the view of the very best private sector consultants available—McKinsey, Boston Consulting, and Accenture.

21. Congress has passed legislation twice within the last decade (2003 and 2006) to restructure USPS obligations and funding for retirement and retiree health benefits. Each time, USPS agreed that the legislation would put it on a firm path to achieving financial stability. Once again, USPS is asking Congress to revise its retiree health care obligations and reduce the cost of financing its employees' Civil Service Retirement System (CSRS) pensions, which would then increase taxpayers' costs.
- a. Why should we ask the taxpayers to assume greater costs for postal employees' retirement benefits?

Answer:

Taxpayers would not assume any of the Postal Service's funding responsibility for postal employees' retirement benefits. The Postal Service has already overpaid the CSRS by as much as \$75 billion, according to two independent actuarial reviews commissioned by the Postal Regulatory Commission and the U.S. Postal Service Office of Inspector General. Additionally, the Postal Service has overfunded its Federal Employees' Retirement System (FERS) pension obligations by \$7 billion, according to the Office of Personnel Management.

- b. What sacrifices should postal executives and employees be asked to make in return for this financial relief?

Answer:

Postal employees have and continue to make considerable sacrifices to adjust to our financial challenges. The performance and productivity gains they have helped the Postal Service achieve are equal to, and in most cases far superior to, other Federal agencies as well as many comparable private sector businesses. Our executives and employees are up to the challenges we face and will continue to make sacrifices, but they expect fair treatment and full consideration of the Postal Services' request to correct our overfunded FERS and CSRS and adjust retiree's health benefits funding in an equitable manner.

22. Do you believe that another restructuring of USPS's retirement obligations will fix USPS's financial problems? If so, for how long? And why should we think it will have different result this time?

Answer:

The \$5.5 billion per year accelerated payments mandated in the 2006 Postal Accountability and Enhancement Act (PAEA) are an extraordinary burden that no other organization—private or public—is required to make. We have funded 47 percent of our total RHB obligations, with over \$40 billion on deposit with the Treasury. We have also overpaid our CSRS and FERS pension funds, which should be addressed. These actions alone will not address our financial challenges in their entirety. However, it would make an enormous difference. Consider the impact, in the last four years, of just one of these factors—the accelerated pre-funding of future retirees' health benefits (RHB). During that period, we achieved a cumulative \$1 billion positive income despite a 20 percent drop in mail volume by saving more than \$12 billion in costs. However, the requirement to pay \$21 billion in RHB payments produced a cumulative net loss of \$20 billion.

Fixing retirement obligation funding is just one part of the balanced suite of solutions that we have proposed. Other elements include reducing delivery to five days, adapting our physical network to reduced volume, enhancing customer access and products, and increasing the flexibility of our workforce.

23. USPS has said that it will run out of money at the end of this fiscal year and that it will exhaust its borrowing authority. What is the Board's fiduciary responsibility regarding this situation, and what action do you plan to take?

Answer:

We believe the Board's main duty is to protect the delivery of the mail and its related impacts on the American economy. Toward that end, the Postmaster General has made clear the intention to continue paying employees and suppliers as a priority over payments to the Federal government.

24. Why does USPS keep coming to Congress to get relief from the obligations it has promised to its employees for retirement and health care benefits? When is USPS going to lay out a plan that will show what actions it plans to take to make it financially stable? What else can the Board of Governors do to help convey this message?

Answer:

The Postal Service is not seeking relief from fulfilling the retirement and retiree health care expectations that Congress by statute has promised postal employees. Rather, the Postal Service seeks fairness in not being overcharged by the federal government for the amounts needed to meet these obligations.

The Postal Service has set aside substantial amounts of cash for its retirement obligations such that no retirees' benefits are in jeopardy during this decade. In fact, the Postal Service has overpaid its CSRS pension obligations by \$50 to \$75 billion, according to two independent actuarial reviews, and has overfunded its FERS pension obligations by \$7 billion, according to the Office of Personnel Management. Additionally, the USPS has funded over \$42 billion of its \$91 billion liability for retiree health benefits, some 47 percent of the long-term obligation. The Postal Service seeks resolution on the RHB pre-funding requirement and the overfunding of CSRS and FERS pensions.

The Comprehensive Strategic Plan issued on March 2, 2010, specified actions that will need to be taken to bring the Postal Service back to profitability. Continued aggressive management actions, including the benefits of the tentative APWU agreement, show the Postal Service being profitable in 2014, given certain legislative changes. To make this happen, the Plan included several hard choices. Other choices not included in the Plan would cause even more adverse implications for the Postal Service's future and for service levels for the American public. I believe the Postal Service is ahead of schedule in achieving plan performance, except in areas that require Congressional approval, such as the elimination of the Retiree Health Benefit Plan Fund pre-payment, the return of FERS overpayments, and delivery frequency flexibility.

The Board of Governors was actively engaged in the development of the Plan, and is regularly provided a status and update as part of every Board meeting. Likewise, the Board is involved with communicating the Plan. I personally participated in the announcement of the Plan as the Chairman of the Board with then-Postmaster General Potter, who was also a member of the Board. We continue to communicate aspects of the Plan in open Board sessions, speeches, and to Congress.

25. Given USPS's unprecedented crisis, what changes, if any, are needed in the Board of Governor's oversight role? If you think no changes are needed, why do you believe the status quo is acceptable?

Answer:

The Board of Governors should be given more latitude to manage the Postal Service like a business, both as a statutory and regulatory matter. This includes the authority to adjust networks, including delivery frequency, as appropriate to reflect market demand. The Board should also have more flexibility to set prices for market-dominant products within an overall CPI cap. In a period of economic distress, most businesses would be increasing prices. Since May 2007, the price of a First-Class stamp has only gone up by 7 percent. At the same time, costs of benefits have gone up by 21 percent and fuel prices have risen by 46 percent. The concept of a rate cap may have been reasonable in the 2006 environment, but in the current environment, it is debilitating. The Governors should be able to set prices for all products as long as there is no cross-subsidization between market-dominant and competitive products. The governance model also needs to recognize that with electronic alternatives, there are no longer monopoly products. The marketplace has multiple choices.

Clearer delineations also are needed between the responsibilities of the Postal Regulatory Commission (PRC) and the Board to avoid conflicting opinions and activities. The Governors are tasked by the law with acting in the public interest, and I believe the public interest is served by a balanced approach that ensures that we provide a level of service that is both suited to the needs of the American people, and is capable of being provided in a self-sufficient and financially stable manner. While I would certainly welcome the comments of the PRC on major service changes, the current procedure as administered by the PRC is too long and cumbersome. I also believe that this process should be limited to service changes for market-dominant products only. In addition, as discussed above, I believe that the authority over pricing should be placed firmly in the hands of the Governors, with the PRC role limited to ensuring that cross-subsidization does not occur and the overall cap adhered to. This also means that the Governors should be allowed to supervise the process by which management gives contract rates to mailers, without unnecessarily bureaucratic procedures. Finally, I believe the Board should have final authority to determine the facilities and other channels through which the Postal Service provides its products and services.

Questions for Governor Miller

Chairman Darrell Issa

Committee on Oversight and Government Reform

Hearing on “Are Postal Workforce Costs Sustainable?”

Please note: As indicated in my prepared statement and remarks at the Hearing, Chairman Giuliano speaks for the Board of Governors. To the extent any of my responses diverge from those expressed by Chairman Giuliano, please consider these my own personal views and not necessarily the views of the Board or of any other Governor.

1. USPS has projected cumulative deficits of \$43.2 billion in FY2011-2015. Even taking USPS's initial savings estimate of \$3.8 billion at face value, USPS projects it will still lose \$39.4 billion. In your view, why did USPS enter into an agreement with APWU that does so little to avert looming insolvency? How was this not a missed opportunity?

Answer:

As I explained during the hearing, I believe the agreement we concluded was the best we could get under current law. As pointed out in my prepared statement, current law is biased in favor of labor and against management. To get a more favorable outcome for USPS, you need to change the law.

2. In your view, will the tentative agreement with APWU—which includes no layoff protection, limits on excessing relocated employees, limits on outsourcing, returns thousands of jobs that were subcontracted back to postal employees, and eliminates many of the current part-time or temporary positions—provide USPS with sufficient flexibility to effectively realign its workforce? Does this not lock in restrictions on flexibility for the next 4½ years regardless of whether mail volume and workload decline even faster than USPS has anticipated?

Answer:

The agreement has many facets. Some provisions, such as the ones you cite, limit management's flexibility. Other provisions give management considerably more flexibility and opportunity to lower costs, especially over the latter years of the agreement. Again, we did the best we could under existing law.

3. In your view, given USPS's expected financial shortfalls, why did USPS agree with APWU to continue paying a larger share of health insurance and life insurance premiums than other federal agencies? Is not parity long overdue?

Answer:

Yes, parity is long overdue. We negotiated for that result, but could not achieve it. Again, we did the best we could under existing law.

4. What are your views on Senator McCain's legislation that would require USPS not to pay a larger share of health insurance benefits than federal agencies? How much would USPS save each year if such a change was made? What about USPS paying a larger share of life insurance benefits than federal agencies?

Answer:

I endorse Senator McCain's legislation, though it needs to be amended to state the specific amount (percentage) USPS should pay and provide for a reopening of the contract. Realize, of course, that the unions will turn their demands to other issues, so all the savings will not be realized. As for the estimate of savings, those will be found in Postmaster General Donahoe's response.

5. Do you consider the USPS-APWU agreement to be a model for what USPS should obtain in forthcoming agreements with the three other major postal labor unions?

