**BEFORE THE**

**COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS**
**SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION, FEDERAL SERVICES, AND INTERNATIONAL SECURITY**
**UNITED STATES SENATE**

# "ADDRESSING THE U.S. POSTAL SERVICE'S FINANCIAL CRISIS"

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**TESTIMONY OF**

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Good morning, Senator Carper and members of the Subcommittee, I am Jerry Cerasale, Senior Vice President for Government Affairs of the Direct Marketing Association, and I thank you for the opportunity to appear today on behalf of the Direct Marketing Association (DMA) concerning the financial crisis of the Postal Service.

DMA (www.the-dma.org) is the leading global trade association of businesses and nonprofit organizations using and supporting multichannel direct marketing tools and techniques. DMA advocates standards for responsible marketing, promotes relevance as the key to reaching consumers with desirable offers, and provides cutting-edge research, education, and networking opportunities to improve results throughout the end-to-end direct marketing process. Founded in 1917, DMA today represents companies from dozens of vertical industries in the US and 48 other nations, including nearly half of the Fortune 100 companies, as well as nonprofit organizations.

In 2010, marketers—commercial and nonprofit—spent $153.3 billion on direct marketing, which accounted for 54.2% of all advertising expenditures in the United States. Measured against total U.S. sales, these advertising expenditures generated approximately $1.798 trillion in incremental sales. In 2010, direct marketing accounted for 8.3% of total U.S. gross domestic product. Also in 2010, the direct marketing industry employed 9.8 million Americans. For the mailing industry alone, the Envelope Manufacturers Association's Mailing Industry Job Study found the economic impact on the U.S. economy to be $1.139 trillion employing over 8.4 million Americans.

DMA members account for approximately 70% to 80% of mail volume in all classes of mail and contribute over 85% of the revenue of the U.S. Postal Service. The U.S. Mail is an important channel of communications for our members to reach customers and potential customers with relevant offers, notices on transactions and delivery of products.

DMA thanks this Subcommittee, and particularly Senators Carper and Collins, for its past commitment to the Postal Service and its customers. We are pleased with your continued involvement and look forward to working with you to find solutions for the challenges facing the United States Postal Service.

DMA and its members are very concerned about the long-term fiscal viability of the Postal Service. It projects continued loss of mail volume, but it maintains a processing, transportation and delivery network that can handle almost twice the current mail volume. Postal Service customers, particularly business customers, cannot afford to pay for that excess capacity. The Postal Service must right size for its survival and must do it immediately.

Of course, DMA believes that mailers have over funded postal pension obligations by $50 to $75 billion, and that this overpayment coupled with the aggressive formula for the Postal Service to prefund postal retiree health benefits seriously threatens the ability of the Postal Service to right its financial situation.

*Postal Pensions and Retiree Health Benefits*

Through the postage we pay, postal customers have been funding Postal Service employee pensions since July 1, 1971. Recently, both the Postal Service Inspector General and the Postal Regulatory Commission determined that postal customers have overfunded pension obligations for postal retirees under the Civil Service Retirement System (CSRS) by between $50 billion and $75 billion. In fact, not only have the pension obligations for every hour worked for the Postal Service been fully funded by mailers, but also mailers since 1971 have paid for the pension obligations for hours of work performed before the Postal Service was created. Without this overpayment for obligations for pre Postal Service work, postage would have been lower, and there would have been much more that businesses could have done with mail to stimulate economic development and job growth. We could have employed more Americans than we currently employ. Excess CSRS payments have affected businesses and consumers in the same manner as any overpayment of taxes. This tax hits small businesses, the job creation engine in the American economy, particularly hard.

In addition to this $50 billion to $75 billion tax on postal customers, the Postal Accountability and Enhancement Act of 2006 (PAEA) has required postal customers to fund future postal retiree health benefits with a steep 10-year payment schedule averaging approximately $5.5 billion per year. As with the CSRS tax, this payment schedule suppresses economic activity and job creation in the private sector. This schedule was created prior to the discovery of the CSRS overpayment. We again commend Senators Carper and Collins efforts to account for this overpayment.

