S. Hrg. 113–18

SOLUTIONS TO THE CRISIS FACING THE U.S. POSTAL SERVICE

HEARING

BEFORE THE

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS UNITED STATES SENATE

ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

FEBRUARY 13, 2013

Available via the World Wide Web: http://www.fdsys.gov/

Printed for the use of the
Committee on Homeland Security and Governmental Affairs

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WEDNESDAY, FEBRUARY 13, 2012

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

The Committee met, pursuant to notice, at 10:07 a.m., in room SD–342, Dirksen Senate Office Building, Hon. Thomas R. Carper presiding.

Present: Senators Carper, Levin, Pryor, Tester, Begich, Baldwin, Heitkamp, Coburn, Enzi, and Ayotte.

OPENING STATEMENT OF CHAIRMAN CARPER

Chairman CARPER. Dr. Coburn and I are happy to welcome our guests this morning.

I have a statement that I want to give. I am going to just yield to our friends from the House Committee on Oversight and Government Reform first—Chairman Darrell Issa, and Ranking Democrat, Elijah Cummings. They are our friends.

We are happy to see you. We have enjoyed working with you on a variety of issues, especially in the last months of last year, having a chance to bear down and try to get to—like I say in football parlance, we got it in the red zone, did not get it in the end zone in terms of a final solution on postal reform, but we made real progress.

And I am going to forego my comments initially and ask our colleagues, if it is OK with you, Senator Coburn——

Senator COBURN. You bet.

Chairman CARPER [continuing]. To just go ahead, and then we will take it up from there.

Again, Mr. Issa, welcome. Mr. Cummings, welcome. Thank you for joining us.

TESTIMONY OF HON. DARRELL E. ISSA,[1] A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. ISSA. Thank you, Chairman Carper and Ranking Member Coburn.

You are new to your positions even though you are from the sustaining body. Mr. Cummings and I came very close in the last Congress to what we thought was a bipartisan, bicameral deal. We start off this Congress with a view that with you as team members

[1] The prepared statement of Mr. Issa appears in the Appendix on page 65.

and co-chairs in what we think is a bipartisan, bicameral problem and a bipartisan, bicameral solution, we believe we can get there.

Clearly, as you convene today, the subject of 5-day delivery is going to be among the most important subjects. And I would like to emphasize that a little bit because I believe that in order to get a comprehensive reform, we must first realize that freeing the hands of the Postmaster General in a way that was envisioned by the independence of the U.S. Postal Service (USPS) is a good first step.

The Postmaster General has determined that going from a less than 50 cent single delivery on a Saturday to a 5-day delivery of that type of mail—no matter how small and no matter where for less than 50 cents, a single flat letter will be delivered anywhere in America. But on Saturday, a light day, an excess day relative to most other countries, the idea that there should be a small premium for flat mail—$5.60—still less than the cost of getting a good Hallmark card from CVS, you can have a letter delivered.

More importantly, with the Postmaster's proposal, we will continue to see vital medicines and packages delivered for a fraction of how they would be delivered in any other way at every point in America.

I think that maintenance of universal service, but a right-sizing of the cost to benefit, is really the hallmark of what the Postmaster General is asking us, as Congress, to not stand in the way of.

I believe the Postmaster General is correct, that he has the authority consistent with the law in that he is maintaining a service, but the law never intended him to do it at a loss. The Postmaster General had to bear over $15.9 billion in losses last year. This completely depleted his $15 billion line of credit. It caused him, in order to meet cash flow, to forego required and agreed payments of $5.5 billion for the second year in a row.

This deferral does not mean that eventually those amounts will not come due. It is very clear that ultimately either the ratepayer or the taxpayer will have to pay the over $25 billion in accumulated debt of the Postal Service.

Now when I say $25 billion, I do not want the statisticians to say, no, it is only $15 billion. But clearly, this deferral eventually, in any proposal, still has to be taken care of as to the eventual medical retirement and other retirement benefits of postal workers, and keeping that commitment currently is backed by the full faith and credit of the U.S. taxpayer.

As I said, I think the important thing for this Committee to realize is that guaranteeing 6-day delivery everywhere in America but doing it at a rate that allows for the post office to become solvent again is critically something the Postmaster General has to be allowed to do as a preamble, if you will, to the legislation that we envision.

Australia, Canada, Finland, Spain, Italy, and, as we often note but then sometimes snicker, Sweden have all gone to 5-day delivery. Both rural and urban countries have found that with the advantages of electronic mail, with the advantages of direct deposit—including, I might note, even Social Security which will be 100 percent direct deposit for our seniors—the volume of flat mail has gone down and, for the benefit of efficiency, will continue to go down.

I think we in Congress often look at loss of jobs as a bad thing. I just want to close by making a conclusion. Had we 2 years ago, 3 years ago, 4 years ago, dealt with this problem, individuals of the post office who are in fact long-term workers, fully able to retire, could have been paid a full year of their pay as an incentive to retire, not early but in fact not later. The cost of a $50,000 buyout of a potential retiree is 20,000 retirees for $1 billion. Essentially, in less than a year you could provide that benefit to every single person eligible to retire and still do it for less than we lost last year.

I am not suggesting that we automatically pay large buyouts, but I am saying that if we can find the efficiencies, we can in fact find a way to encourage people to retire without breaking any contracts, trust, in fact, having people happy to go into their golden years while the post office has the right amount of people.

I have just one last point, and it is a point that is a bargaining point of which we are so aware.

Chairman Carper, you enjoy a great many urban older homes in your State. Many of those homes have chutes in their door. Every day, a postman comes up and puts flat mail in there. But more and more, those same homes see a vital piece of medicine or their purchases from Amazon placed on the stoop, crammed inside the door or in some other way delivered as best the postman can with the reality that flat mail system, did not really envision what you do with a box that will be left if you are not home. And more and more, our seniors and our young people are out and active.

So the Postmaster General, in his request, would like to accelerate over the near future the ability to put in cluster boxes, which often are pushed back against by older homes and seniors who say, what if I have to walk around the corner?

I would tell you here today that providing a secure box large enough to take purchases and medical supplies in every neighborhood in America should be a goal that we in Congress promote. Whether it is a new neighborhood or an old neighborhood, we can find a way to design acceptable boxes that both reduce the time necessary to delivery mail but increase the security of vital packages and medicines delivered to every point in America.

So I believe that the two largest single savings in the system—5-day deliver and the modernization of to-the-curb delivery—are, in fact, both beneficial if done right. One, we know how the Postmaster General wants to do it. The other should be a goal of this Congress to make sure the funding is available to provide appropriate secure storage for every American because, more and more, that is how medicines are delivered and that is how important purchases are delivered.

With that, I would be happy to take your questions, and I yield back.

Chairman CARPER. Good. Mr. Issa, thank you for your thoughtful and constructive testimony, and now we are pleased to welcome Congressman Cummings.

TESTIMONY OF HON. ELIJAH E. CUMMINGS,[1] A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MARYLAND

Mr. CUMMINGS. Thank you very much, Chairman Carper, Ranking Member Coburn, and Members of the Committee. It is certainly my honor and my privilege to be here this morning.

And I want to say to you, Mr. Chairman, you are absolutely right. We spent some time in the red zone, but America expects us to get in the end zone.

I was listening to you, Senator Coburn, this morning on Morning Joe, and I said to myself, we ought to be able to get this done with a reasonable guy like Senator Coburn. And I believe that we will; I really do.

I am also pleased to be here with my friend and my colleague, our Chairman, Chairman Issa.

And the Postal Service is a vital link that binds our Nation together. Delivering mail to more than 150 million addresses and operating 32,000 post offices nationwide, the Postal Service connects families, friends, and businesses across the vast distances of our great country.

Last year, however, the Postal Service reported losses of approximately $16 billion. It lost $1.3 billion in the most recent quarter. It has borrowed the full $15 billion it is authorized to borrow from the Treasury, and it continues to lose approximately $25 million a day.

It also faces a burden not required of any other agency or business in this country. It must pay billions of dollars every year to pre-fund health benefits for its retirees.

As we all know, this math simply does not add up. The Postal Service needs a new formula for success.

Obviously, last week, the Postal Service announced that it intends to end Saturday mail delivery, except packages, beginning in August. In my opinion, this announcement was an unfortunate development, and it will not solve the Postal Service's long-term fiscal problems. Instead, the Congress needs to pass comprehensive reform legislation that addresses not only delivery standards but the full range of reforms needed to fundamentally re-engineer the Postal Service for the next century.

To its credit, the Senate last year passed comprehensive bipartisan legislation to reform postal operations, including extending the schedule for retiree health payments, returning overpayments to the Postal Service made to the Federal pension system and providing key tools to right-size the Postal Service workforce.

I think everybody agrees. We have to right-size this workforce.

I was particularly pleased that the Senate included several provisions from my legislation, the Innovate to Deliver Act. Too many people argue that the Postal Service should be self-sustaining, like a business, while at the same time arguing it should be banned from competing against the private sector. I believe we must allow the Postal Service to expand into new business lines, and my bill would have done that.

Unfortunately, the most significant challenge facing the Postal Service today is not Saturday delivery, declining mail volume, or

[1] The prepared statement of Mr. Cummings appears in the Appendix on page 67.

pre-funding health care for its retirees. It is Congress' failure to act.

Although the Senate passed a comprehensive and bipartisan bill, the House failed to consider any postal reform legislation whatsoever; none. Obviously, we cannot solve this problem if we continue to ignore it. It will only grow more desperate and more dire.

There is some reason for hope, however, and that is the ongoing commitment of the Members of Congress in this very room. The people in this very room can make this happen.

Over the past 2 months, we have come together to discuss potential solutions in a serious and sustained manner, and I have been encouraged by the many areas of agreement we have reached. As a matter of fact, House Minority Leader Nancy Pelosi asked me today about the status of the bill, and I told her that I thought that we had gotten 90 percent there. We were not that far.

I believe that we were on maybe the two-foot line, Mr. Chairman. And we just cannot afford to fumble the ball because when we fumble the ball what happens is that America loses.

I believe we are close, and I believe that we are very close. And if we launch a renewed effort as soon as possible, we can develop a bipartisan, bicameral solution. If we are serious about this, I predict that we could complete this legislation before the end of March when the current appropriations rider expires.

To meet that deadline, however, we need to re-engage and we need to do it right now. There is absolutely no time to waste.

Finally, let me conclude with the issue that is closest to my heart in this debate. I believe we have a solemn obligation to honor the dedicated Postal Service employees who have served this institution for decades. As we examine how to right-size the Postal Service workforce, I urge my colleagues to fight, and fight very hard, to demonstrate compassion and respect for these middle-class American workers and their families.

By the way, 21 percent of them are veterans, 40 percent are women, many of them single heads of household.

And so, Mr. Chairman, I thank you for holding this important hearing, and I look forward to working with you and our colleagues in the days to come.

And, with that, I yield back.

Chairman CARPER. Thank you. Again, more very thoughtful, I think, constructive comments, and thank you for those.

I thank both of you for being here.

I like the visual here of the two of you, sitting side by side, Democrat and Republican, rolling up your sleeves, ready to make this happen.

A lot of us watched the Super Bowl, and you and I were pulling for the same team, Mr. Cummings. It was the Ravens. They have a quarterback—where is he from?

Mr. CUMMINGS. Delaware.

Chairman CARPER. Delaware.

Mr. CUMMINGS. That is right. I started to mention the Ravens, but I did not want to take it too far.

Mr. ISSA. You mean the Browns re-placarded.

Chairman CARPER. At the end of the game, the 49ers had it down close to the end zone. But they could not get the ball in the end zone.

And we have to make sure we get the ball in the end zone.

We have been joined here by Senator Ayotte, a new Member of our Committee. We are delighted that you are on the Committee, delighted that you are here today.

She brought with us a veteran, not a grizzled veteran but a great colleague, one I love to work with—Mike Enzi.

Senator Enzi, happy that you are here.

And we have been joined by Senator Baldwin from Wisconsin, a new Member on our Committee, too.

We will be joined by others as the morning goes.

I have a long statement. I am going to ask unanimous consent that it be considered part of the record.[1]

I just want to respond a little bit to what our two lead-off witnesses have said and draw some pieces out of my prepared testimony.

We need the Postal Service. We have needed the Postal Service since this Nation was born. There are seven or eight million people who have a job today that exists in no small part because of the work the Postal Service does for all of us.

I had my staff actually go back and count the number of letters we got 12 years ago when I was a Freshman here and the number of emails we got 12 years ago a day. And for about every one email received 12 years ago, we got about 15 letters. Today, it is just the opposite; for every 15 emails, we get roughly one letter. Therein lies the problem.

The world has changed. The way we communicate has changed. And the Postal Service has tried to change with it and to some degree has succeeded, and there are a number of other things they have to do to change further.

And our job is to help facilitate that, and, when they come up with new ideas for making money, to try not to be an impediment to those ideas.

The President talked to us last night about what we need to do on deficit reduction and to grow the economy, and I think there is a lesson in what he said for us here today.

We need to right-size this enterprise. The Postal Service is attempting to do that with respect to the number of mail processing centers, which will be down by almost half by probably a year or so from now.

We did not close thousands of post offices. We did not close thousands of rural post offices. But we found a better way to get the job done and to save money by allowing communities to say they would like to have their post office open for 2, 4, or 6 hours a day and maybe take a former postmaster and put him or her into work on an hourly basis, saving a lot of money there and still providing the essential service.

We have tried to make it possible to incentivize folks who are eligible to retire. The Postal Service is beginning to do that and to incentivize a lot of people to retire.

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[1] Senator Carper's prepared statement appears in the Appendix on page 61.

We have seen the workforce drop, I want to say, from—I am looking at Postmaster General Donahoe to help me. But I think it was not that long ago we had about 800,000 employees or so in the Postal Service. I think today we are approaching 500,000—not there yet, maybe a little bit below, and moving a bit lower than that.

But, the idea here is to right-size the enterprise.

The other thing that the President talked a fair amount about last night was entitlement programs—something that Senator Coburn and I have thought a lot about and tried to do a lot about.

But, we spend more money for health care in this country than any other country on Earth. In Japan, they spend 8 percent of the gross domestic product (GDP) for health care; we spend 16 percent.

The closest major country to us is Norway. They spend 52 percent less on health care than we do. They cover everybody. They get better results.

And one of the things that the post office is trying to do, along with most other employers in this country, is to figure out how do we provide good health care for people, and get better results for less money, or better results for the same amount of money.

And we are going to be anxious to hear what you have to say, again, on this, Mr. Postmaster General, but to figure out how we can work to make that happen in a way that does not disadvantage the employees, retirees, or their dependents. I think we can and we need to do that.

The other thing the President talked last night about the need to grow revenues. He had some different ideas. And we may differ in the way we would approach that, but the Postal Service—it cannot just be about cutting people or cutting services. No, we have to grow the pie here, just like we need to grow the pie of revenue for our country.

And I heard on the radio the other day an old Paul Simon song—“50 Ways to Leave Your Lover.” Well, the Postal Service has, I think, about 50 new ways to make money. And we are going to hear from the Comptroller General later today on those 50 or so ways to make some more money for the Postal Service and to enable us to grow the pie. And we look forward to figuring out how we should do that and how can we be less of an impediment when you come up with a good idea.

The last thing I want to say is this—postal employees are going through a time of great uncertainty. It has not been an easy time to be a postal employee.

I just want to remind them and remind all of us that most Americans feel that the Postal Service does a great job for them. They have better approval ratings than even Dr. Coburn and me, as hard as that is to believe.

Senator COBURN. I do not know what poll you have been looking at. [Laughter.]

Chairman CARPER. Well, if you are over 85 percent, I want to drink what you are drinking over here.

Mr. ISSA. It does seem like that is a combination of not that high and a whole lot lower for us.

Chairman CARPER. I do not know, but at the end of the day I want the Postal Service employees to know that we are grateful for the work they do. They perform a vital and important service. And we appreciate their willingness to work with our leadership and with all of us and with their customers to try to right-size this enterprise.

This is a problem that can be fixed. This is a challenge that can be met. And my goal, and I know it is one shared by Dr. Coburn, is to do it a whole lot sooner than later.

We are in overtime right now. We are going to get the ball in the end zone. But this is not going to be like Notre Dame the other night in basketball where they had five overtimes.

We are not going to go to five overtimes. We are going to have one overtime. This is it, and we are going to get this job done.

With that having been said, let me yield to Dr. Coburn.

OPENING STATEMENT OF SENATOR COBURN

Senator COBURN. Well, I want to thank you for your testimony and also your hard work on this issue.

I was one of those that failed to vote for the Postal Reform Bill coming out of the Senate because I thought it lacked some of the essential things that are required to solve it, but I want both of you to know I am firmly committed to getting a compromise bill that will pass both chambers and doing it forthright. And so you have my commitment to do that, and I appreciate your testimony.

Chairman CARPER. I have a question if I could. Sometimes when Members come and testify before us, they do not anticipate answering questions. But I am going to ask a question of each of you, and if you have a thought on it, that would be fine. I do not want to put you on the spot.

But, on the issue of health care and deficit reduction, if we do not figure out how to get better health care results for less money, or the same amount of money, for programs like Medicare and Medicaid, we will never balance the budget.

The Postal Service have acknowledged fully that we have to do more than just amortize, if you will, the prepayment of retiree health care over 40 years. We are going to do that. We would in the Senate bill. My hope is that the compromise we work out will change the amortization schedule and do something like a 40-year amortization. I think that is a more appropriate approach.

The Postmaster General is going to share with us some ideas with respect to doing what they have finally done in the auto industry with the United Auto Workers (UAW), and the big three.

And the big three said, we are trying to run a health insurance program, and the UAW says that they would be willing to run it because they thought they could get, for their employees, for their members, better results, frankly, for less money.

Would you all just react to that concept. Is that something you think we could actually work toward?

Mr. ISSA. Mr. Chairman, I think—and we have all had good guidance from the Postmaster General on what he would like to do. And I think it is not just ambitious; it is necessary.

It is very clear that if the government can, in fact, transfer out its full faith responsibility for health care on a willing basis, that is in everyone's best interest.

I think that we all have to be realistic. You cannot transfer something out—literally, say, look, we are going to turn it over as General Motors (GM), as you noted, did—and then still be the full faith. So that is the one challenge, but I support the idea that getting the government out of the health care business for this entity is a good idea.

But, I would also like to note something because your Committee here in the Senate, slightly different than our arrangement, has complete control over the Federal workforce where we have a big chunk, but we do not have it all.

The real question, I think, on health care is: Is the Federal Government employee retirement system first or second relative to Medicare?

And this is an important issue that I think we in the Federal Government have to decide. From a standpoint of the accountants that we all rely on, they consider it neutral because it is just two different pockets.

But from a standpoint of what would happen in the private sector, no company would say, well, look, we are going to pay all the bills, and if there is anything not paid we will turn it over to Medicare.

They would say, no, Medicare has been fully paid into by these men and women of the post office, and we expected Medicare to provide what it would provide for a private sector, and then we will supplement it.

This is what States choose to do if they are in our system—and the few that are not fully in the system. But it is certainly what the private sector does.

That is one of the key questions for your Committee, even more than our side: Are we going to look at Medicare as the primary system responsible for all Federal workers, including the Postmaster General's proposal, and if so, that changes the calculation of what the ratepayer fairly should pay for what is, in fact, now a supplemental medical facility.

And that is not the way we have looked at it in the past—one of the reasons that the number we are wrestling with is so big, Mr. Chairman.

Chairman CARPER. Excellent point.

Mr. CUMMINGS. Mr. Chairman.

Chairman CARPER. Congressman Cummings, please.

Mr. CUMMINGS. I have heard the proposals of the Postmaster General, and I have said to him that I do not have a problem with it as long as we are able to get comparable coverage.

It is one thing to go out and change things. It is another one when you have—on the one hand, with the present system you have 100 percent, and then you go to another system; you have 75 percent, of the coverage.

He claims that they can do that. If he can, that is fine.

There are two words that I think we need to concentrate on—effectiveness and efficiency.

And so, if he can effectively do it cheaper with the same kind of effect, then so be it. But I think the jury is still out. I believe that he believes that it can be done, and I am not going to doubt him, but I would like for him to show me.

Last but not least, let me leave you with this: I think that when you all listen to the testimony today, I hope you will concentrate on something you said, and that is on one hand we want the postal system to right-size itself, to be effective and efficient, to now adapt to a new world, but at the same time the question becomes—they will mention all the things that they can do to bring in money, but I hope they are also honest enough—and I know they will be—and frank enough to say when maybe Congress needs to give them the opportunity to do that.

In our committee, we had some folks who, when the Postal Service would lift up a proposal for how to bring in new revenue, they would say, oh, no, we cannot do that.

Not you, Mr. Chairman. [Laughter.]

But, no, you cannot do that.

And I know that the Postmaster General has to get very frustrated. They are telling him on the one hand, find new revenue; be effective and efficient; and do things the right way.

He goes out there and tries to do it, and they say, oh, no, do not touch that. Do not close a post office. Do not compete against this guy.

And so, some kind of way we need to get past that.

And I am hoping that as you listen to the testimony—because I think that is the kind of thing—that is where we need to go to figure out—if we are going to innovate, at least they have to have the license to get there and not be hindered by us.

Chairman CARPER. Great. I love it when we agree. That is good.

Again, normally, we do not ask questions of our first round, but we are going to ask, see if anyone has anything else—Senator Coburn?

Senator COBURN. Go ahead.

Mr. ISSA. We are fine.

Chairman CARPER. OK, Senator Tester, welcome.

OPENING STATEMENT OF SENATOR TESTER

Senator TESTER. Well, it is good to be here. Thank you, Mr. Chairman.

I am one of those guys who says do not end Saturday delivery; do not shut down that mail processing center in rural Montana.

And I will tell you why—because it has an impact on rural Montana that you may not feel in Pittsburgh or Miami or Chicago or Houston or L.A. or any of the big cities, when we do not get mail for 5 or 6 days.

So, if we are going to have a mail service that is going to work for urban America, it damn well better work for rural America too.

And we have had many discussions on this—the Postmaster General and I—and we disagree. I think if we are going to cut the nose off of our face to try to save the Postal Service, why do not we just turn the contract over to the United Parcel Service (UPS) or Federal Express (Fed Ex); do away with it?

It is in the Constitution that we have to have a Postal Service, and I think it has been something that has worked well for this country for centuries, and I think we ought to continue to try to make it work into the future.

It may not be the force it once was, but the fact is when it comes to our senior citizens, when it comes to rural America, this is something that is absolutely critical. We do not have broadband in a lot of these places where we are going to be cutting service.

So, you are right. I am one of the guys who, when they say cut service on Saturday, says no; are there any options out there?

And, by the way, we have given other options, and I have not seen the results come from any of those other options recommended. The first thing that we have done is cut service, and I think that is the worst thing to do.

I am a farmer. The worst thing I can do is give my customers something they do not want. And that is exactly what is happening in rural America. I cannot speak for the inner city or the big city areas.

Mr. ISSA. Senator, if I could respond, first of all, it is something that you and Denny Rehberg agree on.

Senator TESTER. Amen, brother.

Mr. ISSA. Mr. Rehberg was a classmate of mine when I came to Congress 12 years ago, and he let me know that he was not going to support any processing center changes in Montana, period.

Senator TESTER. Then we did agree.

Mr. ISSA. And he would not vote for my bill under any circumstances before the election. And after the election, he still would not vote for it unless I addressed some of the issues you have.

And I think that you are right. We have to make sure that rural America is guaranteed a quality of service, and that is the debate we should have.

It should not be the number of processing centers. It should be how many days to get from, if you will, Billings to Billings.

It is the point at which you are sending it to your neighbor, but it is going to a processing center. How long before your next door neighbor gets that mail?

Senator TESTER. And I agree with that, and I can tell you that the problem is that once it is done, it is done. Once that processing center in Wolf Point, Montana is closed and that letter from the bank is going to somebody who does not have a job in western Montana takes 5 or 6 days, it will be the last time the U.S. Postal Service (USPS) is used.

So that is what I am talking about.

Mr. ISSA. And, as you know, Senator, UPS very much wants to maintain a level of service because that haul to rural Montana—in fact, UPS is delivered by the U.S. Postal Service. We have a partnership in the post office with the private sector that is a win-win, but I assure that we want to make sure that there are safeguards so that what is claimed to be a level of service is, in fact, verified to be a level of service before any processing center can be closed.

And I think that is what you need to insist in the bill, and that is what I think that all of us need to make sure we promise in the bill.

And I know that Alaska has the same concern. They, of course, have bypass mail—I have been up there. I have been to those rural areas. They need to maintain a level of service that is unique in Alaska. And we need to preserve both of them.

That is one of the reasons for the right-sizing in urban areas, not having, if you will, processing centers that can see each other, post offices that can see each other, is something the Postmaster General wants to concentrate on. And we think that we can come up with a bill that maintains a level of service and most of the post offices, particularly rural.

Senator TESTER. I will look forward to that.

I think you touched on the issues that Congressman Rehberg and I both agreed upon, and that is that standard of service delivery has to be kept competitive. And I can tell you that what I see going on in rural America with some of the proposals that have come out makes it not competitive.

And, we count too. That is all.

Mr. CUMMINGS. Senator, let me say this—that Senator Collins kept these issues at the forefront of all of our discussions.

As one who lives in an urban area and has grown up in one, I am very sensitive to this. I think that we have to legislate for all of America.

Senator TESTER. That is right.

Mr. CUMMINGS. And I get it, and I am not anxious to see our Postal Service—and all due respect to UPS, but I think we can do this. I really believe that. I do not think that we are that far, and being able to do it in a way that satisfies your constituents, but we have just got to make our minds up to do it.

Senator TESTER. I agree with your——

Chairman CARPER. Finish your sentence, and then we are going to have to——

Senator TESTER. I will just say this; the reason that I oppose some of the things the Postmaster General has recommended is this—I do not oppose him because I do not think the Postal Service needs to be solvent—I think it does need to be solvent. We need to work towards that. I think that is an admirable goal, and we should try to achieve it.

My concern is that the Postal Service will not remain competitive in rural America and, consequently, it will be gone. And that is a real negative for economic development. It is a real negative for seniors. It is a real negative for everybody.

So I think we are on the same page, but when I object to the fact that some of the things the Postmaster General is putting forth I do not agree with, I am going to continue to do it.

Mr. CUMMINGS. I understand.

Mr. ISSA. Mr. Chairman, could I just take two seconds?

Chairman CARPER. Please. I want to make sure if anyone else has any questions, they can——

Mr. ISSA. I would hope that we understand that the post office can remain competitive with a much lower level of service. The reason we want to maintain the service and we want to guarantee it in this bill is we want rural America to remain competitive. And if they do not get that level of service, it is harder to be a rural American and still compete in the 21st Century.

So we totally support what you want to achieve.

Chairman CARPER. Good. Anyone else?

Senator Ayotte, you were here first. Do you have anything you want to ask of these witnesses?

Senator AYOTTE. Just a brief question for both of these witnesses.

Chairman CARPER. I would ask you just to be brief in your responses, please.

OPENING STATEMENT OF SENATOR AYOTTE

Senator AYOTTE. I am new to this Committee, but one thing that really struck me in looking at this Government Accountability Office (GAO) report—because we are going to receive testimony on this report today—was something that I think I am hearing from both of you, you would agree on.

So I wanted to get your comment on it, which is the report says, if Congress does not act soon, the Postal Service could be forced to implement reforms to allow the post office to be sustainable, that if we do not act soon the Postal Service could be forced to take more drastic actions that could have disruptive, negative effects on its employees, customers, and the availability of reliable and affordable postal services.

So I see this as many other areas that we have around here—whether it is preserving Medicaid, Social Security—that if we do not act soon on this the choices get harder. Is that true?

Mr. ISSA. Absolutely.

Mr. CUMMINGS. Senator, I agree wholeheartedly. We have to act. That is why I said it from the very beginning.

We were so close in the last session, and I think that we can get there. We are not that far apart; we really are not.

Senator AYOTTE. OK. Thank you.

Mr. CUMMINGS. Thank you.

Chairman CARPER. Senator Enzi, did you have a question for these witnesses?

OK, Senator Begich.

OPENING STATEMENT OF SENATOR BEGICH

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

Thank you both for being here.

And, Congressman Issa, thank you for going up to Alaska. I know we had a good conversation about that opportunity, and you got to see what we would call a hub, and then you saw real rural Alaska.

Mr. ISSA. Nowhere else do they use a hydrofoil to deliver mail.

Senator BEGICH. That is right. It is an amazing place. No roads to access. You had to fly in. You had to figure out if it was going to be a boat or what to get to the next location.

So I appreciate that.

I also want to say, thank you for just your comment here in this engagement with Senator Tester in regards to bypass mail. Alaska is very unique, and I think you experienced a long flight.

But also it is not just about mail. It is about food. It is about supplies. Without that access and that affordable access, we would have situations that people could not afford to live or survive, literally, out there.

I appreciate the work you both did, especially toward the end. I think you could feel the moment. I think Senator Carper was constantly reminding us of this moment that we were so close, but the clock ran out, and it was what it was. And I hope that we can get back to that in that broad sense because it is so important for my State, understanding the rural component, understanding the uniqueness of Alaska and getting things to places where you cannot just get in a car and drive down the street to the next Wal-Mart, seeing we have no Wal-Marts in rural Alaska to say the least.

So, thank you for that understanding, and I want to continue to work with you through this Committee, through the Chairman, on making sure that Alaska and its uniqueness of that delivery—because that is it. I mean, that is how we get food.

And timeliness with the post office is critical, as you probably heard some examples when you were there that when food is shipped in, sometimes if it is delayed—and bypass mail actually consolidates it, gets it out quicker. Food may come through another system, not consolidated, not through bypass. And what happens then is it is rotten, spoiled or it cannot get to the customer in time, and it is no longer valuable.

And if you are paying in some cases for half a gallon of milk or a gallon of milk, $12, you actually want it usable for at least a couple days.

So, again, thank you.

I do not know if you have any comments, either one of you, on bypass mail or just the rural aspects of Alaska.

I know, again, Congressman Issa, I cannot say enough about we had that one conversation, and then you took me up on the challenge. And I thank you for that.

Mr. ISSA. And, Senator, I just want to reiterate; fixing bypass mail is strictly about finding even greater efficiency.

You are right. It is on a per pound basis, the most efficient way. On a per mile basis, one could imagine. To the extent that we touch bypass mail, our goal with the Postmaster General is to still make it affordable, to make it the least cost delivery system to those native islands, all kinds of rural parts that even in Montana they would call rural.

Senator BEGICH. Senator Tester and I would agree on that.

Mr. ISSA. Exactly. And so, I think we can do it, and particularly, we are looking at simply trying to make sure that there is maximum efficiency, maximum choice.

As you know, the concern that I started with was that I want to make sure that we not mix apples and oranges.

There is another problem in Alaska. It is not my committee's responsibility. Mr. Cummings is involved in this in his other committee. And that is we have to ensure affordable air access to some places not available by roads. And I want to make sure that when we are done we empower the mail to be delivered as inexpensively as possible, but we try to make sure we preserve that affordable passenger service that has also been intertwined with the same carriers.

And that is a sensitivity I know you have, and I want to make sure our committee has as we try to find a win-win solution.

Senator BEGICH. Thank you.

Mr. Chairman, I will just make one last comment. It is very unique. And I do not know what plane you had gone on, but in Alaska we have what we call combis, which are when row 16 is actually the front seats of the plane because the front of the plane is all cargo. And that is that unique mix that makes it affordable for passengers and freight. There is nothing like it in Alaska.

Literally, I was in Alaska this weekend. The day before I was ready to go to Homer, Alaska, Wien Airlines cancelled, totally, service. So we had to quickly switch, and there is only now one airline going into this one community of several thousand people, which is very problematic for food and passengers.

So I appreciate all your work, both of you. Thank you.

Chairman CARPER. What do you call it? Combis?

Senator BEGICH. Combis. The front half is cargo, and the back half is passengers. And in Alaska, cargo is higher value, meaning it is food, supplies, and you can get easily kicked off a plane if it means bringing out food or bringing in food.

And for our fish products, this is how it is shipped out. I will just remind folks here 60 percent of all wild caught fish in this country comes from Alaska.

So those combis are high priority, but they move food. And so, literally, when you get row 16, you should be very excited about that because that means you have at least three feet of leg room. But there is a blank wall. That is all the cargo that is in front, and it is delivered into it.

Chairman CARPER. All right, thanks.

Senator Pryor, would you like to speak? OK. As I said when we introduced our first two witnesses, a lot of times when Members of the Senate come and testify, and I am sure it is true in the House, it is really a perfunctory deal. And they come, we are courteous, they give their testimonies, and there are no questions, and they head out on their way.

I wanted this to be more than perfunctory, and it certainly has been that.

I said earlier I love the visual of the two of you sitting side by side, having a chance to work on a really important issue together.

And before you leave, the last thing I will do is I want to just quote Albert Einstein, who said a lot of memorable things. One of the things that he said I think is especially memorable and appropriate for today—"in adversity lies opportunity." That is what he used to say.

We have plenty of adversity here but also plenty of opportunity, and we are going to seize that opportunity. We are going to seize the day. Carpe diem.

And with that, carpe diem. We will send you on your way. God bless you. Thank you.

Mr. ISSA. Thank you.

Mr. CUMMINGS. Thank you, Mr. Chairman.

Chairman CARPER. Our second panel is comprised entirely of generals—a Postmaster General and a Comptroller General. And neither of them are in uniform today. I guess they are in the uniforms that they wear to work every day.

We are happy you have joined us.

Our first witness is going to be Patrick Donahoe. Mr. Donahoe is the Postmaster General and the Chief Executive Officer (CEO) at the Postal Service. Mr. Donahoe has spent his entire career at the Postal Service, beginning as a clerk at the age of 12.

All right, maybe not 12, but a young clerk in his hometown of Pittsburgh, spending many years in top leadership positions before being appointed Postmaster General in 2010.

Good man, and we enjoy working with you. Glad you could be with us today.

Our second witness on this panel is Gene Dodaro. Mr. Dodaro has served as the Comptroller General of the United States and head of the U.S. Government Accountability Office since 2010. He was the Acting Comptroller—that is when I first met him—when he came on board.

And he is one of the witnesses I most enjoy welcoming. I want this to really put the pressure on him because he never uses prepared testimony. He speaks right off the top of his head.

And we have hundreds of people who come before us and testify, and they have it right there in front of them. They have people whispering in their ears. And this man just sits there and delivers.

You have heard the term, stand and deliver. He sits and delivers. And my guess is he will probably do it again today.

And with that having been said—with that big buildup, Postmaster General—good luck. We are happy you are here, and we look forward to your testimonies in helping us to develop consensus and get that ball in the end zone. Thank you so much.

Postmaster General Donahoe.

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

Mr. DONAHOE. Good morning, Mr. Chairman, Dr. Coburn, and Members of the Committee. Thank you very much.

Thank you, Mr. Chairman, for calling this hearing today to discuss the dire financial conditions of our Nation's Postal Service and for the opportunity to provide details of the Postal Service's proposals to return to long-term financial stability. I am glad to be here to discuss these important issues which are now more urgent than ever.

The Postal Service faces tremendous financial challenges. Last year, the Postal Service recorded a loss of $15.9 billion. It defaulted on payments to the U.S. Treasury of $11.1 billion. The Postal Service has exhausted its borrowing authority and continues to contend with a serious liquidity crisis.

At one point last October, the Postal Service had less than 4 days of cash on hand to fund operations. For an organization the size of the Postal Service, which has revenues of $65 billion and a workforce of 495,000 career employees, this is a razor-thin margin. By way of comparison, most private sector companies usually have about 2 months of cash on hand.

The Postal Service cannot continue on its current path. We are losing $25 million a day. We are weighed down financially by the

[1] The prepared statement of Mr. Donahoe appears in the Appendix on page 69.

increasing burden of health care obligations, and we are projecting ever increasing financial losses unless significant financial changes are made to our business model. We have a responsibility to provide and finance universal service to our Nation, but we do not have sufficient authority to carry out this responsibility.

Fortunately, there is an alternative path. If Congress enacts legislation and legislative reform, the Postal Service can return to profitability, the Postal Service can return to long-term financial stability, and the Postal Service can avoid becoming a burden to the American taxpayer. It merely requires to providing the Postal Service with greater flexibility to adapt to a changing marketplace.

Within our current business model, we have been very aggressive in our efforts to reduce costs. Since 2006, we have reduced the size of our workforce by 193,000 career employees. We have reduced our cost base by $15 billion and have consolidated more than 200 mail processing facilities. We are modifying hours at 13,000 post offices, and we have reduced 21,000 delivery routes.

At the same time, we are striving to retain and generate new revenues. We have seen strong growth in our package business, and this has been fueled by an effective marketing and innovation system as well as the continued growth of e-commerce.

Marketing mail continues to serve as a valuable marketing channel, and we expect this part of our business to remain strong for a long time. First-Class Mail that businesses send continues to prove its value and has also been relatively stable.

Fortunately, people like to receive hard-copy statements and other business correspondence through the mail; but unfortunately for us, they are electing to pay bills online. The result is that we have seen declines in First-Class Mail sent by residential customers, and this is a trend that we think will continue to erode postal revenues.

Despite our best efforts to increase revenue and reduce operating expenses, we lack the flexibility in our business model to close a widening budget gap. This is the core cause of our financial challenges. The Postal Service must generate roughly $20 billion in cost reduction and revenue generation by the year 2016 to return to financial stability. We are taking every reasonable and responsible step in our power to strengthen our finances immediately, and, indeed, we have been directed by our Board of Governors to do so.

Last week, the Postal Service announced the new 6-day package delivery and 5-day mail schedule effective the week of August 5, 2013. The anticipated savings from this schedule, when fully implemented, is approximately $2 billion per year. This approach to our delivery schedule ensures continued growth in our package business and helps enable e-commerce throughout the U.S. economy. It also reflects the changing realities of America's mailing habits. We would urge Congress to eliminate any impediments to our new delivery schedule.

Market research conducted over the last few years has shown consistently high levels of support from the public for a new delivery schedule. Just this morning, CBS News released a poll that showed 71 percent of the public supports the new delivery schedule. The Postal Service also conducted a poll this weekend, and it showed an 80 percent support level.

Although discussion about our delivery schedule gets a lot of attention, it is just one important part of a larger strategy to close our budget gap. It accounts for $2 billion in cost reductions while we are seeking to fill a $20 billion budget gap.

During the 112th Congress, the Senate passed S. 1789 which included many reforms sought by the Postal Service. Although this legislation was not enacted, we believe it could provide a framework for swift action in the current Congress.

There are several key provisions needed in legislative reform for our business model. These include:

Requiring the Postal Service to sponsor its own health care system, since a huge portion of our costs go to health care for employees and retirees. This would go a long way toward resolving our retiree health benefit pre-funding obligation.

Reforming our business model to remove restrictive governance issues. This would enable us to adapt much more effectively to the competitive marketplace and to changes in our finances.

Transitioning to a new workforce based on a redefined employee of the future—this would include a defined contribution retirement system for employees joining the Postal Service after 2015, versus defined benefits.

We would also like to see a proper calculation of our Federal Employees Retirement System (FERS) surplus and to use those funds to pay down the debt of the Postal Service.

Allow me to briefly discuss one of the most important opportunities we have to steady our financial ship. This results in the way that we provide health care to our employees and retirees.

There is substantial opportunity for savings—up to $7 billion worth in 2016 alone—for moving to a much more modern, responsive, customer-focused system. This would involve having the Postal Service manage its own health care. We would competitively select a large national provider.

By moving away from the Federal system, nearly all of our employees and retirees would get the equivalent or better health care coverage and pay less for it. The reduced costs to the Postal Service would enable a major recalculation of the retiree health benefit obligation and, under some scenarios, might completely eliminate the need to fund the future Retiree Health Benefits (RHB) payments in their entirety.

The most important part of the health care proposals gets to the root cause of cost control. It bends the cost curve permanently downward, and there is little value to simply remortgage an unsustainable and growing obligation. We have to reduce these long-term issues for the long term.

As we look at the challenges facing the Postal Service, I believe we need to put every option on the table. We need to make decisions, and we need to act. This is fundamentally an issue of adding up the items to get us to a $20 billion total by the year 2016. Resolving our health care benefit obligations will not get us there on its own, neither will the delivery schedule changes that we proposed. We have to do every item that we have on our list.

The financial problems of the Postal Service are getting bigger every year. If we had reformed the business model several years ago, we would be in much better shape today. But if we delay reform another year or more, we may never get back to the sustainable model, and we will put tremendous pressure on our continued liquidity.

We need your help to pass legislation that allows for more revenue generation, and efficient and effective cost control, and makes fundamental changes to our business model. Without your help, the Postal Service could soon be running deficits—operating deficits—in the range of $10 to $15 billion dollars annually. If Congress acts, it can avoid a future scenario in which the Postal Service requires a taxpayer bailout, which could be in excess of $45 billion by 2017.

We must change our business model. Time is not on our side. It works against us every day. To preserve our mission to provide secure, reliable and affordable universal delivery service, and to do so without burdening the American taxpayer, the Postal Service needs urgent reform to its business model.

Mr. Chairman, let me conclude by thanking you and the Members of this Committee for recognizing the difficult challenges that we face and for your willingness to take them on this year. The Postal Service is a tremendous organization with tremendous employees and it needs your help.

The American people deserve a financially healthy and vital Postal Service. The Postal Service stands ready to work with this Committee to achieve that goal.

Thank you very much.

Chairman CARPER. Thank you, Mr. Donahoe. Thanks for your testimony. Thanks for your leadership and for your continued service from an early age.

Mr. Dodaro, you are on. It is great to see you. Welcome.

TESTIMONY OF HON. EUGENE L. DODARO,[1] COMPTROLLER GENERAL OF THE UNITED STATES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. DODARO. Good morning, Mr. Chairman, Ranking Member Coburn, and Members of the Committee. It is a pleasure to be here to discuss the Postal Service's financial condition.

The Postal Service's financial condition has been on our high risk list for years.

Chairman CARPER. It has been on and off, has not it?

Mr. DODARO. It has gone on, off, and back on. I put it back on while I was Acting Comptroller, so I knew it was a serious issue. That was back in 2009 when we put it back on.

It originally was on the list in 2001 and then came off in 2007 after the 2006 reform legislation, but that, obviously, did not work. And that was a pre-recessionary period of time, before the mail volumes declined even more. So it has been on the list for years.

Our assessment is the financial situation is dire, that declining mail volumes have not generated enough revenues in order for the Postal Service to meet its expenses and financial obligations. They have been increasing their borrowing. They are up to the $15 billion debt limit in borrowing from the Treasury Department. They are accumulating large unfunded benefit liabilities for their programs.

[1] The prepared statement of Mr. Dodaro appears in the Appendix on page 110.

If you add the debt and the unfunded liabilities for the benefit programs together, currently, it is $96 billion. As a percent of their revenue in the last 5 years, it has grown from 83 percent of revenues to 147 percent of revenues.

As the Postmaster General mentioned, there are severe liquidity problems right now. They also have not been able to come up with a financing plan to make capital investments in its delivery fleet, and many of the vehicles in the fleet are approaching the end of their life span.

And, looking ahead, the mail volume for First-Class Mail, which is their most profitable line, is expected to continue to decline to 2020.

So these are not the ingredients for a financially sustainable business model for the future.

We have said, for years, comprehensive legislation and actions are needed. The Postal Service needs to act, and the Congress needs to act.

Now from the Postal Service standpoint, since 80 percent of their costs are personnel costs, they need to continue to reduce the size of their workforce in an appropriate manner and in a compassionate manner. They need to look at the benefits also that are being paid to their employees to make sure that they are appropriately sized.

There is also excess capacity in their mail processing system, and this, obviously, is a structural issue that they have. And, at core, there is a structural issue between their ability to generate revenues to meet their expenses.

They also need, in my opinion, to look at pricing for some of their products where they are losing money—Periodicals, for example, and also flat Standard Mail like catalogues, etc. Those two items together are not meeting their costs to the tune of about a billion dollars last year.

They also need to look at new revenue sources. Packages are a bright spot in that regard, and they have a number of other issues and initiatives under way to generate revenues. But really, right now, there is nothing on the horizon that is going to stem the tide or the need to address their expenses to meet expected revenues in that period with the exception of some of the package areas.

Now, with regard to the Congress, there are three things I would point out that the Congress needs to deal with in this comprehensive legislative package:

First would be to modify the schedule for the prepayment of health care costs. We noted that the schedule that was included in the 2006 legislation had large fixed payments up-front. The Senate bill would have moved it to an actuarial adjustment, which we think would be helpful in that regard.

But it is really important that the pre-funding continue to the extent the Postal Service is able to financially meet those payments. Otherwise, you are just pushing the costs down the road, and with the specter of declining mail volume, you really are not going to be in a better position. Then to meet these costs than you would be doing it on a rationale basis.

Second, we believe the collective bargaining statutes governing the Postal Service need to be modified and modernized. They were set 40 years ago when the Postal Service was not in such a competitive position that it is now and its business model being in question. And we think that the Congress should require that the Postal Service's financial condition be given mandatory consideration in binding arbitration issues going forward for the Postal Service.

Last, but certainly not least, is that the Congress has to facilitate the ability of the Postal Service to make changes to dealing with market conditions, mail volume changes, and to be able to have the flexibility to adjust their business operations. Now this, obviously, is very important as it deals with the service standards that have been set and some of the constraints that they have been operating under. And I think that the real policy issues that need to be addressed by the Congress are to provide some flexibility in those standards but to make sure the Congress is clear on what standards it wants.

And I think the other issue is that oftentimes these service standards are looked at in a sort of one-size-fits-all means for the entire country. I am not sure that is a necessary requirement going forward and that there be more flexibility to deal with rural issues and to deal with other unique aspects of the conditions.

So this is a really important area because if you go back and you think about the personnel costs are 80 percent of their costs, a lot of personnel costs are driven by the service delivery standards.

So you have a structural issue built into your expenses on almost a fixed basis, and you are faced with declining revenues coming from declining mail volumes. And so that structural issue needs to be dealt with in the legislation.

I commend you, Mr. Chairman, Ranking Member Coburn, and Members of the Committee, for your commitment to legislation in this area. You need to act soon on this, as everybody has said this morning. I just put my two cents in, in addition to that because I think, otherwise, you are going to face a lot of unintended consequences that nobody really needs to deal with in this particular situation.

So I look forward to continuing to support the Committee, and we at GAO will do our part to the extent we can to help as you deliberate and shape the legislation going forward.

So thank you for the opportunity, again, to be here this morning, and I look forward to responding to questions.

Chairman CARPER. As always, we appreciate your being with us and testifying and appreciate so much the work that your team does at GAO in helping us in a lot of ways, to try to get better results for less money.

Dr. Coburn and I, and some others, look forward to being with you, I think, tomorrow when you roll out the GAO High Risk List. I describe that as our To Do List to find ways to stop wasting money. And so we are grateful for that as well.

I am going to go back to something I mentioned earlier. I think General Donahoe mentioned this, but I want to go back to the issue of health care costs. I think you also alluded to this.

In terms of right-sizing the enterprise, looking at the distribution system that we have now, I think a lot of work has been done to rationalize it.

And I think if you look at what we passed in the Senate, in our legislation—moving to a modified 1-day delivery in metropolitan areas; and in the rest of the country, 2 and 3-day delivery; the idea of giving the Postal Service the option of going from 6 to 5-day a week delivery within the next 2 years and knowing that some want to go sooner, but there is probably a compromise out there somewhere that I think we can seize onto.

If you look at the postal distribution centers—you look the smarter way that we are using our post offices, especially in rural areas, not taking away and not closing the post offices but continuing to provide service in a more cost effective way.

If you look at the rather remarkable reduction—in the workforce to the Postal Service, from roughly 800,000 employees not that many years ago to just under 500,000, without layoff, without firing people, trying to be humane—and I think being humane—I think that is real progress and not often acknowledged. But that, frankly, is the kind of right-sizing that we need to do.

The 800-pound gorilla in the room in terms of deficit reduction for our country is health care. If we cannot figure out particularly Medicare and Medicaid, and do it in a way that does not savage old people, poor people, then we are in real trouble long-term. And I think it is a real critical point for the Postal Service going forward.

Congressman Issa raised the issue of Medicare. Postal employees pay into Medicare, but unlike most other employers around the country and their employees, they do not get much benefit, as does my wife who retired from DuPont. When she reaches 65, in about another 20 years——

Senator COBURN. Tomorrow is Valentine's Day, not today.

Chairman CARPER. Oh, OK. [Laughter.]

When their employees reach 65, no longer is DuPont the primary provider of health care. It is Medicare, and they provide the wraparound, the Medigap coverage.

And so that is one issue.

The second issue is: Do we have the ability to create not a larger purchasing pool in the Federal Employees Health Benefits (FEHB) plan but actually a smaller purchasing pool that is comprised of postal employees, their dependents, postal retirees, and their dependents? To me, it is sort of counterintuitive but obviously not impossible.

So let me just ask Mr. Dodaro, Postmaster General over here and his folks have this idea for pulling the Postal Service out of FEHB, creating a smaller purchasing pool, and they think they can actually get health care with the quality of the service just as good, for less money. Your reaction to that?

Mr. DODARO. First, I want to be clear that the Postal Service, even if you set aside the pre-funding of health care benefits, is still operating at a deficit situation. So this is a big issue and needs to be dealt with.

Second point I would make is that the $7 billion that the Postmaster General mentioned that they would be able to save in this includes the $5.5 billion dollars in pre-funding, and then there is $1.5 billion in their estimates in terms of actually bringing down the costs of providing health care.

We are currently looking at that issue in response to a request from this Committee. We are carefully looking at what effect it would have on the Postal Service employees, and what potential effect it would have on the remaining part of the Federal employees health care benefits system. We expect to have our report out to you by July this year.

So we are taking a careful look at it. There are no easy answers. I think a lot of people believe they could drive down the costs, but we are carefully looking at how those things could be handled.

Chairman CARPER. Yes, we need your help and appreciate that.

One other quick question and my time will expire in about a minute. New products. Postmaster General, just mention maybe the best, most promising three ideas for new products to generate revenues.

Mr. DONAHOE. Thank you, Mr. Chairman.

Three areas: First of all, securing the business First-Class Mail is critical for us. It is still our largest product even though First-Class has shrunk. This past year, we introduced the idea of two ounces for the price of one. It is giving mailers the ability to put extra messaging in their mail. We have seen a nice leveling off of that product, which is good cash flow from that product.

Second of all, Every Door Direct, which is an offspring of direct mail, gives small businesses the opportunity to hit local customers in a real simple way. We have seen almost $700 million of growth in that product in the last year and a half.

Package perspective? We have a couple of things there. We call it Early Bird. You bring the packages in the morning; we deliver them the same day. So working with Fed Ex, UPS, and some other big customers has really worked well. That has helped with a 14 percent increase in package business over the last 2 years. And we have Metro Post, which is same-day delivery. We are starting that off in San Francisco.

Chairman CARPER. OK, thanks so much. Dr. Coburn.

Senator COBURN. Thank you.

General Donahoe, I notice in looking at the numbers that your revenues were slightly lower this time last year, but yet your expenses were up 15 percent. You went from $70.6 billion in expenses to $81 billion. What accounts for that difference?

Mr. DONAHOE. The biggest account there, was the double payment that we were responsible to make into the retiree health care pre-funding. We were excused from that payment in 2011 but had to make two in 2012.

Senator COBURN. And that accounted for how much?

Mr. DONAHOE. That accounted for a total of $11.1 billion. It is $5.6 billion in 2012, $5.5 billion in 2011.

Senator COBURN. OK. So if you had not had that $11.1 billion payment?

Mr. DONAHOE. Our costs would have been relatively stable.

The approach has been, from a cost standpoint, in a number of different areas, consolidation of the operations which we have talked about here before. Taking transportation costs out. Trading in the lesser-cost hours by working with the unions through either negotiated agreements or arbitrations where we can bring a person in for $35,000 a year versus an $80,000-a-year employee.

Those are all things that we have had to do to pull costs down.

Now you have to understand; during that time, like any other organization, we are facing upward pressure from inflation, health care, and gasoline. We are the largest user of fuel in the Nation. So that is a net reduction based on a lot of effort in this organization.

Senator COBURN. Good. Pricing power and the ability to have the flexibility to match price with service—you do not essentially have that now, correct?

Mr. DONAHOE. No, correct.

Senator COBURN. But I do not see that mentioned anywhere in your bullet points of things that need to change. There is a sweet spot for First-Class Mail. Matter of fact, Mr. Guffey from Shawnee, Oklahoma, mentioned the ability to have the pricing power. And I would love both your comment, and Comptroller Dodaro's, on why that is important and what that can do for your revenues.

Mr. DONAHOE. It is critical. Well, on our chart[1] of legislative goals, I think the third point on there is streamline governance—and that means pricing power; that means product power; that means service power, for our Governors.

When the Postal Service was established in 1971, they were established with a Board of Governors just like a corporate board of directors that had all kinds of power.

In between the establishment and the final solution, there was a Postal Regulatory Commission (PRC) put into place, with good intentions. I am not talking against the intention behind that, but it took the power away from the Board to set prices, set service levels, and set products.

What we are asking for is to go back in that direction. We have no issue with a regulatory commission, but they should be strictly after-the-fact. This lets us move fast. It lets us get in the markets that you have already discussed here today. And as long as it is legal for us to do, we should be pursuing it. It also gives us the opportunity to change prices.

Now I will say this from a price standpoint; let us resolve the cost issues before we go and start pushing prices up because there is a real demand quotient in there and we do not want to sink the system just by trying to generate some mail from a price increase.

Senator COBURN. Comptroller Dodaro.

Mr. DODARO. Obviously, in the dynamic market that the Postal Service is operating in now, flexibility on pricing is really important. The current structure sets it up in two tiers. One where they have a monopoly or market dominance in that area—there are price caps set. Then there is competitive pricing for other areas where they do have the flexibility to try and recover all their costs.

And I mentioned a couple of these areas in my opening statement in terms of periodicals and catalogues where they are not covering their costs now. They do have flexibility, but there are demand issues and the point of return where you do not want to drive down volume if you overprice in that area. But they definitely need some pricing flexibility to be able to move quickly in this environment.

[1] The chart referenced by Mr. Donahoe appears in the Appendix on page 84.

A lot of what is happening here has been driven by changes in technology, and those changes in technology are going to continue to occur and at a rapid pace. And so they need the flexibility.

They need to have an accountability and oversight structure as well to be able to provide the necessary accountability and authority.

Senator COBURN. Well, my time is about up.

I just want to say this for the record. I do not think anybody has a tougher job than what the Postmaster General has, and the fact is the post office is in trouble. And I congratulate you.

There are really 536 postmasters general, unfortunately, and the goal of our reform ought to be that there is one and that we give you the flexibility to do the service, to keep the standards there and have a system that offers the best service at the best price with the best quality the country can have.

So I congratulate you—I know a lot of the things you have done are controversial, but leadership is about leading. And I want to congratulate you for having led. Thank you.

Mr. DONAHOE. Thank you.

Chairman CARPER. I approve that message.

All right, Senator Enzi, you are next and then Senator Tester.

OPENING STATEMENT OF SENATOR ENZI

Senator ENZI. Thank you, Mr. Chairman, and I am pleased to be on this Committee because this first hearing particularly affects a lot of Wyoming people. Everybody in Wyoming, in fact.

And we are one of the rural States too. I appreciated the Senator from Montana's comments earlier. The post offices are absolutely essential in our rural areas.

And one of the difficulties that we have had was the list that was sent out saying that post offices were going to be closed, and I think it was a completely wrong process to go through. You said they were going to close, and you came in and explained that they were going to be closed, and then of course, Congress got in the way.

But the best process for any of these people in any of these rural States, who have to solve problems themselves all the time, is to let them know how much it costs and ask them how they can reduce the costs. I think you will be surprised at the innovative ideas that the people have so that they can continue to get the kind of service that they have come to expect from the post office.

And another thing, because of our rural areas, that we have had some difficulty with is the mail sorting was moved to bigger areas. And you talked about what sounds like a great idea—same day delivery. Well, we used to have same day delivery on the local stuff. They would drop it into a separate box that is local, and the people that are local sort and get it out to the people that live in the town that day.

Now you drop it all in one box, and it takes a day to go to another town. They sort it. It takes another day to come back, and they get their local mail.

The ones that I really hear from are the ones that have pre-sorted mail. Now, if it is pre-sorted, it is already ready to go out. But it is loaded on a truck. It is hauled 130 miles, and it has done nothing with it. And then it is loaded back on a truck, and it is hauled back again, and it is delivered.

They keep asking me, how come that has to happen, and the people that have that pre-sorted mail wonder why it then takes longer to get their mail out than it used to.

So there are a lot of ideas out there in these rural areas that I think can cut down a lot of the costs. The post office is an essential part of the community in most of those places. Solicit their ideas, and there will be a lot less problems.

Like I say, I am new to this. So I have probably got some questions that have been answered before, but the biggest one that I am curious about—I know there has been this precipitous drop in mail volume across the country, and I know there are a number of reasons: The Internet, the popularity of email, and the lost art of letter-writing, which you might want to encourage through English classes.

I still think that one of the biggest thrills that people get is an actual delivered, hard copy letter that they can keep or frame or whatever they want to do. And there are more and more of them being framed because they are so rare.

But with this drop in total postal volume, has the Postal Service reduced the number of employees to reflect the reduced need?

How do the employee numbers compare with the volume today?

Has that number changed from 5 years ago?

Mr. DONAHOE. Thank you, Senator. Let me address a couple of these issues, answer your question first, and then I want to come back on the service issues.

First of all, our people do a tremendous job. They are very productive. You will hear a couple of our union presidents come up to talk about some of the things that they know from an employee perspective, but they do a great job.

In the year 2000, we had 804,000 employees. Today, we have about 495,000. So our reduction in the head count has been continuous. We have done that without layoffs. We are proud of that fact.

But, in that same time, mail volume has not dropped off that quickly. Our employees are much more productive on a yearly basis. I think, until the recession, we missed a couple of quarters in there. We had probably about 10 years of productivity improvements in a row, and we have 3 more years, even in a declining volume.

So our people do a great job. We have been very conscious of trying to cut costs ahead of time and trying to anticipate the volume loss that we have seen.

From a service standpoint, there is a number of reasons why we do what we do as far as consolidating and moving mail to locations to sort. It is more efficient to sort mail through a large, automated mail sorting system that we have. I would be very happy to hear from our mailers locally, in cities in Wyoming, to see how we could speed that up, but a lot of it is due to the cost issues that we are faced with.

And I think going forward—to your point, Senator Tester, Senator Begich—from a rural perspective there are some special things we need to do.

We need to listen to our customers. We have done that in the cases of making some changes in post offices. We have had 13,000 town hall meetings over the past year across the country, talked to customers to find out when the best time it is to serve them, how to serve them, and we have made changes accordingly and also saved some money that way.

Senator ENZI. Well, thank you. I appreciate the 13,000 town meetings.

I just want to reiterate again that if the towns could have been better prepared before the town meetings you might not have even needed the town meetings because I think they would have supplied some ideas for cost savings so they could still have this great community attribute.

And I did not want to imply that the postal workers are not doing good work and efficient work. My father-in-law was a postal worker, and his dad was a postal worker. So we have a great interest in that in our family.

Mr. DONAHOE. Thank you.

Chairman CARPER. Senator Tester.

Senator TESTER. Thank you, Mr. Chairman, and I want to thank both of you for being here today. I appreciate your being here so we can get a little information.

Postmaster General, what was your loss for 2012 in total?

Mr. DONAHOE. The loss for 2012 is $15.9 billion; $11.1 billion was due to the default on the pre-funding for retiree health benefits.

Senator TESTER. OK. So, without the pre-funding of $11.1 billion, about $4.8 billion was your loss?

Mr. DONAHOE. Yes.

Senator TESTER. Mr. Dodaro, there have been all sorts of numbers floating around on what Saturday delivery is going to save and what potentially it could cost in percentage of mail volume drop. Were you able to look at that at all?

Mr. DODARO. The last time we looked at that, the proposal at that time was also to eliminate packages on Saturday as well, and so that has changed. So our prior analysis really is not up to date.

But, I would say it is one of the areas where there is the largest opportunity for savings that we have looked at, but it would be dependent upon how they would make the transition in terms of re-aligning their employees to achieve the savings that are anticipated, make the appropriate changes, and to see what the type of response would be from mailers and businesses in terms of the change over time.

We have also said that this change alone is really not going to provide the answer, and if it is considered and included—it needs to be part of a comprehensive package of reforms.

Senator TESTER. So, before—when the packages were not being delivered, can you recall what the figure was?

Mr. DONAHOE. I can tell you what the figure was.

Senator TESTER. What was it?

Mr. DONAHOE. The original estimate was $3.1 billion. We pulled that down to $2.7 billion as we have taken more costs out of the system with volume loss.

We think that it is probably around $2 billion now because we would have to add probably about $600 million back in for what we call dynamic routing of packages on the weekend.

If you recall, the original proposal was to keep post offices open, mailbox delivery on Saturday.

Senator TESTER. OK.

Mr. DONAHOE. And so the transportation and the post offices are already open, so those costs are already considered.

Senator TESTER. OK. So have you estimated what the drop in mail volume would be?

Mr. DONAHOE. I will tell you we have spoken to a number of customers and have never been able to ascertain the number. Our best estimate is around $100 million in what we call contribution.

If you take a look at what has happened on Saturdays, Senator, there have been many people moving away from Saturday as a requested delivery day. Most of your circulars—supermarket circulars—they are Monday through Friday. A lot of the cataloguers, as Mr. Quadracci will tell you, they like Monday, Tuesday and Wednesday.

And so the choice was, if we had to eliminate a day because we do not have 5 days worth of mail delivery, it would have to be Saturday.

Senator TESTER. Yes, I have you there. Actually, if you are going to eliminate a day, I would agree with that.

Didn't the Postal Regulatory Commission research that said that with the post office closures on Saturday there would be a drop of over 10 percent—10.3 percent to be exact—in mail volume?

Mr. DONAHOE. I know that when we went to the commissioner for a ruling and an advisory opinion on Saturday, I think their number was a total of $600 million versus our estimate.

Senator TESTER. And that 600 million would reflect 10.3 percent? I do not have my calculator to do the math real quick.

Mr. DONAHOE. That is about 1 percent, $65 billion.

Senator TESTER. OK. Well, I do not know if you are going to deal with this anymore, Mr. Dodaro, or not, but it would be really good to get numbers that we could really take a look at because the fact of the matter is, I think, everybody on this dais wants to try to help the Postal Service become more economical.

And that is one of my arguments. That is the argument that I made to Congressman Issa and Congressman Cummings—that if we are doing things that actually reduce our mail volume and reduce the profitability, we are heading in the wrong direction.

Mr. DONAHOE. If I could add a comment, I visited your State last summer for a couple of reasons:

One, to talk to our customers about what they would like to see in their post offices—and that helped us to come up with the Post Plan—which was modified hours, keeping the mailboxes available.

The other thing that people said to us was—and we heard this too with the Commission hearings—we understand mail is going away. You have to be efficient.

Our latest surveys that we just did this weekend, including rural areas, across the board said, the Postal Service must be efficient. But they also told us, deliver packages.

You told me, farm implements. A farmer cannot wait for Monday delivery.

Senator TESTER. Pharmaceuticals.

Mr. DONAHOE. We heard you loud and clear, and that is why we have come back with this proposal. We think it is a win-win. We know it is tough taking away Saturday delivery, but with the financial situation we are faced with——

Senator TESTER. Yes, I just——

Mr. DONAHOE [continuing]. We cannot see any other answer.

Senator TESTER. What I need is numbers that work.

Mr. Dodaro, are you going to do any more work on this, or is it done?

Mr. DODARO. We definitely can. We have a good underpinning and understanding there. We will look at the cost savings, and we will look at the tradeoff issues in terms of what the estimates have been made for mail volume.

Senator TESTER. Thank you very much.

Mr. DODARO. And we will get that to the Committee as soon as we can.[1]

Senator TESTER. Thank you very much.

I appreciate, Mr. Chairman, my time has run out, and I have more questions but will submit them.

The issue is this—if I might just close really quickly.

We are changing mail standards in rural America. We are changing them from one to three, to two to three. And, quite frankly, with the closure of some of the mail processing centers, it is going to be much longer than that.

And you can argue with me if you want, but I will show you the mail once this all goes into effect.

And I can tell you that if I have a piece of mail that has to go somewhere and it has to be there on a date and specific time, you have to be competitive or I am not going to use you.

Mr. DONAHOE. We are still the best solution. I will be more than happy to come out to sit down and go through it.

I have all kinds of data that shows exactly how much time it is. I will be more than happy to sit down, and we will go through it. OK? Thank you.

Senator TESTER. Thank you very much.

Mr. DONAHOE. All right.

Chairman CARPER. All right, I think Senator Begich is next.

Senator Begich, could you talk to us more about Alaska, please? Talk to us about that Alaska salmon. How good is it for us?

Senator BEGICH. It is the best, and we do not like that genetically engineered Frankenfish either.

Chairman CARPER. Well, I just wanted to get that on the record.

Senator BEGICH. I appreciate it. Someday we will get the Food and Drug Administration (FDA) here, and we will have conversation.

But, Mr. Chairman, congratulations on being Chairman. You will hear about Alaska every meeting.

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[1] Mr. Dodaro's responses to questions for the Record from Senator Tester appear in the Appendix on page 287.

First, thank you for being here. Thanks for being part of this today and, again, thanks for the work you have done during the last hearing, last session, in trying to get somewhere.

Mr. Postmaster General, last summer, you released a plan. At some point, the idea was to keep all the post offices open but modify, reduce hours, kind of work that system versus shutting down.

Can you assure me—of course, I am going to be parochial here—from Alaska's perspective, that means that post offices in Alaska will not be shut down in the rural areas especially, but you will end up just modifying hours based on the plan you had put out last year?

Mr. DONAHOE. Yes. We listened to our customers.

Senator BEGICH. You said, yes. I will stop you there.

Mr. DONAHOE. Yes.

Senator BEGICH. I never want to go further than an answer that is positive.

Mr. DONAHOE. OK.

Senator BEGICH. So I appreciate that. Second, you heard my conversation with the two Congressmen that were here earlier in regards to bypass mail. I think you understand we have had multiple meetings on this about the importance of it.

Mr. DONAHOE. Yes.

Senator BEGICH. And I really appreciate your kind of recognition of that.

Mr. DONAHOE. Yes.

Senator BEGICH. And, as we have talked before, universal service includes getting mail to everywhere.

Mr. DONAHOE. Right.

Senator BEGICH. And sometimes it is more expensive. Sometimes it is less expensive.

And that is your philosophy? That is still the same?

Mr. DONAHOE. That is still the same. We know how important the U.S. mail is in the State of Alaska and many of the other islands that we serve all through the Atlantic and Pacific.

Senator BEGICH. That is right. Very good.

How much of your business—and I think you have told me this once before, or for the record. How much of your business is the last piece for UPS and Fed Ex—because you have relationships. Is it 1 percent? Five percent? Ten percent?

Mr. DONAHOE. We have nondisclosure agreements with those companies.

Senator BEGICH. OK.

Mr. DONAHOE. But just to give you a perspective, though, Fed Ex is our fourth largest customer——

Senator BEGICH. OK.

Mr. DONAHOE [continuing]. And UPS is now in the top 10.

Senator BEGICH. OK, that gives me some understanding.

I mean I am assuming they want to see this postal reform done as quick as possible. Is that a fair statement?

Mr. DONAHOE. Absolutely.

Senator BEGICH. If you are unable to, or we are unable to, accomplish that, is there clearly—I mean, what do Fed Ex and UPS do?

I mean, we are the last mile in some of these rural areas. Is that a fair statement?

Mr. DONAHOE. That is a fair statement, yes.

Senator BEGICH. So what will happen?

Mr. DONAHOE. I do not know.

I will tell you this; it is not just Fed Ex and UPS. There are many other companies, banks, and mutual funds that are looking for reliable, affordable, dependable mail service. That is the key to resolving this issue. We do not want large companies like Citibank or Bank of America, as well as Fed Ex and UPS, to seek other ways to get their product delivered.

We do a great job. We do it affordably, dependably. We want to continue to do that.

Senator BEGICH. Assuming they can even find a network as built up as yours. Is that a fair statement?

Mr. DONAHOE. There is no network as built up as ours, yes.

Senator BEGICH. Right. Now that we are coming out of the recession and the economy is getting better—I mean, I just saw a report that I just read that indicated Treasury had a surplus for the first time in 5 years in their January month, which is because the economy is better; people are working again.

Are you seeing any stabilization, or is it still a deep slide, of First-Class Mail or general mail overall?

Mr. DONAHOE. There are three key issues that we look at from a product standpoint.

Senator BEGICH. OK.

Mr. DONAHOE. Packages are increasing. We are seeing a double-digit increase, 17 percent, just for this last month of December, year over year.

Senator BEGICH. That is good.

Mr. DONAHOE. It is 14 percent over the past 2 years. That has been great.

Senator BEGICH. OK.

Mr. DONAHOE. Ad mail, direct mail—the most direct way to get to your eyes, better than TV, radio, or anything else—that has been very stable. We are starting to see that moving up with the economy.

Senator BEGICH. OK.

Mr. DONAHOE. First-Class Mail—you have two things going on. Commercial First-Class—bills and statements that are sent——

Senator BEGICH. Right.

Mr. DONAHOE Is pretty stable.

Senator BEGICH. OK.

Mr. DONAHOE. First-Class bill payments continue to drop at a rate of about——

Senator BEGICH. That is just individual, the Internet, PayPal, all that kind of stuff?

Mr. DONAHOE. We have lost people paying bills online, which you cannot fight. It is free.

Senator BEGICH. I understand.

