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**Testimony of**

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**to a hearing on "Finding Solutions to the Challenges Facing the U.S. Postal Service" held by the Senate Sub-Committee on Federal Financial Management, Government Information and International Security**

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Good morning Chairman Carper and other members of the sub-committee. On behalf of the nearly 290,000 members of the National Association of Letter Carriers, I am pleased to be here today. Thank you for inviting me to testify concerning the Chairman's proposed POST Act of 2010.

The legislation you have proposed is vitally important to the American economy and to the millions of workers employed by the mailing industry, not just to the Postal Service and the hundreds of thousands of workers who serve the nation as postal employees. The Postal Service is a vital infrastructure service that not only remains an essential element of the country's financial payments system, but also a key facilitator of business and communications for the 150 million homes and businesses it serves six days a week.

The past four years of recession have been the most difficult in the history of the USPS and the mailing industry in general – and with more than 15% of the nation's labor force unemployed or underemployed, the recession is far from over. Over the past four years, the Postal Service has reported what appear to be eye-popping losses amounting to more than $20 billion. But these results are misleading and cannot be accurately compared to those reported by other companies. Let me explain.

There are three main causes for the Postal Service's losses. In order of importance they are: the $20.9 billion cost since 2007 of pre-funding future retiree health benefits, the large drop in mail volume and revenue caused by the Great Recession and the ongoing impact of mail volume lost to Internet diversion. By far, the congressional mandate to pre-fund future retiree health benefits is the most important of these factors, though the conventional wisdom often flips the order of these factors. Indeed, in the absence of the pre-funding mandate, which no other agency or private company in America faces, the USPS would have recorded a net surplus of $611 million over the past four years, despite the worst recession since the Great Depression of the 1930s and the continued impact of electronic diversion. (See the table below).

**USPS Finances ($billions): 2007-2010**

| | 2007 | 2008 | 2009 | 2010 | 2007-2010 |
|---|---|---|---|---|---|
| Reported Net Income | -5.142 | -2.806 | -3.794 | -8.505 | -20.247 |
| Pre-funding payments to of the PSRHBF* | 8.358 | 5.600 | 1.400 | 5.500 | 20.858 |
| Income w/o PSRHBF pre-funding payments | 3.216 | 2.794 | -2.394 | -3.005 | 0.611 |

***Note: PSRHBF = Postal Retiree Health Benefits Fund created by the PAEA. The 2007 figure includes the mandated transfer of $2.958 billion from the escrow account established by P.L. 108-18 and the $5.4 billion pre-funding payment mandated by P.L. 109-435 (PAEA).**

**Source: Annual Reports of the Postmaster General, 2009-2010.**

In other words, the financial crisis facing the Postal Service was not primarily caused by the recession or the Internet – it was an unintended consequence of decisions made by Congress and President Bush in 2006 to require the Postal Service to massively pre-fund the health benefit costs it expects to incur over the next 75 years for current and future retirees. I know the highly accelerated schedule of prefunding payments (some $55 billion over 10 years) provided for in the 2006 Postal Accountability and Enhancement Act was driven by short-term CBO scoring concerns, but it is clear in hindsight that it was a terrible mistake – particularly with the onset of the deep recession just around the corner.

Pre-funding is optional in the private sector. Most companies pay retiree health benefits on a pay-as-you-go basis. Nearly two-thirds of Fortune 1000 companies do not pre-fund retiree health benefits at all and those few that do pre-fund have set aside far less of their future retiree health liability than the Postal Service (33% vs. 47% for the Postal Service). The overall pre-funding level of America's largest companies stands around 12% of future costs, about a quarter of the level of the USPS. (See Attachment #1, the 2010 report on post-retirement benefit funding produced by Towers Watson, p. 20 Figures 27 and 28.) The Postal Service's heavy pre-funding of retiree health care costs makes it impossible to compare the Postal Service's financial results with those of any other company. Indeed, no other company has come close to allocating 8% of its operating revenues to pre-funding future retiree health the way the USPS did in 2010. The comparable figures of other large U.S. corporations in 2009 (the latest year for which data are available) are revealing – AT&T allocated just 2% of its revenues to prefunding, while the figures for Boeing and General Electric were 0.04% and 0.1% respectively.