There is another postal pension issue that we urge the Subcommittee to include in any postal legislation. We understand that our payments to the Federal Employee Retirement System (FERS) are overfunded by approximately $6.8 billion and growing. Moreover, the Postal Service's FERS contribution percentage is being increased, potentially creating an even greater overpayment. This simply does not make sense. Moreover, the repayment provisions included in the President's Budget--$500 million per year—are inadequate to refund another new tax on mailers. We support the provisions concerning FERS in Senator Carper's discussion draft and S. 353, the Postal Service Improvement Act of 2011, introduced by Senator Collins.

DMA believes that the elimination of the CSRS and FERS taxes on postal customers is sound policy. We urge the Subcommittee to include in any postal legislation a requirement that the Board of Governors use any "refund" for prefunding postal retiree health benefits, then, if funds remain, to retire debt before any other use. This would improve the fiscal well-being of the nation's postal infrastructure and eliminate the subsidy of Federal Government retirees by postal customers.

*Collective Bargaining*

Since postal employees are barred from striking, postal law requires postal employees and postal management to submit to binding arbitration if there is a failure to reach a negotiated labor contract. Both Senators Carper and Collins provide that any arbitrator must consider the financial condition of the Postal Service in any arbitration award. Senator Carper would add two additional factors for the arbitrator to consider—that rates are inflation capped and that postal wages must be comparable with the private sector.

As customers, we are not at the bargaining table. It is important to note that employee compensation and benefits still comprise approximately 80% of Postal Service expenses after almost 40 years, billions of dollars of capital investment (particularly the billions spent on automation equipment), productivity gains, cost reduction programs, mailer worksharing, additional mail preparation requirements, and reductions in the

Postal Service employee complement. No private sector business could ever hope to avoid bankruptcy with that kind of track record. Something is not working properly. We cannot afford to pay higher and higher postage, which will suppress our businesses. For the Postal Service to survive, its customers must reap the benefits from our investment in capital improvements. It is time for Congress to examine every idea to improve the collective bargaining process.

*Delivery Service*

Business-related transactions provide 85% of all postal revenue. Businesses use the mail to reach their customers and potential customers with information, offers and product, much as political candidates use mail to communicate with voters. Mail is a valuable channel for business communication and commerce. That value, however, depends upon both price and service. Any change in delivery service must be based upon the needs of postal customers. This is imperative. We do not take a specific position on delivery days, but the financial viability of a Postal Service funded solely by customers requires service that meets the needs of those customers. Moreover, the Postal Service and Postal Regulatory Commission do not agree on the cost "savings" from elimination of a day of delivery. Congress should refrain from placing unfunded mandates on the Postal Service (and, thus, its customers) when that which is mandated is not necessary to meet customer needs.

*Facilities*

With a network of over 38,000 retail facilities, the Postal Service should attempt to co-locate those facilities in private sector retail outlets. It should look to co-locate other federal, state and local operations within existing postal facilities, and it should look to offer retail postal services through the Internet, self-service outlets and other non-postal retail outlets. Moreover, the Postal Service should immediately begin the right-sizing of its retail network, and Congress should allow it. Both Senator Carper and Senator Collins include provisions in their legislation on retail facilities that DMA supports. S. 353 includes a provision requiring a Postal Service plan to ensure that postal customers have ready access to postal retail facilities by collocating postal retail operations within private retail locations within communities. Senator Carper's discussion draft would eliminate the prohibition on the Postal Service from closing a Post Office solely for economic reasons. It is important to understand that this prohibition does not apply to processing facilities or, in the view of the Postal Service, to stations and branches. Little progress has been made, sadly. The Postal Service should be actively consolidating its facilities while maintaining a commitment to service. The current mail processing, transporting and delivering network has a capacity of well over 200 billion pieces of mail per year. (It may be as high as 300 billion.) The Service projects mail volume to be 150 billion pieces by 2020. We cannot afford to maintain excess capacity. It is important for Congress to require the Postal Service to right-size its network.