Mr. DONAHOE. And what is happening—if you put it in perspective—is in the last 10 years, we have lost 60 percent of that volume and, just to put it in terms of revenue, $14 billion in revenue for that revenue stream.

Senator BEGICH. Yes.

Mr. DONAHOE. If we did not have that volume drop off, we would not worry about pre-funding health care; we would not worry about 6-day delivery.

Senator BEGICH. No, I understand. I just wanted to——

Mr. DONAHOE. Right.

Senator BEGICH. But a couple of those indicators are at least stabilizing and moving in the right direction?

Mr. DONAHOE. Yes.

Senator BEGICH. That is a good thing.

Mr. DONAHOE. Yes.

Senator BEGICH. OK, let me end there.

Mr. Dodaro, let me ask you a question. Thank you for the report. Thanks for the work you have done.

Let us assume for a moment the bill passes. Will you be part of the process of ensuring that those things we put in place, that we said and the Postmaster General said, will save X amount of money, to monitor that in such a way, or is that something we have to help you create that framework to make sure that happens? Does that question make sense?

Mr. DODARO. Yes, definitely. We will stay involved. As I mentioned in my opening statement, the Postal Service is on the high risk list.

Senator BEGICH. Right.

Mr. DODARO. We will keep it on the high risk list until we are sure that the problems have been solved.

Senator BEGICH. OK.

Mr. DODARO. In other words, once the legislation has passed, we will not take it off until implementation is successfully achieved by the Postal Service, and so we will stay monitoring that situation and providing regular reports.

Senator BEGICH. And based on the metrics within the legislation as well as what you have established through your office.

Mr. DODARO. That is exactly right.

We made the mistake of taking them off too early before.

Senator BEGICH. Right.

Mr. DODARO. I am not going to make it twice.

Senator BEGICH. OK, very good. Thank you very much.

I know my time is up, and I will have some questions for the next panel. Thank you.

Chairman CARPER. Senator Pryor.

OPENING STATEMENT OF SENATOR PRYOR

Senator PRYOR. Thank you, Mr. Chairman.

And Mr. Chairman, I want to thank you for doggedly working on postal reform over the last few years but especially last year. You and Senator Lieberman, Senator Collins, and Senator Brown passed the Postal Reform Bill. A lot of people said you could not do that. So thank you for your hard work.

And I am assuming that, Mr. Donahoe, you would agree that if the House had taken up the Senate bill or passed a bill similar to that and we had conferenced it and got it to the President, then you would not have recently made this announcement on the Saturday delivery—that the bill that the Senate had passed had provisions in there to make sure this would not happen, at least for a couple of years. Do you agree with that?

Mr. DONAHOE. Well, we need to move as quickly as we can to close the $20 billion gap, and that includes changing the delivery schedule. It is worth $2 billion. And I think sometimes people think that is not a lot of money, but to us it is a substantial amount.

The volume is not there, and we need to move on. Package delivery is what people are looking for, and that is what we are proposing.

Senator PRYOR. All right, I do not want to bring up a touchy subject, but let me go ahead and do it: Your legal authority for ending Saturday delivery.

I know that in the appropriations bills over the years we have put provisions in the appropriations bill that basically say you have to deliver on Saturdays, or 6-day delivery.

And there is P.L. 12–175, the Continuing Appropriations Resolution that extends the Consolidated Appropriations Act of 2012; that is P.L. 12–174. And there is a section there, Section 101, that specifically extends the funding levels of the fiscal year appropriations law under the authority and conditions provided and in the previous funding resolution, except as otherwise provided by the Continuing Resolution (CR). And the CR does not contain the language.

So could you articulate for the Committee your legal authority under current law to end Saturday delivery?

Mr. DONAHOE. We have, over the course of the last couple years, looked at everything we do—our networks, how we deliver, how we provide health care, everything including the 6- to 5-day delivery. We have challenged ourselves.

I have talked here before as part of my testimony and written testimony about how we know we can save $7 billion with our own health care plan.

We have challenged ourselves to figure out, from a standpoint of the legality, the 6 to 5-day mandates, and it is our interpretation, based on what my attorneys have told me, that we are clear to move ahead on this.

Now we have time because I know people have said to me, well, there is a CR and it expires at the end of March. I would implore this Congress not to put any other restrictions on us from a 6- to 5-day perspective.

We have lost substantial volumes. We have lost 27 percent of our total volume, over 30 percent of First-Class volume.

Every customer we have talked to, business senders, receivers say. Do the right thing. Be responsible.

This is a responsible act.

People have said to us, I want my medicine in the mail.

We are going to do that.

I want my eBay and my Amazon packages.

We are going to do that.

But we cannot afford—with the substantial $14 billion loss that we have seen in First-Class Mail—to continue to prop up 6-day delivery if it is not needed and there is no demand for it.

Senator PRYOR. Well, that was not really my question.

The question is, what is your legal authority to do it?

You said you are satisfied that you have legal authority. I am not, and I am not sure the Committee is. I am not sure the Congress is.

You do not have to do it right now, but I would like for you to articulate in writing what your legal authority——

Mr. DONAHOE. We have provided a nine-page legal opinion to your staff.[1] So my attorneys will be more than happy to come up and talk with you.

But again, I would implore you, let us move away from the 6- to 5-day delivery. It is $2 billion. It gives us the liquidity that we need now, and we need to move ahead and change these delivery schedules.

Senator PRYOR. Because in 2011 you stated that Congress must act to allow the Postal Service the authority to determine delivery.

Mr. DONAHOE. I agree with you. I agree.

And in 2011 and 2010, I also thought that we were bound by a lot of the health care laws that we thought we had. As we have researched this, we have found a way to change the health care provisions in this organization to provide better health care to our employees and retirees and reduce this $7 billion cost a year that we are paying for pre-funding in health care for our employees.

It is the same approach with everything we have done. We have challenged ourselves because we have had to.

People have accused me of moving the goal posts. You do not want the Postal Service to fail in this country. It is my responsibility, and I have taken that responsibility to make sure that we do everything within our power.

And I am imploring Congress, please do not force us back into a 6-day window. Let us make the move in August. It is well planned. Customers can take that to the bank. People will adjust. And we will make sure that we deliver what people want, and that is packages. Thank you.

Senator PRYOR. Thank you, Mr. Chairman.

Chairman CARPER. You bet.

Let me—before we recognize Senator Levin—just say I think what you said, Mr. Donahoe, is you would like for the Postal Service to go from 6- to 5-day delivery effective—was it August 1?

Mr. DONAHOE. August 5.

Chairman CARPER. August 5. If we are still here in this Committee, in this chamber, in the Senate and the House—if we are still here on August 5, debating this issue and postal reform legislation, we have failed.

Mr. DONAHOE. Yes, I agree.

Chairman CARPER. I have no intention—I know Senator Coburn and I think my colleagues here agree. We have no intention of still being debating these issues. It is imperative that we act.

Mr. DONAHOE. Yes.

Chairman CARPER. I call this the first overtime. I want us to get this done.

And we have plenty of other stuff like cyber security to go into on the high risk list, and immigration reform and a whole lot of other things.

[1] The document referenced by Mr. Donahoe appears in the Appendix on page 101.

Mr. DONAHOE. Yes.

Chairman CARPER. And we need to.

All right, Senator Levin.

OPENING STATEMENT OF SENATOR LEVIN

Senator LEVIN. Thank you, Mr. Chairman.

And thanks to you and Dr. Coburn, I think we do have a hope of getting a postal reform bill done again this year. We did it last year without getting the House to agree to it. There were some provisions in there that were critically important in terms of reforms which were not law but were important, and so we have to continue to try to move in that direction.

I am not satisfied with your answer to Senator Pryor's questions, Postmaster General.

First of all, the legal opinion which you sent to the Committee, I guess; I have not seen it.

Mr. Chairman, do we have that legal opinion, and if so, can the rest of the Members get a copy of it?

Chairman CARPER. I will ask our staff, do we have that legal opinion?

STAFF. Yes, we do.

Senator LEVIN. OK, well, perhaps you could——

Mr. DONAHOE. And, again, I would be more than happy to have the attorneys come up and spend time with you, too.

Senator LEVIN. Yes. Well, a copy of that opinion would help.

You ask us not to act, and what strikes me is what difference does it make whether we prohibit what you are saying you are going to do or not because apparently you believe you have the legal authority, despite what Congress has said, to cancel the sixth day.

Mr. DONAHOE. What I am asking is that Congress would not implement any language that would prohibit us from moving away.

Senator LEVIN. And I am asking you, what difference does it make whether we put that language in or not because you apparently believe that despite that language you have the legal authority to cancel that sixth day?

Mr. DONAHOE. That is our interpretation of the way the law is written now—that we can move. But what I am asking is, please do not put language in that says, specifically, you cannot do it, because I would obey the law and would not do it.

Senator LEVIN. Well, that is important to hear, but you did say Senator Pryor said that Congress must act to allow the Postal Service the authority to determine delivery frequency. You said Congress must act, and we did act. And, despite what is in the law, your lawyer apparently is saying that you can cancel that sixth day.

Mr. DONAHOE. I think it is important that we sit down and walk through our interpretation of the CR versus the appropriations. I think that would clear things up, from our opinion.

Senator LEVIN. All right. Well, we will look forward to reading that opinion.

By the way, you have been very responsive in terms of certain information that I have asked relative to the contracts with Fed Ex and with UPS, and we appreciate that. We understand that they are providing it to us confidentially because it has certain information in there which apparently is proprietary. Fair enough.

And so we are not able to act on that. I cannot do anything with it because of the condition under which it is given to me, which I respect. I am not going to violate that condition, but on the other hand, I am handcuffed.

And I think it is important that there be oversight of those contracts. Those are important contracts. They are important to us. They are important to those private entities.

Fed Ex and UPS are profitable. We deliver a lot of their packages. There is a benefit to us. We, apparently, make money on those contracts as well.

But, in terms of the relative benefit, Congress has to have some mechanism to oversee those contracts, and so I do not know whether the GAO can do it or—can you do that?

Mr. DODARO. Sure, we can take a look at it, but we are bound by the same disclosure requirement.

Senator LEVIN. Well, but you can give us conclusions as to whether or not——

Mr. DODARO. I would be happy to look at it.

Senator LEVIN [continuing]. These are fair.

Mr. DODARO. Right.

Senator LEVIN. I am not saying they are not.

Mr. DODARO. Right.

Senator LEVIN. I am not able to handle the material because I cannot do anything with it. Again, I respect proprietary limitations.

Mr. DONAHOE. We compete them. I mean, it is the American way. Compete the contract. Everything we do, we compete.

Senator LEVIN. That is fine, but——

Mr. DONAHOE. Every contract in this Postal Service is competed.

Senator LEVIN. That is fine, but it is also the American way that there be some congressional oversight of your contracts. I hope it is the American way.

We do not have that oversight now. So, if the GAO can give us that review, I think it would be reassuring to all of us. I am not suggesting any other than there needs to be congressional oversight and there is not, unless we can have some entity look at it that is able to give us some conclusions on it.

Mr. DODARO. We would be happy to do that.

Senator LEVIN. Mr. Chairman, that is something I would like to see done, but I cannot do that. It is up to the Chairman as to whether or not to think that is something which is appropriate.

Mr. DONAHOE. Our inspector general (IG) also does that. You are certainly welcome to that information.

Senator LEVIN. So could we ask the GAO to do that?

Chairman CARPER. You and I should talk about it offline and we will come back to Mr. Dodaro.

Senator LEVIN. That would be fine. That is the Chairman's and Ranking Member's decision, but I would ask them to consider that.

My time is up. Thank you, Mr. Chairman.

Chairman CARPER. All right, I asked Dr. Coburn about maybe having another round. He says, if we do that, we will be here at supper time with the next panel.

Senator LEVIN. What is for supper?

Chairman CARPER. Well, it is not going to be that good. [Laughter.]

So we are going to forego another round.

I do want just to follow up on questions from Senator Levin. The legal opinion—we appreciate, Mr. Donahoe, your providing that document.

Mr. DONAHOE. Sure.

Chairman CARPER [continuing]. Certainly for Dr. Coburn and myself and our staffs. I want to make sure that others on the Committee and their staffs have received the same document.

Mr. DONAHOE. Absolutely.

Chairman CARPER. And the Postmaster General has offered to send their legal team up to brief us and answer our questions. So let us take him up on that.

And the other thing I want to say just in closing—again, thanks very much for coming. It has been a very helpful hearing.

Sometimes people hold hearings to be able to put a spotlight on a problem.

Sometimes people hold hearings to embarrass folks that ought to be embarrassed, maybe sometimes not.

One of the reasons Dr. Coburn and I do hearings in many cases, in most cases—and certainly in this case—is to find out how do we get to yes, how do we resolve this issue, how do we solve this problem.

This is imminently solvable. That is not to say it is easy, but this is one we can fix. This is one we can solve.

And I think the dialogue that we have had in the first two panels here today was constructive; I think there was a good spirit here with the Members of the Committee and with the House leadership here today on the relevant committee. That is all very encouraging.

We still have a panel to go. We have some good witnesses here to add to that.

The last thing I want to say that one of several banks that my family uses—when they first started offering service in Delaware I would go to the automated teller machine (ATM), Tom, and I would put in my debit card to get some money out. And I would put it in, and a message would pop up in the window of the ATM machine. And it would say the name of the bank, and then it would say: Friendly, but you will get used to it.

Anyway, friendly, but you will get used to it. I like to think that is our motto for Delaware.

But I just want to say I have noticed this year in traveling by airplanes that most of us do not like going through the security checks at airports.

I ride the train most of the time, thankfully, but I have noticed the folks at the Transportation Security Administration (TSA)—first, I thought it was my imagination, but now I am not so sure that it is. I am sensing that a greater friendliness and a helpfulness on the part of TSA——

Senator COBURN. You need to fly more often.

Chairman CARPER. Maybe to Oklahoma. I will fly with you. [Laughter.]

But, in any event, I am not sure it is my imagination or not, but we have certainly talked to the guy who runs TSA a lot about this.

But I think that they are beginning to start a little bit of a culture change and it is starting to take effect. I hope so.

I just want to say when I walk into a post office for service, whether it is Delaware or any other place—in Delaware, they generally know me, and for the most part they like me. Not everybody does, I am sure, but they are friendly and so forth.

But too often, I see the provision of service in post offices that I would not describe as friendly and welcoming, and in some cases because the folks that are providing the service behind the counter have so much on them and they are trying to grapple with big challenges. And I can understand that.

I would just ask as we move forward and come through this tough time and, hopefully, emerge on the other side of the river, that we focus more on a friendliness, a customer friendliness, not just deliver the stuff door to door, which is important, but also as we go to the post office to drop off our packages or buy stamps or whatever.

I would close with that. Dr. Coburn.

Senator COBURN. I was just going to make the point that not many people do more oversight than we do.

I trust Postmaster General Donahoe to make a good contract with Fed Ex and UPS. It is in his best interest. It is in the best interest. And it is kind of like us telling the National Institutes of Health (NIH) which electron microscope to buy.

There comes a point where we are questioning everything, and the fact is we need to question the real problems that we have right now in terms of service, delivery, and price. And we need to give the post office the flexibility to do what they can do to prepare to offer that service in a way that puts them back in fiscal health.

And I think we have a great team there. We have great employees, all the way down the line. We need to give them the flexibility to do that.

And like I said—I will emphasize again—our problem with the post office is we have 536 postmasters general, and until we change that and let somebody run the post office and let us look appropriately at their performance, rather than second-guessing every small item, we are never going to get out of this.

And I fully support you going to 5-day delivery. I think it is an absolute must. And even if we delay it 2 years, all we are going to do is waste $4 billion that we could have saved in a time when we are running huge deficits, and we are going to have to expand your borrowing capability to do that.

So thank you both for being here.

Mr. DONAHOE. Thank you.

Chairman CARPER. And, with that, gentlemen, we will bid you adieu. Look forward to seeing you soon. Thanks very much for your input today. Good to see you. Thank you.

And we will invite our third panel of witnesses to come forward at this time, please.

While our witnesses are gathering for the third panel, let me just take a moment to express our appreciation for the members of our staff on both the Democratic and Republican side. I know we have our differences from time to time, but I especially like the idea of not just the Members working together but our staffs working together. I think we had a lot of cooperation as we put together this panel and the other panels and prepared for this hearing.

So thank you all for your work on that.

Panel No. 3, the third and final panel. And I like to say we are saving the best for last, but the other two were pretty good. They were pretty good panels too, so we will see.

I will make very brief introductions for our third panel, and then we will ask them to proceed with their testimony.

The first witness on panel three is Cliff Guffey. Good to see you.

Mr. Guffey has served as President of the American Postal Workers Union (APWU) since 2010.

We enjoy working with you very much—you and your team.

Senator COBURN. He is an Oklahoman.

Chairman CARPER. Is he really?

Senator COBURN. And I would note that he has facial hair too. [Laughter.]

Mr. GUFFEY. I was going to say you look better than most——

Chairman CARPER. I asked him to introduce you—well, we are glad you are here, Mr. Guffey.

Next, we have Jeanette Dwyer.

Jeanette Dwyer is President of the National Rural Letter Carriers' Association, held that position—I want to say it is your second year, right?

Ms. DWYER. Yes.

Chairman CARPER. Since 2011. Good. Very nice to see you. Thank you.

Nice to see you, Mr. Rapoza. Also, we have three presidents here.

Mr. Rapoza is the National Association of Postmasters of the United States. This is, I think, your third year since 2010 as I recall. Very nice of you to come. Thank you for joining us today.

And where are you from, Mr. Quadracci?

Mr. QUADRACCI. Wisconsin.

Chairman CARPER. Wisconsin. Senator Baldwin was here earlier. You may have seen her, and she has another hearing that she needs to be at. She said if she got back in time she wanted to be able to introduce you. I do not think she is going to be able to. So, from her to you, welcome. We are glad that you are here, and she is as well.

You are, as I understand, you are the Chairman and President and CEO of Quad/Graphics, a printing company founded by—is it by your dad?

Mr. QUADRACCI. [Nodding affirmatively.]

Chairman CARPER. By your dad in 1971, all right.

Is your son or daughter going to take it over when——

Mr. QUADRACCI. I have three daughters and they are all under the age of 11. We have a ways to go.

Chairman CARPER. You can never start too early.

Finally, Richard Geddes, and Mr. Geddes is an Associate Professor at Cornell University and a visiting scholar at the American Enterprise Institute.

One of the reasons why we had this hearing here today as opposed to last week is because you were not available to be with us last week, and Dr. Coburn said wisely that he thought we should wait, and I think you are worth the wait. So we are delighted that you are here. Welcome.

Mr. Guffey, I think you can start it off if you want, and we will ask you to keep your testimony to about 5 minutes——

Mr. GUFFEY. Thank you, sir.

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

Mr. GUFFEY. Good morning, Chairman Carper, Dr. Coburn, and Members of the Committee. I am Cliff Guffey, President of the American Postal Workers Union, and I must say I have been very heartened by the spirit of cooperation between the parties here today. It is very stirring as an American citizen to see how this is playing out.

The Postal Service has income of $65 billion a year. The Postal Service's Chief Financial Officer reported recently that the Postal Service has an annual cash flow of more than $140 billion. That is one way to measure the importance of the Postal Service to our economy.

In addition to its importance to businesses, it is important to ordinary citizens. Many towns and cities have protested against the closing of mail processing facilities and post offices. For small communities, the post office is still an important part of the town's identity and an important communications center.

Many people in this country do not have access to the Internet. According to a recent study by the Pew Center, one in five American adults do not use the Internet; 40 percent of American adults, nearly 100 million people, do not have broadband access. Senior citizens, adults with less than high school education, and those living in low income households are the least likely to have Internet access.

For the 36 years before the passage of the Postal Accountability and Enhancement Act (PAEA), the Postal Service was always changing. It had to change from a manual mail processing operation to a mechanized operation to an automated operation.

Through all those changes, it has been the world's best postal system. It did this by adapting to new technologies and new challenges. The Postal Service has been well aware of the impact of the Internet, and it has been developing strategies to deal with it.

From 2000 to 2006, before the passage of the PAEA, the Postal Service reduced its employee complement by approximately 100,000 people. Almost 80,000 of those cuts came from bargaining units represented by the APWU. Since the passage of the PAEA, the Postal Service has reduced APWU bargaining unit employees by another 86,000 employees.

But the PAEA did not cause the Postal Service to begin to change. The Postal Service was already in the middle of a rapid change. Change has been an ongoing process.

Unfortunately, the crisis caused by the pre-funding requirement for retiree health benefits is forcing the Postal Service to go too fast and too far. It is on the brink of cutting services in ways that will

[1] The prepared statement of Mr. Guffey appears in the Appendix on page 127.

permanently damage the Postal Service by making it less useful. This would be a tragic mistake, and it is unnecessary.

Calls for privatization of the Postal Service would take policy in the wrong direction. Universal service at a uniform rate is being provided without any government subsidy. Privatization would inevitably lead to a loss of service for economically disadvantaged communities.

There is enough mail volume in our system to continue to provide universal service. We need to consider increasing postage rates so that service can continue. Our postal rates are very low compared to other industrialized countries. This includes countries where postal services have been privatized. Our rates are lower.

We appreciate the leadership shown by Chairman Carper and this Committee in addressing the problem caused by pre-funding retiree health benefits. The Postal Service has pre-funded $46 billion for retiree health benefits. That is more than enough. The pre-funding requirement should be stopped.

S. 1789 in the last Congress also would have made another important change by authorizing the Postal Service to offer additional products and services.

The Postal Service could partner with other Federal agencies, and with State and local governments, to make government services more accessible.

There are a number of other ways the Postal Service can provide useful services to the public while increasing its revenues. These include providing secure digital mailboxes. The Postal Service could build on its role as a provider of secure money orders to begin providing banking services for people in need of inexpensive and readily available banking services.

These types of changes are necessary. We need to preserve our post offices for the benefit of the communities they serve. With these changes, the Postal Service can keep providing essential services and add new services.

We urge Congress to stop the pre-funding requirement, to remove the cap on postal rates, and to authorize the Postal Service to provide additional services. The time for action is now. We will do whatever we can do to help Congress and the Postal Service make these changes.

Chairman CARPER. Thank you so much for being here, for your leadership and for those comments. Thank you.

Ms. Dwyer, welcome.

TESTIMONY OF JEANETTE P. DWYER,[1] PRESIDENT, NATIONAL RURAL LETTER CARRIERS' ASSOCIATION

Ms. DWYER. Chairman Carper and Members of the Senate Homeland Security and Governmental Affairs Committee, my name is Jeanette Dwyer, and I am President of the National Rural Letter Carriers' Association (NRLCA), which represents over 113,000 bargaining unit employees.

Our craft epitomizes the concept of a universal service by providing these services in rural, suburban, and urban areas through-

[1] The prepared statement of Ms. Dwyer appears in the Appendix on page 148.

out the United States, including places that the Postal Service's competitors do not go. And we do this in a most cost effective way.

Rural letter carriers are paid under an evaluated system that ties their salaries to a variety of factors—most notably, mail volume, boxes served, and route mileage, particular to their individual routes. In good times, when a route grows, salary increases. But when volume goes down on a route, for instance, the carrier may receive less pay. We are the only postal employees who provide this type of service to the Postal Service.

Rural letter carriers are also doing their part to generate new business and revenue for the Postal Service. Through the Rural Reach Program, rural letter carriers actively approach businesses on their routes that are using competitors. As of February 1, 2013, Rural Reach has generated more than $313.5 million in new business for the USPS.

The NRLCA and its members care deeply for the Postal Service and the service it provides to Americans, and we are greatly concerned about the apparent direction it is going. The Postmaster General's plan to eliminate Saturday mail delivery will destroy the Postal Service. The NRLCA does not support this plan nor do we believe that the Postal Service can implement this plan without congressional action.

The Postmaster General himself recognizes that he cannot circumvent Congress to implement his plan. The Postal Service's own Web site states in its Frequently Asked Questions that in order to eliminate Saturday delivery "Congress must elect not to renew the legislation requiring the Postal Service to deliver 6 days a week."

In the past 2 years, Postmaster General Donahoe has testified twice before Congress, including once before this very same Committee, that the Postal Service is asking Congress to enact legislation that would grant him the authority to reduce mail delivery to 5 days. He said the same thing to us in Savannah, Georgia, at our national convention before 3,000 rural letter carriers and their families.

Whether it is the current Postmaster General or his predecessor, Jack Potter, both have recognized that if the Postal Service wants to eliminate a day of delivery they must first seek congressional approval to remove the 6-day delivery requirement from the relevant legislation.

We share the same concern echoed by Senators Pryor and Levin.

So why does the Postmaster General now believe he can eliminate mail delivery without congressional approval?

Beyond questioning the legality of the Postmaster General's unilateral actions, there is also good reason to question the Postal Service claim of how much money it will save by reducing service. In a recent letter to Postmaster General Donahoe and Postal Regulatory Chairman Ruth Goldway, Senator McCaskill and Congressman Gerry Connolly expressed their concern that "The USPS did not adequately consider the impact of eliminating a day of mail service on rural and remote communities. We believe 6-day deliver remains a critical strength and a competitive advantage for the USPS that will enable it to grow business and bolster revenue over the long run."

Indeed, the Postal Service can ill afford to eliminate 6-day mail delivery. The NRLCA firmly believes that any savings occasioned by reducing delivery days will be offset by the lost revenue that will occur when consumers and businesses look to the Postal Service's competitors to have their mail, packages, and products delivered. Less service equals less mail equals the beginning of the end for the Postal Service.

And then there are jobs. At a time when unemployment hovers at 7.8 percent, this is no time for massive layoffs. We believe that the Postmaster General severely underestimated the number of jobs that would be lost when he put that number at 22,500. The NRLCA alone would experience the loss of approximately 20,000 jobs. That number could reach upwards of 30,000 jobs depending on availability of work.

Mr. Chairman, the Postmaster General was dead wrong when he stood up at his press conference and said that he talked with letter carriers and they support the reduction to 5-day delivery. I can assure you that rural letter carriers do not support the elimination of Saturday delivery.

The nature in which the Postal Service announced its decision to eliminate Saturday mail delivery is troubling.

First, Postmaster General Donahoe gave us less than 24 hours notice of the announcement.

Furthermore, the NRLCA has received reports that postal managers throughout the country had been conducting standup talks to rural carriers and other employees regarding this plan. Managers have reduced employees to tears with warnings that they will lose their jobs. Think about getting this news and then being sent out to deliver mail to your customers who are surely going to question you about the Postal Service's plan.

This is not the way to manage a business, maintain harmonious labor relations or bolster employee morale, especially at an organization that consistently ranks as the most trusted government agency because of the loyal, dedicated, and trustworthy employees who make up its workforce.

I must point out the severe hardship that will be visited on rural America if our customers and small business lost a day to send and receive mail. We cannot afford to move backwards. We must continue to provide the service our customers expect.

Thank you, Mr. Chairman, for allowing me to testify before the Committee today. I would be happy to answer any questions you may have.

Chairman CARPER. Thank you for accepting our invitation and for your being here today and those comments, and we look forward to asking some questions if we could. Thanks.

Mr. Rapoza, please proceed.

TESTIMONY OF ROBERT J. RAPOZA,[1] PRESIDENT, NATIONAL ASSOCIATION OF POSTMASTERS OF THE UNITED STATES.

Mr. RAPOZA. Chairman Carper, Ranking Member Coburn, and Committee Members, I am Robert Rapoza, President of the National Association of Postmasters of the United States (NAPUS) and Postmaster of Honokaa Post Office, in Hawaii.

Last year, NAPUS joined with the Chairman and Members of this Committee in promoting S. 1789. We recognize that the legislation was imperfect. However, it offered the best opportunity to provide the Postal Service with essential breathing room to restore the Postal Service to viability, and we look forward to join with you again this year to advance meaningful legislation.

Absent constructive postal legislation, the Postal Service responded to those challenges that are within its control. At the very least, it is time for Congress to pass legislation that addresses those challenges that Congress may have created.

This three-legged stool leading to disaster consists of: Nonstop cost-cutting by the Postal Service, unfair congressionally imposed financial obligations, and failure to reach a compromise on fundamental differences regarding postal legislation that exist within the Congress.

One of the most damaging impediments to postal sustainability within your control is the statutory requirement that the Postal Service pre-fund 75 years of retiree health benefits. No other entity, public or private, is under such an obligation. And 70 percent of the Postal Service's recent losses are tied to this pre-funding requirement.

Kicking this can down the road has already damaged the image of Congress, as well as the Postal Service's ability to provide the service that Americans expect and deserve. Postmasters and the communities we serve have made painful sacrifices as the Postal Service attempts to drive down the cost of providing an essential public service.

With the implementation of the initiative known as POStPlan, full-time postmaster positions have already been reduced, and upon completion, more than 50 percent of the Nation's post offices will offer the public 6 or less hours of service. American access to these post offices will be based on work hours, with both postmaster organizations working with the Postal Service to save universal service by reducing post office hours to earned work hours and not convenience and accessibility. Convenience and accessibility will be in your hands.

Revenue generation must be included in legislative relief. Congress should enable the Postal Service to expand the variety of products that can be mailed to include wine and spirits, and future legislation should authorize greater pricing flexibility for the Postal Service within its market-dominant classes of mail.

And, finally, as the small parcel market expands, the Postal Service must be in a position to capture a significant share of it. The physical presence of post offices provides a major competitive advantage to the Postal Service's participation in the parcel market.

[1] The prepared statement of Mr. Rapoza appears in the Appendix on page 155.

It is crucial that the Postal Service be able to partner with other Federal agencies and municipal governments in delivering essential government services. For example, as we heard Chairman Issa this morning, we understand the Social Security Administration (SSA) is exploring the use of Social Security cash cards as an alternate to paper checks for beneficiaries who are unable to utilize, or those who do not want to direct deposit their annuity. The post office could easily verify identity and residence, and the local post office could be the location where such cards could be reloaded on a monthly basis.

In addition, in the wake of natural disasters that impact specific communities, the post office could be the distribution point for the Federal Emergency Management Agency (FEMA) cash cards to assist in relief efforts.

Senators, it will be a sad day for America if Congress is incapable of reaching a compromise on meaningful postal legislation.

As we have heard this morning, some view the Postmaster General's recent actions as acts of desperation which are doomed to backfire while others view it as part of a bold calculated plan for the survival of the Postal Service, an organization of which I have been an employee for the past 46 years. In either case, my fear is that if this Congress does nothing to resolve their fundamental differences on postal reform, the integrity of our Nation's universal postal system, which was constitutionally established more than 230 years ago, will be irrevocably compromised.

As President of the National Association of Postmasters of the United States and on behalf of the Nation's postmasters, I urge this Congress to promptly respond to the postal crisis and constructively assist the Postal Service to continue to provide the products and services that Americans expect and deserve. And I pledge that during the remaining months of my term in office NAPUS will assist the Chairman and this Committee to that end.

Thank you for inviting me to testify on behalf of our Nation's postmasters. The future of the Postal Service is in your hands, and may God bless you.

Chairman CARPER. Thank you. Pray for wisdom for us, if you would.

It is also in your hands, in the hands of all of our leaders and those who testified earlier and those who, frankly, will not have a chance to testify.

But this is a shared responsibility. We have a responsibility to provide leadership just as you do for your organizations, and Dr. Coburn and I fully intend to provide that leadership. And I think we heard this morning from Chairman Issa and from Ranking Member Cummings from the House that they intend to join us in providing that leadership.

So I am encouraged. I hope you are as well.

Mr. Quadracci, we are happy you are here. Pretend I am Tammy Baldwin, your Senator, welcoming you.

Mr. Quadracci. You do not look anything like her.

Chairman CARPER. We are glad that you are here, and I am sure she is as well. So we are glad you are here.

Actually, you have, I think, two Senators—Ron Johnson, who also serves on this Committee. So, for both of them, welcome, and from all of us, thanks.

TESTIMONY OF JOEL QUADRACCI,[1] CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, QUAD/GRAPHICS, INC.

Mr. QUADRACCI. Thank you and thank you for giving me the opportunity to talk about the impact of the postal issues on our industry, both the printing and mailing industry, as it is a very large and important one to the United States.

Mr. Chairman, as you said, Quad/Graphics was founded by my father in 1971. I was born in 1969. So you can imagine that I have grown up around print my entire life. As they say, ink is pretty much in my veins, and I know a lot about it.

I also know that at the end of the day print is not dead. I know I am supposed to think it is dead because I read about it a lot, in print. Nothing could be further from the truth, but the industry has a lot of challenges with it.

At the end of the day, print is continuing to change how it is being used by marketers out there, and I think that is a really important fact that everybody has to keep in mind—that how we look at print historically is not how it is going to be used in the future or even now.

And when we think about comparing it to other countries in terms of the postage rate system we have, from a marketing standpoint, this country is the most competitive that I have seen, and we are operating all over the world. And so it is not really apples to apples to say how print is used here is the same as how it is used elsewhere.

Some examples of how things are changing—and the post office was very helpful with this, with the advent of things like the Quick Response (QR) code. Marketers are really trying to figure out now how to use all different media channels together. The days of sort of a siloed approach where you have a print strategy, you have an online strategy, a TV strategy are over, and everyone is trying to look at it horizontally and say how does this work together.

One example with the QR code; we were able to help our customers. One customer in particular used the QR code to do product demonstrations. So when you saw the product in print, you snapped it on your phone; you immediately saw a product demonstration which led to about a 20 percent increase in sales of that product. And so it is a perfect example of how all these media channels are coming together.

And it is important, again, when we think about print, the immediacy of print is going to continue to be even more important than it was in the past because the consumer is very finicky. The consumer is using all channels. The only two media channels I think that they have ever jettisoned for another one are smoke signals and Morse Code. The rest have all been layered on, and they are very ambidextrous.

[1] The prepared statement of Mr. Quadracci appears in the Appendix on page 163.

And so one of the main points I wanted to make today is that print is very important. It is alive and well. But it is changing rapidly, and marketers are changing how they use it.

The other important thing to note is that with the printing and mailing industry, the post office may be a $65 billion business, but the rest of the industry that is associated with it, that is directly impacted by it, is a $1.3 trillion business with 8.4 million Americans being supported by it in some way, shape, or fashion. In Wisconsin alone, we have over 200,000 people who rely on the post office for what it does in their jobs.

What we are seeing is a crisis of confidence. The rate at which we are solving this is causing problems in our business. It is causing problems in our customers' business because the uncertainty is there; they are not sure what to do. They are trying to figure out where they spend their money, and they have not figured out this horizontal marketing scheme yet.

I was with a major retailer in Cincinnati yesterday and we had the same conversation. And they said about the change in strategy with the number of days being delivered, it is, well, we have to figure that out because sales on weekends are extremely important to us.

So, I urge this Committee to move forward. I have heard a lot today that is very promising that we will get some solutions here because our customers are demanding and also the competition is real and it is out there. And when people do not have it figured out yet, they may move away from a medium—that might hurt them in the long term—to try and solve that problem.

The other thing that I want to talk about is the importance of right-sizing the ship. We had to right-size our ship. We had an opportunity when the big recession hit. The industry lost about 25 percent of its volume. We ended up acquiring one of our larger competitors because they could not keep pace.

But we had to do the tough work. We ended up closing over 21 facilities—that is over 7 million square feet—to shore it up and make it sustainable. And so, without taking the girth out of our business, without realizing that 25 percent reduction in demand is permanent—it is a reset—we would not be able to run a business today.

And so we believe that the core elements of this—many have been talked about today—are assuring that the postal system has the authority to make those changes, to reduce the infrastructure that it has, the re-amortization of payments for pre-funding retiree health benefits, return the USPS its overpayments to the FERS program and provide the USPS with the needed flexibility to manage health care.

On that note, that is a passion of mine because there are ways to pull cost out, and much of health care has been talking about who pays for what as opposed to how do you pull the cost out. We have been practicing our own health care at Quad for 23 years, and we do it at about a cost of 25 to 30 percent less than all industry. And now we are doing it for other businesses all over the country.

And so who would have thought that managing your own health care or paying attention to health care and practicing it the way it should be practiced could be a competitive advantage for a printing company?

But it is true. It is real. And the other people who we are working with, using primary care as its focus, and preventive health care, are seeing the same things.

So thank you for letting me share my points of view.

Chairman CARPER. That is great. Dr. Coburn and I have a huge interest in all your testimony really but particularly the last part you talked about.

And, as I said earlier, a big part of getting the Postal Service where it needs to be—long-term sustainability—is being able to make sure their employees and retirees are getting good health care but to be able to do that in a more cost effective way. So, thanks.

When we ask some questions, I will drill down on that.

All right. Dr. Geddes, again, we are happy you could be here this week and look forward to your testimony. Thank you. Welcome.

TESTIMONY OF R. RICHARD GEDDES,[1] PH.D., ASSOCIATE PROFESSOR, DEPARTMENT OF POLICY ANALYSIS AND MANAGEMENT, CORNELL UNIVERSITY

Mr. GEDDES. Thank you, Mr. Chairman. I was exceedingly honored to hear you say that you saved the best for last. So it is great to be here.

Senator Coburn, thank you——

Chairman CARPER. That was before I heard Mr. Quadracci. So it is a high bar you have now to keep me honest.

Mr. GEDDES. I will try to project.

Again, thank you very much for this terrific hearing on this tremendously important issue. I am very excited that the Committee is taking this up.

In my view, the main reason why we are here today discussing this is because of fundamental technological innovation in the communications marketplace. And I view the story that we are talking about today as, in fact, a very old story of industries that either adapt to major technological changes or they end up being crippled as a result of it.

Postal services, I believe, in the long term can either go the way of sailing ships in the age of steam or the horse and buggy in the age of the automobile or the old slide rules that some of us might remember in the age of calculators. Fortunately, international experience is far ahead of the United States regarding how to adapt to that technological change and is extremely helpful about what we can do.

The technology that we are talking about in this case is low cost electronic communications that are fairly close substitutes for sending a letter message, including—as we are all aware—email, text messages, telephone calls, faxing, and I am sure other things that will come down the pike pretty soon. This is weakening the core reason for the Postal Service's current legal structure and really its reason for being, which is delivery of the First-Class letter.

[1] The prepared statement of Mr. Geddes appears in the Appendix on page 169.

A recent example of technological change that many of us are familiar with is Netflix, which used to send many DVDs through First-Class Mail, and is increasingly moving to streaming video. I could give you a lot of other examples.

First-Class Mail volume has declined by a full one-third since it peaked out in 2001. This is really a big issue for the U.S. Postal Service because letter mail is, by far, their most profitable product. They make about three times the amount of profit per piece on First-Class Mail than they make on a piece of standard or advertising material. That is really where their profit is.

Now there are two broad postures or reactions that one can have to such a technological threat. One can either shrink from it and try to say we are going to downsize in reaction to this, or you can embrace the technology and try to innovate in response to it.

I believe that the first approach, which is to some extent what the Postal Service is constrained to do now, is going to be highly unfortunate for the Postal Service.

Fortunately, as I noted, a substantial amount of international experience in the postal sector now shows that if you take the second approach, you embrace the technology, recognize it is not going to go away—it is dynamic. It is going to change—and you innovate as a result of this, postal sectors in a number of countries have evolved into dynamic industries in which a wide variety of business units cooperate.

First, I want to just emphasize why relying on downsizing alone is going to be hurtful to the Postal Service.

First of all, there is, obviously, a natural limit to how much you can cut costs without sacrificing what I believe to be the Postal Service's core, most valuable asset, which is its universal delivery network that allows it to take a physical piece of mail to the household the last mail, as they say, and they do that 6 days a week. I think that borders on a miracle that the Postal Service is able to achieve that.

The second thing I think a lot of people do not think about is that I have heard for 15 years that the reason why we need a letter monopoly is economies of scale. The idea is that a bigger entity can provide that service at a lower cost per unit. So you want one big entity doing it.

Well, guess what? Economies of scale work in both directions. When the Postal Service is getting smaller, the cost per unit of a letter is going up. It is working against you.

So I view the Postal Service as caught in a vice right now between declining revenues on one hand and rising unit cost because of dis-economies of scale on the other.

So it is really quite a problematic approach to say we are going to shrink in response to this new technology.

However, international experience teaches us that if we free up, liberalize, our postal sector in meaningful ways, we allow it to operate more like a regular business, which I view as an extension of the 1970 act that created the Postal Service and told the Postal Service to operate in a more businesslike fashion. Let us take the next step now and adopt those laws that would allow it to do that.

It can become self-sustaining or even profitable, I believe. Sound policy could liberalize the Postal Service to make its own business decisions, to be more innovative and entrepreneurial and, I believe, to use its existing delivery assets to create more economic value for customers using its existing assets. I believe it can even thrive in the electronic age.

All 27 member countries of the European Union have repealed their postal monopolies. New Zealand repealed its delivery monopoly in 1998. Sweden repealed in 2003. Germany and the Netherlands repealed in 2007 and 2009, respectively. Just the threat of competition has helped those postal services become more efficient and more focused enterprises. And they freed up their monopolies because they realized that those entities were not going to get the commercial freedoms they need if they retain monopoly over the core business sector.

There are a whole host of other examples I could give you.

Deutsche Post began to allow private investors to help assist it with its capital needs years ago. It acquired DHL in 2001. The new entity is now called Deutsche Post DHL. It is a global player in the postal and delivery sector. It does business in 220 countries, and it is now the world's largest courier company.

New Zealand Post is widely considered to be one of the best run companies.

I personally believe that there is no reason why if we take this cue from other countries—the U.S. is behind, at the end of the pack at this point—that the U.S. Postal Service cannot become a player and a leader in the global shipping, logistics, and courier businesses. Liberalization would give it the ability to attract experienced global talent and help focus its incentives and help to give it access to additional sources of capital.

So I will just end with an analogy. An economist has said that the difference between competition from within your industry—from another competitor—versus from a new technology is like the difference between knocking on someone's door and breaking the door down.

And the door was broken down a long time ago by the Internet. And I think what came in is like a 300-pound lion, extremely powerful, with sharp claws and teeth, and that is the Internet.

And that lion is clawing up a whole bunch of industries, including my own—massive, open online courses, college courses, for free. This is outrageous. Right? But Cornell has to adjust to that, and we are trying to figure out how that is going to affect our business at Cornell.

And I think the Postal Service needs to be given that freedom that we have at Cornell to adapt to this new technology that is changing the landscape in many businesses. So I would hope that that would be the direction that we take in this reform center and not simply worry about this cost or that cost.

Thank you very much for the time, and I look forward to answering your questions.

Chairman CARPER. Dr. Geddes, you were worth waiting for. Thank you for making us think outside the box, and I want to thank Dr. Coburn for inviting you.

Mr. GEDDES. Thank you, sir.

Chairman CARPER. We are joined by a new Member of our Committee from North Dakota, and I am going to just recognize her for any questions she might have or brief comments she would like to make.

OPENING STATEMENT OF SENATOR HEITKAMP

Senator HEITKAMP. Just a brief comment. I was presiding this morning, so was not able to attend the whole hearing, and I apologize for that.

I, obviously, have great concern particularly about rural delivery and what happens when you eliminate the monopoly, the economies no longer work economically in your favor for the guy at the end of the line that may be 20 miles down the road. And we know—and I am sure the people here representing the rural carriers know—the importance of that as a social connection for a lot of people as well as that connection to commerce and to business.

And so I think where I appreciate your comments, Mr. Chairman, my concerns are going to be how do we continue to deliver what is mandated, in my opinion, in the Constitution to those people at the end of the line and how do we continue to have a viable post office in light of those challenges.

And I really appreciate the opportunity just to hear this part and look forward to deliberation of the Committee.

Chairman CARPER. We are just happy you are here, and we appreciate the fact that you, probably as much as anybody in our new incoming class, will be presiding over the Senate so that Dr. Coburn and I can work on other stuff.

But we are going to work on this together, and, as I said earlier, we are going to get this done. And you are going to be a big part of it, so thank you.

Senator HEITKAMP. Thank you.

Chairman CARPER. Dr. Coburn, please.

Senator COBURN. Go ahead.

Chairman CARPER. I want to go back to Mr. Quadracci. He talked a little bit about health care, and my ears always perk up when employers talk about how they somehow figured out how to get better health care results for less money and to be able to move from what I call sort of a stovepipe, fee-for-service health care delivery system to more of a coordinated delivery of health care and how we are able when we are really smart to incentivize people to take personal responsibility for their health care and reward them when they do, and how to focus more on wellness and prevention, rather than having a sick care system but having a health care system.

So, when you said that, my ears perked right up. Maybe there are some things that we can learn from your company and sort of take them to heart as we address postal reform.

But, please, just take a minute or two and tell us what you are doing.

Mr. QUADRACCI. Sure. Twenty-three years ago, my father thought that health care was going up too fast in cost. Imagine that when you look at what it is today. And so he brought health care in-house because we had a concentration of employees in Wisconsin where you could support a doctor.

Chairman CARPER. Again, roughly how many employees do you have?

Mr. QUADRACCI. We have 20,000 employees.

Chairman CARPER. That is a lot. Thanks.

Mr. QUADRACCI. About 7,000 in Wisconsin.

So what we did is we went back to the future, which you have your neighborhood doctor, bring him in, and let us start seeing patients there. And it sort of evolved into a whole wellness program, but really it is about preventive health care, and it is about that primary care doctor being in the middle of the circle and being sort of the quarterback of what has to happen here.

And it is also about owner-involved maintenance—a manufacturing term. It is about enlisting the patient to engage and be a part of it.

And so we—as we have grown it over the years—I mean, you go into one of our facilities. There is one in Senator Coburn's backyard in Oklahoma City. It is a full clinic. We have our dentistry. We have our own ophthalmology.

And the longest time you are going to wait in the waiting room is 5 minutes, and the shortest time you are going to see your primary care doctor is 20 minutes for a hangnail because he is going to use it as an opportunity to reconnect and find out what is going on with you. That dialogue and understanding the family lineage—all that stuff kind of wraps together to have the health care provider be able to understand what is happening.

So, instead of spending 5 minutes because you are complaining about abdominal care and go order a $500 Magnetic Resonance Imaging (MRI), let us work together, the doctor and the patient, to kind of tick off: What is with your lifestyle? What has happened with Aunt Milly? Does she have polyps?

That information is incredibly important. And then over the next maybe couple of months we will design a program that maybe ends up in an MRI as opposed to starting one.

My personal doctor there told me that at his old practice that if he had done that he would have been fired and that he would be told to get the MRI, book $500, and maybe you will find the problem, maybe not. We will go on to the next test, but we have another patient to see.

So it is incredibly powerful. We have 22 years or 23 years of data to prove it, and now we are doing it for big companies all over the country.

Chairman CARPER. We are going to want to talk to you some more. There might be some lessons learned here for us, not just with respect to postal employees but for our Federal workforce, as we seek to try to get better health care results for less money or the same amount of money.

I am going to turn to our three presidents if I may.

And I asked earlier for—I think it was a question asked of the Postmaster General. I said, give us your three best ideas for generating new revenues, for growing the pie of revenues.

We know it just cannot be cut, cut, cut. You know, downsize, downsize, downsize. How do we use this distribution network, this enterprise? As we right-size it, how do we use it to be able to generate more revenues?

Let me just ask each of you; from your own leadership positions, give us one really good idea for the Postal Service that you think could actually generate some significant revenues for the Postal Service.

Mr. GUFFEY. Well, being from a rural place in Oklahoma—and I still have a home in Grove, Oklahoma—when I wanted to change and enroll in the e-benefits for veterans—I had to drive to Muskogee, Oklahoma. And when I was driving to Muskogee, Oklahoma, I passed seven post offices.

And all I did when I got to the Veterans Administration (VA) in Muskogee was show my ID. And they said OK, now you can log on. Here is your log-on. You can go home.

And it seems to me that there is enough government work throughout the rural areas that could be consolidated into post offices.

Give an example now. If you have to go to the post office to change your address, if the post office has a secure Web network, which I hope they will get into for a lot of purposes, can you imagine instead of going to 15 different places and everything and say here is my address. It gets changed at the VA, SSA, and wherever else we need to, State agencies or whatever. One place—that is where you get your change of address cards to mail to 20 different spots, right there on the computer.

As the other witness testified, embrace the changes that are coming and find out if we are going to have brick and mortar there, there is no reason for six other Federal agencies to have brick and mortar and people doing the same type of thing.

Like I said in previous testimony, the post office is where the flag flies in the rural communities. I just do not want to see it coming down and to divest its work everywhere else. I would think that you could save costs and save money by putting a lot of those activities into a post office.

Chairman CARPER. Thank you very much for those ideas. Ms. Dwyer.

Ms. DWYER. Well, the post office has done a lot of things right recently—going after parcel delivery. We need to compete with Fed Ex and UPS with real-time scanners, real-time things that we can give our customers. Those kinds of things are the things that we are reaching out. We are willing to work with them and do that.

We deliver 30 percent of Fed Ex on the ground. We are delivering a significant portion of UPS parcels. We need to be getting something for that, and we do not know what we are getting as far as money, but certainly we need to be capitalizing on UPS and Fed Ex to the last mile.

We go where they cannot go; we go where they do not want to go, because it is not cost effective for them. The last mile is something that we need to be building on in parcel delivery and working to go towards that.

Chairman CARPER. Thanks very much.

For some folks who may be watching the hearing—I think most people in this room know this—a nice piece of business for the Postal Service is because they go to every post mailbox 6 days a week.

Ms. DWYER. That is correct.

Chairman CARPER. To be able to partner in some cases with Fed Ex and UPS, get paid for the delivery to the last mile, the last five, the last 10 miles is a smart piece of business. But, as you suggest, we want to make sure USPS are being appropriately compensated for it, and we will have some private conversations with them to make sure that is happening.

I do not know that it is our job to mandate for it. It is not our job to mandate what those relationships might be, but I think it is a smart relation to build on. Thank you very much.

Mr. Rapoza and then I am done.

Mr. RAPOZA. Well, we need to partner more with the local governments. There are other things we can do such as licensing, motor vehicle transactions, and as I mentioned earlier the Social Security card, but we should not miss out on the opportunity on the package business.

But we are focusing solely on the package business in the delivery portion. We should also be looking to our post office where they can come and package it and then ship it out. We are just looking at the back end. So, I think we should take a broader look at how we can get these companies—or we can get into the wrapping of the packages and then put it out into our system.

Chairman CARPER. All right, thank you. Dr. Coburn.

Senator COBURN. Well, thank you.

One of the things President Dwyer said that—and I would actually like for you to restate it. You said eliminating of Saturday delivery would destroy the post office, I think. That may be a paraphrase of what you said.

Ms. DWYER. That is pretty clear, yes, sir.

Senator COBURN. Would you explain why you think that and what you see as the events coming about? If, let us say, it happened August 5, tell me what you see happening because of that.

Ms. DWYER. Let me go back to something else I said in my testimony. Less service equals less mail equals the beginning of the end for the Postal Service.

Service is what the U.S. Postal Service is all about. Eliminating that day of delivery takes away our competitive advantage. There are companies; there are people, who will pounce on that. They will be more than glad to give that one day of delivery.

The problem with that, sir, is they not only take the one day of delivery. Everything they have been mailing through the U.S. Postal Service now walks out the door.

Senator COBURN. Who are those people?

Ms. DWYER. There are plenty of people—entrepreneurs out there. I cannot tell you.

Senator COBURN. Well, give me an example of somebody that you think is going to do that. Since to build the infrastructure to get to the last mile is so competitive, the two smartest package delivery people besides the post office have decided they cannot afford to build that infrastructure. Tell me who can build that infrastructure to be able to compete with that.

Ms. DWYER. I could not tell you who could do that right now, but I can tell you that data does not tell you what walks out either.

Senator COBURN. Yes.

Ms. DWYER. You cannot tell me what data supports that either.

Senator COBURN. Let me ask you the other question. If service is that important, why are we not delivering on Sunday?

I mean, taking your theory that if we——

Ms. DWYER. We are not averse to doing that.

Senator COBURN. Let me finish my question here for a minute.

Ms. DWYER. OK.

Senator COBURN. Eliminating Saturday delivery—there is no question when it was studied by the GAO, when it was all eliminated, in terms of the savings, they see less savings if you do package and parcel on Saturday.

If, in fact, your theory is right, then what we ought to be doing is gearing up to deliver on Sunday. And so—but I have heard nobody testify in 4 years on the post office that says we ought to go to an additional day of delivery.

And so my real question is I do not see anybody out there with the capital available to build the infrastructure to go the last mile, and I think there are some real data to say there are some savings, whether it is $600 million or $2 billion a year in terms of doing that. But there is nowhere in the Constitution that says you will deliver 6 days a week. Nowhere does it say that.

I understand the concern, and I can certainly see it in terms of rural letter carriers because of your compensations. It will impact compensation if we eliminate Saturday delivery, will it not?

Ms. DWYER. Yes, sir, it will.

Senator COBURN. Yes. I have one other question for Ms. Dwyer.

Ms. DWYER. Can I finish answering that one?

Senator COBURN. Well, let me put this point in, and you can do whatever you want. OK? How is that?

Ms. DWYER. All right.

Senator COBURN. Mr. Guffey had testified that they support giving the post office the ability to have rate flexibility. In other words, if they see a spot where they can raise rates, they should not have to wait and go through all this process. They should capture what is a value based on their service that will not—there is a point where increasing demand versus increasing price and things go down.

Do the rural letter carriers support that philosophy, to give the post office the ability to do that?

Ms. DWYER. Yes.

Senator COBURN. OK. Thank you. Now answer how you wanted to.

Ms. DWYER. Can I go back?

Senator COBURN. You bet.

Ms. DWYER. We have a pilot program with Amazon, which would be 7 days a week. We are testing that right now.

And the problem with all of this is all you hear is negative publicity. We do not hear any positive publicity about the Postal Service.

You do not hear about that we are doing 7 days a week. All we are talking about is how we eliminate, how do we slash and cut, not how we build, not how we go to the rural communities, not how we support the people who are working.

And Chairman Issa said sometimes we take it as a bad thing that we have job loss. Yes, sir, we do. We have 38 percent of our craft who are part-time employees, who work on Saturday and replace a carrier during the week. Their jobs will go away, many of them.

Those are middle-class jobs. Those are minorities. Those are women. Those are veterans, of which the Postal Service has approximately 25 percent.

So, yes, sir, we do care about jobs.

Senator COBURN. OK. Thank you.

Chairman CARPER. Senator Heitkamp, I am going to give you another shot. Anything else you want to say before I give the benediction? But anything you want to add or take away?

Senator HEITKAMP. I do want to add to what you have been talking about in terms of the synergies between print and other forms of media, and how eventually people are going to catch on how important print is to reinforcing an advertising message, reinforcing, in our case, political messages. And we saw a lot of print, obviously, in my State.

So my question to you is, a time frame and a direction because it seems to me that one of the things that the post office has is the ability to meet the 6-day requirement. It is the ability to reach every person. Television does not do that anymore because you get direct television. You get cable. You get regular service

So one thing that the post office is, is universal, and that is their marketing niche. If they lose the marketing niche, they lose their value to you.

But we need to know how we can, and when we can, see that kind of click in new marketing strategies that will again bring back some additional business to the post office.

Mr. QUADRACCI. Well, you are seeing it already. You may not know it, but you know, at the end of the day, when you think about what is good about print in marketing, it is a passive medium. It is the old adage—put the right product in front of the right person at the right time, and you may get them to do something.

The problem with online is it is more about search. It is more about active participation.

And so, from a marketing standpoint, print is really powerful in getting people's attention.

So what marketers are doing today and have been for a while—we do a lot of personalization within the print. So you have the efficiency of the big presses, but maybe you are doing a million versions of that catalogue to a million people, maybe just one little change here, one little change there.

And that creates response rate increase. It is proven. We have been doing it for years.

Now what is happening when you think about mobile technology—the example I showed you before where it is immediate. You no longer have the break in the chain where you get that impulsive: Oh, I like that product. Now I have to remember when I go online on my computer to go look at it.

Now it is immediate, and you can make things happen.

So it is already happening. You are going to see some things that are subtle, some that are not so subtle, and really, response is going to dictate it.

I wish I had a crystal ball and what the time frame is and what is the big pop, but it is really the consumer that is going to dictate that.

Senator HEITKAMP. If I can just follow up one more point.

Chairman CARPER. Well, I do not know. You are pretty junior. [Laughter.]

No, go ahead.

Senator HEITKAMP. How will the lack or loss of universal delivery affect that outcome?

Mr. QUADRACCI. I think that I said it before, that what the new channels have brought is a much more degree of need for immediacy in your marketing channels.

And my concern is we have different categories of customers who will be affected different ways on the 6-day to 5-day schedule. Some agree; some do not. So I am not going to pass judgment on that.

But what I worry about is how print will be used and the fact that now with some of this technology we can pull print closer and make sure that it is a true multichannel approach, that pulling immediacy away can start to degrade that. And so that is why I say I would put some caution out there, not about what we do now but about how this is evolving in the future because the immediacy thing is really important to marketers.

Senator HEITKAMP. Thank you.

Chairman CARPER. Dr. Coburn.

Senator COBURN. I just had one other question for all three of our presidents.

You heard Mr. Geddes's testimony about what is happening in the rest of the world in terms of postal organizations. What is your response to that?

What do you think about it?

Mr. GUFFEY. A couple of things. The idea, such as you evoke, that allowing the Postal Service more freedom to do certain things, I think is a good idea.

I think when you compare and start comparing our national delivery system from Alaska to Florida, from Maine down to the Hawaiian islands, for the universal cost, and you start talking about New Zealand——

Senator COBURN. Yes, it does not compute.

Mr. GUFFEY. That is right.

Senator COBURN. Well, how about DHL and Germany?

Mr. GUFFEY. Well, the same thing with Germany—if you look at the size of Germany and their rail system, their postal service used to run their rail system.

In other words, they have a high speed rail system going throughout their whole country. Time-wise, it is going to be on time. They can put the mail out on the trains. It is going to be to the other city. We do not have that in this country.

Senator COBURN. Yes.

Mr. GUFFEY. Germany has universal health care, socialist health care for everybody in the country. We do not have that. We are paying for the health care, which is something else I would like to mention just real quick.

Under the Postal Service's plan, they want to take us out of the health care of the Office of Personnel Management. The Office of the Inspector General (OIG), of the Postal Service, has looked at that and said of the $63 billion that it would save over X amount of time, $42 billion of that would go directly into Medicare, shifting costs from the post office into Medicare, taking it off budget and putting it on budget for you guys, and you have to match that $42 billion from something. And another $13 billion would be transferred to the workers.

I think there are means for us to sit down with the post office and negotiate some kind of single-payer plan within the Postal Service without going outside OPM to save the post office a lot of money and without transferring money costs to the Federal Government.

Senator COBURN. OK, Ms. Dwyer.

Ms. DWYER. Our country, the United States of America, has the most affordable Postal Service in the world. When you compare us with other countries, they certainly are more expensive and they do not deliver to a universal network. We have South Dakota, North Dakota, and Montana. Those States and rural communities throughout this Nation depend on the U.S. Postal Service for an affordable postal service.

And I think that we do not need to get away from if its affordable for every United States citizen.

And I think America has a history of caring about their communities, and I think that is what you have to look at.

Senator COBURN. OK, Mr. Rapoza.

Ms. DWYER. Wait a minute. Can I say something about the health care?

On the health care issue, I agree with what he said. We have looked at that independent plan. But on our plan—the rural letter carrier plan—we have 96 percent of our membership already in the Medicare A and B. We have done those things.

And where does the Postal Service, in their financial predicament today, intend to get the money to pay the claims from those employees who would file claims in that health care plan?

Senator COBURN. Mr. Rapoza.

Mr. RAPOZA. I agree with what I have heard here, but we do have the best postal service in the world. We are going through some turbulent times now, because we are so used to volume increases. And now we have a decrease, and we are going to adjust. And when we are done with all of this, the other countries will be looking at us, how we can continue to maintain universal service and with low cost.

I would stay with what we have.

Senator COBURN. So what I take from this is you all have kind of missed one of Dr. Geddes's main points—is that you can downsize until you are not there anymore.

I would love to hear Dr. Geddes's response to what he has heard to what he said?

Mr. GEDDES. Thank you, sir. I, naturally, respectfully, disagree with my fellow panelists.

Some of these countries that have liberalized, for example, New Zealand Post—New Zealand is an extremely sparsely populated country. The population is concentrated in Christchurch and a few other cities, are equally concerned about the citizens that live in the more rural areas as we are in the United States, and they have been extremely successful under a liberalized post.

Look at Australia—it has the population of the New York metro area, but is the size of the lower 48 States. It is an extremely rural country with the exception of those concentrated cities. They have been liberalized and been successful in maintaining universal service.

One thing I would like to stress, Senator—and maybe it is in regard to Senator Heitkamp's remarks—is that the link between the notion that we have to retain monopoly and a state-owned enterprise structure to ensure universal service is simply false. It is just not true that you have to do that.

You can ensure universal service in several much more efficient ways than through a government-owned monopoly, and I have written about that in some other venues—about bidding for routes where you just bid on the basis of the lowest subsidy you will accept to serve the route. But what that does is inject one of the most powerful forces in economics for social good into the equation, and that is competition. You can include the Postal Service in that bidding. You can include UPS, Fed Ex, and others. If you liberalize the sector, you could have many bidders.

And it is simply a non sequitur to say that we must retain two monopolies—we have not discussed the mailbox monopoly in this hearing yet, but there are two monopolies in the United States—plus a government ownership structure to ensure universal service.

In fact, I think our universal service would improve, and we could more precisely define and consider those standards with legally enforced contractual arrangements if we injected competition into the equation.

So I think, of course, as I noted, all 27 countries that are members of the European Union, including Hungary, have repealed their postal monopolies. They are just as concerned about universal service as we are, but they have gone through this whole process 10 years ago, and they made that decision.

Senator COBURN. All right. Well, I would like to thank all of our panelists. Appreciate your being here.

You have heard both the Chairman and myself say that we are committed to trying to fix this problem, and we will. Thank you.

Chairman CARPER. And I said I would give the benediction, and so that is what I intend to do.

I think Chaplain Barry Black here in the U.S. Senate is a retired Navy admiral, actually, he was the Chief of Chaplains for the Navy Marine Corps, and he reminds us all that the Cliff Notes of the New Testament is the Golden Rule.

And it is not just the Cliff Notes of the New Testament; it is the Cliff Notes of just about every major religion. I do not care if you are Catholic, Protestant, Jewish, Muslim, Hindu, Buddhist. Almost every one of them, somewhere in their sacred scriptures, you will find really just the Golden Rule.

And I think that is something I try to use to apply to just about everything I do. I think the same is true of all of my colleagues.

And I will just say as we go forward here it is a good one for us to keep in mind—to make sure that we are treating our customers, the post office customers, our constituents, the way we would want to be treated, to make sure that we are treating the employees of the Postal Service the way that we would want to be treated, and try to make sure that we are treating the taxpayers of our country the way they want to be treated.

In a day and age when we are running these huge budget deficits and the Postal Service has used up its line of credit with the Federal Government, how do we try to make sure that we are treating our taxpayers the way we would want to be treated?

When we talk about the role of government, I say, I am an old governor. I am a recovering governor. Heidi is a recovering attorney general and going to be a great Senator. Dr. Coburn is a physician.

But one of the things I say is Senators do not create jobs. Governors do not create jobs. Presidents do not create jobs. What we do is help create the nurturing environment for jobs.

And part of that nurturing environment is a vibrant Postal Service and the ability to deliver to our doors, whether it is 5 or 6 days a week, even 7 days a week, some of the goods and services that are needed and demanded.

But a big part of what we need to do in part of that nurturing environment, that we need to provide, is certainty and predictability. And the Postal Service needs to be able to offer that to their customers, and I think to their employees as well.

And one of the best ways to grow a stronger economy is to provide certainty and predictability, and part of it is going to come from the Postal Service.

And I leave this hearing today not discouraged, not ready to throw up my hands by any means. I leave encouraged. And there is a good spirit in this room, and there is a good spirit of cooperation within this Committee.

And I think we have a lot of willing partners that are going to help us solve this problem, not forever, because our society changes and the world changes in which we live and operate. We are not going to solve this one forever, but we are going to solve it for now and, hopefully, put in place the mechanisms so that as the world changes and markets change and needs change, that we will be able to evolve and meet those needs.

So, for all the folks that have spoken before us here today—first panel, second and third panel—we appreciate very much your input.

And again, as I said earlier, we are in overtime here. We got to the red zone last year, in football parlance. We did not get the ball in the end zone. We are in overtime.

And I am not interested in two or three or four overtimes. I want to get this done in the first overtime, provide that certainty, that predictability. And then we can move on to cyber security and immigration reform and a whole bunch of other challenges that we face.

It has been a good day. I said we would be done at 1 p.m., and by golly, it is 1 p.m.

So, with that, this hearing is adjourned. Thank you all.

[Whereupon, at 1:02 p.m., the Committee was adjourned.]

APPENDIX

United States Senate
Committee on Homeland Security and Governmental Affairs
Senator Thomas R. Carper, Chairman
Senator Tom Coburn, Ranking Member

FOR RELEASE: February 13, 2013
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HEARING: "Solutions to the Crisis Facing the U.S. Postal Service"

Opening Statement of Senator Tom Carper, Chairman

Today we convene once again to examine the financial challenges and uncertain future facing the United States Postal Service. This committee and the subcommittee I chaired until the beginning of this Congress have been attempting to find a solution for what ails the Postal Service ever since I first arrived in the Senate more than twelve years ago now. We've held countless hearings during that time, and in 2006 got legislation signed into law that gave the postal service more commercial freedom and updated a number of dated provisions in postal law, among other reforms.

It's difficult to believe, but the Postal Service would likely be in even worse shape today without the work that this committee and our House counterparts have done. But over the past decade or more – probably ever since the first e-mail was sent, frankly – the trends we've monitored have continued, and in some cases picked up speed.

For as long as I've been focused on these issues, my colleagues and I have heard constantly about First-Class Mail lost to communications innovations like e-mail, Facebook, and text messaging. We've seen advertising shift online. We've seen magazines move from weekly publication, to monthly, to bi-monthly, to online only.

These changes have taken their toll. Today, the Postal Service handles just under 530 million pieces of mail per day, down from more than 700 million during hard-copy mail's peak year in 2006. It has 417 mail processing plants, down from 673. And since 1999 its career workforce has been cut significantly. The Postal Service currently employs 500,000 men and women. It once employed as many as 800,000. More change of this sort is inevitable.

The Postal Service's most recent financial reports show only a small profit of $100 million for the first quarter of 2013, half of what it earned during the same period last year. It's currently only carrying 10 days worth of operating cash compared with 12 days at this point in 2012. Keep in mind: The first quarter of the fiscal year includes the elections. It also includes Christmas and the holiday mailing season, the time of the year when the Postal Service has historically made a significant amount of money. So, barring a miraculous rebound in mail volume, we can really only expect things to get worse in the coming months.

It's been said many times at these postal hearings by me and others that, absent some form of assistance from Congress, the Postal Service will drift towards insolvency and, eventually, the point at which it must shut its doors. Some observers might think those of us making these predictions are crying wolf. But, based on the data I've seen, we have never been closer to losing the Postal Service.

As we sit here today, cash reserves are dwindling at the Postal Service and its line of credit with Treasury is maxed out. All of the easy cost cutting has been done, as has just about all of the restructuring permitted under current law. It's long past time for Congress to step up and do its job. The Postal Service operates at the center of a $1 trillion mailing industry that puts as many as 8 million men and women to work each day. It's a key cog in our economy. Its continued vitality is an important part of our efforts to keep our economy growing. At a time of so much economic uncertainty, we can't afford to let the Postal Service collapse.

The Senate last year passed legislation that attempted to address the Postal Service's near-term financial crisis and give it some of the tools it will need to address its long-term challenges. Our bill would have cleaned up the Postal Service's books by refunding what it has overpaid into the Federal Employees Retirement System and setting up a less-aggressive schedule for funding postal retiree health obligations. A portion of the pension refund would be used to encourage postal employees at or near retirement age to retire, an effort that, according to some estimates at the time, could save as much as $8 billion per year.

Our bill would also have pushed the Postal Service to streamline its processing, delivery, and retail networks, albeit at a more gradual pace than postal management would have like. These provisions would allow the Postal Service to achieve billions of dollars in savings while preserving levels of service that many customers rely on – including, for a time, Saturday delivery. If these cost-cutting efforts don't prove sufficient in the coming years, the Postal Service would be permitted to move forward with more aggressive efforts.

But our bill didn't just focus on cuts. It also freed the Postal Service to be more entrepreneurial. It did this in part by pushing them to find innovative ways to bring in more mail volume and make the best use of the valuable system it maintains in order to deliver mail to ever home and business. The goal of our bill was to help the Postal Service obtain the $20 billion in cost cutting and new revenue it has said it needs. The final product wasn't perfect, but it was very close to getting us where we need to be.

Our House colleagues put forward bills last year that were also intended to address the Postal Service's financial crisis. For a number of months, staff from the House and the

Senate worked in a bipartisan manner to narrow our differences. And because the members on both sides of Capitol Hill and both sides of the aisle were committed to

ensuring the continued viability of the Postal Service, we were able to make a lot of progress. But unfortunately, we weren't able to complete our work before the 112th Congress adjourned.

Now that the 113th Congress is officially underway, I've made it one of my top priorities during my first weeks as chairman to pick up last year's negotiations where they left- joined this time by our Ranking Member, Senator Coburn- so that my colleagues and I can reach agreement on a meaningful postal reform bill as soon as possible.

We need to approach our work with a sense of urgency. With all of the problems we face as a nation, we cannot afford to add the collapse of the Postal Service to the list. With the budget situation we face, we can't just cut the Postal Service a check for $20 billion- nor should we. We need to show a willingness to accept change at the Postal Service and help the Postmaster General and his team implement a reasonable plan for reform.
I'll now turn to Senator Coburn for any comments he'd like to make.