While fixing the pre-funding problem will dramatically improve the immediate financial picture, NALC fully understands that more must be done. The internet is changing the mailing needs of the American people and the American business community; there will be less demand for letter mail and more demand for small package delivery. So, as I testified to this sub-committee earlier this year, we know that in order to help the Postal Service survive and adapt to an uncertain post-crash economy, two things are essential. First, postal employees and their unions will have to embrace innovation and seek win-win solutions with the Postal Service at the bargaining table. And second, beyond developing and passing legislation that permanently addresses the crisis caused by the pre-funding mandate, Congress should give the USPS enough freedom to explore new ways of using its existing networks to serve the public and the U.S. economy.

NALC intends to meet its obligation to do its part next year in collective bargaining. I hope the Congress will do the same. Clearly, that is the intent of Chairman's Carper's legislation before us today.

I want to thank Senator Carper for taking the lead with the introduction of S. 3831. Although we cannot support all of its provisions as drafted, we believe it gets the two most important policy issues exactly right.

First, to help stabilize the Postal Service's finances in the short run, the POST Act would provide immediate relief to the excessive burden of pre-funding future retiree health benefits by allowing the Postal Service to use the $50-$75 billion surplus in its civil service pension account to cover the cost of the pre-funding payments required by the PAEA. This pension surplus was revealed by two independent private sector actuarial firms over the past year, the Hay Group (hired by the USPS Office of Inspector General) and the Segal Company (hired by the Postal Regulatory Commission). Both concluded that the Office of Personnel Management should adopt actuarial methods that more fairly allocate the cost of pensions for pre-1971 service between the Post Office Department and the U.S. Postal Service -- that is between taxpayers and postage ratepayers. This conclusion has the full backing of the entire postal industry – management, labor and mailers of all stripes.

The methods advocated by the Hay Group and the Segal Company should have been used when the Postal Service Retiree Health Benefit Fund was established with an initial transfer of surplus pension funds from the CSRS as provided by the postal reform law. If they had been used, the balance in the Fund today would exceed $92 billion, more than enough to fully fund all future retiree health benefits – which would obviate the crushing burden of annual pre-funding payments that now exceed $5 billion. It would have also allowed the USPS to use the Retiree Health Fund to cover the $2-$3 billion annual cost of insuring its current retirees and preserved its borrowing authority for more productive uses. Unfortunately, the Office of Personnel Management has maintained that any change in actuarial methods requires new legislation. We do not agree. Indeed, as Senator Collins has pointed out repeatedly in recent months, the PAEA gives the OPM the authority to revise its methods on its own and transfer the funds if a larger postal surplus is found. Section 2 of S. 3831 would resolve this issue along the lines Senator Collins has urged. I want to publicly thank Senator Collins for her tireless work on this matter.

Second, the POST Act would clear the way for the Postal Service to develop new uses of its existing networks to serve the needs of businesses and the public. We believe

Section 3(b) of S. 3831 will spur the kind of innovation needed to preserve universal mail service for decades to come by permitting the Postal Service to partner with companies, non-profits and state and local governments to better use its retail, processing and delivery networks to offer new services. NALC believes that such innovation can help spur economic growth and create jobs inside and outside the Postal Service. In fact, in May 2011 we are sponsoring an international conference on postal innovation in Washington, D.C. Our colleagues from postal unions all over the world will be here to share examples of how innovative postal companies around the world are adapting to meet the needs of 21st Century economies. The examples of innovative postal services can help us in the United States re-imagine the possibilities of our own national networks. In an era of rapid change, where communications are more important than ever for economic and national security purposes among others, we should strengthen -- not compromise – our universal communications networks.

