Testimony of

Fredric V. Rolando

President, National Association of Letter Carriers

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Thank you, Chairman Cummings, Ranking Member Jordan and members of the Committee, for the opportunity to testify today on behalf of more than 300,000 active and retired letter carriers represented by NALC who live and work in every community in the country. In developing this testimony, we have worked closely with our colleagues from the other three postal unions, who are equally dedicated to working with both parties in Congress – and with allies in the entire mailing industry – to build consensus on postal policy changes.

We appreciate the Committee's continued dedication to addressing the challenges facing the Postal Service and remain hopeful that this Congress can achieve common sense, bipartisan postal reform that can bring financial and operational stability to this treasured, constitutionally-mandated institution.

Background

Mr. Chairman, you have asked me to discuss the need for comprehensive postal reform legislation. Before doing so, it is important to acknowledge all that we have done to strengthen the Postal Service on our own, and provide the new members of the Committee a bit a background and context about the postal workforce, its work with other stakeholders and prior postal reform efforts.

Over the past decade or so, the Postal Service and its employees have worked diligently to restructure operations, cut costs and markedly increase productivity in response to technological changes and the effects of the Great Recession. In fact, even as the number of delivery points continued to grow by about one million addresses per year, the postal workforce has been reduced by more than 200,000 positions. Even so, we've managed to preserve our networks and to maintain our capacity to serve the nation.

Although we will continue to adapt and evolve to meet the changing needs of America's businesses and households in the years ahead, only Congress can address our biggest financial challenge: the unique and unsustainable burden to massively prefund future retiree health benefit premiums decades in advance. No other enterprise in the country faces such a burden, which was imposed by the Postal Accountability and Enhancement Act (PAEA) of 2006. As the chart on the next page indicates, the expense of this mandate has accounted for nearly 92 percent of the Postal Service's reported financial losses since 2007 – and 100% percent of its losses in recent years.

These reported losses have obscured tremendous progress and record productivity growth since the Great Recession. In fact, the Postal Service, which requires no taxpayer appropriations, remains a vital component of this country's economic and communications infrastructure. In 2018, the Service delivered more than 146 billion pieces of mail and became an even bigger player in the booming e-commerce sector – now offering 7-day delivery. Trillions of dollars in sales, payments and merchandise move through the postal system every year. The Postal Service's $71 billion in revenue is the essential hub of the $1.4 trillion of GDP accounted for by the U.S. mailing industry, which now employs 7.5 million Americans, mostly in the private sector. The health of this huge industry depends on a healthy Postal Service.

USPS Finances Since 2006 ($billions)

Year	USPS Reported Net Income/(Loss)	PSRHB Pre-Funding Expense	Income/Loss without Prefunding Expense
2007	($5.10)	$8.40	$3.30
2008	($2.80)	$5.60	$2.80
2009	($3.80)	$1.40	($2.40)
2010	($8.50)	$5.50	($3.00)
2011	($5.10)	$0.00	($5.10)
2012	($15.90)	$11.10	($4.80)
2013	($5.00)	$5.60	$0.60
2014	($5.50)	$5.70	$0.20
2015	($5.10)	$5.70	$0.60
2016	($5.60)	$5.80	$0.20
2017	($2.80)	$4.30	$1.50
2018	($3.90)	$4.50	$0.70
TOTAL	($69.10)	$63.60	($5.40)