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Statement of Senator Tom Coburn
"Investing in an Effective Federal Workforce"
U.S. Senate
Committee on Homeland Security and Governmental Affairs
February 13, 2013
****

I would like to thank Chairman Carper for holding this important hearing today. Given the fiscal challenges facing the United States Postal Service, it is fitting our first hearing as Chairman and Ranking Member will focus on the solutions necessary to strengthen and preserve this key American institution. We should not delay giving the Postal Service the ability it needs to ensure a vibrant, successful future.

I also want to thank Chairman Issa and Ranking Member Cummings for their testimony and hard work on this issue. I would like to point out that I voted against the postal reform bill coming out of the Senate last Congress because I thought it lacked some of the essential reforms that are required to solve the problems facing the Postal Service. However, be assured I am firmly committed to securing a compromise bill that will pass both chambers.

If we hope to succeed, our starting point cannot be business as usual, which is clearly not working. The Postmaster General has a tough job – one of the toughest. The fact is the Post Office is in trouble, and Congress is in numerous ways acting as an impediment to meaningful reform. Right now, there is not one, but 536 Postmaster Generals.

The goal of our reform ought to ensure that there is one Postmaster General, and that we give the Postal Service the flexibility it needs to run its business successfully. So I congratulate Postmaster General Donahoe for his leadership. I know a lot of things you have done are controversial, but leadership is about leading and I congratulate you for having led.

I look forward to hearing from our expert panels of witnesses today about the breadth of solutions available, and I look forward to working with Senator Carper and members of the Committee to pass postal reform legislation.

Finally, I would be remiss if I did not extend a special welcome to Mr. Cliff Guffey who has spent his public service career in Oklahoma. I look forward to your testimony.

Statement of House Oversight and Government Reform Committee Chairman Darrell Issa
Senate Homeland Security and Government Affairs Committee Hearing: "Solutions to the Crisis Facing the U.S. Postal Service"

Thank you Chairman Carper, Ranking Member Coburn, and members of the Committee for inviting me to this hearing to discuss an issue that touches everyone in this country.

The Postal Service today faces the greatest crisis in its history.

As electronic communications and commerce replace traditional paper-based communications, mail volume has fallen more than 25 percent from its peak and will continue to fall.

Annual postal revenue has fallen more than $10 billion and the Postal Service itself projects a continued decline.

Last year alone, the Postal Service lost $15.9 billion and it has lost money each of the last 6 years.

The result: hardworking taxpayers are paying the price for Washington's inaction.

Last week, the Postal Service announced a plan to modify Saturday delivery beginning in August.

The decision to transition to **modified six-day service** is the right choice. The postal service must pursue this cost-cutting reform. And it has the legal authority to do so.

Already, three major studies from the Postal Service, the Postal Regulatory Commission, and the GAO have concluded the change would save significant money.

There is bipartisan support for this effort including from President Obama – who has proposed 5-day mail in his annual budgets.

Many industrialized countries have also already made the shift to 5-day delivery including countries with significant rural populations such as: Australia, Canada, Finland, Spain, Italy and Sweden.

For once, we have an opportunity to allow common-sense and not special interests drive the conversation about reform.

It would be a mistake and a disservice to the American people to prevent USPS from moving forward with this cost-cutting reform.

Hiding from this problem is no longer an option. We must face the reality that dramatic reform is necessary. As the Postmaster General said last week: "Hope is not a strategy."

I cannot support efforts to simply raid the pension funds of postal workers to offset operating losses, or jeopardize the funding of earned health care benefits because the math isn't politically convenient.

Postal reform must rely on three principles:

1. Protecting universal access,

2. Keeping promises to employees, and
3. Protecting the taxpayer.

With these principles as a guide, we cannot ignore opportunities to improve the Postal Service's financial condition and protect taxpayers.

Accomplishing postal reform will not be easy, but it is something that must get done, and it is something we must work together to accomplish.

Today, I would like to publicly recommit to working with you Chairman Carper, Ranking Member Coburn, and members of this Committee, to reach a bipartisan agreement on this issue.

Thank you.

ONE HUNDRED THIRTEENTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

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Statement of Ranking Member Elijah E. Cummings
House Committee on Oversight and Government Reform

Hearing on "Solutions to Solve the United States Postal Service's Financial Crisis"
Senate Committee on Homeland Security and Governmental Affairs

February 13, 2013

Thank you, Chairman Carper, Ranking Member Coburn, and members of the Committee for convening this important hearing. I also thank Chairman Issa, with whom I am pleased to appear today.

The Postal Service is a vital link that binds our nation together. Delivering mail to more than 150 million addresses and operating 32,000 post offices nationwide, the Postal Service connects families, friends, and businesses across the vast distances of this country.

Last year, however, the Postal Service reported losses of approximately $16 billion. It lost $1.3 billion in the most recent quarter. It has borrowed the full $15 billion it is authorized to borrow from the Treasury, and it continues to lose approximately $25 million a day. It also faces a burden not required of any other agency or business in this country—it must pay tens of billions of dollars every year to pre-fund health benefits for its retirees.

As we all know, this math simply does not add up. The Postal Service needs a new formula for success.

Obviously, last week the Postal Service announced that it intends to end Saturday mail delivery, except packages, beginning in August. In my opinion, this announcement was an unfortunate development, and it will not solve the Postal Service's long-term fiscal problems. Instead, Congress needs to pass comprehensive reform legislation that addresses not only delivery standards, but the full range of reforms needed to fundamentally re-engineer the Postal Service for the next century.

To its great credit, the Senate last year passed comprehensive, bipartisan legislation to reform postal operations, including extending the schedule for retiree health payments, returning over-payments the Postal Service made to the federal pension system, and providing key tools to right-size the Postal Service workforce.

I was particularly pleased that the Senate included several provisions from my legislation, the Innovate to Deliver Act. Too many people argue that the Postal Service should be self-sustaining, like a business, while at the same time arguing it should be banned from competing against the private sector. I believe we must allow the Postal Service to expand into new business lines, and my bill would have done just that.

Unfortunately, the most significant challenge facing the Postal Service today is not Saturday delivery or declining mail volume or prefunding healthcare for its retirees—it's Congress's failure to act. Although the Senate passed a comprehensive and bipartisan bill, the House failed to consider any postal reform legislation whatsoever. None. Obviously, we cannot solve this problem if we continue to ignore it. It will only grow more desperate and more dire.

There is some reason for hope, however, and that is the ongoing commitment of the Members of Congress in this very room. Over the past two months, we have come together to discuss potential solutions in a serious and sustained manner, and I have been encouraged by the many areas of agreement we have reached.

I believe we are close, very close. And if we launch a renewed effort as soon as possible, we can develop a bipartisan—and bicameral—solution. If we are serious about this, I predict that we could complete this legislation before the end of the March, when the current appropriations rider expires. To meet that deadline, however, we need to re-engage now. There is absolutely no time to waste.

Finally, let me conclude with the issue that is closest to my heart in this debate. I believe we have a solemn obligation to honor the dedicated Postal Service employees who have served this institution for decades. As we examine how to right-size the Postal Service workforce, I urge my colleagues to fight—and fight hard—to demonstrate compassion and respect for these middle-class American workers and their families.

Thank you, Mr. Chairman, for holding this important hearing, and I look forward to working with you and our colleagues in the days to come.

UNITED STATES
POSTAL SERVICE

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

FEBRUARY 13, 2013

Good morning, Mr. Chairman, and members of the Committee. Thank you, Chairman Carper, for your continued leadership on comprehensive postal legislation and for calling this hearing to discuss solutions to the precarious financial situation of the nation's Postal Service. During the 112th Congress, the Senate took decisive action to pass bipartisan postal reform legislation in the form of S. 1789, the *21st Century Postal Service Act*. While that effort was appreciated, it ultimately did not lead to enacted legislation. We strenuously urge the 113th Congress to act swiftly, completing the work that was begun in the previous Congress. Time is of the essence, and each day that passes without enacted postal reform further impacts the Postal Service's already dire financial condition. The Postal Service is losing $25 million per day. We must close a projected $20 billion gap between revenues and expenses. A wide array of strategies, detailed in this testimony, is needed to accomplish that. No single action will solve the Postal Service's precarious financial situation. If legislation is not enacted – and soon – to provide the necessary reforms and flexibilities to achieve savings and generate new revenues, we will all be back here again, discussing the same issues. Changes of this magnitude require courage. I am glad to be here to discuss these important issues, which have grown more urgent over time.

The Postal Service continues to face tremendous financial challenges, last year alone recording a loss of $15.9 billion. The Postal Service has seen net losses for five consecutive quarters, and for 14 of the last 16 quarters. We defaulted on Retiree Health Benefits (RHB) payments to the United States Treasury totaling $11.1 billion. While a large part of the loss can be attributed to the statutorily mandated RHB prefunding requirement, the Postal Service has experienced billions in operating losses for each of the past four years as well.

Contrary to some opinions, resolving the RHB prefunding requirement alone will not fully address the problem. The table below shows the impact of all combined activity, including legislative action, on our net operating income between now and Fiscal Year 2017. *[Figure 1]*

Closing the Gap

$ Billions	2013	2014	2015	2016	2017
Revenues	$ 65	$ 65	$ 65	$ 65	$ 65
Operating Costs	(70)	(72)	(75)	(78)	(80)
RHB Prefunding	(5)	(6)	(5)	(6)	-
Net Loss - No Changes	(11)	(13)	(16)	(19)	(15)
Legislative Reforms	12	6	7	8	2
FERS Refund					
Postal Service Health Plan					
Authorize Expanded Product Line					
Operational	3	7	9	10	12
Network					
Delivery					
Retail					
Compensation & Other	-	2	2	3	4
Total Savings	15	15	18	21	18
Net Income	$ 4	$ 2	$ 2	$ 2	$ 3
Debt / Cash	$ (8)	$ (6)	$ (4)	$ 0	$ 3

Preliminary

Figure 1

The Postal Service has exhausted its borrowing authority of $15 billion, and it continues to contend with a serious liquidity crisis. At one point in October 2012, the Postal Service had less than four days' worth of cash on hand to fund operations. For an organization the size of the Postal Service – which has revenues of $65 billion and a career workforce of 495,000 – that is an unacceptable margin. This is not a position in which a healthy company finds itself. By way of comparison, most private sector companies usually have two months of cash on hand to fund operations.

Even with volume declines, in Fiscal Year 2012, the Postal Service delivered approximately 160 billion pieces of mail, approximately 40 percent of the world's mail volume. However, total mail volume, particularly First-Class single-piece (stamped) mail, has declined by a staggering 20 billion pieces, or 40 percent, over the past five years. As a result, the Postal Service must adjust its operations accordingly. The use of First-Class Mail, the Postal Service's most profitable product, continues to decline year after year. People want to receive hard copy statements and other business correspondence through the mail, but they are electing to pay bills online. This is a trend that will continue to erode postal revenues and is a primary cause of the Postal Service's financial challenges.

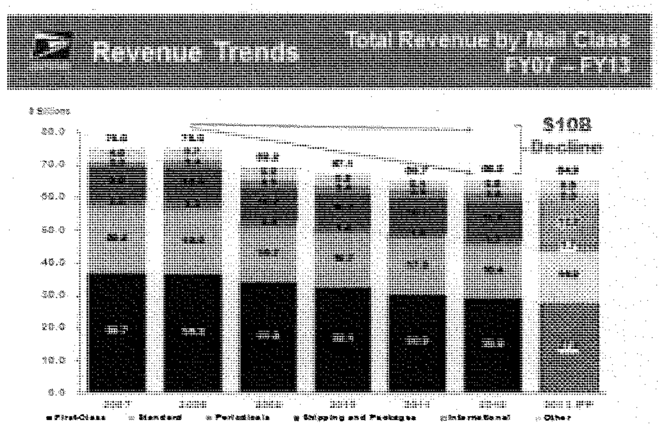
It is clear that the Postal Service cannot continue along our current path. Our existing business model is unsustainable, and projections show continued and increased losses into the future – unless a comprehensive set of changes is made. No single solution will solve these financial issues. Success can only be achieved when all stakeholders, including Congress, work together to put in place comprehensive and meaningful reform. The Postal Service continues to effectively manage all aspects of our operation over which we have control. In fact, we have had 17 consecutive quarters of productivity improvements, despite volume losses. We are making hard decisions now to preserve our mission to provide secure, reliable, and affordable universal delivery service.

The future of the Postal Service can be bright, if Congress allows the necessary flexibility and legislative reform. We can return to financial stability and we can do so with no impacts or burdens on American taxpayers. One key to success is gaining enhanced flexibility to adapt to a rapidly changing marketplace. This flexibility will enable us to remain profitable, by giving us the tools to operate more efficiently, create new products and innovations and to control costs. Absent this flexibility, the Postal Service will continue to experience sustained losses, in spite of our long-term efforts to reduce costs.

The Postal Service continues to aggressively pursue strategies within its control to increase efficiency and to improve its liquidity position. These measures include consolidating the mail processing, retail, and delivery networks in order to better align them with mail volumes, pursuing new revenue streams, and reducing workforce costs. Despite the constraints within our current business model, the Postal Service has, for over a decade, been very aggressive in its efforts to match our operational model to continually shifting customer demands and habits. Since 2006, we have reduced the size of our workforce by 193,000 employees and have reduced our cost base by $15 billion. Our goal is to reduce our career workforce to 400,000 employees through attrition. Using thoughtful and careful planning, we have consolidated more than 200 mail-processing facilities. Under the Post Office Structure (POSt) Plan, the Postal Service is modifying operating hours at over 13,000 Post Offices, while preserving postal services, especially in small and rural communities. Through careful evaluation, we have reduced some 21,000 delivery routes, resulting in a leaner and more efficient delivery network. We have continued to provide increased access to postal products and services, so that customers can now do business with us in over 100,000 locations, plus the Internet.

While we continue to seek out all possible efficiencies and savings, we also put tremendous effort into retaining existing revenue streams and seeking out new sources of revenue. One of the most exciting growth sectors for the Postal Service has been in our package business, which has seen 14 percent growth over the last two years. In addition, Direct Mail continues to be the single best return on investment by offering the highest response rate for advertisers. This has been fueled by effective product innovation and marketing, and the continued rise in e-commerce. We expect this business to continue to grow. In 2012, the Postal Service announced the creation of its Digital Solutions Group (DSG), to find innovative ways to use technology in order to better meet customer needs.

Still, as noted earlier, the continued year-over-year sharp decline in First-Class mail single-piece, traditionally our most profitable product, will further erode Postal Service revenues. The chart below illustrates shifting revenue trends over the last several years. *[Figure 2]*



Total revenue declined by $9.8 billion or 13% from FY2007 to FY2012.

Figure 2

With the shifts in customer mailing habits, the $10 billion decline, shown above, is driven primarily by precipitous drops in First-Class Mail volume. Current law limits the Postal Service in its ability to offer new products and services. The primary challenge for the Postal Service is striking the right balance between cost cutting and revenue generation. Even with our intense focus on these areas, a lack of flexibility in our business model continues to hinder efforts to close a widening budget gap. The Postal Service must generate roughly $20 billion in cost reductions and revenue generation by 2016 to return to financial stability. But our efforts will only go so far. Legislative change is needed now.

The chart below illustrates that, even with continued efforts by the Postal Service to trim costs, without legislative change, the budget gap remains wide. *[Figure 3]*

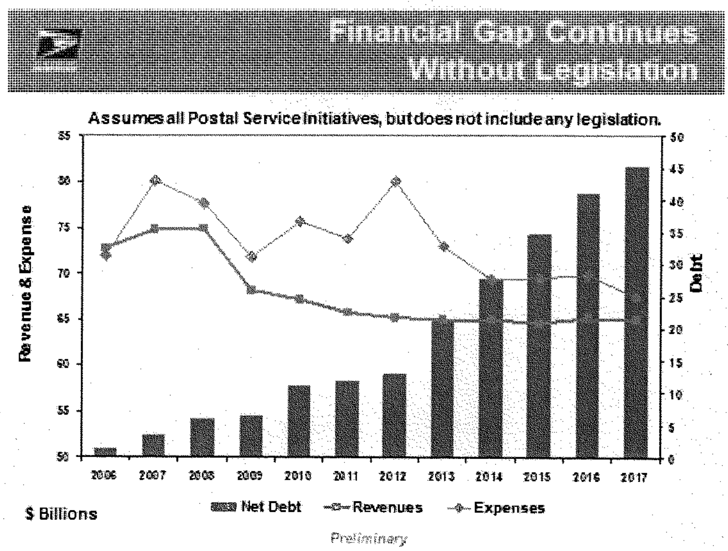


Figure 3

In the absence of enacted legislation, we are taking every reasonable and responsible step to immediately strengthen our financial outlook. On January 14, 2013, the Postal Service's Board of Governors directed postal management to accelerate the restructure of Postal Service operations to further reduce costs and generate revenue in order to bolster its finances. The Board is taking all steps under its control to operate the Postal Service like a business.

Last week, the Postal Service announced a new six-day package delivery and five-day mail delivery schedule, effective the week of August 5, 2013. The anticipated savings from this schedule, when fully implemented, is approximately $2 billion annually. This step will close approximately 10 percent of the $20 billion budget gap. The new delivery schedule will provide mail delivery to street addresses Monday through Friday. Mail addressed to P.O. Boxes will continue to be delivered on Saturdays. Post Offices open now on Saturdays will not be affected by this decision. Packages will continue to be delivered six days per week and Express Mail, currently delivered seven days per week, will not be impacted. This plan serves a dual purpose; to respond effectively to the increase in package growth – a 14 percent volume increase over the last two years – and to address the realities of the public's changing mailing habits. In March, we will publish specific guidance for residential and business customers, regarding this new delivery schedule.

Although our decision was guided primarily by operational and cost savings needs, market research performed over the last few years has shown consistently high levels of support from the public – nearly seven in ten customers approve of a switch to five-day mail delivery as a way for the Postal Service to reduce costs. We expect even greater support for our new schedule, which maintains six days of package delivery. We urge Congress to take no action that would prohibit the change to five-day mail delivery.

Our new delivery schedule is merely one part of a larger strategy to close the existing budgetary gap. Although we will realize approximately $2 billion annually in savings, when five-day mail delivery is fully implemented, that leaves another $18 billion that must be addressed and eliminated. No single solution will return the Postal Service to financial stability. A combination of actions must take place, and the timing of these changes is critical. The longer we wait to make structural changes, the greater the liabilities and losses grow. The shortfall of $20 billion will only grow larger with inflation and the opportunity cost of taking no action.

A significant part of this needed structural change is reforming the laws that govern the Postal Service. The Postal Service, through its ongoing implementation of operational strategies and initiatives, and through new and innovative products and services, is able to close the $20 billion budget gap to some degree; however, the remaining gap can only be closed through enactment of legislation.

Key Legislative Goals:

During the 112th Congress, the Senate passed S. 1789, which included many reforms sought by the Postal Service. Below are reforms we think are important. They include:

1. Require USPS Health Care Plan (Resolves RHB Prepayment Issue)
2. Refund FERS Overpayment
3. Streamline Governance Model
4. Authority to Expand Products and Services
5. Require Defined Contribution Retirement System for Future Postal Employees
6. Instructions to Arbitrator
7. Reform Workers' Compensation
8. Right to Appeal EEOC Class Action Decisions to Federal Court

Require USPS Health Care Plan:

In February 2012, the Postal Service introduced its Five-Year Business Plan, which contained a set of strategies and initiatives designed to close the substantial and crippling budget gap. We are currently in the process of updating the plan and will be happy to brief you and your staffs once the update is complete. One of the most important proposals contained in our plan and one which represents tremendous cost savings is a change in the way we provide health care to our employees and retirees.

An astonishing 20 cents of every revenue dollar the Postal Service takes in must go toward health care costs. *[Figure 4]* The cost of this large component of our total operating costs, second only to wages, is largely outside of our control.

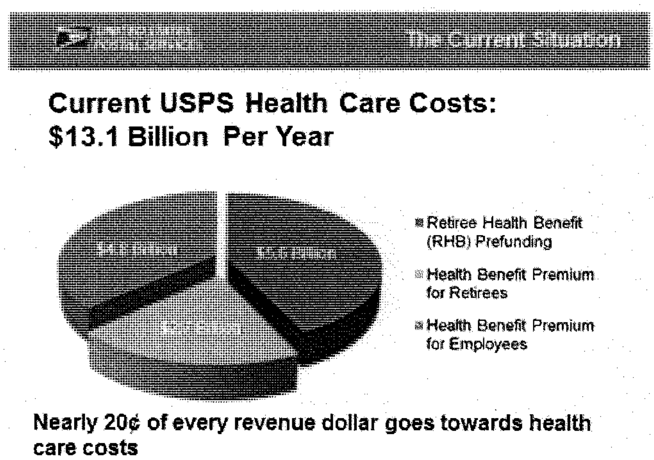


Figure 4

There is a substantial opportunity for savings – up to $7 billion each year through 2016 – by moving to a more modern, responsive and customer-focused system. This would involve having the Postal Service sponsor its own healthcare plan. By moving away from the federal system, nearly all of our employees and retirees would reap the benefits of getting equivalent or better healthcare coverage and paying less for it.

A Postal Service sponsored health care plan is critical, because it resolves the root cause of soaring healthcare costs – the issue of liability. Without addressing the liability issue in a responsible way, the Postal Service will be unable to sustain the current approach to providing health benefits to retirees. In its proposal, the Postal Service would sponsor its own health care plan independent of the Federal Employee Health Benefits (FEHB) program. This would include employees, as well as current and future retirees. Congressional action to allow this fundamental change would dramatically reduce health care spending, helping the Postal Service take a significant step toward financial stability. It would also provide savings for employees and retirees. Our health care plan proposal provides savings and benefits in a variety of ways:

- Helps return the Postal Service to financial stability. Preliminary estimates indicate savings would exceed $1 billion in reduced premiums for the Postal Service in the first year, and $600 million in reduced premiums for employees.
- Eliminates the need for future scheduled RHB prepayments (ranging from $5.6 billion to $5.8 billion annually) under the PAEA by reducing the unfunded liability to a manageable level.
- Leverages the tremendous buying power of more than one million employees and retirees to obtain better pricing.
- Achieves significant savings for the Postal Service, employees and retirees.
- Maintains the Postal Service's commitment to provide quality health care coverage to our dedicated workforce and retirees, as the cost of FEHB plans is unstainable.
- Implements best practices such as improved prescription coverage, integrated care and disease management, wellness incentives, and integrated Medicare and Employer Group Waiver Plans (EGWP) for retiree health benefits.
- Enables better choices with simple, more understandable options.

Regarding the RHB unfunded liability issue, below is a chart *[Figure 5]* showing how each plan component listed above reduces this liability from $53 billion down to just $1.4 billion, with a Postal Service-sponsored health care plan. Attached to my written testimony, and submitted for the record, is a white paper with more detailed descriptions of our health care plan proposal.

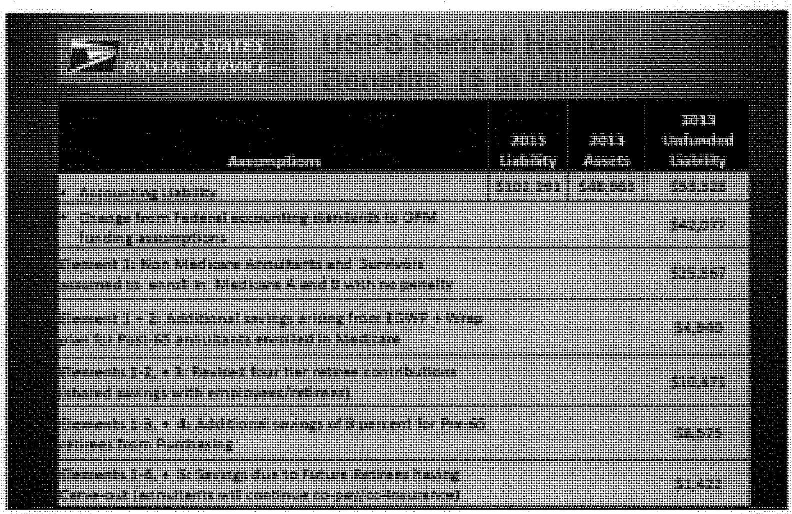


Figure 5* *[*Preliminary figures]*

Refund FERS Overpayment:

Postal Service employees participate in one of three Federal government pension programs. These programs are administered by the Office of Personnel Management (OPM), and employees and the Postal Service contribute to the programs. The funding calculations provided by OPM, with respect to the Federal Employees' Retirement System (FERS) have determined that the Postal Service has overfunded FERS and that a surplus exists. According to the most recent actuarial estimate from OPM, the Postal Service has overfunded its FERS obligation by $2.6 billion, as of September 30, 2011. This estimated surplus is less than amounts previously reported, due to changes in the government-wide economic and demographic assumptions made by OPM. OPM's most recent calculation shows that the surplus is projected to have grown to approximately $3.0 billion by September 30, 2012.

In December 2012, the Postal Service's Office of the Inspector General (OIG) issued an update to a previously released paper on the causes of the FERS surplus. The Postal Service agrees with the two major conclusions in the OIG's report. First, the distinctive characteristics of the Postal Service workforce, including lower salary increases than the rest of the Federal government, suggests that our FERS surplus is larger than the OPM's current calculation, and OPM should use Postal Service specific data to calculate the surplus. Second, in order to prevent excessive surpluses from accumulating in the future, OPM should adjust the USPS' FERS contribution rate. The current FERS charges are too high, as evidenced by 20 years of surpluses, and contribute to the Postal Service's financial crisis. Third, once calculated, the current deficit should be refunded to the Postal Service. The Postal Service, using postal-specific demographics and assumptions, calculates the FERS overfunding amount to be approximately $6 billion. Directing OPM to utilize postal-specific demographics and assumptions in calculating the correct amount of the FERS surplus and returning the full amount of that surplus to the Postal Service is important, and should be completed this year.

Streamline Governance Model:

The Board of Governors has the responsibility to manage the Postal Service, but does not have adequate authority to do so. In order to meet the challenges it faces both today and in the future, the Postal Service must be given the tools to become a more nimble, streamlined organization, better able to respond quickly to the needs of a dynamic marketplace and to adjust our operations as demand for products and services evolves. Current law has not created a foundation by which the Postal Service can provide universal service in a financially sustainable manner.

In terms of network costs, the Postal Service Board of Governors should have the clear authority to make structural changes that reduce the costs of the retail, processing and delivery networks. Currently, the Board considers the submission of each major operational decision to the Postal Regulatory Commission (PRC) for an advisory opinion following a litigious, lengthy administrative proceeding that does not promote timely and effective implementation of necessary, efficient cost reduction decisions. The current process imposes substantial costs on the Postal Service and delays savings and should be eliminated. At a minimum, PRC procedures should be substantially streamlined and should be after-the-fact reviews or handled through the complaint process.

Another facet of restoring financial sustainability is the growth of revenue through product and pricing innovation, both with respect to existing lines of business and other lines of business. Giving the Board greater authority to exercise business judgment in this area does not mean the end of oversight by an external entity. A more nimble and well-defined regulatory approach is required that minimizes unnecessary bureaucracy, recognizes the Postal Service faces intense competition with respect to all of its products, and allows the Board to respond effectively to changing conditions. Even the PRC recognized in its Annual Report that the current system of regulation is not achieving the objective of financial stability.

Giving the Postal Service greater flexibility over pricing and product innovation would further advance the goal of providing universal service in a financially sustainable way. This is demonstrated by experience in other countries in which postal operators have been given such flexibility. The Postal Service, like other postal operators, is in the best position to determine the strategies necessary to ensure financial stability. In addition, the Postal Service faces the same competitive pressures as other postal operators, and has strong commercial incentives to be efficient and responsive to its customers' needs in order to ensure its products are competitive. Extensive price and product controls are therefore not necessary. Pairing much greater flexibility over pricing and product innovation with additional flexibility to address network costs would put the Board in a position to create a multi-faceted and balanced approach to restoring financial stability.

Authority to Expand Products and Services:

The Postal Service must be allowed authority to establish new revenue sources and respond to a changing marketplace. The provisions contained in S. 1789 from the 112th Congress were helpful in providing flexibility to the Postal Service to offer products and services that would improve our net financial position. The Postal Service's financial viability is dependent not only on cutting costs but also generating additional revenue. As such, legislation enabling the Postal Service to offer additional products and services is a key component of our ability to continue to generate new revenue and improve our financial condition.

Require Defined Contribution Retirement System for Future Postal Employees:

The Postal Service's current employees participate in one of three federal government pension programs, all of which are defined benefit plans. But the Postal Service is changing. Employees coming in now have a much different future than current employees. We should provide a retirement system that benefits both the employee and the Postal Service.

Young people in the workforce today do not stay with a company for 25 or 30 years like so many of our current postal workers. They tend to move around much more frequently, and a defined contribution system that is portable, sustainable and consistent with the private sector will serve their needs best. The employee would get their benefits up front and would not have to wait for them. In turn, the Postal Service gets cost predictability, which is sorely needed, especially in the area of compensation and benefits. Nothing would change for existing employees, and the Postal Service would fulfill its obligations to all employees currently enrolled in the existing plans. Future employees would be fully informed when they enter the postal workforce, as to how their defined contribution plan would benefit them and their families.

Instructions to Arbitrator:

More than 85 percent of the Postal Service's career employees are covered by collective bargaining agreements. The Postal Service has included in its legislative goals the request that Congress enact provisions that instruct interest arbitration panels to consider the financial condition of the Postal Service in interest arbitration awards. Although some argue that interest arbitrators do this already, they cannot function like bankruptcy courts under Chapter 11 in the private sector. The panels cannot restructure the Postal Service regulatory or business model. They do not have the authority to look at the entirety of the Postal Service's finances—indebtedness, pricing, operations, service standards, capital sources, debt relief, etc.

All the panels can do is address wages and benefits for a particular bargaining unit and even there the panel's power is limited, because they cannot alter or modify statutory benefits like retiree health care or defined benefit pension plans. Given these inherent limitations (which were explicitly recognized by the panels in the two most recent awards involving the NRLCA and the NALC), we believe it is especially important for Congress to make certain that the arbitration panels take into consideration the Postal Service financial condition in the areas they do have authority to address: wage rates, leave, health care contributions, workforce mix, job protections and related matters and to make that legislatively explicit. The Postal Service needs legislative language requiring arbitrators to consider the Postal Service's overall financial health.

Reform Workers' Compensation:

Postal employees injured on the job are covered by the Federal Employees' Compensation Act (FECA), administered by the Department of Labor's (DOL) Office of Workers' Compensation Programs (OWCP), which makes all decisions regarding injured workers' eligibility for benefits.

The Postal Service has made tremendous strides in reducing its accident and injury rate, as measured by the Occupational Safety and Health Administration (OSHA). Since 2003, the rate of reported injuries has dropped by over 50 percent. By developing and implementing innovative and effective safety programs, we continue to drive down accidents and injuries and provide our employees with a safe work environment.

Even with this success rate, substantial workers' compensation costs exist. We currently have 16,999 employees on the periodic roll, being paid for total wage loss. On a yearly basis, the Postal Service must make payments to the DOL to reimburse them for all workers' compensation benefits paid to or on behalf of employees, in addition to paying an administrative fee to the DOL. Current workers' compensations costs are $1.4 billion per year. We have accrual claims costs of approximately $17 billion, making workers' compensation the Postal Service's largest liability.

S. 1789 contained provisions that would have made reforms to the existing workers' compensation program, including modifications to current rates of compensation for varying classes of injured employees. It would also have required retirement eligible employees to transition from workers' compensation rolls and onto the appropriate retirement program, upon reaching retirement age. Any future legislation must contain similar language.

Right to Appeal EEOC Class Action Decisions to Federal Court:

Similar to the significant strides made in reducing accidents, the Postal Service has reduced EEO formal complaints by 40 percent since FY 2004, ensuring compliance with the law. Today, however, the Postal Service is subject to class actions in the Equal Employment Opportunity (EEO) process that we believe have been improperly certified. Defending against these class actions is extremely costly and burdensome, regardless of their merit. We believe we should have the right to appeal to the federal court final decisions of the EEOC. This is similar to the Postal Service's existing authority to appeal decisions o the Postal Regulatory Commission (PRC).

Conclusion:

Mr. Chairman, time is of the essence. Every day that delays enactment of meaningful and effective postal reform legislation, the $20 billion gap grows. We are losing $25 million a day. Every option has to be put on the table. These legislative goals cover a wide array of concerns and issues. No one single solution is enough, however. We agree that piecemeal efforts simply will not work.

We must make the hard decisions and act now to implement solutions. The financial problems of the Postal Service grow larger every year. Delaying reform for another year or more will only accelerate our already dire financial condition. Our liquidity will continue to be threatened and the day may come when we have insufficient cash to pay our employees or suppliers. Talk of an insolvent Postal Service has already made some customers look for other alternatives.

Mr. Chairman, in order to preserve our mission to provide secure, reliable, and affordable universal delivery service to all U.S. residents – and do so without burdening the American taxpayer – the Postal Service needs urgent reform to its business model.

The American people deserve a financially healthy and vital Postal Service. We must take courageous, aggressive and, yes, sometimes controversial steps now to ensure a reliable Postal Service for our customers and a bright future for our employees. The Postal Service is committed to working with you, and the rest of the Committee to achieve that goal. Thank you.

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Closing the Gap

$ Billions	2013	2014	2015	2016	2017
Revenues	$ 65	$ 65	$ 65	$ 65	$ 65
Operating Costs	(70)	(72)	(75)	(78)	(80)
RHB Prefunding	(6)	(6)	(6)	(6)	-
Net Loss - No Changes	(11)	(13)	(16)	(19)	(15)
Legislative Reforms	12	6	7	8	2
FERS Refund					
Postal Service Health Plan					
Authorize Expanded Product Line					
Operational	3	7	9	10	12
Network					
Delivery					
Retail					
Compensation & Other	-	2	2	3	4
Total Savings	15	15	18	21	18
Net Income	$ 4	$ 2	$ 2	$ 2	$ 3
Debt / Cash	$ (8)	$ (6)	$ (4)	$ 0	$ 3

Preliminary

UNITED STATES POSTAL SERVICE®

Key Legislative Goals

- Require USPS Health Care Plan
  - Resolves RHB Prepayment Issue
- Refund FERS Overpayment
- Streamline Governance Model
- Authority to Expand Products and Services
- Require Defined Contribution System for Future Postal Employees
- Instructions to Arbitrator
- Reform Workers' Compensation

February 13, 2013

USPS LEGISLATIVE PROPOSAL—HEALTH BENEFITS—JANUARY, 2013

EXECUTIVE SUMMARY

This white paper provides an updated explanation of USPS' proposal to control and significantly reduce health care costs for the Postal Service and our employees, annuitants and their families. Key elements:

- USPS is a 238 year old institution, and is the cornerstone of an industry that employs over seven million Americans and represents 5% of the country's GNP.
- In spite of unprecedented cost and staffing reductions, USPS is facing the equivalent of bankruptcy.
- 80% of USPS total costs are labor costs. Fully one-third of our labor costs are benefit costs.
- USPS has determined that to survive it must reduce and control these costs.

USPS has proposed legislation that would have the following elements:

- USPS would administer its own Health Benefits Program and would be the Plan Sponsor.
- Unions and the management associations would be represented in plan governance.
- Benefits and the allocation of contributions would be subject to the bargaining process.
- The new program would cover all current and future employees and annuitants.

Resolving the retiree health benefits liability and funding issue is the central objective of the proposal. A key point cannot be overemphasized—without addressing the liability issue in a responsible way, there is no possible way for the Postal Service to sustain the current approach to providing health benefits to retirees.

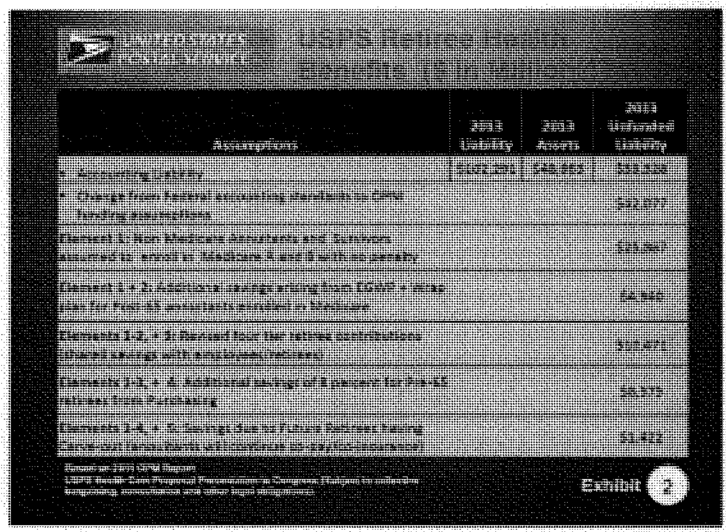
Adopting the approach used universally in the private sector and in state and local government plans to integrate retiree health benefits with Medicare and conforming other elements of our health benefits program to the comparability standard set forth in the Postal Reorganization Act will accomplish this objective.

Moreover, through this approach USPS will continue to provide benefits comparable in value to current benefits provided through the Federal Employees Health Benefits Program (FEHB). In addition, all employees and annuitants will benefit from a lower premium structure, and the resulting lower contributions for plan participants.

The resolution of the health care funding and liability issue and the reduced costs these changes will produce for active employees, annuitants and USPS will provide approximately one-third of the savings the Postal Service must realize to avert insolvency. This is the one major element of our business plan that can be achieved without eliminating a single job or closing a single post office or facility.

The savings from effectively eliminating the unfunded liability for retiree health benefits and eliminating the need for further scheduled payments under PAEA would reduce USPS cash obligations by more than $50 billion between now and 2018, if a restructured plan were in place now. And current and future annuitants would be protected more fully regardless of what the future holds, since our retiree health benefits liability would be essentially fully funded, and remain so.

Exhibit 2 from the body of this paper summarizes the powerful effect these changes will have on the liability for retiree health care benefits for USPS.



We discuss in more detail in the body of this paper the foundation for these changes, and their financial impact on USPS and our employees, annuitants and their families. We stand ready to answer any questions the Congress may have and to provide additional information to help in your deliberations.

USPS LEGISLATIVE PROPOSAL—HEALTH BENEFITS--JANUARY, 2013

I. INTRODUCTION

The United States Postal Service is the cornerstone of an industry that employs over seven million Americans. Mail service providers, fulfillment companies, shipping firms, printers, transportation companies, and "Mom-and-Pop" small business owners combined use the mail to generate over $800 billion in sales and revenue for the nation's economy. This represents five percent of the total Gross Domestic Product (GDP) in the United States.

Congress is well aware that the Postal Service is on the brink of insolvency. Major changes in operations will be required to restore the balance between the Postal Service's operating expenses and revenues. Revenues have declined rapidly since 2007 and will continue to decline in the face of digital alternatives, especially the rapid growth in electronic commerce.

In this paper we update and discuss in depth the proposal we initially presented to the Congress in 2011 for a comprehensive solution to one of our biggest costs--the expense and liability for health benefits for our active workforce, our annuitants and their families.

II. THE USPS PLAN OF ACTION FOR ADMINISTERING ITS OWN HEALTH CARE PLAN

Right now, despite the fact that the law requires the Postal Service to provide employee compensation and benefits comparable to the private sector, the Postal Service does not control health care benefit programs for its employees or its retirees, other than bargaining for the apportionment of premium contributions between active employees and the Postal Service. In almost all other respects the Postal Service is treated like any other entity of the federal government, in that employees participate in the Federal Employees Health Benefits Program (FEHB).

The principal exception to that identical treatment is in the area of health benefit costs for annuitants, where the Postal Service has been treated differently from all other federal entities, both before and after the passage of the Postal Accountability and Enhancement Act (PAEA) in December, 2006. We discuss the subject of retiree health benefits and liability, and this disparate treatment, in more detail later in this paper.

The Postal Service believes that it should have its own program for two principal reasons. First, benefit costs constitute roughly one-third of total labor costs. Approximately 80% of USPS total costs are labor costs. The Postal Service cannot address its current economic challenges without gaining control of its legacy costs, defining their breadth and scope, and setting up a reasonable program to fund them. Our proposal accomplishes those objectives.

Second, under the Postal Reorganization Act, the Postal Service is obligated to provide wages and benefits comparable to those provided in the private sector. The private sector is adjusting constantly to changing market conditions with changes in plan design, care management, eligibility, cost management (including the availability of network discounts), and a host of other factors that reflect "best practices" in compensation and benefit policies. The Postal Service cannot fully meet the private sector standard as part of the FEHB system.

III. GOVERNANCE AND OVERSIGHT

The Postal Service understands the importance of oversight, audit, transparency, fiduciary responsibility and disclosure. Moreover, we share a common interest with our employees and their families, as well as our other stakeholders, in assuring that the new Health Benefits Program is successful. To that end, commercial arrangements for administration (including especially claims administration), and related services must be competitive, at the outset and over time. The plan's benefits must also be provided and administered in alignment with best practices in the health care field. We also recognize that the oversight function now exercised over FEHB by OPM, with its staff of actuaries and experts, will no longer be available to us.

For these reasons, it is important to establish a solid structure for governance and oversight of the plan. Below are those key elements and the path we have recommended to the Congress to get the Health Benefits Program in place.

The Postal Service would be the plan sponsor. The Governors would establish benefit levels and initial contribution levels.

The governance and administration of plan assets would be placed in a Health Benefits Plan Management Committee. The members of the Committee would be fiduciaries with respect to the plan.

Standard principles of fiduciary responsibility, including rules about diversification and conflicts of interest, will apply to plan administration, reporting, disclosure and investment decisions. The Committee will provide an annual report to Congress on the performance of the plan.

The Committee will have members selected by the Postal Service, the unions and management associations, and the Treasury Department. It will have the authority to engage independent experts as required.

There are also models in the private sector as to how to structure a governance and oversight model for a Company Health and Welfare Plan. The Fortune 500 companies provide ample precedent and the Service would be pleased to adopt a best practices approach.

IV. THE ROLE OF THE UNIONS

As noted, the proposed legislation would give the unions and management associations the right to participate in governance through representation on the Health Benefits Plan Management Committee. The Postal Service envisions future contribution levels and benefits will be a subject for collective bargaining in accordance with the rights and limitations contained in the National Labor Relations Act, and supports that outcome.

V. USPS PROPOSAL FOR RESTRUCTURING HEALTH BENEFITS FOR EMPLOYEES AND RETIREES

A resolution of the retiree health benefits funding issue is the central objective of USPS' health benefits proposal to the Congress. The subject of retiree health benefits is both exceedingly complex and of critical importance to the future of the United States Postal Service. We discuss that subject in some depth in this paper, including the implications of the Postal Accountability and Enhancement Act and S. 1789 passed by the Senate this past April. Quite simply, the fiscal issues facing the Postal Service cannot be resolved unless the Congress addresses the liability issue for retiree health benefits in a responsible way. Our proposal provides a path to doing so.

Retiree Health Expense Under Pay As You Go (the Status Quo)

Until 1987 the Postal Service was treated like any other entity within the federal government with respect to retiree health benefits. For federal employers participating in FEHB, including off budget agencies such as the Federal Reserve Board, the FDIC, and the Office of the Comptroller of the Currency, the employers are required to remit to the Treasury through OPM both the employee and employer share of the health benefit premiums for all active employees. But when an employee retires, for all federal employers other than the Postal Service, OPM takes the annuitant's premium contributions through deductions from the annuitant's pension check, and the balance of the premiums is absorbed by the Federal Treasury at no cost to the agency from which the annuitant retires.

And that is the way it worked for the Postal Service until 1987. But in 1987, as part of an Omnibus Budget Reconciliation Act, the Congress for the first time imposed a levy on the Postal Service for a share of the annuitant premiums. That initial payment was $10.3 million, a nominal payment even allowing for the passage of time. However, over the years the formula that evolved for determining the Postal Service's share of annuitant health care premiums created the most rapidly growing single expense for the Postal Service. It is important to explain why.

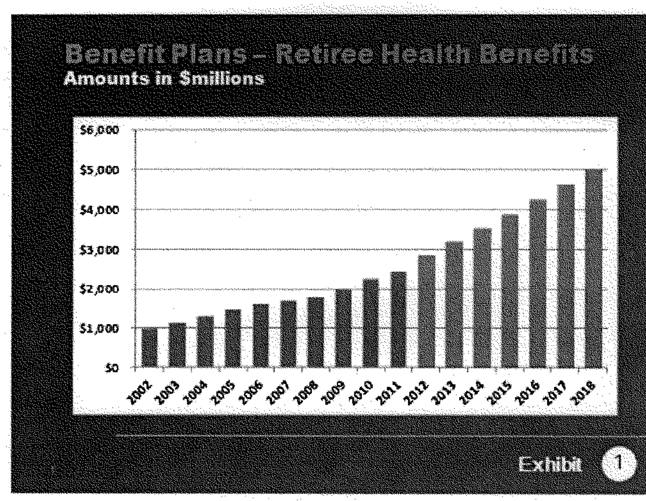
The Postal Service's growing costs for retiree health care on the current pay as you go basis (ignoring for the moment PAEA) reflect three independent factors:

First, the growth of health care premiums within FEHB—over the last 5 years, those premiums have increased at an average pace of 5.5%, significantly above the rate of increase in postal rates and inflation generally and similar to the trend in employer health care premiums in the private sector.

Second, the "apportionment factor"—this is the formula by which OPM determines what share of the retiree premiums the Postal Service must pay, and what share is absorbed by the Treasury for pre-reorganization (pre-1971) service. The apportionment factor is the percentage derived by dividing all post-reorganization years of service for all USPS retired participants by all the years of service for all USPS retired participants. Since those retired participants with pre-reorganization service are much older than those with none, and since virtually all new entrants into the retiree population have no pre-reorganization service, new entrants and mortality among those with pre-reorganization service combine to make the apportionment factor grow at a rapid pace, adding a 3% annual compound increase in costs over and above the increase in premiums.

Finally, the retiree population covered under FEHB continues to grow and that growth also adds to this expense—another full percentage point in recent years.

In Exhibit 1 below, we illustrate how rapidly USPS' cash expense on the current pay as you go basis for retiree health care has grown in the recent past, and how rapidly it is projected to grow in the near future. The blue bars show the actual expense for the ten fiscal years through FY2011; the orange bars show the projected expense for the next seven fiscal years. This projected growth was prepared by the actuarial staff at the Office of Personnel Management in 2012.



In FY2002, USPS' expense for retiree health care coverage was just $987 million. But by FY2011 that expense had grown to $2.441 billion. That is a pace of growth over that period of 10.58% a year. At that pace these expenses double every seven years.

Exhibit 1 also shows that this growth is not expected to abate in the immediate future. Over the seven year period from FY2012 through FY2018, the growth in this expense projected by OPM is almost identical to the growth rate over the 10 years just ended—10.85% per year, resulting in a projected expense in FY2018 of just over $5 billion, more than double the cost for FY2011. Given the factors which drive the growth in these costs, retiree health benefit costs will overtake USPS' expenditure for active employee health benefits in just a few years. No other cost is growing so rapidly for the Postal Service as these pay as you go costs for retiree health care.

The Effect of the Postal Accountability and Enhancement Act

Under current law the Postal Service is obligated to make a series of payments to fund the Postal Service Retiree Health Benefit Fund (PSRHB Fund), over and above continuing to pay our share of the FEHB premiums for retirees on a pay as you go basis. At present the Postal Service is in default with respect to the payments required under the statute for FY2011 and FY2012, and does not have the funds or the borrowing authority that would be required to make those payments.

In addition to those cash payments which USPS has made, PAEA provided for the transfer of $17.1 billion from overpayments to the Civil Service Retirement Fund, for total cash remittances to the PSRBH Fund of $38 billion since the inception of the Fund.

With interest, the assets in the Fund as of FY2013 are projected to be just under $49 billion, compared with liabilities of $102.3 billion. The unfunded liability at that point is the difference, or $53.3 billion.

Under PAEA, the Postal Service has the burden both of the scheduled advance funding payments and continuing to pay the cash cost of their share of annuitant premiums on a pay as you go basis. The Act provides no access to the Fund for defraying retiree health care costs until after the last scheduled payment is due in 2016.

S.1789 passed by the Senate in April, 2012 provides for a change in the pace of funding for retiree health benefits compared with current law. However, since S.1789 failed to address the liability issue, the combination of the continuing dual payments—the advance funding payments PAEA requires and continuation of pay as you go for the USPS share of FEHB premiums—would continue to leave the Postal Service in a completely untenable situation. Without addressing the liability these costs will rapidly become unaffordable, regardless of the method and pace of funding these costs.

The central problem is as we stated at the outset. The liability for retiree health benefits does not go away, in the absence of changes that would reduce the liability. Such changes for current annuitants are entirely in the hands of the Congress. The current pay as you go expense will continue to increase at an unaffordable pace, and eventually—and in relatively short order—costs will exceed those that would be incurred under the funding anticipated by PAEA or in any other arrangement involving prefunding, since no interest earnings would contribute toward those future payments.

The Effect of the Proposal on Active Employees

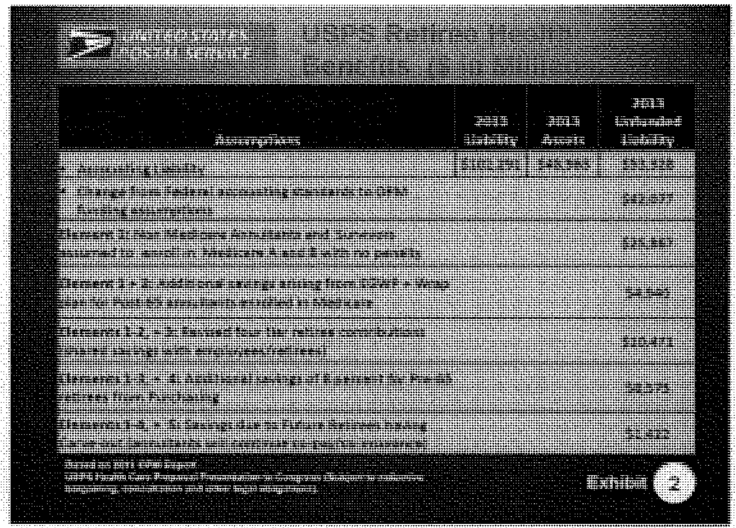
Active employees will also benefit if our proposal is enacted, and substantially. The new plan will produce lower premium costs that will be shared with employees, and that will result in an average savings to participants of approximately $700 annually. In addition, by moving to a four tier system for participant contributions (self only, self and spouse, self and child or children, and self and full family) common in the private sector, single parents and those with a spouse and no dependent children will see markedly lower contributions. The lower premiums that will result if our proposal is adopted will permit contributions for full family coverage to remain about the same as now. Benefits will remain comparable in value to benefits provided under FEHB now, but in a much simpler and more easily understood plan structure.

USPS Legislative Proposal—The Effect on Retiree Health Care Liability and Expense

The USPS proposal to the Congress would directly affect the liability and ultimately the expense for retiree health benefits in a dramatic way. It would provide a comprehensive solution both to the funding schedule in place under PAEA and to the grave problem associated with the growth in pay as you go costs under the status quo.

None of the elements of the proposal would affect current annuitants adversely—indeed, it would improve their situation. And future annuitants would also benefit, through lower premiums and thus lower participant contributions.

The key elements of the USPS legislative proposal with respect to retiree health benefits are set forth in Exhibit 2 below, along with the fiscal impact that these changes would have for USPS.



As Exhibit 2 shows, under current law and generally accepted accounting principles USPS has a projected liability for retiree health benefits in 2013 of $102.3 billion. Assets at that point will be $49 billion, leaving an unfunded liability of $53.3 billion. The required funding for 2013 under current law is projected to be $8.7 billion, including pay as you go cash costs and the scheduled payment under PAEA.

We describe below the changes that the legislative proposal would make as summarized in Exhibit 2, and the effect on liability and costs, one by one.

First, a measurement change would be required to move from the accounting liability to the funding liability. The funding assumptions are used since under the proposal the benefit payments will come from the Postal Service Retiree Health Benefit Fund and the PSRHB Fund assets and these assets are assumed to earn 6.25% over the long-term (OPM's assumptions as set by the independent Board of Actuaries). The funding assumption would be used to determine the actuarially required funding amount needed to fully fund the benefits, which is the sum of the Normal Cost and the Amortization Payment. Both of these amounts are calculated using the funding assumptions set by OPM.

This change will have the effect of bringing down the 2013 liability by $11.25 billion, to $91.04 billion.

Exhibit 2, Element 1—Medicare Integration

The second change is referred to in Exhibit 2 as Element 1. Element 1 assumes that all current annuitants eligible for Medicare will enroll in Parts A and B of Medicare with no penalty. That will be achieved in the same way it is essentially universally achieved in the private sector and in state and local government plans which provide retiree health benefits. This requires a brief explanation, including some pertinent history.

Medicare was signed into law by President Lyndon Johnson on July 1, 1965. The first Medicare cards were issued to President Harry Truman and his wife, Bess.

Federal annuitants, however, were not eligible for Medicare unless they qualified through quarters earned in other employment settings. That changed in 1983, when legislation provided that federal employees (including USPS employees) were to be made eligible for Medicare coverage for the first time.

FEHB has been available to federal employees and annuitants since 1960. But even though federal employees have been eligible for Medicare through their federal employment for almost 30 years, and through other employment for almost 50 years, OPM has never changed the way that benefits under FEHB are coordinated with Medicare, for active employees or for annuitants who are Medicare eligible.

This is especially important for annuitants, since by law Medicare is the primary payer for an annuitant who is also eligible for benefits under an employer sponsored health care plan. The statutory construct was created by the Congress to encourage employers who provided benefits to retirees to continue to do so. So long as a Medicare eligible participant is covered as an employee, the employer plan is primary; when the employee retires, Medicare becomes the primary payer, essential to making the continuation of coverage affordable for employers

In FEHB, in contrast with universal practice in the private sector and in state and local government plans, there is no consequence to the federal annuitant in terms of their FEHB plan coverage if they fail to enroll in Medicare. Their benefits are paid at exactly the same level as they would have been paid prior to Medicare eligibility.

There is still an advantage to enrolling in Medicare, however, and for that reason many Medicare eligible federal annuitants, including USPS annuitants, do enroll. That advantage comes from the effective elimination of deductibles, copays and coinsurance under the FEHB plans, some of which explicitly waive such payments for Medicare enrollees. And some plans, including the Blue Cross/Blue Shield plans which cover the majority of FEHB participants, offer additional incentives such as lower copays for prescription drugs for participants who enroll in Medicare.

Nonetheless, the rates of non-participation among annuitants are too high, with serious consequences for the cost of health benefits to USPS and to participants. Currently, 24% of USPS annuitants over age 65 are not enrolled in Medicare Part B. And 10% of those annuitants are not enrolled in Part A, despite the fact that Part A is free. More troubling is the observation that nonparticipation rates in part B are growing among the most recently retired annuitants. Based on OPM data, 30% of annuitants age 65-74 are not enrolled in part B. And non-participation in Part A has remained about the same, at 9% of the annuitants age 65-74.

A participant's election not to enroll in Part B of Medicare, which covers outpatient hospital and non-hospital medical expenses, is to a degree understandable because that coverage comes at a cost to the participant. Most participants pay $104.90 monthly (in 2013). Participants with annual incomes of more than $85,000 ($170,000 if married and filing jointly) pay more. And as we pointed out above, the additive benefit that the participant receives is limited to the deductibles, copays, and coinsurance that would be eliminated or reduced in the FEHB plan in which they participate. So an annuitant in good health could reasonably conclude that they are better off avoiding the Part B contributions. (We should point out that on average the decision not to participate in part B will be costly to the participant, since they are exposed to those deductibles, copays and coinsurance payments in years in which they have medical expenses.)

The nonparticipation in Part A (which covers inpatient hospital expenses), however, is not easily explained, because Part A is free. But it is useful to note that for those employees retired under CSRS who are not eligible for Social Security signing up for Part A requires some action on their part. It is not automatic and that no doubt accounts for at least some of the nonparticipation in Part A. It's also relevant that for retirees who are eligible for Part B of Medicare, OPM will not deduct the Part B premiums from the annuitant's pension check without a written authorization from the Center for Medicare and Medicaid Services. A written request from either the participant or Social Security is not sufficient, and these additional hurdles to enable such payments no doubt contribute to the nonparticipation rates in Part B.

What is clearly not well understood by FEHB participants is that these levels of nonparticipation come at a dear cost, both to USPS and to all USPS employees and annuitants and to their federal counterparts. The net effect of the nonparticipation rates in Medicare is to shift costs that would normally be absorbed by Medicare to the FEHB plans. For Medicare, the $104.90 monthly that most participants pay represents about 12% of the combined value of both Parts A and B. Yet USPS annuitants, in common with their federal employee counterparts, pay 30% of the FEHB premiums on average.

So that cost shifting is a very poor bargain for the employees and annuitants, because both pay for this cost shifting in the blended rate structure that is used for premiums in FEHB (i.e., all rates for the FEHB plans are the same for active employees and for annuitants whether they are enrolled in Medicare of not) . And this effect also saves money for the Federal Treasury, since the portion of the cost of the benefit borne by the participant is much greater in FEHB than in Medicare.

The net effect is that FEHB premiums are higher than they would otherwise need to be by virtue of the FEHB plans absorbing these additional claims costs, driving up premiums for both active employees and annuitants.

The way the legislative proposal would achieve universal participation in Medicare is simple, and consistent with practice in the private sector and in state and local government health benefit plans.

The standard approach for employers who maintain retiree health benefit plans to ensure Medicare participation is to offset the benefits the employer plan will pay by the amount that would have been paid by Medicare, for annuitants who are eligible for Medicare but who are not enrolled. That effectively requires the participant to self-insure the benefit Medicare would pay if he fails to enroll, and removes any economic consequence of a participant's failure to enroll for the plan sponsor. In practice, all participants will generally enroll.

The effect of moving to 100% enrollment in Medicare is shown in what is referred to as Element 1 of Exhibit 2. As the exhibit shows, this change would reduce the liability by $16.2 billion, to $74.8 billion. In addition, the cash costs to the Postal Service would come down by $565 million in the first year, by simply reversing the cost shifting now in place so that Medicare is always the primary payer for annuitants age 65 and older.

It is important to point out that because of the completely different scale the cost to Medicare is inconsequential. In 2012 the total expenditures in Medicare were approximately $550 billion, or $10.6 billion per week. The annual savings of $565 million to USPS thus represents less than half a day of claims under Medicare. The cost to the Medicare trust fund is substantially less than the savings for USPS, because it is offset by new participant contributions for Part B (approximately $138 million annually).

Finally, costs to participants would also be reduced through the lower premiums that would be created through the new USPS health plan contemplated by the proposal, with no reduction in benefit levels.

Exhibit 2, Element 2—Adoption of an EGWP Plan for Prescription Drug Benefits

Element 2 in Exhibit 2 shows the effect of the Postal Service's proposal to adopt a so-called "Employer Group Waiver Plan" (EGWP) for prescription drug benefits, wrapping the employer plan around the drug benefits under Part D of Medicare. Under this plan, prescription drug benefits would remain as generous as now for all participants. And for some participants (those with catastrophic drug expenses) benefits would significantly increase. Participants would pay the same contributions for prescription coverage as before, including their combined contributions for Part D and the USPS plan.

This type of plan takes advantage of the purchasing power of the Part D program, including the discounts negotiated with the pharmaceutical manufacturers for brand name and prescription drugs in the negotiations leading up to passage of the Patient Protection and Affordable Care Act (PPACA) and the closing of the "donut hole" for Part D participants that are embedded in the Act.

The effect on USPS' cash expense in the first year would be about the same as Element 1, a savings of about $568 million. But the effect on the retiree health care liability is greater, since future increases in the discounts and the closing of the donut hole generate more substantial savings in the future. The liability would be reduced by $20.9 billion.

In total integrating the plan properly with Medicare and adopting the EGWP plan, in common with practice in the private sector, would reduce the liability by more than $37 billion, representing 70% of the current unfunded liability.

It is also important that here as well, the additive cost to the Medicare program is substantially smaller than the savings that would be created for USPS and participants. The discounts and better purchasing power under Part D of Medicare will offset the cost to Medicare by approximately $170 million annually.

Exhibit 2, Element 3—The Effect of Lower Participant Contributions

Element 3 reflects the changes in employee contributions. USPS' proposal contemplates moving from the current two tier contribution approach (contributions are based on having self only coverage or family coverage, regardless of the number of family members covered) to the four tier approach more typical in the private sector and state and local government plans. Employees would have the following choices available:

Self only
Self and spouse
Self and child or children
Self and full family

Usually this type of change is a zero sum game, in that the lower contributions for self and spouse or self and child(ren) would have to be offset by higher contributions for self and full family coverage. But since premiums are projected to be so much lower, principally through the savings through proper coordination with Medicare, the cost for full family coverage will remain about the same as now for those who need full family coverage, and will come down significantly for single parents and households with no dependent children. And we should note that family status is dynamic, so virtually all USPS employees and annuitants will benefit from this change at some point in their careers and through retirement.

The net effect of this change, however, is to increase the liability, since employee and retiree contributions to their health care coverage will in the aggregate be reduced substantially through the combination of lower premiums and the move to four tier coverage. The liability will be increased in the first year by $5.5 billion, to $59.4 billion.

Exhibit 2, Element 4—Purchasing Power in a USPS Plan

Element 4 in Exhibit 2 shows the effect of combining the purchasing power for health benefits under a single USPS sponsored plan. While the largest plans within FEHB certainly have equivalent purchasing power, that purchasing power is dissipated through the maintenance of more than 200 plans, many of which are very small, though in the aggregate they cover a significant share of the participant population.

These savings from consolidation of the plans are projected to be about 8% of premiums, and will have the effect of reducing the retiree health care liability by an additional $1.896 billion to $57.538 billion. The reduction of the retiree liability will apply to pre-Medicare retirees only, since network discounts do not apply where coverage is secondary to Medicare, and the EGWP savings are already reflected in Element 2.

Exhibit 2, Element 5—The Adoption of Carve Out for Coordinating with Medicare

The final element—Element 5 in Exhibit 2—reflects the savings that will accrue by adopting a so-called "carve out" approach to coordinating the plan's benefits with Medicare for annuitants who retire on or after January 1, 2014. Carve out is the most common approach used in the private sector and in state and local government plans for coordinating benefits with Medicare.

Under FEHB's current approach—so-called Coordination of Benefits—the participant who is covered by both Medicare and an FEHB plan will typically receive payment for 100% of all medical expenses. The primary plan (in this case Medicare) will pay its liability first. The secondary plan (the FEHB plan) will then pay the balance of expenses for the claim up to its limit of liability if no other plan were available. In practice, the participant will usually collect 100% of the charges, with no deductibles, copays or coinsurance.

Under carve out, the primary plan (Medicare) pays first; the employer plan then pays the amount that would be required to place the participant in the same economic position as if only that plan were available to pay benefits. That maintains a level playing field for all participants (active employees, pre-Medicare annuitants, and Medicare eligible annuitants whether they participate or not) and maintains the same deductibles, copays and coinsurance as if the employer plan were the only plan available. That change will also serve an important purpose in terms of sound plan design by discouraging overutilization of health care services. (That effect was recognized in the administration's proposal in September, 2011, to impose a tax on generous Medicare Supplement plans which effectively eliminate all copayment requirements).

The adoption of carve out for future annuitants would reduce the liability by an additional $7.153 billion, to $50.385 billion.

The Combined Effect of the Proposal on USPS Expense and Liability

In the aggregate, the USPS proposal reduces the unfunded liability to a nominal amount compared with current law and continued participation in the FEHB plans. The unfunded liability matched against projected assets of $49 billion in 2013 would be just $1.4 billion. Effectively, retiree health benefits would be fully funded. The proposal further contemplates that USPS would continue to fund the normal cost for future retiree health benefits, assuring that the fund would always be sufficient to cover these costs regardless of USPS' future.

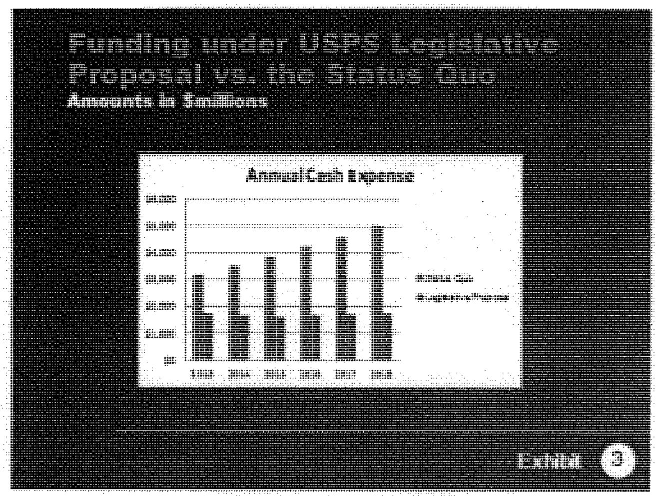
That is the liability picture. On the expense side—the first year cash savings in total are projected at $1.76 billion through reduced premiums for active employees and retirees combined. Of that amount, $650 million would be shared with participants, principally through lower contributions; the balance would reduce USPS' expense.

Finally, the PSRHB Fund assets would be used to pay the claims and expenses for current and future annuitants. That would produce a funding expense in 2013 of $1.753 billion in total, compared with a combined expense of $8.7 billion (cash expense plus the scheduled payment required under PAEA) under current law in 2013.

The Legislative Proposal—Summary

The legislative proposal, by addressing the liability issue directly, primarily through proper coordination of the plan with Medicare, would produce a substantial portion of the savings that the Postal Service will need to return to financial stability. And these savings are achieved without eliminating a single job, or closing a single post office or postal facility.

In Exhibit 3, we compare the annual funding required to cover amortization of the small remaining unfunded liability and continuing to fund the normal costs accruing for employees with the costs associated with continuing to pay FEHB premiums on the current pay as you go basis. The blue bars represent the status quo, and are drawn from the same OPM projected expense depicted earlier in Exhibit 1 at page 4, for the years 2013 through 2018. The maroon bars are the projected funding requirements if the legislative proposal were adopted by the Congress and all elements implemented over the same period.



In the first year USPS' costs would be reduced from $3.2 billion to $1.75 billion, for a savings of $1.4 billion. By 2018, the savings would have grown to $3.3 billion. Over the six year period depicted, aggregate projected savings under the proposal would be $14.3 billion, compared with the status quo and continued pay as you go funding.

In addition, there would be no further need for any additional PAEA scheduled payments, since the PSRHB Fund would essentially be fully funded at the outset, and would remain so. Those additional payments represent another $37.9 billion of obligations under current law, through 2016. That represents combined savings to USPS over the period depicted of $52.2 billion, or about one-third of the savings needed to restore a balance between USPS' revenues and expenses.

These outcomes are in stark contrast to the Postal Service's inability to fund retiree health benefits in future years, either under the schedule required under current law or under a pay as you go approach with no prefunding.

We are prepared to meet with the Congress and other stakeholders to discuss the proposal and to answer fully any questions. We respectfully urge the Congress to consider and enact this proposal given its importance to the Postal Service and to our employees and annuitants and their families.

Applicability of 6-Day Delivery Rider

The Postal Service has proposed to move to a general 5-day delivery schedule for mail (except packages), beginning in early August, 2013. This proposal is predicated on the conclusion that current law does not prevent a movement to 5-day delivery in that timeframe: no regular appropriations bill setting forth the rider requiring the continuation of "6-day delivery…at not less than the 1983 level" has been enacted for FY 2013, and even if the current continuing resolution (Public Law No. 112-175) extends the rider (although we do not concede it does), the resolution expires on March 27, 2013. As such, the proposal can be implemented absent the enactment of disabling legislative language, either in a future appropriations bill that is applicable in August (e.g., a full-year CR or regular appropriation bill), or in other legislation which prohibits the Postal Service from moving forward. In this regard, the Postal Service strongly believes that implementing its modified 5-day delivery plan is a necessary, responsible step considering its financial condition, and as such we will continue to work with Congress in the hopes of ensuring that Congress does not include a 6-day rider in future legislation. This memorandum discusses why the 6-day appropriations rider does not currently prevent the implementation of the Postal Service's proposal.[1]

1. Background on Postal Service Appropriations

The Postal Service generally operates on the basis of the revenues it receives from the sale of its products, and from other sources; this revenue is permanently appropriated to the Postal Service. 39 U.S.C. § 2401(a). In addition to this permanent appropriation, the Postal Service is also authorized to receive various annual appropriations. One relates to public service costs associated with providing universal service, and has not been requested or appropriated since the early 1980s. Id. at § 2401(b). Two others relate to what is known as "revenue foregone."

First, the Postal Service is authorized to receive an appropriation to compensate it for revenues it foregoes on mail that is required by law to be carried for free (certain materials for the blind and overseas voters). Id. at § 2401(c). This appropriation is based on an estimate of the revenue that will not be received during the fiscal year covered by the appropriations bill, plus an adjustment for a prior fiscal year to reconcile the estimate for that year with actual results. For example, the FY 2012 appropriations bill compensated the Postal Service for estimated FY 2012 revenue foregone (along with a reconciliation adjustment for FY 2009). See, e.g., Budget of the United States Government, Fiscal Year 2013, Appendix at 1388. This compensation for FY 2012 came in the form of a reimbursement provided in full on October 1, 2013, the beginning of FY 2013.

Second, the Postal Service is authorized to receive an annual appropriation of $29 million for each fiscal year through FY 2035 to compensate it for losses caused by insufficient revenue foregone appropriations in FYs 1991 through 1993, at a time when the revenue foregone appropriation covered a broader array of preferred-rate mail categories than just free mail for the blind and overseas voters, and for losses caused by the transition provisions of a prior law that eliminated the appropriations for those preferred rate categories. 39 U.S.C. § 2401(c). Congress did not appropriate this money in FY 2012.

