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STATEMENT OF
LOUIS M. ATKINS, PRESIDENT
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BEFORE THE

COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

"U.S. POSTAL SERVICE IN CRISIS:
PROPOSALS TO PREVENT A SHUTDOWN"

SEPTEMBER 6, 2011

Chairman Lieberman, Ranking Member Collins and Members of the Committee:

Thank you for the opportunity to appear before you today. My testimony expresses the views of the three management associations that represent the 75,000 managers, postmasters, supervisors and other non-bargaining unit employees of the United States Postal Service. Those management organizations are the National Association of Postal Supervisors, the National Association of Postmasters of the United States and the National League of Postmasters.

Without question, the United States Postal Service is in a desperate financial situation. It has never reached this state of affairs since its creation as a self-supporting government establishment in 1970. It is only weeks away from being unable to meet the 2006 financial obligation that Congress and the Administration imposed on it. As a result, it will default on that payment.

How did the Postal Service reach such dire straits? A weak economy since 2008 has prompted businesses to send less mail through the postal system, causing revenues to rapidly decline. But undoubtedly, the most important cause has been the statutory mandate established by Congress in 2006, requiring the Postal Service, over 10 years, to set aside \$55 billion to satisfy its future retiree health care obligations beginning in 2016 and continuing over the next 75 years. As a result of those retiree health care prefunding payments, the Postal Service will default on the required payment on September 30 when the 2011 prefunding payment is due. No other federal component or private enterprise is saddled with this health benefit prefunding obligation.

Without this huge retiree health prefunding burden, the Postal Service would not be in the perilous shape it is today, despite the recession and the impact of the internet. During the past five years, the Postal Service has paid nearly \$30 billion for obligations arising far, far into the future. Without those payments, the Postal Service would have been at a point of breaking even since 2006. Media reports of huge financial losses by the Postal Service have suggested that the Postal Service has mismanaged its affairs. That is far from the truth. The dominant cause of the Postal Service's decline has been these onerous and far too aggressive health prefunding payments.

Meanwhile, the Postal Service over the course of four decades, has overpaid as much as \$75 billion into the federal retirement system for its employee pensions, as rigorously documented by the Postal Regulatory Commission and the Office of Inspector General of the Postal Service. These overpayments arise from how much the Postal Service should have paid and should continue to pay for the pensions of former employees of the former Post Office Department. The employment of these workers predated the creation of the United States Postal Service in 1970. Both the Postal Regulatory Commission and the Office of Inspector General have found that obsolete accounting methods have been continuously used by past and current administrations in assessing the Postal Service's pension payments. The equitable refund of these pension overpayments to the Postal Service would restore the Postal Service's financial stability.

Remarkably, those in Washington who oppose a refund and fair allocation of retirement obligations to the Postal Service label it a "bailout." Our response to this characterization is straight-forward: In the real world, when you overpay a bill, or overpay your taxes, you deserve a refund. Why should it be any different for the Postal Service?

There is overwhelming support throughout the postal community for a fresh review of how much the Postal Service has really paid into the federal retirement system and, if a surplus is found to exist, to apply that surplus to the Postal Service's retiree health prefunding obligations. We applaud the legislative proposals of Senator Tom Carper, Senator Susan Collins and Congressman Stephen Lynch that would require the Office of Personnel Management to initiate such a review process, using modern, well-accepted principles of accounting, and require the Postal Service to use any surplus to satisfy its remaining health prefunding obligations under the 2006 law.

Many in the postal community have urged Congress for the past two years to set in motion this fair and responsible process for addressing these overpayment errors. In the meantime, the Postal Service's financial condition has deteriorated. Taking those steps now will restore billions of dollars to the Postal

Service, stabilizing its financial condition. Temporarily postponing and re-amortizing the 2011 health prefunding payment will provide some additional short-term relief.

In the longer term, as electronic diversion continues, the Postal Service will need to continue to reduce costs and innovate to better serve America's communication and logistics needs. Over the past four years, the Postal Service has achieved over \$12 billion in cost savings. During that time, three workforce restructurings have trimmed over 5,000 management positions. These were difficult steps that have streamlined the organization.

Recently, the Postal Service has announced sweeping proposals designed to dramatically cut costs. These have included reducing delivery frequency, closing thousands of post offices, consolidating hundreds of mail processing facilities, and curtailing next-day delivery of mail. The Postal Service also has proposed withdrawing from the federal employee retirement and health benefit programs, presumably to cut costs through the reduction of employee benefits. The three management employee organizations oppose many of these proposals, primarily because they are self-destructive and premature. They will cause the irreversible decline of the Postal Service and the quality of its service, eliminate thousands of jobs at great cost to the economy, and wreak havoc on communities across America.

The financial crisis afflicting our nation's postal system has been caused by a number of external factors outside of the control of the Postal Service. Congress and the Administration remain the only parties that bear ultimate responsibility for resolving the present postal crisis. Congress created the far too burdensome schedule of retiree health prefunding payments that has blown a hole in the Postal Service's financial assets. The former Civil Service Commission and the current Office of Personnel Management for four decades have negligently administered obsolete and flawed accounting methods that have caused the Postal Service to significantly overpay its pension obligations. The Postal Service cannot and should not be expected to unilaterally claw its way out of this crisis, devising alternative methods that will contribute to a death spiral.

Congress and the President should remedy past Congressional and Administration acts. The Postal Service's pension overpayments should be returned for its use to satisfy its retiree health obligations. And to the extent necessary, Congress should realign the Postal Service's retiree health prefunding schedule to a larger time period consistent with what the Postal Service can afford. Fairness, responsible action and common sense should prevail. We urge this Committee to act promptly in adopting these steps.

In addition, we urge the Committee to intensively scrutinize Postal Service plans to reduce access to comprehensive postal services through the planned reduction of its retail network, including the closure of post offices serving small towns and rural communities. The Postal Service's promotion of "village post offices" and "alternative retail channels" are not replacements for secure and reliable post offices, staffed by trusted representatives of the federal government. Moreover, these private outlets do not have the capacity, or the authority, to provide the quality and level of service provided by their current post office.

We also are deeply concerned by Postal Service proposals to withdraw from the federal employees' retirement and health benefit programs. Under its proposal, the Postal Service would eliminate the availability of a menu of plans to choose from, which is the hallmark of the FEHBP. In addition, greater reliance on Medicare coverage, potentially through a barebones Medigap plan for Medicare Part B-eligible individuals, would reduce coverage for postal retirees. Plan stability, characterized by premiums that rise at a lower rate than private sector health plans, would be at risk. Walton Francis, author of *Consumers' Checkbook Guide to Health Plans for Federal Employees*, has called the proposal to leave FEHBP "nonsensical," saying, "The notion that the Postal Service can design a health insurance program that will outperform FEHBP isn't credible." In summary, the Postal Service's expectation that a postal-only health plan will have greater leverage on the health care market than the FEHBP is highly speculative.

Thank you for the opportunity to present these thoughts. I will be happy to take any questions from the Committee.