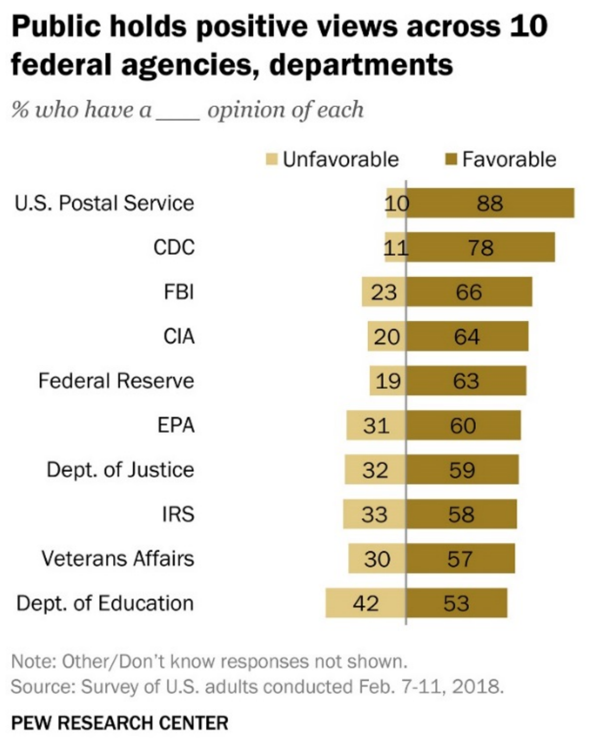
Workforce

The Postal Service currently employs 635,000 workers. NALC represents 213,000 of these employees who are active city letter carriers. Together with the three other postal unions – the American Postal Workers Union, the National Rural Letter Carriers Association and the National Postal Mail Handlers Union – we represent more than half a million Postal Service employees who are dedicated to providing affordable service to all Americans, no matter where they live.

While the Postal Service has undergone significant changes over time, the employees of the agency have been steadfast in our commitment to maintaining a strong, high-quality public service. We are also committed to preserving good, middle-class jobs for workers and veterans, who make up nearly 30 percent of our workforce. In both cases, we aim to serve a higher public purpose: To provide affordable universal service to all Americans and all U.S. businesses.

The postal employees we represent are the backbone of the Postal Service, the highest rated agency of the Federal government with an 88 percent favorability rating in a February 2018 poll by the Pew Research Center.

The key to its popularity is two-fold: First, the Postal Service offers the most reliable and affordable mail service in the world, as an analysis from Oxford Consulting concluded when it studied the postal services of OECD countries in 2012. (See http://foreignpolicy.com/2013/02/07/the-worlds-best-post-offices/.) Second, letter carriers do more than deliver the mail, they also look after the elderly and disabled, lend a hand when crime or disaster strikes, and watch over their communities each day. And postal workers do more than just serve local residents, they help businesses of all sizes across the country to develop and grow – no matter where they are located, from the most rural counties in America to the most heavily populated cities. Support for the Postal Service is truly bipartisan, so the debate over reforming the Postal Service can and should be truly non-partisan.



Legislative History

Following the Postal Office Department strike of 1970, the Nixon administration, working with the postal unions and Congress, sought to reorganize the taxpayer-supported Post Office into a self-sustaining enterprise. The resulting legislation, the Postal Reorganization Act of 1970 (PRA), established the United States Postal Service.

The law granted the agency financial and operational independence from the rest of the government and gave postal employees the right to collective bargaining over wages, hours and working conditions.

The policy changes made by the PRA were a tremendous success. Taxpayer subsidies, which accounted for nearly 25% of the Post Office's budget in 1970, were eliminated, saving taxpayers hundreds of billions of dollars since 1971. Meanwhile, the quality of service and employee living standards were greatly improved and mailers enjoyed affordable and stable postage rates for decades.

By 2006, however, the PRA required changes to help the Postal Service address technological change and to improve the costly system of rate-setting established by the 1970 law. Congress decided to implement a system of rate regulation that indexed postage rates for letter mail and other so-called Market Dominant products to general inflation (i.e., the Consumer Price Index or CPI). It also decided to subject the pricing of so-called Competitive Products to regulation by the Postal Regulatory Commission (PRC) – to prevent cross-subsidization from monopoly products and to ensure that all products and shippers cover the cost of service and contribute towards the Postal Service's network overhead costs. These provisions, which have been rigorously enforced by the PRC, were included in the PAEA.

In view of the decline in letter mail volume caused by technology and the Great Recession, a CPI-based price cap no longer seems sensible. Fortunately, this price cap is now the subject of a formal review by the PRC, which is empowered to develop an alternative system of rate regulation under the PAEA after 10 years.

The Postal Service and its unions proved remarkably capable of overcoming the challenges posed by the Great Recession. We've adapted well to the decline in letter mail volume and the huge increase in package volumes due to the boom in e-commerce. Unfortunately, we have not been able to overcome the other major legacy of the PAEA: The mandate to prefund future retiree health insurance expenses decades in advance at a cost of $5.5 billion per year. No other enterprise in the country, private or public, faces such a costly mandate.