Answer:

No, we will negotiate for a much more favorable agreement. But realistically, the USPS-APWU agreement will be the "default" around which negotiations with other unions will turn.

6. What specific changes do you support in the statutory framework for collective bargaining and why?

Answer:

I have not made an extensive study of this matter and at this time express no preference, but here is a range of possibilities for the committee to explore: (a) requiring postal employees to pay a share of health insurance costs in line with those paid by other federal employees (per Senator McCain), (b) spelling out for the arbitrators explicitly what is meant by "comparable pay," (c) putting *all* benefits on the negotiating table, instead of having certain benefits mandated by law, (d) giving postal employees the same bargaining rights as other federal employees, and no more, (e) giving union members the right to strike and management the right to lock out, but in either case suspending the private express statutes, (f) limiting, by law, average wage and benefit increases in future contracts, (g) mandating wage and benefit decreases, until the current "premium" is eliminated, and (h) conditioning acceptance of a negotiated settlement on a joint resolution of approval.

7. As you know, Title 39 mandates compensation comparability between USPS and the private sector and in a recent paper you wrote, you highlight econometric studies that suggest a 25-30 percent compensation premium for USPS employees. Would you agree that a compensation premium likely costs USPS billions every year?

Answer:

Absolutely.

8. Considering USPS's financial problems, would you consider it urgent for USPS to eliminate its unwarranted wage premium?

Answer:

Yes.

9. You have recently noted that by far the greatest cost complication relates to the fact that over 80% of USPS's costs are salaries and benefits, including retirement. Can USPS become financially viable without significantly reducing these compensation and benefit costs?

Answer:

Not as a stand-alone financial entity.

10. Considering that USPS is on the brink of insolvency—do you believe this contract goes far enough to meaningfully change USPS's financial trajectory?

Answer:

As I said at the hearing, we tried very hard to get a better agreement, but could not under existing law. We need more systemic reform, not just with respect to labor. And by systemic reform, I include greater authority to adjust rates and services quickly to meet shifting customer demands and to reflect changes in costs.

11. Would any well-run private company facing insolvency be giving raises to its employees?

Answer:

Under laws affecting labor relations in the private sector, that would be unlikely.

12. Considering the unprecedented financial difficulties of USPS and its dire financial outlook, does the new APWU agreement reflect the shared sacrifice that should be expected of all key postal workforce, including both management and employees?

Answer:

The APWU bargained for a much more generous agreement and undoubtedly believes it is making a sacrifice. I believe the current financial crisis requires more, however.

13. In your testimony, you indicate you were disappointed with the APWU agreement, but you approved of it because it was the best you thought could be achieved. Can you describe why you were disappointed? Do you think it failed to go far enough to address underlying compensation issues?

Answer:

We went into the negotiations asking for substantial wage cuts, higher coverage of benefits (by APWU members), and far more flexibility in work rules. We were not successful on the first point, but were partially successful on the latter two.

14. What would a good contract look like in terms of wages and attrition?

Answer:

There would be overall wage reductions, more employee coverage of health insurance costs, and an absence of "no-layoff" provisions.

15. In the paper you submitted with your testimony, you argue savings could be achieved by streamlining postal management. Can you elaborate? Would this include further area and district consolidation?

Answer:

The major focus of my comments on “streamlining” went to the Postal Service’s logistical network. It has excess capacity and is designed for a bygone era. The major problem is that our attempts to streamline are hampered by appropriations riders, other restraints embodied in relevant law, and interventions by the Postal Regulatory Commission.

16. You also argue the most significant savings could come from compensation for members of USPS’s craft unions, and you argue that labor negotiations that have gone to arbitration have generally gone against USPS. Can you explain why this is so? What changes, if any, would you suggest for the arbitration process?

Answer:

The unions have been very effective in arguing that “comparable pay” is to be found in labor pools from which we would not hire. Probably the single most important change for the arbitration process would be legislation explicitly defining the comparable labor pool.

17. Do you believe an immediate shift in USPS health care premium contribution levels to that required of the rest of the federal workforce is warranted, given the fiscal reality of USPS?

Answer:

Yes.

18. In your paper, you also highlight the problems of strict work rules and no layoff protections for union employees. Can you describe some of the problems these cause?

Answer:

With relatively few exceptions, we must pay our craft employees for an eight-hour day. We Governors visited facilities of UPS and FedEx, and were impressed by these companies’ use of part-time employees to meet their peak demands – a point made to us in a previous special report by our Office of Inspector General. While the “peakedness” of USPS operations is not as pronounced, we would realize considerable savings if we were able to use part-time employees and /or run split shifts. The contract with the APWU allows us a modicum of such flexibility, especially during the contract’s later years.

19. Do you believe the restructuring plan put forward by former Postmaster General John Potter and the Board of Governors goes far enough to address USPS’s financial outlook?

Answer:

Barely – and only if it were adopted in full.

20. This contract will in-source at least 4,000 contracted positions back to the APWU, do you believe this is a step in the right direction, especially given the promise of alternative access options for USPS retail facilities?

Answer:

In our bargaining with the APWU, we accepted this provision, because we got more in return. Keep in mind that the in-sourcing will work only insofar as the unionized group competes for the work with the private sector and wins.

21. Knowing the result of the APWU agreement, do you believe that USPS management should be given the authority to lockout employees? Should union members be allowed to strike?

Answer:

Please see my answer to #6 above.

22. Do you believe the APWU contract signals a "new approach" that you believe is necessary to stabilize USPS's business model for the near future? Or is it merely the "fine-tuning" you warn against in the conclusion of your paper?

Answer:

My initial thought is that it is mostly fine-tuning. But that could change, depending on our experience with the flexibility provisions in the new contract.

23. USPS has asked Congress to revise the requirements to prefund the retiree health benefits for your employees. Given USPS's volume forecast for a continuing decline in mail volume, particularly for profitable First-Class Mail, do you think USPS will be able to pay annual costs of at least \$8 billion for its retiree health benefit premiums a decade from now, when it claims it cannot make the payment due September 30th of this year? By deferring the cost now, is it not increasing the risk that taxpayers will have to provide a bailout down the road?

Answer:

I can understand Congress' concern that it could end up holding the bag on retiree health benefits. For that reason, I do not personally oppose asking USPS to make progress payments. What I do object to is requiring USPS to pay more than is required by solid analysis – of the type performed by our Office of Inspector General and other government agencies.

24. Many USPS executives should lead by example, especially when they are asking for the rank-and-file to accept a wage freeze. In your view, should USPS freeze any future pay increases and bonuses for its executives for at least as long as APWU pay is frozen? Please explain your answer.

Answer:

No, I do not detect a "premium" in the pay and benefits of our executives. To the contrary, we often find it very difficult to attract needed talent at the pay scales we are allowed to offer. That said, there is every reason to "resize" our management corps, as has begun under Postmaster General Donahoe, and please note that USPS officers currently are under a pay and benefits freeze.

Questions for Postmaster General Donahoe

Chairman Darrell Issa

Committee on Oversight and Government Reform

Hearing on “Are Postal Workforce Costs Sustainable?”

1. You were reported saying that postal labor expenses under the APWU-USPS agreement will continue to be 80 percent of all USPS expenses, in an April 4, 2011 Bloomberg News article (See <http://www.bloomberg.com/news/2011-04-04/u-s-postal-service-says-labor-contract-would-save-3-8-billion.html>). Were you quoted correctly? Why should labor costs continue to consume 80 percent of USPS costs—the same percentage as many years ago, before USPS spent billions of dollars on automated technology to become less labor intensive? Is major progress in cutting labor costs long overdue?

Answer:

My comments in the article reflect the reality that we have always been, and will continue to be, a labor intensive organization as a result of the universal service obligation to send an employee to every home and business address every day. Nevertheless, we have achieved significant labor savings over the past ten years, with work-hour reductions that are the equivalent of some 240,000 full-time employees. To put that number into perspective, only 15 companies in the Fortune 500 employ more than 240,000.

Our focus is not just on reducing labor costs, but all the costs of our business. While personnel represented 80% of our total costs in 2010, our plan is to reduce it to 78% in 2011. Changing two key items, eliminating pre-funding of retiree health benefits and implementing five-day mail delivery, would have the effect of reducing our labor costs to 75% of total costs in 2011. With more planned savings in future years, our labor costs would then reduce to 72% of total costs by 2015.

2. USPS has claimed that this agreement will save USPS close to \$4 billion over its 4½ year life. However, there is little transparency of the basis of this claim or what the true financial effects will be of the agreement. To provide transparency, provide the following information with supporting documentation for financial estimates, including supporting assumptions.

a. What will be the overall financial impact of this agreement? Project total USPS expenses (i) under this agreement, (ii) if wages increase at the rate of the Employment Cost Index (ECI), (iii) if wages increase by ECI minus 1%, and (iv) if wages are frozen for the life of the agreement. Provide annual data for FY2011-2015.

Answer:

The financial impact of this agreement is its direct effect on APWU salary and benefit costs, as well as efficiency gains from added work force flexibilities. These efficiency gains are difficult to quantify and as such have not been included in savings that have been presented previously or in the cost figures below. In line with this approach, the following chart reflects APWU salary and benefit projected costs in millions by fiscal year for the contract term for (i) the tentative agreement (TA); and then what it would be under the following assumptions: (ii) ECI, (iii) ECI minus 1%, and (iv) if wages were frozen. The wage freeze scenario does not also assume a new career schedule, increased non-careers or other savings from the tentative agreement.