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[1] The Postal Service also believes that its 5-day delivery proposal is fully consistent with its obligations under title 39, United States Code, and that the only potential legal prohibition on implementing the proposal is the appropriations rider. This memorandum does not discuss title 39 issues.

In the appropriations bills that have provided these amounts (or, as it did last year, only the first amount), Congress each year includes various riders. The FY 2012 appropriations act was typical, setting forth three long-standing riders in addition to the 6-day rider:

> For payment to the Postal Service Fund for revenue forgone on free and reduced rate mail, pursuant to subsections (c) and (d) of section 2401 of title 39, United States Code, $78,153,000, which shall not be available for obligation until October 1, 2012: *Provided*, That mail for overseas voting and mail for the blind shall continue to be free: *Provided further*, That 6-day delivery and rural delivery of mail shall continue at not less than the 1983 level: *Provided further*, That none of the funds made available to the Postal Service by this Act shall be used to implement any rule, regulation, or policy of charging any officer or employee of any State or local child support enforcement agency, or any individual participating in a State or local program of child support enforcement, a fee for information requested or provided concerning an address of a postal customer: *Provided further*, That none of the funds provided in this Act shall be used to consolidate or close small rural and other small post offices in fiscal year 2012.

Consolidated Appropriations Act, 2012, Public Law No. 112-74.

2. The 6-Day Appropriations Rider Must be Re-enacted Each Fiscal Year to Have Effect

As an initial matter, it is clear that the 6-day appropriations rider does not constitute permanent legislation, and must therefore be annually re-enacted in order to have continuing effect. Substantive restrictions set forth in appropriations legislation are "strongly presumed" not to be permanent legislation. See, e.g., Building & Constr. Trades Dep't, AFL-CIO v. Martin, 961 F.2d 269, 273-74 (D.C. Cir. 1992) (noting the "very strong presumption" that when an appropriations act makes substantive changes in the law, "the change is only intended for one fiscal year."); 20 U.S. Op. Off. Legal Counsel 232 (1996) (noting that, based on case law, "clear and convincing evidence of congressional intent is needed to establish that a provision in an appropriations act constitutes permanent legislation"); General Accountability Office, Principles of Federal Appropriations Law, Vol. I, at 2-34 (3rd ed. 2004) ("A provision contained in an annual appropriation act is not to be construed to be permanent legislation unless the language used therein or the nature of the provision makes it clear that Congress intended it to be permanent.") (hereinafter "Red Book"). There is nothing in the plain language of the 6-day rider to rebut this presumption. Indeed, the fact that Congress has included it in annual postal appropriations language indicates that Congress does not consider it to be permanent. See, e.g., Red Book, Vol. I, at 2-37 (noting that "the repeated inclusion of a provision in annual appropriation acts indicates that it is not considered or intended by Congress to be permanent") (citations omitted).

3. The Current Partial-Year Continuing Resolution Does Not Prevent Implementation of 5-Day Delivery in August

The current continuing resolution (CR) does not prohibit implementation of 5-day delivery in August. The CR expires according to its terms on March 27, 2013. See Pub. Law No. 112-175, § 106. Therefore, even if the CR extended the 6-day rider beyond the end of FY 2012 (which, as discussed below, we do not concede), the CR clearly does not extend the requirement that 6-day delivery be maintained to the Postal Service's proposed implementation date in August. Furthermore, even if the rider is currently in effect, it does not prevent the Postal Service from proposing a future change to the number of days of delivery, and to make preparations to effectuate that change. The Postal Service will urge Congress not to act to prevent the implementation of the modified 5-day plan, either through appropriations legislation that succeeds the CR, imposes the six-day delivery requirement, and extends through August, or through other legislation that requires the same result.

In this respect, the Postal Service's action of setting forth its modified plan, and requesting that Congress not act to stop implementation, is not something that can only be done because a CR is in effect. As noted above, Congress must annually decide whether to continue the 6-day rider; the rider therefore expires when the fiscal year covered by the appropriations act incorporating the rider expires. The Postal Service could have, in any year, prior to the enactment of an appropriations act for the next fiscal year containing the rider, issued a plan to implement a modified 5-day delivery plan on October 1 (the beginning of the next fiscal year), and requested that Congress ensure that appropriations legislation for the next fiscal year not prevent the Postal Service from implementing on that date. This is not "flouting" the will of Congress, as has been suggested by some, but requesting that Congress make a policy decision to allow the Postal Service to move to 5-day mail delivery. What is unique about this year is that the Postal Service can propose a date in the existing fiscal year rather than at the beginning of the next fiscal year, without requesting that Congress affirmatively change existing law, because of the fact that a full-year funding bill incorporating the rider has not yet been enacted.

This year might also be unique because in our view the current CR does not extend the rider even at this point of time (though, as discussed further below, this issue is irrelevant to determining whether 5-day delivery can be implemented in August). The FY 2012 appropriations bill only provided what is known in appropriations law as an "advance appropriation": the reimbursement for estimated FY 2012 revenue foregone expenses was not made available until October 1, 2012, the beginning of FY 2013. See General Accountability Office, A Glossary of Terms Used in the Federal Budget Process, GAO-05-734SP, at 8 (2005) (defining "advance appropriation").[2] Based on a comparison of the current CR with prior CRs, it is doubtful that the extension of budget authority set forth in § 101(a) of the current CR confers any advance appropriations like the one afforded to the Postal Service in the 2012 appropriations legislation. As such, we do not believe that the current CR extends the 6-day rider, which cannot serve as a condition imposed on the receipt of appropriated funds when those funds have not been appropriated.

From a review of recent fiscal years in which Congress never enacted a regular appropriations bill, and instead promulgated a full-year CR following a series of partial-year CRs (FYs 2007 and 2011), Congress did not address advance appropriations until the full-year CR, and it did so though an explicit provision, not included in the partial-year CRs. See Revised Continuing Appropriation Resolution, 2007, Pub. Law No. 110-5, § 109 ("With respect to any discretionary account for which advance appropriations were provided for fiscal year 2007 or 2008 in an appropriations Act for fiscal year 2006, the levels established by section 101 shall include advance appropriations in the same amount for fiscal year 2008 or 2009, respectively, with a comparable period of availability."); Department of Defense and Full-Year Continuing Appropriation Act, 2011, Pub. Law No. 112-10, § 1118 (With respect to any discretionary account for which advance appropriations were provided for fiscal year 2011 or 2012 in an appropriations Act for fiscal year 2010, in addition to amounts otherwise made available by this

[2] As discussed further below, while the Postal Service received an "advance appropriation" within the technical meaning of that term, the term is something of a misnomer in this context, because the appropriation is a *reimbursement* for expenses incurred in the fiscal year covered by the appropriations act.

Act, advance appropriations are provided in the same amount for fiscal year 2012 or 2013, respectively, with a comparable period of availability.").

Past practice therefore indicates that Congress has *not* intended the language of § 101 in partial-year CRs as conferring advance appropriations. This past practice is highly relevant because the current CR, like the CRs in FYs 2007 and 2011, follows what GAO refers to as the "traditional" form, in that it uses a number of standardized provisions, including § 101. Red Book, Vol. II, at 8-3. If § 101 of the partial-year CRs in those prior years were not interpreted as conferring advance appropriations, there seems to be no reason to interpret the language of § 101 in the current CR any differently. Cf. id. at 8-8 (noting that "indications of congressional intent expressed in well-established methods" are relevant in interpreting the language of traditional continuing resolutions).

This interpretation is re-enforced by language in the full-year CRs for those years that specifically addressed the Postal Service's appropriation; this language further indicated that an advance appropriation for revenue foregone was not provided until those separate, explicit provisions were included in the full-year CR. In the FY 2007 full-year CR, for example, Congress included the following provision:

> Notwithstanding section 101, the level for 'United States Postal Service, Payment to the Postal Service Fund' shall be $29,000,000; and, in addition, $6,915,000, which shall not be available for obligation until October 1, 2007, and *shall be in addition to amounts provided under section 109.*

Revised Continuing Appropriation Resolution, 2007, Pub. Law No. 110-5, § 21072 (emphasis added). This language first reflects the fact that the FY 2006 appropriations act provided a regular appropriation (i.e., an appropriation made available in the fiscal year covered by the appropriations act) in addition to an advance appropriation. This regular appropriation was extended by the full-year CR (it had also been extended by the partial-year CRs), though ultimately in the amount of $29 million rather than the figure provided in the FY 2006 act. The language also says that, "in addition", the full-year CR provided $6.915 million as an advance appropriation, on top of an advance appropriation amount equivalent to that provided in the FY 2006 act pursuant to *section 109* (which was the provision explicitly addressing advance appropriations).

Similarly, the FY 2011 full-year CR included the following provision:

> *Notwithstanding section 1118*, the amounts included under the heading "Independent Agencies, United States Postal Service, Payment to the Postal Service Fund" in division C of Public Law 111–117 shall be applied to funds appropriated by this division as follows:
> (1) By substituting "$86,705,000" for "$118,328,000".
> (2) By substituting "$74,905,000" for "$89,328,000".
> (3) By substituting "2011" for "2010".

Department of Defense and Full-Year Continuing Appropriation Act, 2011, Pub. Law No. 112-10, § 1569 (emphasis added). This language expressly referred back to section 1118, which as noted above provided advance appropriations "in addition to amounts otherwise made available by this Act," again indicating that until an explicit provision was included in the full-year CR, the CRs employed in that fiscal year did not confer an advance appropriation to the Postal Service.[3]

If section 101(a) of the current partial-year CR does not confer an advance appropriation, the Postal Service has been appropriated no money under the current CR for its FY 2013 revenue foregone expenses: this is because, unlike the FYs 2006 and 2010 appropriations acts, the FY 2012 appropriations act did not provide the Postal Service with a regular appropriation. Since this is the case, it is counterintuitive to argue that the partial-year CR extends the 6-day rider, considering section 101(a) indicates that the "conditions" provided in the FY 2012 appropriations acts would continue to apply to "amounts" appropriated by the CR. The Postal Service has been appropriated no amounts by the CR, and thus the rider should not logically be in effect.

However, this debate is largely beside the point, because the Postal Service is not proposing to implement its plan during the term of the existing CR. Rather, the Postal Service is proposing to implement its plan in August, well after the current CR expires. Prior to that, Congress will have the opportunity to enact further appropriations legislation. As such, the Postal Service's legal ability to move forward with its plan depends on Congressional restraint to refrain from enacting any full-year funding bill, or other legislation which imposes the 6-day delivery obligation.

4. The FY 2012 Appropriations Bill Does Not Prevent Implementation of 5-Day Delivery in August

An additional issue to consider is whether the Postal Service is precluded from moving to 5-day delivery in August because of the fact that the rider was incorporated into the FY 2012 appropriations bill. A potential argument is that, because the FY 2012 appropriations language provided the Postal Service with an advance appropriation available for obligation beginning October 1, 2012 (the start of FY 2013), the rider applies throughout FY 2013. However, the Postal Service believes that Congress' long-standing and consistent intent in enacting the rider is to ensure that 6-day delivery is provided in the fiscal year that is covered by the appropriations act, meaning the FY 2012 act required 6-day delivery in FY 2012, but not beyond.

The revenue foregone appropriation for free mail for the blind and overseas voters is based on an estimate of the revenue that will not be received *during the fiscal year covered by the appropriations act*, plus an adjustment for a prior fiscal year to reconcile the estimate for that year with actual results. The FY 2012 act, for instance, reimbursed the Postal Service for FY 2012 revenue foregone, with a reconciliation adjustment for FY 2009. Therefore, this is not a situation in which Congress, through an advance appropriation, is providing future funding for a particular program based on a decision regarding the operating needs of the program in a future period of time.[4] Rather, Congress is reimbursing the Postal Service for revenue not generated

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[3] The FY 2010 appropriation act had also provided a regular appropriation, in the amount of $29 million, in addition to an advance appropriation of $89.328 million.

[4] For instance, Congress has used discretionary advance appropriations to give the agency administering the program greater certainty regarding the resources it will have in the future, so that it can better manage the services it provides in that year. See, e.g., H.R. REP. NO. 111-171 (2009) (discussing advance appropriation authority for the Department of Veteran's Affairs). It has also used the device to with respect to agencies providing grants or government assistance to persons or other entities, to ensure that those agencies have certainty as to the amounts they will be able to provide in a future period. See

during the fiscal year covered by the appropriations act, and is simply delaying the Postal Service's receipt of that reimbursement until the start of the subsequent fiscal year.[5] There is no reason to believe that the rider—which is a condition on the receipt of the reimbursement—is intended to apply to the fiscal year following the year covered by the appropriations act, whose revenue foregone costs will be reimbursed in future legislation. Rather, the rider requires that, in order to be reimbursed for a particular fiscal year, the Postal Service must maintain 6-day delivery *in that fiscal year*.[6]

This interpretation properly reflects the boilerplate nature of the 6-day rider. Originally crafted in the early 1980s as a free-standing requirement in reconciliation legislation, the requirement that 6-day delivery be maintained soon morphed into a rider on the use of appropriated funds and then to its current form, a straight requirement to continue 6-day delivery (though still expressed as a condition on the receipt of appropriated funds).[7] Until the FY 1999 appropriations legislation, the Postal Service was provided regular appropriations for revenue foregone, rather than advance appropriations. Se, e.g., Postal Service Appropriations Act, 1988, Pub. L. No. 100-202; Postal Service Appropriations Act, 1996, Pub. L. No. 104-52. It was therefore clear that the rider only applied to the fiscal year covered by the appropriations act. See, e.g., Building & Constr. Trades Dep't, AFL-CIO v. Martin, 961 F.2d at 273-74.[8]

Beginning with the FY 1999 appropriations act, Congress began to use the device of an advance appropriation to delay the Postal Service's receipt of the reimbursement payment. See Postal Service Appropriations Act, 1999, Pub. L. No. 105-277. This advance appropriation has usually been accompanied by a regular appropriation (e.g., the Postal Service Appropriations Act, 2003, Pub. L. No. 108-7), though, as the FY 2012 act demonstrates, this has not always been the case. There is no indication that, when Congress began using the device of an advance appropriation in order to delay the obligation of some (or, in certain years, all) of the funds provided to the Postal Service as reimbursement for revenue foregone for the year covered by the appropriations act, it considered this change as affecting the time period in which the 6-day rider was applicable. Indeed, the proposal to delay the FY 1999 payment until the beginning of FY 2000 was proposed by the Senate Appropriations Committee (H.R. CONF. REP. No. 105-825, at 1490 (1998)), and the discussion of the 6-day rider for FY 1999 was identical to its discussion in FY 1998, when an advance appropriation was not used. Compare S. REP. NO. 105-49, at 39 (1997) with S. REP. NO. 105-251, at 43 (1998). If the use of an advance appropriation constituted a change in the time period in which the rider applies, its use

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Budget of the United States Government, Fiscal Year 2013, Appendix at 1427 (listing discretionary advance appropriations).

[5] In addition, unlike most other Executive Branch entities that may receive an advance appropriation, the Postal Service is generally exempt from provisions of "Federal law dealing with public or Federal contracts, property, works, officers, employees, budgets, or funds." 39 U.S.C. § 410(a). As such, an interpretation of the 6-day rider would seem to have little broader relevance as to how other advance appropriations may be interpreted.

[6] Indeed, a condition imposed on reimbursement does not as a logical matter extend beyond the reimbursement: for instance, if you work for two weeks and get paid for doing so, acceptance of the reimbursement does not compel you to work another two weeks.

[7] A survey of the legislation setting forth a 6-day delivery requirement is provided in Appendix B of the Postal Regulatory Commission's Report on Universal Service and the Postal Monopoly, available at http://www.prc.gov/prc-pages/library/reports-and-studies/default.aspx (hereinafter "Appendix B").

[8] Indeed, in originally incorporating the 6-day delivery requirement into the appropriations process, it was emphasized that the condition would only apply in the fiscal year covered by the appropriations act. See Appendix B, at 158.

in the FY 1999 appropriations act (which only provided an advance appropriation)[9] would have meant that the 6-day rider did not apply in FY 1999. There is certainly no reason to believe that Congress intended to create such a gap in the applicability of the 6-day rider to exist; indeed, the Senate Committee report expressly noted that it was necessary to include the rider in the FY 1999 legislation to protect 6-day delivery "in 1999." S. REP. NO. 105-251, at 43.[10] Overall, there is no reason to believe that, by utilizing an advance appropriation as a mechanism for compensating the Postal Service for revenue foregone in a particular fiscal year, Congress intended to deviate from its original intent of having the 6-day rider apply to the fiscal year covered by the appropriations act (and hence to the fiscal year for which the revenue foregone being compensated for is incurred).

A counter-argument might be that the language of the small post office proviso, which expressly applies to "fiscal year 2012," demonstrates that when Congress wishes to specify when a rider applies to a specific fiscal year other than the year in which the appropriated funds are made available, it does so expressly. However, the fact that the 6-day rider does not have equivalent language loses significance when one considers that the provisos existed in the exact same form when it was clear that both only applied to the fiscal year covered by the appropriations act. As such, there is no reason to believe that Congress has intended the varying language between the two provisos to be a relevant consideration in interpreting the time period in which the 6-day rider applies.

In fact, according dispositive significance to the small post office proviso's reference to "fiscal year 2012" would render that proviso completely superfluous under its plain language: it was impossible for the Postal Service to have used the "funds provided in [the FY 2012] Act" to close small post offices "in fiscal year 2012," since the appropriated funds were not provided to the Postal Service until October 1, 2012. This inconsistency again reflects the boilerplate nature of the riders attached to the Postal Service's appropriation language, and underscores that Congress has not intended its decision to use an advance appropriation to reimburse the Postal Service for revenue foregone expenses in the year covered by the appropriations act as being of importance in determining how the riders should be interpreted. The only way to avoid rendering the rider completely superfluous is to interpret it as not being limited to "fiscal year 2012." A contrary attempt to avoid rendering the proviso superfluous—that the proviso prohibits the closure of small post offices, even with the use of the Postal Service's permanently appropriated funds (as opposed to the funds appropriated on an annual basis) as a condition of being reimbursed for revenue foregone—is untenable, because it would ignore the fact that the limitation of the rider to use of the "funds provided in this Act" is centrally important to its long-understood meaning: the Postal Service has over the years closed many small post offices as it has adapted its retail network, without running afoul of the rider. See, e.g., Postal Regulatory Commission, Report on Universal Service and the Postal Monopoly, at 136 (2008) (noting that the small post office rider "does not appear to not appear to bar the Postal Service from using other funds to close or consolidate small post offices, and the Postal Service has in fact closed

[9] The FY 1999 appropriations language stated that "none of the funds" provided by the Act were available for obligation until October 1, 1999.

[10] The Report's mention that 6-day delivery should be provided "beyond" FY 1999 was hortatory, since the same statement was included in prior Committee reports when the appropriations language provided only a regular appropriation. See, e.g., S. Rep. No. 105-49, at 39 (FY 1998 appropriations act); S. REP. NO. 103-286, at 47 (FY 1995 appropriations act) (Indeed, this reference to maintaining services "beyond" the current year applied to the small post office rider as well, which by its express terms was limited to the fiscal year covered by these acts).

or consolidated hundreds of small post offices since 1985."); see also id. at 137 ("Congress has not expressly barred the Postal Service from closing small and rural post offices.").[11]

This highlights a relevant distinction between the small post office proviso (and the child support proviso) and the 6-day rider, which further supports an interpretation that the 6-day rider applies to the fiscal year covered by the appropriations act, and hence the fiscal year on which the reimbursement is based. The small post office proviso, as well as the child support enforcement proviso, are limitations on the *use* of the "funds made available" or the "funds provided in" the Act; by contrast, the 6-day rider is a condition imposed on the Postal Service's ability to be reimbursed for revenue foregone for a particular year.[12] The fact that the small post office and child support enforcement provisos are use limitations on the precise funds that are appropriated serves to mitigate their breadth, by allowing the Postal Service to take the actions prescribed by the provisos so long as it uses permanently appropriated funds to do so. By contrast, the 6-day rider cannot be satisfied in this fashion. At the same time, the fact that the small post office and child support enforcement provisos (but not the 6-day proviso) apply to the actual use of the funds means they naturally govern the use of the funds, *once received*. By contrast, because the 6-day rider is a condition imposed on reimbursement, rather than a condition imposed on the use put to that reimbursement, there is no reason to conclude that it is appropriate to have the 6-day rider apply on the basis of when the reimbursement for a fiscal year actually occurs.[13]

This interpretation is further supported by a discussion of the appropriations language in the Senate Appropriations Committee Report for the FY 2013 appropriations bill (S. 3301, 112th Cong.). Rather than indicating an understanding that the FY 2012 appropriations act already ensured that 6-day delivery would be provided in FY 2013, the Report notes that action in the *FY 2013 bill* was needed to preserve this requirement:

> *Mail Delivery.*—Since fiscal year 1981, annual appropriations bills have each included language requiring 6-day per week postal delivery. The Committee believes that 6-day mail delivery is one of the most important services provided by the Federal Government to its citizens. Especially in rural and small-town America, this critical postal service is the linchpin that serves to bind the Nation together. The Committee does not include a provision that would alter this requirement during fiscal year 2013.

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[11] The Postal Service is given broad statutory authority to determine the contours of its retail network in order to provide customers with "ready access to essential postal services" in a manner that is "consistent with reasonable economies of postal operations." 39 U.S.C. § 403(b)(3). See also PRC USO Report at 195 ("The Postal Service has used its flexibility to realign the placement of postal facilities to meet the needs of patrons as those needs change. The historic growth and decline in the number of post offices and collection boxes in favor of carrier delivery and collection at an individual's mailbox both demonstrate the continuing realignment of access to comport with the needs of patrons nationwide.").

[12] As noted above, at one point very early in its history the rider was a limitation on the use of appropriated funds.

[13] Furthermore, considering the small post office proviso is explicitly tied to the Postal Service's use of the appropriated funds, in contrast to the 6-day requirement, there is not an equivalent need, in order to adhere to Congressional intent, to avoid interpreting the history of the appropriations language so as to avoid a "gap" in the period of time in which the rider was governing the Postal Service. In other words, the fact that the small post office proviso did not operate in FY 1999 (due to the fact that Congress moved to an advance appropriation) does no violence to Congress's intent regarding the rider, whereas it would with respect to the 6-day delivery rider.

See S. REP. NO. 112-177, at 116-117 (2012) (emphasis added). While it is true that this Report discusses the unenacted FY 2013 appropriations bill rather than the FY 2012 appropriations bill, it is clearly a valid means of ascertaining Congress's understanding of the 6-day rider in the FY 2012 bill, considering the FY 2013 appropriations language being discussed by the Senate Report was identical in all material respects to the enacted FY 2012 language, and was the product of the exact same Congress (the 112th) that enacted the FY 2012 bill.[14] Thus, there is no reason to believe that Congress's understanding of the FY 2012 language would have changed from FY 2012 to FY 2013.

Finally, the Postal Service's interpretation is consistent with prior public statements that were made to both Congress and the Postal Regulatory Commission (PRC) when the Postal Service originally proposed 5-day delivery; these statements have not been challenged in any way. In the spring of 2010, the Postal Service proposed to move to 5-day delivery for all mail, with a proposed implementation date during FY 2011. In the FY 2010 appropriations bill (Public Law No. 111-117), Congress enacted a revenue foregone appropriation that included an advance appropriation (and hence available for obligation in FY 2011), which, under the argument being considered here, would have forbidden the Postal Service from moving forward with its 5-day delivery plans in FY 2011, absent a change in the law affirmatively granting the Postal Service the authority to do so. Nevertheless, in a Report to Congress describing its proposal (also filed during the PRC advisory opinion proceedings), the Postal Service noted that implementing its plan required that Congress *not* act to prevent implementation:

> The Postal Service's intent is to implement five-day delivery during FY 2011, which ends Sept. 30, 2011. For that to happen, Congress must not enact an FY 2011 appropriations bill requiring six-day delivery.

See Ensuring a Viable Postal Service for America –How Five-Day Delivery is Part of the Solution at 5 (2010), available at http://www.prc.gov/Docs/67/67429/USPS-LR-1.pdf. The Postal Service made similar statements in other filings at the PRC, which no party contested. See, e.g., PRC Docket No. N2010-1, Request of the United States Postal Service for an Advisory Opinion on Changes in the Nature of Postal Services, at 10 (2010) ("Assuming no disabling legislative enactment, the Postal Service intends to implement its Docket No. N2010-1 service changes in fiscal year 2011, which begins on October 1, 2010."). While it is true that the lack of any challenge to these statements is not definitive evidence of the meaning of the 6-day rider, it does indicate the consistent understanding within the postal community—which is consistent with the consistent intent of Congress—as to the time period in which the 6-day rider applies.[15]

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[14] The only changes from the 2012 language to the 2013 language discussed in the Report were to the amounts appropriated, the date those amounts would be made available, and the inclusion of an additional rider in the 2013 language concerning the closure of mail processing plants.

[15] Regarding the postal community, it is at least noteworthy that in a press release issued when the current continuing resolution was enacted, the National Association of Letter Carriers (NALC) stated that the 6-day requirement was only valid through the period in which the resolution is in effect. See http://afl.salsalabs.com/o/5875/t/0/blastContent.jsp?email_blast_KEY=107413. NALC has re-iterated that position. See http://afl.salsalabs.com/o/5875/t/0/blastContent.jsp?email_blast_KEY=125150

United States Government Accountability Office

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

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U.S. POSTAL SERVICE

Urgent Action Needed to Achieve Financial Sustainability

Statement of Gene L. Dodaro
Comptroller General of the United States

GAO
Accountability * Integrity * Reliability

GAO-13-347T

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Highlights

[illegible]

Why GAO Did This Study

[illegible]

[illegible]

[illegible]

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February 13, 2013

U.S. POSTAL SERVICE

Urgent Action Needed to Achieve Financial Sustainability

What GAO Found

The U.S. Postal Service (USPS) continues to incur unsustainable operating deficits, has not made required payments of $11.1 billion to prefund retiree health benefits, and has reached its $15 billion borrowing limit. Thus far, USPS has been able to operate within these constraints, but now faces a critical shortage of liquidity that threatens its financial solvency and ability to finance needed capital investment. USPS had an almost 25 percent decline in total mail volume and net losses totaling $40 billion since fiscal year 2006 (see table). While USPS achieved about $15 billion in savings and reduced its workforce by about 168,000 over this period, its debt and unfunded benefit liabilities grew to $96 billion by the end of fiscal year 2012. USPS expects mail volume and revenue to continue decreasing as online bill communication and e-commerce expand.

Table: USPS Financial and Operational Information, Fiscal Years 2006 through 2012

Fiscal year	Net income ($ in billions)	Annual savings ($ in billions)	Total mail volume (billions)	Career employees (thousands)
2006	$0.9	$0.3	213	696
2007	(5.1)	1.2	212	685
2008	(2.8)	2.0	203	663
2009	(3.8)	6.1	177	623
2010	(8.5)	3.0	171	584
2011	(5.1)	1.4	168	557
2012	(15.9)	1.1	160	528

Source: USPS.

USPS has reported on several initiatives to reduce costs and increase its revenues to curtail future net losses. To reduce costs, USPS announced a 5-year business plan in February 2012 with the goal of achieving $22.5 billion in annual cost savings by the end of fiscal year 2016. USPS has begun implementing this plan, which includes making changes to its mail processing, retail, and delivery networks and redesigning its workforce in line with changing mail volume. To achieve greater savings, USPS's Board of Governors recently directed postal management to accelerate these efforts. To increase revenue, USPS is pursuing 55 initiatives. While USPS expects shipping and package services to continue to grow, such growth is not expected to fully offset declining mail volume.

USPS needs to reduce its expenses to avoid even greater financial losses, repay its outstanding debt, continue funding its retirement obligations, and increase capital for investment, including replacing its aging vehicle fleet. Also, Congress needs to act to (1) modify USPS's retiree health benefit payments in a fiscally responsible manner; (2) facilitate USPS's ability to align costs with revenues based on changing workload and mail use; and (3) require that any binding arbitration resulting from collective bargaining takes USPS's financial condition into account. No one action in itself will address USPS's financial condition; we have previously recommended a comprehensive package of actions. If Congress does not act soon, USPS could be forced to take more drastic actions that could have disruptive, negative effects on its employees, customers, and the availability of postal services. USPS also reported that it would prioritize payments to employees and suppliers ahead of those to the federal government.

G A O

Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

Chairman Carper, Ranking Member Coburn, and Members of the Committee:

We appreciate the opportunity to be here today to discuss the status of the U.S. Postal Service's (USPS) financial condition and actions needed to address USPS's financial challenges. We added USPS's financial condition to our High Risk List in 2009, and USPS continues to face a serious financial crisis as its mail volume declines. USPS has not generated sufficient revenue to cover its expenses and financial obligations. While USPS must continue its efforts to align costs with revenues, congressional action is needed to facilitate necessary changes and help the Postal Service begin to transition to financial sustainability.

This testimony discusses (1) USPS's financial condition, (2) its initiatives to reduce costs and increase revenues, and (3) actions needed to improve its financial situation. This testimony is based primarily on our past and ongoing work examining various aspects of USPS's operations and our analysis of its recent financial results, an analysis that we performed from January 2013 to February 2013. Our work was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

USPS's Financial Condition

USPS faces a dire financial situation and does not have sufficient revenues to cover its expenses, putting its mission of providing prompt, reliable, and efficient universal services to the public at risk.[1] USPS continues to incur operating deficits that are unsustainable, has not made required payments of $11.1 billion to prefund retiree health benefit liabilities,[2] and has reached its $15 billion borrowing limit. Moreover,

[1]39 U.S.C. § 101(a).

[2]The Postal Accountability and Enhancement Act (PAEA) required USPS to make fixed annual payments (ranging from $5.4 billion to $5.8 billion per year from fiscal years 2007 through 2016) to begin prefunding the cost of future retiree health benefits accrued by current employees and retirees. Pub. L. No. 109-435, § 803, 120 Stat. 3198 (Dec. 20, 2006).

USPS lacks liquidity to maintain its financial solvency or finance needed capital investment. As presented in table 1, since fiscal year 2006, USPS has achieved about $15 billion in savings and reduced its workforce by about 168,000, while also experiencing a 25 percent decline in total mail volume and net losses totaling $40 billion.

Table 1: USPS Financial and Operational Information, Fiscal Years 2006 through 2012

Fiscal year	Net income ($ in billions)	Annual savings ($ in billions)	Total mail volume (billions)	Career employees (thousands)
2006	$0.9	$0.3	213	696
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2011	(5.1)	1.4	168	557
2012	(15.9)	1.1	160	528

Source: USPS.

As a result of significant declines in volume and revenue, USPS reported that it took unprecedented actions to reduce its costs by $6.1 billion in fiscal year 2009. Also, in fiscal year 2009, a cash shortfall necessitated congressional action to reduce USPS's mandated payment to prefund retiree health benefits from $5.4 billion to $1.4 billion.[3] In 2011, USPS's $5.5 billion required retiree health benefit payment was delayed until August 1, 2012.[4] USPS missed that payment as well as the $5.6 billion that was due by September 30, 2012.

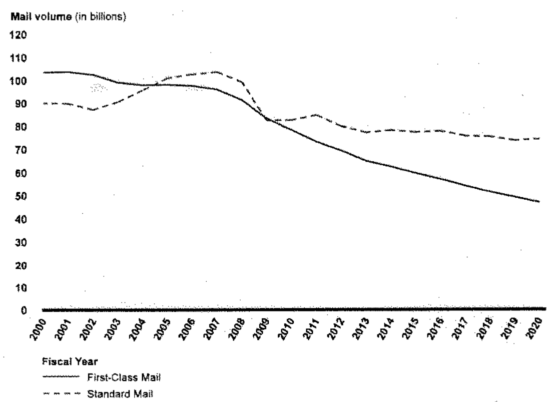
USPS continues to face significant decreases in mail volume and revenues as online communication and e-commerce expand. While remaining among USPS's most profitable products, both First-Class Mail and Standard Mail volumes have declined in recent years as illustrated in figure 1. First-Class Mail—which is highly profitable and generates the majority of the revenues used to cover overhead costs—declined 33

[3]Pub. L. No. 111-68, § 164, 123 Stat. 2053 (Oct. 1, 2009).

[4]Pub. L. No. 112-74, § 632, 125 Stat. 786, 928 (Dec. 23, 2011).

percent since it peaked in fiscal year 2001, and USPS projects a continued decline through fiscal year 2020. Standard Mail (primarily advertising) has declined 23 percent since it peaked in fiscal year 2007, and USPS projects that it will remain roughly flat through fiscal year 2020. Standard Mail is profitable overall, but it takes about three pieces of Standard Mail, on average, to equal the profit from the average piece of First-Class Mail. First-Class Mail and Standard Mail also face competition from electronic alternatives, as many businesses and consumers have moved to electronic payments over the past decade in lieu of using the mail to pay bills. USPS reported that for the first time, in fiscal year 2010, fewer than 50 percent of household bills were paid by mail.

Figure 1: Actual and Projected First-Class Mail and Standard Mail Volume, Fiscal Years 2000 through 2020



Source: USPS.

In addition to lost mail volume and revenue, USPS also has incurred debt, workers' compensation, and unfunded benefit liabilities, such as pension and retiree health benefits, that totaled $96 billion at the end of fiscal year 2012. Table 2 shows the amounts of these liabilities over the last 6 fiscal years. One of these liabilities, USPS's debt to the U.S. Treasury, increased over this period from $4 billion to its statutory limit of $15 billion.

Thus, USPS can no longer borrow to maintain its financial solvency or finance needed capital investment. USPS continues to incur unsustainable operating deficits. In this regard, the USPS Board of Governors recently directed postal management to accelerate restructuring efforts to achieve greater savings.

Table 2: Selected USPS Liabilities and Unfunded Pension and Health Benefit Liabilities, Fiscal Year End 2007 through 2012

(Dollars in billions)

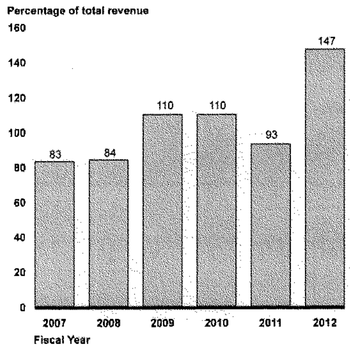
	Liabilities		Unfunded retiree health benefit and pension liabilities			
Fiscal Year	Outstanding debt at the end of the fiscal year	Workers' compensation liabilities	Unfunded liabilities for retiree health benefits	Unfunded CSRS liabilities (surplus)[a]	Unfunded FERS liabilities (surplus)[a]	Total
2007	4.2	7.7	55.0	3.1	(8.4)	**61.6**
2008	7.2	8.0	53.5	3.3	(8.8)	**63.2**
2009	10.2	10.1	52.0	9.6	(6.8)	**75.1**
2010	12.0	12.6	48.6	7.3	(6.9)	**73.6**
2011	13.0	15.1	46.2	(1.7)	(11.4)	**61.2**
2012	15.0	17.6	47.8	18.7	(3.0)	**96.1**

Source: USPS.

[a]The Civil Service Retirement System (CSRS), which became effective on August 1, 1920, established a retirement system for certain federal employees. It was replaced by the Federal Employees Retirement System (FERS) for federal employees who first entered covered service on and after January 1, 1987. FERS and CSRS projections are sensitive to the economic and demographic assumptions used and have fluctuated from year to year due to actual economic and demographic outcomes (such as investment returns, salary increases, and mortality) being different than those predicted by the assumptions, and to changes in the assumptions themselves.

These selected USPS liabilities increased from 83 percent of revenues in fiscal year 2007 to 147 percent of revenues in fiscal year 2012 as illustrated in figure 2. This trend demonstrates how USPS liabilities have become a large and growing financial burden.

Figure 2: Selected USPS Liabilities and Unfunded Pension and Health Benefit Liabilities as a Percentage of USPS Revenues



Source: USPS.

USPS's dire financial condition makes paying for these liabilities highly challenging. In addition to reaching its limit in borrowing authority in fiscal year 2012, USPS did not make required prefunding payments of $11.1 billion for fiscal year 2011 and 2012 retiree health benefits. At the end of fiscal year 2012, USPS had $48 billion in unfunded retiree health benefit liabilities.

Looking forward, USPS has warned that it suffers from a severe lack of liquidity. As USPS has reported, "Even with some regulatory and legislative changes, our ability to generate sufficient cash flows from current and future management actions to increase efficiency, reduce costs, and generate revenue may not be sufficient to meet all of our financial obligations."[5] For this reason, USPS has stated that it continues to lack the financial resources to make its annual retiree health benefit prefunding payment. USPS has also reported that in the short term,

[5]United States Postal Service, *2012 Report on Form 10-K* (Washington, D.C.: Nov. 15, 2012) 10.

should circumstances leave it with insufficient liquidity, it may need to prioritize payments to its employees and suppliers ahead of those to the federal government. For example, near the end of fiscal year 2011, in order to maintain its liquidity USPS temporarily halted its regular contributions for the Federal Employees Retirement System (FERS) that are supposed to cover the cost of benefits being earned by current employees. However, USPS has since made up those missed FERS payments. USPS's statements about its liquidity raise the issue of whether USPS will need additional financial help to remain solvent while it restructures and, more fundamentally, whether it can remain financially self-sustainable in the long term.

USPS has also raised the concern that its ability to negotiate labor contracts is essential to maintaining financial stability and that failure to do so could have significant adverse consequences on its ability to meet its financial obligations. Most USPS employees are covered by collective bargaining agreements with four major labor unions which have established salary increases, cost-of-living adjustments, and the share of health insurance premiums paid by employees and USPS. When USPS and its unions are unable to agree, binding arbitration by a third-party panel is used to establish agreement. There is no statutory requirement for USPS's financial condition to be considered in arbitration. In 2010, we reported that the time has come to reexamine USPS's 40-year-old structure for collective bargaining, noting that wages and benefits comprise 80 percent of its costs at a time of escalating losses and a dramatically changed competitive environment.[6] We also reported that Congress should consider revising the statutory framework for collective bargaining to ensure that USPS's financial condition be considered in binding arbitration.

USPS Initiatives to Reduce Costs and Increase Revenues

USPS has several initiatives to reduce costs and increase its revenues to curtail future net losses. In February 2012, USPS announced a 5-year business plan with the goal of achieving $22.5 billion in annual cost savings by the end of fiscal year 2016. USPS has begun implementing this plan, which includes initiatives to save:

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

- $9 billion in mail processing, retail, and delivery operations, including consolidation of the mail processing network, and restructuring retail and delivery operations;
- $5 billion in compensation and benefits and non-personnel initiatives; and
- $8.5 billion through proposed legislative changes, such as moving to a 5-day delivery schedule[7] and eliminating the obligation to prefund USPS's retiree health benefits.

Simultaneously, USPS's 5-year plan would further reduce the overall size of the postal workforce by roughly 155,000 career employees, with many of those reductions expected to result from attrition. According to the plan, half of USPS's career employees are currently eligible for full or early retirement. Reducing its workforce is vital because, as noted, compensation and benefits costs continue to generate about 80 percent of USPS's expenses. Compensation alone (primarily wages) exceeded $36 billion in fiscal year 2012, or close to half of its costs. Compensation costs decreased by $542 million in fiscal year 2012 as USPS offered separation incentives to postmasters and mail handlers to encourage more attrition. This fiscal year, separation incentives were offered to employees represented by the American Postal Workers Union (e.g., mail processing and retail clerks) to encourage further attrition as processing and retail operations are redesigned and consolidated to more closely correspond with workload.

To accelerate implementation of its plan, in early February 2013, USPS announced plans to transition to a new delivery schedule by early August 2013 that would limit its delivery of mail on Saturdays to mail addressed to Post Office Boxes and to packages.[8] USPS's operational plan for the new delivery schedule anticipates a combination of employee reassignment and attrition to generate an expected annual cost savings of about $2 billion once its plan is fully implemented. Over the past several years, USPS has advocated shifting to a 5-day delivery schedule

[7]USPS's annual appropriations acts have required USPS to provide 6-day delivery of mail at not less than 1983 levels. See e.g., Pub. L. No. 112-74, 125 Stat. 786, 923 (Dec. 23, 2011).

[8]In addition, post offices open on Saturdays will remain open.

for both mail and packages. According to USPS, however, recent strong growth in package delivery—as we will discuss in more detail below—and projections for continued strong package growth throughout the coming decade led to a revised approach to maintain package delivery 6 days per week.

Another key area of potential savings included in the 5-year plan focused on reducing compensation and benefit costs. USPS's largest benefit payments in fiscal year 2012 included:

- $7.8 billion in current-year health insurance premiums for employees, retirees, and their survivors (USPS's health benefit payments would have been $13.4 billion if USPS had paid the required $5.6 billion retiree health prefunding payment[9]);
- $3.0 billion in FERS pension funding contributions;
- $1.8 billion in social security contributions;
- $1.4 billion in workers' compensation payments; and
- $1.0 billion in Thrift Savings Plan contributions.

USPS has proposed administering its own health care plan for its employees and retirees and withdrawing from the Federal Employee Health Benefits (FEHB) program so that it can better manage its costs and achieve significant savings, which USPS has estimated could be over $7 billion annually. About $5.5 billion of the estimated savings would come from eliminating the retiree health benefit prefunding payment and another $1.5 billion would come from reducing health care costs. We are currently reviewing USPS's proposal including its potential financial effects on participants and USPS.

To increase revenue, USPS is working to increase use of shipping and package services. With the continued increase in e-commerce, USPS projects that shipping and package volume will grow by 7 percent in fiscal year 2013, after increasing 7.5 percent in fiscal year 2012. Revenue from these two product categories represented about 18 percent of USPS's

[9]The $5.6 billion is the amount originally due in fiscal year 2012, before the fiscal year 2011 required payment of $5.5 billion was deferred and added to fiscal year 2012.

fiscal year 2012 operating revenue. However, USPS does not expect that continued growth in shipping and package services will fully offset the continued decline of revenue from First-Class Mail and other products.

We recently reported that USPS is pursuing 55 initiatives to generate revenue.[10] Forty-eight initiatives are extensions of existing lines of postal products and services, such as offering Post Office Box customers a suite of service enhancements (e.g., expanded lobby hours and earlier pickup times) at selected locations and increasing public awareness of the availability of postal services at retail stores. The other seven initiatives included four involving experimental postal products, such as prepaid postage on the sale of greeting cards, and three that were extensions of nonpostal services that are not directly related to mail delivery. USPS offers 12 nonpostal services including Passport Photo Services, the sale of advertising to support change-of-address processing, and others generating a net income of $141 million in fiscal year 2011.[11] USPS has also increased its use of negotiated service agreements[12] that offer competitively priced contracts as well as promotions with temporary rate reductions that are targeted to retain mail volume. We are currently reviewing USPS's use of negotiated service agreements.

As USPS attempts to reduce costs and increase revenue, its mission to provide universal service continues. USPS's network serves more than 152 million residential and business delivery points. In May 2011, we reported that many of USPS's delivery vehicles were reaching the end of their expected 24-year operational life and that USPS's financial challenges pose a significant barrier to replacing or refurbishing its fleet.[13]

[10]GAO, *U.S. Postal Service: Overview of Initiatives to Increase Revenue and Introduce Nonpostal Services and Experimental Postal Products*, GAO-13-216 (Washington, D.C.: Jan. 15, 2013).

[11]Such services were grandfathered by the Postal Regulatory Commission (PRC) after enactment of PAEA. PAEA eliminated USPS's authority to offer nonpostal services unless such services were offered as of January 1, 2006, and expressly grandfathered by PRC. USPS may, however, offer new nonpostal services and products if they are related to the grandfathered nonpostal services. It may also offer experimental postal products that meet certain conditions.

[12]Negotiated service agreements are customized postal rate contracts with individual companies that generally provide lower prices on specific mail products in exchange for meeting volume targets and mail preparation requirements.

[13]GAO, *United States Postal Service: Strategy Needed to Address Aging Delivery Fleet*, GAO-11-386 (Washington, D.C.: May 5, 2011).

As a result, USPS's approach has been to maintain the delivery fleet until USPS determines how to address longer term needs, but USPS has been increasingly incurring costs for unscheduled maintenance because of breakdowns. The eventual replacement of its vehicle delivery fleet represents yet another financial challenge facing USPS. We are currently reviewing USPS's investments in capital assets.

Actions Needed to Improve USPS's Financial Situation

We have issued a number of reports on strategies and options for USPS to improve its financial situation by optimizing its network and restructuring the funding of its pension and retiree health benefit liabilities.

Network Optimization

To assist Congress in addressing issues related to reducing USPS's expenses, we have issued several reports analyzing USPS's initiatives to optimize its mail processing, delivery, and retail networks.

Mail Processing

In April 2012, we issued a report related to USPS's excess capacity in its network of 461 mail processing facilities.[14] We found that USPS's mail processing network exceeds what is needed for declining mail volume. USPS proposed consolidating its mail processing network, a plan based on proposed changes to overnight delivery service standards for First-Class Mail and Periodicals. Such a change would have enabled USPS to reduce an excess of 35,000 positions and 3,000 pieces of mail equipment, among other things. We found, however, that stakeholder issues and other challenges could prevent USPS from implementing its plan for consolidating its mail processing network. Although some business mailers and Members of Congress expressed support for consolidating mail processing facilities, other mailers, Members of Congress, affected communities, and employee organizations raised concerns. Key issues raised by business mailers were that closing facilities could increase their transportation costs and decrease service. Employee associations were concerned that reducing service could result in a greater loss of mail volume and revenue that could worsen USPS's financial condition. We reported that if Congress preferred to retain the current delivery service standards and associated network, decisions will

[14] GAO, *U.S. Postal Service: Mail Processing Network Exceeds What Is Needed for Declining Mail Volume*, GAO-12-470 (Washington, D.C.: Apr. 12, 2012).

need to be made about how USPS's costs for providing these services will be paid.

Delivery

In March 2011, we reported on USPS's proposal to reduce costs by moving from a 6-day to a 5-day delivery schedule.[15] USPS delivers to more than 152 million addresses. USPS also estimated that 5-day delivery would result in minimal mail volume decline. We found that the extent to which USPS can achieve cost savings from this change and mitigate volume and revenue loss depends on how well and how quickly USPS can realign its operations, workforce, and networks; maintain service quality; and communicate with stakeholders. USPS has spent considerable time and resources developing plans to facilitate this transition. Nevertheless, risks and uncertainties remain, such as how quickly USPS can realign its workforce through attrition; how effectively it can modify certain finance systems; and how mailers will respond to this change in service.

Retail

In April 2012, we reported that USPS has taken several actions to restructure its retail network—which included almost 32,000 postal-managed facilities in fiscal year 2012—through reducing its workforce and its footprint while expanding retail alternatives.[16] We also reported on concerns customers and other stakeholders have expressed regarding the impact of post office closures on communities, the adequacy of retail alternatives, and access to postal services, among others. We discussed challenges USPS faces, such as legal restrictions and resistance from some Members of Congress and the public, that have limited USPS's ability to change its retail network by moving postal services to more nonpostal-operated locations (such as grocery stores), similar to what other nations have done.[17] The report concluded that USPS cannot support its current level of services and operations from its current revenues. We noted that policy issues remain unresolved related to what level of retail services USPS should provide, how the cost of these

[15]GAO, *U.S. Postal Service: Ending Saturday Delivery Would Reduce Costs, but Comprehensive Restructuring Is Also Needed*, GAO-11-270 (Washington, D.C.: Mar. 29, 2011).

[16]GAO, *U.S. Postal Service: Challenges Related to Restructuring the Postal Service's Retail Network*, GAO-12-433 (Washington, D.C.: Apr. 17, 2012).

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

services should be paid, and how USPS should optimize its retail network.

In November 2011, we reported that USPS had expanded access to its services through alternatives to post offices in support of its goals to improve service and financial performance and recommended that USPS develop and implement a plan with a timeline to guide efforts to modernize USPS's retail network, and that addresses both traditional post offices and retail alternatives as well.[18] We added that the plan should also include:

(1) criteria for ensuring the retail network continues to provide adequate access for customers as it is restructured;

(2) procedures for obtaining reliable retail revenue and cost data to measure progress and inform future decision making; and

(3) a method to assess whether USPS's communications strategy is effectively reaching customers, particularly those customers in areas where post offices may close.

In November 2012, we reported that although contract postal units (CPUs)—independent businesses compensated by USPS to sell most of the same products and services as post offices at the same price—have declined in number, they have supplemented post offices by providing additional locations and hours of service.[19] More than 60 percent of CPUs are in urban areas where they can provide customers nearby alternatives when they face long lines at post offices. In fiscal year 2011, after compensating CPUs, USPS retained 87 cents of every dollar of CPU revenue. We found that limited interest from potential partners, competing demands on USPS staff resources, and changes to USPS's retail network posed potential challenges to USPS's use of CPUs.

[18]GAO, *U.S. Postal Service: Action Needed to Maximize Cost-Saving Potential of Alternatives to Post Offices*, GAO-12-100 (Washington, D.C.: Nov. 17, 2011).

[19]GAO, *Contract Postal Units: Analysis of Location, Service, and Financial Characteristics*, GAO-13-41 (Washington, D.C.: Nov. 14, 2012).

Addressing USPS Benefit Liabilities

To assist Congress in addressing issues related to funding USPS's liabilities, we have also issued several reports that address USPS's liabilities, including its retiree health benefits, pension, and workers' compensation.

Retiree Health Benefits

In December 2012, we reported that USPS's deteriorating financial outlook will make it difficult to continue the current schedule for prefunding postal retiree health benefits in the short term, and possibly to fully fund the remaining $48 billion unfunded liability over the remaining decades of the statutorily required actuarial funding schedule.[20] However, we also reported that deferring funding could increase costs for future ratepayers and increase the possibility that USPS may not be able to pay for some or all of its liability. We stated that failure to prefund these benefits is a potential concern. Making affordable prefunding payments would protect the viability of USPS by not saddling it with bills later on, when employees are already retired and no longer helping it generate revenue; it can also make the promised benefits more secure. Thus, as we have previously reported, we continue to believe that it is important for USPS to prefund these benefits to the maximum extent that its finances permit. We also recognize that without congressional or further USPS actions to align revenue and costs, USPS will not have the finances needed to make annual payments and reduce its long term retiree health unfunded liability. No funding approach will be viable unless USPS can make the required payments.

FERS Pension Benefits

We reported on options with regard to the FERS surplus, noting the degree of uncertainty inherent in this estimate and reporting on the implications of alternative approaches to accessing this surplus.[21] The estimated FERS surplus decreased from 2011 to 2012, and at the end of fiscal year 2012, USPS had an estimated FERS surplus of $3.0 billion and an estimated CSRS deficit of $18.7 billion.[22]

[20] GAO, *U.S. Postal Service: Status, Financial Outlook, and Alternative Approaches to Fund Retiree Health Benefits*, GAO-13-112 (Washington, D.C.: Dec. 4, 2012).

[21] GAO, *U.S. Postal Service: Allocation of Responsibility for Pension Benefits between the Postal Service and the Federal Government*, GAO-12-146 (Washington, D.C.: Oct. 13, 2011).

[22] USPS is required by law to make certain payments to the Civil Service Retirement and Disability Fund to fund its share of CSRS and FERS pension costs. The same federal fund finances both CSRS and FERS.

Workers' Compensation Benefits

In 2012, we reported on workers' compensation benefits paid to both postal and nonpostal beneficiaries under the Federal Employees' Compensation Act (FECA).[23] USPS has large FECA program costs. At the time of their injury, 43 percent of FECA beneficiaries in 2010 were employed by USPS. FECA provides benefits to federal workers who sustained injuries or illnesses while performing federal duties, and benefits are not taxed or subject to age restrictions. Various proposals to modify FECA's benefit levels have been advanced. At the request of Congress, we have provided information to assist it in making decisions about the FECA program.

Concluding Observations

In summary, to improve its financial situation, USPS needs to reduce its expenses to close the gap between revenue and expenses, repay its outstanding debt, continue funding its retirement obligations, and increase capital for investment, such as replacing its aging vehicle fleet. In addition, as noted in prior reports, congressional action is needed to (1) modify USPS's retiree health benefit payments in a fiscally responsible manner; (2) facilitate USPS's ability to align costs with revenues based on changing workload and mail use; and (3) require that any binding arbitration resulting from collective bargaining takes USPS's financial condition into account. As we have continued to underscore, Congress and USPS need to reach agreement on a comprehensive package of actions to improve USPS's financial viability. In previous reports, we have provided strategies and options, to both reduce costs and enhance revenues, that Congress could consider to better align USPS costs with revenues and address constraints and legal restrictions that limit USPS's ability to reduce costs and improve efficiency; we have also reported on implications for addressing USPS's benefit liabilities. If Congress does not act soon, USPS could be forced to take more drastic actions that could have disruptive, negative effects on its employees, customers, and the availability of reliable and affordable postal services.

[23]GAO, *Federal Employees' Compensation Act: Analysis of Proposed Program Changes*, GAO-13-108 (Washington, D.C.: Oct. 26, 2012), *Federal Employees' Compensation Act: Analysis of Proposed Changes on USPS Beneficiaries*, GAO-13-142R (Washington, D.C.: Nov. 26, 2012), and *Federal Employees' Compensation Act: Effects of Proposed Changes on Partial Disability Beneficiaries Depend on Employment After Injury*, GAO-13-143R (Washington, D.C.: Dec. 7, 2012).

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

GAO Contact and Staff Acknowledgments

For further information about this statement, please contact Lorelei St. James, Director, Physical Infrastructure, at (202) 512-2834 or stjamesl@gao.gov. Contact points for our Congressional Relations and Public Affairs offices may be found on the last page of this statement. In addition to the contact named above, Frank Todisco, Chief Actuary; Samer Abbas, Teresa Anderson, Barbara Bovbjerg, Kyle Browning, Colin Fallon, Imoni Hampton, Kenneth John, Kim McGatlin, Amelia Shachoy, Andrew Sherrill, and Crystal Wesco made important contributions to this statement.

APWU CONGRESSIONAL TESTIMONY

American Postal Workers Union, AFL-CIO

CLIFF GUFFEY
PRESIDENT

Before The

Senate Committee on Homeland Security
and Governmental Affairs

"Solutions to the Crisis Facing the U.S. Postal Service"

Testimony of Cliff Guffey, President

American Postal Workers Union, AFL-CIO

February 13, 2013

TESTIMONY OF CLIFF GUFFEY

ON BEHALF OF

THE AMERICAN POSTAL WORKERS UNION, AFL-CIO

Good morning Chairman Carper and members of the Committee. I am Cliff Guffey, President of the American Postal Workers Union. Thank you for this opportunity to testify on behalf of the APWU about "Solutions to the Crisis Facing the U.S. Postal Service."

The circumstances confronting the USPS are truly dire, but the demise of the U.S. Postal Service is not inevitable. Congress can cure the illness without killing the patient.

To do this, Congress must end the mandate of the Postal Accountability and Enhancement Act (PAEA) that requires the USPS to pre-fund healthcare benefits for future retirees. This requirement, which ostensibly was implemented to protect taxpayers in the event the USPS "goes under," is instead drowning the agency in a sea of debt.

Congress also must grant the Postal Service flexibility to increase rates. In addition to saddling the Postal Service with a $5.5 billion annual mandate that no other government agency or private company bears, the PAEA prohibits the USPS from raising postage rates above the rate of inflation. This flawed law imposes a major liability on the USPS, but prevents it from raising the revenue it needs to meet the obligation. For those who worry that pricing flexibility would lead to an explosion in costs for mailers, as I explain in greater detail below, even prior to enactment of the PAEA, postage rates remained within the rate of inflation over time.

Congress also must strengthen the provisions of the PAEA that were designed to curb the corporate welfare that "worksharing" discounts have become.

Finally, I want to emphasize two additional points: First, the USPS has already made deep cuts to service; slashing service further will only weaken this great institution, make it less relevant, and less competitive.

Second, Congress must reject privatization of the Postal Service. Privatization is wrong for the Postal Service and wrong for America. According to a recent study by the PEW Center, one in five American adults does not use the Internet. Senior citizens, adults with less than a high school education, and those living in households earning less than $30,000 per year are the least likely adults to have internet access. In addition, 40 percent of American adults – nearly 100 million people – do not have broadband access.

Privatization will leave these customers by the side of the road. It also will result in sharp price increases. An examination of privatized posts in other countries demonstrates this clearly.

So how can Congress meet the needs of those who haven't joined the digital revolution and remain useful for those who have? Legislators must free the Postal Service to develop new products and new sources of revenue.

America needs its Postal Service. Businesses rely on it, customers depend on it. In a still weak economy, the USPS generated $65 billion worth of business in 2012. Private couriers will not serve all of America. They will serve only the markets that seem likely to generate a profit. Privatization would destroy the essence of our nation's mail system, whose mission is to bind the nation together.

A little history is in order.

A major accomplishment of the Postal Reorganization Act of 1970 (the PRA) was that it created a Postal Service that is self-sufficient. Postal operations are funded entirely by postal rates, not by taxpayers. Under the PRA, postal rates were increased as necessary to meet the financial needs of the Postal Service to process an increasing volume of mail and deliver it to an increasing number of delivery points. That system, which Congress changed to a rate-capped system in the 2006 legislation, that PRA system, kept rates at or below the rate of inflation over time. In a service industry, especially one that is a major consumer of fuel,[1] the stability of postal rates was a major achievement of the Postal Reorganization Act of 1970. Exhibit One (1) in my testimony is a line graph showing postage costs at 1972 levels as adjusted for inflation from 1972 through 2012.

Collective bargaining for postal workers also was a success under the Postal Reorganization Act. Because postal compensation costs are sometimes the target of criticism, I want to place the question of postal compensation in its historical context. The last time Congress legislated wage increases for postal workers was in the Postal Reorganization Act of 1970. Those increases took effect in 1971 and 1972. Exhibits Two (2) and Three (3) are graphs that show first the straight-time hourly wage of APWU bargaining unit workers both in current dollars and as adjusted for inflation.

As you will see, our wages, in real terms are roughly the same as they were in mid-1970 since the passage of the Postal Reorganization Act. As you also will see, bargaining unit wages have roughly tracked increases in wages and salaries of private-sector workers since the latter were first measured by the Employment Cost Index in the mid-1970s.

In addition, the Postal Service successfully met the challenge of processing and delivering steadily increasing mail volume and a steadily increasing number of delivery points. Exhibit Four (4) is a graph that shows Postal Service productivity growth rates since 1972, both total factor productivity and labor productivity. As you will see, the Postal Service has increased

[1] The current rate system does not lend itself to fuel surcharges that might be quickly imposed, adjusted, or removed as fuel prices changed. Fuel surcharge on products other than packages would not be practical in any event.

the efficiency of its mail processing network and continues to make progress in that area.

Thus, the 1970 Act was a success. Rates had remained in line with increases in the Consumer Price Index (CPI) generally, real wages had been stable, and productivity steadily increased.

It was in this context that the APWU declined to support the passage of "postal reform" legislation. In our testimony before the Presidential Commission on the Postal Service in 2003, we said:

> "The basic assumptions behind the charge to this Presidential Commission are inaccurate, misleading and based on conventional wisdom that is wrong. The Postal Service has been successful. Its major problems have been the result of its Governors giving in to the mailing industry at the expense of the Postal Service and the American public. Most of the desired changes offer minor benefit and are mostly available to the Postal Service without a change in the law.
>
> "Rather than needing a change in its business model to survive, the Postal Service should be proud of its long-term success and take the advice of that anonymous business sage, "If it ain't broke, don't fix it." The Business Model of the Postal Service is not broken."

In retrospect, even given the significant drop in First Class mail volume, I think our point was correct. In its financial report for the first quarter of fiscal 2013, the Postal Service broke even on its operations. The past few years of operating revenue and current expenses show that if the Postal Service had been able to use its borrowing authority to modernize its operations and develop new products to increase its revenue, it could have been in a reasonably healthy financial position today. Instead, its financial resources have been absorbed by the retiree health benefits funding requirement; the resulting lack of capital and the tight CPI cap placed on rates have made it impossible for them to increase revenues. Not only is the cap limited to CPI, it is imposed for each class of mail separately. This leaves too little flexibility even with reference to CPI. In a time when volume is declining, it may be necessary to increase rates at more than the rate of increase of CPI, depending on price elasticities.

It takes only simple mathematics to know why the 2006 law did not work. Imposing a multi-billion dollar cost on the Postal Service and, at the same time, denying it the power to raise rates to cover its costs was a recipe for financial problems. With all the constraints it has been under, it is remarkable that in FY 2012 the Postal Service had a net loss of $2.4 billion on its operations. This is a big number, but it is one that would have been manageable, and still would be manageable, without the constraints imposed by the 2006 law.

A fundamental requirement of legislation to stabilize the financial condition of the Postal Service is that it must first stop the pre-funding requirement. The Postal Service is an important and strong business with more than $60 billion in annual revenue. This industry and its infrastructure have been built and sustained for more than 40 years by postage paid by the American public. We need to do all we can to preserve and protect the Postal Service for the benefit of the public that depends on it, particularly those in rural and other areas underserved by other means of communication where no commercial, profit-motivated enterprise will provide service.

We appreciate the leadership of Sen. Carper and others on the Committee, in seeking to address the pre-funding issue. We would urge this Committee to renew those efforts to remove the burden of the pre-funding requirement. In the private sector, even the most conservatively managed large companies fund only 30 percent of the estimated present value of their retiree health benefits liability. The Postal Service has now funded approximately 50 percent of its retiree health benefits liability. There is no justification for requiring it to fund a higher percentage. The pre-funding requirement should be stopped now.

Another major topic that must be addressed before the financial problems of the Postal Service can be examined realistically is the Postal Service's funding of its retirement annuity funds. The Postal Service has at times over-funded both CSRS and FERS. Although the amount of the overfunding has been the subject of considerable disagreement, even the lower estimates of the amount of over-funding show that the Postal Service has paid billions of dollars into those funds in excess of its financial obligations. Here again, a comparison to the private sector shows how unfairly the Postal Service is being treated. In the private sector, employers are required to fund 80 percent of their liabilities. The Postal Service has been required to fund more than 100 percent of its retirement annuity liabilities. As with the question of the overly-aggressive pre-funding of retiree health benefits, this overfunding of retirement annuity funds must be addressed before any realistic assessment of the Postal Service financial position can be made.

We recognize the difficulty of correcting these overfunding problems, but the consequence of not correcting them could be the unnecessary loss of important postal services for American communities that still depend heavily on the United States Postal Service even in this digital age.

As mentioned earlier, I also urge the Committee to address an additional issue that is difficult, but necessary – the need for the Postal Service to have the flexibility to adjust its rates as needed. I urge the Committee to correct the problem caused by the unrealistic CPI cap on postal rates. A substantial part of the financial pressure on the Postal Service has been caused by the rate cap. A legislated cap of this sort is completely contrary to businesslike market principles. The Postal Service should be permitted to raise rates to a level that balances the need to provide universal service with the value of postal services to the customers who use them. The Postal

Service should be able to increase rates to cover its costs as it did for 36 years before the passage of the 2006 legislation. This will recognize that it is financially necessary for the Postal Service to raise rates; it will be fair to consumers and to the public because it will permit the Postal Service to charge realistic rates to the businesses that use the service; and it will protect taxpayers from the need to provide subsidies unnecessarily, because the market for postal services is sufficiently strong for the Postal Service to continue to sustain itself.

Postage rates in the United States are low compared to rates in other industrialized countries. Exhibits Five (5) and Six (6) provide comparisons between postage rates in the United States and postage rates in other countries. As you will see, when postal rates are adjusted for monetary exchange rates and comparisons are made, rates in the United States are relatively low. I urge the Committee to review and consider a White Paper prepared by the USPS Office of Inspector General that estimates the impact of rate increases on mail volume and revenue. That analysis suggests that substantial increases in postal rates would result in lower volume but would also protect net income and result in a financially viable Postal Service that could continue to provide universal service. "Implications of Declining Mail Volumes for the Financial Sustainability of the Postal Service," September 29, 2010, Report Number: RARC-WP-10-006.

I also urge Congress and the mailing community to take a close look at postage rates in countries where postal services have been turned over to the private sector. In those countries, rates are much higher than rates in this country, and service is in most cases not as good. The comparisons between our Postal Service and foreign posts show that rates can be somewhat higher without driving customers away. It also shows that we are more efficient and less costly even with the capital constraints imposed on our Postal Service.

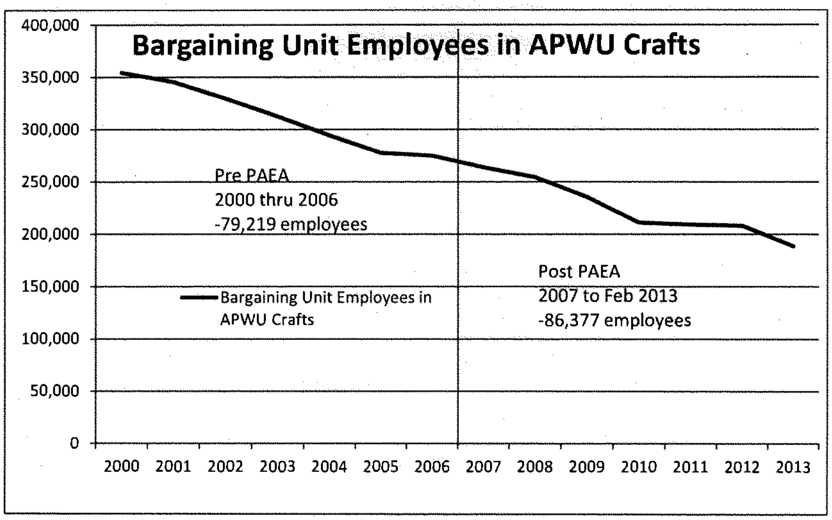
An expressed concern of those who supported pre-funding of retiree health benefits was a need to avoid imposing a financial burden on taxpayers in the event declining mail volume led to a situation in which the Postal Service found itself unable to meet those obligations through current revenues. But the combination of overly-aggressive funding and an unrealistic cap on postal rates has placed such a huge burden on the Postal Service that it threatens to create the very burden on taxpayers that Congress sought to avoid. This is unnecessary because the Postal Service, freed from the unrealistic funding requirement imposed by the 2006 legislation, remains and will remain a viable financial enterprise.

The 2006 legislation also prevents the USPS from developing new products and services. The Postal Service must be able to quickly get into revenue-producing opportunities that make use of its network (buildings, vehicles, workforce) and to branch into new products and services (such as lock boxes, digital products, kiosks that provide internet services to communities that are underserved or where residents cannot afford services that are otherwise available; connectivity and identity-verification services for federal and state governments and perhaps private companies). The Postal Service must be able to move into all these areas without being blocked, slow downed, or otherwise hindered because the product or service is considered "non-postal."

We appreciate the fact that the Senate bill last year recognized the need for progress in this area, and we hope you will move even further in the direction of giving the Postal Service more room to innovate.

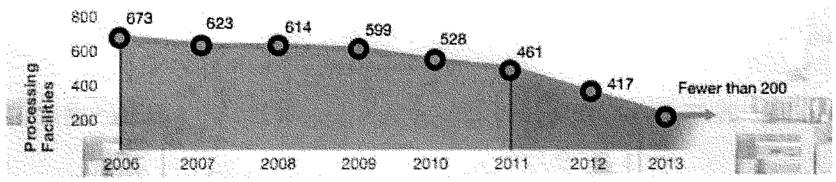
The USPS began an aggressive automation program in the 1990s that lead to dramatic increases in productivity and significant reductions in the size of the workforce – before the PAEA implemented the pre-funding requirement. From 2000 through 2006 (pre -PAEA) the USPS eliminated over 79,000 employees in APWU bargaining units. From 2007 through January

2013, including about 22,500 employees who left employment on January 31, 2013, (post-PAEA), the USPS eliminated about 86,000 positions.



Beginning last year, the Postal Service implemented an aggressive strategy of closing mail processing and retail facilities. This program is continuing.

From USPS FY 2012 Annual Report



In 2012, the USPS closed approximately 50 mail processing facilities, and by the end of 2013 it will have closed approximately 100 more mail processing centers. In FY 2012 it also has closed approximately 290 retail and delivery units while reducing hours.[2] Through January 2013 the USPS reduced hours at about 5,000 retail offices and plans to reduce hours at another 6,000 small retail offices.[3] These closures have disrupted the jobs, lives and families of thousands of postal employees. The closures also have deprived communities of vital services, damaged them economically, and threatened their identity.

Mail processing facility closures have come at a substantial cost in the form of reduced service to the American public. In order to make these closures possible, the Postal Service changed its mail collection practices and mail processing timetables, and slowed down the collection and delivery of First Class mail.

In addition to the reduction in service already caused by network consolidation, the Postal Service has announced that it will end Saturday delivery. It also may feel compelled to implement Phase II of its network consolidation plan, which would have a destructive effect on service.

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[2] 2012 Report on Form 10-K, p 16

[3] PMG remarks on February 8, 2013.

If the Postal Service does not obtain relief from its pre-funding requirement and is forced to reduce delivery and make deeper cuts in its mail processing network simply because it cannot pay its bills, the effect will be devastating. USPS products will be degraded, postal customers will begin seeking other means of conducting business, more communities will be damaged economically, and there could be a real risk that the Postal Service would continue to decline due to the devaluation of postal services.

If the Postal Service is required to cut its processing network too deeply, it will not be able to provide efficient parcel delivery service at a reasonable price, and it will lose access to revenue that would help support its other processing and delivery work. While First Class letter mail volume is declining, package volume and revenue is increasing.