There is often a cloud of confusion surrounding the prefunding mandate – even experienced journalists and policy makers sometimes think it involves postal pensions or "postal retirement." But the mandate applies to retiree health insurance benefits, not retiree pensions. All firms must prefund defined benefit pensions, including the Postal Service, which makes pension contributions to two civil service pension programs (CSRS and FERS). The postal accounts in CSRS and FERS are extremely well funded. Other than the Postal Service, no other enterprise is required (by law or accounting standards) to pre-fund retiree health benefits.

Prior to 2006, the Postal Service handled its retiree health expenses on a Pay-As-You-Go basis, meaning retiree health care premiums were paid as they were incurred – just as most companies did and do, and just as all other federal agencies (including Congress) did and still do. As Congress considered postal reform legislation in 2006, the Bush administration insisted on the insertion of language requiring the

Postal Service to begin prefunding such premiums – funding retiree health the way pensions are funded. The language set up a 10-year schedule of payments (starting at $5.4 billion in 2007 and rising to $5.8 billion in 2016) and required the Postal Service to make actuarially determined payments (normal cost and amortization payments) beginning in 2017 that, combined, still exceed $4 billion annually.

Under the PAEA, the prefunding payments are deposited in a trust fund called the Postal Service Retiree Health Benefit Fund (PSRHBF), which is used to pay the Postal Service's share of retiree health premiums – but only after 10 years, starting in fiscal year 2017. Unfortunately, Congress directed that the assets of the Retiree Health Fund were to be invested in low-yielding Treasury securities. As a result, the rate of return on the Fund's assets has fallen far short of the inflation rate for health care premiums. This misguided investment policy virtually ensures that the unfunded liability for future retiree health will grow over time, basically forever.

Initially, the Postal Service was able to make the payments, building a nest egg of more than $50 billion in the PSRHBF. But with the recession and the overly stringent price cap put into place by the PAEA, the USPS soon found that it could no longer afford to make the prefunding payments after it exhausted its credit limit of $15 billion. It has not made a prefunding payment since 2012, though the $42 billion in missed payments is carried as a liability on the Postal Service's balance sheet.

The prefunding policy adopted by the PAEA was clearly a mistake – Congress could not have foreseen the devastating impact of the Great Recession, but it saddled the Postal Service with an unaffordable mandate. As Sen. Ron Johnson, the chairman of our oversight committee in the Senate (HSGAC) has remarked, "… we passed the 2006 law that reclassified a long-term liability into a short-term liability which created a real pinch on the Postal Service that never should have occurred."

Compounding the Postal Service's financial woes during this period was a policy mistake by the PRC. In 2013, the Commission granted the Postal Service a 4.3% emergency rate increase in response the adverse financial effects of the Great Recession – under a provision in the law that allows for above-CPI increases in "exigent" circumstances. That made sense. What didn't make sense was that the PRC made the so-called exigent increase temporary, even though the 25% mail volume loss experienced during the recession was permanent. As a result, the 4.3% exigent rate increase was allowed to expire and postage rates were rolled back in April 2016, the first such roll-back since 1919. This decision continues to cost the Postal Service $2.1 billion in annual revenues – and has inflated its reported losses over the past three years.

As a result of these financial pressures, the Postal Service undertook a massive downsizing of its retail and distribution networks, slashing over 200,000 jobs, closing and consolidating hundreds of mail processing plants and facilities, restricting post office hours and rolling back service standards. Many of these actions have been selfdefeating. In fact, according to a September 2016 report from the USPS Office of Inspector General, the Postal Service realized only a fraction (10%) of the projected savings from its National Rationalization Initiative, which had the unfortunate effect of lowering the quality mail service in much of rural America. (See Report No. NO-AR-16-009, Mail Processing and Transportation Operational Changes.)