	<u>FY</u> <u>2011</u>	<u>FY</u> <u>2012</u>	<u>FY</u> <u>2013</u>	<u>FY</u> <u>2014</u>	<u>FY</u> <u>2015</u>	TOTAL
S&B						
TA	14,652	14,337	13,975	13,853	13,748	70,564
ECI	14,801	14,854	14,891	14,882	14,993	74,421
ECI-1	14,701	14,623	14,532	14,400	14,386	72,642
Wage Freeze	14,619	14,433	14,237	13,977	13,819	71,085

b. How will this agreement impact USPS compensation and benefit costs? Project these costs (i) under this agreement, (ii) if wages increase by ECI, (iii) if wages increase by ECI minus 1%, and (iv) if wages were to be frozen for the life of the agreement? Provide annual data for FY2011-2015.

Answer:

This answer to this question is found in the information above.

c. How will this agreement impact USPS wage costs? Project these costs (i) under this agreement, (ii) if wages increase at the rate of the Employment Cost Index (ECI), (iii) if wages increase by ECI minus 1%, and (iv) if wages are frozen for the life of this agreement. Provide annual data for FY2011-2015.

Answer:

The following chart reflects projected wage costs for the APWU under the scenarios requested.

<u>Wages</u>	<u>FY</u> <u>2011</u>	<u>FY</u> <u>2012</u>	<u>FY</u> <u>2013</u>	<u>FY</u> <u>2014</u>	<u>FY</u> <u>2015</u>	TOTAL
TA	10,857	10,699	10,501	10,471	10,371	52,897
ECI	10,957	11,020	11,047	11,040	11,122	55,187
ECI-1	10,883	10,849	10,781	10,682	10,672	53,867
Wage Freeze	10,822	10,708	10,562	10,369	10,251	52,712

d. How will this agreement impact USPS health insurance costs? Project these costs (i) under this agreement; (ii) if USPS coverage of health insurance premiums remained unchanged; (iii) if there were to be immediate parity in USPS coverage of health insurance premiums with that paid by other federal agencies. Provide annual data for FY2011-2015.

Answer:

The following chart reflects projected health benefits costs for the APWU under the scenarios requested.

<u>HB</u>	<u>FY</u> <u>2011</u>	<u>FY</u> <u>2012</u>	<u>FY</u> <u>2013</u>	<u>FY</u> <u>2014</u>	<u>FY</u> <u>2015</u>	<u>TOTAL</u>
TA	1,581	1,566	1,514	1,579	1,650	7,890
No change	1,581	1,566	1,544	1,637	1,733	8,061
Fed level	1,581	1,430	1,367	1,450	1,534	7,361

e. How much will this agreement increase USPS future obligations for (i) pensions; and (ii) retiree health insurance? Provide annual data for FY2011-2015.

Answer:

The Postal Service's future obligations for pension and retiree health insurance will decrease as a result of a lower tier wage scale for new hires and the influx of a noncareer workforce that will not be entitled to pensions and retiree health benefits. As more and more Postal Support employees are hired, the Postal Service will reduce its costs by having fewer employees eligible for retirement pensions and health benefits. The lower tier will result in lower pension obligations because the final annuity calculation will be based on an average high three years that is lower than that for existing employees.

Specifically, we estimate that as a result of hiring noncareer employees instead of career employees, there will be a \$555 million reduction in pension costs and a \$312 million cost avoidance over the contract term in the "normal" cost for retiree health insurance. This \$312 million is not included in the \$3.8 billion savings estimate previously reported.

- Historically, has USPS achieved its full projected savings or cost growth limitations of negotiated, rather than arbitrated, collective bargaining agreements? Please provide documents and data contemporary to the signing of any non-arbitrated collective bargaining agreement that has expired within the last ten years that outlined projected savings or cost growth limits as well as documents and data related to any analysis of whether those figures were achieved over the life of each agreement.

Answer:

The extent to which cost and savings projections at the beginning of a contract accurately predict what happens during the contract term is sensitive to variations in such factors as economic growth, mail volume and mail mix forecasts, inflation, and complement changes. This is equally true whether an agreement is negotiated or arbitrated.

The 2006 negotiated collective bargaining agreement with the APWU is the most recent one that has run its full term. When the contract was negotiated, it was expected to add \$2.9 billion over the four year contract term (on average \$720 million per year) to the \$18.8 billion in annual APWU wage and benefits costs. In fact, due to drastic complement reductions that were not fully anticipated in 2006, the actual wage and benefits cost for APWU dropped to \$15.5 billion in FY 2010. While the reduction in complement was not the direct product of changes in the contract, this fact obviously impacts any overall analysis of projected costs and savings.

As for forecasted wage percentages, the 2006 agreement was projected to increase average wages by 9.5% over four years. The actual increase was 10.7%. The difference is the result of the severe run-up in oil prices in 2008 which increased the Consumer Price Index, and thus the Cost-of-Living-Adjustment (COLA), in that year.

Negotiated agreements were also reached with the National Postal Mail Handlers Union, AFL-CIO (Mail Handlers Union) for the term of the 2000-2004 Agreement and the National Association of Letter Carriers, AFL-CIO (NALC) for the term of the 2001-2006 Agreement. Forecasted and actual wage percentage increases for these two contracts are as follows:

	<u>Forecasted</u>	<u>Actual</u>
<u>NALC</u>	14.4%	15.8%
<u>Mail Handlers</u>	11.0%	10.8%

4. What will be the estimated percentage increase in APWU wages for each of the Cost of Living Adjustments (COLAs) during the USPS-APWU agreement? For each fiscal year from 2011-2015? How do these annual percentage changes compare with projected changes in ECI and the Consumer Price Index (CPI)?

Answer:

See chart below.

<u>COLA Trigger</u>	<u>COLA</u>	<u>CPI-W</u>	<u>ECI</u>
Jan-11	0.0%	0.8%	0.3%
Jul-11	0.0%	1.8%	1.1%
Jan-12 1/	0.2%	0.3%	1.0%
Jul-12 2/	1.0%	1.6%	1.0%
Jan-13	0.2%	0.3%	1.0%
Jul-13	1.2%	1.8%	1.1%
Jan-14	0.3%	0.4%	1.1%
Jul-14	1.3%	1.9%	1.2%
Jan-15	0.2%	0.3%	1.1%
Total	4.4%	9.5%	9.4%

1/ Payment effective deferred to March 2013

2/ Payment effective deferred to September 2013

5. How many career APWU members does USPS currently employ? How many career APWU members does USPS project to employ at the end of the contract? How many of these projected career employees will be part of the second tier wage scale?

Answer:

The Postal Service currently employs approximately 202,000 employees represented by the APWU. By the end of the contract term, we project the career APWU work force to be down to 152,000 full-time equivalents, of which 28,000 will be in the new, lower tier pay schedule. This projection does not include the additional career reduction should the Postal Service move to five-day delivery.

6. How many workers/contractors does USPS currently employ for work that is expected to be in-sourced to APWU as a result of the APWU agreement? Will jobs currently handled by non-bargaining USPS career staff or other craft unions be converted to APWU positions? If so, how many of these conversions are expected for each craft union and management association?

Answer:

The tentative agreement will insource at least 2,500 jobs. Generally, this is being done on a basis that will be cost neutral or better. Beyond the 2,500 jobs, there are additional jobs that under the tentative agreement the Postal Service has agreed to review and bring in-house if it can be done on a cost-effective basis.

The tentative agreement also has provisions for job audits to be conducted that will determine if certain work currently performed by nonbargaining employees should be returned to APWU bargaining unit members. The tentative agreement includes a commitment of 800 jobs to be created from this work.

The tentative agreement does not include any commitment to transfer work from any other craft.

7. Does USPS have more employees than it currently needs? If so, how many? Provide breakdowns for career/non-career employees and bargaining/non-bargaining employees.

Answer:

We do not have more employees than we currently need given our service standards, the requirements of universal service and six day a week delivery, and our current initiative to reduce the size of management. We have been extremely successful in reducing our complement over the past ten years as more automation has been implemented and mail volumes, and thus workload, has decreased. We will need to continue to adjust our complement downward as additional efficiencies are implemented and volumes and the mix of mail changes. We have demonstrated our success at complement reduction in the past and will continue to do so in the future, but I believe that it would be inaccurate to suggest that there is a significant excess number of employees at this time.

8. How does USPS expect to reach its target of reducing the number of career employees to 400,000? How do you plan to reach it and what is a realistic timeline given attrition levels and no layoff clauses in contracts?

Answer:

All of the Service's complement numbers are based upon our volume projections. We have a good track record based on historical experience, projections for the growth of the economy and discussions with our principal mailers. These projections are based on current information and are constantly updated as new information becomes available.

We have set forth below complement projections through 2020 that reflect our plan to move from six to five day delivery and to expand the use of noncareer employees in all our bargaining units. As shown in this projection, the Postal Service will be down to approximately 400,000 career employees by 2020.

Reducing the complement, as needed, can be done within the confines of the layoff provisions we have negotiated. Given the demographics of the Postal Service workforce, normal attrition results in over 30,000 career employees leaving the Postal Service workforce every year. The Service anticipates losing 300,000 career employees between now and 2020. The Service will actually be in a hiring mode for much of the remainder of this decade even in the most pessimistic volume scenario.

However, if Congress does not permit a change in the frequency of delivery days, approximately 40,000 additional employees will be necessary.

9. What are USPS projections for its workforce size for each fiscal year from the end of FY2011 through 2020? Provide breakdowns for each type of career and non-career employee and subtotals by bargaining unit.