This is an area where the Postal Service's universal delivery network provides both an important service to customers and an opportunity for the Postal Service to increase revenue. This point is illustrated by the fact that other package delivery services, including UPS and FedEx, rely on the Postal Service for delivery of some of their products. For example, for the last several years FedEx SmartPost has been growing at more than 17% per year while FedEx ground package volume has been growing less than 7% per year. SmartPost is now 34% of all FedEx ground volume.[4] UPS also uses USPS for some of its products.[5] The Postal Service reaches every mailing address in the United States and its territories and provides economical delivery; so UPS and FedEx find it useful to provide delivery by USPS for their customers looking for low prices and delivery to P.O. boxes.

[4] Derived from Q2 FY 2013 Statistical Book.

[5] "UPS Mail Innovations works with the U.S. Postal Service, providing the pick-up, processing, and interim transportation of mail, with final delivery being made by domestic and international postal services." http://www.upsmailinnovations.com/support/frequentlyaskedquestions.html

The mail processing and transportation network maintained by the Postal Service is not a financial burden, it is a major asset. My point here is a fundamental economic and business point. The mail processing and transportation networks are a necessary part of the postal industry. The Postal Service mail processing network is extremely efficient. Seen as an economic unit, it implicitly provides a financial benefit to the Postal Service and is an integral part of the Postal Service. If that network were to be dismantled and that work turned over to the private sector, the benefit the Postal Service now obtains by maintaining its own very efficient network would be lost, and its ability to maintain universal service would be undermined.

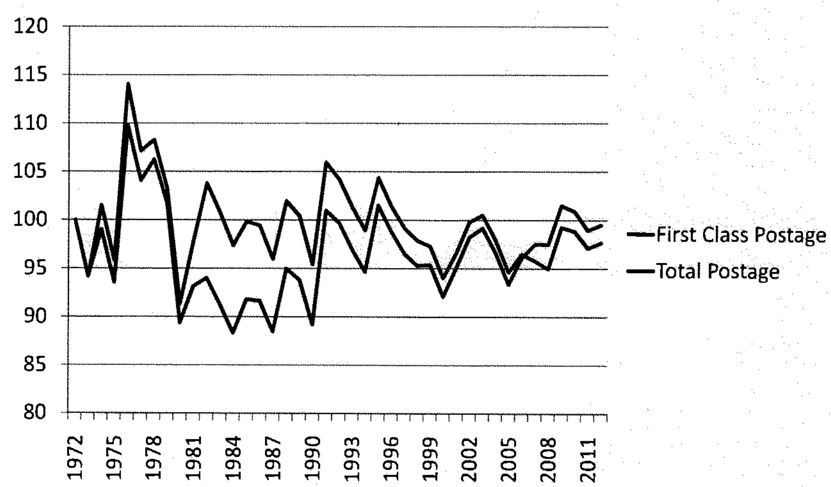
I want to take this opportunity to make sure the Committee is aware of another significant rate issue that requires the attention of the Postal Service and the Postal Regulatory Commission. As the Postal Service Inspector General has repeatedly found, large mailers who take advantage of workshare discounts in their postal rates are in many cases obtaining discounts that exceed the costs avoided by the Postal Service. This is both uneconomical and unlawful. In these difficult times, it is necessary to insist that those who take advantage of discounts comply with the rules and pay their fair share of postage.

The APWU and its members have made substantial sacrifices to help preserve the United States Postal Service. As the Committee is aware, the APWU and the Postal Service signed a new collective bargaining agreement in May 2011 that will save the Postal Service more than \$3.5 billion over its 4½-year term. The APWU is working hard with the Postal Service to maintain and improve postal operations because we know that the Postal Service must adapt and change to remain viable.

When the last Congress was considering postal legislation, some postal critics pointed to the fact that labor compensation accounts for approximately 80 percent of postal costs. The argument is made that because UPS and FedEx labor costs are a smaller percentage of their total costs, this shows something about Postal Service efficiency. That is an incorrect and unfair assertion for several reasons. UPS and FedEx own the largest two freight air fleets in the world; both companies invest significant capital to maintain and improve their transportation fleets and IT systems. Because of these large investments, their labor costs appear lower as a percentage of their overall spending. Removing the transportation related costs for FedEx, UPS and USPS gets the percentage of costs attributable to labor much closer. Furthermore, UPS and FedEx rely heavily on the Postal Service to deliver to addresses where it is too costly for them to deliver. UPS and FedEx impose surcharges for residential addresses and additional rural and super rural addresses (some of which are low density inner city areas). UPS and FedEx deliver five days a week or impose a surcharge for a weekend delivery, all of which tends to reduce such labor intensive deliveries.

We thank you for your attention to the problems of the Postal Service. We will help in any way we can. I would be pleased to answer any questions the Committee may have.

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



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

EXHIBIT 1

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

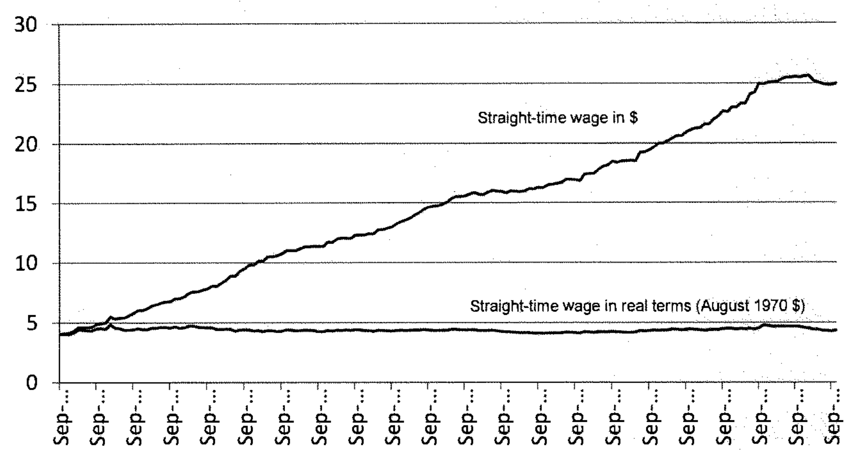
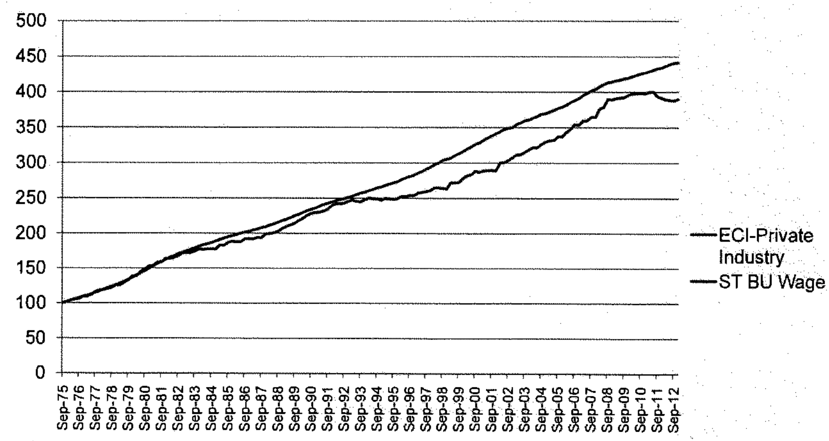


EXHIBIT 2

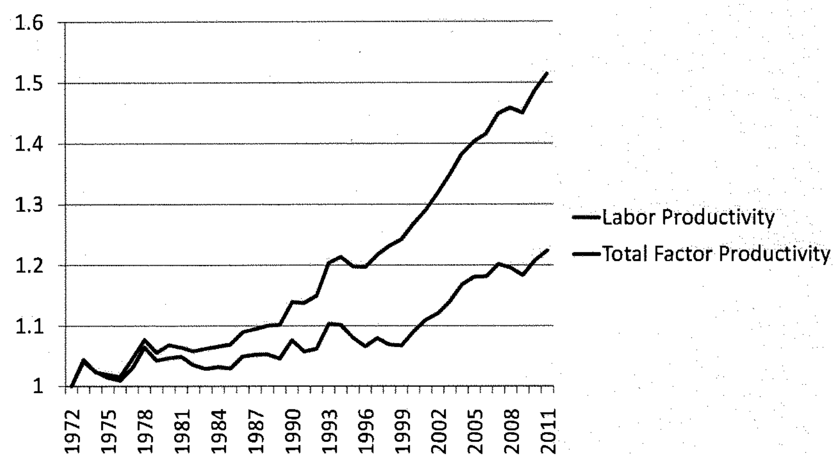
Increase in the Wages and Salaries of Private Industry Workers Compared to the increase in the Average Straight-time Wage for the APWU Bargaining Unit
(Sept 1975=100)



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

EXHIBIT 3

Postal Service Productivity Growth-Total Factor and Labor Productivity FY1972-FY2011 (1972=1.0)



Source: USPS-Total Factor Productivity Tables

EXHIBIT 4

parity price in dollars. Purchasing power parity is the preferred way to compare prices between countries with different currencies.[13]

Table 1
International Comparison of the Price of a First-Class Stamp

Country	Prices in Purchasing Power Parity (U.S. $)	Per Capita Volume as a % of U.S. Per Capita Volume	EBIT Margin 2007*	EBIT Margin 2008*
New Zealand	0.32	33%	5.8%	4.6%
Australia	0.37	32**	na	na
Spain	0.41	20	na	na
US	0.42	100	(6.8)	(3.7)
Netherland	0.49	49	5.6	5.7
Luxembourg	0.53	57	na	na
Great Britain	0.54	46	0	0.9
Ireland	0.56	24	na	na
Sweden	0.59	49	6.3	3.6
Belgium	0.59	na	na	na
France	0.60	42	5.9	2.6
Austria	0.62	43	11.5	10.1
Germany	0.64	35	3.1	3.4
Denmark	0.64	40	na	na
Portugal	0.67	16	na	na
Japan	0.69	25	na	na
Italy	0.71	14	0.7	(0.3)
Finland	0.72	57	5.2	4.4
Norway	0.78	53	0.3	(0.4)

Note: The first unit of postage in these countries is 20 grams vs. 28 grams (1 ounce) in the United States.

* Mail operations only. EBIT margin is EBIT (earnings before interest and taxes) divided by revenue.
** Australia 2008 volume
na not available

[13] Exchange rates often vary widely over time. Purchasing power parities, however, remain remarkably constant over time between countries that do not have large inflation rates. For example, they changed by less than 1 cent over 2007, 2008 and 2009 between the United States, Germany and France. The purchasing power parity data used in Table 1 are from the *OECD Statistical Abstracts, Table 4, PPPs and exchange rates.*

EXHIBIT 5

April 17, 2012

Stamp Rates World-Wide

Former Obama administration car czar Ron Bloom, who was retained by a union representing postal workers, says the U.S. Postal Service should raise stamp prices and vigorously pursue new revenue streams to remake the agency. See how the price of a U.S. first-class stamp compares to the equivalent in other countries. **Click the column headers to sort.**

Country	U.S. First-Class Stamp Equivalent
Aruba	$0.48
Australia	$0.55
Austria	$0.75
Belgium	$0.97
Bermuda	$0.34
Brunei Darussalam	$0.15
Canada	$0.57
Cayman Islands	$0.24
Cyprus	$0.46
Czech Republic	$0.58
Denmark	$1.46
Faroe Islands	$0.96
Finland	$1.02
France	$0.82
French Polynesia	$0.82
Germany	$0.75
Gibraltar	$0.47
Great Britain	$0.72
Greece	$0.82
Greenland	$1.00
Guernsey	$0.57
Hong Kong, China	$0.18
Iceland	$0.63
Ireland	$0.75
Isle of Man	$0.58
Israel	$0.42
Italy	$0.82

EXHIBIT 6

Country	U.S. First-Class Stamp Equivalent
Japan	$0.90
Jersey	$0.54
Kuwait	$0.88
Liechtenstein	$1.06
Luxembourg	$0.82
Malta	$0.26
Martinique	$0.72
Monaco	$0.82
Netherlands	$0.63
Netherlands Antilles	$0.61
New Caledonia	$0.87
New Zealand	$0.80
Norfolk Island	$0.30
Norway	$1.25
Portugal	$0.93
Qatar	$0.13
Reunion	$0.72
San Marino	$0.82
Singapore	$0.19
Slovenia	$0.42
Spain	$0.41
South Korea	$0.35
Sweden	$0.92
Switzerland	$0.98
Tristan da Cunha	$0.40
United Arab Emirates	$0.27
United States	$0.45
Vatican	$0.82
Wallis and Futuna Islands	$0.64

Source: Postal Regulatory Commission

EXHIBIT 6

NATIONAL RURAL LETTER CARRIERS' ASSOCIATION

1630 Duke Street, 4th Floor Alexandria, VA 22314-3465 Phone: (703) 684-5545

Written Statement of
Jeanette Dwyer, President
National Rural Letter Carriers' Association

Before the

Senate Homeland Security and Governmental Affairs Committee

February 13, 2013

Chairman Carper and members of the Senate Homeland Security and Governmental Affairs Committee, my name is Jeanette Dwyer, and I am President of the National Rural Letter Carriers' Association (NRLCA). Our union represents over 113,000 bargaining unit employees who proudly deliver mail for the United States Postal Service. We are often called a "post office on wheels" because rural letter carriers offer Postal customers all of the services performed over the counter at a post office. We sell stamps and money orders, accept express and priority mail, offer signature and delivery confirmation, registered and certified mail, and, of course, collect our customers' parcels. Our Craft epitomizes the concept of "universal service" by providing these services in rural, suburban, and urban areas throughout the United States, including places that the Postal Service's competitors do not go.

Currently, rural letter carriers serve on approximately 73,000 routes across the United States. We drive more than 3.5 million miles per day, delivering to over 40 million boxes. The average mileage for a rural route is more than 48 miles, with the longest route stretching over 170 miles.

Rural letter carriers also generate new business and revenue for the Postal Service. Through the Rural Reach program, rural letter carriers actively solicit businesses who they see using competitors while delivering their route. As of December 2012, Rural Reach has generated more than $291.5 million in new business for the USPS.

The NRLCA and its members care deeply for the Postal Service and the service that it provides to Americans, and we are greatly concerned about the apparent direction that it is heading.

Despite the Postal Service's financial challenges, it remains one of the largest employers in the United States and a major player in the global economy. According to CNN Money, the Postal Service would rank 135th on the Global 500 list of businesses in the world[1], with approximately $65 billion in annual revenue.

The Postal Service's financial challenges are in large measure a result of billions of dollars in overpayments into the Federal Employees Retirement System (FERS), an overly aggressive prefunding schedule for its retiree health benefits, and declining mail volume. Congress has the power to address and resolve the pension miscalculation and prefunding issues that will help to put the Postal Service back on a firm financial footing.

First, we urge Congress to pass legislation to remove the single greatest obstacle to the Postal Service's financial health and well-being: the onerous pre-funding obligation to the Future Retiree Health Benefits Fund. According the United States Postal Service's Fiscal Year 2013 Integrated Financial Plan, the USPS is projecting an operating loss of $2.0 billion for Fiscal Year 2013. Additionally, the USPS is forecasting a net loss of $7.6 billion if the mandated $5.6 billion prefunding for retiree health benefits is included. The Postal Service previously defaulted on its last two payments into the retiree health benefits fund, totaling $11.1 billion for fiscal year 2012. Already, the USPS is predicting that it will lack sufficient liquidity to make this year's $5.6 billion payment due September 2013. Over the last six years, the Postal Service's $41 billion in net losses were largely driven by having to pay $32 billion in mandated prefunding expenses, representing roughly 80% of the total losses.

[1] http://money.cnn.com/magazines/fortune/global500/2012/full_list/101_200.html

No other government entity or private business must satisfy a pre-funding schedule as aggressive as the one mandated by Congress for the Postal Service. Currently, the Postal Service has approximately $46 billion pre-funded, which is more than enough to meet current and future needs beyond 2025. The pre-funding requirement must be modified so that the Postal Service can pay-as-it-goes as compared to the current requirement that the Postal Service pre-fund based on arbitrary numbers.

In addition, in a recent release by the USPS Office of Inspector General (OIG), the OIG, in consultation with the Hay Group, found that if Postal-specific assumptions were used to calculate the FERS liability, the FERS surplus would be much greater than the government-wide averages that the Office of Personnel Management uses to calculate the FERS liability. The NRLCA supports using Postal Service-specific assumptions, which provide a more accurate measurement of the Postal Service liability. The FERS surplus should be returned to the Postal Service to help alleviate its financial crisis.

Senators, you have the power to rectify this injustice now without interfering with six-day mail delivery or collective bargaining rights. The Postal Service is threatening to cut jobs, close post offices and facilities, and even leave the FEHB program to create its own health plan. Let me be clear: this is the way to destroy the Postal Service; not save it. Less service equal less mail equals the beginning of the end of the Postal Service.

The NRLCA strongly believes the Postmaster General's plan to eliminate Saturday mail delivery will ruin the Postal Service and abandon those Americans who most rely upon the regular delivery of the mail. The NRLCA does not support this plan. Nor does the NRLCA believe that the Postal Service can unilaterally implement this plan without Congressional approval. Time and again, the Postmaster General himself recognized that he cannot implement his plan without statutory authority as he has repeatedly given testimony asking Congress to remove the mandated six day delivery language. This is language that has been in effect for the last 30 years. So why does he believe that he can unilaterally eliminate mail delivery without Congressional approval now?

The Postal Service continues to lead Congress to believe that this is what the American public supports. A fact sheet distributed by the USPS to Hill staffers, points to polling that ostensibly shows that the American public supports five-day delivery. But we all know that you can get the polling data you want by asking the questions in misleading ways. For example, the March 26, 2010 Gallup poll suggests that 68% of the American public support the switch to five-day delivery as a way to help the Postal Service financially. However, this poll does not show the choices that the public was given as a way to solve the financial condition of the Postal Service. Options given included having the federal government "bail out" the Postal Service, an option that no one is asking for. Another involved having stamp prices go up. We all know how much the American public grumbles when stamp prices rise. It is no surprise that in this poll the American public – still reeling from the government bailouts of the banking and automotive industry – picked the lesser of the three evils rather than bailing-out another business, even if it is an American institution. The poll does not conclude that the American public favors a switch to five-day delivery. It only shows that, given only those options, five-day delivery is what they would choose. A *Washington Post*, March 30, 2010 poll that shows the American public favors the switch to five-day delivery essentially asks the same questions, with the same choices, with similar results.

Mr. Chairman, I can tell you the Postmaster General was dead wrong when he stood up at his press conference and said he has talked with letter carriers and they support the move to five-day delivery. I am a rural letter carrier and have spoken with many others across the country. I can assure you that rural letter carriers do not support the elimination of Saturday delivery. In fact, every year at our national convention a resolution is confirmed which says that the NRLCA will support the delivery of mail six days a week.

The Postal Service can ill-afford to eliminate a day of mail delivery, and there is great debate about how much money the Postal Service might save by reducing service. In a January 31, 2013 letter to Postmaster General Patrick Donahoe and Postal Regulatory Chairman Ruth Goldway, Senator Claire McCaskill and Congressman Gerry Connolly expressed their concern that the "USPS did not adequately consider the impact of eliminating a day of mail service on rural and remote communities. We believe six-day delivery remains a critical strength and competitive advantage for the USPS that will enable it to grow business and bolster revenue over the long-run."

The NRLCA firmly believes that any savings occasioned by reducing delivery days will be offset by the lost revenue that will occur when consumers and businesses flock to the Postal Service's competitors to have their mail, packages, and products delivered. A 2012 USPS-commissioned survey concluded that service cuts resulting in a 7.7 percent reduction in mail volume would result in a revenue loss of $5.2 billion, in the first year alone. This loss in revenue far exceeds the $2 billion in savings the USPS claims in can achieve by its proposal to eliminate Saturday mail delivery. Reducing service now will mean less market share and a more uncertain future.

And then there are the jobs. At a time when unemployment hovers at 7.8%, this is no time for massive layoffs. In our opinion, the Postmaster General grossly and recklessly underestimated the number of jobs that would be lost when he put the number at 22,500. The NRLCA alone would experience the loss of approximately 20,000 jobs if service were reduced. That number could reach upwards of 30,000 rural carrier jobs depending on the availability of work. The jobs that the Postal Service is planning to eliminate are good middle class jobs that will affect mainly minorities, women, and veterans.

Equally troubling is the nature in which the Postal Service announced its decision to eliminate Saturday mail delivery. With less than 24 hours notice to its unions, Postmaster Donahoe declared the Postal Service's unilateral intentions. Moreover, the NRLCA has received reports that Postal managers throughout the country have been giving stand up talks to rural carriers and other employees regarding the Postal Service's plan. Managers have reduced employees to tears with threats of job losses, and then they have the audacity to send them out to deliver their routes. This is certainly not the way to manage a business, maintain harmonious labor relations or bolster employee morale, especially at an organization that constantly ranks as the most trusted government agency because of the loyal, dedicated and trustworthy employees who make up the workforce.

I must also point out the severe hardships that would be visited on rural America if our customers and small businesses lost a day to send and receive mail. Their livelihoods depend on the Postal Service for their communication and delivery needs. There are no alternatives in many communities. The Postal Service is falsely misleading the American public by having them believe that post offices will still be open to pick up mail. A Postal customer's mail will not be available for pick at their local post office unless that piece of mail was specifically designated to be delivered to a Post Office Box. The Postal Service wants their customers to believe that the mail scheduled for delivery to your home address on Saturday will instead be waiting for pick up at the post office. The truth is that if Saturday delivery is eliminated, customers will not receive mail addressed to their home until Monday, or even Tuesday if it is a holiday weekend.

We cannot afford to move backwards. We must continue to provide the service our customers expect and have come to rely upon. To do otherwise would be to add insult to injury and further undermine the financial health of the Postal Service, which we desperately want to succeed.

And that potential to succeed is there if the Postal Service focuses on growing its business, not shrinking it by reducing delivery frequency. Package delivery, for example, is a growing market for the USPS, led by the increase in e-commerce. The Postal Service can find ways to utilize its unique, universal delivery network to remain competitive, especially given such growing business opportunities. For example, the Postal Service is testing same day delivery with Amazon for online orders. It is innovative ideas and partnerships such as these that will strengthen the Postal Service.

The Postal Service is also heading in the wrong direction by attempting to circumvent current collective bargaining agreements with its unions. It seeks to have Congress legislate away the rights and benefits that the Postal Service and its unions have successfully negotiated for over the past 40 years.

The Postal Service continues to propose numerous plans to create a postal-only health plan. Some of these proposals call for the USPS to leave the Federal Employees Health Benefits Plan (FEHB). Let me be clear about this; the NRLCA will not support any proposal of a Postal-only health plan that leaves FEHB. Leaving FEHB will will undoubtedly mean reduced benefits and increased costs for employees and retirees. The negotiating and purchasing power of the FEHB is unparalleled, and there is a reason that there is little precedent for federal agencies abandoning the FEHB. The Federal Deposit Insurance Corporation (FDIC) withdrew from the FEHB in 1982, claiming that a third party administrator would reduce expenses. By 1997, the FDIC concluded that it was no longer cost-effective to provide health insurance as a self-insured entity and that the FEHB was better positioned to bargain for lower premiums and better benefits. It rejoined the FEHB, only after acquiring Congressional legislation which allowed the return to the FEHB at an estimated cost of $170 million to the FDIC's approximately 5,700 employees. It truly was a failed experiment. The fact is that the Postal Service simply can not compete – even if it had the health insurance experience – with the FEHB. Moreover, we have no interest in putting retiree health benefits at risk each and every time we negotiate over health benefit contribution levels.

Finally, I am deeply disturbed that the Postal Service continually seeks to have Congress interfere with collective bargaining by stripping away the no-layoff clause protection that the NRLCA secured after hard-bargaining and considerable financial sacrifice.

Under the NRLCA's National Agreement with the Postal Service, only regular rural carriers have layoff protection. Rural carrier leave replacements are not protected, because they are not career employees. In the rural craft, the only path to regular carrier career status is through the leave replacement ranks. On average, an NRLCA leave replacement does not obtain a regular carrier position, and thus layoff protection, until after nearly six years of employment.

Rural letter carriers paid dearly for receiving layoff protection, which was originally negotiated in 1978. Until then, the four postal unions bargained jointly with the Postal Service for a single National Agreement. In 1978 the NRLCA determined to bargain separately for a contract with the Postal Service, while the other three crafts continued to bargain jointly. The Postal Service reached tentative agreements with the NRLCA and with the other unions. Both tentative agreements provided, among other things, (1) lifetime layoff protection for all career employees and (2) a capped COLA provision. The NRLCA membership ratified their agreement. The memberships of the other unions rejected their tentative agreement and ultimately those unions jointly went to interest arbitration with the Postal Service before Arbitrator James Healy.

In Arbitrator Healy's September 1978 Award, he provided for the continuation of the prior uncapped COLA provision and for a "limited" layoff provision for the other unions. As in the case of the NRLCA agreement, the other crafts received lifetime no layoff protection for all career employees employed as of the date of the award. However, unlike rural craft employees, other craft employees who reached career status thereafter were required to have six years of continuous service to achieve no layoff protection. To achieve six years of continuous service in those crafts, an employee "must work at least one hour or receive a call-in guarantee in lieu of work in at least 20 of the 26 pay periods" during each year.

Ultimately, the no-layoff provisions have been of no practical value because the Postal Service has never laid off an employee under the rights given to it by its agreements with the other unions. In addition, to our knowledge, the Postal Service has never laid off an NRLCA leave replacement even though those employees have no protection from layoff.

The NRLCA has paid a steep price for a no-layoff provision that in practical effect affords no greater protection than the "limited" no-layoff provision obtained by our sister craft the National Association of Letter Carriers (NALC). It has paid dearly for layoff protection when in fact no employee would ever have been laid off (though, in fairness, that was not known when the agreement was made more than 30 years ago). As a result of the capped-COLA provision that the other crafts did not have, in conjunction with rampant inflation that occurred during the term of the 1978 agreement, NRLCA carriers received COLA payments $1,955 less than those received by the other crafts under their uncapped provisions. Although the NRLCA achieved restoration of uncapped COLA provisions in its 1981 agreement, the $1,955 salary differential that occurred as a result of the three years of capped COLA, has largely remained ever since. The collective cost to the rural craft of over 30 years of such salary differential with the city craft has been approximately $4 billion at a 3 percent discount rate. As a result, for more than 30 years, rural carrier salaries have lagged behind their brother and sister postal employees.

In late 2011, after contract negotiations between the NRLCA and USPS broke down, the NRLCA and the Postal Service entered into interest arbitration. After a total of 26 days in arbitration hearings, and 100,000's of pages of testimony, the no lay-off clause was once again left intact. Despite putting forward a proposal to remove the no-layoff clause, the USPS did not make it a focal point or push to have it removed during the arbitration process. Most likely this is because the rural craft already offers the Postal Service substantial flexibility. Article 12 of our National Agreement addresses excessing rural letter carriers and consolidating routes without having to lay off employees. Moreover, as stated previously, the layoff protection does not protect rural carrier associates (RCAs) who comprise more than 40 percent of our bargaining unit.

Mr. Chairman, and members of the Homeland Security and Governmental Affairs Committee, I know the economy is causing great uncertainty, and solutions must be found to keep the Postal Service moving forward. However, you have the power now to relieve the Postal Service of a huge financial obligation by relieving the Postal Service of its unfair pre-funding mandates and returning the FERS pension monies that rightfully belong to the Postal Service. By doing so, you will give the Postal Service a fighting chance to remain viable without having to take drastic measures that will only harm this great institution, the Americans who rely upon it and the employees, such as rural letter carriers, who serve it with determination, integrity, and pride.

Thank you for allowing me to submit testimony, and I would be happy to answer any questions.

National Association of Postmasters of the United States

Testimony of

Robert Rapoza

National President

Hearing

Senate Committee on Homeland Security and Governmental Affairs

Washington, DC

February 13, 2013

Chairman Carper, Ranking Member Coburn, and Committee members: I am Robert Rapoza, President of the National Association of Postmasters of the United States and Postmaster of the Honokaa Post Office in Hawaii. Thank you for inviting me to testify on behalf of our nation's Postmasters, the managers-in-charge of America's post offices.

NAPUS has testified before this Committee about how the Postal Service is valiantly struggling against a series of formidable obstacles that are impeding to its ability to remain a viable universal public service. We have also testified about the importance of post offices and Postmasters in providing essential postal services and ensuring center of gravity, particularly, to rural areas and small towns. Finally, NAPUS has shown that closing these post offices would net minimal savings.

Last year, NAPUS joined with the Chairman and members of this Committee in promoting S. 1789, the bipartisan and consensus postal relief bill. It is a credit to this committee that the legislation earned strong bipartisan support, both within the committee and on the Senate floor. Nonetheless, we recognized that the legislation was imperfect; however, it offered the best opportunity to provide the Postal Service with essential breathing room. As you know, NAPUS worked with committee members and other Senators in the past and will continue to work with this committee to ensure that the Postal Service continues to offer the American public a universal government-run communications and parcel service.

Regrettably, a number of key statutory barriers endure that threaten our universal Postal Service's long-term viability, despite last year's aborted efforts to enact relief legislation.

Notwithstanding contemporary postal prophets who have asserted the Postal Service is a relic, the agency still accepts, transports, and delivers about half of the world's mail.

The Postal Service has responded to those challenges that are within its control – some of which have caused Postmasters huge anxiety. Since 2006, the agency has cut its workforce by about 193,000 positions, including 60,000 full-time jobs over the past two years. Moreover, approximately, 4,100 Postmasters left postal employment over the past year, and about 13,000 post offices will have reduced hours of operation. These cuts, particularly those that impact Postmasters and rural and small communities, represent extraordinary sacrifices on the part of Postmasters and the communities they serve. Continuous and debilitating cost-cutting, combined with maintaining unsustainable and unfair financial obligations, is not a formula for the agency's resurgence or durable sustainability. The important question is how do we resolve the fundamental differences among postal policymakers. Tragically, without prompt, responsible, and constructive legislative relief, we may witness the demise of the Postal Service and the essential services it provides to America. The inability to enact constructive postal legislation during the 112th Congress has negatively impacted the image of our lawmakers, and the image of the Postal Service. Failure of this Congress to promptly pass such legislation condemns an entire industry to catastrophe.

There are those who would permit the Postal Service to "wither on the vine"; however, they fail to appreciate the vital role the agency and its post offices play in our economy – not just in rural communities. A much-overlooked fact is that the postal industry does not simply employ Postal Service workers, but provides a work environment for about 8.4 million Americans. Postal

Service employees account for only about 8% of the postal industry's total workforce. Yet, I would add, this 8% provides the high quality of service the American public recognizes, as documented in poll after poll.

Postmasters are on the frontline, working with delivery point customers, the business community, and the agency itself, ensuring that postal operations are effective, efficient and responsive. Postmasters essentially manage the market, from mail acceptance to mail delivery.

What differentiates the Postal Service from privatized postal providers is its essential mission to provide a universal and uniform service at an affordable price. One of the major problems the Postal Service must tackle is declining volume and revenue, as our delivery points expand. The growth in small businesses further accelerates the number of delivery points. Delivery point growth will continue as our population and business opportunities inflate. Moreover, Americans entrust Postal Service employees with their mail, as a trusted third-party. Universal access at the entry point to the delivery point, with a trusted government employee, is a hallmark of our postal system.

Over the past four decades, the Postal Service has attempted to harmonize its universal service obligation and provide affordable, accessible and uniform mail services to all Americans, while supporting itself on declining revenue. Nevertheless, the universal obligation, which has bound this nation together, is undermined by Congress' failure to act expeditiously to address the many challenges facing the Postal Service.

One of the most damaging impediments to postal sustainability is the failure to address the unfair statutory requirement that the Postal Service prefund, within a limited 10-year period, 75 years of retiree health benefits. No other entity, public or private, is under such an obligation; nor would any private sector company permit such a requirement to be imposed upon it. Rather, organizations that elect to prefund health benefits ordinarily amortize their liabilities over a 40-year or more period. It is important to note that the accelerated USPS 10-year prefunding schedule was not adopted as an assurance of retiree health benefits; rather, it was enacted to provide a new revenue stream into the federal treasury – at the expense of the U.S. Postal Service, its customers, and it employees.

At the time of the provisions adoption, in 2006, the Postal Service and the economy were humming along, so the contribution rate may have been defensible at that time. Postal revenue and mail volume was rising; however, since that postal highpoint, a recession-driven mail decline, combined with accelerated mail diversion, has rendered retiree health prefunding unfeasible and potentially fatal. Indeed, about 70% of the Postal Service's recent losses are tied to this pre-funded requirement. In fact, according to the Postal Service's most recent quarterly financial report, the agency would have reported a $100 million surplus had it not been required to pay the prefunding levy.

The failure to help alleviate the financing crisis confronting the Postal Service has already caused serious damage to the postal infrastructure and impairs the agency's capability to provide the service that Americans expect and deserve. Postmasters already have made painful sacrifices that have affected their families, quality of work life, and their futures as the Postal

Service attempts to drive down the cost of doing business. Through the implementation of various USPS initiatives, the number of career Postmaster positions has been reduced, and with the full implementation of the initiative known as POStPlan, more than 50% of the nation's post offices will offer the public reduced hours. These reductions have a disproportionate impact on rural areas and smaller communities and represent an alternative to an outright post office closure. With POStPlan, many potential closures have been averted – at least for now. Nevertheless, creating part-time post offices, having less than six hours of retail operations in communities accustomed to eight hours of service, is currently the best option to avoid closing thousands of rural post offices. POStPlan post offices render access to postal services based on earned workhours, rather than convenience and accessibility. The reduction diminishes opportunities for post offices to expand their menus of services to include other services, such as identity verification and licensing. In sum, 13,900 communities will lose access to full-time post offices.

Revenue generation must be a primary focal point of legislative relief. Partnerships should be fostered and the USPS should continue to aggressively focus on revenue growth in all areas to help retain its viability. It is clear the small-parcel market is expanding and the Postal Service must not simply ride the wave of this accelerating growth in the parcel market, but must capture a significant share of it. In the not-too-distant future, it is quite likely that parcel volume could surpass letter volume. The explosion of e-commerce fuels this development and the cost of mailing small parcels through the USPS is highly competitive. Post offices and their Postmasters must be able to adapt and innovate to meet this growing segment of the mail market. Indeed, post offices are uniquely situated to provide a secure, affordable and accessible point for parcel preparation, acceptance and delivery – not only for domestic shipping, but also to exploit the Postal Service's global reach. Moreover, post offices provide an extensive and convenient network for parcel returns. The physical presence of post offices provides a major competitive advantage for the Postal Service's participation in the parcel market.

NAPUS believes it is crucial that the Postal Service be able to more effectively partner with other federal agencies and municipal governments in delivering essential governmental services, and it should be the preferred shipper of government publications and products. For example, we understand that the Social Security Administration is encouraging beneficiaries to opt for direct-deposit of their annuities, or making available Social Security "cash cards", rather than paper checks. In addition, in the wake of natural disasters that impact specific communities, post offices could be the distribution point for FEMA cash cards to assist in relief efforts. The local post office could easily verify identity and could be the location where such cards could be reloaded. Post offices could also be the venue for retrieval of licenses, vehicle registrations, payments for governmental levies, and local utilities. Financial services and partnerships with local or national merchants should also be more aggressively explored. Finally, Congress should enable the expansion of the types of products that can be mailed to include wine and spirits.

Another area that legislation should address is providing the Postal Service more pricing flexibility within its market-dominant classes or mail. Under existing law, the only means of adjusting rates outside the prescribed consumer-price-index rate cap is through the limited criteria of an "exigent rate case." The Postal Service should be provided with more latitude to rebalance rates based on volume share, and a more postal-specific adjustment index.

NAPUS understands that the Postal Service continues to push for a health benefits plan, separate and apart from the Federal Employees Health Benefits Program. As I have stated in the past, any movement in this direction must reflect the unique health issues of postal retirees, and, at a minimum, involve the employee organizations in its development. S. 1789 established a credible framework for such a discussion; however, a postal health plan cannot be imposed by the Postal Service alone.

It would be a sad day for the American public if we reach the end of this fiscal year without meaningful legislation to address the fiscal difficulties that confront the Postal Service that are not of its making. Some view the Postmaster General's recent actions as acts of desperation, which are doomed to backfire; others see it as part of a bold calculated plan for the survival of the Postal Service, an organization of which I have been an employee for the past 46 years. In either case, my fear is that if this Congress does nothing to resolve their fundamental differences, the integrity of our nation's universal postal system will be irrevocably compromised.

Consequently, NAPUS urges this Congress to act responsively and responsibly to assist the U.S. Postal Service, the greatest and most efficient postal service in the world, to continue to provide the products and services that Americans expect and deserve. I pledge that during the remaining months of my term as President of NAPUS, our organization will assist the Chairman and this Committee to that end. The future of the Postal Service is in your hands.

Thank you.

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U.S. Senate Committee on Homeland Security and Government Affairs
"Solutions to the Crisis Facing the U.S. Postal Service"
February 13, 2013

Joel Quadracci, Chairman, President & CEO
Quad/Graphics, Inc.

Good morning, Mr. Chairman, Ranking Member Coburn and Members of the Committee. I want to thank you, Mr. Chairman, for your leadership, and the rest of the Committee for your focus and efforts on the urgent matter of restoring the Postal Service to financial stability. This is a vitally important issue for communications and commerce in our country. A financially hobbled postal system cannot provide the service the public needs and deserves; indeed, it could be forced to dramatic service curtailments. The Postal Service cannot cut enough to solve its financial challenges. It needs help from Congress. So, with respect, I urge you and your colleagues to act as quickly as possible.

As we know all too well, the Postal Service is losing money at a rate of nearly $25 million a day with the total loss in 2013 expected to be $7.6 billion. This is clearly unsustainable. This financial instability and the constant threat of insolvency is obviously troubling for the Postal Service, but it is even more troubling for the American economy overall. Since 2009, the mailing industry lost 4.5% of its jobs. Although the Postal Service is financially challenged it is still a $65 billion business that supports a private sector economy worth more than $1 trillion, employing some 8 million private sector workers, and accounts for 7% of our nation's Gross Domestic Product (GDP).

The Postal Service is the backbone of the private sector mailing industry and it plays an integral role in the modern economy ranging across every type of mailer and the printing, paper and technology industries that supply them. These businesses support services in a marketplace that includes cost-effective advertising, magazines, catalogs, e-commerce, prescription drug fulfillment, and what is still a huge amount of statements, bills and greeting cards as well as an expanding package delivery segment. These are products that consumers in all 50 states crave, and in some cases rely on, and they depend on the Postal Service to deliver them right to their door.

While it is clear that the printing and mailing industries are a vital part of our economy, there is no doubt that our industries are changing and change can be challenging. The biggest problem facing the printing industry is the same problem the Postal Service faces: excess capacity. This is a problem that we, at Quad/Graphics, are addressing head on. We continue to work hard to acquire market-share by attracting and retaining customers and through strategic acquisitions both large and small. Over the past three years we have completed two major acquisitions (WorldColor Inc. and Vertis Holdings Inc.). Through these acquisitions we acquired more volume. At the same time, we acquired more capacity and, therefore, had to make the tough but necessary choices to close facilities and consolidate work in to other facilities where we believe we can produce it most efficiently and competitively. These are decisions are necessary in a mature industry and challenging marketplace.

The Postal Service must make similarly difficult decisions. It must take an honest look at its business model and make sure that the size of its business matches the reality of its market. Right now, the Postal Service has too much capacity and must be "right-sized."

Our company, Quad/Graphics, is one of the largest mailers in the United States, accounting for nearly 12 billion pieces of mail each year. We print magazines, catalogs, retail inserts and direct mail for many well-known publishers and marketers. For example, Quad/Graphics has contractual relationships with leading magazine publishers, including Conde Nast, Hearst Magazines, Meredith Corporation, The National Geographic Society, Rodale Inc., The Reader's Digest Association Ltd., Source Interlink Media, LLC, Time Inc., Sports Illustrated, and Wenner Media LLC. Quad/Graphics prints catalogs for industry-leading marketers such as Cabela's Incorporated, J. Crew Group, Inc. L.L. Bean, Limited Brands Inc. (Victoria Secret), and Redcats USA' and direct mail products for companies such as Charter Communications, American Family Insurance, American Eagle Outfitters, Publishers clearing house, Inc. and Weight Watchers International, Inc. The success of Quad/Graphics and its 20,000 American workers -- which include 6,700 in Wisconsin, 700 in Oklahoma, S00 in Michigan, 225 in Ohio and 630 in Kentucky and many more throughout 28 other states, is directly tied to the existence of an efficient and cost-effective Postal Service. Those 20,000 workers are counting on this committee and this Congress to take the necessary steps to help them succeed.

Point being, you are not alone on this journey. We are part of the Direct Marketing Association, PostCom, American Catalog Mailers Association, Alliance of Nonprofit Mailers, The Association of Magazine Media, and the Coalition for a 21st Century Postal Service all of which stand beside us, ready to continue their work with you to ensure the future of the Postal Service as well as the 8 million American families that depend on the Postal Service for their livelihood.

The continued sluggish economy and the decline in mail volumes pose a threat to the Postal Service's sustainability. These challenges can be overcome with bold reforms, cost-cutting and streamlining – the same types of tough measures that thousands of American businesses like ours have made during these difficult economic times. In addition to measures the Postal Service must take, Congress can help by alleviating the unreasonable financial burdens that have been placed on the Postal Service. Without Congressional action, not only will the financial situation of the Postal Service continue to be dire, but the uncertainty for our clients and the entire mailing industry will stifle volume as customers make decisions about how to spend their advertising budgets, among other concerns. Many are referring to this as a "crisis of confidence." Many clients may choose to move away from print only because they do not have confidence that the Postal Service will continue to be a viable option. This uncertainty can be resolved by Congress taking decisive action to show that the Postal Service will remain a strong and practical option for our marketers and publishers to distribute and advertise their products.

The recent action taken by the Postal Service to move to 5-day delivery by eliminating Saturday service is impactful. While we understand why the Postal Service feels this is a necessary step in order to help bring costs in line with revenues. It is important to understand that the Postal Service will not be completely shut down on Saturdays. Quad/Graphics and other mailers have a critical need for the Postal Service to continue accepting mail drop-offs on Saturday, process that mail on Saturday and move it around the country on Saturday in order for it to be in place for delivery on Monday. The impact on our customers will be felt on an individual customer basis. For some of our clients, the change to 5-day delivery will mean simply adjusting the delivery date expectations. For others, they will need to decide how best to continue Saturday delivery through an alternative carrier if they feel weekend delivery is business critical. Regardless, Quad/Graphics will work with all of our clients to ensure they are receiving the best value for delivery of their printed products.

RECOMMENDATIONS FOR CORE ELEMENTS OF LEGISLATION TO STABLIZE THE USPS

Extended amortization of payments to prefund retiree health benefits. Prefunding retiree health benefits is admirable but is virtually without precedent in the private or public sector, especially on the massive scale of $5.5 billion per year. It is simply unaffordable and already we have seen the Postal Service default on two payments. Thus, the business community, including Quad/Graphics, complete supports the need by the Postal Service, postal labor unions and others to modify the prefunding schedule for retiree health care and endorses the 40-year amortization included in last year's S.1789.

Return FERS overpayments. Another disadvantage facing the Postal Service has been a continual overpayment into the federal government's pension funds. While there is some dispute over whether there was an inappropriate overpayment in to the Civil Service Retirement System (CSRS), there is no such dispute over overpayments into the Federal Employees Retirement Systems (FERS). This overpayment has resulted in billions in extra funds pouring into FERS ultimately at the expense of the private mailing industry. Due to the fact that the Postal Service relies almost exclusively on postage fees, these overpayments are paid for not by the USPS or the taxpayers, but rather by the customers and clients of companies like Quad/Graphics and any other company that uses the Postal Service as a means of commerce. This has amounted to a vast hidden tax on our industry, which accounts for 90% of postal revenues.

Returning the overpayments to the Postal Service is the fair and responsible approach, yet there has been some rhetoric surrounding these proposals as a "bailout." Nothing could be further from the truth. In this circumstance it is postal ratepayers (the majority of whom are businesses) who have been bailing out the government. We are gratified that this Committee and the Senate were undeterred by the inaccurate bailout characterization, and included FERS repayment in last year's bill. We urge you to include it again in any reform legislation this session.

Enable the Postal Service to continue to streamline its network. With the precipitous plunge in mailing volumes, the network of postal facilities has become far too large for the business the system has or is likely to have in the foreseeable future. It, therefore, must downsize. It is in the process of doing precisely that, having closed a number of facilities last summer with little operational disruption. The Postal Service also heard Congress loud and clear, and instituted a well-received program to keep rural and small post offices open. We urge Congress to exercise its customary thorough and cautious oversight of the Postal Service as it downsizes, but not to unduly inhibit or restrict its ability to do so, and do so quickly.

In summary, we as an industry, request that Congress, at a minimum, act on the following:

Assuring USPS the Authority to Streamline its Service

- Mail volume has declined 25% since its peak year in 2006. The associated revenue drop has vastly outpaced the Postal Service's actions to cut costs.
- The USPS has the infrastructure and capacity to handle and process more than 300 billion pieces of mail. Unfortunately mail volume continues to decline and is expected to be only 153 billion pieces of mail in 2013 (of which Quad/Graphics accounts for approximately 12 billion pieces of mail).
- The USPS must reconfigure its system (facilities and workforce) to the business it has and projects over the coming years.
    - The decline is unlikely to be substantially reversed, but further losses may be slowed.
    - The USPS has a plan in place to consolidate and close processing facilities and reduce post office costs without widespread closings. These plans ought to be allowed to proceed without Congressional interference.
- The USPS must be provided with and use its authority to continue the effort to "right-size" its system to current and anticipated future mail volumes.

Reamortization of Payments for Prefunding Retiree Health Benefits

- Ensuring retiree health is not an unfunded liability is financially sound.
- The current 10-year amortization results in unaffordable payments $5.5 billion annually, which the Postal Service has defaulted on twice.
- Extended amortization guarantees full pre-funding at much lower annual payments.
- The 40-year amortization schedule, as proposed in the Senate bill last year, would accomplish all of the foregoing goals.

Return to USPS of its Overpayments to the Federal Employees Retirement System (FERS)

- Depending upon the calculation, the USPS has overpaid into FERS by $3.0 billion-$12.5 billion.
- Since the USPS operations are funded by postage, not taxes, mail users and especially the business community (which is responsible for about 90% of postal volume) have been overcharged.
- Returned funds can be used as incentives for early retirement, debt reduction and more.

Provide USPS with needed flexibility to manage health care costs

- Health care costs are a significant issue for every business and making sure their employees get the necessary services at an affordable price is paramount to business success.
- Quad/Graphics has a unique, in-house, health care model, called QuadMed, which focuses on preventive primary care, based on a wellness model that rewards employees for choosing a healthy lifestyle. It generates a significant amount of savings for the company and the employee while improving the quality of care.
- Due to this unique model, Quad/Graphics has seen a significant reduction in health care costs.

- The USPS should be allowed to go out in the marketplace and negotiate for better service at a lower cost, which is something it has explored and recommends to Congress. Those beneficial options do exist and can save the Postal Service money.

The issues laid out above are the items that, at a minimum, ought to be included in any postal reform legislation. There are also a few items that have been discussed over the last few years that would be extremely harmful to the Postal Service as well as, have direct consequences on Quad/Graphics and the mailing industry if they were to be enacted.

There are three main components to printing a magazine, catalog, retail insert or direct mail piece: the cost of the physical printing of the item, paper and postage. It may be tempting to address the Postal Service's financial situation by simply raising postage rates to "cover the costs," but I cannot stress enough how damaging postal rate increases are to our industry. We believe that the issue of "underwater" classes is a symptom of the larger problem – extreme excess costs in the USPS system. Furthermore, there is a direct negative correlation between rate increases and volume. Our customers demand predictability and affordability and if prices suddenly increase more than expected they react by reducing their volume to cover the extra postage or move away from print altogether. Of course, this hurts the revenue of the printer but also reduces the volume going to the Postal Service which further exacerbates the problem. Over the last 25 years, through technological advances and process changes resulting in productivity gains of more than 4% annually, the printing industry has been able to actually reduce the price for printing (adjusted for inflation). The Postal Service should address its problems by achieving the same cost control success.

Paper prices have fluctuated during that same period based on supply and demand. To ensure that we are providing our clients with the lowest possible cost and highest quality product, we have dedicated Quad/Graphics staff who continually work with the paper manufacturers to coordinate with transportation companies (be they rail or over-the-road-trucking) to ensure the most cost-effective and timely delivery of paper from the mills to our plants. We've also developed and initiated standards for managing inventories and waste, all in an effort to be the low-cost provider and deliver quality products for our customers. Despite the fact that we are not in control of paper prices, these efforts have resulted in the management of paper prices and costs for our clients for our printed products.

During that same time period, the price of postage has continued to increase and as a result the single largest expense of printing is now the postage associated with delivering the final product. In order to help to control these costs, Quad/Graphics and other printers provide co-mail services that combine and then ship numerous, individual clients' mailpieces together to relieve the Postal Service of significant sorting, handling and transportation costs. A large volume of the product we co-mail is sorted to the individual letter carriers and sequenced exactly in the order in which they walk their route. This reduces Postal Service costs and qualifies our company and our clients for postage discounts. These "work share" discounts were put in place in cooperation with the Postal Service at a tremendous capital expenditure for the printing industry. The equipment necessary to provide these co-mail services is expensive. However, the private sector is able to provide this service efficiently, saving the Postal Service the added expense of installing this technology in its own processing facilities. This not only reduces the Postal Service's costs, but helps to control the cost of postage, and provides our clients with a significant return on their marketing dollar. Except for the ability of Quad/Graphics and other mail service providers to help clients manage their postal costs through work sharing, mail volumes would have been reduced to an even greater extent over the last decade.

As discussed, above-inflation postage rate increases cannot be part of this solution (whether they are from straight rate increases or reductions in work-share discounts). The rate caps enacted as part of the Postal Accountability and Enhancement Act of 2006 (PAEA) have worked well to control postage rates and provide our clients with that much needed certainty. These caps must be retained and action taken by Congress must lead to a cost-effective Postal Service. As confidence grows that the USPS is a long-term viable option marketers will have the wherewithal to make volume and pricing commitments into the future to the benefit of both the Postal Service and the industry as a whole.

Quad/Graphics remains bullish on print. We live in a multichannel world where customers have choices. If the Postal Service can manage its cots and maintain an affordable pricing structure, its business can remain sustainable and ours, in turn along with it. We are encouraged with the direction we have seen the USPS take over the last year-and-a-half. We've seen a difference in the way the USPS manages the "customer experience" with new products and services being developed. Innovation is what drives our business today; we invest in new technologies and ways to keep print on the forefront of our multichannel world. We believe print is the foundation of successful multichannel strategies for both marketers and publishes. Our own innovations with tablet and Smart-phone apps related to QR codes and image recognition, augmented reality and near=field communications keep Quad/Graphics on the cutting-edge of our industry and give our clients a competitive advantage, and we need similarly innovative thinking from the USPS.

As an example, the Postal Service recently initiated a new strategy for growth through incentive promotions tied to value-added products and services and partnering with its customers and mail service providers. The principle is simple: value-added = greater response = growth. As we know from our experience with our clients, the risk really isn't that great when it comes to using mail to drive response. Therefore, we consider this a good example of the Postal Service using its pricing flexibility under PAEA to drive the growth of mail, and we fully support those efforts.

I thank the Chairman, the Ranking Member and the Committee for allowing us the opportunity to discuss our company and the importance of the Postal Service to the 8 million families our industry supports. I look forward to working with you to enact reforms that will put the Postal Service on a path to sustainability. I applaud you for making the Postal Service a priority, and I would be happy to answer any questions that you may have.

American Enterprise Institute
for Public Policy Research

Statement before the
U.S. Senate Committee on Homeland Security and Government Affairs
On "Solutions to the Crisis Facing the U.S. Postal Service"

Solutions to the Crisis Facing the U.S. Postal Service

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February 13, 2013

The views expressed in this testimony are those of the author alone and do not necessarily represent those of the American Enterprise Institute.

Chairman Carper, Ranking Member Coburn, and distinguished Members of the Committee:

Thank you for the opportunity to submit testimony to the Senate Homeland Security and Governmental Affairs Committee hearing entitled, "Solutions to the Crisis Facing the U.S. Postal Service."

I am R. Richard Geddes, Associate Professor in the Department of Policy Analysis and Management at Cornell University, Visiting Scholar at the American Enterprise Institute, and Director of the Cornell Program in Infrastructure Policy.

I am pleased that the Committee is examining opportunities for innovative, long-term solutions to the problems facing the U.S. Postal Service.

The U. S. Postal Service is facing a major financial crisis. That crisis is driven by declining demand for the Postal Service's core activity – the delivery of first-class mail – combined with the cost of maintaining the extensive delivery network required to provide universal delivery service. First-class mail is important because it is the Postal Service's most profitable activity, and because ensuring the delivery of letters is the justification for the Postal Service's current organizational structure as a state-owned enterprise with a legally enforced monopoly over its core service.

As Figure 1 below illustrates, the decline in first-class mail has been significant. First-class mail volume reached a peak of 103,656 million pieces in 2001, and fell to 68,696 million pieces in 2012, representing a drop of over one-third. Declines of this magnitude in letter mail have not been seen since the Great Depression.

Although it is undoubtedly a contributing factor, first-class mail volume's dramatic decrease is not explained solely by recent weak economic growth. The decline began well before the 2008 global financial crisis. Moreover, that decline has continued even though the economy has improved. It is instead likely that diminishing mail demand is driven by the falling cost and increasing usage of electronic substitutes for physical mail delivery.

Alternative methods of communicating messages include telephone calls, electronic mail messages, text messages, and facsimiles, among others. Such methods have an advantage over physical mail delivery because they are both inexpensive and instantaneous. Increased use of electronic banking and electronic payment of bills, such as utility bills, have had a particularly large impact on mail volumes.

It is tempting to compare the Postal Service's current situation to other industries that have been overtaken by technological innovation. Examples include the horse and buggy in the dawning automobile era, typewriters after the development of word processors, or slide rules with the advent of low-cost, hand-held calculators. Such comparisons suggest that the Postal Service's fiscal crisis is inevitable. To the extent that younger people are more comfortable communicating electronically, demography indeed may be destiny for the Postal Service.

Fortunately, postal liberalization in other countries demonstrates clearly that, with proper policy reform, the postal and delivery sector can emerge from this technological challenge as a sustainable, vigorous, and profitable component of a developed economy. For that desirable outcome to be realized in the United States, however, we must remove existing legal impediments to the Postal Service evolving into a more innovative and entrepreneurial company.

Below I recommend two key reforms for the Postal Service: de-monopolization and corporatization. Liberalizing the U.S. Postal Service from its current commercial constraints and improving its governance represents a direct extension of the Postal Reorganization Act of 1970. The 1970 Act created the modern Postal Service out of the old Post Office, required it to break even over time, directed it to operate in a more businesslike manner, and instructed it to adopt modern management methods. The Act created a Board of Governors as a key governance device. In contrast to these reforms, relying on mainly cost cutting or ongoing taxpayer subsidies to survive such a major technological challenge will lead inevitably to waning and stunted U.S. postal sector.

The Postal Service's Fiscal Crisis

Declining revenue from mail combined with the Postal Service's cost structure has created a widening fiscal crisis. The Postal Service lost $15.9 billion in its 2012 fiscal year ending September 30th. The Postmaster General recently stated that the USPS now loses approximately $25 million every day, or $17,361 per minute. Cumulatively, the Postal Service has lost about $41 billion dollars over the past six years.

During 2012, it defaulted on $11.1 billion of retiree health care prefunding obligations owed to the U.S. Treasury as required by the 2006 Postal Accountability and Enhancement Act.[1] It reached its $15 billion borrowing limit with the U.S. Treasury by the end of 2012. Recent data from the Postal Service's first quarter of 2013 suggests that the crisis is unlikely to abate. First-class mail declined by about 4.5 percent for the quarter, while revenue from first-class mail declined by 3.1 percent. The Postal Service lost about $1.3 billion for the quarter.

These developments have impacted the USPS' cash position. The Postal Service projects that, by the end of FY 2013, its cash balance will be less than its average weekly expenses of $1.3 billion. Such a low cash level is risky, since it could prove insufficient to support operations in the event of a shock to demand or further weakness in the U.S. economy.

[1] Much recent debate has focused on the requirement in the 2006 Act that the Postal Service pre-fund its retiree's health care benefits. Actuarial experts within the Office of Personnel Management determined that such payments are a legitimate cost incurred by Postal Service operations, which should be paid through rates (instead of by taxpayers) as per the 1970 Act break-even requirement. I have no reason to question that judgment.

Solutions to the Crisis

Barring a return to the massive – and likely increasing – pre-1970 direct annual subsidies from taxpayers to the Postal Service, there are two broad approaches to addressing its mounting fiscal crisis. The first is to rely mainly on a "shrink to survive" strategy to assist the Postal Service in reducing its costs as the demand for its core service falls. This involves reducing the number of post offices, downsizing the postal workforce, closing large sorting centers, and reducing the level of service (such as delivery days per week and post office hours), among other reductions.

To some extent, this is the approach taken to date. The Postal Service has announced initiatives to close up to 4,380 retail postal facilities in suburban, urban, and rural areas. The Postmaster General recently reported the impending elimination of Saturday first-class mail delivery. The Postal Service has reduced hours of service at about half the nation's 26,000 post offices and reduced its workforce by 35 percent. Given that approximately 80 percent of the Postal Service's costs are labor-related, it is likely that further large reductions in employment and work hours would be necessary under this strategy.

This approach essentially accepts volume and revenue declines as immutable, and attempts to accelerate and formalize the cost reduction process. This may include such mechanisms as a military-base-closing-commission (BRAC) type board, which would be granted authority to formulate a list of postal facilities that should be closed, as well as granting the Postal Service more authority to reduce service levels.

There are several reasons why an overall "shrink to survive" strategy is unlikely to result in a sustainable Postal Service. There are two potential negative long-term effects of such a strategy, one on the demand side and one on the cost (or supply) side. Reductions in service levels (including delivery days per week and delivery speed) are important aspects of service quality that may affect demand. When the quality of service deteriorates, demand for that service may fall as well. Thus in addition to reducing costs, such reductions may have the unintended consequence of further reducing revenue. Moreover, there is a natural limit to how far costs can be cut without sacrificing the ability to provide a basic level of mail service.

On the supply side, an industry such as postal services exhibits economies of scale in some aspects of its operations. Economies of scale imply that unit costs fall as the firm's size increases. Conversely, rising costs per unit are associated with scale economies as demand declines. This second deleterious effect is critical for the reform debate, since economies of scale are often offered as the public policy justification for retaining a delivery monopoly.

To provide some background, economies of scale is the phenomenon that, in some industries, the unit cost of producing a good or service declines as the firm gets larger. That is, bigger firms are more efficient (i.e. lower cost) in production due to the process by which a good or service is produced. Economists often think of network industries such as water and electricity production as exhibiting economies of scale, although non-network industries, such as steel, are also offered as examples.

Economies of scale operate in both directions, however: costs per unit rise as the firm gets smaller. Thus falling mail demand as driven by substitution into electronic alternatives is not only causing revenue to decline, it is also causing unit costs to increase. This is illustrated by Figure 2 below, which indicates that inflation-adjusted operating costs per piece of mail have indeed been rising of late. Unit mail costs have returned to approximately where they were in the mid-1970s. This is consistent with economies of scale now working against the Postal Service as mail volume falls. Falling demand means that the Service is effectively caught in a fiscal vice, with declining revenue on one side and rising unit costs on the other. This is a second key reason why shrinking to survive alone is unlikely to result in a sustainable Postal Service.

Similarly, serious, sustainable reform should not focus mainly on restructuring the Postal Service's payments for retiree health care costs, as some commentators have advocated. The restructuring of such payments should only be undertaken within the context of broader structural reforms. Without major changes in the Postal Service's business model, further declines in mail demand and in revenues are likely.

A New Postal Service Business Model for the Electronic Age

The Postal Service's fundamental business model must be modernized to allow it to use its existing assets to discover new ways to better meet demand and to create new demand for physical document delivery. There are three key outcomes that any reform must create to result in a sustainable U.S. Postal Service: (i) strong, focused incentives to seek out new revenue streams; (ii) specialized expertise; and (iii) access to capital markets to fund innovation. Notably, the Postal Service has recognized this need, and has itself called for a major change to its business model. In its Quarter I, 2013 Report on Form 10-Q (p. 9) the Postal Service stated that, "Without structural change to the Postal Service's business model, it will continue to be negatively impacted by these [demand] factors and, absent legislative change, it anticipates continuing quarterly losses for the remainder of 2013."

There are two key reforms that will allow the USPS to be sustainable in the new communications marketplace. The first is de-monopolization and commercialization, and the second is corporatization.

De-Monopolization and Commercialization

The concepts of de-monopolization and commercialization are critical for postal reform, and are inextricably linked. De-monopolization refers to repeal of the Postal Service dual monopolies. These concepts are sometimes referred to collectively as postal "liberalization." It currently receives a legally enforced monopoly over the delivery of any item defined as a letter, and another over the use of a household's mailbox. Commercialization refers to the process of allowing the Postal Service to become entrepreneurial and innovative in entering new markets and in creating new product offerings. This means using its existing delivery network to generate more economic value.

These two reforms are inextricably linked because the Postal Service will never receive commercial freedom without de-monopolization, nor should it. Legal enforcement of monopoly power is always accompanied by regulatory oversight of the monopoly, which is appropriate. This stems in part from a fear that, if the monopolist were to venture into new business activities, it might utilize profits from its monopolized activity to unfairly subsidize activities where it faces competition. Indeed, such a concern was an important motive in separating postal products into "market dominant" and "competitive" categories in the 2006 Postal Accountability and Enhancement Act.

Another by-product of legally enforced monopoly is regulation of rates. This stems from a concern that a firm receiving a monopoly may charge excessively high rates. Rates charged by the Postal Service are currently overseen by the Postal Regulatory Commission. The Postal Service also receives pricing flexibility through de-monopolization and commercialization.

Postal laws should be reformed to allow the Postal Service to use its most valuable asset – the network that gives it the ability to deliver mail to every address on a regular basis – in new and innovative ways to meet existing demand and to offer new delivery products. Many stakeholders would share in the benefits from the creation of such added economic value, including customers, employees, and of course mailers.

Although the Postal Service does attempt, within the confines of the law, to raise new revenue, it has noted that existing legal constraints on its ability to generate added revenue are binding. In its Quarter I, 2013 Report on Form 10-Q (p. 26), it stated that:

> Moreover, unlike a private-sector business, the Postal Service is restricted by law from taking certain steps, such as entering new lines of business, that might generate additional revenue to make up for some of the decline in First-Class Mail revenue. We are also constrained by a price cap imposed on First-Class Mail and Standard Mail prices, which generates almost 70% of our total revenues. As a result, under current regulations, the Postal Service cannot grow revenue sufficiently to compensate for the decline in First-Class Mail revenue.

To facilitate revenue growth, any sustainable reform must contain de-monopolization and its complement, commercialization. Notably, such reforms are consistent with market trends. The value of the Postal Service's delivery monopoly has eroded with falling mail demand. Policy concerns regarding possible misuse of that monopoly power are thus becoming less salient. Moreover, a bright spot in postal operations is in package and shipping services, which increased 4 percent in the first quarter of 2013. This is not surprising, since internet shopping has increased the demand for home delivery of parcels.

Package and shipping is however one of the Postal Service's most competitive markets. The ability of the Postal Service to innovate and succeed in those markets is becoming more important with such market changes. Liberalization is critical to allow the USPS to become as innovative as possible in those markets and is a reflection of market trends. The importance to the Postal Service of obtaining true commercial freedom is thus rising over time because of demand changes.

It is also noteworthy that granting the Postal Service more commercial freedom is consistent with the 1970 Act that created the Postal Service and instructed it to operate in a businesslike fashion. It is difficult to fulfill such a mandate when fundamental business decisions such as pricing, service offerings, and service levels, are constrained by oversight of its monopolies.

Economists have often under-estimated the degree of innovation that is likely to occur when an industry is liberalized. For example, when airlines were deregulated, many experts were surprised by innovations such as the hub-and-spoke system, and by the development of aircraft that vary greatly in size and type, and are tailored to the route. This suggests that, after liberalization, the postal sector is also likely to adopt impressive innovations to better meet demand with its existing assets, and that such innovations are difficult to predict *ex ante*.

Corporatization versus Privatization

In addition to revenue-side liberalization, changes in the Postal Service's organizational structure are necessary to improve governance, to attract the managerial talent, experience, and the focused incentives that are critical for its fiscal sustainability. The first step is *corporatization*, which is distinct from *privatization*. Corporatization refers to subjecting the Postal Service to the usual set of corporate laws and norms associated with a modern, large, commercial entity. It includes the establishment of a professional, experienced board of directors with explicit fiduciary duties to the government shareholder, as well as executive compensation linked to clear performance standards, among other standard business structures. Importantly, it also includes the legal creation (but not the sale) of ownership shares in the firm. All shares are initially held by a single government shareholder, such as the U.S. Treasury.

By better focusing the Postal Service's goals, this step would improve firm governance. This initial governance step is a straightforward extension of the 1970 Act in that it provides the necessary legal framework to allow the Postal Service to become more businesslike, and to take better advantage of market opportunities as they appear in this dynamic sector. An improved legal framework, board structure, and organizational focus would also help the Postal Service to attract managerial talent with experience in a changing delivery sector. Managers could be drawn from overseas where other countries have many years of experience with a postal liberalization. Moreover, it would help create the focused incentives necessary to compete in today's increasingly competitive delivery marketplace.

Although they are distinct, corporatization and privatization are related. Privatization refers to the actual offering of ownership shares to the public once they are legally created. That is, the Treasury would divest itself of its ownership shares, typically over time in tranches. The first sale of shares would constitute an "initial public offering" of Postal Service ownership shares.

There are large, often underappreciated, social benefits associated with such a step. First, the Postal Service would receive an influx of much-needed capital that would allow it to undertake innovative, but inherently risky, new approaches in the postal and delivery sector. The burden of providing the capital necessary for such innovation thus would not come from taxpayers, but instead from private investors.

Second, the risks inherent in moving from the current fiscal crisis to creating a vibrant, profitable, sustainable postal sector would be borne by investors rather than by taxpayers. In addition to providing capital, private investors offer the service of bearing the lion's share of the risks inherent in developing a sustainable postal sector in the United States. As in the provision of any service, investors do not provide risk-bearing services for free. They instead place their capital at risk only when they are reasonably assured of earning a return on that investment commensurate with the risks they expect to assume.

Third, allowing ownership shares to trade further improves firm governance. Tradability generates a stock price, which provides a clear, transparent, constantly updated signal regarding the quality of managerial performance. This helps improve governance because performance is more easily observable. The existence of a stock price also allows the board to tie managerial incentives directly to performance through such compensation methods as stock options, restricted stock, and bonuses linked to stock price movements relative to some benchmark, among other governance mechanisms.

Because of these and a range of other social benefits associated with tradable ownership shares, the most appropriate organizational structure for a large commercial entity such as the Postal Service is likely to be a publicly traded company. This stems from the large capital needs and inherent risks associated with operating an innovative delivery business.

It is important to note that the above reforms are compatible with ensuring universal delivery service. Indeed, it is likely that the Postal Service's current structure may be hindering its ability to ensure universal service, as the recent plan to reduce Saturday delivery service suggests. Although a complete discussion is outside of the scope of this testimony, postal liberalization can in fact facilitate universal service through a route-bidding approach.[2] This approach allows several firms to compete for the right to provide service on a particular route. If the route is money losing, then firms can compete on the basis of the lowest acceptable subsidy required to provide universal service. Rather than a radical departure from current policy, this represents an extension of current practice under with the Postal Service contracts with private firms to deliver mail on some sparsely populated routes.

[2] I have outlined this approach elsewhere.

International Experience

The United States now lags behind almost every other developed country in postal liberalization. All 27 members of the European Union have eliminated their postal monopolies. New Zealand repealed its delivery monopoly in 1998. Sweden repealed in 2003. Germany and the Netherlands repealed in 2007 and 2009, respectively. The threat of competition associated with monopoly repeal has helped postal services in those countries to become more efficient, more effective enterprises.

Other countries are also far ahead on organizational reforms. Germany's post -- now Deutsche Post DHL -- was privatized in 2005 and has become a major player in the global delivery and logistics business. It reformed its compensation structure, brought in managers from other sectors, and modernized its delivery network. It operates in 220 countries and is now the world's largest courier company.

The UK post -- Royal Mail -- will be privatized later this year. One hundred percent of the formerly government-owned post in the Netherlands is now privately owned. New Zealand Post was corporatized in 1987, while all government subsidies were eliminated in 1988. New Zealand Post has become a successful, innovative global company focusing on parcel delivery, logistics and other businesses.

Summary and Conclusions

Recent, rapid declines in the Postal Service's core function of delivering first-class letters have continued to occur despite a recovering economy. This suggests that increasing use of electronic substitutes for physical mail, such as phone calls, faxes, e-mails, and text messaging, are eating away at the demand for first-class mail, the Service's core and most profitable offering. This has also reduced revenue from first-class mail. Given its relatively high cost structure, it is unsurprising that the Postal Service is in the midst of a major financial crisis.

Unlike other industries that have faced threats from new technologies over the past century, the experience from other countries suggests that the postal sector in the United States can become a vital, innovative, and sustainable part of the economy. For this to occur, however, it is imperative that the U.S. postal sector be liberated from its government-owned, monopoly structure. Rather than representing a sharp departure from the past, such reforms are a logical extension of the changes contained in the 1970 Postal Reorganization Act that created the Postal Service.

The U.S. Postal Service has an enormously valuable asset in its universal delivery network that has been constructed over decades. That asset deserves to be managed as effectively as possible. The reforms outlined above will ensure that the Postal Service remains a sustainable, vigorous institution for decades to come.

