



National Association of Postmasters of the United States

Testimony of
Robert J. Rapoza
National President

Hearing Before

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Governmental Affairs**

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Chairman Carper, Ranking Member Coburn and Committee members, thank you for once again inviting the National Association of Postmasters of the United States (NAPUS). As always, our nation's Postmasters seek to provide constructive input as the Committee continues to tackle the daunting task of ensuring the continued viability of the United States Postal Service. In December, I will complete my two terms as President of NAPUS and will return to Hawaii. Over my almost four years of leading Postmasters, though I have been frustrated by the lack of legislative movement, I truly appreciate your dedication to seeing that our universal postal system is restored to solvency and relevance.

In my February testimony, which is part of the Committee's official hearing record, I identified the core elements that Postmasters believe must be part of postal relief legislation. Those elements include: promoting revenue generation through innovation and credible pricing; funding retiree health benefits and pensions fairly and realistically, without undermining retirement security and health coverage; and preserving universal service. These goals are attainable and, to a modest degree, could have been realized through enactment of S. 1789, the consensus postal bill the Senate passed during the previous Congress. Regrettably, the stars, or should I say, the House of Representatives was not aligned; so, we now find ourselves continuing the crusade.

These hearings are integral to this quest and, therefore, I welcome your invitation. I would begin my testimony by observing that the Postal Service and the mail revenue that finances its operation are highly sensitive to the state of the economy. Recent data seems

to indicate that mail revenue has stabilized, if not grown slightly. Moreover, absent the 2006 retiree health prefunding requirement, the Postal Service would have been in the black during the previous fiscal quarter. Consequently, gloom-and-doom forecasts should be moderated, and we should use the economic recovery as an opportunity to produce thoughtful and constructive legislation, and not scare off potential postal customers.

Mr. Chairman, I concluded my February 13 testimony with the admonition: “The future of the Postal Service is in your hands.” As you may recall, you amended my remark by commenting that the future of the Postal Service is in our hands. I agreed with your retort; so, at the outset of today’s testimony I would like to share with the committee some sacrifices endured by Postmasters and the communities they serve. These sacrifices have contributed to postal cost reductions. Nevertheless, please keep in mind that, last year, approximately 840 million Americans conducted 1.7 billion postal transactions at postal retail facilities. The Postmaster workforce has shrunk by more than 5,000 positions over the past year, and another 4,500 will be eliminated by September 2014.

Additionally, almost 14,000 communities, served by about one-half of the nation’s post offices, face dramatic cuts in post office hours. Ironically, such hour cuts curtail retail revenue generation. In fact, a very recent Postal Inspector General posting suggested the post office reductions and closings may have cost the Postal Service passport application revenue. Moreover, many Postmasters will shoulder the burden of managing multiple post offices, with strained resources and limited training. It is also important to note that non-career postal employees will now staff most of the part-time post offices. These postal employees, many who are NAPUS members, are known as Postmaster Reliefs

(PMR). They are not afforded employer-provided health benefits; however, we hope the Committee, as it develops the health benefits portion of postal legislation, can address the unmet health needs of Postmaster Relief personnel.

Beginning this year, Postmasters and other managerial and supervisory employees have absorbed an increased share of their Federal Employees Health Benefits Program (FEHBP) premiums. And, by 2015, Postmasters will be making the exact same percentage contribution toward health insurance as other federal employees and annuitants: 28 percent of the total premium. Moreover, Postmasters have been denied merit-based salary adjustments for the past three years. Furthermore, Postmasters are not entitled to cost-of-living-adjustments. So, Mr. Chairman, I think it is crucial to understand that Postmasters continue to do their part on behalf of the Postal Service and its future.

The Committee invitation to this hearing suggested that I focus on workforce issues, including how employees can better promote postal services in a digital marketplace, and an examination of managerial postal benefits. Before commenting on these two topics, I would appreciate the chance to address a number of items addressed in pending S. 1468.