Answer:

The workforce projection shown in the chart below is based on a ten-year estimate of various inputs, including workload, mail volumes and workforce mix. The "Base Forecast" is prior to accounting for the flexibility gains in the APWU tentative agreement, changes we plan to achieve with other bargaining units, and the move from six to five day delivery. The numbers are expressed in full-time equivalent work years (FTEs), which approximate complement. The impact of these changes and how they help reach the 400,000 career complement goal is shown on the chart. Please note that the noncareer numbers listed under the "Labor Negotiations" heading are the incremental increases in noncareers added as a result of contract changes in the APWU tentative agreement and those planned for the other bargaining units. They are in addition to the approximately 77,000 FTE noncareer bargaining unit employees in place currently and continuing.

USPS Workforce Estimate
(000's)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Base Forecast											
Bargaining career	517	496	491	485	483	477	468	456	448	436	430
Non-bargaining career	67	64	59	59	58	58	58	57	56	56	56
Total USPS career	584	561	550	544	541	535	526	513	504	492	485
Less:											
Labor Negotiations											
Noncareers hired instead of careers		1	20	41	54	54	52	51	50	49	48
5 Day Delivery											
Net reduction in career requirement				20	40	40	40	40	40	40	40
Total USPS career											
Bargaining career		495	471	424	389	383	376	364	358	347	342
Non-bargaining career		64	59	59	58	58	58	57	56	56	56
Total USPS career		560	530	482	447	441	433	421	414	403	397

Note: The above table has been estimated using full-time equivalent employees needed to handle mail volume and workload.

10. What are USPS projections for separations from its workforce for each fiscal year from FY2011-2020? Provide breakdowns for (i) retirement, (ii) voluntary separation, and (iii) involuntary separation such as layoffs and other terminations. Also provide breakdowns for each type of career and noncareer employee and subtotals by bargaining unit.

Answer:

The Postal Service has estimated projections on the separations from its workforce for career employees, but does not estimate attrition for non-career employees, as the Postal Service may always separate such employees for lack of work. The chart below shows an estimated attrition forecast by fiscal year for bargaining and non-bargaining unit employees, and then by retirement and other separations.

USPS CAREER ATTRITION PROJECTIONS

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Barg.	27,300	28,100	28,600	29,300	29,800	27,400	26,700	27,000	27,700	28,600
Nonbarg.	4,600	4,800	5,000	5,200	5,400	5,700	6,000	6,200	6,500	6,700
Total	31,900	32,900	33,600	34,500	35,200	33,100	32,700	33,200	34,200	35,300
Ret.	25,600	26,600	27,300	28,200	28,800	26,700	26,300	26,900	27,900	28,900
Other	6,300	6,300	6,300	6,300	6,400	6,400	6,400	6,300	6,300	6,400
Total	31,900	32,900	33,600	34,500	35,200	33,100	32,700	33,200	34,200	35,300

11. What are USPS projections for hiring into its workforce for each fiscal year from the end of FY2011 through 2020? Provide breakdowns for each type of career and noncareer employee and subtotals by bargaining unit.

Answer:

The chart below repeats the numbers from the answer to question 9, and then shows the impact of career attrition on career complement and how much potential career hiring is projected as a result.

USPS Career Requirement Estimate
(000's)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Base Forecast											
Bargaining career	517	496	491	485	483	477	468	456	448	436	430
Non-bargaining career	67	64	59	59	58	58	58	57	56	56	56
Total USPS career	584	561	550	544	541	535	526	513	504	492	485
Less:											
Labor Negotiations											
Noncareers hired instead of careers		1	20	41	54	54	52	51	50	49	48
5 Day Delivery											
Net reduction in career requirement				20	40	40	40	40	40	40	40
Total USPS career											
Bargaining career		495	471	424	389	383	376	364	358	347	342
Non-bargaining career		64	59	59	58	58	58	57	56	56	56
Total USPS career		560	530	482	447	441	433	421	414	403	397
Career attrition		32	33	34	35	35	33	33	33	34	35
Additional FTEs needed for workload		8	4	0	0	29	25	21	26	23	29

Note: The above table has been estimated using full-time equivalent employees needed to handle mail volume and workload.

12. How many USPS employees are being offered \$20,000 buyouts and how many have/are expected to accept these offers? Provide breakdowns by headquarters/field and EAS/PCES.

Answer:

There are approximately 12,400 employees who are eligible to leave under this offer in the targeted areas as provided below.

Incentive Eligible	EAS	PCES	Total
HQ	5519	336	5855
Field	6468	61	6529
TOTAL	11987	397	12384

The period for accepting the incentive has closed, and the following numbers of employees have accepted the incentive. The numbers are final, except that employees eligible for optional retirement who have accepted the incentive have the right to cancel their retirement (and, thus, the incentive) prior to the retirement's effective date.

Accepted Incentive	EAS	PCES	Total
HQ	689	36	725
Field	1339	16	1355
TOTAL	2028	52	2080

13. You recently announced that you will be closing 7 out of 74 district offices. How did you decide how many to close? Do you anticipate any additional closings of field or administrative offices and if so, in what timeframe?

Answer:

All 74 districts were evaluated based on various workload drivers including: number of deliveries, square mile coverage, volume, number of bargaining employees, revenue, and number of plants and postmasters. As a result of the evaluation it was determined that these seven districts could be consolidated without negative impacts to our operations and customer service. We have no immediate plans to further reduce administrative offices, however as with all of our consolidation efforts, administrative offices will continue to be evaluated and potentially consolidated as workload changes.

14. Recently, David Williams, Vice President for Network Operations Management, announced USPS's intent to close 100 mail processing facilities by 2013. In light of the no-layoff expansion and the restrictions on excessing in the APWU agreement, please provide an outline of the cost savings achieved through these closures as well as any impediments the APWU agreement would have on fully achieving the projected savings. Also provide estimates of the number of each type of facility to be closed (e.g., processing and distribution facility, customer service facility, regional distribution center, logistics and distribution center, annex, hub-and-spoke facility, remote encoding center, international service center, warehouse, etc.).

Answer:

The no-layoff clause is an extension of previous agreements and has not been an impediment to the Postal Service recovery of savings due to events resulting in reduced labor requirements. The labor-management agreement defines excessing procedures to be

used in conjunction with other activities that provide impacted employees with alternative employment options. The new agreement does not restrict excessing from occurring, but instead identifies new steps for determining areas of employment consideration. An initial high level assessment estimates over \$200 million in savings can be realized through these consolidations. These estimates are subject to change based on volume changes within the network, as well as detailed analysis performed during the study phase.

The estimated number of each type of facility to be consolidated through 2013, including consolidations that have occurred in FY 2011 is as follows:

- 32 Processing and Distribution Facilities (consolidations may not result in a complete facility closure)
- 41 Customer Service facilities
- 4 Destinating Distribution Centers
- 1 Logistics and Distribution Center
- 20 Annexes
- 4 Surface Transfer Centers (formerly known as Hub and Spoke Facility)
- 2 International Service Centers
- 5 Warehouses
- 1 Air Mail Center

15. In your testimony you argue the APWU deal is the best possible outcome given the legal constraints placed on negotiation. Why has USPS not asked for changes to the statutory framework for collective bargaining, especially given your repeated requests for financial relief? What specific legal changes does USPS support in regard to compensation, arbitration, and pay comparability?

Answer:

The Postal Service has made requests for legislative change since 2001. (A listing of these documents is included in Attachment A and copies of correspondence in which the Postal Service has used to raise this issue also are attached.) In 2003, the Postal Service testified before *The President's Commission on the Reform of the Postal Service* and specifically asked for a number of changes to the *Postal Reorganization Act* that would change the collective bargaining process. Included in those suggested changes was the requirement that the interest arbitrator take into account the financial condition of the Service in rendering an award, that the parties be free to negotiate over pension and retiree health care, and that the interest arbitration process be streamlined to allow for a quicker resolution of the dispute and for a mediation/arbitration procedure. The Commission adopted all of the Postal Service's recommendations which were included in a report to the President and to Congress. None of these recommendations were included in the *Postal Accountability and Enhancement Act*.

16. What dollar value do you place on the savings from the APWU agreement in each year of the contract? Project savings compared to baselines where (i) wages increase at the rate of the Employment Cost Index (ECI), (ii) wages increase by ECI minus 1%, and (iv) wages are frozen.

Answer:

The following chart shows the projected savings from the tentative agreement as compared to the requested scenarios.

TA comparisons	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	
ECI	(\$149)	(\$517)	(\$916)	(\$1,029)	(\$1,245)	(\$3,857)
ECI-1	(\$49)	(\$286)	(\$557)	(\$547)	(\$638)	(\$2,078)
Wage Freeze	\$33	(\$96)	(\$262)	(\$124)	(\$71)	(\$521)

17. Last month, USPS had roughly 572,000 career employees. Both PMG Donahoe's and Chairman Giuliano's testimony suggested an ideal workforce of 400,000 career employees.

a. How many career employees does USPS currently have?

Answer:

571,179, as of April 15, 2011.

b. You state that you project the career workforce will shrink to 400,000 by 2020. Is this correct?

Answer:

As noted previously, I believe that the career work force can be reduced to 400,000 by 2020 with a combination of aggressive management action and the flexibility from Congress that we have requested in regard to delivery frequency and facility closures.

c. Assuming any constraints on the workforce were removed, what is the ideal size of the workforce today? Do you have more total career employees than are needed given declining volume?

Answer:

Workforce constraints, such as layoff protection, are not requiring us to keep a larger work force than otherwise would be necessary. As noted previously, given current service standards, the requirements of universal service, the six day a week delivery, and our current initiative to reduce the size of management, the Postal Service does not employ more than it needs. The career complement can be reduced even further over time with gains in the use of noncareer employees in other bargaining units, further consolidations and efficiency initiatives, and if Congress authorizes a change to five day delivery and eases the restrictions on the closure of unprofitable post offices and branches.

d. Through 2020, what is the average number of employees you expect will leave the postal workforce each year?

