



National Association of Letter Carriers

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Government Information, and International Security
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Good morning Chairman Carper, Ranking Member McCain (full committee Ranking Member Collins) and other distinguished members of the Sub-Committee. My name is Fred Rolando. I am the President of the National Association of Letter Carriers, which represents more than 300,000 active and retired letter carriers nationwide. Thank you for inviting me to testify.

This is my first time testifying before the Senate. Although I am now in my fifth week serving as the NALC's President, I am in my 31st year as a postal employee and have served more than 20 years as a union officer. I have seen the Postal Service thrive and I have seen it struggle through some very difficult times, but I have never seen a crisis like the one we are facing today.

Because the worst recession in decades began in some of the most mail-intensive industries in our economy – housing, real estate and banking – mail volume has plummeted over the past 18 months. In fact, volume is expected to drop by 30 billion pieces this year -- the worst decline since the 1930s. This comes at a time when the Internet had already begun to divert key segments of the mail,

especially invoices and bill payments. The PAEA was designed to help the Postal Service deal with the public's increased internet use by giving it more flexibility to compete in competitive services that continue to grow. I believe that more and more innovative ways of using the mail and the network are within reach. However, when this Committee led the charge for Postal Reform and successfully passed it, one of the key components was to prefund retiree health benefits. Your intent to shore up any unfunded liability for our retirees was commendable. Nevertheless, the crippling economy has forced us to re-study the unfunded liability a little closer and it is now even more clear that the aggressive schedule of payments is only part of the problem. I will focus first on the short-term issues we are faced with and then move into the long-term strategy.

The requirement for the Postal Service to pre-fund the massive 75 year liability over just a 10 year period is no longer feasible. No other company in America is required to prefund future retirement benefits at all, much less at such an accelerated pace. The exorbitant cost of prefunding – \$5.4 billion this year – accounts for most of the \$6-7 billion that the USPS has indicated it will lose this year.

As a reaction to a possible 15% drop in mail volume this year and in view of a potential year-end cash flow crisis due to the excessive cost of the prefunding schedule, the Postal Service has put forth a blueprint for dismantling its core business with service cuts and downsizing. Its *branch and station optimization program* and the 5-day delivery study are part of that response. As Congress reviews these developments, it should ensure that the Postal Service does not make structural decisions that will do more harm than good over the long run. Down-sizing to meet depression-level demand without considering the long-term impacts on the ability of the Postal Service to meet new demands when the economy recovers would be short-

sighted. Short-term savings that undermine the Postal Service's capacity to offer new services and to take advantage of future growth opportunities (such as Vote by Mail, e-commerce deliveries, and the other potential uses of our incomparable delivery network) would be self-defeating.

Indeed, over the long run, rather than downsizing the Postal Service we should be looking at how we can better use its unique network to expand business opportunities in new ways. We should experiment with utilizing our "last mile" advantage in areas beyond traditional mail, whether that means conducting the census or national polling, delivering medications or helping law enforcement in any number of ways. There are endless opportunities for the Postal Service, but it will never be able to take advantage of them if we begin closing our doors and limiting our services to our customers as a knee jerk reaction to a temporary and fixable problem.

I would like to commend this sub-committee for the attention and dedication it has given to the Postal Service and your obvious commitment to see it survive this downturn in the economy. That is why I believe there has got to be a two-tiered legislative approach. The first, as I have mentioned already, must address the cash-flow problems associated with the pre-funding payment. I believe that H.R. 22 and the OMB proposal both do this effectively. Members of this committee and every stakeholder in the postal industry have discussed and debated at length the pending CBO "score" of both of these proposals. So I will not get into that except to say that when a relief bill as important to the country as this one does not cost the taxpayer or increase the federal deficit a single cent, it seems criminal to me that there is no way to bring it to Congress for consideration.

I would be remiss if I did not place emphasis on this next statement - - using the short-term emergency relief legislation as a last minute vehicle during a markup session to address long-term labor practices is short sighted, unbalanced in its nature, and is an inappropriate vehicle for such an important and labor specific issue. I sincerely wish I had this opportunity to testify before this committee took such an amendment under consideration. At the very least I would have liked to discuss the factual information behind it, that was discussed inaccurately at the Committee's markup.

