Before The

THE HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

TESTIMONY OF CLIFF GUFFEY, PRESIDENT
AMERICAN POSTAL WORKERS UNION, AFL-CIO

(April 5, 2011)

Mr. Chairman and members of the Committee; I am Cliff Guffey, President of the American Postal Workers Union, AFL-CIO – the APWU. On behalf of the APWU, thank you for providing me this opportunity to testify on behalf of our more than 250,000 members.

Before I address the substance of today's hearing, I want to take a moment to introduce myself to the Committee. I was born in rural Oklahoma. My father served as a Navy Pilot in Korea and retired as a career Navy pilot. I served as a rifleman with the Second Battalion of the 3rd Marines in Vietnam in 1968 and 1969. Service to this country is a proud tradition in my family. My father fought in Korea, and I fought in Vietnam, because we knew that it was important to preserve the American way of life, and American freedoms.

Like hundreds of thousands of other veterans, when I returned from war I was able to find employment with the newly-created United States Postal Service. In the Postal Reorganization Act of 1970, Congress had raised postal pay from near-poverty levels to provide a living wage and had given postal workers the right to have collective bargaining. Postal workers, and among them hundreds of thousands of veterans of

foreign wars, were able to join the middle class.

It is no coincidence that so many of us are veterans. The Postal Service has been an important source of middle class jobs for American Veterans. The 2010 Comprehensive Statement on Postal Operations reported that in 2010 there were 129,886 veterans in the postal career workforce. These veterans were 22 percent of the postal career workforce. 49,119 of these veterans are disabled veterans and 13,303 of them, including me, are rated as 30 percent or more disabled.

There is no doubt that the Veterans' Preference Act has provided important assistance to veterans. The point preferences given to veterans and disabled veterans, and the restrictions that reserve certain jobs for qualified veterans, if any have applied for them, are important and effective means of ensuring that veterans are provided employment opportunities in the Federal Government, including the Postal Service.

The Postal Service is also one of the leading employers of racial and ethnic minorities and of women. In 2010, women were approximately 40 percent of the workforce; and minorities were approximately 40 percent of the workforce.[1] As postal workers, we have been able to fulfill the American dream of holding a job that pays a living wage and that provides health insurance for our families and a dignified retirement when we can no longer work.

Postal workers are very proud of the fact that the Postal Service provides an essential service to the American people. We have faced many challenges over the past decade as a severe economic recession and the decline of First Class mail volume

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[1] BLS Household Data Annual Averages; 18. Employed persons by detailed industry, sex, race and Hispanic or Latino ethnicity. http://www.bls.gov.'cps/cpsaat18.pdf

due to electronic transmission have resulted in the loss of many postal jobs. From 2006 to 2010, the postal workforce was cut by more than 110,000. During that same period, thousands of workers represented by the APWU were reassigned to jobs hundreds of miles from their homes. They were forced to sell their homes, uproot their families, and move to communities far from the neighborhoods they called home. This resulted in severe hardships for these workers and their families. But, despite all this disruption and all this hardship, postal worker productivity has increased and on-time service to the American public has remained at excellent levels. We are very proud of these accomplishments.

Now I want to address the questions posed by the Chairman's letter inviting me to provide this testimony. First, the letter raises the question of "the sustainability and affordability of the postal workforce ... in a resource constrained environment."

This inquiry raises the further question: "constrained by what?" As I will explain in a few minutes, the Postal Service is very capable of dealing with the challenges it is facing because of declining mail volumes and a shift to electronic transmissions. What it cannot sustain is the burden of the unique and unreasonable requirement that it pre-fund its retiree health benefits over a ten-year period. No other federal agency is required to pre-fund retiree health benefits; and no known business in the private sector has ever attempted either to pre-fund such a high percentage of retiree health benefits or to achieve such pre-funding over such a short period of time.

Exhibit A to this testimony is a chart that shows the Postal Service's net income for fiscal years 2007 through 2010. As this chart shows, during this period that included

the most severe recession since the Great Depression, the Postal Service had an a net income excluding retiree health benefits pre-funding payments of more than six hundred million dollars ($600 million). During that four-year period, the statutorily-required payments to pre-fund retiree health benefits totaled nearly twenty-one billion dollars ($21 billion). In FY 2010, the payment for retiree health benefits consumed 8.2 percent of postal revenue. With the additional payment of $2.247 billion to fund retiree health benefits for current employees, this meant that the Postal Service was required to pay 11.5 percent of its revenue for retiree health benefits. These payments deprived the Service of capital needed to improve and maintain its distribution networks, and to develop and launch new products; and they resulted in twelve billion dollars ($12 billion) in debt.