Figure 1. First-Class Mail Volume

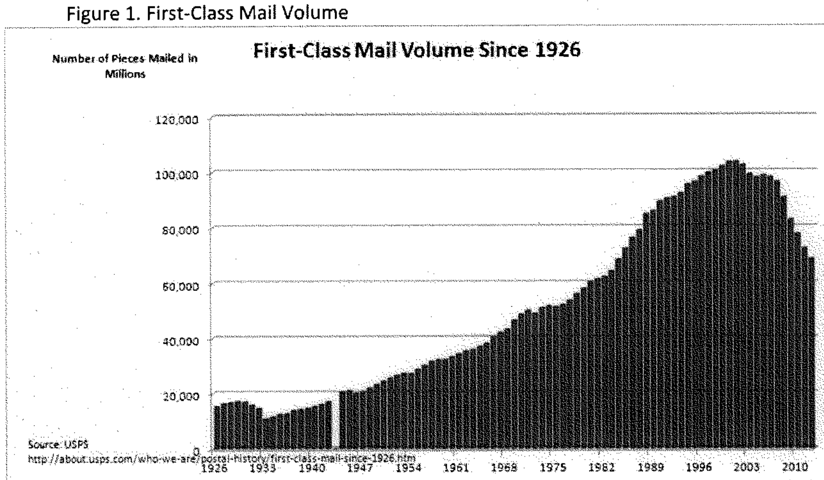
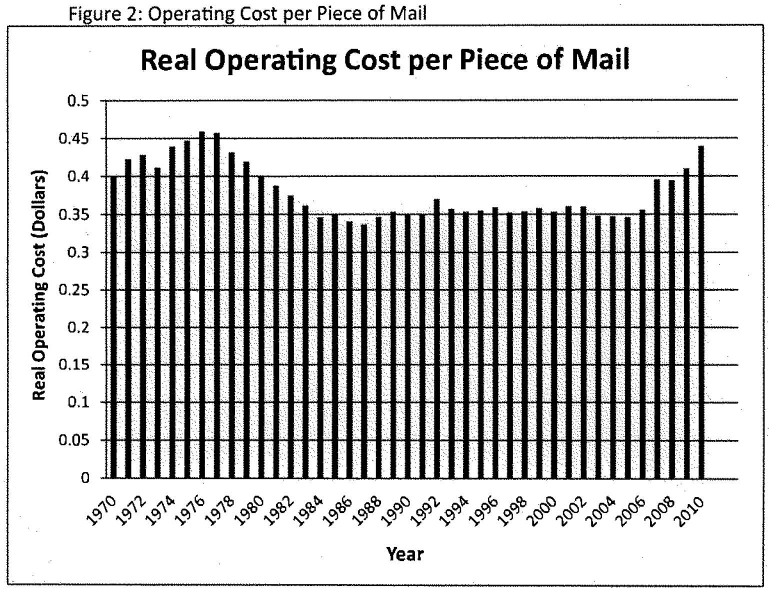


Figure 2: Operating Cost per Piece of Mail



U.S. Senate Committee on Homeland Security and Government Affairs
"Solutions to the Crisis Facing the U.S. Postal Service"
February 13, 2013

Written Statement of:
Hamilton Davison, President & Executive Director,
American Catalog Mailers Association

The US Postal Service is at the hub of a trillion-dollar mailing industry that employs 8 million Americans. Restoring it to financial stability is vital to protecting these jobs and the nearly 10% of GDP it generates. Although overall demand for hard copy mail has declined, its importance in American society and for American business remains enormous. While the USPS must downsize, the need for hard copy delivery is not going away.

Take catalogs, for example. Catalogs have taken on a new and exciting role in the ever-evolving digital world. Without mailed catalogs to prompt and remind consumers to shop, e-commerce revenue would plunge, undermining a vibrant sector of the economy. A sizable number of catalog mailers would not survive without a cost-effective, functioning postal system.

For more than two centuries, catalogs mailed into the home and office have been a valued and important part of the fabric of American life. We would respectfully ask that the attached monograph[1] describing the vitality of catalogs and their part in American society and culture be incorporated into the record.

It is clear the current trajectory of the Postal Service is unsustainable. A significant amount of declining mail volume can be attributed to uncertainty resulting from the USPS's financial crisis. We urge Congress to pass legislation that restores confidence to an essential component of America's infrastructure. Your leadership to see that these issues are addressed now can save even more pain and suffering later. Time is of the essence. To let this lag on to the Postal Service's near-breaking point later this year could prove catastrophic.

Last year, the USPS initiated a major restructuring to its delivery, processing and retail operations in a credible plan to remove $22 billion by 2016. Postal management has already reduced its workforce in the last decade by nearly 25% (largely through attrition) and has taken some $15 billion in costs out of the system. But more must be done.

Nobody wants mail service to be cut back to five days, for post offices to be closed down, or processing facilities to be scaled back. However, it is the reality today. The Postal Service needs the legislative support to remove excess capacity free from excessive political interference.

Much of the remaining work requires your action and support. We appreciate this Committee's continued effort in this important area. Initiated in the 112th Congress, you and your predecessors set the foundation. It is time to pass an effective reform law

[1] https://www.memberize.net/clubportal/clubdocs/2129/Social_Benefits_of_Cataloging_Updated_April_2011.pdf

giving the Postal Service the means to lower costs to properly size itself for 21st Century America. Today's consumers' and business people's postal needs are considerably different, yet they still long for a healthy, efficient postal system.

American Catalog Mailers Association (ACMA) implores Congress to pick up where it left off last year. There have been many studies documenting a variety of overcharges or unnecessarily accelerated funding in retirement programs (CSRS, RHBF, FERS). These legacy costs obscure the continuing work of the USPS to lower its cost base. They clearly require a legislative remedy. A passable bill that provides much needed adjustments so the system can continue to be self-funding by postal patrons and not be a burden to U.S. taxpayers is in order.

Specifically, at a minimum, we request the following be resolved:

1. Retiree Health Benefit funding must be termed out over a longer period and adjusted for the reduction in headcount.
2. The $11 billion in FERS overpayments must be returned to the USPS to use to pay down debt.
3. Congress should support, not stymie, facility and office closures even when they occur in our local districts.
4. Workers Compensation abuses should be ended.
5. Congress should not block the move to five-day delivery.
6. Congress should refrain from micromanaging postal service operations or requiring unfunded mandates.
7. Business mailers should not be asked to pay for the excess costs of the system.

Increasing prices is not the answer. USPS losses are clearly driven by excess costs. As they have increased at four times the rate of inflation and two times the rate of Factor Prices (or cost inputs), we do not believe reported costs for flat shaped mail are accurate.[2] Even modest increases in postal rates will drive further volume from the mail. Under no circumstances can we support any legislation that includes rate increases for any mailer.

The American Catalog Mailers Association appreciates the opportunity to offer comments. Catalog mailers are highly dependent on a cost efficient postal system. ACMA continues to support positive change at the USPS and urges your action to insure a strong, efficient system for generations of future Americans.

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[2] ACMA has detailed these issues in unrebutted testimony to the Postal Regulatory Commission that explains various problems with the traditional postal cost accounting approach in a system replete with excess capacity. See, among others, ACMA Comments and Reply Comments in Docket No. ACR2011 (February 3 and 17, 2012), Comments in Docket No. R2013-1 (November 1, 2012), and Comments and Reply Comments in Docket No. ACR2012 (February 1 and 15, 2013).

AMERICAN CATALOG
MAILERS ASSOCIATION

The American Catalog Experience:
Catalog Marketing's Social Importance to American Consumers & Culture

Catalogs Bring *A Variety of Good* to Americans

Overview

The catalog industry has a wide-sweeping impact on American culture, well beyond the economic benefits of employing millions of people, paying millions in federal, state and local taxes, and conserving energy and natural resources. The American catalog experience has significant and important social benefits to American culture and consumers.

Catalogs are Good for American Consumers and Our Quality of Life

- Catalog shopping is convenient and available 24/7/365 from one location accessed by mail, telephone or online. Oil consumption, traffic congestion, and parking are not factors.
- Catalog shopping is unconstrained by geography, thus eliminating physical and distance boundaries. Catalogs put a world of products in the hands of Americans.
- Catalogs allow instant service whenever and wherever people wish to shop. They are accessed anywhere, home or business.
- Catalogs define "universal access" for merchandise and commerce.
- Catalog shoppers consistently report it is easier to get detailed product knowlege and excellent customer service over the phone than elsewhere (or even to find a sales associate). There is usually no or little waiting time to get help.
- Catalogs fight the homogenization of products driven by retail consolidation ("the Wal-Mart-ization of America"). Retail economics force aggressive rationalization of merchandise assortment. If retailers do not sell a high number of pieces per individual store, they cannot exist. If catalogers, who usually offer a much broader assortment, do not sell a high number of pieces nationwide, they cannot exist. Retail and catalog are different business models and both are important for the growth of the American economy.
- Catalogs create an easy way to comparison shop without necessitating multiple trips to different stores.
- Catalogs make sending a birthday, holiday or special occasion present to anyone, anywhere a convenient pleasure, helping Americans stay connected in an increasingly mobile society.
- Catalogs allow people to shop for potentially embarrassing products in the privacy of their own home without worrying about being out in public — for instance, a cancer patient buying a wig, or consumers buying unusual or plus-sized clothing in the privacy of their home rather than in public at stores. Personal hygiene, medical and disability-related products are frequently purchased from catalogs for enhanced privacy.
- Some of the specialty products sold by catalogs includes diabetes-related products, organic products, business productivity tools, pharmaceuticals, and other specialized goods for which a ready retail market might not otherwise exist.
- Catalogs contribute to the quality of life by providing a convenient, fun, compelling leisure time experience. Recreational shopping is an important pastime for many Americans.

- Catalogs remain part of a shared experience in America that remains relevant, human and enjoyable in the increasingly impersonal age of ecommerce and electronic media.
- Catalogs form part of our collective experience. Who doesn't remember the childhood pleasure of paging through the often-remembered Sears Wishbook catalog?

Catalogs are Good for the Environment

- Catalogs may be America's biggest carpool.
- Catalogs have a low carbon footprint and are becoming more environmentally friendly every year. Yes, catalogs use paper, but the modern advances in forestry management have made trees a sustainable crop. In fact, there are more trees in North America today than there were at the time of Columbus's voyage. Plus, advances in the recycling of paper continue to develop and it takes 60% less water and energy to make recycled paper than to break lignin into virgin fiber. Please see www.catalogmailers.org for more information on «Catalogs and the Environment».
- Catalogs make the phone ring, a nearly environmentally neutral communications method in a society increasingly aware about ways to cut our carbon footprint.
- With very few exceptions, catalog companies demonstrate responsible mailing practices, honoring consumer demands concerning mailing frequency, contact methods, and individual consumer needs and wishes. Catalogers are, by the precise and stringent economics of cataloging, self-regulating, and cannot afford to do otherwise.

Catalogs are Good for the Economy

- Catalogs stimulate consumer demand, both for direct and retail, fuelling the largest engine of economic activity we have.
- Catalogs are highly targeted and merchandised to meet specific consumer interests and needs, thus representing an effective and efficient marketing channel to maintain and strengthen American competitiveness.
- Catalog brands have a long-term relationship with Americans that is part of the shared American experience. The ability to come back to trusted brands and companies for the things we need, knowing the consistency and helpfulness we will find as consumers can be relied upon again and again. This is a high ideal of American commerce.
- The robust American catalog shopping expereince allows for a shift in power from the retailer to the consumer.
- Catalogs are mailed predominately to willing customers who may have a pre-existing relationship with retailers, or to those consumers who have requested a catalog from a company they are interested in shopping with, or to other "opted-in" consumers who have expressed interest in receiving marketing information or specific offers.
- Catalogs help small businesses succeed.

Catalogs Encourage Small Business

- Catalogs allow many small businesses to quickly and efficiently access specialized products that keep them competitive despite their niche focus, small scale or remote location.
- Catalogs efficiently and effectively serve niche avocations and vocations, serving Americans and allowing these businesses to be productive at a lower cost of operations. They help "level the playing field" with larger companies that have more extensive sourcing operations.
- Catalogs provide an important distribution option for small- and medium-sized manufacturers, importers, wholesalers, inventors and designers, all of whom do not have

the scale, sophistication or capital to sell their products to the "Big Box" retail giants, which demand prices that are impossible to meet.

- Catalogs provide a national market test for new products and the discovery of small niche market opportunities that would otherwise require large budgets and sophisticated deployment. This creates greater innovation and broader consumer solutions than would be possible otherwise. For example, the electronic thermometer, which is now a standard for families with newborns, was developed in exactly this manner.
- Catalogs provide a national audience for small companies and start-up operations, helping keep small business as the largest creator of jobs in our economy.

Catalogs are Good for Disadvantaged and Rural Americans

- Catalogs can be the only alternative for shut-ins, infrimed, handicapped, elderly or those with limited mobility.
- Catalogs provide viable shopping venues for rural citizens who live too far from stores.
- Catalogs provide the older population with well-being benefits. The regular contact with letter carriers and delivery service providers who deliver packages to the home reduce the sense of isolation and provide beneficial human contact and a "safety-net," helping seniors stay connected to the community and creating a sense of normalcy so critical to well-being and mental health.
- Catalogs enable people to lend a helping hand to those they do not know, including the poor, destitute or imperiled throughout the world (consider, for example, Heifer International, CARE, NWF or other nonprofits that have catalog businesses).
- Catalog companies do not have to be located in urban centers and can instead create quality jobs for rural America. High-employment catalog companies are found in locations such as Freeport, Maine; Dodgeville, Wisconsin; Dyersville, Iowa; and many other remote locations.

Catalogs, Their History, and Their Role in American Commerce

- Interstate commerce developed because of catalogs.
- Rural free delivery was spurred on by catalogs.
- Parcel Post developed the required scale due to catalog shipments.
- Early catalog brands were among the first to have a national identity.
- More than half of America shops via catalogs.
- Catalogs allow marketers to have a national footprint without being a mass merchant, having helped develop the idea that we can have national brands without the requirement to open stores in every state.
- Baby Boomers buy more from catalogs — per capita — than any other generation.
- Catalog use increases with the age of the consumer, particularly pertinent in "the graying of America."
- Catalogs provide important content to keep mail relevant and welcome in the household.
- Cataloging did $270 billion in sales in 2006 and supported more than 20,000 different firms, as well as thousands of supplier companies and service vendors.
- Cataloging economics fundamentally changed in 2007 and have spurred industrywide experimentation to reduce mail volumes, down 35% two short years later. That's a figure that will likely continue to grow once catalogers perfect non-mail marketing techniques.

Catalogs and the Internet

- As a whole, catalogers were pioneers in the use of the Internet for the sale of products and services to consumers and businesses.
- By in large, catalogers receive about half their orders online depending on the product category and demographic they serve—yet the paper catalog is responsible for generating more than half a company's online sales (some companies report it is upwards of 90%). The symbiotic relationship between the paper catalog and online technology yields greater convenience for everyone from single, working moms to full families, to the elderly, to the physically handicapped, further driving social and environmental benefits, time and efficiency.
- Catalogs are also drivers of retail traffic, promoting commerce, jobs, and convenience for brick and mortar retailers.
- With rare exception, every cataloger has sophisticated e-commerce deployment, making full use of all established and most emerging, technologies.
- Catalogers largely do not distinguish between mail and Internet as business objectives. They see it as being about communicating with people in the way they want to be reached via media consumers already use. It is also about using the most efficient and desirable means possible to stay in touch with customers. The combination of the catalog plus the Internet creates a very powerful marketing and distribution system that impacts and improves lives.
- Catalogs establish brands then extend those brands' reach to the Internet, offering Americans hard-to-find products at value-based pricing.
- Catalogs help consumers feel confident about online purchases. Catalog merchants have a long and protected tradition of honoring their commitments as responsible, customer-oriented, integrity-driven businesses.
- Catalogs prompt people to tell others through social media (i.e., blogs, Twitter and Facebook) about the products that inspire. This "viral" effect of community and commerce has multiplicative financial and emotional benefits. It also increases consumer satisfaction and marketer responsiveness by providing a ready forum for customer comments, reviews and feedback.
- Catalogs provide an alternative transactional method for those Americans concerned about online privacy or transactional safety.
- Catalogs still have the highest order response of any vehicle available to direct marketing. Consumers "vote with their feet." This indicates that a great deal of value is put on the receipt of a catalog that creates a residual benefit for both online commerce and the American economy.

Conclusion

Since the mid-1990s, many experts have predicted the extinction of the printed catalog. However, until the double-whammy of the huge postage increase of 2007 and the Great Recession of 2008-2009, catalogs in America continued to thrive, aided and enhanced by the maturation of Internet marketing. As both the general economy and postal rates settle down, it will be proven that "rumors of catalogs' demise" continue to be over-stated.

With catalogers' continuously responsive use of recycled paper and tree replanting, as well as their close attention to self-regulation, this responsible industry is primed for greater growth going forward.

American Forest & Paper Association

American Forest & Paper Association
Donna Harman, President & CEO
Statement Submitted for the Record
Senate Committee on Homeland Security and Governmental Affairs
Solutions to the Crisis Facing the U.S. Postal Service
February 13, 2013

The American Forest & Paper Association, Inc. (AF&PA) is pleased to submit this written statement to the Senate Committee on Homeland Security and Governmental Affairs concerning the financial crisis facing the Postal Service and possible solutions.

AF&PA serves to advance a sustainable U.S. pulp, paper, packaging, and wood products manufacturing industry through fact-based public policy and marketplace advocacy. AF&PA member companies make products essential for everyday life from renewable and recyclable resources and are committed to continuous improvement through the industry's sustainability initiative - *Better Practices, Better Planet 2020*. The forest products industry accounts for approximately 4.5 percent of the total U.S. manufacturing GDP, manufactures approximately $190 billion in products annually, and employs nearly 900,000 men and women. The industry meets a payroll of approximately $50 billion annually and is among the top 10 manufacturing sector employers in 47 states.

The U.S. Postal Service (USPS) is the essential component of a $1 trillion mailing industry that employed 8.4 million Americans in large and small business enterprises as diverse as advertising, printing, paper manufacturing, publishing, and financial services during 2011. Approximately one-third, or $6 billion of consumer demand for printing and writing paper is delivered through the mail system.

With financial losses of $15.9 billion in fiscal 2012, the Postal Service is facing unprecedented challenges to adapt to the evolving nature of how people communicate and conduct business. AF&PA recognizes that the highly mobile and internet-enabled economy has forever changed the dynamics of volume, mix, and cost to deliver mail, but with losses accumulating at the rate of $25 million per day, Congress must act to pass much needed postal reform legislation to restore financial stability to the Postal Service. We support legislative measures that will help the USPS achieve long-term viability by realigning its outdated cost structure, encouraging new revenue sources, and leveraging its unique infrastructure to meet future customer needs.

Urgent Need for Coordination
Successful resolution of the postal financial crisis will require Congress, USPS leadership, and regulatory authorities to work together to enable the Postal Service to

operate within the new market realities. Changes in service standards, network and processing infrastructure, reduction and integration of postal office services into a more effective business footprint, new revenue opportunities, and changes in labor cost structure must all be considered as Congress works to find a solution. Uncertainty about the reliability of the Postal Service and cost to transact business through the mail, or stopgap measures that are not a part of a coordinated plan must be eliminated as soon as possible to prevent mail volume and revenue losses from accelerating even faster.

We support legislative measures that will enable the Postal Service to become financially self-sufficient and compete in today's business environment. Essential to long-term financial viability will be the elimination of statutory constraints and impediments to lowering labor costs, and the authority to realign the Postal Service infrastructure to match current and expected mail volume. That authority should be granted so that changes can be made quickly and transparently, with objectives that balance both the needs to reduce costs and preserve (and grow) mail volume.

Potential Postal Reform Solutions
AF&PA supports postal reform initiatives that take into account the following:

- Recognition that USPS is a critical supply chain partner in the mail economy that must right-size its processing and delivery capacity with current and expected demand. Labor and facility capacity must change with the evolving realities of communications and business transactions. The paper industry has faced the same capacity realities and has reduced and optimized production as the Postal Service must do.

- Employee costs, benefits, and future obligations must be brought in-line with market competition. The handcuffs and unreasonable burdens of the current statutory requirements must be changed so that the USPS can have a chance to be competitive with private sector business. Reamortization of payments for prefunding retiree health benefits, and returning to USPS its overpayments to the Federal Employees Retirement System (FERS) should be part of the solution.

- Potential service level reductions must realistically weigh cost savings against accelerated decline in volume. Regularity and reliability is the central value proposition of the U.S. Postal Service. The Postal Service's recent decision to eliminate six-day mail delivery is a short-sighted solution with questionable financial savings and will only drive volume out of the system, stripping both the USPS and businesses that depend on the mailing industry of potential revenues. The greatest contributor to the record $15.9 billion USPS losses in 2012 was not the cost of Saturday delivery but the $11.1 billion in unrealistic benefit obligations. Reduction of service puts mailing industry jobs at risk and eliminates the Postal Service's opportunities to leverage its network to find new revenue growth. Given the magnitude of the USPS financial deficit, higher value cost savings options with less demand risk should be considered before reductions in service frequency.

- USPS must create pricing models that will enable mail as a cost competitive option for business communications. Rate stability and predictability is essential for business to "stay in the mail" and USPS must recognize, as has our industry, that raising prices to address declining demand is not a successful strategy.

- USPS must collaborate with business to preserve mail volume and drive new revenue. Just as our industry has used innovation to find new markets and applications for our products, so must the Postal Service be allowed to seek new avenues to replace the lost revenue of declining mail volume. The business community can offer valuable insight into best practices in seeking new markets.

AF&PA recognizes the continuous need for Postal Service leadership to take steps to avoid slipping deeper into default, but the USPS is limited in its authority to make the necessary changes to reverse its unsustainable business model. The need is urgent for Congress to work together to pass postal reform legislation that will avert insolvency of the Postal Service and create a broader platform for a coordinated set of solutions.

AF&PA supported S.1789, the bi-partisan Senate postal reform bill in the 112th Congress. It was not a perfect bill, but was a necessary step towards ensuring the financial viability and affordability of the postal system on which we all depend. We look forward to working closely with the 113th Congress and USPS leadership to identify and support initiatives that achieve the same goals.

Thank you.

COALITION FOR A
21st CENTURY
POSTAL SERVICE

The Honorable Tom Carper
Chairman
Committee on Homeland Security and
Governmental Affairs
United States Senate
Washington, DC 20210

The Hon. Tom Coburn
Ranking Member
Committee on Homeland Security and
Governmental Affairs
United States Senate
Washington, DC 20210

Dear Mr. Chairman and Ranking Member Coburn:

With the Postal Service's continuing to teeter on the knife's edge of illiquidity, steps to restore financial stability remain very urgent. Swift action by Congress is essential. That is why the Coalition for a 21st Century Postal Service (C21) is gratified that you are committed to working together and with your colleagues to build quickly on the substantial progress made toward a postal reform package in the last Congress.

C21 broadly represents an industry collectively valued at more than $1 trillion, representing some 7% of GDP, and employing nearly 8 million private sector workers. C21's corporate and trade association members include paper manufacturers, printers, technology suppliers, advertisers, catalogers, magazines, newspapers, greeting card publishers, financial houses and other major transactional mailers, prescription and e-commerce sales fulfillment, parcel shippers and more. We have attached, for convenience, a current list of our members and a break-out by state of postal-dependent jobs. We appreciate the opportunity to submit these comments for the record of the February 13, 2013, hearing.

C21's preference would be for a comprehensive postal reform package. However, we believe that, in order to offer effective support to USPS, any legislation must address the following elements:

- Reamortization of Payments for Prefunding Retiree Health Benefits. Ensuring retiree health is not an unfunded liability is financially sound. But the current ten-year amortization results in unaffordable $5.5 billion annual payments, on which USPS has already defaulted twice, and is likely to continue to do so. Extended amortization guarantees full pre-funding at much lower annual payments. The forty years proposed last year in S. 1789 would accomplish the foregoing goals

- Return to USPS Overpayments to the Federal Employees Retirement System (FERS). Depending upon the calculation, USPS has overpaid into FERS by $2.5 to 12.5 billion. Since USPS is funded by postage-- not taxes— business mail users who account for some 90% of postal revenues, have been overcharged. Returned funds can be used as incentives for early retirement, debt reduction and more.

- Assuring USPS the Authority to Streamline its Service. Mail volume has declined 25% since its peak year in 2006. The associated revenue drop has vastly outpaced strenuous USPS actions to cut costs. USPS must reconfigure its system to the size of today's, and tomorrow's, business. This decline is unlikely to be substantially reversed, although further losses may be slowed. Without reconfiguring, the cost overhang will drive even more mail from the system.

  USPS has a plan in place to consolidate and close processing facilities, and reduce post office costs without widespread closings. The former has been implemented, and continues to be implemented without disruption, and the latter has been well-received around the country. Therefore, USPS has earned, in our view, the opportunity to continue to rightsize without additional inhibitions, but with the customary strong oversight of this Committee.

- USPS Healthcare Reform Proposal. The Postal Service has proposed to apply a healthcare plan for its employees and retirees as a single payer. USPS estimates savings in the range of $7 billion annually, which would include eliminating the need for prefunding, thereby resolving that annual $5.5. billion payment. C21 recommends a close look by the Committee, with expert advice, of this proposal. If the numbers prove to be accurate, we would endorse it and encourage its adoption into any reform legislation.

- "Underwater" Rates. Before addressing rates for periodicals and catalogs, further study of their immediate costs, along with opportunities for the Postal Service to reduce those costs, is necessary. This issue appears to be directly related to the costs of excess capacity, and therefore it is appropriate to defer considering reforms in this area until network consolidation is completed. Further, this mail generates significant additional mail volume as well as adds to the overall value of the mail. Its net contribution to the system is positive. C21 supports the compromises on periodicals and catalogs reached in the bills last year.

We also wish to comment on three other matters that will, or could become, part of the legislative discussion on stabilizing USPS:

- Saturday Delivery. C21 is neutral on this issue; a number of our members are willing to adjust to five days of delivery, but the sixth day is indispensable to the business plans of others. USPS suggests that its revised plan will save $2 billion/year. The Postal Regulatory Commission and others have differed with USPS on past estimates of Saturday savings. The Coalition strongly supports GAO review of the savings in the interest of accuracy for all concerned. Notwithstanding our neutrality, without very substantial savings, we believe there would be insufficient justification to erode a key competitive advantage.

- General Rate Increases. Some say part or all of the solution to USPS' financial challenges would be simply to charge those who use the system more, or even much more. This view unfortunately resists business reality. Postage is not a tax; you cannot make anyone mail. With ready and effective alternatives to the postal system, starting with the Internet, higher prices will push considerably more business away, worsening the problem rather than improving it, and costing many more jobs.

- Innovation. C21 supports measured expansion of USPS' flexibility to innovate. For postal products and government services, we encourage as broad creativity as possible. We also support the sale of appropriate advertising on postal vehicles and at postal facilities, and the delivery of wine and beer, consistent with applicable state law on distribution of those beverages. For non-postal products, however, we urge great caution, as there is a significant possibility of unfair competition with the private sector.

C21 very much looks forward to working once again with you and your staffs to develop effective legislation. We appreciate your leadership on this matter and, again, encourage all deliberate speed.

Thank you for considering our views.

Respectfully submitted,

Benjamin Y. Cooper
Co-Manager

Arthur B. Sackler
Co-Manager

COALITION FOR A
21st CENTURY
POSTAL SERVICE

Members

American Business Media
American Catalog Mailers Association
American Express
American Forest and Paper Association
Association for Postal Commerce
Bank of America
Bell+Howell
Boise, Inc.
Conde Nast
Datamatx
Domtar
Eastman Kodak Company
ebay
Envelope Manufacturers Association
Express Scripts
FedEx
Greeting Card Association
IDEAlliance
Imaging Network Group
International Paper
Mailing & Fulfillment Service Association
Major Mailers Association
National Association of Advertising Distributors
National Newspaper Association
National Retail Federation
NewPage Corporation
Newspaper Association of America
NPES The Association for Suppliers of Printing, Publishing and Converting Technologies
National Postal Policy Council
Parcel Shippers Association
Printing Industries of America
Pitney Bowes Inc.
Quad Graphics
RR Donnelley
Time Warner Inc.
Verizon
Verso Paper

2012 Mailing Industry Job Study
Distribution of Jobs By State

State	Jobs	State	Jobs	State	Jobs	State	Jobs
Alabama	112,463	Illinois	380,439	Montana	26,879	Rhode Island	32,027
Alaska	21,864	Indiana	170,731	Nebraska	56,239	South Carolina	98,838
Arizona	136,987	Iowa	92,980	Nevada	60,161	South Dakota	32,467
Arkansas	66,884	Kansas	84,957	New Hampshire	63,689	Tennessee	226,075
California	966,901	Kentucky	114,212	New Jersey	265,193	Texas	551,988
Colorado	134,926	Louisiana	93,218	New Mexico	84,825	Utah	68,904
Connecticut	117,319	Maine	49,060	New York	539,539	Vermont	36,140
Delaware	26,201	Maryland	175,052	North Carolina	211,707	Virginia	226,743
Dist. of Columbia	71,359	Massachusetts	217,080	North Dakota	43,168	Washington	157,442
Florida	480,104	Michigan	266,223	Ohio	343,200	West Virginia	48,425
Georgia	229,191	Minnesota	171,077	Oklahoma	84,154	Wisconsin	180,238
Hawaii	34,760	Mississippi	73,883	Oregon	121,763	Wyoming	15,660
Idaho	62,923	Missouri	165,343	Pennsylvania	338,152		
Grand Total: 8,429,751 Mailing Industry Jobs							

Testimony of

Fredric V. Rolando

President, National Association of Letter Carriers

to a hearing titled "Solutions to the Crisis Facing the U.S. Postal Service" by the Senate Committee on Homeland Security and Governmental Affairs

February 13, 2013

I. Introduction

I am Fred Rolando and I serve as the President of the National Association of Letter Carriers (NALC), a union that represents nearly 190,000 City Letter Carriers who live and work in every state and jurisdiction of the United States. I regret very much that the HSGAC Committee could not accommodate my request to testify in person on February 13, 2013, though I appreciate and readily acknowledge that the Committee invited me to testify on the originally scheduled date of February 6, 2013 – a date on which I was scheduled to be out of town for a national leadership conference. I therefore submit this testimony in writing on behalf of the 265,000 active and retired letter carriers who have voluntarily joined our union, including more than 90 percent of all active City Letter Carriers.

Letter carriers are rightly proud of the value we deliver to the American economy every day. The Postal Service offers excellent services at the most affordable rates in the world. Postage rates in the United States are 50-100 percent less than they are in Europe, even though we serve a geographical area that is much larger than any served by any European Union postal operator. And the quality of our service is rated among the best in the world. Indeed, a 2012 study of postal services in the G-20 group of nations by Oxford Strategic Consulting of the U.K. concluded that the USPS is the best postal service among the world's wealthiest countries (see Attachment 1 for the Executive Summary of the report).

Although mail volume is declining, and alternative forms of communication are taking the place of mail, the Postal Service remains a vital component of this country's economic and communications infrastructure. In the last fiscal year, USPS still handled 160 billion pieces of mail. Almost one half of all bills are still paid by mail. The majority of bills and statements received by households are still delivered by mail. Trillions of dollars move through the postal system every year. The Postal Service, despite its losses, generates annual revenue in excess of $65 billion. The mailing industry employs 8 million Americans. In September, 2011, Postmaster General Donahoe accurately described the importance of the Postal Service to the overall economy in testimony before this Senate committee:

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

Although we very much oppose the direction the Postmaster General is leading the Postal Service, we do agree with him on this. Now is the time for Congress to act to preserve America's great Postal Service.

II. Origins of the Crisis

The crisis facing the Postal Service is now in its sixth year. Although there are serious underlying factors driving the postal crisis, the scale and severity of this crisis is largely due to past actions taken by Congress. In 2006, the Congress passed and President George Bush signed the Postal Accountability and Enhancement Act (PAEA) of 2006. That legislation mandated a massive level of pre-funding of future retiree health benefits with a schedule of annual payments totaling $59 billion over the next 10 years with additional pre-funding thereafter to be amortized over 40 years initially, and eventually over 15 years as the amortization period was reduced. (The $59 billion figure was upper end of the estimated unfunded liability for such benefits over the next 75+ years – see page 29 of the 2006 USPS Annual Report.) The PAEA also placed strict price controls on the postage rates charged for magazines, catalogues, and letter mail (so-called market-dominant products). The new law gave the Postal Service a one-time-only option to adjust postage rates in 2007 to build the cost of the new pre-funding mandate into its prices before the new price index system kicked in (in an omnibus rate proceeding before the Postal Regulatory Commission). But the onset of what turned out to be the worst recession in 80 years led the USPS to forego that option. So USPS costs soared at a time when its revenue plummeted as the economy crashed.

Though well-intended and enacted at a time when the Postal Service was earning profits, the PAEA had a disastrous effect on the Postal Service. In a kind of perfect storm, the agency's finances were devastated by the pre-funding mandate, the price controls and the Great Recession that decimated the housing and finance industries which generate so much mail volume. On top of all this, surging fuel costs and the loss of First Class Mail to electronic bill-paying and internet communication added to the losses.

In the popular media and, unfortunately in many of the statements issued by members of Congress, the fiscal crisis at the Postal Service is often portrayed as a simple story of technological change. Although internet diversion is a serious and growing problem, not least because the ongoing crisis at the USPS seems to have accelerated the trend, it is not the main driver of USPS losses in recent years. As Table 1 indicates, nearly 80% of the Postal Service's $41 billion in reported losses stem from the $32 billion in pre-funding costs since 2007:

Table 1.

The Policy Legacy of the 2006 Postal Reform Bill (PAEA)

Pre-funding Payments to the Postal Service Retiree Health Benefit Fund (PSRHBF) vs. Reported Net Income

2007-2012*

Year	PSRHBF Expenses ($bil)	Reported Net Income ($bil)	Assets in PSRHBF ($bil)
2007	$8.358	-$5.142	$25.4
2008	$5.600	-$2.806	$31.8
2009*	$1.400	-$3.794	$34.2
2010	$5.500	-$8.505	$40.6
2011*	$0.000	-$5.067	$42.5
2012	$11.1	-$15.900	$45.0
Totals	**$31.958**	**-$41.214**	----

Prefunding expenses account for nearly 80% of reported USPS losses over the past six years since they were first imposed in 2007.

Notes: * Legislation adopted in 2009 reduced the 2009 pre-funding expense from $5.4 to $1.4 billion. Legislation adopted in 2011 deferred the $5.5 billion payment for 2011 until August 2012. USPS was unable to make the $11.1 bil. payment in 2012.

Source: Annual Reports of the Postmaster General, 2007-2012.

In the first quarter of the current fiscal year, the Postal Service earned a profit of $100 million, but reported a loss of $1.3 billion after recognizing a $1.4 billion expense for pre-funding. Meanwhile, as other delivery companies were able to raise rates to handle rising gasoline prices and other overhead costs, the Postal Service was prohibited from raising rates above the very low levels of inflation experienced during the Great Recession – see Table 2:

Table 2.

Consumer Price Index:
CPI-Postage vs. CPI-Private Delivery

Year	CPI-Postage	CPI-Delivery Services (private delivery)
2007	2.5%	6.4%
2008	3.4%	14.7%
2009	4.9%	-6.2%
2010	2.8%	14.2%
2011	3.9%	11.7%
2012	3.5%	5.3%
Avg. Inc. (2007-2012)	**3.5%**	**7.7%**

Source: Bureau of Labor Statistics, Consumer Price Index.

- Postage rates for most USPS volume were capped at the general rate of inflation even though the pre-funding mandate caused costs to soar.
- Shared sacrifice requires the use of a more relevant price index: CPI for Delivery Services which tracks delivery prices in the private sector.

The pre-funding mandate, which no other business or governmental agency faces, not only crippled the Postal Service's finances, it also led the Postal Service to pursue relentless downsizing and service cuts that are driving even more mail volume out of the system. Rather than use its borrowing authority to retool to capture new volume in the booming e-commerce industry or find new products to offer through its unmatched first-mile and last-mile delivery networks, the Postal Service has used it all to cover pre-funding costs. Worse, postal management has been hunkered down in crisis mode ever since the mandate took effect, devising ever more draconian reductions in service that threaten to plunge the Service into a death spiral -- where declining volume begets service cuts, prompting ever further volume losses and new service cuts.

Over the past few years, the USPS has removed tens of thousands of collection boxes and is reducing operating hours in more than 10,000 post offices, weakening its first mile network and driving away more business. Now it wants to degrade its last-mile delivery network by cutting Saturday delivery in August. Indeed, last week the Postmaster General outrageously announced his intention to implement five-day service for mail and six-day service for packages even though Congress has mandated six-day delivery of all mail for some 30 years. That mandate remains in current law. The PMG gave us less than 24 hours notice and personally told me he plans to go ahead with his plan even if Congress extends the current Continuing Resolution. He apparently thinks he's above the law; and has refused to work with NALC on operational, legislative, or customer service matters. The members of the NALC have lost confidence in Postmaster General Donahoe – indeed the 7,000 elected delegates of the NALC biennial convention in Minneapolis unanimously adopted a "motion of no confidence" in July 2012. For these reasons, and because we are convinced that the business strategy the Postmaster General is following is doomed to failure, we have called for the PMG's resignation.

We respectfully think you should do so too.

It gives us no pleasure to take this position. But our members and other postal employees have made tremendous sacrifices in recent years to save the Postal Service and those sacrifices should not be made in vain. NALC worked cooperatively with the Postal Service during the Great Recession to adapt to plunging mail volume. We eliminated more than 12,000 routes even as we added more than more than three million new delivery points. Over the past dozen years, we have boosted city carrier productivity dramatically, increasing average delivery addresses per route from 492 in 1999 to 616 in 2012, an increase of more than 25 percent. This has meant increasing the physical demands of our jobs by extending the hours we work on the streets from four hours to more than six hours a day, in all weather conditions. (Note that once the economy stabilized, the Postal Service unilaterally walked away from the joint process we used during the recession.)

In fact, the Postal Service has eliminated more than 193,000 jobs since 2006. And postal employees have not just sacrificed jobs – we have also done our part in recent rounds of collective bargaining to cut costs in the face of declining volume and revenues. City carriers will be paying more for health insurance and new career city carriers will earn 25% less when they are hired, and the Postal Service will be able to hire many thousands more non-career carriers who will make nearly 33% less in wages than current non-career carriers. The other postal unions made similar cost-cutting sacrifices. We have done our part to save the USPS. Now we urge Congress to do its part.

As the Committee deliberates over postal reform, we urge you to reverse or fundamentally modify the PAEA's unintentionally destructive policies on pre-funding and pricing, and to take action to prevent the Postal Service from downsizing the Postal Service into a death spiral by saving six-day delivery. But those steps alone will not save the Postal Service. That will require an even more fundamental restructuring of the Postal Service's governing structure, executive management and regulatory environment to allow the Service to compete for e-commerce volume and to use its unmatchable networks to offer new services. That is the conclusion reached by Lazard Company's due diligence investigation of the Postal Service commissioned by the NALC and conducted in 2012 (see Attachment 2). We hope to advance Lazard's recommendations in the legislative process and NALC looks forward to working with Senators in both parties to find solutions that will preserve the U.S. Postal Service, one of America's greatest institutions.

In this testimony, we will offer our views on a full range of policy solutions to the crisis at the Postal Service. It is our hope that the Committee will hold additional hearings on crucial topics such as reform of the pre-funding mandate, measures to reduce the cost of postal employee health benefits, new products and pricing reforms, and the debate over Saturday delivery.

II. Repeal or Reform the Mandate to Prefund Future Retiree Health Benefits

It is strange, but true, that the Postal Service is the most financially sound, failing company in America. Its pension obligations (under CSRS and FERS) are over-funded, even in the face of pension cost allocation methods developed by OPM that are grossly unfair to the Postal Service (according to independent, private sector audits that are discussed below). It has also prefunded 49% of its future retiree health benefits. No other civilian agency in the executive branch has pre-funded these costs at all, and according to a recent Towers Watson survey of Fortune 1000 companies, only 38% of such private companies prefund at all and the *median* level of funding is just 37%. In the private sector, pre-funding is voluntary. Responsible companies pre-fund when they are profitable or use their surpluses in their pension funds to cover such costs, as encouraged by the tax code.

Unfortunately, the PAEA's uniquely burdensome prefunding mandate is literally killing the Postal Service. Implemented at the outset of the global financial crisis, the excessive level of pre-funding required by the PAEA has consumed all of the Postal Service's borrowing authority and has pushed the agency to the verge of insolvency. No private company would have funneled tens of billions of dollars into a retiree health fund in the midst of a deep recession. The Postal Service needs immediate and significant relief from this mandate – without it, no other reform can save this institution.

In the last Congress, the Senate did attempt to reduce the pre-funding burden in S. 1789. That bill lowered the target level of pre-funding from 100% to 80%, replaced the fixed schedule of prefunding payments with a two-tier set of pre-funding payments (normal cost payments and amortization payments to reduce the unfunded liability), and opened access to the Postal Service Retiree Health Benefits Fund (PSRHBF) a few years early for use to cover the cost of current retiree health premiums. The last provision provided significant short-term relief from the pre-funding burden, freeing up cash by moving the date the PSRHBF can be used to cover premiums from 2017 to 2012. But the actual level of pre-funding under S. 1789 was reduced by just 6 percent, as shown in Table 3. The level of prefunding would remain very high and the USPS would likely default on the payments required in S. 1789 in a year or two. We believe much more substantial relief is required.

There are a number of options Congress should consider to solve the prefunding problem:

1) Repeal. The simplest solution would be to repeal the PAEA's pre-funding mandate altogether and to allow the Postal Service to use the Postal Service Retiree Health Fund to cover the cost of retiree health premiums with the $45 billion in funds now deposited in the Postal Service Retiree Health Benefits Fund (PSRHBF). Over time, the fund would

be depleted and the USPS would return to covering these costs from operating revenue on a pay-as-you-go basis. This would give the Postal Service time to restructure and adapt in the intermediate term and eventually allow it to return to the private sector standard on covering retiree health costs for companies in multi-employer plans.

The objection to this alternative is that taxpayers might eventually be required to cover the cost of postal employee retiree health costs, if the Postal Service lacked the funds or ceased to exist. The GAO has emphasized this point in its analysis of the issue. Underlying this concern is the notion that ratepayers must cover all present and future USPS costs, a convention adopted in 1970 and fully implemented by 1983. But for more than 200 years before 1983, the Post Office was funded by taxpayers and ratepayers. To say that we must adhere to the post-1983 convention forever assumes that the tax-paying public receives no benefit from the Postal Service and therefore should never have to pay any of its costs. We believe this assumption is wrong – all Americans benefit from the Postal Service, taxpayers and ratepayers alike. As a public service and as a crucial part of the nation's economic and political infrastructure, it supports national unity and national markets, encourages economic growth, and contributes to the cultural and political life of the nation.

While we do not seek nor support taxpayer operational subsidies for the Postal Service today, we do not believe the fear of a possible need for taxpayer support for retired postal employee health benefits in a doomsday scenario for the future can justify crippling the Postal Service today with an unaffordable mandate. Moreover, no other agency of the government, and I might add no institution or agency in the legislative branch of the government (which includes the House, the Senate, the GAO, the CBO and the CRS) currently pre-funds future retiree health benefits at any level. Future taxpayers will cover the cost of health benefits for retired legislative branch employees. Would future postal retirees be any less worthy of taxpayer-provided health benefits as compensation for their service to the country? The answer is: Of course not.

In any case, retaining a crushing prefunding mandate today makes it more likely, not less likely, that taxpayers will eventually have to cover the cost. Driving the Postal Service into a death spiral will not protect taxpayers. Reform that allows it to restructure and thrive will.

2) Repeal and replace. Another option would be to repeal the PAEA's pre-funding mandate and replace it with a more reasonable and affordable mandate. For example, it could be replaced with a private sector "best practices" funding standard – which would require the USPS to contribute to the PSRHBF in years when it is profitable. The law could dictate a defined percentage of profits be allocated to the PSRHBF or require the USPS maintain a pre-funding percentage tied to private sector practice among firms that pre-fund. Or the law could require the USPS to maintain the level of funding in the PSRHBF to a level tied to best practices in the private sector – the 37% median level of funding among Fortune 1000 companies in the private sector, for example.

3) The USPS OIG proposal. The USPS Office of Inspector General offers a creative solution to the pre-funding mandate. It would repeal the PAEA's prefunding payment schedule and allow the current assets in the PSRHBF to accrue interest over time while the USPS continued to pay for its retiree health insurance premiums with operational funds. The PSRHBF would continue to grow with earned interest and would not be available to the USPS until it covered a certain percentage (to be set by Congress) of the unfunded liability. It would effectively serve as a reserve fund to cover the cost of

retiree health in the future if the Postal Service could not make the payments in the future. This would provide breathing space to reform the USPS and partially address the GAO's concerns, even though it would still treat the USPS more harshly than other agencies and private companies. The proposal is outlined in a letter to Sen. Sanders reproduced as Attachment 3.

4) Cover retiree health with the fairly calculated CSRS pension. During the 112th Congress, bills offered in both the House and Senate, sought to protect future taxpayers from future postal retiree health liabilities by permitting the Postal Service to use postal pension surpluses in the Civil Service Retirement and Disability Fund (CSRDF) reported by independent audits (USPS-OIG/Hay and PRC/Segal) to cover the cost of future pre-funding. Indeed, the only-bipartisan postal bill considered the House of Representatives (H.R. 1351) in the 112th Congress, which drew 230 co-sponsors from both parties, called for fairly and accurately measuring the Postal Service's pension surplus in the postal CSRS account of the CSRDF and transferring the surplus to the PSRHBF. That bill never got a vote in the House. In the Senate, the original bills offered by Sens. Carper and Collins (S. 1010 and S. 353) that were later combined to create S. 1789 contained similar language on the CSRS surplus. However, concerns that transferring funds from the CSRDF to the PSRHBF would present scoring problems led the senators to drop the provision from S. 1789. (The senators may have also reacted to a GAO report that questioned claims that the USPS was over-charged by the OPM for retirement costs, but the same report acknowledged that the PRC and OIG methods were "reasonable" and that the choice of methods used is a "policy decision" for Congress.)

The decision to leave the CSRS transfer provision out of S. 1789 prevented significant relief from the pre-funding burden – which may have driven the bill's authors to target the elimination of 18% of all postal jobs and to lay the groundwork for the elimination of Saturday delivery two years from now (and the subsequent opening of the nation's mail boxes to private competitors). It is crucial to reverse these legislative decisions, and to address the problems that led to them, as we tackle postal reform in the 113th Congress. However, this can be done in a way that minimizes the impact on the deficit that would result from a large transfer from the CSRDF to the PSRHBF. Indeed, it may not be necessary to transfer any funds at all to significantly reduce the cost of pre-funding. This can be done in five steps:

a) In the Office of Personnel Management's annual valuation of the CSRS postal sub-account within the Civil Service Retirement and Disability Fund, mandate the adoption of modern, private sector accounting and actuarial methods called for by Accounting Standard Codification No. 715. (FASB -ASC 715, *Compensation—Retirement Benefits* from the Financial Accounting Standards Board). This was the policy recommendation of the Postal Regulatory Commission's report *on Civil Service Retirement Cost and Benefit Allocation Principles* prepared by respected experts of the Segal Company (June 29, 2010). The methods proposed by the PRC report produce a lower surplus than those advocated by the USPS OIG report on the same matter prepared by the Hay Group in January 2010, *The Postal Service's Share of CSRS Pension* Responsibility (Report Number: RARC-WP-10-001, January 10, 2010). As mentioned above, a GAO review of these reports as well as the accounting and actuarial methods currently employed by the Office of Personnel Management (OPM) concluded that all three sets of methods are "reasonable" and that the choice of methods is a "policy decision." Congress should mandate the PRC's methods because the OPM's current methods are unfair and inequitable to the Postal Service, its customers and its employees. See Chart 1, which demonstrates the inequitable allocation of pension costs resulting from the OPM's methods. It shows that the Postal Service pays 83% of the health care costs of a retiree who worked just 50% of his career for the USPS, leaving the OPM to pay 17% for the other half of the employee's career for the tax-payer supported Post Office Department.

As suggested above, mandating the PRC audit's reform recommendation had strong support in the last Congress – a majority of the House of Representatives co-sponsored a bill (H.R. 1351) and bills introduced by Senators Carper and Collins at the beginning of the 112th Congress also endorsed these methods. In addition, the Obama administration expressed its support for a CSRS transfer as part of postal reform, as explained in a letter from Director of Legislative Affairs Director Robert Nabors to Representatives Elijah Cummings and Darrell Issa on October 13, 2011. The letter is reproduced as Attachment 4, which was sent after the GAO report on pension allocation methods was issued.

b) In order to minimize any budget impact of mandating the use of fair actuarial methods and assumptions, Congress should repeal Section 1848(h)(2)(C) of USC Title 5, which requires the transfer of any postal pension surplus to the USPS Retiree Health Benefit Fund following valuations in 2015, 2025, 2035 and 2039. The required transfers mandated by 1848(h)(2)(C) were enacted by the PAEA in 2006. A repeal of this transfer provision would eliminate the need to amortize (with mandatory payments from the General Fund) any increase in the CSRDF's unfunded liability resulting from the transfers. (Such amortization payments are required by another provision in Title 5.)

Note: A repeal of the transfer provision would minimize any budget score associated with a policy of accurately and fairly defining the Postal Service's pension obligations and give policy-makers up-to-date and accurate information on the Postal Service's legacy costs. It makes sense because the PSRHBF will not need the surplus funds for decades – and the surplus pension funds might never be needed if Congress enacts the reforms outlined below to properly invest the PSRHBF (item 5) and to find ways to reduce future retiree health benefit costs (item 6).

c) Congress should repeal the PAEA's fixed schedule of pre-funding payments and replace it with the two-tier prefunding payments called for in S. 1789 (normal cost and amortization costs), but establish a right to access the fairly calculated CSRS postal surplus in the future to cover the cost of retiree health benefits if the PSRHBF should ever be exhausted. (The 80% funding target and the immediate access to the PSRHBF to cover current retiree health premiums in S. 1789 should be retained in any new legislation.)

d) Congress should require the OPM Board of Actuaries to take the accurately measured CSRS postal surplus into account when calculating the unfunded liability for postal employee retiree health benefits, a step that would eliminate the need to make amortization payments over the next ten years or more. (In practical terms, the USPS would make a normal cost payment each year to the PSRHBF and the PSRHBF would cover the cost of current postal retiree health premiums – resulting initially in a growing PSRHBF, even before taking into account the fund's earnings.) This instruction would apply the best practice of private sector pension funds to the Postal Service. Indeed, the tax code allows companies to apply surplus pension funds to the cost of post-retirement health liabilities (see section 420 of the Internal Revenue Code).

e) In order to address false claims that might be raised by some that reforms such as those described above represent "taxpayer bailouts," Congress should adopt the Statutory PAYGO reforms proposed by the Obama administration to the Super Committee established by the 2011 Budget Control Act. Section 104 of the administration's submission called for an amendment to the PAYGO act to treat the transactions of the Postal Service Fund as "budgetary effects," thereby measuring Postal Service transactions on a unified budget basis for PAYGO purposes.

5) Invest the PSRHBF in the Thrift Savings Plan. The PSRHBF is unique in the federal government. No other agency has a retiree health fund. Although it differs from so-called VEBA plans (Voluntary Employee Benefit Associations) in the private sector because retired postal employees are guaranteed retiree health benefits by the FEHBP law even if the balance in the PSRHBF goes to zero, it is very similar to such plans since its assets are dedicated to cover benefits for a specific group of people with a tie to a single employer. In this case, the PSRHBF is dedicated to pay the Postal Service's share of health insurance premiums for retired postal employees -- starting in 2017.

Unfortunately, the PSRHBF is invested solely in low-yielding Treasury securities – and given that long-term health care costs are expected to grow faster than the interest rates payable by Treasury securities for the foreseeable future, the unfunded liability will almost certainly keep growing over time. No VEBA in the private sector would invest its assets so conservatively, especially since the annual cash requirement for the PSRHBF ($3 billion per year) is a fraction of the $45 billion in assets.

In an ideal world, the PSRHBF would be held on the Postal Service's books and invested appropriately (in a properly diversified portfolio of stocks, bonds, real estate, etc. overseen by a professional investment manager) to minimize the PSRHBF's unfunded liability – and therefore minimize any amortization payments from the USPS in the future. Transferring the PSRHBF to the off-budget Postal Service might present budget scoring problems (unless the budgetary effects proposal outlined above is adopted) and the Treasury Department has traditionally opposed the investment of government trust funds in private securities.

However, NALC believes there is a way for the PSRHBF to earn higher, private sector-based returns without moving it from the OPM's books – which should reduce the federal deficit. The PSRHBF could be invested in the index funds offered by the Thrift Savings Plan. The Federal Retirement Thrift Investment Board already invests a pool of nearly $300 billion of federal and postal employee retirement savings in these funds – so investing the funds of the PSRHBF, which also holds assets dedicated to post-retirement benefits, would not be setting a new precedent. The TSP's Lifecycle 2040 Fund has earned an annual return of 5.0% since its inception in 2006, much greater than the 2-3% returns paid lately on Treasury bonds.

6) Give the Postal Service and its unions the ability to reduce retiree health costs within FEHBP. NALC and its members are willing to do our part to reduce the cost of future retiree health benefits at the bargaining table if Congress treats the Postal Service, its employees and the mailers fairly on pension costs. The best way to reduce the pre-funding burden on the Postal Service is to reduce the cost of health insurance in general, and retiree health insurance in particular.

Generally, the OPM and the FEHBP program have done a relatively good job in controlling health care costs. Indeed, the federal government's health care costs are lower than those of other large employers in the private sector, and the FEHBP program has restrained health care inflation better than employer plans in the private sector. Nevertheless, there is more that could be done to reduce health care costs – which could reduce the cost of prefunding retiree health benefits.

The Postal Service has asked Congress to let it leave the FEHB Program and set up its own health care program. The postal unions, including the NALC, oppose leaving FEHBP. But most of the savings the USPS thinks it can achieve outside of FEHBP could be achieved inside of FEHBP -- if the USPS and its unions were allowed to negotiate an exclusive set of FEHBP plans to be offered to postal employees and future postal retirees (current postal retirees should keep the plans they have). This 'postal FEHBP exchange' could work with OPM to implement health plan innovations to incentivize good health and require the use of single network providers for medical services, hospital care and prescription drugs in order to cut costs. In addition, the 'postal FEHBP exchange' could achieve improved integration with Medicare and seek permission from OPM to implement a private sector-style Employer Group Waiver Plan (EGWP) to bring down the cost of drugs. Lower retiree health costs would translate into lower pre-funding payments.

It is urgent that Congress take action to repeal or reform the pre-funding mandate. We cannot imagine any member of the Senate, regardless of party or ideology, who would accept such a mandate being applied to a single private sector employer in his or her state. Yet because it is applied to a federal agency, it is ignored. But the negative impact it has on the

Postal Service is hurting the entire postal industry. Of the eight million workers in our industry, just over a half-million work for the USPS. The vast majority of the workers in our industry work in private companies across the country. The pre-funding mandate is not just dragging the USPS down; it's weakening an entire industry that employs workers in every state of the union.

III. Six-day Last Mile Delivery is the Postal Service's Core Function

The Postmaster General announced February 6th that the USPS intends to go to Monday-through-Friday delivery of letter mail and Monday-through-Saturday delivery of packages in early August. In view of the mandate to deliver all mail six days a week (including Saturdays) enacted annually by Congress over the past 30 years, and since it remains in effect today, the Postmaster General's announcement should be seen for what it is: an arrogant attempt to pre-empt the authority of Congress to set postal policy. There is no need to debate legal loopholes; the announcement clearly violates the will of Congress and the PMG should be reprimanded for his arrogance. If the USPS Board of Governors is behind this outrageous maneuver, it should be reprimanded too. If the Board is not, it should remove Postmaster General Donahoe.

The core competence and core asset of the Postal Service as an enterprise is its unmatchable, six-days-per-week, last-mile delivery network. It is a strategic asset that must be protected to return the Postal Service to health. It should not be sacrificed to maintain the disastrous pre-funding policy introduced in 2006, or even the modified pre-funding policy that was proposed by S. 1789 in the last Congress. That bill was well-intentioned in that it would have preserved Saturday delivery for at least two more years and would have made the decision to end Saturday delivery contingent on the unprofitability of the Postal Service. But degrading the Postal Service's core asset makes no business sense.

Therefore, we urge the Committee to continue to mandate six-day delivery in the law – and remove the possibility that Congressional appropriators might inappropriately seek "unified budget" savings by eliminating the six-day requirement even though the USPS receives no taxpayer money – a mistake the Obama administration made when it proposed to end Saturday delivery in its proposal to the Super Committee created by the Budget Control Act of 2011, and which it repeated in the past two budgets.

The Postmaster General has put forth a number of flimsy arguments in support of his five-day mail delivery proposal, even as he has failed to be fully forthcoming on the job losses his plan will entail. I wish address these arguments and note our concerns about jobs next.

First, the PMG's claim that the proposal would save $2 billion annually is clearly false. The PRC found in 2011 that the Postal Service's original five-day delivery plan, which did not involve the delivery of any packages or prescription drugs, would save at most $1.7 billion, even though that figure dubiously assumed almost no loss of mail volume due to reduced service. In fact, one of the Postal Service's own consultants, Opinion Research Corporation (ORC), concluded that the combined impact of slower service standards from its network optimization plan (involving mail processing plants), post office closings and the end of Saturday delivery would reduce total mail volume by 7.7 percent and result in a loss of $5.3 billion in revenues, far exceeding the $3.3 billion in cost savings estimated by ORC. These findings, based on 2010 data, were not shared with the PRC during its review of the five-day plan or its review of the network optimization plan. When the findings were discovered in 2012, the Postal Service dubiously disavowed them as "flawed" – though ORC has never disavowed its work. See Attachment 5, which provides a summary estimate of the impact of the planned service cuts on mail volume and postage revenue. It was introduced as an exhibit in the PRC proceeding by the American Postal Workers Union.

The Postal Service's own market research shows at least a third of business mailers value Saturday delivery (see below), including the weekly newsmagazine and newspapers that absolutely depend on it each week. Cutting Saturday delivery will drive periodical and advertising mail away (direct marketers will switch to delivery with newspapers) and make things worse, not better. As the Dow Jones company reported last week, it has already started to move Saturday deliveries of *The Wall Street Journal* to other delivery companies in anticipation of the Postal Service's move to end Saturday delivery. *New York* magazine and *The Economist* magazine have done so as well. Indeed, the Association for Magazine Media has criticized the move to five-day delivery. And while the trade association for many advertising mailers has not taken a position on Saturday delivery, many individual companies like Valasis Inc. (one of the nation's largest direct mailers), Hallmark and e-Bay oppose the change. The savings the Postal Service claims would be overwhelmed by the loss of revenues. At a minimum, the Postal Service should submit its new five-day plan for review by the PRC before Congress decides this matter.

Second, the Postmaster General falsely claims that the move to five-day mail service will not slow the delivery of mail. That is preposterous. The PMG admits that mail in collection boxes won't be collected on Saturdays and that mail will not be sorted to delivery point sequence on Friday nights. By definition this will slow the mail for American mailers – collection box mail will be delayed a day and mail destined for P.O. Boxes not sorted on Friday nights won't be in those boxes on Saturdays. When there is a federal holiday, the mail will be delayed even further. Slower service will drive business away, reducing revenue and driving the Postal Service to make even more self-defeating service cuts.

Third, the Postmaster General claims the USPS's customers are supportive of this change, citing so-called market research. Specifically he says: "Market research shows that seven out of

10 Americans support five day delivery." Not only is that statement incomplete, it's grossly misleading. Public opinion polls are not market research – especially when the folks polled are given a choice between the elimination of Saturday delivery or higher postage rates or closed post offices, which nearly every poll conducted does. Moreover, polling the recipients of mail misses the point – the overwhelming majority of mail (90-95%) is generated by businesses for households (including business reply envelopes used by consumers to pay their bills). Although city carriers feel strongly that we serve the public, the vast majority of paying customers of the Postal Service are business mailers. Their views on Saturday delivery are critical – not public opinion.

A 2009 survey of 4,100 businesses conducted by the USPS and the Mailers technical Advisory Committee (NMTAC) found that 32% of them opposed the shift to five-day. Another 2009 survey of 1,144 small businesses (less than 250 employees) for the USPS by the Maritz Company found that 68% supported the plan – meaning that up to 32% didn't. There are more than 25 million businesses of all sizes in the United States. If a third of these businesses oppose the plan, as the Postal Service's own surveys show, then literally millions of businesses will suffer from the Postal Service's plan.

Members of the Committee should not blindly follow public opinion when it comes to Saturday delivery. Of course, in electoral terms, 7 out of 10 Americans is a landslide. But in business terms, failing to serve 3 out of every 10 customers is a prescription for bankruptcy. How can the Postal Service if they cut a service – Saturday delivery – millions of business customers need? And if a substantial number of those spurned business customers find alternatives or reduce their volume of mail, how can the majority of customers who claim to support the plan not face even further cutbacks and/or higher prices from the Postal Service? If that happens, 10 out of 10 Americans would be hurt and 100% of American businesses would suffer. The bottom line is clear: The Postmaster General's five-day plan is an anti-business plan that is not in the public's interest either.

Fourth, and most outrageously, the Postmaster General told reporters on February 6 that the employees of the Postal Service support his five-day delivery plan, basing it on the random conversations he has had with employees in post offices over the past year. Worse, he misleadingly implied that I personally accepted the plan and that "letter carriers" support his plan. This is pure nonsense and totally untrue. City letter carriers overwhelmingly oppose this plan. I know, I was elected to my job by them, and more than 90% of them voluntarily belong to NALC. Other postal employees feel the same way. All four postal employee unions issued statements on February 6th opposing the PMG's plan. Congress should not be swayed by the PMG's arrogant and misleading claim to speak for postal employees.

Fifth, the Postmaster General claimed that he listened to his customers and altered his original five-day plan to provide Saturday delivery of packages, including the delivery of prescription drugs. While we are heartened that the PMG would listen to his customers, we wonder why he won't listen to the millions of businesses who value Saturday mail and periodical delivery as well, and we are concerned that the PMG will risk our recent gains in package delivery market share by adopting his plan. The PMG proudly cites the 14% growth in package volume in recent years. And in the first quarter, the USPS reported a 19% growth in revenue from Parcel Return and Parcel Select, the services private delivery companies use to take advantage of the Postal Service's first- and last-mile capabilities. Indeed, in its press release announcing the first quarter results, the Postal Service cited the "comparative advantage" of its last mile delivery network as the driving force behind its strong growth in package delivery.

But that growth and that comparative advantage have been built on a shared, multi-product, last-mile delivery network. By delivering letters, flats, and parcels together, the cost of USPS package delivery has been kept quite low. How will the Postal Service remain the most affordable provider of package delivery to residential neighborhoods if it gives away this pricing advantage? Economists call this the economies of scope. Will the Postal Service's plan recklessly throw away these economies just when the e-commerce boom is gaining momentum? How much business will we lose from FedEx SmartPost and UPS SurePost by eliminating Saturday delivery? Will new competitors emerge to offer Saturday delivery service for newspapers, direct mail and flats that will cause even more volume loss? We believe the answers to these questions will make it very clear that the elimination of Saturday mail delivery makes no business sense.

Finally, on the Saturday delivery issue, the Postmaster General has not been entirely forthcoming with Congress or the public on the negative employment impact his plan will have on the U.S. economy. In his press conference, he said that the plan would eliminate 22,500 jobs. But his press materials make reference to 35,000 full-time equivalent jobs. Back in 2010, when the plan was first formulated, the Postal Service met individually with the four unions and provided the following estimates of job losses for the plan to cut Saturday mail delivery: 25,846 full-time city carriers, 53,240 full- and part-time rural carriers, 2,250 clerks and other employees in APWU crafts, and 450 mail handlers for a total of 81,786 full- and part-time jobs. As we saw with the suppressed evidence during the PRC proceeding on network optimization, the Postal Service doesn't really know how much, if any, savings will result from all their service cuts. Based on the constantly shifting numbers on jobs, it doesn't seem to know how many jobs are at stake with its proposed elimination of Saturday mail delivery. The Postal Service is not being straight with the Congress or the public. This must change.

IV. Pricing and products reform

In the absence of the pre-funding mandate, the introduction of a streamlined system of rate regulation would have made a lot of sense in 2006. Replacing the costly and time-consuming system of setting postage rates through months of expensive litigation between competing sets of mailers was a laudable goal. Unfortunately, the Congress saddled the Postal Service with a huge new mandate at the same time it implemented the price cap on its rates. The cost of the pre-funding mandate was never built into the Postal Service's prices because the USPS did not conduct the one-time, final omnibus rate case called for in the PAEA. (The USPS rightly did not want to raise rates in the midst of the recession.) Even without the crushing burden of pre-funding, the cost of mail delivery on a unit basis was bound to rise as internet diversion reduced mail volume, but the Postal Service cannot charge mailers the true cost of delivering the mail. This pricing regime is not sustainable and is contributing to the mindless downsizing that threatens to destroy a key part of the nation's economic infrastructure.

At a minimum, the Postal Service should be given the right to adjust its rates with a one-time proceeding before the Postal Regulatory Commission. The omnibus postage rate review and adjustment that was authorized by the PAEA, but that did not happen in 2007, should be conducted in 2013. If Congress insists on the prefunding mandate, then it is only fair that at least some of its cost should be built into the postage rates the Postal Service charges its customers. Such a one-time rate is needed to provide reasonable balance to the huge sacrifices postal employees have made in recent years.

But in addition, the Postal Service must be able to generate greater revenues to balance the cost-cutting it will continue to pursue. No struggling enterprise can mindlessly downsize its way back to health. It must have a growth strategy and be able to generate new revenues.

There are three ways that the Postal Service can increase revenue: grow the existing business in sectors of the mailing industry that are expanding (package delivery, returns and e-commerce), better align prices to reflect costs (pricing reform), and find new uses of the Postal Service's networks that can help finance and preserve the valuable last mile delivery networks that the country depends on for commerce, communication and voting. The USPS is already doing the first and will continue to succeed so long as it does not destroy its own comparative advantage by degrading its last-mile network. But Congress must enact reforms to help USPS increase revenues in the second and third ways.

First, on pricing reform, the case can be made to eliminate the price cap altogether, as the regulator in Great Britain has done recently. Postal operators no longer have the ability to abuse their monopolies – there is an electronic or physical alternative to every service they provide. The USPS has no market power whatsoever – if it raises rates too high, customers will leave the mail system. There is market discipline in place. On the other hand, mailers legitimately want some protection against capricious rate increases. But the USPS needs greater flexibility to set rates that will cover its costs.

The reforms proposed by S. 1789 are a good start, but the price index system for market-dominant products must be updated and must be based on an appropriate benchmark index. The Consumer Price Index for All-Items is not the correct index. The Postal Service is part of the national delivery industry, a transport-based, energy-intensive industry that has unique characteristics. Although the USPS is by definition more labor-intensive than private companies like FedEx and UPS – we deliver to 150 million addresses six days a week, not 15 million addresses five days a week – the USPS faces the same cost pressures as those companies. At a time of soaring energy costs, the rates charged by private companies that provide delivery services have increased at more than twice the rate of postage -- see Table 2 above. If the

USPS is to preserve its networks, it must be given pricing flexibility. Congress should modernize the price indexing system and replace the CPI-All Items with the CPI for Delivery Services. It is the appropriate private sector benchmark and it will help with the budget scoring on the legislation.

Second, on products, the overly restrictive definition of a postal product contained in the PAEA should be liberalized. Again, the reforms in S.1789 show the way. Opening the mail to beer and wine sales makes sense. But the range of services the Postal Service could provide is much greater and it should be given the right to find new uses for its networks. Whether its meter reading for utility companies as an alternative to expensive smart meters, or partnerships with private banks to serve Americans in rural and depressed urban areas where commercial banks have no presence, or recycling computer parts in partnership with private companies, the Postal Service needs greater commercial freedom. We believe an innovation commission as proposed by Senator Sanders makes great sense. That commission should study the possibility of using the nation's post office network as the backbone of a National Infrastructure Bank, and Congress should consider giving every American the right to vote by mail in federal elections. A more entrepreneurial Postal Service could do what the Post Office has done since it was mandated by the Constitution – evolve to meet the changing needs of the country. But to achieve a more entrepreneurial culture, the governance structure of the Postal Service needs to be reformed. I will turn to this topic next.

V. Governance reform

At a moment when the Postal Service faces the gravest crisis in its history, its Board of Governors might soon be known as a Board of Vacancies. The Board of Governors is made up of nine presidential appointees, plus the Postmaster General and the Deputy Postmaster

General. At the moment, four of the nine appointed seats are vacant and one governor is in his one-year hold-over period following the expiration of his term. The gridlock that has hampered the appointment process in general has really damaged the Postal Service in particular. When you consider that the terms of two of the five commissioners on the Postal Regulatory Commission have also expired, the appointments problem is even deeper. But what truly makes the problem a crisis is that the PAEA's guidelines for appointments to the Board have not been followed.

The PAEA amended the law to require that "at least 4 of the Governors shall be chosen solely on the basis of their demonstrated ability in managing organizations (in either the private or the public sector) that employ at least 50,000 employees. Although all of the governors who serve are honorable people, none of them meet this requirement. As our advisers at Lazard reported to us, the Postal Service lacks a Board with the kind of business experience needed to create a vision for a revitalized Postal Service – nor does it have the kind of executive talent needed to execute such a vision. Instead, the Board has approved the "shrink to survive' strategy that Lazard believes is doomed to fail.