In any event, the NALC is completely opposed to the amendment offered by Senator Coburn. S. 1507 was intended to responsibly address the Postal Service's financial challenges. However, inclusion of this amendment serves only to upset the balanced collective bargaining procedure established by President Nixon nearly 40 years ago, which was incorporated into Postal Reorganization Act of 1970. During those 40 years numerous interest arbitrations have been conducted in accordance with the existing provisions of the Act. I can assure you that in resolving critical collective bargaining impasses, the arbitrators and the parties have consistently examined and taken into account the financial condition of the Postal Service, along with many other relevant factors.

Once this amendment issue is worked out and the immediate short-term relief is passed it will be crucial for Congress to begin looking at ways to strengthen the Postal Service for the long run. At a minimum, it must act to ensure that we are not right back here in a year or two dealing with the same issues. Long-term reforms will be critical to not only the survival of the Postal Service, but the continued growth of the broad industry that relies on its network. Congress can take the first step by reforming the retiree health prefunding provisions in the law. The current schedule of prefunding payments – designed to fund 80% of a 75-year liability by

adopted by OPM to implement the prefunding policy discriminate against the Postal Service and significantly increase its costs.

As the USPS Inspector General confirmed in a study released July 22, the OPM has inflated the cost of future postal retiree health benefits by tens of billions of dollars by using an unreasonable assumption about the long-term growth rate of health care costs under FEHBP. While most Fortune 1000 companies and the Centers for Medicare and Medicaid Services use a higher rate of cost inflation in the short run (7%-9%) and a lower rate in the long run (5%), OPM uses a 7% assumption in both the short and long term. This substantially raises USPS prefunding costs -- by some \$3.5 billion annually according to the USPS OIG (see http://uspsoig.gov/foia_files/ESS-MA-09-001R.pdf). OPM says it uses this rate for all its accounting of FEHBP costs and does not support a "carve-out" for the Postal Service. Yet the law has already carved out the Postal Service by making it the only agency in the government required to prefund retiree health insurance. While NALC supports prefunding our retiree health benefits, we do not support being overcharged for it.

The OPM also severely short-changed the Postal Service when it set up the Postal Retiree Health Benefit Fund by grossly underestimating the "postal surplus" in the CSRS pension plan, a surplus that was transferred to the Retiree Fund in 2007. Indeed, a significant portion of the cost of pension benefits earned by employees of the taxpayer-funded Post Office Department was shifted to the rate-payer funded U.S. Postal Service in this transaction. And for employees with both POD and USPS service, the OPM unfairly assigned the high-cost years of service under the CSRS benefit formula to the USPS instead of attributing the cost equitably. Together these decisions cost the Postal Service tens of billions of dollars that could have and should been used to fund the Postal Service Retiree Health Benefits Fund (**see Actuarial**

Report in Support of U. S. Postal Service Request to the Board of Actuaries of the Civil Service Retirement System, The Hay Group, January 22, 2004.)

As things now stand, the Postal Service finds itself in the bizarre position of using scarce borrowing authority that might better be used to weather the worst economic crisis in 80 years to instead borrow money from the Treasury, only to hand it over to the OPM where it will be placed into a retiree health fund that already has \$32 billion in it. In this economic environment, no company would make such an absurd allocation of resources. Indeed, two thirds of Fortune 1000 companies do not prefund at all, and those that do are likely to suspend prefunding payments until the recession ends (***see pages 13-16, Accounting for Pensions and Other Post Retirement Benefits 2008: Reporting Under FAS 87 and FAS 106 Among the Fortune 1000, A Watson Wyatt Survey Report***).

So, as Congress begins to look at what the larger more comprehensive reform legislation should look like, you should resist radical reforms to the Postal Service -- like 5-day delivery, massive closures and consolidations, and interference in the carefully balanced and successful collective bargaining process -- in favor of practical reforms that will stabilize the Postal Service's finances and give it time to take advantage of the new commercial freedoms provided by the PAEA when the economy recovers. I urge you to look at the overall methodology of the pre-funding payments as well as the network opportunities sitting before the Postal Service. We do not need to destroy the Postal Service to save it.

Thank you for this opportunity to testify here today, I would be happy to answer any questions you may have.