Recent Postal Reform Efforts

The need for postal reform legislation became clear soon after the PAEA was enacted when the Postal Service faced a perfect financial storm caused by the Great Recession – its costs for retiree health soared and its revenues plummeted with falling mail volume. Although the Postal Service and its unions responded by cutting costs and increasing productivity, the financial losses caused by the prefunding burden mounted. Compounding the financial stress was the legislated price cap on postage rates that restricted rate increases to the Consumer Price Index. Between 2009 and 2018, Congress looked at several different reform options to address the crisis.

The most obvious solution, a simple repeal of the retiree health prefunding mandate, was first discussed as early as 2009. It was rejected because, under CBO “scoring rules,” such a measure would increase the federal budget deficit. How could reform affecting an agency that does not receive a dime of taxpayer funds increase the federal deficit? It would have occurred because the Postal Service is an off-budget agency and payments into the Postal Service Retiree Health Benefits Fund (PSRHBF) are considered “offsetting receipts” – effectively tax revenues. So, eliminating the mandate at that time would have increased the deficit when it was already exploding because of the recession.

In 2011 and 2012, there was broad bipartisan support for solving the prefunding problem by adopting private sector pension valuation methods for the Postal Service's pension account under the Civil Service Retirement System (CSRS). That measure would have produced a pension surplus of $55 billion in 2011 – enough to fully cover the unfunded liability for retiree health benefits. (According to a 2018 report by the USPS OIG, it would generate a surplus of $80 billion if it were adopted today; see report number RARC-WP-18-009.) Although a bill mandating this change (H.R. 1351) attracted 230 bi-partisan co-sponsors, the leadership of the House OGR committee opposed it.

In 2015, the bipartisan leadership of this committee, led by many of the members who are here today – including Chairman Cummings, Rep. Meadows, Rep. Connolly, and Rep. Lynch as well as others – shifted the focus toward finding bipartisan solutions. In both the 114th and 115th Congress bills were drafted and even adopted by the Committee to address the financial crisis facing the Postal Service:

- The central aim of the legislation was to reduce the cost of prefunding by adopting private sector best practice in the Federal Employees Health Benefits Program (FEHBP) as applied to postal participants. The practice of private employer health plans is to require covered retirees to enroll in

Medicare Parts A and B at age 65 and to take advantage of the Medicare Part D program, which has provisions to lower the cost of prescription drugs for such plans. Applying the same practice to postal-only FEHBP plans would dramatically reduce the cost of FEHBP benefits (and therefore the cost of prefunding) while fully maximizing the use of the Medicare program funded by Postal Service and postal employee payroll taxes.

- The legislation also provided for a 2.15% surcharge on postage rates to help with scoring issues.

Unfortunately, the legislation failed to advance for several reasons. First, other committees with jurisdiction over the Medicare program (Ways & Means and Energy & Commerce) refused to consider the legislation due to concerns over the impact on the Medicare Trust Funds – even though the $10.6 billion cost over 10 years represented less than 0.2% of program spending. Second, the bill lacked exemptions from the Medicare enrollment requirement for retirees with financial hardships as well as those who would not be able to benefit from Medicare Part B program, such as combat veterans with full VA coverage. Third, there was opposition to measures in the bills that would limit new door delivery service and convert existing door delivery service to curb-line and centralized delivery. In fact, a bipartisan majority of 247 Representatives co-sponsored a House resolution to maintain the existing door delivery policy (H. Res 28).

Despite the laudable efforts of this Committee over the past eight years, Congress has failed to take action on urgently needed postal reform legislation.

Options for Reform in the 116th Congress

Although our commitment to working with both parties in Congress and with our allies in the business mailing community remains undiminished, it is time to consider new options in the search for common sense postal reform. The focus should be on relieving the burden of prefunding, allowing us to properly invest in our networks, improve service and work to find new ways to use our infrastructure to serve the common good.

As it was in 2009, a simple repeal of the retiree health prefunding mandate remains the most obvious solution to the Postal Service's financial crisis. The good news is that, in 2019, this measure would no longer result in a "CBO score." It would no longer increase the federal deficit because the CBO budget baseline now assumes that the Postal Service can no longer make its prefunding payments, which have not been made since 2012. A repeal measure, in combination with the more sensible rate-setting system expected to emerge later this year from the PRC's legally mandated 10-year review of the pricing of Market Dominant products, would go a long way toward stabilizing the Postal Service's finances.