NALC calls on Congress to overhaul the governance structure of the Postal Service to give it the best chance for a turnaround. NALC will work with any leadership team that develops a strategy for growth and is dedicated to the long-term viability of the Postal Service.

VI. Addressing the Cash Crisis: Return of the FERS Pension Surplus

The reforms we have advocated in this testimony are essential to the survival of the Postal Service well into the 21st Century. But we also face a short-term solvency crisis. The prefunding mandate, the Great Recession, and the misguided business plan of current postal management have left the Postal Service desperately short of cash. In order to prevent an economically damaging interruption of service and to give the reforms outlined below the time they need to work, Congress must also restore the liquidity the Postal Service needs to operate. Fortunately, there is a surplus in the Postal Service's FERS pension account that nobody disputes. Due to falling discount rates, that surplus declined from $11.4 billion in 2011 to $3.0 billion in 2012. But if returned to the Postal Service, it is still enough to pay down its debt and maintain operations as it implements other reforms to restore its viability. Congress should change the law to allow for this transfer from the FERS postal account in the CSRDF to the Postal Service.

Note, however, that the actual surplus in the postal FERS account would be much larger if measured properly, according to a recent report from USPS Office of Inspector General prepared by The Hay Group. The report, entitled *Causes of the Postal Service FERS Surplus* (Report Number: RARC-WP-13-001, October 12, 2012), found that if the OPM were to use USPS-specific economic, demographic and mortality assumptions in its annual valuation of the FERS postal sub-account within the Civil Service Retirement and Disability Fund, the actual surplus would have been $24.0 billion in 2011. A subsequent update to the report released on December 4, 2012 (RARC-WP-13-002) incorporated the OPM's lower interest rate assumptions for 2012 – and therefore reduced the OIG's estimated surplus to $12.5 billion.

The use of USPS-specific assumptions increases the measured FERS surplus because the Postal Service's work force is different than the rest of the federal workforce; its employees are a distinct group with markedly different demographic and mortality characteristics. Historically, salary increases in the Postal Service have lagged those in the federal government overall and life expectancy among mainly blue collar postal employees is less than it is, on average, for mainly white collar federal employees. A fair valuation of the postal sub-accounts requires the use of USPS-specific assumptions.

The legislation drafted by the Committee should direct the OPM to use accurate, postal-specific assumptions and the resulting FERS surplus of $12.5 billion should be used to stabilize the Postal Service's finances as other reforms are put in place. A transfer of the FERS postal surplus would set the stage for a major turnaround at the Postal Service, provided that the reforms outlined above are enacted and the Congress prevents current postal management from driving America's Postal Service into a death spiral.

VII. Conclusion

It is our sincere hope that this Committee will hold other hearings on the issues we have raised in our testimony before you draft legislation. We would welcome the chance to have the voices of the Postal Service's largest group of craft employees heard and I would personally welcome the chance to have a dialogue with all of you about the future of the Postal Service. I would be happy to answer any questions you have at that time. NALC is committed to working together with both parties to fashion a bi-partisan reform bill that will preserve a strong and vibrant Postal Service for decades to come. Thank you for considering our views.

Attachment 1:

Delivering the Future: How the G20's Postal Services meet the challenges of the 21st century

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The very existence of the legions of postal service workers and thousands of postmen, sorting depots, post offices and mail vans is today under threat in many developed countries. Instant, electronic communications are displacing the material exchange of documents at a rapid pace, while e-payments are supplanting physical commercial exchanges of cheques or postal orders. While only 1% of the population in Asia-Pacific lacks access to postal services and 94% has home mail delivery, will basic economics allow this in the future? Will the expansion of broadband Internet across the world spell the end for the postal empires?

Delivering the Future is a comprehensive report that establishes new structural performance metrics to better understand the effectiveness of national universal postal service providers (USPs) in the G20 group of the world's wealthiest nations. It provides a new benchmark to measure USPs delivery of national socio-economic benefit, defining their present and future utility and social value.

The ranking tables are based on three criteria using multiple secondary datasets, judged to provide the best measures of the USPs' structural strengths:

1. Provision of Access to Vital Services –enabling the participation of all communities in political society and the economy
2. Operational Resource Efficiency – the efficient management of human resources
3. Performance and Public Trust – public approval through effective performance

The report shows that, while there are multiple reports of the imminent demise of the Universal Postal Service Provider, USPs currently retain their key role in the provision of an essential communications infrastructure in all countries, in some cases against a backdrop of declining mail volumes and cuts to postal offices and delivery staff.

The United States Postal Service's top ranking belies its inability to raise its own finance or move into new non-mail sectors, its debt position and the rapid shift towards electronic communications. It has achieved its ranking by being highly efficient in its core function – the delivery of mail.

USPS delivers twice the mail volumes per full-time delivery employee of any other postal operator.

The report finds that developed countries top the rankings of the world's best USPs. Japan Post and Korea Post perform well on all measures, while Australia Post is strong on efficiency and access. Deutsche Post, the only USP in the G20 to have been fully privatized, is the front-runner in the four European Union states, and also the best improved in the developed countries. France's La Post scores highly on access and performance, having improved markedly between 2007 and 2010.

In emerging markets, USPs are fast catching up with those in the developed world. This reflects not only the growth of their economies, but also the clear belief among regulators that universal postal service provision has a key role to play in their developing infrastructure.

Corrieos Brazil is the best placed of these, with mid-table performance on all metrics, and a high rate of improvement, followed by Russia Post among the BRICs. Russia Post has shown a faster rate of improvement in performance than all of the developed countries, in particular on parcel delivery efficiency.

Other key findings:

- For many remote customers, especially in emerging markets, the post office is the only viable means of receiving or sending goods, and of engaging in e-commerce, whether P2P (person-to-person) or with an e-tailer
- Japan Post and France's La Poste lead on key performance measures reflecting public trust in the service. Turkey's PTT was the most improved while Russia Post was the fastest improving in the BRIC countries
- Between 2007 and 2010, only one developed country USP among the G20 reduced its postal office network significantly – the UK's Royal Mail. Most developed country networks stayed relatively static in numbers while Correios Brazil's expanded 55% to 10,278 outlets, following the acquisition of franchises
- Korea Post and Japan Post lead the world in the efficiency of parcel deliveries, while sizeable declines in efficiency were seen at France's La Poste, the UK's Royal Mail, Correo Argentina, Italy's Poste Italiane and Saudi Post – due to competition from commercial providers

- In letter delivery, the USPS reigns supreme, delivering close to twice as many letters per delivery employee as its closest competitor. Meanwhile significant declines in delivery efficiency were seen at Japan Post, Correios Brazil, Italy's Poste Italiane and the South African Postal Office – indicating a lack of workforce re-adjustment

The Best-Performing Universal Service Providers in the G20

Rank	USP (Ranking by improvement)	Country	Citizens per PO	Letters per delivery employee	Parcels per delivery employee	2015 WEF Postal Service Efficiency
1	*USPS (14)*	*USA*	*8,409*	*258,824*	*2,533*	*6.4*
2	*Japan Post (17)*	*JP*	*5,213*	*153,149*	*7,275*	*6.3*
3	*Australia Post (15)*	*AUS*	*3,573*	*186,779*	*6,633*	*6.3*
4	***Korea Post (6)***	***SK***	***4,065***	***41,082***	***8,919***	**6.3**
5	***Deutsche Post (11)***	***DE***	***6,086***	***47,670***	***4,476***	**6.4**
6	Royal Mail (16)	UK	5,146	121,418	845	5.7
7	La Poste (12)	FR	3,638	67,868	1,184	6.6
8	Canada Post (13)	CA	1,616	33,420	1,184	6.4
9	Correios Brazil (2)	BR	10,278	72,364	526	5.9
10	Russia Post (4)	RU	3,484	4,295	377	4.7
11	Poste Italiane (19)	IT	4,227	41,263	162	4.2
12	PTT (1)	TU	20,375	37,384	230	5.4
13	Correo Argentina (5)	AR	8,910	37,782	611	3.8
14	SP Mexicano (3)	MX	13,627	117,707	45	3.0
15	India Post (10)	IN	7,651	15,956	438	5.2
16	Pos Indonesia (9)	IND	11,836	18,679	2,747	3.9
17	South African PO (18)	SA	19,871	33,420	1,184	3.1
18	Saudi Post (7)	SAU	39,275	38,196	46	4.9
19	China Post (8)	CN	24,828	8,810	503	5.6

Attachment 2:

LAZARD

The United States Postal Service

Delivering Change to Revitalize an American Icon

The United States Postal Service (the "Postal Service") has played a vital role in our nation's commercial and social fabric for over 250 years. Yet today, it faces an acute financial crisis. Indeed, by its own estimates[a], the Postal Service projects that it will run out of cash by sometime this summer or early fall.

In response, the Postal Service has released a "Plan to Profitability" designed to eliminate its large projected operating losses. While this Plan does contain certain credible ideas, its underlying strategic vision is fundamentally flawed. The core idea behind the Postal Service's plan can be summarized as "shrink to survive" – with significant reductions in service and delivery coverage and the elimination of hundreds of thousands of jobs. This strategy undermines the Postal Service's key strategic asset – its unparalleled last-mile delivery network that touches 150 million homes and businesses six days each week. In Lazard's experience, based on our long history of advising on many of the country's most significant restructurings (and many others around the world), we believe that the current Postal Service plan will not create a sustainable enterprise. A business plan based on degrading your greatest strength is not likely to be a path to success.

While the Postal Service clearly faces enormous challenges, we do believe that its revitalization is achievable. To do so will require a comprehensive plan premised on shared sacrifice by all stakeholders, a strategic vision that leverages the strength of its network and supportive legislative action. The Postal Service that results from these changes will have fewer employees, but will enhance (rather than degrade) the quality and value of the essential services it provides to millions of households and American businesses. Similar to any successful private sector restructuring, the Postal Service requires a business plan based on a fundamental rethinking of the institution, top-to-bottom changes in its operations and culture and a first-rate management team and corporate governance structure to ensure that the plan is effectively executed.

The "Plan to Profitability"

In February 2012, the Postal Service publicly released its "Plan to Profitability – 5 Year Business Plan" (the "Business Plan"). The Business Plan is based on certain assumptions regarding general macroeconomic conditions, overall demand for postal products and a set of specific initiatives that the Postal Service intends to pursue. Many of these assumptions, including the overall demand for postal products and the continuing secular decline of first class mail, appear reasonable and generally consistent with recent experience. According to the Business Plan, these trends, coupled with the

(a) Consistent with Lazard's obligations under its non-disclosure agreement with the Postal Service, all of the factual statements contained herein are based on the public statements and disclosures of the Postal Service, including its public financial statements, the public testimony of its leadership and the "Plan to Profitability – 5 Year Business Plan" publicly disclosed by the Postal Service on February 16, 2012, and other public documents. In connection with its work, Lazard has also met with and/or interviewed outside postal experts and users of Postal Service products and services as well as conducted its own independent financial analysis of the Postal Service based on its public statements and disclosures.

required pre-funding of future retiree health benefits at over $5 billion a year, will result in projected losses of over $80 billion during the forecast period, including a loss in the final year (2016) of over $20 billion.

The Business Plan proposes a number of strategic initiatives designed to restore the Postal Service to near-term solvency including:

- **Return of the Postal Service surplus in the FERS federal pension system**
- **Repeal of current legislative requirements that the Postal Service "pre-fund" obligations to the Retiree Health Benefit Fund (estimated 2016 annual savings: $5.8 billion)**
- **Reduction of service standards and other changes associated with sorting and transporting mail (estimated 2016 annual savings: $4.1 billion)**
- **Significant changes in the way that mail is delivered to U.S. households, including dramatically expanded use of curbside and centralized delivery (estimated 2016 annual savings: $3.0 billion)**
- **Elimination of Saturday delivery (estimated 2016 annual savings: $2.7 billion)**
- **Various "retail" initiatives, including the elimination of post office branches (estimated 2016 annual savings: $2.0 billion)**
- **Health care benefit reform (approximately $1.5 billion of estimated annual savings)**

Based on the Business Plan, these proposed initiatives, together with the refund of the FERS surplus show, on paper, that the Postal Service returns to profitability by 2016.

Delivering Change to the Postal Service

Areas of Common Ground

As noted above, we are skeptical of the Business Plan's unitary focus on cost cutting and a "shrink to survive" approach. That said, certain of the proposed initiatives, if they were a part of a more balanced and comprehensive plan, may make sense. For instance, the current legislative requirement that the Postal Service pre-fund its retiree health obligations is both financially punitive and entirely inconsistent with accepted practices within the private sector. The Postal Service has pre-funded over $21 billion in retiree health obligations over the past five years – funds which could have been used for investments in new services, technology, and operational restructuring initiatives. Similarly, refunding the billions of dollars of Postal Service surplus that is currently contained in the FERS pension fund seems reasonable based on third-party actuarial analysis. Enacting legislation that provides for these changes appears both appropriate and financially prudent as part of a broader plan of shared sacrifice. If properly structured, the changes to the Postal Service's health care plans also appear reasonable. Changes to the postal network, if done in a way that maintains its overall strength and balanced with revenue initiatives in a comprehensive plan, should be examined as well.

Leveraging the Strength of the Network

In our experience, we have not seen a business plan that uses reductions in service and product quality as the cornerstone of a successful turnaround. The Postal Service's proposed modifications – termination of Saturday delivery, a significant curtailment of "to the door" delivery and other reductions in service standards – could easily reduce demand by an amount equal to the alleged cost savings being discussed. In fact, one of the Postal Service's own witnesses at a Postal Regulatory Commission hearing on its network optimization plan recently acknowledged the existence of a study that found that the combined effects of all service cuts under consideration would reduce mail volume by over 10% – an amount which would offset most of the proposed savings from these initiatives.

Fundamentally, we believe that a successful restructuring of the Postal Service must start with a plan to better leverage its unrivaled last-mile delivery network – a retail network that touches every city, town and neighborhood in America. Instead of focusing on shrinking its network and capabilities, the Postal Service needs an ambitious rethinking of its business model. For example:

- **Better leverage last-mile delivery to grow the parcel service business**
  - Despite ever-increasing online retail purchases by consumers and rapidly growing e-commerce, the Business Plan assumes that volumes associated with "Shipping Services & Other" (i.e., parcel services) will actually *decrease* from 2011 to 2016. Assuming only modestly more aggressive growth targets for the Postal Service's parcel delivery business – consistent with implementation of a more forward- looking approach to sales, marketing and overall management of the Postal Service's parcel business – could result in substantial incremental revenue and profits.
  - Moreover, given the unparalleled strength of the Postal Service's last-mile delivery network, we believe the Postal Service could be exploring new and innovative delivery services that may add value for its customers. For example, the Postal Service expects to offer full "track and trace" capabilities by the end of 2012. This could provide the Postal Service with the opportunity to add, among other things, more competitive ground and expedited products comparable to those that have been successful in the private sector. The Postal Service has also begun to test new mail products such as saturation mail and the expansion of direct mail offerings to small business customers. These initiatives are a start but will require far more aggressive roll-out and many more such ideas to better leverage the Postal Service's last-mile advantage.
- **Explore expansion of services that the Postal Service can provide**
  - The Postal Service operates under constraints imposed on its business by the Postal Accountability and Enhancement Act of 2006. In the interest of ensuring that the United States has a postal institution that is self-sustaining and capable of fulfilling its public mission, we believe that the Postal Service and policymakers must consider expanding the

products and services that the American people would most value. Most leading postal services in the world (and their governments) have embraced some level of business diversification in a manner that is consistent with the postal mission but adequately protective of the private sector. In Germany, for instance, the postal service has privatized and expanded into businesses such as logistics and freight forwarding. And in the United States, as recently as the late 1960s, the Postal Service operated a postal savings system that provided depositories for working class citizens and immigrants accustomed to similar programs in their native countries.

- **Consider modifications and greater flexibility to pricing of products**
  - Notwithstanding a geographic footprint that is considerably more dispersed than other countries, the Postal Service provides Americans with unparalleled last-mile delivery service of both first class mail and parcels. With respect to first class mail, the Postal Service offers Americans among the most affordable postage rates in the world – significantly lower than comparable foreign posts[a] and indexed at a rate of inflation considerably lower than the distribution cost index that its private-sector competitors use to adjust their own pricing. With respect to Postal Service parcel products, many offerings (both market dominant and competitive) are priced in a manner that frequently ignores the highly dynamic and fluid nature of the modern parcel delivery business. In the context of shared sacrifice and development of a truly comprehensive business plan, we believe that adjustments to the pricing of regulated products and greater flexibility in the pricing of unregulated products are variables that merit further evaluation.

Senate Bill S. 1789 Is a Stop-Gap, Not a Solution

Lazard's review of the "Plan to Profitability" also included the review of various legislative proposals, including the most recent Senate bill S. 1789, the 21st Century Postal Service Act. S. 1789 is a well-intentioned proposal that may allow the Postal Service to survive for a few more years but it does not address its fundamental challenges. It accepts the Postal Service's business model when a fundamental re-thinking is what is required.

In private sector restructurings, successful turnarounds are generally premised on (i) a strategic plan that aims for a sustainable and viable enterprise and (ii) a management team and governance structure that is capable of executing that plan. Those two elements are developed first and then the necessary capital is secured. Unfortunately, this legislation provides the Postal Service with capital without either of these two elements being in place. Even worse, by adopting the Postal Service's proposals to reduce the quality and value of the services it provides to American households, it may actually accelerate the Postal Service's decline.

(a) In Canada, for instance, the current cost of a first-class stamp is $0.61/stamp (over 35% higher than the U.S.). In the United Kingdom, it is $0.72/stamp (60% higher than the U.S.). In other Western countries the current cost per first-class stamp is even higher.

There is little in the proposed legislation that addresses potential expansion of services, more flexible product pricing or necessary changes to the Postal Service's oversight and governance – all key elements of a comprehensive plan to create a sustainable and viable Postal Service.

S. 1789 also continues, albeit in a slightly modified form, the requirement to pre-fund retiree healthcare obligations and does not address the substantial and independently verified CSRS surplus which the Postal Service is owed. In this respect, S. 1789 deviates fundamentally from prior proposed legislation – S. 1010 and S. 353 (authored, respectively, by Senators Carper and Collins), both of which provided for the recalculation of surplus retirement funds in the Postal Service's CSRS account and the transfer of that surplus in order to defease the unfunded liability for future retiree health benefits and permanently end the retiree health pre-funding requirement. Recent independent audits of the postal sub-account of the CSRS conducted by respected private-sector employee benefits firms (The Hay Group for the Postal Service's Office of the Inspector General and the Segal Company for the Postal Regulatory Commission) each concluded that the pension allocation methods used by the Office of Personnel Management implied a postal surplus of between $50 and $75 billion. In an October 2011 report, the General Accounting Office stated that each of the pension accounting methodologies – Office of Personnel Management's, The Hay Group's and Segal Company's – were "reasonable" and indicated that the choice of which accounting method to use was a "policy decision" for Congress.

We believe the Senate should make that policy decision and adopt the more modern, private-sector methods used in The Hay Group and Segal Company audits. Otherwise, it should suspend the pre-funding mandate until a new business model for the Postal Service can be developed. As drafted, the proposed S. 1789 does neither.

From our perspective as private sector restructuring professionals, S. 1789 is not a proposal that provides a roadmap to long-term postal viability. It is a stop-gap measure that facilitates the Postal Service's "shrink to survive" plan. The Postal Service requires legislative relief and such relief may well be in support of a business plan that includes reductions in headcount and labor costs. But the plan must also be based on the vigorous pursuit of new revenue opportunities, the expansion of services, pricing flexibility and strategies that leverage, not impair, the value of the last-mile network.

Shared Sacrifice and a New Vision

A key theme of virtually every successful private-sector restructuring is shared sacrifice – by customers, creditors, management, employees, and all other stakeholders. We believe that this principle is equally applicable if there is to be a successful restructuring of the Postal Service.

The current Business Plan is one that is largely based on one-sided employee sacrifice leading to the loss of jobs and benefits and critically the degradation of the last-mile network. Delivering a vibrant and growing Postal Service requires a more balanced and independent assessment that would likely result in a more balanced mix of initiatives.

Consistent with a comprehensive rethinking of the Postal Service premised on shared sacrifice, the current governance and regulatory framework of the Postal Service should also be evaluated. The current governance structure, which has been in existence since 1971, does not appear to be consistent with a rapidly moving digital society and the need for bolder strategic thinking to better leverage this national asset. The restructuring of the Postal Service requires a rethinking of the institution that focuses on new opportunities instead of old problems and seeks to proactively leverage the strengths of its network rather than reactively shrinking to survive.

Background

Lazard is a preeminent international financial advisory firm that has long specialized in crafting solutions to the complex financial and strategic challenges of our clients. We serve a diverse set of clients around the world, including corporations, partnerships, institutions, governments and high-net-worth individuals. Lazard and its senior professionals have extensive experience in the reorganization and restructuring of troubled companies and have advised debtors, creditors, equity constituencies and government agencies in numerous complex financial reorganizations. Since 1990, Lazard's professionals have been involved in over 250 restructurings, representing over $1 trillion in debtor assets. Lazard also has over 35 years of government advisory experience involving over 40 sovereign assignments.

Lazard was retained by the National Association of Letter Carriers ("NALC") in November of 2011 in connection with issues relating to the Postal Service. A team of Lazard professionals with extensive experience in providing restructuring advice undertook due diligence of the Postal Service beginning in early 2012.

Attachment 3:

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

February 6, 2012

Senator Bernie Sanders
332 Dirksen Building
United States Senate
Washington, DC 20510

Dear Senator Sanders:

For several days last week, I met with you and your staff to discuss solutions to the current financial crisis within the Postal Service. At the conclusion of those discussions, you requested that our office focus on one of the solutions that we presented which examined an option to address the current benefit fund financing. This proposal would eliminate the requirement for the Postal Service to make annual $5.5 billion payments into its retiree health benefit fund, and allow the $44 billion currently in the fund to grow with interest. No payments would be made from the fund until it is deemed to be fully funded, and the Postal Service would continue to directly pay the healthcare premiums for retirees. An additional element of the proposal would allow current overpayments of $13.1 billion in the Postal Service pension funds to be refunded to the Postal Service. Any future overpayments would also be refunded in the year of occurrence.

Our analysis of this proposal shows that if it were adopted, the amounts in retiree healthcare fund would grow from $44 billion to the $90 billion estimated current liability, in 21 years. This $90 billion projected liability is not a static or precise figure, as there are forces that will increase and decrease the liability. Historically, the figure has risen, but we note that the $90 billion has not changed significantly over the last 3 years ($87 billion in 2009, $91 billion in 2010, and $90 billion in 2011).

This solution is one option to provide needed short-term flexibility for the Postal Service to address its current financial crisis. It would alleviate payments due of nearly $30 billion over the next 4 years, and provide an additional $13 billion to address current needs. Though this would provide substantial relief, additional actions would be necessary to address remaining financial gaps between projected revenues and expenses during the next four year period.

To put the pension and retiree health funding issue into perspective, my office has conducted benchmarking to evaluate the Postal Service's prefunding levels as compared to both the public and private sector. The Postal Service has significantly exceeded pension and retiree healthcare benchmarked funding levels of both public and private sector organizations. Using ratepayer funds, it has built a war chest of over $326 billion to address its future liabilities, prefunding combined pension and retiree healthcare obligations at 91 percent. This is an astonishingly high figure for a company with such a large employee base.

For example, the Postal Service is currently over 100 percent funded in its **pension** funds. The federal government is funded at a much lower 42 percent level, and the military is funded at 27 percent. The average Fortune 1000 pension plan is funded at 80 percent, and only 6 percent of the Fortune 1000 companies have pension plans that are 100 percent funded.

Prefunding retiree **healthcare** is rare in the public and private sectors. We have been unable to locate any organization, either public or private, that has anything similar to the Postal Service's required level of prefunding of retiree healthcare benefits. The Postal Service is currently funded at 49 percent of its estimated current liability. The federal government does not prefund its retiree healthcare liabilities at all, and the military is funded at a 35 percent level. Only 38 percent of Fortune 1000 companies who offer retiree health care benefits prefund the expense at all, and the median funding level for those organizations is 37 percent.

I appreciate the opportunity to analyze this proposal, and describe it further. If you have any questions, please do not hesitate to call me or Wally Olihovik, at 703-248-2201.

Sincerely,

David Williams

David C. Williams
Inspector General

Attachment 4:

THE WHITE HOUSE

WASHINGTON

October 13, 2011

The Honorable Darrell Issa
Chair
Committee on Oversight and Government Reform
Washington, D.C. 20515

The Honorable Elijah Cummings
Ranking Member
Committee on Oversight and Government Reform
Washington, D.C. 20515

Dear Chairman Issa and Ranking Member Cummings:

As the House Oversight and Government Reform Committee considers legislation to reform the United States Postal Service (USPS), I wanted to provide you with the Administration's views regarding an option some have suggested to reallocate the relative shares of responsibility for USPS Civil Service Retirement System (CSRS) benefits. After considerable review the Administration concluded that under current law the CSRS allocation could not be changed. While the Administration recognizes that there are competing views as to whether the statutory allocation was proper, the Administration believes the key point now is that we are all trying to take steps to ensure the future viability of the Postal Service which is critical to the Nation's commerce and communications.

The President has put forward a specific and balanced plan that would help the USPS make structural reforms to increase its revenues, reduce its costs, and provide temporary financial relief to allow it time to put in place its new business model, a plan that would protect taxpayers and reduce the budget deficit. The Administration believes Postal Reform legislation should contain these three elements and would be open to considering a balanced legislative plan that instead included alternative forms of financial relief, such as a transfer from the Civil Service Retirement System (CSRS) to the USPS.

Sincerely,

Robert L. Nabors, II
Assistant to the President and
Director of the Office of Legislative Affairs

Attachment 5:

Volume and Revenue Impacts of USPS Service Cuts Planned for 2012

APWU-XE-1

Product	FY 2010 RPW Volumes	Volume Changed Due to Service	Volume change %	Volume After Service Standard Change	2010 RPW Unit Revenue	Revenue Change	2010 ACR Unit Cost	Cost Change	Net Change
First-Class Mail									
Total Single Piece	31,643,333,000	-3,251,562,301	-10.3%	28,391,770,699	$0.580	-$1,885,906,135	$0.349	-$1,134,795,243	-$751,110,892
Total Presort	46,225,386,000	-3,806,412,748	-8.2%	42,418,973,252	$0.345	-$1,313,212,398	$0.117	-$445,350,292	-$867,862,107
Total First-Class Mail	77,868,719,000	-7,057,975,049	-9.1%	70,810,743,951	$0.441	-$3,199,118,533	$0.217	-$1,580,146,535	-$1,618,972,998
Total Standard Mail	82,523,747,000	-4,373,758,591	-5.3%	78,149,988,409	$0.210	-$918,489,304	$0.143	-$625,447,479	-$293,041,826
Total Periodicals	7,269,470,000	-1,432,085,590	-19.7%	5,837,384,410	$0.258	-$369,478,082	$0.343	-$491,205,357	$121,727,275
Priority Mail/Express Mail	852,024,000	-122,719,149	-14.4%	729,304,851	$7.610	-$773,756,417	$5.570	-$600,766,371	-$172,990,046
Parcel Select	268,357,000	0	0.0%	268,357,000	$1.916	$0	$1.415	$0	$0
Parcel Post	89,875,000	0	0.0%	89,875,000	$10.014	$0	$12.195	$0	$0
Media & Library	122,322,000	0	0.0%	122,322,000	$3.015	$0	$3.749	$0	$0
Parcels	212,197,000	0	0.0%	212,197,000	$5.980	$0	$7.330	$0	$0
BPM	474,488,000	0	0.0%	474,488,000	$1.080	$0	$1.010	$0	$0
Totals	169,469,002,000	-12,986,538,379	-7.7%	156,482,463,621		-$5,260,842,336		-$3,297,564,741	-$1,963,277,595

"All Sources" Market Research Preliminary Results

Note: Table provides results of "All Sources" of service cuts, including: ending Saturday deliveries, post office closings and processing plant closings.

Source: PRC and Opinion Research Corporation, 2011.

TESTIMONY FOR THE RECORD BY
JOSEPH A. BEAUDOIN
PRESIDENT
NATIONAL ACTIVE AND RETIRED FEDERAL EMPLOYEES ASSOCIATION

BEFORE
THE SENATE HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS COMMITTEE

HEARING TITLED
"SOLUTIONS TO THE CRISIS FACING THE U.S. POSTAL SERVICE"

FEBRUARY 13, 2013

Chairman Carper, Ranking Member Coburn, and Members of the Senate Homeland Security and Governmental Affairs Committee:

On behalf of the five million federal and postal workers and annuitants represented by the National Active and Retired Federal Employees Association (NARFE), I appreciate the opportunity to express our views regarding postal reform proposals considered and discussed over the past couple of years and during the hearing on February 13, 2013, titled "Solutions to the Crisis Facing the U.S. Postal Service."

This statement will focus on NARFE's concerns with the following:

(1) Misguided proposals to separate postal employees and/or retirees from the Federal Employees Health Benefits Program (FEHBP).

(2) Unjustified and unfair proposals to reduce workers' compensation benefits for federal and postal employees disabled by a job-related injury or illness when they reach retirement age or if they have dependents.

(3) Postmaster General Patrick Donahoe's proposal to eliminate completely Federal Employees Retirement System (FERS) annuities for postal workers.

(4) Postmaster General Patrick Donahoe's unilateral plan to reduce postal delivery from six to five days despite the longstanding and continually re-enacted legal mandate requiring six delivery days.

Federal and Postal Employee and Retiree Health Benefits

NARFE has serious concerns with the United States Postal Service (USPS) proposal to create a separate health benefits plan for postal employees and retirees, as well as concerns with other proposals to place Medicare-eligible or Medicare-enrolled postal employees and retirees into a separate FEHBP plan.

USPS Health Care Plan

In August 2011, the USPS proposed removing postal employees and retirees from FEHBP, creating a new USPS-administered plan. Postmaster General Donahoe reiterated his support for the proposal in his testimony before the Committee. Members of Congress from both sides of the aisle rightfully ignored the proposal in crafting various postal reform solutions during the previous Congress due to its clearly identified shortcomings, and should do so again.

The USPS proposal is a roundabout way to terminate its requirement to prefund future retiree health benefits over the accelerated 10-year period required by the Postal Accountability and Enhancement Act of 2006, P.L. 109-435. By doing so, it saves money in the short term for the Postal Service simply by removing the prefunding obligation, not by achieving any efficiency in the administration of a health insurance plan. A much easier way to lessen the burden of the prefunding requirement without impacting benefits is to do it directly, adhering to standard accounting practices by allowing for payments amortized over a longer period of time. NARFE supports relieving the current, burdensome prefunding requirement; but by doing so directly, not by undermining the entire FEHBP.

A USPS-administered plan would cost money for both USPS and the federal government. First, it would duplicate the administrative costs already incurred by the Office of Personnel Management (OPM) in its administration of FEHBP. Second, it would split, and therefore decrease, the size of the risk pool for purchasing health insurance for both federal and postal employees. This would reduce the purchasing power of both a USPS-run plan and FEHBP, likely leading to increased premiums for both groups.

There is no reason to believe that USPS could provide more efficient or higher quality health care than FEHBP, which is recognized by experts as a model for health insurance reform. USPS is not an expert in the administration of health benefits program, and has not detailed any ideas to improve the administration of FEHBP. Rather, its primary way of achieving health care cost savings (other than the elimination of the prefunding requirement) is simply to reduce the value of the benefits it provides its employees – something the USPS acknowledges explicitly in its proposal.

On March, 27, 2012, Walton Francis, a neutral, nonpartisan expert on FEHBP and health insurance, testified before the House Oversight and Government Reform Committee on the USPS proposal. While we are not endorsing all of the arguments he made in his testimony, it should be required reading material for anyone seriously considering supporting a USPS-administered plan. Notably, take heed of his assessment that "[t]he USPS proposals would massively disrupt or destroy the FEHBP, the single most successful health insurance program ever operated by the United States government. In destroying the FEHBP, the USPS would disrupt the health insurance of 8 million Americans, and breach statutory entitlement promises made to millions of Federal retirees."[1]

Separate FEHBP Plan for Medicare-enrolled or Medicare-eligible Postal Employees and Retirees

Last Congress, two different proposals that would have moved subsets of postal employees and retirees into a separate FEHBP plan were included in different versions of S. 1789 (112th Congress), the 21st Century Postal Service Act of 2012, but were ultimately struck from the legislation that passed the Senate. At the time, NARFE had concerns regarding how each proposal affected participant choice of health plans as well as the cost of FEHBP premiums for federal employees across-the-board. Similar proposals should be met with a healthy dose of skepticism.

As originally introduced, S. 1789 would have: (i) mandated all non-enrolled, but Medicare-eligible postal employees and retirees to enroll in Medicare, granting a waiver of late enrollment penalties; and (ii) created a separate FEHBP plan for these Medicare-eligible and already-

[1] Testimony of Walton Francis. U.S. Congress. Hearing of the House Oversight and Government Reform Committee, titled "Can a USPS-Run Health Plan Solve Its Financial Crisis?" (March 27, 2012). Available at: http://oversight.house.gov/wp-content/uploads/2012/03/3-27-12-USPS-Francis.pdf.

Medicare-enrolled postal employees and retirees that would provide supplemental coverage to Medicare Parts A and B. The provision (section 103) was struck from the bill by a bipartisan group of Senators due to concerns that it: (i) included a mandate to purchase government health insurance; (ii) limited participant choice; (iii) simply shifted costs to Medicare; and (iv) had an unclear effect on the cost of FEHBP premiums.

Even though the provision was removed at the committee mark-up, the manager's amendment brought to the Senate floor contained a similar provision that moved all Medicare-eligible postal employees and retirees into a separate FEHBP plan that would provide coverage supplemental to Medicare Parts A and B. Unlike the original language, it did not mandate that Medicare-eligible postal employees and retirees enroll in Medicare Parts A and B (or provide the same special waiver of penalties). However, in so doing, the remaining FEHBP plans would still be providing full coverage for the oldest individuals with the highest average medical costs. At the same time, retirees whose primary coverage is provided by Medicare, and therefore cost less, on-average, for FEHBP to insure, would be removed from the greater FEHBP risk pool. Therefore, the average cost per-participant for FEHBP plans would increase. Thus, because health insurance premiums are based on average costs, the proposal would have raised FEHBP premiums across-the-board, increasing costs for federal employee and retiree beneficiaries as well as the federal government, which covers about 70 percent of FEHBP premiums. When S. 1789 was being considered on the floor, OPM provided data to congressional staff confirming this assessment.

Proposals that seek to improve the coordination of benefits between FEHBP and Medicare may have merit, but the details matter, and it is necessary to have adequate data with which to assess their impact on beneficiaries, Medicare, and overall costs.

Federal Employees' Workers Compensation Benefits

NARFE opposes unjustified and unfair proposals to reduce workers' compensation benefits for federal and postal employees disabled by a job-related injury or illness, notably those that were included in S. 1789. Senators should re-examine their votes and views regarding these provisions in light of the analysis released last November by the Government Accountability Office (GAO).[2]

Specifically, NARFE opposes the provisions of S. 1789 that: (i) would reduce the basic federal workers' compensation benefit by 25-33 percent for workers at or above retirement age; and (ii) would eliminate the supplemental benefit for injured workers with children or other dependents.

The Federal Employees' Compensation Act (FECA) provides basic compensation to federal employees disabled by work-related injuries and illnesses. For example, FECA provides insurance compensation to an FBI agent shot on the job. In exchange for their reasonable benefits, FECA recipients lose their right to sue the government for their work-caused impairment. While compensation is modest, it will never be able to reverse the permanent damage from a debilitating injury or illness.

[2] U.S. Government Accountability Office, *Federal Employee's Compensation Act, Analysis of Proposed Program Changes*. (GAO-13-108), available at http://www.gao.gov/assets/650/649716.pdf.

If the FECA provisions of S. 1789 were to become law, injured employees would not be afforded the level of income security they deserve and would have earned had they been able to continue working. According to the recent GAO report, federal workers disabled as part of their service would receive up to 35 percent less in retirement age income than if they were not injured and retired after 30 years under FERS. Under current law, median FECA benefits for totally disabled workers are "on par with or less than" what they would have received after a full 30-year career. Additionally, S. 1789 would reduce, by 11 percent, the pre-retirement wage-loss compensation of injured workers with dependents, even as the GAO report shows that the median after-tax replacement rate of income is only 81.6 percent under current law. Finally, GAO found that these policy changes would have a disproportionate impact on the lowest-wage employees and those who are injured early in their careers.

NARFE does not oppose all FECA reforms – in fact, we have continually supported a bipartisan House bill, H.R. 2465 (112th Congress), the Federal Workers' Compensation Modernization and Improvement Act of 2011, which passed the House by voice vote on November 29, 2011. The bill provides common-sense reform that achieves cost savings for taxpayers by improving program integrity and reducing costs while improving fairness towards disabled workers. It, not S. 1789, should provide the model for reform.

Postal Retirement Benefits

In his testimony, Postmaster General Patrick Donahoe also proposed eliminating completely Federal Employees Retirement System (FERS) annuities for future postal employees. NARFE strongly opposes this idea.

First of all, it's unlikely to save very much money for the Postal Service in the near-term, as it is not hiring a lot of new employees right now – rather, it continues to downsize.

Second, the claim in Donahoe's testimony that the change would benefit employees by providing them a defined contribution plan instead is farcical. Perhaps he does not realize that the Thrift Savings Plan (TSP), the federal and postal employee version of a 401(k), already provides them the benefits of a modest defined contribution plan. Unless he is suggesting to offset the value of the FERS annuity with an equivalent increase in automatic TSP contributions – which is doubtful – then his plan would clearly reduce retirement benefits for new employees, which is not to their benefit.

Third, he claims the proposal would provide the Postal Service cost predictability. But it is unclear how it is difficult to predict the cost of funding FERS annuities when the yearly contribution amounts to a set percentage of employees' salaries. To the extent predictability is difficult, leading to Postal Service overpayments to the Civil Service Retirement and Disability Fund (CSRDF), Congress should provide a mechanism for refunding those overpayments.

Simply put, this is a plan to short-change hardworking postal employees in their retirement. The basic FERS annuity is already modest – a median of $756 per month ($9,052 annually), and replaces only 1 to 1.1 percent of the average of the highest-three years of salary. This provides modest retirement income security that is not overly generous. It should not be eliminated.

Six-Day Delivery

On February 6, Postmaster General Patrick Donahoe announced that the Postal Service would be ending the practice of regular Saturday delivery of mail, beginning August 5, 2013. NARFE opposes this plan.

First, yearly appropriations bills since 1981, including the current continuing resolution, have mandated the Postal Service deliver mail six days per week. Unless Congress changes that practice, the Postmaster General does not have the legal authority to institute this plan, making the proposal an empty threat.

Second, Congress should not change its mandate requiring six delivery days. Cost reductions should not be achieved through reductions in the basic services the Postal Service traditionally has provided. Rather, cost reductions should occur by achieving efficiencies or, when necessary, by reducing work-capacity in line with reductions in mail volume resulting from the shift to internet-based communication.

Conclusion

Members of Congress will grapple with a number of issues as they continue to search for a compromise that will improve the financial standing of the Postal Service and the long-term viability of the services it provides to the American public. In so doing, we ask that you weigh appropriately the effects legislative proposals would have on the hardworking men and women that make the Postal Service run effectively.

Specifically, NARFE urges lawmakers to do the following:

(1) Reject the USPS proposal to administer its own health insurance plan for postal employees and retirees.

(2) Reject other proposals, e.g. separating Medicare-eligible postal employees and retirees into their own FEHBP plan / risk pool, that would undermine the integrity, affordability and value of FEHBP for both federal and postal employees and retirees.

(3) Remove the overly burdensome requirement that the USPS prefund its future retiree health benefits over 10 years.

(4) Reject unfair and unjustified reductions in workers' compensation benefits for federal employees disabled by a job-related injury or illness once they reach retirement age or if they have dependents.

(5) Reject the Postmaster General's proposal to eliminate FERS annuities for future postal employees.

(6) Allow the USPS to receive a refund of its overpayments to FERS.

(7) Preserve six days of mail delivery by the USPS.

(8) Find a solution that allows small post office across the United States to remain open.

Thank you for the opportunity to share our views with you.

Statement of

The National League of Postmasters

Before the Committee on Homeland Security and

Governmental Affairs

Of the United States Senate.

February 13, 2013

Statement of the National League of Postmasters
February 13, 2013

Chairman Carper, Ranking Member Colburn, members of the Committee, thank you for allowing the National League of Postmasters to submit this Statement for the Record to your Committee in conjunction with your February 13, 2013 hearing on "Solutions to the Crisis Facing the Postal Service." Founded around 1887, The National League of Postmasters is a national trade association representing Postmasters throughout the country. While we represent all postmasters, we have a particular concern and focus on rural post offices and the customers they serve.

The LEAGUE thanks the Committee and its staff for holding this hearing so early in this Session, and for recognizing the critical need to pass postal legislation early in the 113th Congress. This Committee's efforts with S. 1789 last year produced a bill that was generally acceptable to almost all in the postal community. While far from perfect, it would have helped the Postal Service tremendously and addressed many of the issues that would help put it back on a straight and true course.

The most critical element of the crisis facing the Postal Service, and the one responsible for 80% of the Postal Service's losses over recent years is the roughly $5.6 billion dollars of pre-funding charges that Congress has mandated that the Postal Service pay each year. This is a mandate with which no other federal agency and no private sector entity is burdened. This burden is unreasonable, unfair, and it must be eliminated or significantly reduced. This is particularly true in light of the fact the Postal Service has overpaid billions of dollars into both its CSRS and FERS pension accounts, as two private sector actuarial firms have concluded. Finally, let us not forget that but for these pre-funding requirements, the Postal Service would have recently turned a $100 million profit, as recently reported by the *Washington Post* and others. *See* John Hicks, *Mandate pushes USPS into the red,* WASHINGTON POST, Feb. 8, 2013 at A13 http://www.washingtonpost.com/blogs/federal-eye/wp/2013/02/08/mandate-pushed-postal-service-into-the-red-for-first-quarter/; see also http://money.cnn.com/2013/02/08/news/economy/postal-service-finances/index.html. This fact demonstrates that the *hub* of the Postal Service's problems lies with the prefunding requirements. Relief in this area is sorely needed, and needed now.

The LEAGUE wishes to make it quite clear that other changes will be needed in the Postal system. Some may require legislation; some may not. Regardless, the Postal Service must become flexible enough to deal with the changes in communication and marketing that are flowing through our society now and will flow through in the next decade. Moreover, the Postal Service should be allowed to offer other services—such as fax services, notary services, photocopy services, and others—particularly in rural post offices. Income from those services, while not a large number in the context of the entire Postal Service, could nevertheless be significant on a local level, and indeed offset a portion of the cost of the rural post office network.

Issues of competition with the private sector clearly exist once one moves away from rural post offices and rural America, where private sector providers of such services generally are few and far between. The LEAGUE believes, however, that the approach advocated by Congressmen Gerry Connolly—cooperation with the private sector rather than competition with the private sector—is the answer to that concern in more densely populated areas. Additionally, the LEAGUE believes that development of a partnership with local, state, and other federal governmental entities needs to be explored to make full use of our existing infrastructure.

One significant concern we had throughout last year's legislative debate—and we felt this concern was ultimately met by S. 1789—is that some policy makers from urban areas and some in the mailing community seem not to understand that the Postal Service's universal service mandate, and the duty to provide a maximum degree of effective and regular postal services to rural areas are as critical to rural America today as they were decades ago.

Today, much of rural America simply is not served by an electronic delivery system with sufficient speed and capacity to provide the electronic services that rural Americans need. Consequently, they are dependent upon the Postal Service. Moreover, in the future, instead of rural America gaining parity with urban America, some telecommunications experts argue that the exact opposite will happen—*i.e.,* as the speed and sophistication of urban fiber networks increases, electronic distribution networks in rural America will not keep up with urban advances and thus fall even further behind, despite efforts to grow the rural telecommunication network. While that dynamic is a matter for telecommunications policy makers to consider, one consequence of this dynamic is that hard copy delivery is expected to remain critical to rural America for a very long time.

Further, we need to emphasize that even in urban America, the Postal Service is not an anachronism. Although First-Class mail is being used less and less for bill paying, and bill presentment is slowly declining, the rest of the mailstream—delivery of goods purchased on the internet, advertising mail, and parcel delivery—remain healthy, and some of those areas are strongly growing, with recent revenue up by 5% in some areas, 13% in other areas and 19% in some areas. See USPS Press Release 13-021 dated February 8, 2013.

Finally, as the recently-released Envelope Manufactures Association (EMA) 2012 Mailing Industry and Job Study shows that, although today's carrier delivers a packet of mail that generally has less pieces than it did in 2009, the value of mail overall delivered today is *greater* than it was in 2009. That is because the mailing industry provided $1.2 trillion in sales revenue in 2009 but has grown to $1.3 trillion in sales revenue in 2011. Moreover, that increase in value is despite the fact that the 2009 job level of 8.8 million in the mailing industry decreased to 8.4 million in 2011. EMA 2012 Mailing Industry Job Study, PowerPoint at 3. A copy of this PowerPoint may be found on the Postcom web site. http://www.postcom.org/public/2013/EMA%20Jobs%20 Study%20for%202012%20(2).pdf To give a point of perspective, the mailing industry in 2012 is about 8.7% of GDP and is about the same size as the oil and gas industry, according to EMA.

CONCLUSION

Mr. Chairman, members of the Committee, the Postal Service and the mailing industry represent 8.7% of the nation's GDP and a well-functioning Postal Service, with service levels as good as or superior to what we have now, is critical to our nation's economic health and to its economic recovery and growth. The pension and retiree health benefits funding and prefunding issues must be dealt with. Having a strong economy and having a strong Postal Service go hand in hand. The country needs both, and it needs them now. Please act soon.

Thank you for considering our views.

STATEMENT OF STEVEN MITZEL

ON BEHALF OF VALASSIS COMMUNICATIONS, INC.

BEFORE THE

SENATE COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

ON

"SOLUTIONS TO THE CRISIS FACING THE U.S. POSTAL SERVICE"

February 13, 2013

I am Steven Mitzel, Senior Vice President and General Manager of Valassis Shared Mail. Valassis Communications, Inc. is one of the nation's leading media and marketing services companies, currently entering more than 3.5 billion pieces of mail containing more than 38 billion pieces of advertising into the US Postal Service (USPS) annually. Each year, we pay the USPS over $550 million in postage, and are its largest program mailer. We employ over 5,000 individuals in the US who help more than 18,000 clients distribute advertising messages and values to over 100 million households touching 9 out of 10 American mailboxes every week.

Valassis is also the proud founder and sponsor of the *"America's Looking For Its Missing Children©"* Program, a 28-year partnership with the National Center for Missing & Exploited Children (NCMEC) and the USPS. In its weekly program, Valassis has sent out over 100 billion images of over 2,400 missing children. Over 250 million Americans see a missing child's image each week, and over 1,300 of the children featured have been recovered so far. In 2012 alone, 55 children featured on Valassis products have been reunited with their families.

Valassis has always supported a strong viable US Postal Service and its mission of six day a week delivery. We are well aware of the USPS' volume declines and financial pressures and have been, for many years, actively engaged in educating Members of Congress and Senior Members of the Postal Service itself on the needed solutions for its problems.

My testimony focuses on three interrelated aspects that we believe are critical to preserving the postal system as a viable and effective communications channel in the future:

1. Maintenance of the current price-cap mechanism in order to ensure affordable and predictable postal rates;

2. Continuation of 6-day delivery to ensure the continued effectiveness and relevance of postal distribution in today's dynamic marketplace; and

3. Relief from the excessive Congressionally-mandated payments for employee retirement and health insurance obligations that continue to anchor postal finances.

The Postal Service Network is Still Relevant and Necessary to the National Economy

There has been much testimony over the years describing the diversion of physical print distribution to digital communication, but while this may hold true for interpersonal communication trends, we could not disagree more with regard to business-to-consumer marketing channels. The US Postal Service currently has a unique and effective distribution network that touches every household and business in America 6 days a week – a scope and scale that is unmatched by any other media. It is the center of a huge national industry with over 9 million jobs and $1.4 trillion in revenues. Although there are a growing number of both hard-copy and electronic distribution alternatives, mail delivery is still used as the preferred distribution method by many businesses and organizations.

Valassis, like many other large marketing firms, is constantly changing in response to the demands of the consumer, our clients, and the marketplace. However, we can say that in our expansion into innovative digital products, we have discovered that digital media, for the purposes of advertising, needs a print complement to drive its success.

To this end, the USPS, under Postmaster General Donahue, has done a tremendous job innovating the Postal Service's product portfolio to match changing trends. Whether it has been through promotional pricing initiatives or investigation of new Negotiated Service Agreement (NSA) concepts with its customers to drive new profitable volumes, the PMG has been a willing and able leader in modernizing the mail medium to complement and improve upon new technologies. As a forward thinking entity, we believe the USPS should also have the freedom to investigate other forms of revenue streams that could help bolster both its finances and relevance in today's frenetic communications marketplace.

We Need An Affordable, High-Quality Postal Network

The mailing industry needs an affordable and high-quality postal network. However, the deteriorating financial condition of the Postal Service - and uncertainty about how it and Congress will respond to that situation - is becoming a major worry to many in the industry. Without an efficient postal reform package, mailers face the untenable prospect of excessive postal rate increases coupled with reduced quality of service.

The Need for Affordability

With respect to rates, as one of the Postal Service's largest customers, Valassis is intimately aware of the effect of postage increases on volumes and the marketplace. Valassis operates in a highly competitive market that serves the print-advertising needs of thousands of retail and service businesses across the nation, including small businesses and individual entrepreneurs. In this current slow-growth economic environment, our clients are themselves struggling to cope financially, and have told us they cannot afford to increase their advertising budgets. Their response to a rate increase or service decrease will be to cut their mail distribution to maintain the goals of their advertising budgets, or even to shift their advertising dollars elsewhere, leaving the mail entirely for more affordable, price-dependable advertising channels such as digital or private carrier delivery. That, in turn, will force us and other mailers to look for ways to trim costs and maintain profitability by cutting mail distribution and earnestly exploring non-postal distribution of our products.

Prior to the passage of Postal Accountability and Enhancement Act (PAEA), the rate-making process was long, arduous, heavily litigious, and costly. Even worse, that process resulted in rate increases that couldn't be accurately forecasted, thereby causing uncertainty in the marketplace and unneeded tensions with our clients. We applaud Congress' decision in PAEA to create a pricing environment that is predictable and streamlined. The Consumer Price Index rate cap is singularly the most important mechanism in PAEA that has encouraged efficient postal operational cost reductions and prevented even greater volume declines in our increasingly competitive postal markets. We urge Congress retain it as a competitive necessity in any Postal Reform package moving forward.

The Need for Service Quality

We believe that moving to 5-day a week delivery is the wrong solution at the wrong time. Today's communications media operates in a ubiquitous 24/7 perpetual motion. With the growing array of advertising distribution alternatives, clients expect more service – not less. Moving to 5-day delivery would clearly put the USPS at a serious competitive disadvantage in the fragmented and technologically-advancing communications marketplace of today. Although we know it is highly improbable, we believe the USPS should be moving in the opposite direction and consider 7-day delivery to more effectively compete with emerging technologies and the increasingly fast-paced media distribution channels available today.

For Valassis and other saturation program mailers, the concern is that the USPS will be unable to continue in a timely manner the activities necessary to maintain our current postal delivery standards. For all saturation mailers, degradation of service (and/or an increase in postal rates) will materially affect the efficacy of saturation mail as a competitive alternative to other advertising choices and thus foster even more severe USPS volume drops.

Through our program mail, Valassis services a large network of local, regional and national clients, including retail, grocery, casual dining, pizza, and small businesses in over 140 geographic markets. Each market and client grouping has a unique set of characteristics that makes mail and print a viable advertising choice, including price sensitivity, delivery timeframes that coincide with in-store offerings, market competition, micro-targeting needs, etc. Predictability of delivery is one of the linchpins of mail advertising as a medium that enables clients to connect with consumers.

At a time when the USPS and its customers should be advocating for the greater utilization of mail as an effective communication medium and creating new incentives for better serving an increasingly fragmented marketplace, the proposal for cutting services is counterproductive. It will instead make mail less relevant in today's communications environment.

The Retiree Benefits Situation is Harming the National Economy

We believe the current postal financial crisis – caused principally by the statutory Postal Service Retiree Health Benefit Fund (PSRHBF) contributions – is forcing the Postal Service to devise short-sighted operational solutions to its public policy problems, as evidenced by its proposal to eliminate Saturday delivery. While such actions may save postal cost in the short-term, they are also hastening volume declines by lessening the ROI value and affordability of postal distribution. They are also not in the national interest as they are inefficient solutions to artificial, manufactured problems that are correctable by Congress.

Within the mailing industry, there is a growing realization that things could get worse. This palpable fear and uncertainty – exacerbated by the Postal Service effort to cut service – will cause mailers to leave before it is too late. The Postal Service's repeated reports of quarterly net losses, coupled with Congressional inaction, are leading mailers to believe that "the postal ship is sinking," thereby forcing the industry to take a hard look at non-mail alternatives. This crisis of confidence, in turn, feeds on itself and heightens the risk that our nation's postal system is locked in a downward death spiral.

But all this angst is unnecessary. It can and should be rectified. The Postal Service faces unprecedented and daunting challenges as it attempts to change its business model to adapt to the shifting global communications market – no easy task. Still, without correction of the manufactured problems, the market challenges are forcing the Postal Service to take a "second-best" approach that unnecessarily weakens and diminishes a viable national network that has substantial relevance for our national economy. These "second-best" Postal Service actions will only accelerate the crisis at hand and drive more mail volume into oblivion – to the long-term detriment of the national economy.

Congressional Action Is Needed Now

Excessive retiree benefit obligations are the driving force behind the Postal Service's current call to reduce service levels and eliminate Saturday delivery. We believe that Congress must take immediate action to remedy the long-standing retiree benefit burdens on the US Postal Service. As both the Office of Inspector General (OIG) and the Postal Regulatory Commission have found, the Postal Service and its ratepayers like Valassis have been overcharged $50-$75 billion in payments to the Civil Service Retirement System (CSRS) Fund. In addition to being overcharged for obligations to the Federal Employees Retirement System (FERS), the Postal Service is also forced to undertake huge prepayments into the PSRHBF while also paying for current retiree's health benefit premiums.

With appropriate legislative relief from these excessive retiree benefit payments, the Postal Service would effectively have little or no unpaid retiree obligations and would have lower on-going retiree expenses as well. That would relieve it of a major reason for its dire financial condition, and would allow it to then focus on serving the nation in an efficient, mailer-supported manner. Such relief would put it on a substantially better financial footing to effectively serve the marketplace, innovate its product portfolio, make needed capital improvements, and compete with the growing number of delivery alternatives.

Congress bears responsibility for these retiree benefit funding problems. The Postal Service can no longer be considered Congress's cash cow because mailers simply will no longer pay higher postal rates while receiving lower service levels. Mailers have options now that they never had before. With its unnecessary financial burdens, and despite mailers' desire for a viable mail network, the Postal Service is losing ground to those options. And, the rate of loss is increasing as the dire postal news continues.

It is critical that Congress promptly and fully correct these retiree benefit encumbrances. Not only would such action firmly place the USPS on a path to profitability and mailer confidence, it would also eliminate the need for extreme measures such as service cuts and exigent rate increases.

We understand the budget pressures that Congress faces, and that its "scoring" process serves a purpose of restraining unnecessary spending. But when it comes to correction of these Postal Service overpayments, the scoring process does not serve the nation well. It ignores the negative impacts of the loss on Gross National Product from reductions in numbers of postal related jobs, revenues, and longer-term business opportunities. The continued vexation weakens the US postal enterprise day by day.

We are not asking for a subsidy or bailout. We are simply asking for rational, equitable reform that will keep a valuable national infrastructure intact, efficient, market-oriented, and viable. Mailers are willing to pay for their postal services – as long as their rates cover reasonable, efficient postal costs.

In closing, I again applaud the initiative taken by the Committees in both chambers on these critical issues facing the Postal Service and ultimately all mail users. The stakes are great. We urge Congress to be equal to the task, and to do what is right and necessary to preserve a viable and affordable postal system as "a basic and fundamental service provided by the Government of the United States" for its people, in accordance with section 101(a) of the PAEA.

SENATE HOMELAND SECURITY AND GOVERMENTAL AFFAIRS COMMITTEE
"Solutions to the Crisis Facing the U.S. Postal Service"
Wednesday, February 13, 2013

Post-Hearing Questions for the Record
Submitted to the Honorable Patrick R. Donahoe

From Chairman Thomas R. Carper (7 questions):

1. You recently announced that the Postal Service intends to eliminate Saturday mail delivery starting in August. Why did the Postal Service choose to make the change in August? I understand that late summer and early fall have traditionally been a slow time for mail, but have you considered whether it might be advantageous to maintain Saturday delivery until after the busy holiday mailing season?

   On April 9, 2013, the United States Postal Service Board of Governors directed the Postal Service to delay implementation of its proposal to implement six-day package/five-day mail delivery beginning in August 2013. The Board based its decision on restrictions passed by Congress as part of the continuing resolution (HR 933) to fund the federal government through the remainder of fiscal year 2013. The Board believes that Congress has left it and the Postal Service with no choice but to delay at this time implementation of this necessary reform. To restore the Postal Service to long-term financial stability, however, the Postal Service requires the flexibility to reduce costs and generate new revenues to close an ever widening budgetary gap.

   The effort to initiate six-day package/five-day mail in August 2013 was the direct result of a January decision by the U.S. Postal Service Board of Governors to examine all possible cost-savings and implement all those within the Postal Service's authority. The Postal Service is currently losing $25 million per day, it has exhausted its $15 billion in borrowing authority and while legislation has been debated, it remains an open question as to when legislative change will be forthcoming. Given the Postal Service's dangerously low levels of liquidity, the responsible course of action was to implement cost-savings, and we estimated that the change in mail delivery frequency would save approximately $2 billion annually when fully implemented, while allowing us to continue to sustain and expand our package delivery services.

   In deciding on August implementation, several important factors were considered. As you point out, summer months historically have lower mail volume, and so they are the preferred time to implement changes to operations. Additionally, our plans for implementing five-day mail delivery include a six-month notice to customers so that they can plan for and make changes in their operations to account for the new schedule.

Finally, the Postal Service's dire financial condition requires immediate action. August implementation would have allowed us to realize some savings in fiscal year 2013, and it would have started the clock for the ramp-up to the full $2 billion in annual savings once fully implemented. Delaying implementation through the 2013 holidays would have delayed achievement of these savings for five months.

2. Last year's Senate-passed postal reform bill would have preserved Saturday delivery for at least two years to give the Postal Service time to address its financial challenges through other less controversial cost-cutting initiatives or revenue-raising efforts. I continue to believe that that is the best approach to this issue rather than the proposal that you put forward – in part, because we built some consensus around it, and also because it allows for the possibility that a potentially lucrative day of mail delivery might be maintained. What are your thoughts on the Senate approach, or a similar approach with a preservation of Saturday delivery for a shorter period of time, maybe one year?

On April 9, 2013, the United States Postal Service Board of Governors directed the Postal Service to delay implementation of its proposal to implement six-day package/five-day mail delivery beginning in August 2013. The Board based its decision on restrictions passed by Congress as part of the continuing resolution (HR 933) to fund the federal government through the remainder of fiscal year 2013. The Board believes that Congress has left it and the Postal Service with no choice but to delay at this time implementation of this necessary reform. To restore the Postal Service to long-term financial stability, however, the Postal Service requires the flexibility to reduce costs and generate new revenues to close an ever widening budgetary gap.

We fully understand the desire for consensus around the decision to eliminate delivery of mail on Saturdays while continuing package delivery, but the difficult financial position in which the Postal Service finds itself does not allow for additional delay. As we have discussed, we are currently losing $25 million per day. Eliminating Saturday delivery of mail will reduce that daily loss by 20 percent, or approximately $5 million per day. Each day that we wait to transition to this delivery schedule means more unrealized savings, more losses and more debt and increases the probability that the Postal Service will run out of cash.

We believe that our plan to retain Saturday package delivery addressed many of the concerns that were expressed in regards to our original five-day delivery plan that resulted in calls for a two-year delay in implementation. We modified our plan in response to customer feedback, and would have continued to deliver packages on Saturdays, which capitalizes on our competitive advantage. Recent market research also supported our plan. In a survey recently conducted by Ipsos, a leading independent market research company, 80 percent of respondents supported the Postal Service's modified plan. Clearly, the public recognizes the need to adjust the number of days of delivery in order to address the Postal Service's financial challenges.

It should also be noted that, had S. 1789 been enacted in the spring of 2012, the two-year mandate to retain Saturday mail delivery would have expired in spring 2014. Our proposal to implement our new delivery schedule represented an acceleration over that time frame of only nine months, but significant dollar savings that we cannot afford to forego would accrue over that time period.

3. If the Postal Service is ultimately able to implement your proposal in August or at some other time, I believe you are projecting annual savings of around $2 billion. It is my understanding, however, that the Postal Service needs much more than that in savings or new revenue in order to remain viable. When we were putting together our Senate bill last year, our goal was to enable $20 billion in savings and new revenue for the Postal Service. Looking to the future, if the Postal Service is able to eliminate Saturday delivery, either through legislation or existing authority, do you agree that the Postal Service will still need more action from Congress? How quickly after a move to a five-day schedule would the Postal Service need Congress to act to enable more savings and revenue?

On April 9, 2013, the United States Postal Service Board of Governors directed the Postal Service to delay implementation of its proposal to implement six-day package/five-day mail delivery beginning in August 2013. The Board based its decision on restrictions passed by Congress as part of the continuing resolution (HR 933) to fund the federal government through the remainder of fiscal year 2013. The Board believes that Congress has left it and the Postal Service with no choice but to delay at this time implementation of this necessary reform. To restore the Postal Service to long-term financial stability, however, the Postal Service requires the flexibility to reduce costs and generate new revenues to close an ever widening budgetary gap.

The Postal Service absolutely needs additional action from Congress, and it is needed as quickly as possible. A number of facets of our Five-Year Business Plan require legislative action in 2013, including the following:

1. **Requiring the Postal Service to sponsor its own health care plan for both active postal employees and retirees, fully integrated with Medicare (into which the Postal Service and its employees have paid $26 billion) and incorporating state-of-the art health management practices. Timely passage of this requirement would allow the Postal Service to fully fund its retiree health care liability, eliminating the onerous prefunding requirement of over $5.5 billion per year through 2016. Additionally, the Postal health plan is expected to produce additional annual premium and normal cost savings of over $2 billion, beginning January 2015.**
2. **Require OPM to accurately calculate the Postal Service's FERS liability, using postal-specific salary and demographic data and return the resulting FERS surplus, estimated at $6 billion, to us in 2013. This would provide critically-needed working capital to alleviate our near-term liquidity shortages.**
3. **Streamline the governance model and provide the Postal Service with additional freedoms to innovate and offer new products and services to open new revenue sources, without burdensome regulatory restrictions.**

4. **Require a defined contribution retirement system for future Postal employees, to provide needed flexibility and certainty for America's increasingly mobile workforce.**
5. **Require arbitrators to consider the specific financial condition of the Postal Service during labor proceedings.**
6. **Reform the federal workers' compensation program (FECA), as the current system is unnecessarily costly and discourages workers from returning to work.**
7. **Provide the right to appeal final EEOC class action decisions to federal court, so that our views can be fully considered in these cases.**

4. In the recent proposal to move to five-day delivery, the Postal Service has sought to preserve Saturday delivery for packages. Some concerns have been raised about the impact this could have on the timely delivery of medications, which are sometimes sent in envelopes instead of packages, and on e-commerce users who utilize a variety of postal products outside of just the parcel product to transport items to customers. Can you more clearly define which products will still be delivered on Saturdays? Have you considered the impact of delivery changes on small business retailers that rely on the Postal Service to support their e-commerce activities?

On April 9, 2013, the United States Postal Service Board of Governors directed the Postal Service to delay implementation of its proposal to implement six-day package/five-day mail delivery beginning in August 2013. The Board based its decision on restrictions passed by Congress as part of the continuing resolution (HR 933) to fund the federal government through the remainder of fiscal year 2013. The Board believes that Congress has left it and the Postal Service with no choice but to delay at this time implementation of this necessary reform. To restore the Postal Service to long-term financial stability, however, the Postal Service requires the flexibility to reduce costs and generate new revenues to close an ever widening budgetary gap.

On Saturdays, the Postal Service proposed to deliver all mail to Post Office Box addresses plus the following domestic products to street addresses: Express Mail, Priority Mail, First-Class Parcels, Standard Post (formerly Parcel Post), and Parcel Select including Parcel Select lightweight and select Inbound International Parcels. These products are the channels through which virtually all medications and items generated by e-commerce transactions are mailed.

The Postal Service believes that a relatively small percentage of pharmaceutical and e-commerce items may be shipped in products that would not be delivered to street addresses on Saturday, such as First-Class Mail or Standard Mail letter or flat-shaped pieces. However, no plan to obtain substantial cost savings through reductions in Saturday delivery can succeed if it also seeks to accommodate the preferences of every mail sender or recipient. Mailers utilizing products that will not be delivered to street addresses on Saturday would have the option to use the ample alternative products for which Saturday street delivery would be preserved, or to time shipments to arrive on weekdays. Recipients have the option of Post

Office Box delivery if they wish to continue to receive letters and flats on Saturdays. The original five-day street delivery plan preserved Saturday street delivery only for Express Mail. The addition of the other products identified above as part of the amended plan would provide substantial benefit to small business retailers that rely on e-commerce. Further, the Postal Service planned numerous communication initiatives to build awareness among the mailing community. Thus, it would be reasonable to expect that mail order pharmacies using shapes or products not eligible for Saturday delivery would build the new delivery schedule into their communications, so that customers could plan appropriately in advance.

We recognize the importance and value of mail to all of our customers, specifically small business retailers that rely on the mail to support e-commerce activities. We met with business customers—small, medium and large—in an effort to continuously communicate and collaborate on integrated approaches as we move to five-day delivery. We wanted to understand our customers' needs and assure them we are committed to meeting those needs. We intended to continue our outreach efforts to keep all of our customers informed as we move to a more sustainable business model. Specific guidance would be available on our website, *usps.com*, as well as through numerous outreach channels throughout the planning and implementation process.

5. Richard Geddes, a Cornell professor who was a witness on our third panel, characterizes the Postal Service's actions to date as a "shrink to survive" strategy, focused largely on cost-cutting. Dr. Geddes concludes that this approach is unlikely to result in a sustainable Postal Service. An almost identical point was made in a white paper prepared last year by the Lazard firm on behalf of the National Association of Letter Carriers – although the Letter Carriers reached different conclusions than Dr. Geddes about what should be done instead. How do you respond to those who say that the Postal Service is focusing too much on cost-cutting and not enough on innovation and finding new ways to leverage its delivery network and other existing assets?

   We are doing both —revenue generation and cost cutting— aggressively. For revenue generation we are working to create new products and improve existing products to meet the evolving needs of customers and spur revenue growth. We are embracing opportunities provided by expanding e-commerce and emerging technologies, especially mobile and digital. Our 2013 mailing promotions calendar, for example, is designed to drive innovation and the use of technology like mobile coupons in the mailing community. We are leveraging our delivery network through initiatives like Metro Post, which offers same-day package delivery and is being tested in San Francisco. Our New Products and Innovation group is dedicated to developing new product solutions that will make the Postal Service more competitive in the marketplace. We are committed to building on our organization's strengths in delivery, access and reputation for providing trusted service to the American people.

6. I understand that the Postal Service has recently had some success implementing new products and services and that the bill we passed here in the Senate last year would have allowed the

Postal Service to do even more in this area to be more competitive and bring in new revenue. Can you provide more detail on some of these innovations and how successful these new products or services have been? What more could the Postal Service do to innovate if the provisions of last year's Senate-passed bill became law?

Since the passage of the Postal Accountability and Enhancement Act (PAEA) in 2006, the Postal Service has taken numerous steps to improve its product and service offerings. For instance, the Postal Service has transferred various products from the "market-dominant" to the "competitive" product list. Recent examples include First-Class Mail Commercial Parcels (renamed First-Class Package Service), Parcel Post (renamed Standard Post), Outbound Single-Piece First-Class Mail International Packages (renamed First-Class Package International Service), and Post Office Boxes in areas where private mailbox providers provide a competitive alternative. Competitive status allows the Postal Service to take advantage of greater pricing flexibility for these products, which enables more market-responsive pricing and product enhancements. The Postal Service has also entered into numerous new Negotiated Service Agreements (NSAs) with business mailers with respect to competitive products, which allow it to offer customized pricing options to encourage volume and revenue growth from key customer segments. These fundamental actions have helped the Postal Service stimulate growth in its package business and generate valuable new revenues. In the past two years, package volumes have grown by 14 percent.

The Postal Service has also undertaken several experimental market tests under its PAEA authority. Examples of some of our recent market tests include *Alternate Postage*, which allows prepaid greeting cards to be mailed without a stamp; *Gift Cards*, which allows for the sale of certain types of prepaid gift cards at local Post Offices; and *First-Class Mail Tracer*, which lets customers purchase a tracking barcode for First-Class Mail letters. The success of these efforts is highlighted by the fact that the Postal Service is considering transforming several of its existing market-tests into permanent products. Despite the success of recent market-tests, it is worth noting that, pursuant to 39 U.S.C. § 3641, experimental market-tests can only be authorized to earn up to $50 million in annual revenues.

The most successful market test, which has now become a permanent product, is the new saturation mail product known as Every Door Direct Mail (EDDM). EDDM is a product that makes direct mail more accessible to small local businesses and individuals. Since its inception, EDDM has helped generate approximately $300 million for FY 2012 and approximately $145 million for four months of FY 2013 through January.