I do not propose to address how the Postal Service and the postal workforce could be sustained in the face of the unique and unreasonable burden placed on it by the retiree health benefits pre-funding requirement. No business could or should be required to sustain this sort of burden. None do. There is a broad consensus in the postal community, among postal executives, major mailers, associations of smaller mailers, management associations, postmasters associations, and postal labor organizations, that relief from the pre-funding requirement is necessary for the long-term viability of the Postal Service.

Almost equally critical is the need to provide the Postal Service access to the substantial amounts it has overpaid into CSRA and FERS retirement accounts. The Postal Service's overpayments into the CSRA Trust Fund are variously estimated to

total $55 billion (PRC estimate)[2] to $75 billion (USPS OIG estimate).[3] Either amount, if released for use by the Postal Service would permit the Postal Service to meet its retiree health benefits funding obligations without burdensome and disruptive increases in rates.[4]

In addition, any consideration of the future of the Postal Service should address the unduly restrictive limitation of the Postal Service to the performance of "postal services." There are many non-postal services that could, and should, be performed by the Postal Service using its existing facilities. The processing of forms for veterans through an arrangement with the Veterans Administration, for example, would produce revenue to help defray the cost of postal facilities while providing a significant improvement in the availability of services to veterans. The law should be liberalized to permit the performance of such functions at postal facilities utilize the processing, transportation, delivery, or retail network of the Postal Service in a manner that is consistent with the public interest.

There remains a significant question that warrants discussion about how the Postal Service and its workforce must adjust to remain sustainable given that First Class mail has been declining due to the electronic transmission of messages. I will address that question; but first I want, in passing, to qualify everything I say about this question by pointing out that the economic environment is changing. Because our

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[2] Report to the Postal Regulatory Commission on Civil Service Retirement System Cost and Benefit Allocation Principles June 29, 2010

[3] OIG Report No. FT-MA-002 (September 30, 2010).

[4] Relief from FERS overfunding would provide approximately $5.5 billion of additional relief. See USPS OIG Report No. FT-MA-10-002 (Sept. 30, 2010).

economy, and in particular our banking and real estate industries, have not recovered from the effects of the recent recession, it is too soon to be sure how deep the reduction in First Class mail volume will be over the near term. Nor is it possible to predict with certainty how robust advertising mail volume will be as the economy continues its recovery. Having said this, we nevertheless recognize, as postal management has, that it is necessary to take steps to constrain costs.

Before I address the question of next steps, however, with all due respect, I need to correct some factual errors in the Chairman's letter of invitation. The letter makes reference to a failure to constrain unit labor costs in recent years. The Postal Service has had a remarkable record of achievement in constraining costs since it was created in 1970, and that achievement has continued to the present.

Exhibit B to this testimony is a line graph that shows the rate of Total Factor Productivity and Labor Productivity growth since 1971. As you will see from this graph, with the exception of 2008 when the Postal Service was dealing with an unexpectedly sharp drop in volume caused by the recession, the rate of productivity increase has been increasing in recent years as the Postal Service has aggressively cut costs by closing or consolidating facilities and by reducing its workforce. It is clear that Labor Productivity increases have been a significant contributor to Total Factor Productivity increases. As I mentioned, the Postal Service has cut its workforce by approximately one hundred ten thousand (110,000) workyears in the past five years. Those cuts, most of which have been in APWU bargaining units, are reflected in the fact that the Postal Service has succeeded in constraining costs in recent years.

The Chairman's letter also states that "workforce compensation expenses continue to comprise 80 percent of all USPS costs." That point conceals more than it reveals about postal finances, for several reasons. First, it should be understood that the Postal Service is necessarily a labor-intensive industry because it is a service industry. Some postal commentators have sought to compare the Postal Service to Federal Express and UPS with regard to the percentage of costs that come from workforce-related costs. In case anyone has that comparison in mind, I want to point out that it is not a valid comparison for at least two reasons. One is that those postal competitors own their own fleets of airplanes, which makes them more capital-intensive than the Postal Service.

In addition, FedEx and UPS do not deliver to every address every day as the Postal Service does. While they do some sortation of packages and expedited messages, they do not have to provide sortation of the many billions of First Class and standard mail letters the Postal Service sorts.

A unique and extremely valuable feature of the Postal Service is that it provides universal service to the American public. Every year, the Postal Service must absorb the cost of adding as many as two million new delivery points. In contrast, FedEx and UPS deliver only to a small fraction of those points and then only to those for which they are paid a sizeable premium over the cost of First Class mail. They cater to the most profitable segment of the industry. In many instances every day, FedEx and UPS use Postal Service delivery services to make deliveries to points it is not economical for FedEx and UPS to reach. Thus, the cost structure of the Postal Service is not

comparable to the cost structures of FedEx and UPS.

