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BEFORE THE SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT, THE FEDERAL WORKFORCE, AND THE DISTRICT OF COLUMBIA OF THE COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

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I am honored to be here with you today to discuss the Postal Service's views on phasing out the non-foreign Cost-of-Living Allowances (COLA) and replacing this benefit with locality pay for federal and postal workers in Alaska, Guam, Hawaii, Puerto Rico and the Virgin Islands.

I would first like to share some facts about the Hawaiian postal workforce with you, as well as some details concerning the greater challenges facing the Postal Service.

The Postal Service has a presence on each of the Hawaiian islands, and employs approximately 2,700 letter carriers, mail clerks and other employees throughout the state. Together, these employees handle nearly 1.2 billion pieces of mail a year to more than 650,000 addresses in the Honolulu Postal District. And, they do a great job. For the most recent quarter of 2008, they delivered an impressive 98 percent overnight service, which was two points higher than the national average of 96 percent.

We are proud of the outstanding service that our employees in Hawaii provide. They have excelled during a particularly challenging time for the Postal Service. For the quarter just ending, mail volume was down 3.3 percent from last year, which is a very significant decline. The Postal Service is facing tough times as businesses and consumers nationwide are trying to manage their own budgets against rising prices that are affecting the economy of the whole nation. The Postal Service is engaged in the same struggle in managing its rising costs and has embarked upon an aggressive cost reduction and revenue enhancement plan to, at best, financially break even this year.

The Postal Service has weathered these economic storms before, and will again. We have done so by having one of the most dedicated workforces in America, and by benefiting from management tools, such as the collective bargaining process. This system has resulted in providing postal employees with competitive wages and benefits while safeguarding the financial health of the postal system. In place since 1970, the collective bargaining process defines the way the Postal Service and its unions discuss wages and working conditions. Section 1003 of Title 39, United States Code, states, "It shall be the policy of the Postal Service to maintain compensation and benefits for all officers and employees on a standard of comparability to the compensation and benefits paid for comparable levels of work in the private sector of the economy."

The Postal Service has negotiated pay schedules with its unions that set nation-wide standard rates of pay, including areas covered by the non-foreign COLA. These pay agreements set by the labor contracts cover roughly 600,000 Postal employees, including the 8,300 or so who receive the non-foreign COLA.

It is against this backdrop that I would like to discuss the purpose of the non-foreign COLA. As you know, it was established in 1948 and was originally intended to serve as an incentive for Federal and Postal employees to move to Alaska, Hawaii, and to U.S. territories.

The non-foreign COLA is intended to reflect the differences in the cost of living between Washington, D.C. and the various COLA areas. To set the COLA rates, the Office of Personnel Management surveys the prices of over 300 items, including goods and services, housing, transportation, and miscellaneous expenses. The surveys are very detailed, time-consuming and costly to perform, and require expertise to implement.

As you know, the non-foreign COLA is a percentage of an employee's base pay and is not subject to Federal income tax, nor is it considered pay for the purposes of retirement. The maximum non-foreign COLA payment is 25 percent of base pay. In Hawaii, the percentages for 2008 ranged from 17 to 25 percent.

To help bring about pay parity for federal employees, the Federal Employees Pay Comparability Act (FEPCA) was implemented in 1994 to set Federal salaries at a level comparable to non-Federal pay in the locality. This so-called "locality pay" currently applies only to Federal General Schedule, not postal employees in the 48 continental United States.

Throughout the years, and to a limited extent at its most recent collective bargaining sessions, the Postal Service and its unions have discussed forms of locality pay during contract negotiations; however, locality pay has not been adopted through these negotiations.

The collective bargaining process in the United States Postal Service is a process that works. Last year, we reached labor agreements with three of our largest unions, and year after year we reap the benefits of that cooperation. For example, together with our unions we have streamlined our grievance process and have implemented several award-winning safety programs that reflect industry best practices.

We have repeatedly stated to Congress, and do so respectfully again today, to let the collective bargaining process continue to deal with pay and other bargainable issues. One of the reasons that we strongly oppose the statutory imposition of locality pay upon postal employees in the non-foreign COLA areas is precisely because this action would interfere with the collective bargaining process. The Postal Service bargains over pay with its unions, unlike other agencies in the Executive branch. If Congress enacts legislation to provide a new benefit over and above the non-foreign COLA, it sets a dangerous precedent of interference, which could spill over into many other negotiated areas.

The second reason that we strongly oppose requiring the Postal Service to pay locality pay for its employees is because Postal Service wages are already comparable to private sector wages, as required by Title 39. The imposition of locality pay that, in many areas is higher than the non-foreign COLA payment, on top of its current wage schedules would artificially increase pay in those areas above comparability, which is the goal of both FEPCA and Section 1003 of Title 39.

Finally, paying postal employees locality pay in the defined areas would greatly affect the Postal Service's bottom line. Locality pay is considered base pay for the purposes of retirement and the Postal Service's costs will rise as a result. The Postal Service's employer contributions for roughly 8,300 employees who receive the non-foreign COLA would increase for retirement, Thrift Savings Plan, Social Security, Medicare, and life insurance. We estimate this bill would cost us approximately $12.5 million per year. That figure does not include the increased long-term retirement obligation that we would also face. This comes at a time when the Postal Service is struggling financially and, as I mentioned, is reducing costs in line with lower than expected revenue.

The Postal Service shares Senator Akaka's concern for postal employees and their long-term financial health when they retire. The Postal Service regularly provides financial education seminars and materials to employees reminding them that non-foreign COLA is not part of their retirement benefits, and the agency works hard with its employees to ensure that they understand their retirement package when it comes time to retire. As you are aware, employees currently receive tax-free non-foreign COLA payments, allowing them additional flexibility in terms of investing funds for their future.

While we understand the rationale behind S. 3013, we would like to state again that the Postal Service's pay and compensation systems are very different than those of other Federal Government agencies. We hope that we can work with Congress and the Administration on finding solutions to this problem.

Thank you and I would be pleased to answer questions that you may have.

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