In recent years, the Postal Service has also implemented several strategic promotions that have encouraged the integration of digital technology with mail. Successful promotions include the *2012 Mobile Commerce and Personalization Promotion*, which encouraged mailers to utilize mobile barcode technology and personalization techniques to enhance their mailpieces, and the *2012 Mobile*

***Shopping Promotion*, which encouraged mailers to use technologically enhanced mailpieces to encourage mobile shopping during the peak of the holiday shopping season.**

While the above actions have undoubtedly helped the Postal Service to improve its postal products and services and enhanced the value of mail to postal customers, the PAEA prevents the Postal Service from offering new "non-postal" products to the public. Had S. 1789 become law, the Postal Service could have sought permission to launch new (and potentially lucrative) non-postal products, partnered with State and local governments to provide essential services to customers, and begun shipping beer, wine, and distilled spirits. Although it is impossible to precisely estimate how much revenue these opportunities might have generated, this expanded authority would have clearly enhanced the Postal Service's ability to utilize its existing assets in new and potentially innovative ways.

With respect to its core business, the Postal Service undoubtedly has more tools under the PAEA to innovate than it did under prior law, yet the regulatory structure is still overly bureaucratic and restrictive. This is particularly true with respect to market-dominant products, for which the Postal Service's pricing flexibility is being increasingly diminished due to decisions by the Postal Regulatory Commission (PRC). Congress should consider reforms that give the Postal Service greater flexibility to make pricing and product decisions in a timely and market-responsive manner.

7. While I certainly understand the need to cover the costs of delivering mail, there are concerns that recent pricing increases could have unintended consequences. For example, small business users that rely heavily on the Postal Service have a hard time competing with larger businesses that enjoy volume driven pricing. I've recently heard from some small businesses that they are concerned that recent postage price increases will jeopardize their ability to compete, particularly since prices for most international products have more than doubled, making it cost prohibitive for e-commerce users to export to international buyers. Can you comment on these issues and provide some examples of how the Postal Service is working to support small businesses that are exporters?

The increase in prices that took place on January 27, 2013, were necessary to support the increasing costs in transportation, processing, and handling of mail being shipped internationally. The Postal Service does not receive tax dollars for operating expenses. Despite the recent price increases, our base pricing for international products and services remains very competitive and provides simplified, fast, and affordable international shipping options for small businesses. The Postal Service helps small businesses manage shipping costs through all-inclusive pricing - the price we quote is the price the small business pays - without hidden fees or surcharges. Free shipping supplies, free package pickup, online discounts below retail prices and no brokerage fee are other examples of how the Postal Service is working to support small businesses that are exporters.

From Senator Jon Tester (2 questions):

1. On July 1, 2012, the Postal Service changed its service delivery standards for the Dakotas, Montana, and Nebraska. As a result, overnight delivery in these states is almost impossible in areas that do not have a nearby mail processing facility. And as more of those facilities are closed, fewer areas will be able to retain overnight delivery. The decision to change delivery standards in these states affects less than one-tenth of one percent of America's mail volume, yet it was a change that the Service made despite observations from the Postal Regulatory Commission that "it is possible for the Postal Service to undertake significant network rationalization and realize substantial cost savings while preserving most current service levels." Knowing that the Senate has expressed its preference for keeping a 1-3 day standard and knowing that the Postal Regulatory Commission had told you that keeping current service levels was possible, what was the point of this change? How much money has the Postal Service saved as a direct result of this change in service delivery standards in these four states? Will this erosion in service standards be expanded to additional states? If so, which states and when?

   Despite efforts to educate the public and Congress, considerable misinformation and confusion continue to surround the Postal Service's network rationalization and changes to service standards to meet the needs and expectations of our customers. For instance, the First-Class Mail service standards that were implemented on July 1, 2012, were not limited to four states; rather, they were national in scope, extending everywhere in the 48 contiguous states. Additionally, under the modified overnight service standard, First-Class Mail continues to receive overnight service.

   With the modified overnight service standard, if two address points—i.e. a home, business, or P.O. Box—share a Sectional Center Facility (SCF)—i.e. the behind-the-scenes processing plant where mail is sorted for multiple ZIP Codes—then First-Class Mail between those address points continues to receive overnight service to each other and all other address points served by that SCF. These service standards hold regardless of the distance from an address point to the SCF. In fact, as volume declines make it possible to reduce the total number of SCFs, the geographic reach of the remaining SCFs increases, and with it, the geographic range of overnight First-Class Mail service.

   This new standard has allowed for significant network rationalization leading to substantial savings. Once fully implemented, the network rationalization plan will yield $2.1 billion in annual cost savings nationwide. And though it is incorrect to assert that these changes are only occurring in four states, the anticipated efficiencies will allow ultimately for thirteen consolidations of either plants or distinct mail operations in the Dakotas, Nebraska and Montana, which are expected to generate at least $12.5 million in annual operating cost savings when fully implemented. The reduction of the number of SCFs will allow for more efficient bulk mail entry for customers, the plan will offer business customers who meet

certain critical entry times continued overnight First-Class Mail service, and remittance mailers will have the continued ability to access their mail at processing facilities.

The First-Class Mail service standard changes implemented on July 1, 2012, were the product of a well-established process. When proposals involve nationwide changes in service, the Postal Service is required to request non-binding advice from the Postal Regulatory Commission (PRC), which we did in December 2011. Evaluating that proposal involved consideration of (a) several thousand comments received during two rounds of notice-and-comment rulemaking, (b) the results of extensive quantitative and qualitative market research involving urban and rural household and business customers, and (c) extensive consultations with the diverse components of the mailing industry.

2. As you know, the Congress annually provides approximately $78 million in discretionary funding to the United States Postal Service as payment for the Postal Service's carriage of free and reduced rate mail. Additionally, you have asked the Congress for a number of measures to reform the Postal Service and alleviate its financial burdens. Bearing in mind those facts, do you see Service Delivery Standards and the future of the Postal Service as a whole – as something that falls under the oversight and jurisdiction of Congress or is this to be decided by the Service and the Board of Governors?

As an entity of the Federal Government, the Postal Service operates under the laws established by Congress and the President. Regarding service standards, in the Postal Accountability and Enhancement Act of 2006 (PAEA), Congress authorized and directed the Postal Service to set modern service standards for products in the "market-dominant" category. 39 U.S.C. § 3691. The Postal Service is required to consult with the Postal Regulatory Commission (PRC) and to design its service standards in a way that achieves a host of objectives and factors. Congress gave the PRC an oversight role over the Postal Service's performance against these standards. Further, the Postal Service has sought advisory opinions from the Commission under 39 U.S.C. § 3661 when seeking certain significant nationwide changes in service standards, such as the Postal Service's December 2011 filing of a request for an advisory opinion from the PRC on our network rationalization initiative.

The Postal Service may adjust service standards for products in the "competitive" category, such as Express Mail and Priority Mail, in accordance with its business judgment. These products by definition have ample competitive alternatives for which mailers can turn if they are dissatisfied with the standards established by the Postal Service. A decision of this type may be subject to the potential need to secure an advisory opinion from the PRC when those changes give rise to a nationwide or substantially nationwide change.

As for larger responsibility over the future of the Postal Service, that is ultimately a decision that Congress must make. We firmly believe that the current goal of postal

policy, which is to have a Postal Service that provides prompt, reliable and affordable universal service in an efficient and financially sustainable manner, without being a burden on the American taxpayer, should be maintained. However, in order to achieve that goal, Congress must give the U.S. Postal Service Board of Governors the tools to proactively address the Postal Service's challenges. The Postal Service must be allowed to maximize the prospects that financial stability not only can be temporarily restored, but can be *maintained* over a meaningful period of time in an environment characterized by intense competition and changing societal mores regarding use of the mail.

The shortcomings of the PAEA demonstrate the central importance of pairing authority with responsibility. While the Board has the responsibility to provide universal service in a financially self-sufficient manner, and has set forth a strategy to comprehensively address the Postal Service's financial problems, it lacks the authority to fully implement that strategy because of restrictions in the law. In addition, other stakeholders with responsibility under the PAEA have taken the position that they did not have the authority to act. In particular, while the PAEA gave responsibility for price regulation to the PRC, it previously expressed the opinion that addressing the Postal Service's financial challenges rested solely with Congress under the law. In order to provide reform that has the prospect of meaningful staying power, Congress must clearly match authority with responsibility by freeing the Board of constraints on its ability to take the actions necessary to ensure the Postal Service's viability.

From Senator Heidi Heitkamp (7 questions):

1. A quality, reliable postal service is essential for North Dakotans. From seniors to small business owners, the United States Postal improves the quality of life for folks in our state. The USPS does have serious problems with its finances that need to be addressed to ensure its financial viability over the long-term, but rural states should not be disproportionately affected by any changes. I, like many of my constituents, am very concerned with the announcement made last week to end Saturday mail delivery. The haphazard approach of cutting services is not the solution nor is it in the best interest of the customers, particularly those in rural areas. What steps have you taken to ensure the US Postal Service has accurate information about the impact of ending Saturday mail delivery – as well as the impact of any future postal reforms such as closing post office sites or processing centers – on rural areas?

   On April 9, 2013, the United States Postal Service Board of Governors directed the Postal Service to delay implementation of its proposal to implement six-day package/five-day mail delivery beginning in August 2013. The Board based its decision on restrictions passed by Congress as part of the continuing resolution (HR 933) to fund the federal government through the remainder of fiscal year 2013. The Board believes that Congress has left it and the Postal Service with no choice but to delay at this time implementation of this necessary reform. To restore the Postal Service to long-term financial stability, however, the Postal Service requires the flexibility to reduce costs and generate new revenues to close an ever widening budgetary gap.

   We fully agree that all citizens are entitled to high-quality, reliable postal services irrespective of whether they live in rural or urban communities. With regard to our February 2013 announcement of a new delivery schedule, the Postal Service has well-established processes to ensure public outreach, engagement, and input when evaluating a potential Post Office or processing facility closure. These processes are designed to incorporate community feedback regardless of whether affected customers are rural or urban. These processes are described in Postal Service regulations: Handbook PO-101, *Postal Service-Operated Retail Facilities Discontinuance Guide*, and Handbook PO-408, *Area Mail Processing*.

   In recent years, the Postal Service has taken steps to ensure that rural communities continue to receive a high level of service despite changes in the Postal Service retail network. Since 2011, the Postal Service has worked closely with rural communities to provide retail services through various alternate access channels, such as Contract Postal Units, Approved Shippers, and Village Post Offices at local businesses. This enhances the degree of service available to community residents, even if the local Post Office is discontinued. Stamp purchases—the single most common transaction over Post Office counters—can also be made online, at the grocery and other stores nationwide, and our rural carriers serve as a post office on wheels.

In addition, over the last year the Postal Service has initiated its Post Office Structure Plan (Post Plan). Under this plan, communities are asked for input on the appropriate future for a Post Office with insufficient workload. In most cases, this results in the Post Office remaining open, with its hours realigned to match its workload, rather than the Post Office being discontinued outright.

We have taken numerous steps to ensure that rural areas continue to receive appropriate levels of service. Market research supports implementation of the Postal Service's plan. The research revealed no substantial difference in the willingness or ability of rural and non-rural customers to adjust to the planned service changes. It also showed that the absence of a rural carrier on Saturday was not a concern for the majority of rural participants in the focus group sessions. In recent years, public-opinion surveys have consistently found high levels of support from the public– nearly seven in ten customers approve of a switch to five-day mail delivery as a way for the Postal Service to reduce costs. Research conducted recently shows even higher levels of support for the Postal Service's modified plan, which includes Saturday Package delivery. In a survey conducted by Ipsos, a leading independent market research company, 80 percent of all respondents supported the Postal Service's modified plan, including 76 percent of rural respondents. Clearly, the public recognizes the need to adjust the number of days of delivery in order to address the Postal Service's financial challenges.

By continuing to deliver Express Mail, Priority Mail, and most other packages on Saturdays, our modified plan responded to many of the concerns about the impact of five-day delivery on certain customer segments, such as recipients of medicine. We recognize that any service change will have a negative impact on some customers, but responding to the Postal Service's dire financial challenges requires fundamental changes to all aspects of the Postal Service's business model. The Postal Service had given advance notice of these changes so that residential and business customers had time to plan and adjust. We would have continued to work closely with our customers to ensure a smooth transition to the new delivery schedule.

2. In deciding to end Saturday mail delivery, what information did the USPS use to determine such a switch would not have a detrimental impact on populations such as the elderly – who may receive social security checks via mail and may rely on home delivery and be unable to travel to post offices for Saturday pickup?

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flexibility to reduce costs and generate new revenues to close an ever widening budgetary gap.

Under the Postal Service's plan for reduced Saturday street delivery, all addresses will continue to receive door delivery of packages, Priority Mail, and Express Mail on Saturday. This includes elderly as well as non-elderly persons. Only letters, cards, and flats (other than Express Mail and Priority Mail) will no longer be delivered to the door on Saturdays, although senior citizens will still be able to receive delivery of those items at Post Office boxes on Saturdays.

As for Social Security checks, it should be noted that, as of March 1, 2013, the Social Security Administration (SSA) requires senior citizens to receive Social Security payments electronically, rather than via check. As a result, any changes in mail delivery will not affect senior citizens' receipt of Social Security payments, which will no longer be delivered via the mail in any case.

Similar to the market research discussed in response to question #1 above, an independent market research company recently conducted market research for the Postal Service that showed that 83 percent of respondents aged 55 years or older "strongly supported" or "somewhat supported" the general concept of letter mail delivery five days per week and package delivery six days per week, given the Postal Service's financial situation. Indeed, this age group showed a higher level of support than the other age groups polled. Respondents aged 18-34 and 35-54 showed 79 percent support for this approach. These results show that senior citizens – along with all other segments of the population – recognize the need for the modified delivery plan to address the Postal Service's financial challenges.

The Postal Service recognizes that any service change will have a negative impact on some customers. But, responding to the Postal Service's dire financial challenges requires fundamental changes to all aspects of the Postal Service's business model. We will continue to work closely with customers – individual consumers and commercial mailers – to ensure that we provide prompt, reliable, and efficient universal postal services in a financially self-sustainable manner.

3. In your press conference last week, you noted that this change would not slow mail delivery. However, if you suspend collection from blue collection boxes and private homes and businesses as well as mail sorting on Saturday night, how can you maintain and ensure that mail service will not be delayed?

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Service to long-term financial stability, however, the Postal Service requires the flexibility to reduce costs and generate new revenues to close an ever widening budgetary gap.

To clarify, the remark concerned service standards and measured performance. In that context, Saturday would no longer be counted as a delivery day, just as Sunday is not counted as a delivery day. Therefore, a reduction in Saturday operations would not affect measured service performance.

In terms of the physical transit of mail from the collection point to the delivery point, it is true that the transit time for a portion of mail would increase by one calendar day. By the same token, the lack of delivery service on a Sunday or federal holiday inevitably adds a day to the physical transit of mail over the weekend. Mailers are already used to adjusting their service expectations around Sundays and federal holidays: either they accept that the mail will take an extra day to reach its destination, or they mail a day earlier in anticipation. In qualitative market research that the Postal Service conducted in connection with the Postal Regulatory Commission's review of the Postal Service's five-day street delivery plan, rural, urban, and suburban customers alike indicated that they could similarly adjust their mailing habits around a delivery schedule in which letters, cards, and flats were not delivered to street addresses on Saturdays.

4. Businesses that currently utilize USPS services have raised concerns that reducing services will decrease the value of mail, especially periodicals and some newspapers that are delivered on Saturday. This could result in a greater shift away to electronic communications away from USPS if it is unable to provide reliable service as a result of this change. How has the Postal Service accounted for this in its decision to end Saturday delivery?

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The Postal Service has a long-standing history of sensitivity to the interests of publishers who use the mail. However, there are limits to what the Postal Service can do to address their needs and preferences, especially as it faces its own financial instability, and considering that the prices paid by Periodicals for mail delivery continue to fall well short of the cost of providing that service.

In developing its original five-day street delivery plan, the Postal Service consulted extensively with publishers and candidly reiterated why it would not establish an exception for the delivery of their products to street addresses on Saturday, even for those weekly publications that had a long-standing preference for Saturday delivery. Accordingly, these publishers were encouraged to seriously explore changes to their business models.

Within County newspaper publishers actively participated in the Postal Regulatory Commission's review of the original five-day street delivery plan. However, they provided virtually no empirical evidence of the potential adverse impact that the elimination of Saturday mail delivery would have on their operations. They did indicate that, if the Postal Service eliminated Saturday street delivery of their publications, some would explore alternative private delivery options.

Taking into account the overall financial condition of the Postal Service and the factors that contribute to the misalignment between Periodicals costs and revenues, it was the Postal Service's judgment that Periodicals was not the optimal class to receive service on Saturdays in light of cost considerations, if no other regular mail was being delivered to street addresses on Saturday, as would have been the case under the original five-day street delivery plan.

Under the amended delivery plan, the Postal Service will deliver a variety of parcel products to street addresses. These products are experiencing significant growth in volume and contributing positively to postal finances. The continuation of Saturday delivery could preserve or expand postal market share in the highly competitive parcel delivery industry. Saturday-eligible parcels will bear 11-digit barcode information that will be used to generate dynamic delivery routes. These routes will vary from Saturday to Saturday, based on the delivery addresses of specific parcels ready for dispatch from designated delivery units. The Postal Service's plan to continue a greater amount of Saturday delivery than originally proposed therefore relies on 11-digit barcode data that are not applied to letters or flats (including newspapers), limiting its application to parcels in the future network. A reasonable amount of Saturday street delivery is preserved and a substantial amount of cost savings can still be achieved.

5. There continues to be questions on whether the Postal Service has authority to end six-day delivery without congressional action. What is the Postal Service's justification for change?

   On April 9, 2013, the United States Postal Service Board of Governors directed the Postal Service to delay implementation of its proposal to implement six-day package/five-day mail delivery beginning in August 2013. The Board based its decision on restrictions passed by Congress as part of the continuing resolution (HR 933) to fund the federal government through the remainder of fiscal year 2013. The Board believes that Congress has left it and the Postal Service with no choice but to delay at this time implementation of this necessary reform. To restore the Postal

Service to long-term financial stability, however, the Postal Service requires the flexibility to reduce costs and generate new revenues to close an ever widening budgetary gap.

We have provided an extensive legal analysis to the Committee. In brief, the Postal Service has explained that its authorizing legislation (Title 39, United States Code) allows five-day delivery, and that the appropriations rider requiring six-day delivery of mail at not less than the 1983 level must be re-enacted each year in order to have continuing effect. As such, Congress need not affirmatively act to approve five-day delivery; rather, the modified plan can be implemented so long as Congress *refrains* from enacting any statute that precludes the Postal Service from exercising its Title 39 authority over frequency of delivery. The Government Accountability Office (GAO) recently issued an opinion that, while misconstruing the law in certain respects, accurately confirmed that the rider is temporary in nature. Therefore, its opinion casts no doubt whatsoever on the legal validity of the Postal Service's announcement in February that it could move to a new delivery schedule in August, unless Congress took subsequent action to prevent the implementation of that schedule. Given the language of the Continuing Resolution Congress enacted in March 2013, the Postal Service is currently required to maintain six-day delivery.

6. Switching to five-day delivery will only generate part of the savings needed to address the financial conditions of the USPS. Presumably, the Postal Service will be seeking further reforms and that these reforms will likely include proposals to close or reduce the hours at postal locations throughout the United States. Does the USPS have plans to pursue further post office closures and what criteria does USPS believe should be used to judge whether or not a specific post office location should be closed or its hours reduced?

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The Postal Service will continue to monitor and assess its retail operations and make business decisions to include both the reduction of service hours and/or the closing of facilities. Local situations may also dictate the necessity to terminate service in such conditions as emergency suspensions, in which it is not practical or possible to continue postal operations. Criteria stated in the *USPS Handbook PO-101, Postal Service-Operated Retail Facilities Discontinuance Guide*, provides the organization with the protocol in which to reduce and discontinue retail operations. We will also continue to evaluate and adjust hours of operation under the Post Plan. Under this

plan, communities are asked for input on the appropriate future for a Post Office with insufficient workload. In most cases, this results in the Post Office remaining open, with its hours scaled back to match its workload, rather than the Post Office being discontinued outright.

7. As I understand it, the post office will continue Saturday delivery to PO Boxes, allowing some urban customers an option for Saturday delivery. However, that option is not available to rural customers who live miles from the nearest PO Box. Have you considered a carve-out for rural Saturday delivery?

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As proposed, the six-day package/five-day mail delivery schedule would have allowed for continued Saturday mail delivery to those customers with PO Boxes. Rural customers, however, are currently more likely than urban customers to use PO Boxes, and so the continued Saturday schedule would have proportionally affected fewer rural constituencies than urban ones.

The top ten states where customers currently use PO Boxes are primarily rural, and the chart below details the percentage of customers (delivery points) that make use of this option compared to the total number of delivery point in the state. These customers would have continued to receive Saturday delivery as part of the proposed new schedule:

State	PO Boxes Usage
1. Alaska	35.4 %
2. Wyoming	29.2 %
3. Montana	27.1 %
4. Vermont	24.3 %
5. Hawaii	20.9 %
6. North Dakota	20.7 %
7. West Virginia	20.3 %
7. New Mexico	20.3 %
9. Maine	18.8 %
10. South Dakota	18.6%

A rural delivery "carve-out" was considered, but due to constraints on how mail is processed, it was not a viable option.

From Senator John McCain (3 questions):

1. Congress must accept the fact that the Americans communicate and conduct business in a completely different way than they did even five years ago.

    - Will moving to 5-day mail delivery fulfill the Postal Service's commitment to universal service?

On April 9, 2013, the United States Postal Service Board of Governors directed the Postal Service to delay implementation of its proposal to implement six-day package/five-day mail delivery beginning in August 2013. The Board based its decision on restrictions passed by Congress as part of the continuing resolution (HR 933) to fund the federal government through the remainder of fiscal year 2013. The Board believes that Congress has left it and the Postal Service with no choice but to delay at this time implementation of this necessary reform. To restore the Postal Service to long-term financial stability, however, the Postal Service requires the flexibility to reduce costs and generate new revenues to close an ever widening budgetary gap.

As the Postal Regulatory Commission noted in its 2009 *Report on Universal Postal Service and the Postal Monopoly*, "The [Postal Service's universal service obligation] is not specific. The Postal Service is to achieve the best possible balance of these service features consistent with efficient and economic practices. Congress has rarely established rigid, numerical standards of minimally acceptable service for each [universal service feature]. Rather, throughout its history, the Postal Service has been expected to use its flexibility to meet the needs and expectations of the Nation while balancing the delivery of service against budgetary constraints. This long-standing policy has worked well."

The Commission also found that the Postal Service's universal service obligation has seven attributes: geographic scope, range of products, access to postal facilities, delivery frequency, prices/affordability, quality of service, and users' rights. The Postal Service's plan to adjust Saturday street delivery would affect only delivery frequency; the other six aspects of universal service would remain untouched. The Commission itself observed that "a minimum frequency of delivery for a postal operator that is obligated to provide universal coverage of delivery addresses is 5 days per week" and that a number of foreign posts provide universal service on a five-day delivery schedule.

Even with respect to delivery frequency, the Postal Service's plan avoided an all-or-nothing approach to Saturday delivery in favor of a nuanced response to the mailing public's current needs. Only certain products would not be delivered to certain address types on Saturdays. The Postal Service would have continued to deliver all mail to Post Office Boxes throughout the nation, Monday to Saturday. It would have continued to deliver packages, Priority Mail, and Express Mail to street addresses Monday to Saturday. Letters and flats in the "market-dominant"

product categories (First-Class Mail and Standard Mail) would not be delivered to street addresses on Saturdays, Sundays, or federal holidays; they would have continued to be delivered to street addresses five days a week.

- Do you believe moving to 5-day mail delivery is one of the most significant steps in the short-term to restore the financial solvency of the Postal Service?

Moving to a delivery schedule of six-days for packages and five-days for mail is a critical element to restore the Postal Service's financial stability. However, as significant as the projected $2 billion annual savings are, they represent only one element of our Five-Year Business Plan to close our budget gap with up to $20 billion of annual savings. Transitioning to the new delivery schedule alone is not sufficient. The Postal Service absolutely needs additional action from Congress, and it is needed as quickly as possible. A number of facets of our Five-Year Business Plan require legislative action in 2013, including the following:

1. **Requiring the Postal Service to sponsor its own health care plan for both active postal employees and retirees, fully integrated with Medicare (into which the Postal Service and its employees have paid $26 billion) and incorporating state-of-the art health management practices. Timely passage of this requirement would allow the Postal Service to fully fund its retiree health care liability, eliminating the onerous prefunding requirement of over $5.5 billion per year through 2016. Additionally, the Postal health plan is expected to produce additional annual premium and normal cost savings of over $2 billion, beginning January 2015.**
2. **Require OPM to accurately calculate the Postal Service's FERS liability, using postal-specific salary and demographic data and return the resulting FERS surplus, estimated at $6 billion, to us in 2013. This would provide critically-needed working capital to alleviate our near-term liquidity shortages.**
3. **Streamline the governance model and provide the Postal Service with additional freedoms to innovate and offer new products and services, without burdensome regulatory restrictions.**
4. **Provide the authority for the Postal Service to expand its offerings of products and services to open new revenue sources.**
5. **Require a defined contribution retirement system for future Postal employees, to provide needed flexibility and certainty for America's increasingly mobile workforce.**
6. **Require arbitrators to consider the specific financial condition of the Postal Service during labor proceedings.**
7. **Reform the federal workers' compensation program (FECA), as the current system is unnecessarily costly and discourages workers from returning to work.**
8. **Provide the right to appeal EEOC class action decisions, so that our views can be fully considered in these cases.**

2. Last Congress, the Senate passed S. 1789, which I believe put the American taxpayer on the hook and further tied the hands of the Postal Service by placing new restrictions and

limitations on the ability of the Postal Service to right-size its mail processing network and prohibiting 5-day mail delivery.

- If S. 1789 became law today, do you believe that it would give you the flexibility you need to achieve the billions in cost reductions necessary to sustain the Postal Service for the long-term?
- Do you believe that S. 1789 was a short-term fix that kicks the can down the road?
- When would you need to come back to Congress and ask for additional help to sustain the Postal Service if S. 1789 would have become law?

S. 1789 contained many reforms that would have benefitted the Postal Service, both in the short and long-term. Helpful reforms included a resolution of the retiree health care pre-funding payments, which presently are responsible for the majority of the Postal Service's financial losses. Also, the refunding of the acknowledged overpayment to the Federal Employees Retirement System would have provided needed liquidity to allow the Postal Service's other cost saving measures to be implemented. Though delayed, the transition to five-day mail delivery would have allowed the Postal Service to secure this long-needed and long-delayed reform in 2014. The expanded authority to offer other non-postal products would have allowed the Postal Service to explore new opportunities that could provide for long-term generation of new revenue, and a host of other changes that the Postal Service has long advocated were part of the bill.

The reforms included in S. 1789 did not go far enough to insure long-term financial stability for the Postal Service, a point that was made by the U.S. Postal Board of Governors on the bill's passage. The bill introduced requirements that would have reduced planned cost and efficiency improvements in areas such as consolidations of mail processing facilities, overnight service standards, retail postal services, and the changes to delivery frequency were delayed. While providing for more reasonable payments to address the liability for retirees' health care, S. 1789 did not address the need to control costs that can be achieved by requiring the Postal Service to sponsor its own health insurance plan.

Understanding both the benefits and limitations of S. 1789, it should be noted that, as the bill sponsors said, it was never intended to be the final word on postal reform. S. 1789 represented a positive and useful step forward, but a comprehensive postal reform package can only be achieved when the differing approaches of the House and Senate are reconciled. Congress will have to adopt elements of S. 1789 and elements of reform proposals put forward in the House in order to secure the Postal Service's long-term financial sustainability.

3. At the hearing, the "last mile" was discussed by many of the witnesses. Your contracts with Federal Express and UPS, allow the Postal Service to deliver packages to the "last mile" to homes. Is the Postal Service reviewing other ways to use the private sector to control costs and right size your network?

The Postal Service operates as both a vendor and a customer of FedEx and UPS. The synergies between our organizations are mutually beneficial, and the Postal Service continues to look for other ways to work with public and private sector organizations to improve efficiencies.

From Senator Michael B. Enzi (2 questions):

1. I have been following fairly closely the Postal Service's retiree healthcare pre-payment issue for the last few years but am unclear on a few things. Given the missed payments of $11.1 billion in FY2012 and a projected missed payment for October 2013 of an additional $5.6 billion – What is the current balance of the retiree healthcare prepayment fund and how will these missing payments affect the balance of the fund in terms of healthcare benefits retirees will see now and in 20 years? Additionally, when the Postal Service began making these prepayments, where were those funds placed? To put it another way, do those funds become bonds in a drawer or are the funds invested to grow the value of the fund for the use of future retiree benefits?

   All prepayments have been placed in the Postal Service Retiree Health Benefits Fund ("the Fund") in the U.S. Treasury. As of September 30, 2012 (the last full reporting date), the Office of Personnel Management (OPM) reported the Fund balance as $45.7 billion of assets against an actuarial valuation of the liability for future Postal retiree health benefits of $93.6 billion, thus providing for 49 percent funding of the obligations. The $45.7 billion of assets were invested in long-term, special-issue U.S. Treasury securities, with maturities of up to 15 years. Those securities yielded a 3.7 percent rate of return for FY2012, resulting in interest earnings within the Fund of $1.6 billion for the year.

   The Postal Service continues to pay the premiums for retiree health insurance from its general operating funds, not from the Fund, at a cost of $2.6 billion in FY2012. This pay-as-you-go methodology is also used by other federal agencies. The Postal Service is the only agency that is also required to pre-fund its retiree health benefits and has achieved a 49 percent funded rate, as noted above. The rest of the U.S. government had unfunded retiree health benefit obligations of approximately $222 billion at September 30, 2012.

   Beginning in FY 2017, the Postal Service will be required to make annual payments into the Fund to cover the cost of retiree health benefits earned by employees each year, plus an amount to cover a portion of any unfunded liability in the Fund. Based on 2012's unfunded liability of $48 billion, we estimate that the total annual payments, beginning in 2017 would be approximately $5.5 billion. Much like the prefunding payments that we were forced to default on, these payments are simply unaffordable.

   This is the primary reason why the Postal Service has proposed its own health care plan. The Postal health plan would attack the root of the problem by eliminating the FEHBP's complex structure of redundant health care plans with a single, efficient, plan that is fully-integrated with Medicare (to which the Postal Service and its employees have contributed over $26 billion), takes advantage of a competitive marketplace for administration, and employs state-of-the-art health and benefits management practices. A Postal Service-sponsored health plan will reduce medical

costs to the point at which the unfunded retiree healthcare liability will be virtually eliminated.

Should the Postal Service healthcare proposal be quickly enacted by Congress, replacing FEHBP with a new Postal Health Plan for employees and retirees, we project that the current obligations for future retiree health benefits would be fully covered by the $46 billion currently on deposit in the Fund, so that there would be no need for additional annual pre-funding payments of $5.6 billion. Likewise, the current premium costs for active employees and retirees would be reduced by nearly half, creating approximately $2.5 billion of additional annual cost savings.

2. My next question is both anecdotal and illustrative and I would like your input on what is being done -- or could be done to improve the Postal Service given my story. I was recently at a post office here in DC where I went to mail some letters during a busy lunch hour, only to find that there were only two out of eight windows accepting customers; there was a line that extended out the door and there were also multiple postal workers eating their lunch at their window – in plain view of customers and the growing line. Does the postal service stagger employee lunch breaks to accommodate the busiest work hours? If not, why not make this small change to increase productivity and customer satisfaction? If so, was there an explanation for what I experienced?

We sincerely hope that your experience is an isolated occurrence, and we certainly do not condone such behavior. The United States Postal Service places heavy emphasis on customer satisfaction. To be successful, we must provide the levels of service that make our customers want to do business with us. We employ management tools to assist local personnel to manage their operation. We strive to schedule lunches and breaks to support customer demand. Additionally, many offices post alternate access points in the community where postal services are available; they utilize employee scheduler tools, and, they also employ lobby assistants during peak transaction times.

Given the uncertainty of customer demand, and unscheduled employee absences, the tools cannot always account for every variable. We can assure you that messaging to reinforce our commitment to our customers will be forthcoming.

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United States Government Accountability Office
Washington, DC 20548

April 5, 2013

The Honorable Thomas R. Carper
Chairman
Committee on Homeland Security and Governmental Affairs
United States Senate

Subject: *Responses to Questions for the Record; Committee on Homeland Security and Governmental Affairs, February 13, 2013, Hearing on "Solutions to the Crisis Facing the U.S. Postal Service"*

Dear Mr. Chairman:

This letter responds to your March 12, 2013, request that we address questions submitted for the record related to the February 13, 2013, hearing entitled, *Solutions to the Crisis Facing the U.S. Postal Service*. Our answers to these questions are enclosed and are based on our previous and ongoing work, updates to that work, and our knowledge of the areas addressed.

If you have any questions or would like to discuss our responses, please contact me at (202) 512-2834 or Stjamesl@gao.gov.

Sincerely yours,

Lorelei St. James

Lorelei St. James,
Director, Physical Infrastructure Issues

CC: The Honorable Tom Coburn, Ranking Member
Committee on Homeland Security and Governmental Affairs

Enclosure

Post-Hearing Questions for the Record
Submitted to the Honorable Eugene L. Dodaro
From Senator Heidi Heitkamp

1. While the end of Saturday mail delivery is being advanced to reduce costs, it is unclear to me whether this shift will benefit the Postal Service over the long-term. In a 2011 report, the GAO found that moving to five-day service would put mail volumes and revenues at risk. In other words, it could push the USPS further down the spiral. Specifically, GAO noted that USPS may have overestimated savings by as much as $500 million and that USPS may have underestimated the reduction in volume likely under five-day service. Does GAO have an updated projection on what the savings might be under five-day service as well as an estimate on the reduction in volume under that scenario?

The Postal Service's (USPS) current estimates for the proposed delivery schedule are $2 billion in annual savings by the end of fiscal year 2015 and a mail volume decline of less than one percent. Based on our 2011 work,[1] and recent information from the Postal Service on their 2013 estimate, we note that the previous and current estimates are primarily based on eliminating city and rural carrier work hours on Saturdays. For both estimates, the USPS estimated minimal mail volume declines. In our prior work, stakeholders raised a variety of concerns about the estimates, several of which are still relevant. For example, USPS's estimate assumed that most of the Saturday workload transferred to weekdays would be absorbed through more efficient delivery. USPS estimates that the current excess capacity should allow it to absorb the Saturday workload on Monday. If that is not the case, some of the projected savings may not be realized. Another concern stakeholders raised was that USPS may have underestimated the size of the potential volume loss from eliminating Saturday delivery due to the methodology used to develop its estimates. Since mail volume has declined from the prior estimate, the accuracy of the estimated additional impact of eliminating Saturday delivery is unclear. The extent to which USPS can achieve its projected cost savings and mitigate volume loss depends on how well and how quickly it can realign its workforce and delivery operations.

[1] GAO, *U.S. Postal Service: Ending Saturday Delivery Would Reduce Costs, but Comprehensive Restructuring Is Also Needed*, GAO-11-270, (Washington, D.C.: March 29, 2011).

Post-Hearing Questions for the Record
Submitted to the Honorable Eugene L. Dodaro
From Senator Thomas R. Carper

1. The Postal Service estimates that, if it is ultimately able to implement its plan to eliminate Saturday delivery, it will ultimately achieve annual savings of around $2 billion. It is my understanding, however, that the Postal Service needs much more in savings than that to remain viable. When we were putting together our Senate bill last year, we were trying to find $20 billion in savings. Do you agree that, even if the Postal Service is able to eliminate Saturday delivery, either through legislation or existing authority, the Postal Service will still need more assistance from Congress? How quickly after a move to a five-day delivery schedule do you believe the Postal Service would need Congress to act to enable more savings and liquidity for the Postal Service?

We have previously recommended a comprehensive package of actions. The USPS continues to incur unsustainable operating deficits and has reached its $15 billion borrowing limit. If Congress does not act soon, USPS could be forced to take more drastic actions that could have disruptive, negative effects on its employees, customers, and the availability of postal services. In order to achieve full savings from moving to 5-day delivery in fiscal year 2015, USPS states that it would need to begin implementation in August 2013. When fully implemented, 5-day delivery would provide USPS with cost savings, but USPS needs much more savings to remain viable.[2] As stated in the Comptroller General's February 13, 2013 testimony,[3] no one action by itself will address USPS's financial condition.

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

[3] GAO, *U.S. Postal Service: Urgent Action Needed to Achieve Financial Sustainability*, GAO-13-347T (Washington, D.C.: February 13, 2013).

The table below summarizes selected strategies and options for action by Congress and USPS to address USPS's financial viability, with some options requiring collaboration with unions through collective bargaining.

Challenges	Options for USPS	Options for Congress
Strategy: Reduce compensation and benefits costs		
Workforce size: • About 300,000 postal employees are expected to retire through 2020. • Collective bargaining agreements include limits on outsourcing. • Postal unions are concerned about the loss of jobs paying a middle-class wage and benefits to private-sector jobs with lower wages and no benefit guarantees.	Reduce the size of the workforce through retirements and outsourcing, where it is cost-effective to do so.	
Wages: USPS is required to maintain compensation and benefits comparable to the private sector, and wages account for about one-half of USPS's costs.	Reduce wage costs, for example, through a two-tiered pay system that would pay new hires lower wages and "grandfather" employees in the current system.	Require arbitrators to consider USPS's financial condition when making binding arbitration decisions.
Benefits: • USPS benefits account for over 23 percent of USPS's costs. USPS is required to make annual multibillion dollar retiree health benefit payments. • Employees eligible for workers' compensation benefits can continue these more generous benefits even when eligible to retire.	Reduce benefit costs by reducing USPS health and life insurance contribution rates for active employees to levels comparable to those paid by other federal agencies.	• Defer costs by revising funding requirements for retiree health benefits. • Revise workers compensation laws for employees eligible for retirement.
Workforce mix and work rules: USPS has a high ratio of full-time career employees—about 78 percent—and wants flexibility to hire more part-time employees.	Adjust workforce mix, for example, by using more part-time staff.	
Strategy: Reduce other operations and network costs and improve efficiency		
• USPS has costly excess capacity and inadequate flexibility to quickly reduce costs in its retail, processing, and delivery networks. • Closing facilities has been limited by political, employee, union, and community opposition to potential job losses. • *Retail*: Legal restrictions limit its ability to close certain types of post offices. • *Delivery*: Delivery is the largest cost segment, labor-intensive, and required by statute to be provided 6 days a week.	*Mail processing*: • Close unneeded facilities. • Relax delivery standards to facilitate closures or consolidations. *Retail*: • Optimize USPS retail facility network (including hours and locations). • Move more retail services to private stores and self-service and close unneeded retail facilities. *Delivery*: Expand use of more cost-efficient delivery, such as cluster boxes. *Field structure*: Reduce the number of field administrative offices.	*Mail processing*: Support having USPS reduce excess capacity by closing some of its major mail processing facilities. *Retail*: Remove statutory and appropriations language restricting USPS's ability to close some of its 36,500 retail facilities. *Delivery*: Remove appropriations language requiring 6-day delivery.

Strategy: Generate revenues through product and pricing flexibility		
• The changing use of the mail is projected to continue limiting USPS's ability to generate sufficient revenues. • Rate increases for market-dominant products are limited by the inflation-based price cap. • Large rate increases may lower USPS revenues in the long run and add to its excess capacity. • In fiscal year 2009, USPS lost $1.7 billion from products with revenues that did not cover costs, mainly Periodicals and Standard Mail Flats (e.g., catalogs).	• Revise pricing for market-dominant products, such as First-Class Mail and Standard Mail. • Address loss-making products by better aligning prices and costs. • Provide volume incentives for certain types of bulk business mail. • Develop new postal products and product enhancements. • Provide incentives by simplifying complex rules for mail preparation.	Determine whether preferential pricing required by law for loss-making products should continue.

Source: GAO-10-455.

2. **In the recent proposal to move to five-day delivery, the Postal Service has sought to preserve Saturday delivery for packages. Some concerns have been raised about the impact this could have on the timely delivery of medications, which are sometimes sent in envelopes instead of packages, and on ecommerce users, who utilize a variety of postal products outside of just the parcel product to transport items to customers. Do you think that these delivery changes will have significant impacts on small business retailers that rely on the Postal Service to support e-commerce?**

Preserving Saturday delivery for packages addresses some concerns previously raised by stakeholders, such as delivery of needed medications. Under USPS's recent proposal, to be delivered on Saturday, medications and e-commerce products would need to be mailed using Express Mail, Priority Mail, and lightweight commercial parcels. If these options are not used, more time would need to be allowed for delivery. If small business retailers are not already using these mail products, they may incur higher costs to maintain their current level of service.

3. **Last year's postal reform bill sought to deal with the Postal Service's concern about the prefunding requirement for Retiree Health Benefits by doing away with the current prescribed schedule of pre-funding payments and setting up a 40-year amortized payment plan based on the Postal Service's actual projected obligations for these benefits. In your view, are the provisions in last year's Senate-passed bill adequate to address the Postal Service's concerns with the prefunding requirements?**

In our reports and testimony, we have emphasized the importance of prefunding but also of modifying USPS's prefunding payments in a fiscally responsible manner. For example, in our December 2012 report on prefunding of retiree health benefits for postal employees,[4] we commented on three key provisions of last year's Senate-passed bill.

First, the bill would have immediately switched to an actuarial approach to prefunding, rather than waiting until fiscal year 2017 as under current law. Under the actuarial approach, USPS's share of retiree premium payments would be paid out of the Postal Service Retiree Health Benefits Fund (PSRHBF) rather than by USPS itself, and USPS's prefunding payments to the PSRHBF would be determined by an actuarial calculation rather than the fixed amounts under current law. We noted that the total payments required under current law are significantly in excess of what would be required under an actuarial approach, and that an actuarial approach would produce a more consistent funding pattern. We think this provision of the Senate-passed bill would be helpful.

Second, the Senate-passed bill would have directed the Office of Personnel Management (OPM) to base its actuarial funding calculations on actuarial

[4] GAO, *U.S. Postal Service: Status, Financial Outlook, and Alternative Approaches to Fund Retiree Health Benefits*, GAO-13-112 (Washington, D.C.: Dec. 4, 2012).

assumptions consistent with the assumptions used for determining funding for USPS's share of liabilities in the federal civilian pension programs. We noted that because of developments in accounting standards since the enactment of the Postal Accountability and Enhancement Act, current law has the effect of requiring OPM to use assumptions that were designed to accomplish financial reporting objectives rather than funding objectives, such as prefunding retiree health benefits. We think this provision of the Senate-passed bill would also be helpful.

Third, the Senate-passed bill would have reduced the ultimate prefunding target from 100 percent of the retiree benefit liability to 80 percent. We expressed concern about this provision, which would have the effect of carrying a permanent unfunded liability equal to roughly 20 percent of USPS's liability, which could be a significant amount.[5] We noted that if an 80 percent funding target were implemented because of concerns about USPS's ability to achieve a 100 percent target level within a particular time frame, an additional policy option could be to build in a schedule to achieve 100 percent funding in a subsequent time period after the 80 percent level is achieved.

4. **Richard Geddes, a Cornell professor who was a witness on our third panel, characterizes the Postal Service's actions to date as a "shrink to survive" strategy, focused largely on cost-cutting. Dr. Geddes concludes that this approach is unlikely to result in a sustainable Postal Service. An almost identical point was made in a white paper prepared last year by the Lazard firm on behalf of the National Association of Letter Carriers—although the Letter Carriers reached different conclusions than Dr. Geddes about what should be done instead. Do you agree that the Postal Service is relying too much on a "shrink to survive" strategy? What else do you think the Postal Service should be doing?**

We continue to believe that USPS faces daunting financial losses unless it can substantially reduce its costs and right size its operations, networks, and workforce to reflect declining mail volume, and also generate new revenues. Our April 2010 report, and the table included on pages 4-5 of this correspondence, describe opportunities for USPS to reduce its costs and generate additional net revenue, including addressing those products that are not covering their costs by better aligning prices and costs. We also noted that results from actions to generate revenue other than rate increases are likely to be limited compared with expected losses.[6] Further, USPS reported in its 2012 financial report that it expected mail volume to continue decreasing for the foreseeable future, and there is currently no foreseen revenue growth solution to its financial challenges.[7] USPS's planned actions under its existing authority will not be enough to make it financially viable.

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[5] The liability as of September 30, 2012 was $93.6 billion; 20 percent of this amount is $18.7 billion.

[6] GAO-10-455.

[7] United States Postal Service, *2012 Report on Form 10-K* (Washington, D.C.: Nov. 15, 2012).

Therefore, Congress, USPS, and other stakeholders need to reach agreement on a package of actions to take so that USPS can become financially viable.

5. In your testimony you mentioned that the Postal Service is pursuing 55 initiatives to generate revenue. Also, I understand that Postal Service has recently had success implementing some new products and services. The bill we passed here in the Senate last year would have allowed the Postal Service to do even more in this area to be more competitive and bring in new revenue. What more do you think the Postal Service should be doing to innovate? Does the Postal Service need additional authority, like that given in last year's Senate-passed bill, to continue to innovate and stay competitive?

USPS has many opportunities to generate additional net revenue, particularly from postal products and services; however, results from actions to generate revenue other than rate increases are likely to be limited compared with its expected losses. We recently reported on the results of USPS revenues generated from nonpostal services—$141 million in fiscal year 2011.[8] We also discussed the three areas where USPS would like statutory authority to pursue revenue-generating opportunities: 1) additional nonpostal services, 2) shipments of alcoholic beverages, and 3) services performed on behalf of state and local governments.

We reported in 2010 that allowing USPS to diversify into nonpostal activities would raise a number of issues, including whether it should engage in nonpostal areas where there are private-sector providers and, if so, under what terms.[9] Other issues included concerns about unfair competition and questions regarding how USPS would finance its nonpostal activities and whether it would be subject to the same regulatory entities and regulations as its competitors. We are currently reviewing the results of USPS revenue generated from customized pricing agreements and promotions. In our review we are considering whether legislative changes are needed to give USPS more pricing and product flexibility and plan to issue our report this summer.

As we have previously cited,[10] the Postal Accountability and Enhancement Act limited rate increases by an inflation-based price cap on USPS's market-dominant products, such as First-Class Mail and Standard Mail—which produce the vast majority of its revenue. Rate increases for market-dominant products would address pressing needs for revenue and could be used to better align rates and discounts with the costs, profitability, and price-sensitivity of mail. However, USPS would have to balance increasing rates with the potential negative impact on mail volume.

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[8]GAO, *U.S. Postal Service: Overview of Initiatives to Increase Revenue and Introduce Nonpostal Services and Experimental Postal Products,* GAO-13-216 (Washington, D.C.: Jan. 15, 2013).

[9]GAO-10-455.

[10] GAO, *United States Postal Service: Strategy Needed to Address Aging Delivery Fleet,* GAO-11-386 (Washington, D.C.: May 5, 2011).

Aside from rate increases, USPS projects that it can increase profits by $2 billion by fiscal year 2020 through product and service initiatives. For example, according to USPS, it will work to increase direct mail use among small and medium-sized businesses and increase volumes in both First-Class Mail and advertising mail through targeted promotions. USPS also will continue to leverage its "last-mile" network to transport and deliver packages to their final destinations and work to grow other retail services, such as passport services and Post Office box rentals.

6. **Last fall, the Postal Service's Office of Inspector General suggested that the Office of Personnel Management should use Postal Service-specific assumptions in calculating the funding status of the Postal Service's obligations to the Federal Employees Retirement System (FERS). According to an independent actuarial analysis commissioned by the Postal IG, the Postal Service is being treated unfairly under the FERS system, because postal employees have distinctive pay-histories, career patterns, and demographic characteristics that cause them to get smaller amounts of annuity than is predicted using assumptions based on the federal workforce overall. According to this analysis, if Postal Service-specific assumptions were used, we would find that the postal portion of the FERS program is actually over-funded by $12.48 billion. Legislation might return this FERS surplus to the Postal Service. The Postal Service's future FERS contributions rate might be lowered as well. What are your thoughts on this suggestion by the Postal Service IG?**

We support using the most accurate numbers possible. We would suggest that if USPS-specific assumptions are used for measuring USPS's FERS liability, it would also make sense to use USPS-specific assumptions for measuring USPS's Civil Service Retirement System (CSRS) and retiree health liabilities. However, Congress should be aware that the Office of Personnel Management (OPM) has cautioned that such fragmentation of demographics (from using USPS-specific assumptions) would create a potentially dangerous precedent. All agencies—or perhaps even individual offices within agencies or departments—may also request sub-accounts. Such a situation would create an administrative burden as well as introduce an element of uncertainty in Federal agencies' budgeting. If Postal-specific assumptions were to be used, we suggest that the assumptions be recommended by an independent body, such as OPM's independent Board of Actuaries.

We reported in 2011 on considerations with regard to release of any FERS surplus.[11] We have noted that estimates of liabilities for retirement benefits contain a significant degree of uncertainty and can change over time. For example, estimates of USPS's CSRS pension surplus went from a deficit (unfunded liability) of $7.3 billion as of September 30, 2009, to a surplus of $1.6 billion as of September 30, 2010, to a deficit of $17.8 billion as of September 30, 2011.

[11] GAO, *U.S. Postal Service: Allocation of Responsibility for Pension Benefits between the Postal Service and the Federal Government*, GAO-12-146 (Washington, D.C.: Oct. 13, 2011).

Legislation will be needed to return to USPS any FERS surplus. We would support a remedy to the asymmetric treatment of surpluses and deficits under current law. A conservative approach to accessing any FERS surplus would be to use it to reduce USPS's annual FERS contribution by amortizing the surplus over 30 years (which would mirror the treatment of deficits). A second approach would be to reduce USPS's annual FERS contribution by offsetting it against the full amount of surplus each year until the surplus is used up; this would be comparable to what occurs for private sector pension plans. We would suggest that any return of the entire surplus all at once be done with care. A one-time-only return of the entire surplus could be considered as a one-time exigent action as part of a larger package of reforms and restructurings. Returning surpluses every time they develop would likely result in an eventual unfunded liability.

Post-Hearing Questions for the Record
Submitted to the Honorable Eugene L. Dodaro
From Senator John McCain

1. **How essential is it for Congress to give the Postal Service the flexibility it needs to right-size its mail processing network?**

Congress and stakeholders must act to allow USPS to right-size its network. When GAO added USPS's financial condition to its high-risk list in 2009, we testified that Congress and stakeholders need to recognize that major restructuring is urgently needed for USPS to be financially viable. Further, we testified that USPS has had difficulty removing excess capacity from its mail processing network due to limited flexibility.[12] We have reiterated in subsequent reports and testimonies that USPS has made limited progress in optimizing its networks, and we continue to believe that it is essential for Congress to give USPS the flexibility to right-size its mail processing network.[13]

2. **In your opinion, should that include 5-day mail delivery?**

Yes, Congress should consider removing the requirement for 6-day delivery as part of a range of options to address USPS's financial viability. USPS's proposed change in the delivery schedule found that the move to 5-day delivery would likely result in substantial savings.[14] The extent to which USPS will be able to achieve its current estimate of $2 billion depends on how well and how quickly it can realign its workforce and delivery operations. USPS is unable to finance its current operations and service levels. Action by Congress and USPS is urgently needed to comprehensively restructure USPS's operations, networks, and workforce to modernize its organization.

3. **Do you believe moving to 5-day service still allows the Postal Service to fulfill its commitment to universal service?**

Yes, because the change to 5-day service is similar to changes USPS has made in the past. USPS is required by law to provide prompt, reliable, and efficient services, as nearly as practicable. The Postal Regulatory Commission (PRC) has reported that delivery frequency is a key element of universal postal service. Universal

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[12] GAO, *U.S. Postal Service: Restructuring Urgently Needed to Achieve Financial Viability,* GAO-09-958T (Washington, D.C.: Aug. 6, 2009).

[13] GAO, *U.S. Postal Service: Mail Processing Network Exceeds What Is Needed for Declining Mail Volume*, GAO-12-470 (Washington, D.C.: Apr. 12, 2012). GAO-10-455. GAO, *High-Risk Series: An Update,* GAO-13-283 (Washington, D.C.: Feb. 14, 2013).

[14] GAO-11-270.

service is not defined by the number of days a week mail service is able to be provided. The frequency with which customers receive mail service from USPS has evolved over time to account for changes in communication, technology, transportation, and postal finances. The change to 5-day service is a similar type of change. Until 1950, residential deliveries were made twice a day in most cities. Currently, while most customers receive 6-day delivery service, some customers receive 5-day or even 3-day-a-week delivery, including businesses that are not open 6 days a week; resort or seasonal areas not open year-round; and areas not easily accessible, some of which require the use of boats, airplanes, or trucks.

Post-Hearing Questions for the Record
Submitted to the Honorable Eugene L. Dodaro
From Senator Jon Tester

1. **Mr. Comptroller General, during the questioning period, you stated that GAO has previously done work on key questions regarding the Postal Service's proposal to reduce mail delivery to five days. In light of the uncertainty surrounding previous estimates of cost-savings provided by the Postal Service, please provide for the Committee the following information.**

To what extent does GAO concur with the most recent savings estimate provided by the Postal Service regarding its plan to reduce mail delivery to 5 days? Does the GAO agree with assumptions in the methodology?

USPS estimates $2 billion in annual savings by the end of fiscal year 2015. The primary source of these cost savings is the reduction in Saturday labor to deliver mail. Its current estimate is based on 2012 data, but USPS's assumptions and methodology are largely unchanged from its previous estimate which we reported on in 2011.[15] Based on recent information from the Postal Service on their 2013 estimate, the concerns we raised in our prior review remain. For example, USPS's estimate assumed that most of the Saturday workload transferred to weekdays would be absorbed through more efficient delivery. USPS estimates that the current excess capacity should allow it to absorb the Saturday workload on Monday. If that is not the case, some of the projected savings may not be realized. Another concern was that USPS may have understated the size of the potential volume loss from eliminating Saturday delivery due to the methodology used to develop its estimates. Since mail volume has declined from the prior estimate, the accuracy of the estimated additional impact of eliminating Saturday delivery is unclear. The extent to which USPS can achieve its projected cost savings and mitigate volume loss depends on how well and how quickly it can realign its workforce and delivery operations.

What factors could reduce the assumed savings from a reduction in delivery?

The assumed savings from the change in delivery could be reduced if the Saturday workload cannot be absorbed on Monday, and if the Postal Service has underestimated the potential mail volume loss from eliminating Saturday delivery. In addition, to shift to package delivery only on Saturdays, USPS plans to implement "dynamic routing" technology used by other delivery services to deliver packages. How efficiently USPS implements this change could also affect the projected savings. The cost savings depend on how efficiently USPS can realign its workforce and delivery operations.

[15] GAO-11-270.

In areas where the Postal Service has already degraded service delivery standards, does GAO assume there will be additional decrease in mail volume that can be attributed to further delays in mail service as a result of this change? Further, will the decision to end regular Saturday rounds impact the Postal Service's ability to deliver packages at low prices and to stay competitive with private delivery companies in these areas? How will the Postal Service keep marginal costs and prices low if they've lost their best advantage?

According to USPS's current estimate, mail volume will decline less than one percent with Saturday package-only delivery. This is virtually unchanged from its prior estimate of a shift to 5-day with no package delivery. In March 2011, we reported stakeholders' concerns that USPS's methodology may have underestimated volume loss.[16] We stated that it was uncertain how 5-day delivery would affect future mail volumes and that there are other factors such as the availability of electronic alternatives including email, paying bills online, sending postcards and greeting cards electronically or receiving news and other periodicals via the Internet instead of in hard copy that may affect volume. Since mail volume has already declined from the prior estimate, the accuracy of the estimated additional impact of eliminating Saturday delivery is unclear. GAO has not conducted an analysis of the impact of the change in Saturday delivery on prices, so we cannot comment on whether the Postal Service will be able to keep marginal costs and prices low.

[16] GAO-11-270.

Post-Hearing Questions for the Record
Submitted to Cliff Guffey
From Senator John McCain

"Solutions to the Crisis Facing the U.S. Postal Service"
February 13, 2013

1. If Congress only addresses the Retiree Health Benefit prefunding payments and returns the estimated FERS pension over-funding, will the Postal Service be able to remain financially viable?

   The answer depends on how Congress addresses these issues. The Postal Service would be in a good position to run profitably if, as we urge,

   - All prefunding payments cease upon enactment;
   - USPS is only required to pay into the PSRHBF the annual "normal" cost for current postal employees;
   - The PSRHBF is used to pay the health insurance premiums of current retirees;
   - OPM is required to calculate FERS and CSRS liabilities based on postal-only demographics and trends;
   - OPM is required to refund to USPS any current or future overpayment in CSRS and FERS based on a postal-only calculation.

   At this time, the Postal Service has over-funded FERS even using government-wide actuarial data. The Postal Service CFO reported at a conference on March 18, 2013, that a FERS refund based on a postal-only calculation should be about $8.3 billion. The estimated postal CSRS liability (also based on government-wide actuarial assumptions) is more than 90 percent funded. The federal government has funded CSRS at a much lower percentage for federal employees. In the private sector employers are required to fund 80 percent of their retirement liability. The Postal Service should not be held to a 100 percent funding requirement.

   To return to profitability and remain financially healthy, the Postal Service must manage it costs and offer improved and new products at rates that will generate revenue beyond expenses. While cash-starved the Postal Service has little ability to make the investments needed to continue or to expand its products and services. It cannot achieve financial health by simply dismantling its networks and reducing its services.

2. In your opinion would the Postal Service be profitable if these two changes were made? If yes, for how long?

If Congress were to adopt our suggestion as to funding retiree health benefits, the Postal Service savings would be about $5.5 billion per year in the short run. If the Postal Service were to receive a FERS overpayment refund based on a postal-only calculation; the Service should initially receive around $8.3 billion. This would permit the Service to make necessary investments in its delivery fleet and the information technology (IT) necessary for it to provide digital enhancements to current mail products and to offer new services and products. Such investments will generate new revenues.

Beyond the initial refund, OPM should be required either to reduce the FERS payments it requires of USPS (that presently continue overpayments to FERS) or to provide USPS annual refunds. This will provide the Postal Service continuing financial relief relative to what it is required to pay now.

The Postal Service will still need to change and adapt to remain viable in the long run, as discussed below in answer to question 3.

In addition to correcting the problems with Retiree Health Benefit and FERS and CSRS funding, Congress should repeal the CPI cap on postal rates. The only remaining strictures on postal rates should be that the Postal Service may not use profits from its market dominant products to subsidize competitive products, and it may not provide workshare discounts that exceed the costs avoided. These two requirements are in current law and should remain, while the CPI cap on rates should be eliminated.

3. What else should the Postal Service and Congress do to ensure that the Postal Service is able to right-size its entire network and remain viable in the long-term?

The Postal Service has aggressively closed and consolidated mail processing plants. The Postal Service was down to 417 processing centers in FY 2012 from 673 plants in 2006. So far in 2013 it has consolidated 57 processing facilities with intentions to complete 100 closures and consolidations in 2013. If the Postal Service completes the additional consolidations planned for 2014 there will be fewer than 250 processing plants. Already these consolidations have cut deeply into the workforce and slowed the delivery of mail. Since July 2012 these cuts have caused a 25 percent reduction in the overnight delivery of First Class mail and some previously overnight mail moved to a 3-day standard. Some 2-day mail has moved to 3-days.

It is important to recognize that cuts of this magnitude result in lost revenues. In the network consolidation case before the PRC, Case No. N2012-1, the Postal Service produced studies that indicated that the lost revenue from network consolidation could be as high as $5.2 billion. Case No. N2012-1, APWU Exh. XE-1 (Tr. 4/906). The Postal Service told the PRC that net contribution losses would be about $500 million per year. But the PRC criticized that estimate because it was presented with insufficient analysis so support it. The Commission concluded that the net savings from network consolidation (after revenue losses were factored in) might be as low as $46 million annually. PRC Advisory Opinion in N2012-1, at 1-3, 142.

Further reductions in the mail processing network will lead to much deeper cuts in service. If the Postal Service were to implement phase 2 of its Network Consolidation Plan originally intended for implementation in 2014 (a number of consolidations have been moved up to the summer of 2013), overnight delivery of First Class mail would be virtually eliminated. Again, significant portions of both overnight and 2-day mail would move to a 3-day standard. The Postal Service's ability to maintain or improve current performance on package offerings would be harmed or result in using increased resources for packages necessitating price increases – all of which risks the Service's ability to compete and continue to grow its package business. It would be counterproductive for the Postal Service to make such cuts in the mail processing network. Delaying mail one, two, or even three days every delivery day will harm businesses and delay the delivery of prescription drugs and other important mail just as surely as reducing the number of delivery days in a week. Furthermore, the additional closures will result in more lost volume and will, therefore, damage the Service in return for little or no net savings.

The Postal Service has reduced the number of Postal Managed Retail Offices by 1,423 since 2007 (http://about.usps.com/who-we-are/postal-facts/welcome.htm#H2), and it has significantly reduced the hours of operation in many more post offices as an alternative to closing them. These reductions in service have saved some postal costs, but the net savings have been minimal due to the loss of revenue, and extending them further would cut services for those who most rely on the Postal Service.

In addition to pre-funding reform and the repeal of the rate cap, the Postal Service must be given more freedom to use its network to provide additional services. Much has been written elsewhere about what those services could be. There is definitely an important role for the Postal Service to play. A recent report by the Postal Service's Office of Inspector General found that by leveraging its retail and delivery networks, digital platform, address databases, and its trusted intermediary role, the U.S. Postal Service could offer other agencies a wide range of physical and digital e-Government solutions. These services could include communication services, online identification, electronic payments, in-person services, and broadband access. The physical-digital platform could also provide a crucial bridge to enable users to access government services through whatever channel best meets their needs, while adding a layer of resiliency to essential public functions during emergencies. https://www.uspsoig.gov/foia_files/rarc-wp-13-003.pdf.

It is important for the Postal Service to have enough capital to invest in modernizing and expanding its services. For example, The Postal Service recently obtained the opportunity to participate in a one year pilot of a Federal Cloud Credential Exchange. It involves secure IDs and message exchange between customers and several agencies. It is an opportunity to test and learn. If the Postal Service had sufficient capital it could build a platform with the capability of handling a lot more types of activities beyond the requirements of the pilot. However, the Postal Service does not have the capital to move ahead into all the opportunities on the other side of this pilot

4. There have been legislative proposals that contain language that would mandate that Postal employees pay the same health and life insurance premium percentage as other federal workers. This equitable change would bring about real cost savings for the Postal Service now. According to The Postal Service, they would realize hundreds of millions in savings if this were to happen. Do you agree or disagree that Postal employees should pay same health care premiums percentages as all other federal employees?

This is an issue for collective bargaining. In collective bargaining agreements, there is always give and take. This is true whether the agreement is set by bargaining or through interest arbitration. To the extent that postal contributions for health insurance premiums are higher than contributions by federal agencies, that has come about through give and take collective bargaining. It would be wrong and unfair for Congress to unilaterally take away one part of the bargain the parties have reached.

We also observe that all the postal unions have reached agreements with the Postal Service that address the issue of postal contribution rates. This includes the 2010 APWU National Agreement, an agreement that will save the Postal Service $3.8 billion over its 4.5 year term.

5. During the hearing, Chairman Issa discussed moving from door delivery to curb or cluster box delivery of mail. Do you support this proposal? Please explain your answer. Should this be included in any Postal reform proposal from Congress?

We think any cut in postal services should be avoided if possible. The Postal Service is already doing as much as it can responsibly do in this area.

Post-Hearing Questions for the Record
Submitted to Jeanette P. Dwyer
From Senator John McCain

"Solutions to the Crisis Facing the U.S. Postal Service"
February 13, 2013

1. If Congress only addresses the Retiree Health Benefit prefunding payments and returns the estimated FERS pension over-funding, will the Postal Service be able to remain financially viable?

   A: Yes, I firmly believe if Congress addresses and fixes the Retiree Health Benefits pre-funding requirement, and returns the FERS pension surplus monies using postal-specific assumptions, the USPS will remain financially viable.

2. In your opinion would the Postal Service be profitable if these two changes were made? If yes, for how long?

   A: Returning the FERS pension surplus monies by using postal-specific assumptions will allow the USPS to invest in their infrastructure, modernizing and improving it for the future. The pre-funding represents roughly 80% of the USPS losses over the last six years. This pre-funding requirement is the driving force behind the financial losses of the USPS.

3. What else should the Postal Service and Congress do to ensure that the Postal Service is able to right-size its entire network and remain viable in the long-term?

   A: For the USPS to remain viable in the long-term, they need to offer more services that customers want. Right now, the USPS has a competitive advantage on delivering mail on Saturdays, whereas UPS and FedEx charge premiums for Saturday delivery. The USPS must also keep their current service standards. Last year, the USPS proposed changing their service standards from 1-3 day delivery to 2-3 day delivery. This will cause postal customers to leave the mail stream if USPS products are no longer delivered in a timely matter. Currently, mailers are already partnering with private delivery companies to delivery their product on Saturdays. Bloomberg Businessweek, for example, is currently preparing for the USPS' proposal to eliminate Saturday mail delivery by partnering with Gannett private delivery, who will now deliver their publication on Saturday. The NRLCA expects more mailers to abandon the USPS as they continue to scale back on delivery and reduce service.

4. There have been legislative proposals that contain language that would mandate that Postal employees pay the same health and life insurance premium percentage

as other federal workers. This equitable change would bring about real cost savings for the Postal Service now. According to The Postal Service, they would realize hundreds of millions in savings if this were to happen. Do you agree or disagree that Postal employees should pay the same insurance premium percentage as other federal workers?

A: I disagree. This is a collective bargaining issue that is addressed during every contract negotiation with our union and the USPS. Over the last two contract negotiations, the premium the USPS is responsible for has been reduced every year, resulting in postal employees paying more for their health and life insurance premiums.

5. During the hearing, Chairman Issa discussed moving from door delivery to curb or cluster box delivery of mail. Do you support this proposal? Please explain your answer.

    - Should this be included in any Postal reform proposal from Congress?

A: I do not support this proposal, and I do not think this should be included in any postal reform legislation. Current customers who receive door delivery should not be impacted by changing to cluster box delivery. In most established communities, it is simply not feasible to come into a city or town and build cluster boxes. Eliminating door delivery will have a significant impact on the handicapped and elderly who rely on door delivery.

Post-Hearing Questions for the Record
Submitted to Robert J. Rapoza
From Senator John McCain

"Solutions to the Crisis Facing the U.S. Postal Service"
February 13, 2013

1. If Congress only addresses the Retiree Health Benefit prefunding payments and returns the estimated FERS pension over-funding, will the Postal Service be able to remain financially viable?

Answer: Elimination, or an accurate actuarial amortization schedule for pre-paying the retiree health prefunding requirement would help stabilize the fiscal challenges that confront the Postal Service. As I testified before the Committee, NAPUS believes that the Postal Service must also become more innovative, offering products and services that will be relevant to Americans. Continued viability will be contingent upon Congress providing the Postal Service with greater pricing and product flexibility, as well as addressing the underlying problems that stemmed from previous Congressional actions, including the overly burdensome prefunding requirement and the Congressional reticence to refunding the Postal Service's surplus pension contributions.

2. In your opinion would the Postal Service be profitable if these two changes were made? If yes, for how long?

Answer: NAPUS believes that "profitability" is not the appropriate litmus test for evaluating Postal Service viability, any more than such a criteria should be applied to United States Armed Forces. As I am sure you would agree, military success is evaluated on how our armed forces protect American lives and secure our borders; Postal success should be connecting businesses to citizens and citizens to each other. However, we must not lose sight that the Postal Service should function efficiently and transparently, just like the Pentagon. If profitability were the sole metric for assessing the Postal Service, our Founding Fathers would not have included a national mail service as an inherently governmental function in our constitution. A universal and affordable communications network, such as the postal system, is an inherently non-profitable venture, and that is why Congress was tasked with its establishment, not the private sector. Moreover, absent the prefunding requirement, the Postal Service would have run an operating surplus for the first quarter of the present fiscal year.

3. What else should the Postal Service and Congress do to ensure that the Postal Service is able to right-size its entire network and remain viable in the long-term?

Answer: The Postal Service may continue to use its voluntary early retirement authority to incentivize employees in particular job classification to retire, and to shrink through attrition. However, the Postal Service needs to be more deliberate in its projection on what postal occupations will continue to be essential to manage and train its evolving and contracting workforce, as well as maintain the high standard of postal services to which Americans are entitled.

4. There have been legislative proposals that contain language that would mandate that Postal employees pay the same health and life insurance premium percentage as other federal workers. This equitable change would bring about real cost savings for the Postal Service now. According to The Postal Service, they would realize hundreds of millions in savings if this were to happen. Do you agree or disagree that Postal employees should pay same health care premiums percentages as all other federal employees?

Answer: Under current law, the Postal Service collectively bargains with its unions and consults with its managerial and supervisory organizations over the contribution allocation for health and life insurance premiums. There is nothing in the law that would preclude the Postal Service from negotiating and consulting over these issues. In fact, through such deliberations, the percentage that Postal Service contributes on behalf of an individual employee's health premiums is declining.

5. During the hearing, Chairman Issa discussed moving from door delivery to curb or cluster box delivery of mail. Do you support this proposal? Please explain your answer.

    - Should this be included in any Postal reform proposal from Congress?

Answer: Under current law, the Postal Service may alter the location of residential or commercial delivery points to curbside delivery or cluster boxes. Moreover, if operationally feasible, NAPUS does not object to such a migration of delivery points.

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