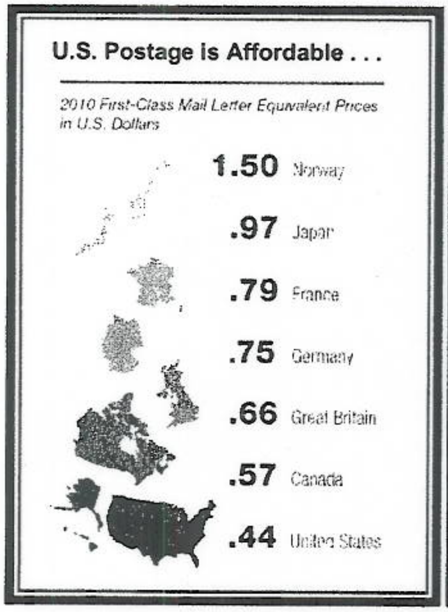
In light of the possibilities for developing new uses of our retail and delivery networks, we urge the sub-committee to reconsider Section 3(a) of the bill, which would allow the USPS to close post offices for solely economic reasons. Rather than reducing the level of service the USPS should seek to find new ways to use post offices to serve local needs as permitted by Section 3(b).

NALC supports the remaining provisions of S. 3138 with two notable exceptions. With all due respect, we strongly oppose both Section 3(e) regarding the Arbitration of Labor Disputes and Section 3(g) on the Frequency of Mail Delivery. I will address each in turn.

Under the current interest arbitration process, an arbitration board must give labor and management a full and fair hearing and arbitrators are bound to consider all the evidence presented by the parties when rendering their decisions -- see Section 1207 (c)(2) of Title 39. The proposed changes to this section of the law would highlight three managerial objectives among the factors to be considered by arbitration boards while neglecting to mention any employee objectives that are typically presented to arbitrators. In so doing, the POST Act would needlessly disrupt the balance and fairness of the existing process for resolving collective bargaining impasses in the Postal Service that has served the parties very well for more than 40 years. Over that period, NALC and the Postal Service negotiated seven national agreements (often in conjunction with other unions) without resort to arbitration, including the last two agreements which covered 2001-2006 and 2006-2011. During that same 40-year period, we arbitrated four agreements and partially negotiated and partially arbitrated one contract (the 1978-1981 national agreement). The experience of our sister unions has been very similar. The process has not only worked well for the USPS and its employees, it has also served the public interest as well.

For the nation's 200,000 letter carriers, the existing process has enabled us to preserve the purchasing power of our hourly wages, which in real terms increased only 3.4% between 1972 and 2009 – even as postal labor productivity has increased by more than 43 percent. Of course, the real cost of our benefits has increased significantly as the rising cost of employer provided health care has spiked, but not more than the rise in productivity and not enough to drive postages rates up in real terms.

For the country in general, the current process has ensured labor peace -- there has not been a single destructive work stoppage or lock-out or disruption of essential postal services in more than four decades – while permitting the Congress to completely eliminate taxpayer subsidies that once covered nearly a quarter of the Postal Service's costs. And it has ensured stable and affordable postage rates for the nation's mailers. Indeed, our postage rates are among the lowest in the industrialized world and adjusted **for inflation, overall U.S. postage costs (as measured by the Producer Price Index for** Postage calculated by the Bureau of Labor Statistics) have increased less than the




**. . . And Overall Postage Has Tracked Inflation: 1972-2010**

| Year | PPI-USPS (1989=100) | CPI-All Items (1982-84 =100) |
|---|---|---|
| 1972 | 36.6 | 41.8 |
| 2010 | 187.7 | 217.9 |
| Pct Inc | 413% | 421% |

**Note: PPI = Producer Prices; CPI = Consumer Prices**

**Source: Bureau of Labor Statistics**

overall Consumer Price Index since the Postal Service was created in 1971. Moreover, since 1997 when the BLS began measuring a Consumer Price Index for private Delivery Services, postage rates have increased much less than private delivery rates – up just 43% for postage compared to an increase of 127% for private delivery.

In view of this background, it is difficult to see what problem the proposed change in the labor arbitration process is designed to address. Sadly, we believe this proposed change is based on misinformation provided to this sub-committee by the Postal Service. For example, at the mark-up of S. 1507 on July 30, 2009 Senator Coburn introduced the language requiring arbitration boards to consider the financial condition of the Postal Service when rendering a decision. At that time he argued that the current law "prohibits" the arbitrators from considering the financial impact of the competing contract proposals. This is absolutely, unequivocally untrue.