*New Products*

In order to survive in the 21st century, the Postal Service must provide services that customers need at a price that customers are willing and able to pay. The Service should be aggressively seeking to offer new products that meet customer needs. For postal related products, the Service should continue to poll its customers to discern the demand for new postal products that will enhance the ability of customers to improve their businesses.

Where non-postal products are concerned, some caution is required. Postal Service employee expertise is in collecting, sorting, transporting and delivering physical mail. Non-postal products do not fall within their expertise, and efforts to gain that expertise will reduce focus on efforts to improve performance dealing with postal products.

There is one caveat that needs to be addressed for any new product offered by the Postal Service. As former Deputy Postmaster General Michael Coughlin earlier stated before this Congress, the financial difficulties facing the Postal Service are huge—the Service had an $8.5 billion loss in 2010. To cover that loss with net proceeds from new products, the Service would need 85 new products producing $100 million annual net revenue or 850 new products producing $10 million net revenue. New products will help, but they will not bring the Postal Service out of its financial difficulties.

The Postal Service should focus on increasing mail volume and avoiding actions that force mail out of the system. To do this effectively, it should look first very aggressively at removing barriers for customers to use the mail. In the past few years the Postal Service has placed many new requirements on business customers that necessitated the reengineering of address placement on catalogs and magazines, new barcoding, new paper weight for lightweight flats and new demands on customers' IT systems in hopes of reducing costs of the Postal Service. Sadly, those Postal Service costs keep rising right along with the mailers' costs of compliance for the new requirements. All of those requirements should be reexamined by the Service in constant consultation with its customers. The cost of postage, coupled with a steady increase in costly and complex requirements to use the mail, has driven mail out of the system. This is not "good business." As the current experience has shown, these compliance costs remain whether or not mail volume is present to cover them. DMA believes that the Subcommittee should consider in any postal legislation a cost benefit analysis for any new requirement, such as included in S. 353, but, moreover, applying any added costs to market dominate mailers to the rate cap for the year in which the requirement is effective.

DMA applauds the Postal Service for its latest filing at the Postal Regulatory Commission to have a summer sale for mailers who include a QR code in their mail piece. This is an experimental product to merger print and mobile. A mobile phone app will be used to take a picture of the QR code, and the consumer will be sent to a web site for more information or purchase information. We do not know whether the product will be a success, but even if it is not, we implore the Postal Service to continue to strive to find products that directly complement electronic communication and commerce.

We agree with the provision in Senator Carper's discussion draft to allow the Postal Service to offer new services using its retail, delivery and transportation networks provided those offerings do not create unfair competition. As stated above, it is important that the Postal Service management partner with the private sector when possible to avoid the cost and time to develop new expertise that already exists in the private sector.

*Miscellaneous Provisions in the Discussion Draft*

DMA believes that the authority over changes in postal rates that resides with the Governors of the Postal Service should not be subject to delegation. Since the Postal Service has a monopoly on letter mail, the Presidential appointees (with the advice and consent of the Senate) should maintain and execute that authority.

DMA is also concerned with the 45-day decision requirement on the Postal Regulatory Commission for transfer of products from market dominant to competitive and *visa versa*. Transfers of products between categories can have significant postage consequences, and a 45-day decision deadline will not allow potentially harmed mailers adequate opportunity to present their views. Since a product would still be offered by the Postal Service when a decision on a transfer is pending, a longer than 45-day deadline would not harm unduly the Postal Service's panoply of products offered the American public and American businesses.

In conclusion, it is a priority for Congress to resolve the issue of the tax on postal customers for the overpayment of pension benefits and postal retiree health benefits. Failure will simply put the brakes on a slow and weak economic recovery, particularly job creation recovery.

I thank you and look forward to any questions you may have.