I would like to begin by discussing the absolute necessity for the Postal Service to be empowered and prodded to become more innovative and entrepreneurial. As I mentioned in February's testimony, the growth in the small package market needs to be exploited by the Postal Service. We cannot simply ride the growth wave. Post offices need to be

involved in marketing and preparing postal products, not just their acceptance and delivery. Real-time, instant messaging of when mail is available for pickup should be a valued-added service. In addition, as the Postal IG testified last week, mobile imaging of delivery confirmation is not far off. These products yield real benefits to small- medium- and home-based businesses. In addition, post offices can provide e-connectivity to the entire federal government, as well as local and state governments, and even private institutions. Digital document authentication and identity verification are also services that post offices can and should offer. NAPUS believes that section 302 of the legislation provides the Postal Service with essential latitude in developing innovative products and services by which the Service can re-establish relevance to millions of Americans.

I would like to return to the importance of post offices and Postmasters to small businesses – one of the fastest growing sectors of our economy. A June 2013 Postal Service Office of Inspector General Audit report on Small Business Growth pointed out, “Postmasters are typically at the forefront of the interactions with local small businesses, either by providing service, addressing service issues, or selling Postal Service products and services.” *Business Connect*® was designed to facilitate Postmasters’ engagement with such businesses and, in its own manuals, the Postal Service highlighted that Postmasters are a valuable resource to aid customers with their postal needs.

Postmasters, the managers-in charge of post offices, are the most effective postal personnel in generating much-needed revenue and marketing the new postal products that will inevitably be promoted by the Postal Service. In fact, the IG concluded that it should

be the policy of the agency to increase the priority that Postmasters place on generating revenue, including allocating of more time to Postmasters to sell products and services. In addition, the agency should provide better coordination between Postmasters and the Postal Service's business development staff. Pivotaly, the IG called on the Postal Service to "leverage the Postmasters' community status by encouraging Postmasters to join local civic associations, providing fertile ground for marketing postal products and services." In essence, innovative product or service develop is insufficient; there must be an effective strategy to market the products or services, and Postmasters are the obvious conduit for such a strategy.

I also suggested in my February testimony that the local post office is the obvious choice for the distribution of the vast array of governmental programs, including issuing and reloading government-issued cash cards. These forms of aid are essential, particularly in the wake of natural disasters. Post offices could also be the preferred venue for tailored financial services for the unbanked and provide such services in broadband-deficient areas.

As this Committee is aware, Postmasters have a strong commitment to postal accessibility, particularly to postal-reliant communities prevalent in rural areas and small towns. The consensus legislation that the Senate passed last year included a number of bipartisan provisions that would help safeguard postal accessibility, direct the Postal Service to implement retail service standards, and equip the Postal Regulatory Commission with the authority, in limited circumstances, to overturn a Postal Service

decision to close a post office. These provisions were authored by former Committee members Jerry Moran and Susan Collins. In addition, current members Tester, Begich, Levin, Pryor, and Landrieu also co-authored the relevant provisions – sections 203, 204 and 205 of S. 1789. NAPUS strongly urges the Chairman and Ranking member to include these provisions in the legislation when a bill is brought before the Committee.

Section 301 would provide the Postal Service with greater pricing flexibility and allow it to more expeditiously adjust rates. One of the more contentious issues in the 2006 postal law was the overly restrictive mechanism used to adjust postage. Indeed, the hard consumer-price-index (CPI) cap has proven to be injurious to postal operations, finances, and capital investment; moreover, it has not stemmed the tide of mail leaving the postal system. As the Postal IG last week pointed out, the price cap has limited applicability in the economic environment in which the Postal Service needs to compete and raise revenue. The hard cap precludes the Postal Service from being equipped to compete with multiple communications platforms. Additionally, the so-called postal monopoly is an anachronism due to multi-dimensional competition with the digital platform. Finally, flexible pricing of market dominant products would help the Postal Service pay the expense of continuing to prefund the retiree health obligation. NAPUS would argue that the hard rate cap failed to anticipate the acceleration of mail diversion, the Great Recession, and the impact the prefunding requirement would have on the Postal Service.