Unfortunately, the Postal Service has played fast and loose with the facts on this issue. Its so-called fact sheet on arbitration says that arbitrators are "not required to take the fiscal health of the USPS into account." This is flatly untrue and the Postal Service knows it. Arbitrators are required to consider all the evidence presented to them by the parties. Postal interest arbitration is a tripartite process and the Postal Service has at least one appointed arbitrator on every arbitration board. There is no way for an arbitration board to avoid considering the finances of the Postal Service in their decisions – unless the Postal Service wants Congress to believe that its advocate arbitrators and lawyers sometimes fail to present evidence on postal finances. If any past arbitration board failed to consider the financial condition of the Postal Service – which I can tell you has never happened – then the only party to blame would be the Postal Service for appointing incompetent advocates and arbitrators. But in reality at least one of the parties (union or management) has presented evidence and testimony on the financial condition of the Postal Service to every arbitration board that has been established. And even if the law did not require arbitrators to consider all evidence, they would do so as a matter of well established professional practice. Therefore, giving this issue special status along with the other managerial objectives such as the comparability standard and compliance with rate setting rules is unwarranted. We don't think Congress should put its thumb on the scale in favor of management. The existing law is fair and remains preferable to the proposed legislation before this sub-committee. In layman's terms, let's not fix what is not broken – there are plenty of other things to fix in the Postal Service.

The NALC and the other postal unions are in complete agreement on this issue: we respectfully call on the sub-Committee to eliminate Section 3(e) from the bill.

The other major provision we oppose is to give the Postal Service, free of congressional oversight, the power to reduce the frequency of delivery from the currently mandated six days per week. We shared our strongly held views on this issue with this sub-committee earlier this year and presented extensive evidence to the Postal Regulatory Commission during its review of the Postal Service's proposal to eliminate Saturday delivery. (See Attachment #2, the NALC's brief submitted to the PRC.) I will not repeat that testimony in this submission. But, in short, eliminating Saturday delivery would be a mistake of the first order. It would save very little money and risk the loss of much more revenue over time. Cutting service (and inconveniencing customers) is not a way to strengthen the Postal Service. In America, business is conducted 24 hours a day, seven days a week. Many businesses, especially small businesses such as Amazon.com re-sellers, rely on Saturday delivery and reducing the speed and quality of service will simply drive customers away. We have already seen some significant customers begin to quit using the Postal Service, on the false assumption that 5-day delivery is a done deal. Weekly newspapers and direct advertisers who value Saturday delivery will follow suit.

At a time when the nation is suffering an acute jobs crisis, throwing another 80,000 decent jobs away in a moment of panic does not make sense – especially when there are better alternatives without negative side-effects. Both the Obama administration and a bipartisan majority of the House of Representatives who have co-sponsored H. Res 173 oppose the elimination of Saturday delivery. We urge all of you to reject this proposal as well.

We should note that the proposal included in the POST Act is especially dangerous because Congress would essentially be outsourcing an important public policy decision on the scope of universal service to whoever occupies the position of Postmaster General at any given time. There would be no way to prevent the Postal Service from dropping two or even three days of delivery per week to meet short-term cost cutting targets if this provision is adopted. This would destroy the Postal Service. Again, we respectfully urge this sub-committee to remove this provision from the proposed legislation.

Let me conclude by again thanking Senator Carper and Senator Collins again. We very much appreciate your years of diligent work on postal issues and are convinced that a bipartisan solution to the challenges facing the Postal Service can be found. NALC has demonstrated repeatedly in recent years that it is prepared to do its part to help preserve the long-term viability of the USPS. Just as we have worked with the Postal Service at the bargaining table in recent years to adjust routes and effectively deal with the steep decline in mail volume as a result of the recession, we are prepared to work with the members of this sub-committee to craft legislation that will serve the best interests of the country as well as our members. Our goals are to preserve decent middle class jobs for our members and to maintain the integrity of the Postal Service while serving the American people and helping the businesses that rely on universal service to grow and prosper.

Thanks again for inviting me to testify. I am ready for any questions.