In recent years, the Postal Service has, through automation and facility consolidation, significantly constrained the portion of its workforce costs, largely mail processing costs, that are amenable to reduction. As Exhibit C to this testimony shows, APWU bargaining units (clerks, maintenance and motor vehicle workers) accounted for 39.8 percent of Postal Service compensation in 2000. Ten years later, by last year, APWU bargaining units comprised 31.8 percent of Postal Service compensation costs, an eight percentage point reduction.

The reduction of costs attributable to the APWU bargaining units is also shown in Exhibit D to this testimony. As you will see, the total annual postal compensation costs have been reduced by more than four billion dollars ($4 billion) from 2006 through 2010. Approximately three and one-half billion dollars ($3.5 billion) of that reduction has come from APWU bargaining units. As you will see from Exhibit E to this testimony, workhours dedicated to mail processing operations, where many APWU-represented clerks are employed, were reduced by more than 33 percent from 2005 to 2010. Significant reductions also occurred in customer service workhours as retail facilities were closed or consolidated and services to the public were cut back. Delivery workhours were much less amenable to reduction, as Exhibit E shows, because of the mission of the Postal Service to provide universal postal services to the American people.

These data show that the Postal Service has been very successful in constraining growth in unit labor costs in recent years.

It also bears emphasis that real postal wages have closely tracked wages in the rest of the economy and the Consumer Price Index (CPI) for the entire history of the Postal Service. Exhibit F shows that the average straight-time wage for the APWU bargaining unit has increased less than wages and salaries of private sector workers as measured by the Employment Cost Index (ECI) since that measure of employment costs was first published in 1975. Exhibit G to this testimony graphs increases in nominal and real wages of postal workers from the effective date of the last legislated wage increase in 1970 through 2010. As you will see, real wages have increased slightly over that period of time. However, as Exhibit B shows, Postal Service Total Factor Productivity and Labor Productivity have grown far more over the same period of time. Thus, postal workers have shared the benefit of increased postal productivity in the form of slight increases in real wages since 1970. And the American public also has benefitted from the fact that postal wages have been constrained as postal productivity has increased. As Exhibit H shows, postage rates today are, in real terms, no higher than they were in 1972.

These data belie any contention that there is a postal wage premium. That sort of argument is the stuff of collective bargaining rhetoric management can be expected to use, but it does not reflect reality. The reality is that in a labor-intensive service industry both wages and postage rates have closely tracked cost-of-living increases in the economy generally for the entire 40-year history of the Postal Service.

This is not to say that the APWU and the Postal Service did not have some work to do in collective bargaining as we addressed the reality of slumping First Class mail

volume. Through the collective bargaining process, postal workers were able to have a voice in decisions that will have an important effect on their lives and livelihood. We also wanted to find ways to maintain postal facilities and postal services in areas, such as rural areas, that rely on postal services and that are in danger of losing service. As President of the American Postal Workers Union, I approached the negotiations with one primary question in mind: what is the right thing to do? What will be right for the Postal Service and for the American people it serves - and also right for the employees who depend on the Postal Service for their livelihood?

A congressional hearing provides neither the time nor the place for a detailed analysis of a complex collective bargaining agreement like the agreement between the Postal Service and the APWU. We negotiated for five months beyond the expiration date of the previous agreement. It is many-faceted agreement. It also must be ratified by the APWU membership, voting in a referendum, before it can take effect.

The agreement helps the Postal Service meet its immediate need to constrain costs by freezing wages for the first two years of the agreement. This means that most postal workers will not receive any wage increase for a period of three years, from November 2009 until November 2012. It also follows the pattern set in earlier postal collective bargaining agreements of reducing the percentage contribution of the Employer toward health insurance by one percentage point for each year of the contract. The agreement also will give the Postal Service the right to employ a substantially larger percentage of temporary workers who will be paid relatively low wages.

These and other features of the tentative agreement will give the Postal Service a more flexible and lower-cost workforce that will make it possible for it to address the problem of declining First Class mail volume. But legislation is needed to provide the Postal Service relief from the unique and unreasonable burden of having to fully pre-fund retiree health benefits over a compressed period of time. We urge Congress to address that urgent need in the interest of preserving universal postal service.

In closing, I want to thank the committee for providing the APWU this opportunity to testify. We hope that our testimony will place the Committee's inquiry in a useful perspective.

I am available to respond to any questions the Committee may have.