At this point, I would like to address those issues which the Committee seeks to highlight at today's hearing. Obviously, the motivation for sections 101, 102, 103, 104, and 105 in

S.1486 is to reduce Postal Service employee benefit obligations. NAPUS could support some of the sections; however, others raise blazing red flags.

Section 101 would provide a refund of up to \$6 billion that the Postal Service has already overpaid on behalf of its Federal Employee Retirement System (FERS) beneficiaries. In addition, the section would direct the Office of Personnel Management to recalculate the Postal Service's pension liability based on postal-specific demographics. NAPUS strongly supports the refund of any overpayment the Postal Service may have made on behalf of its employees; however, if it were to be determined that the overpayment exceeds \$6 billion, the higher amount should be reimbursed to the Postal Service. In order to make the surplus calculation more accurate, the Committee might want to consider making the calculation within 60 days of enactment, or take the average of 60 days prior to enactment, the date of enactment, and 60 days post-enactment.

Section 102 would permit the Postal Service to deny newly hired postal employees the opportunity to participate in FERS. Notwithstanding our objection to postal desertion from a very efficient, successful, and fully-funded retirement program, it is unclear from the language how Postmasters or other managerial and supervisory employees would be treated under section 102 because front-line managers do not collectively bargain. While Postmasters do have a "consultative process," the consultation procedure places my members at a profound disadvantage in discussing compensatory and workplace issues with Postal Service Headquarters. Therefore, NAPUS cannot risk the assurance and

stability of retirement benefits for future Postmasters by elimination a statutory retirement protection program.

I would remind the Committee that the FERS program is extremely fair to the employer and to the employee. In 1984, FERS replaced the Civil Service Retirement System (CSRS). Unlike CSRS, FERS is portable, meaning a postal employee is not bound to a 25- or 30-year postal career to accrue an annuity. Under FERS, a postal employee vests in the basic retirement annuity (FERS), which provides a modest annuity, after five years. The Thrift Savings Plan (TSP), which is completely portable, provides an automatic 1 percent of salary employer contribution, combined with an employer-employee match of up to 5 percent of salary. The employee can make non-matching contributions that exceed the 5 percent threshold. Finally, a postal employee fully participates in Social Security. The FERS program remains one of the most successful and balanced retirement programs in the nation. Subjecting retirement benefits to collective-bargaining, which may include sporadic modifications of a 401K-type match, would undermine the retirement security of future postal employees.

Section 103 would restructure the Postal Service's retiree health prefunding schedule to make the legally required payments more manageable. While NAPUS believes Congress should revisit the obligation in its entirety, we believe that amortizing 80 percent of the projected liability over a 40-year period, beginning in 2016, is a step in the right direction. NAPUS believes, however, in the absence of dramatic legislative relief from the congressionally mandated payment – beyond the schedule proposed in section 103 –

the Postal Service should be able to add a factor to its postage rate adjustments that explicitly includes the required payment, and this factor should not be counted against any postage rate cap.

Section 104 would subject employee health coverage – not just the Postal Service’s premium contribution to collective-bargaining. At the outset, let me remind the Committee that Postmasters do not collectively bargain and NAPUS does not sponsor an FEHBP health plan. This being stated, NAPUS members are deeply concerned the Postal Service expertise to administer its own health plan, and the financial strength to self-insure it. In fact, the unease about self-insurance was raised in the July 2013 Government Accountability Office (GAO) analysis of a postal-only health plan. OPM also raised this concern. NAPUS is also anxious about the uncertainty of continued comprehensive health coverage for retirees, particularly those who are not yet eligible for Medicare.