Answer:

See answer to question 10.

e. Given the financial situation of USPS, does it not make sense to take a less passive approach to reaching the 400,000 goal?

Answer:

We have been very aggressive in reducing complement. Over the past ten years, the Postal Service has gone from a total career complement of 775,903 to the current 571,179. This is a 26% reduction in workforce without changes in service standards or diminution in performance. We will continue to be aggressive in reducing complement based on volume trends, mail processing consolidations, our ability to close unneeded facilities and Congressional action on granting flexibility to reduce delivery days.

18. Electronic Diversion has been a growing problem since 1988. In a May 2010 USPS filing in a Postal Regulatory Commission Docket, USPS stated that USPS has felt the effects of electronic diversion since 1988 and that the cumulative volume losses for First-Class Mail "have not been reversed in over twenty years, but instead have consistently climbed from one percent to over fifty percent." (See <http://www.prc.gov/Docs/68/68082/Resp.GCA.1t2.Redrct.USPS.pdf>.)

a. Is this true?

Answer:

Yes. The cited interrogatory response clearly shows a creeping of electronic diversion that accelerates over the last 20 years. From 1988 to 1990, the annual volume loss to electronic diversion averaged around 1%. From 1998 to 2000, the annual loss was around 3 percent. From 2008 to 2009, the average annual loss was just under 4.5 percent.

Subsequent econometric analyses suggest that this may actually understate the impact of electronic diversion in recent years. Current estimates place First-Class Mail volumes lost to electronic diversion at over 5.5% per year for 2008 through 2010.

b. Also, is it fair to say USPS experienced growing electronic diversion throughout the 1990's, but it simply had not yet grown large enough to start driving First-Class Mail volume downward in absolute terms?

Answer:

Yes, that is a fair statement. Through the mid-1990s First-Class Mail volume tracked fairly closely with real Gross Domestic Product. In the mid-1990s, First-Class Mail growth slowed relative to the economy. After a few years, First-Class Mail volume began to decline, despite the fact that the economy continued to grow.

19. According to USPS data, the average employee cost USPS \$89,845 per year in FY2010, or close to \$45 an hour including benefits.

a. Is the total compensation averaging out at more than \$80,000 per postal employee per year, including wages and all benefits, including retiree health benefits?

Answer:

No, as I noted in my March 2, 2011 Post-Hearing Questions for the Record, the FY 2010 average compensation and benefits rate was \$41.45 per work hour. This is a composite average hourly rate across all postal employees, including bargaining and nonbargaining, career and noncareer. This hourly rate includes payment for hours worked and paid leave. The hourly rate of \$41.45 should not be multiplied by 2,080 hours (52 weeks X 40 hours = 2080) to arrive at average annual compensation as this results in accounting for the leave benefit twice. To determine an accurate average employee cost, the hourly rate which already reflects the value of paid leave must be multiplied by the average yearly work hours which is approximately 1,750 hours per year. The FY 2010 average employee cost is less than \$73,000 (\$41.45 X 1,750 hours) per year.

b. If it is not more than \$80,000, then why did former PMG John Potter say it was above \$80,000 in 2009? Have compensation costs gone up or down since then?

Answer:

The source of PMG Potter's information for that statement is unclear. The FY 2009 average hourly cost per career employee was \$40.48. With 1,750 average work hours per full-time employee, the average cost per employee for FY 2009 would be less than \$71,000.

c. Is it true that the average compensation per work hour now exceeds \$40 per hour, as USPS has publicly reported?

Answer:

As reported above, the average compensation per work hour is \$41.45. This cost includes compensation for hours worked, paid leave and all other employee benefits such as retirement contributions and health benefits.

d. Is it also true this base calculation does not include retiree health care costs?

Answer:

Yes, that is correct. Retiree health care costs are reported as a separate expense item and included in Total Operating Expenses.

20. Dr. Michael Wachter is a University of Pennsylvania economist and a consultant for USPS on compensation costs. In 2003, he calculated a 34% compensation premium for postal employees.

a. Is the compensation received by USPS employees greater than in the private sector for comparable work?

Answer:

I do believe that many postal employees receive a compensation premium. However, there is no single wage premium number applicable to all jobs and categories of employees. Our highly-skilled Electronic Technicians and Vehicle Mechanics may have little or no wage premium, but the compensation premium for our custodians is high. The wage premium is addressed in the tentative agreement differently for those employee categories that are considered to have the higher premium. The new career wage schedule takes account of differing levels of wage premium by addressing various employee groups differently:

- **New career pay schedule for custodians reduces starting salary by about 25%**
- **New starting salary for clerks is 13% lower than current starting salary**
- **New starting salary for Electronic Technicians remains unchanged.**

The two-year wage freeze and the reduction in both starting and top pay for new career employees will significantly diminish the wage premium in the APWU bargaining unit. In addition, the use of lower cost noncareer employees in the tentative agreement is more heavily weighted towards those positions considered to have a wage premium, including 20% in the clerk craft. Even with regard to the 10% noncareer allotment in the maintenance craft, we will use these noncareers in the custodial positions rather than the higher-level maintenance technician positions.

b. Is the magnitude of this premium paid by USPS over 30%? What is it?

Answer:

See answer above.

c. What is the quit rate for USPS employees? Please provide bargaining unit and nonbargaining unit breakdowns. If retirements are included in the quit rate, report the total quit rate and separate quit rates due to retirements and other reasons.

Answer:

The requested information for FY 2010 is in the chart below.

<u>Rate</u>	<u>Quits</u>	<u>Retirement</u>	<u>Discharge</u>	<u>Other</u>	<u>Total</u>
Bargaining	0.7%	5.9%	0.3%	0.3%	7.1%
Non-bargaining	0.7%	5.0%	0.1%	0.2%	6.0%
Total	0.7%	5.8%	0.3%	0.3%	7.0%

d. Is the rate in line with the 1-1.5% rate highlighted by Dr. Wachter in 2003?

Answer:

Yes.

e. How many applicants are currently in line for USPS job openings?

Answer:

Postal Service hiring procedures and processes have significantly changed from those in place eleven years ago. Due both to technology and limited hiring, the Postal Service does not maintain registers with large numbers of potential applicants, but instead posts vacancies on-line as they arise. Accordingly, while the number of applicants "on file" would be much fewer today than in the past, that is more a function of revised hiring procedures than demand for postal jobs.

f. Has the list often been numbered in the hundreds of thousands as Dr. Wachter cited in 2003?

Answer:

In the past, the number has been in the range cited by Dr. Wachter.

21. Dr. Wachter also testified in 2003 that, "Unusually low quit rates and long employment queues imply the existence of a compensation premium." Do you agree?

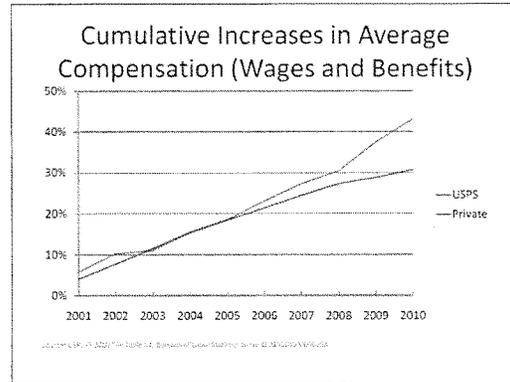
Answer:

Yes. Quit rates and applicant queues are indications of the desirability of a job. Unusually low quit rates and long employment queues, absent another explanation, suggest that compensation is at or above market levels.

22. Dr. Wachter also testified in 2003 that, "Unusually low quit rates and long employment queues imply the existence of a compensation premium" – a statement consistent with the conclusions of Arbitrator Stephen Goldberg in a December 2001 binding arbitration decision regarding the collective bargaining agreement from November 2000 to November 2003 between USPS and the APWU. Do you agree?

Answer:

Yes



(chart supplied by the Oversight Committee)

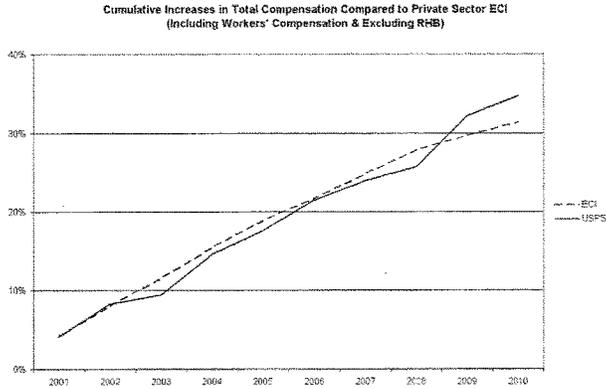
23. The chart above shows the rate of labor unit cost growth at USPS compared to the Employment Cost Index that measures private sector labor cost growth.

a. Based on this chart, is it fair to say that compensation at USPS has grown more quickly over the last decade than the private sector particularly over the last three years?

Answer:

Postal Service compensation costs represented in the chart above include legally mandated retiree health benefits and prefunding not found in the private sector and, thus, not in the ECI. This chart also uses a logarithmic function to calculate the change in Postal Service compensation costs, while ECI increases are represented cumulatively. (Answer continued on next page)

In the Postal Service chart provided below, both USPS compensation costs and ECI are cumulative. The Postal Service chart provides a more consistent comparison and reflects that Postal Service compensation increased at a rate below ECI from 2001 to 2008. In 2009 Postal Service compensation increases exceeded ECI due both to an increased cost of living allowance driven by the spike in oil prices, and thus inflation, as well as an unexpected downturn in the forecast for ECI as a result of the recession.