Upon enactment of repeal legislation, which Reps. Peter DeFazio (D-OR) and Rep. Tom Reed (R-NY) plan to introduce later this week, we'd have 12-13 years of funds set aside for retiree health premiums ($47.5 billion) in the PSRHBF and, after that amount is used for its intended purpose, the USPS would return to the pay-as-you go approach to retiree health that other federal agencies and private businesses employ. The resulting near-term financial stability would create the conditions for the Postal Service and its stakeholders to evolve and adapt as we have for much of our history to meet the changing needs of America's businesses and households.

Alternatively, should the Committee want to preserve some level of prefunding, we urge you to adjust some of the elements of the legislation considered during the 115th Congress to overcome the obstacles that have blocked progress. The NALC has worked with a variety of stakeholders to outline such an approach. It draws upon private sector best practices for providing and funding retiree benefits to reduce future postal liabilities by tens of billions without burdening the taxpayers.

Our coalition of stakeholders strongly supports reducing retiree health pre-funding burden by:

- ***Setting the prefunding target at 60% of the vested liability for retiree health benefits*** of postal employees and retirees, mirroring the best practice of large private firms that choose to prefund such benefits. Private companies are only required to report the retiree health liabilities of employees who are eligible (vested) to receive retiree health benefits. Some companies prefund that liability. By contrast, the USPS is required to prefund the total projected liability of all its employees – even for hundreds of thousands of employees who would not qualify for benefits if the USPS ceased operations tomorrow.

Prefunding the “vested” liability is all that is necessary to protect taxpayer interests.

But funding 100% of this vested liability would be excessive, compared to private sector best practice. According to an annual survey of Fortune 1000 companies conducted by the business consulting firm Willis Towers Watson, the median level of funding among the 39% of firms that choose to prefund retiree health benefits stood at 59% in 2017. (See *Accounting for Pensions and Other Postretirement Benefits 2018: Reporting Under U.S. GAAP Among the Fortune 1000 Companies, August 2018.*)

Prefunding more than 60% of the vested liability is not necessary to protect taxpayers because the USPS has tens of billions in other assets to cover its liabilities if it were to cease operations. (For example, its real estate assets are worth $85 billion, according to the USPS OIG.) Setting the target at a higher percentage would also pose risks to ratepayers, whose interests should be balanced against those of taxpayers. Major reforms of FEHBP, Medicare or health care policy in general could result in massive overfunding in the PSRHBF, and any surplus would be difficult, if not impossible, to return to the Postal Service and its ratepayers.

Adopting this “60% of vested liability” funding target would lower the Postal Service’s prefunding burden by approximately ***$60 billion.***

- ***Reducing the Postal Service's liability for retiree health benefits by approximately $25 billion*** by creating postal-only health plans within the FEHB program that fully integrate with Medicare Part D (prescription drugs). This would provide postal FEHBP plans the same prescription drug benefits provided to private employer health plans by the Medicare Modernization Act (MMA), lowering premium costs for both the Postal Service and its employees and retirees.

- ***Reducing the liability for retiree health benefits further*** by mandating the enrollment at age 65 in Medicare Parts A and B (a private sector best practice) on a prospective basis for postal employees under the age of 55 for those who wish to maintain FEHBP coverage in retirement, with exceptions for those who cannot benefit from enrollment due to special circumstances. This modified approach would significantly reduce the impact of Medicare integration on Medicare Trust Funds compared to the bill passed by the Committee in the 115th Congress. And it would give Congress 10 years to pursue other Medicare reforms – which would apply to postal retirees.

The stakeholders also strongly support several other provisions in any new postal reform legislation. These provisions were included in Senate bill S. 2629 in the last Congress (2018). These measures would:

- Require improvements in service measurement and delivery, especially in rural areas, as provided in a Senate companion bill (S. 2629 §211).
- Ensure PRC consideration of relevant congressional action in its ongoing review of the rate-setting system (S. 2629 §207).
- Increase returns of the Postal Service Retiree Health Benefits Fund by investing in a well- diversified portfolio of stocks and bonds instead of low-yielding Treasury securities.
- Allow the Postal Service to deliver beer and wine.