Under current law, postal retirees have premium protection through the FEHBP’s weighted average premium formula, and benefit modifications are managed through OPM’s annual call letter. Such safeguards are not afforded under section 104. Once postal employees are forced out of FEHBP, they are prohibited to return as a retiree because to continue FEHBP coverage in retirement, the annuitant must have five years of FEHBP coverage immediately preceding retirement. So, enrollment in a postal-only plan outside of FEHBP would preclude FEHBP retirement health coverage. As an aside, I would note that a couple of agencies – the Federal Deposit Insurance Corporation and the Federal Reserve – took a gamble with their own health plans in the 1980s; they lost the

wager and were forced to buy their way back into the FEHB in the 1990s. I do not have confidence the USPS would be able to buy its way back into FEHBP if it leaves the program and its own health plan crashed and burned. Hence, postal employees and retirees would be in dire jeopardy.

The GAO also raised a major concern that employees with higher than average health claims and non-Medicare eligible retirees are at greater risk under a postal-only health plan. Consequently, we strongly believe that postal employees and retirees should retain their eligibility to participate in the FEHBP.

It is important to note that the GAO examination of the USPS health proposal failed to quantify any savings attributable through efficiencies, innovation, or enhanced provider leverage. In addition, the GAO included a very important cautionary note about the potential treatment of retirees under a postal-only health plan because they would lose specific statutory protections. It is important to note the OPM effectively manages competition among a diverse menu of FEHBP plans, and contains premium increases more effectively than most employer-sponsored private sector plans.

As noted with regard to section 102 of the bill and at the beginning of my comments on postal health benefits, Postmasters and front-line managers do not collectively bargain. Section 104 provides Postmasters and other front-line managers the opportunity to maintain coverage under the FEHBP. Nevertheless, I remain concerned that if a USPS plan were to be implemented, Postal Headquarters could financially penalize managers

who exercise their option to remain in FEHBP, through inflated employee contributions. Furthermore, if Postmasters were financially compelled to be part of a postal-only plan, it is possible that collectively bargained plans could be able to negotiate restrictive enrollment or contain union-specific benefits and, as a result, employee-bargained plans would be limited to members of the bargaining unit, and, thereby closed to Postmasters. Each of the four collective-bargaining units currently sponsors their own FEHBP health plans. Management groups do not sponsor health plans. Consequently, if Postmasters and other managerial employees were precluded from participating in one of the employee-organization plans, the USPS would have to craft a plan for them. Inasmuch as Postmasters and managers tend to be older than rank-and-file postal employees, it is quite logical we would be an expensive risk pool to insure. In fact, NAPUS did sponsor a plan through the 1980s; however, we recognized that Postmasters, as a distinct group, were costly to insure and, as a result, our health premiums were not affordable. It made insurance sense for Postmasters to be part of a larger pool of FEHBP participants. There is real potential in a postal plan for Postmasters and frontline managers to be segregated in a distinct pool and be subjected to excessive premiums, inferior benefits, or both. This is a real fear that Postmasters have.

Section 105 would require OPM to offer optional FEHBP plans for Medicare-eligible postal enrollees who participate in Medicare parts A and B. It is my understanding that the unique characteristic of this proposal would be that the plans would be priced in such way as to account for Medicare participation. Consequently, the premium would be discounted on the basis that FEHBP would supplement or explicitly coordinate its

coverage with Medicare. While NAPUS recognizes these plans would be voluntary for Medicare-participating postal retirees and would remain within the FEHBP, we are anxious about coverage design and treatment of FEHBP deductibles and co-payments, which are now waived for double-covered enrollees. In addition, the combination of sections 104 and 105 could have the unintended consequence of isolating postal retirees who are not eligible for Medicare, and drive premiums up for the plan in which they participate.