NOTE: The above chart excludes retiree health benefits and prefunding and includes the current portion of workers' compensation liability to be consistent with ECI. Source: United States Postal Service.

b. Based on this chart, is it likely that significant progress to reduce a compensation premium at USPS has been achieved since 2003?

Answer:

Based on the chart above, compensation costs were managed below ECI until we experienced a large cost of living allowance in 2009 due to a spike in inflation.

c. So, based on this chart, the compensation premium is likely higher than as calculated by Dr. Wachter in 2003, correct?

Answer:

This chart by itself would not suggest any particular or significant change in the premium.

24. Under the terms of the agreement, will career APWU members on the payroll before November of last year with less than 6 years service be given layoff protection? Please further clarify the terms of the increased layoff protections.

Answer:

Yes, career APWU on the roils at the expiration of the prior Agreement will receive layoff protection. This MOU, which is similar to others entered into in previous negotiations and awarded in interest arbitration, adds about 7,000 to those who did not have this protection.

25. Given USPS's expected financial shortfalls, why did USPS agree with APWU to continue paying a larger share of health insurance and life insurance premiums than other federal agencies? Is not parity long overdue?

Answer:

First, it is important to note that the *Postal Reorganization Act* provides: "It shall be the policy of the Postal Service to maintain compensation and benefits for all officers and employees on a standard of comparability to the compensation and benefits paid for comparable levels of work in the *private* sector of the economy." 39 U.S.C. section 1003(a)(emphasis added). Accordingly, parity with federal agencies is not the standard which Congress applied to the Postal Service in the *Postal Reorganization Act*. Indeed, there are other aspects of federal pay policies, such as locality pay or mass transit subsidies, with which our employees do not have "parity." The 76% contribution rate for health insurance premiums ultimately achieved in this tentative agreement is in fact consistent with what our consultants say is that paid by employers in the private sector who contribute to health insurance premiums. As such, it is by no means a given in interest arbitration that the federal sector contribution level is the one that would be adopted.

Ultimately, in the overall context of the negotiated tentative agreement, we accepted a continuation of the phased reduction of the employer's contribution that had been agreed to in the last contract and in the interest arbitration precedent. Notably, the savings in this bargaining unit from moving directly to the federal level on the cost-sharing ratio for health insurance premiums would be \$529 million over this contract term. The savings we will achieve from the health benefit reductions that have been negotiated are \$171 million. While the difference between the two is not insignificant, the savings from the increased non-career workforce (\$1.55 billion), the two-year wage freeze (\$1.75 billion) and the two-tier workforce (\$350 million) are much greater. This agreement makes good progress in reducing the employer's health insurance premium contribution – from 81% to 76% (and down from 85% as recently as 2007).

Other benefit costs, particularly pensions and retiree health benefits, are statutorily-imposed and, thus, beyond the Postal Service's authority to address in bargaining. We have consistently supported statutory changes that would enable the Postal Service to address all its labor costs.

26. What are USPS's views on Senator McCain's legislation that would require USPS not to pay a larger share of health insurance benefits than federal agencies? How much would USPS save each year if such a change was made?

Answer:

The McCain amendment would state that in any year when the Postmaster General cannot certify that the employer contribution to the Federal Employees' Health Benefits program (FEHB) and the Federal Employees' Life Insurance program (FEGLI) is no greater than the Executive branch, the Postal Service could not receive appropriations and could not borrow any money from the Treasury. The prohibition on borrowing from the Treasury would have an immediate negative impact on the Postal Service's cash flow, yet the amendment does not change current law with regard to the private sector (rather than federal sector) comparability standard which the Postal Reorganization Act establishes as postal policy, and does not alter the Postal Service's collective bargaining obligations to comply with existing agreements. We do not support this approach.

The savings from reducing health insurance contributions to the federal level for all USPS career employees is about \$560 million per year.

27. The contract allows for the hiring of flexible non-career employees, aka "Postal Support Employees" (PSEs). PSEs would replace the current part-time employees, known as "casuals" and "Transitional Employees." Overall, this would increase the allowed percentage of non-career workers to 20% for most APWU positions and 10% for the remaining. The non-career employees will be eligible to join APWU.

a. Under the contract, new non-career employees would be paid less than full-time employees, correct?

Answer:

Yes. On a total compensation basis, PSEs will cost about half the average rate for career employees.

b. Would some actually receive a raise if they are converted from a current status of casual or transitional employee?

Answer:

Yes, PSE wages are slightly higher than casual and transitional employee wages. This expense is accounted for in the overall cost savings of \$3.8 billion we project.

c. Do you expect many/most current non-career workers to convert to new PSE positions?

Answer:

Yes, as employees with relevant experience, it makes sense to hire them into the PSE positions where needed.

d. Will these non-career employees be eligible for health care benefits after 1 year of service? What percentage of eligible non-career employees does USPS expect will take advantage of health care benefits?

Answer:

Non-career employees will be able to participate in the Federal Employees' Health Benefits (FEHB) Program when eligible in accordance with regulations of the Office and Personnel Management (OPM), which generally enable such employees to participate after one year of service without a break in employment of greater than five days. This eligibility is a matter of OPM regulations and eligibility to participate in FEHB is not changed by the tentative agreement with the APWU. The noncareer employees' participation in FEHB is entirely at their own expense, unless enrolled in the APWU consumer driven plan.

The number of employees who will elect to enroll in the APWU consumer driven plan is difficult to estimate with confidence. However, for costing purposes, we very conservatively assumed that noncareer employees would participate at the same participation rate as is the case with career employees (about 90%). We believe that number is high. The cost savings for the tentative agreement would increase to the extent that it is lower.

28. In briefings our staff was told USPS would reach the maximum allowable percentage of the new non-career positions during the contract period, is this true?

Answer:

Yes, we expect to begin hiring the non-career employees wherever there is a need and expect to hire up to our full-authority during the contract period.

29. How many non-career employees do you expect to have on staff at the end of this contract?

Answer:

In the APWU, we project 26,000 full-time equivalent noncareers by the end of this contract.

Questions for Postmaster General Donahue
Postmaster General
United States Postal Service

Rep. Burton
Committee on Oversight and Government Reform

Hearing on "Are Postal Workforce Costs Sustainable?"

Background:

In 2001, Congresswoman Connie Morella first introduced the Postmasters Equity Act (HR 250) to grant postmasters the option of using a fact-finding process during consultation with the U.S. Postal Service over pay and benefits.

In 2003, Rep. John McHugh reintroduced the legislation (HR 2249), and the legislation was enacted in 2003 (PL 108-86) and codified in Title 39 United States Code, Section 1004.

The Postmaster's Equity Act as codified in Subsection (i)(3) of 39 USC 1004 (i) explicitly defines "Postmaster" as follows:

"Postmaster" means an individual who is the manager in charge of the operations of a post office, with or without the assistance of subordinate managers or supervisors;"

Based upon the legal definition of Postmaster it logically follows that anyone who manages a post office **MUST** be a Postmaster.

On March 31, 2011, the Postal Service published in the Federal Register draft regulations to "streamline" the process the Postal Service uses to decide whether or not to close a postal facility; including retail Post Offices.

The proposed regulations contain an interesting sentence which appears to change the legal requirement that a Postmaster manage a Post Office. The regulation reads: "A post office may be operated or managed by a Postmaster **or by another type of postal employee.**" [Emphasis added]

Questions:

The existing statute clearly states that **only** a postmaster manages a post office; it does not state post office management by "another type of postal employee."

1) What authority does the United States Postal Service have to propose a regulation that contradicts the law and the will of Congress?

2) Is the Postal Service prepared to amend the regulations to reflect current law? If not, is the Postal Service prepared to submit draft legislation to Congress to change the definition of Postmaster?

Response:

The Postal Service respectfully disagrees with the premise that “[t]he existing statute clearly states that only a postmaster manages a post office[.]” While the Postmaster Equity Act does define a postmaster as “the manager in charge of the operations of a post office,” the statute does not require that each postmaster manage only one Post Office or that every Post Office be individually staffed by a postmaster. Based on the Act’s text and legislative history, the Postmaster Equity Act was intended to address the ability of postmasters’ organizations to consult with management over, among other things, pay policies and schedules, but was not intended to — and did not — modify the Postal Service’s authority to determine the staffing and scope of its retail facility network.

- 1) In the past, the Postal Service has not always assigned a postmaster to manage each Post Office; in many cases, an officer-in-charge has been assigned to manage a Post Office for extended periods. Moreover, in larger cities, postmasters are already responsible for multiple retail facilities. The Postal Service is confident that rural postmasters are similarly capable of overseeing operations at more than one retail facility.

Even to the extent that postmasters have been associated with separate Post Offices in historical Postal Service practice, the decision to maintain or change this practice is within the Postal Service’s general authority to manage Post Offices and staff appointments under the Postal Reorganization Act (39 U.S.C. §§ 401, 403, 404(a)(3), 1001). Because the Postmaster Equity Act does not concern this subject area, and because it does not otherwise restrict the Postal Service’s statutory discretion to direct the staffing of postmasters at Post Offices or the staffing of Post Offices by non-postmaster personnel, the proposed rule is not inconsistent with governing law. The Postal Service is unaware of any statutory directive or legislative history behind the Postmaster Equity Act that demonstrates a contrary intent by Congress.

- 2) The proposed rule is consistent with the definition of a postmaster under the Postmaster Equity Act, exercises appropriate rule-making authority under the Postal Reorganization Act, and streamlines postal operations in order to reduce costs and enhance value. Therefore, there does not appear to be a legal need to forgo this aspect of the proposed rule or to seek a legislative change.