Finally, our coalition of stakeholders respectfully, but strongly, request that the Committee not include in its legislation contentious provisions related to the following:

- Rescinding the authority of the independent, expert Postal Regulatory Commission to prescribe rules for measuring and distributing postal costs. This authority was recently upheld by the U.S. Circuit Court of Appeals and is pending a request for Supreme Court review.
- Language that seeks to move the Postal Service’s mode of delivery away from the door to curb or centralized delivery.

Conclusion

As should be clear from my testimony, NALC strongly supports working together for sensible, bi-partisan postal reform. On this issue, this Committee has stood in proud contrast in recent years to the hyper-partisanship that has crippled Congress and undermined the trust of the American people in our democracy. Members of this Committee and the unions, business mailers and vendors that make up the mailing industry, have managed to work together to reconcile competing interests and to make progress.

Sadly, the Trump Administration missed an opportunity to contribute to this progress with the release of its White House Task Force report on the Postal Service. Although we welcomed its embrace of prefunding only the vested liability for retiree health benefits and other measures to protect service to rural Americans, NALC strongly disagrees with the Task Force's major findings and staunchly opposes most of its recommendations.

There is simply no justification for stripping 500,000 hard-working Americans of their collective bargaining rights as the report recommends. Nor is it fair or sensible to force the Postal Service to raise its package delivery prices or to eliminate universal service for commercial products (packages, direct mail, catalogues, etc.) to the detriment of tens of millions of rural Americans and residents of poor neighborhoods in urban areas – which the Task Force also supports.

Our analysis of the Task Force report, which we will submit for the record of this hearing, demonstrates the faulty data, poor reasoning and unexamined negative consequences of the Task Force's work. NALC sincerely hopes that the administration will reconsider its approach. We would welcome the chance to engage with them on alternative approaches – including those outlined in my testimony.

We also look forward to working with all the new members of this Committee, especially those who are new to Congress. We need your energy, imagination and spirit to move our country ahead. We believe that strengthening the Postal Service with the reforms we propose will open the way to a bright future. If combined with a high-quality, fully functioning Board of Governors, postal reform will allow us to chart a future of innovation and progress. The Board could begin by fully taking advantage of its existing authorities to provide financial services to those unserved by the banking system and by looking to partner with other government agencies to better serve the American people.

Finally, Mr. Chairman, I'd like to urge this Committee to pursue postal reform this year with caution and humility. As we learned in 2006 with the PAEA, it is hard to predict the future. Long-term economic forecasts are notoriously inaccurate – and the cost of misconstruing the future can be high. Indeed, the internet did not destroy the Postal Service as predicted. And just imagine if we had given in to those advocating the end of Saturday delivery in 2011 and 2012 – we would have missed out on the e-commerce boom. Worse, we would have unnecessarily eliminated tens of thousands of good jobs. Because we delivered on Saturdays, we were well positioned to more than double our revenues from package delivery. Today we deliver packages seven days a week.

This uncertainty and unpredictability also counsels against putting the cart before the horse as we develop legislation. Many participants in this debate are calling on the Postal Service Board of Governors to generate a detailed 10-year business plan before we draft a bill. Respectfully, that does not make sense for two reasons.

First, at present we have but a rump board – with just two appointed Governors in place. Just as a baseball team would not start a game fielding just a second baseman and a right fielder, the Board of Governors should not take on strategic planning with seven vacancies. We need to fill those vacancies with talented executives with entrepreneurial business skills – in marketing, in technology, in product development – before we take on such an important task.

Second, even a fully functioning Board would have trouble planning for the future with the kind of legislative and regulatory uncertainty facing the Postal Service. We believe this Committee must resolve the biggest obstacle facing the Postal Service – the prefunding policy – and that the Postal Regulatory Commission must issue its new rules on postage rate-setting <u>before</u> the Postal Service's board and management devise a 10-year plan.

With the right kind of legislation, a reasonable rate-setting system, and new Board leadership committed to innovation and the public interest, NALC and the other postal unions stand ready to help build a Postal Service that can thrive in the 21st Century.

Thanks again for this invitation to testify. I look forward to working with all of you in the 116th Congress.