As a footnote to this proposal, the Committee should be aware that a government-wide proposal to reduce FEHBP premiums for Medicare-eligible participants was included in the Medicare Catastrophic Coverage Act of 1988 (PL 100-360); however, the entire act was later repealed by the Medicare Catastrophic Coverage Repeal Act of 1989 (PL 101-234). Obviously, more effective coordination of FEHBP and Medicare coverage has been a longstanding issue for policymakers. For example, the Omnibus Budget Reconciliation Act of 1990 (Public Law 101-508) included a provision that applied Medicare part A provider payment limits to all FEHBP participants over the age of 65, even if FEHBP enrollees were not Medicare participants. And the Omnibus Budget Reconciliation Act of 1993 (Public Law 103-66) applied the Medicare part B limits to the same group of annuitants. The 1993 law also required that Medicare-providers accept FEHBP payments for 65-and-over non-Medicare participants on the same basis as if they were in Medicare; the law also applied Medicare payment limits to non-Medicare doctors treating 65-and-older FEHBP patients. Consequently, there has been a strong relationship between FEHBP reimbursement policy and Medicare charges. The application of Medicare limits

has helped contain FEHBP costs. However, although the rate is the same, in one instance, FEHBP alone pays, and in the other, Medicare pays first and FEHBP just covers the balance. Consequently, it is clear that annuitants with similar health risks who are covered by both Medicare and FEHBP are less expensive for FEHBP to insure than those in FEHBP alone. In its report, the GAO estimated that about 22 percent of Medicare-eligible postal retirees have not enrolled in Medicare part B and 8 percent were not in Medicare part A. I believe that providing for retroactive automatic enrollment, without penalty, for those eligible for Part A should be done. These retirees already paid for such coverage through the Medicare payroll tax. In all likelihood, they participate in CSRS, which does not provide for automatic enrollment and their failure to file the requisite forms may have been an oversight. In contrast, FERS are automatically enrolled by virtue of Social Security participation.

The previously referenced Reconciliation Act of 1990 included a provision that required OPM, in consultation with the Department of Health and Human Services, to create a system to identify individuals who are entitled to Medicare benefits. Assuming such a system is still operational, OPM should run a data match between Medicare-entitlement and postal retirees who are in CSRS, and enroll in Medicare part A those who are entitled to the benefit, without penalty. To encourage Medicare part B enrollment, NAPUS believes the late enrollment penalty should be waived, and the same Medicare part B “hold harmless provision” afforded to FERS postal participants should be applied to CSRS postal participants. The hold-harmless provision assures the participant that an increase in the Medicare part B premium will not result in a decrease in his or her

monthly annuity. An annuity decrease would occur if the part B premium increase exceeds the retirement COLA.

I understand there may be some interest in modeling postal retiree health coverage after the retiree health plan established by the “Big Three” automotive manufacturers. In 2007, the plan was made available to retired members of the United Automobile Workers union. I would respectfully suggest serious caution in this approach. First, the automotive retiree health plan was established as a “trust”; there is no assurance of continued funding of the plan, particularly if trust investments falter. Once trust funds are exhausted, retiree health benefits cease. Second, because the trust was established pursuant to three independent UAW collective-bargaining agreements, the health benefits are denied to managers and employees who are not represented by the UAW.

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In conclusion, NAPUS is concerned with the thrust of a number of provisions that seek to deny postal employees and retirees statutory health and retirement benefits through the FEHBP and FERS. Nevertheless, NAPUS continues to be willing to discuss the future of postal health benefits, so long as such coverage remains within the FEHBP and the interests of my members are protected. We are troubled by the decision to omit provisions that were included in S. 1789 from the pending bill that helped assure postal accessibility to all Americans. However, we are supportive of those provisions that make the retiree health prefunding schedule more manageable and provide the Postal Service with opportunities for innovation and enhanced pricing flexibility. Indeed, the future of

the Postal Service is in our hands and NAPUS wants to work with you as, together, we ensure its viability and relevance.