American Postal Workers Union, AFL-CIO

1300 L Street, NW, Washington, DC 20005

Cliff "C.J." Guffey
President
(202) 842-4246

May 3, 2011

Darrell Issa, Chairman
Committee on Oversight and Reform
House of Representatives
2157 Rayburn House Office Building
Washington, DC 20515-6143

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Mike Morris
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Director, Clerk Division

Steven G. Rymser
Director, Maintenance Division

Robert E. "Bob" Fritchard
Director, NYS Division

Bill Manley
Director, Support Services Division

Sharyn M. Stone
Coordinator, Central Region

Mike Gallagher
Coordinator, Eastern Region

John H. Dirzius
Coordinator, Northeast Region

Princella Vogel
Coordinator, Southern Region

Orlando M. Gonzalez
Coordinator, Western Region

RE: American Postal Workers Union's Answers to Questions
for Mr. Guffey from Chairman Issa - Committee on
Oversight and Reform

Dear Chairman Issa:

This letter is to transmit answers to the questions posed by your
April 11, 2011 letter following up the April 5, 2011 Hearing on "Are
Postal Workforce Costs Sustainable."

We appreciate the opportunity to supplement the record with
these answers.

Sincerely,

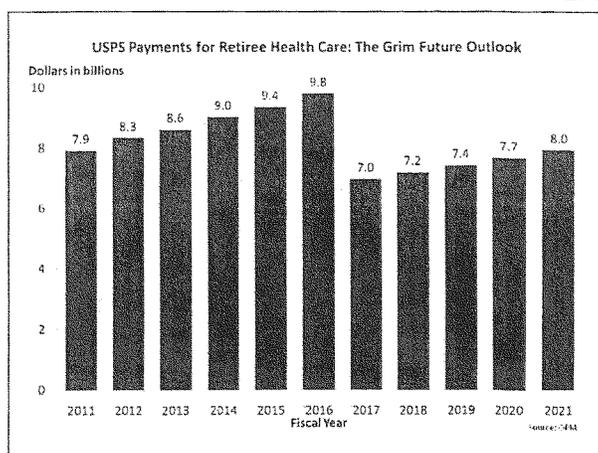
Cliff Guffey, President

Answers to
 Questions for Mr. Guffey
 President
 American Postal Workers Union (APWU)

from

Chairman Issa
 Committee on Oversight and Government Reform

Hearing on "Are Postal Workforce Costs Sustainable?"



1. The chart above shows the current law projections for USPS retiree health care costs through 2020, as provided this March to the Oversight Committee by the Office of Management and Budget (using updated Office of Personnel Management data). In your testimony you argue USPS must have relief from pre-funding payments that are set to occur through 2016. However, as you can see, after these pre-funding payments end, the growing costs to fund future benefits for current employees (called "normal costs") drives the costs almost all the way back to the prefunding levels.
 - a. Assuming there is no turnover of the \$75 billion in Civil Service Retirement System (CSRS) money that USPS has requested, how do you expect USPS to meet its obligations for retiree health benefits?

We expect the Postal Service to continue as a vital public service agency funded solely by postal customers for the foreseeable future. As discussed in more detail below in answers to other questions, the Postal Service will be able to meet its obligations to fund retiree health benefits in fiscal years 2017 and beyond. However, the USPS needs immediate and short-term relief from the unique and unreasonable requirement that it pre-fund retiree health benefits. In addition, the Postal Service must have access to the excess funds it has paid into CSRS and FERS even if the retiree health benefits pre-funding requirement is repealed. Those funds are important to the ability of the Postal Service to modernize and rationalize its mail processing and retail operations and to develop new products that will increase revenues and spread costs among more product lines. It would be unfair to postal ratepayers if the overfunding is not corrected and ratepayers continue to subsidize the federal government while suffering a degradation of postal networks and service because the Service is starved of needed capital.

- b. Given the dismal financial projections for USPS, do you think it will be able to pay \$7 billion in 2017 when it claims it cannot afford a \$7.9 billion payment in 2011?

We do not agree that the financial projections for the Postal Service are “dismal.” The Postal Service has shown itself to be remarkably resilient during the recent very deep recession. Absent retiree health prefunding payments, it actually showed a profit from its operations from 2007 through 2010. The artificial imposition of the unreasonable requirement to pre-fund retiree health benefits is responsible for the Postal Service’s massive deficits in recent years.

Despite the challenge posed by the ongoing decline in First Class mail volume, postal revenues are projected to stabilize as the economy continues its recovery from the recession. Given the most likely scenario for postal volume, revenue and costs over the next six years, we believe the Postal Service will be able to meet its funding obligations for retiree health benefits in 2017 and beyond.

We observe that the OPM projections in the graph are overstated. The bars from 2017 and beyond sum amortized payments of the unfunded liability presumed to remain at the end of 2016 and the “normal cost” assigned for the current workforce. As to the amortized costs, OPM assumes a 40 year stream of \$2.785 billion dollars to cover the liability. This is certainly too large. As to trending the “normal cost” OPM used a “stationary workforce” and did not credit the Postal Service plans to reduce its workforce to 400,000 career employees. The 2017 payment will be substantially less than \$7 billion. And each of the subsequent payments will also be substantially smaller.

Regardless of the actual payment, the Postal Service’s best opportunity to meet the future payments and its other obligations is to cease the current requirements to continue to overpay FERS, to return FERS and CSRS overpayments, and to rationalize prefunding of retiree health benefits. With such needed capital, the Postal Service can invest in more efficient networks and processes and innovative product development – and continue to be the vital and essential service the citizenry and its customers need and expect.

- c. Would you support a taxpayer subsidy to USPS to fund retiree health care for postal workers?

The question of a taxpayer "subsidy" for the Postal Service is completely hypothetical at this time. The Postal Service has overfunded its CSRS and FERS retirement funds. Presumably, before Congress would give any serious consideration to a postal subsidy, it would restore the Postal Service's own funds to postal use. Although this might, depending on how it is done, "score" as an expenditure by the federal government, it would in no sense constitute a subsidy of the Postal Service. As matters stand, postal ratepayers are subsidizing the federal government. Whether a federal payment to permit the continuation of universal postal services might be necessary in the distant future or desirable as a matter of public policy, is so speculative as not to permit reasonable discussion at this time.

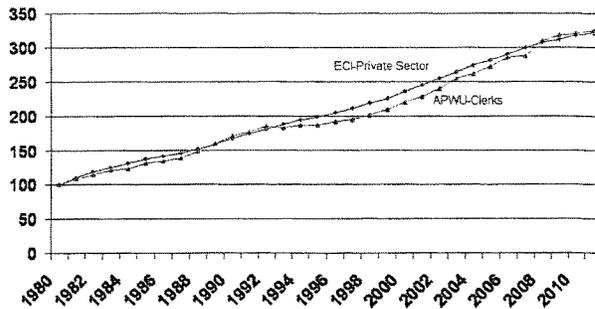
If the question is intended as a philosophical inquiry, we generally would prefer legislative changes that would permit the Postal Service to raise rates to market levels and that would permit the Postal Service to use its very valuable infrastructure to provide additional services that would generate revenue for services provided. Such changes would be preferable to the current law, which artificially limits rates to the Consumer Price Index (CPI).

2. Please provide a chart similar to Exhibit G in your testimony for the salary and benefits cost per total work hour for APWU employees from 1970-2009. If possible, include the accrual cost of retiree health care benefits for APWU members in these figures and indicate their inclusion.

We provide two charts below. Please note that while ECI for wages goes back to 1970, ECI for

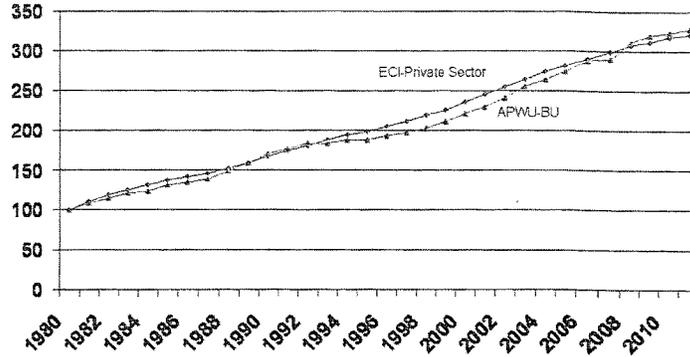
compensation only goes back to December 1979, so these charts begin with 1980. For several reasons, the charts do not include the accrual cost of retiree health care benefits: (1) As we explain in answer 1.b OPM calculations of accrual costs of health care benefits are incorrect. (2) We do not have sufficient information with which to make the calculations correctly. (3) OPM has not provided any APWU-specific numbers or share of the total costs OPM calculates. (4) The comparator line, ECI-Private Sector, does not include any accrual costs.

Comparison of ECI for Private Sector Workers' Compensation to Compensation per Work Hour for APWU Clerks



Sources: APWU-National Payroll Summary Hours (Sept of each year) and March 2011
 Private sector ECI for compensation is from the Bureau of Labor Statistics for Sept of each year and March 2011
 ECI for private sector compensation was not calculated prior to December 1979.

Comparison of ECI for Private Sector Workers' Compensation to Compensation per Work Hour for all APWU Bargaining Unit



Source: APWU-National Payroll Summary Hours (Sept of each year) and March 2011
 Private sector ECI for compensation is from the Bureau of Labor Statistics for Sept of each year and March 2011
 ECI for private sector compensation was not calculated prior to December 1979.

As between these two graphs, the graph of Compensation per Work Hour for APWU Clerks gives a better picture of compensation trends, because the effect of the change in mix of employees is less. As work hours are reduced, more productive, higher paid hours are retained; and that effect explains much of the change in the all APWU bargaining unit line. The ECI holds employment mix constant, while the APWU lines do not hold employment mix constant.

3. How many career employees do you believe USPS currently needs?

We observe that the Postal Service has consolidated its facilities and reduced its workforce at a rapid rate while productivity has been increasing. Between 1999 and 2010 the postal workforce has been reduced by 458.5 million workhours. This is the equivalent of removing 259,500 full-time employees from the employment rolls.

We also observe that the Postal Service is presently paying overtime to some employees. The Postal service reduced overall work hours by 77.3 million hours, or \$1.51 billion in 2010; but still increased the use of overtime by 17.2 percent compared with 2009. The OIG found that the Service paid an additional \$419.5 million in overtime due to lower staffing levels.¹

Understandably the Service is not replacing employees it will not need in a year; but at this moment it needs most of the people it now has. This would suggest that the Postal Service is not presently overstaffed. Attrition is a little ahead of the consolidations, automation and productivity programs that will eventually lead to a career workforce of about 400,000 in 2020. The Service can't reduce the workforce much quicker without significantly harming service performance. It is our understanding that the Postal Service intends to continue to reduce its workforce. It should be noted that if the Postal Service were not cash-starved, it could more quickly deploy changes in technology and networks designed to reduce work hours, while also doing more to develop products and improve service.

4. How many Area and District offices do you believe are necessary for the efficient operation of USPS?

We do not have sufficient information to suggest how many Area and District Offices the Postal Service needs for efficient operations. Area and District Offices currently play critical roles in operations, customer service, and even labor relations. Any changes would also result in changes in the ways customers and employees deal with the Postal Service. Such changes should be carefully planned and executed. We respectfully suggest that the Committee direct this inquiry to postal management.

¹ Source: OIG Audit Report, Overtime Usage, HR-AR-11-003 (March 31, 2011).

5. How much excess mail processing capacity do you believe USPS has?

This is a difficult question to answer with specificity because so many factors must be considered to determine optimum capacity. For example, the Postal Service may have sufficient capacity in plant A to process the mail from plant B, but could not process the mail in plant A and transport it quickly enough between the plants to meet current delivery standards. In such a case, it would be hard to characterize the capacity at Plant B as unnecessary. The Postal Service has published its own strategic plans that include information about its current and future mail processing capacity needs. In a time of rapid change in mail processing operations, it is not very meaningful to pick a static number as an “excess” amount of capacity. Evaluation of mail processing capacity and potential efficiencies is an ongoing process.

We also observe that the Postal Regulatory Commission and the Inspector General of the Postal Service have found that 30 workshare discounts exceed the amount that can be justified by the Efficient Component Pricing required by the Postal Accountability and Enhancement Act.² The Inspector General asserts that 19 of these excess discounts cannot be justified by any statutory exception to the legal requirement that workshare discounts not exceed costs avoided. Correcting these inefficient discounts would strengthen the Postal Service’s financial outlook and return some mail processing activity to the Postal Service from the less efficient consolidators presently performing that work.

² OIG Audit Report, Workshare Discounts Exceeding Avoided Costs, December 23, 2010 (No. MS-AR-11-001)

6. Do you believe that a Pay-for-Performance system would be beneficial for APWU members and USPS as a whole?

We oppose “pay for performance” compensation for hourly-rate workers. Variations in productivity or financial performance from Area to Area, District to District, or facility to facility occur due to factors that are beyond the control of individual employees.

The compensation system for postal workers provides a fair day’s pay for a fair day’s work. Postal employees are proud of providing an important public service and of providing it very efficiently. Despite sharp reductions in staffing over the past few years, and numerous facility closures and consolidations that have disrupted operations – and employees’ lives – postal services continue to be delivered on time and with great accuracy. As the chart below shows, first ounce postal rates in the United States compare favorably to other industrialized countries. The Postal Service continues to provide the best service in the world at the lowest rates.

Comparative First Class Letter Mail Rates for Different Countries

Country		Cost in US\$
United States	Up to 1 oz. (28.3 grams)	\$0.44
Canada	Up to 30 grams (1.08 ozs.)	\$0.61
Australia	Up to 250 grams (9 ozs.)	\$0.62
Japan Post	Up to 25 grams (0.9 ozs.)	\$0.71
German Post	Up to 20 grams (0.7 ozs.)	\$0.78
France	Up to 250 grams (9 ozs.)	\$1.07
Royal Mail (UK)	Up to 100 grams (3.5 ozs.)	\$0.74
Source: Various Posts, April 4, 2011 exchange rates Cost is for sending a letter to a domestic destination that weighs approximately 1 ounce		

7. Do you believe that the cost-cutting measures at USPS have sufficiently mirrored the cost-cutting measures in the mailing industry?

This question seems to assume that Postal Service cost-cutting measures should mirror the cost-cutting measures in the mailing industry. Because the Postal Service is a unique institution with its own structure and functions, including the obligation to provide universal service, Postal Service cost cutting cannot and should not be expected to mirror cost cutting by its customers.

If the question implies that cost cutting by the Postal Service should be in the same order of financial magnitude as cost cutting by postal customers, that is an assumption that would be

difficult to justify as a matter of business management or economics.

The very large over-funding of CSRS and FERS trust funds by the Postal Service, and the unique and unreasonably rapid pre-funding of retiree health benefits required under current law, have imposed heavy financial burdens on the mailing industry. These burdens are unrelated to the requirements of the industry. They are caused by the fact that mailers are subsidizing the federal government; they have nothing to do with Postal Service efficiency or cost cutting.

Apart from the fact that the premise of the question is ambiguous, we do not have sufficient information about cost-cutting measures in the mailing industry to respond specifically to this question. Postal Service cost-cutting measures have been very aggressive.

8. Do you believe that USPS cost-cutting measures adequately reflect the idea of shared sacrifice among all USPS employees?

APWU members have made great sacrifices in recent years. From 1999 through 2010, the USPS reduced annual workhours by 458.5 million workhours. Sixty-seven percent (67%) of that total, 308 million workhours, were cut from the APWU bargaining units. That is the equivalent of eliminating 174,306 full time jobs from APWU bargaining units. USPS cost-cutting measures have caused severe disruption to postal operations – and to the lives of postal employees. Thousands of APWU members have been forced to uproot their families, sell their homes, and relocate hundreds of miles away from the communities they have called home. The APWU has worked cooperatively with the Postal Service to negotiate a collective bargaining

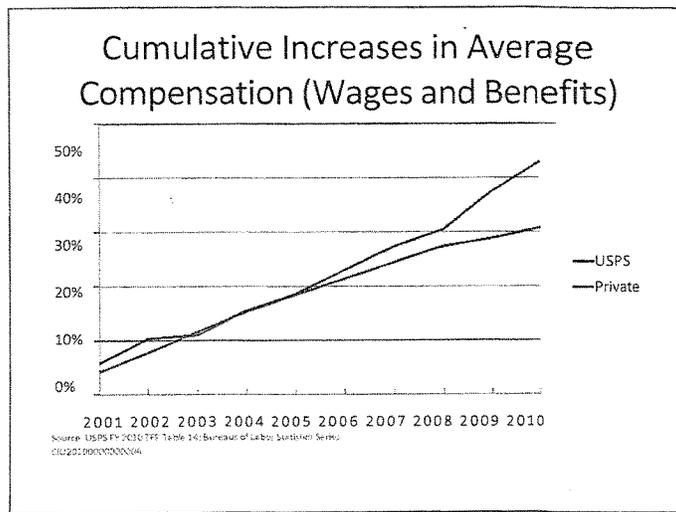
agreement that, if ratified, would help address the Postal Service's need to control costs and increase flexibility.

9. Your organization has actively resisted the consolidation of mail processing operations to eliminate excess capacity in postal processing facilities. You have acknowledged that the use, demand and the value of the mail has declined significantly. What is the appropriate role of employee organizations in working with USPS to adapt its operations, facilities, and workforce to the continuing decline in mail volume?

The APWU has actively resisted the consolidation of mail processing operations because we question the accuracy of the Postal Service's projected cost savings and service impacts. In many cases, we have found that cost savings have been over-estimated and that actual potential cost savings cannot justify the adverse service impacts of the changes under consideration.

The APWU also has been a vocal critic of the Postal Service's plans to close or consolidate its retail operations. As we showed in proceedings before the Postal Regulatory Commission (Docket No. N2009-1), these closures adversely affect individual postal customers who are least able to afford alternative services. In many cases, postal customers, community leaders, and elected representatives have strongly opposed post office closures because of the negative impacts they have on affected communities. The APWU cannot stop the Postal Service from closing or consolidating facilities. Our insistence that decisions to do so be made transparently, with rigorous analysis of their costs and benefits, is not only in the interest of our members, it is in the public interest. No less should be expected of this important public service agency.

10. The chart above shows the rate of labor unit cost growth at USPS compared to the Employment Cost Index (which measures private sector labor cost growth). Based on this chart, is it fair to say that compensation at USPS has grown more quickly over the last decade, than the private sector? This appears to be particularly true since 2006, correct?



The question refers to “labor unit costs.” Neither line on the graph tracks labor unit costs. Both lines track compensation. The Postal Service informs us that USPS FY 2010 TFP Table 14 includes retiree health benefits prefunding. This explains much of the increase in the slope of the USPS line. As one divides larger payments by fewer work hours, the slope increases. The comparative ECI line does not include accrual costs. There is also a change in the mix of employees in the USPS line; but the ECI holds employment mix constant. The

charts provided in our answer to question 2 provide a more meaningful picture of compensation trends. They show that USPS compensation growth has been at about the same rate as ECI growth over time.