EXHIBIT A
TESTIMONY OF CLIFF GUFFEY
ON BEHALF OF AMERICAN POSTAL WORKERS UNION, AFL-CIO

	2007	2008	2009	2010	Cumulative
Revenue	74.973	74.968	68.116	67.077	285.134
Net Income	(5.142)	(2.806)	(3.794)	(8.505)	(20.247)
Payments to Retiree Health Fund	8.358	5.600	1.400	5.500	20.858
Percent of Revenue	11.15%	7.47%	2.06%	8.20%	7.32%
Net Income excluding Retiree Health Fund Payments	3.216	2.794	(2.394)	(3.005)	0.611

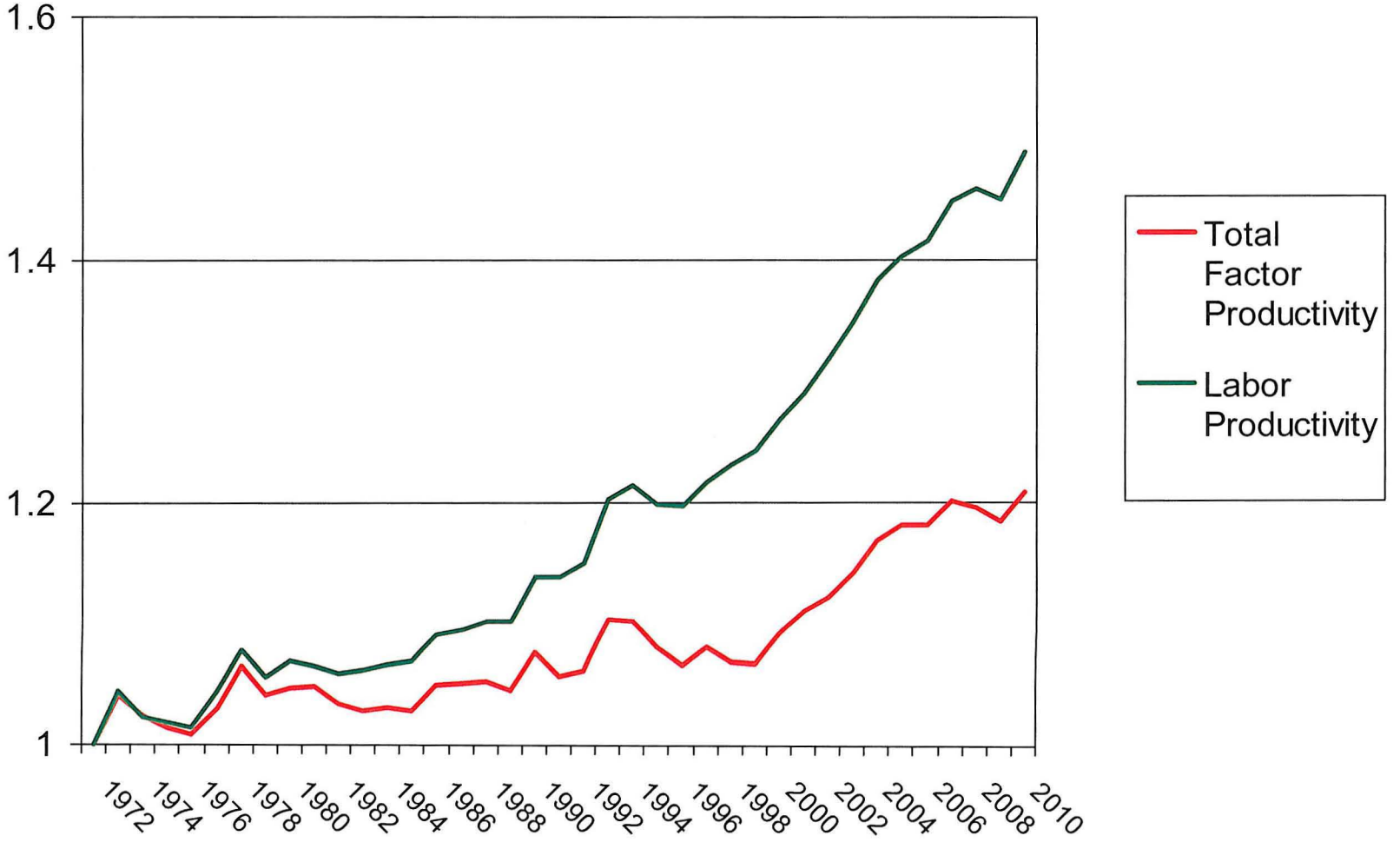
Source: USPS 2010 10-K Report

Future PSRHBF Commitments as reported in the 2010 10-K (does not include President's budget proposal):

2011 5.5 billion
2012 5.6 billion
2013 5.6 billion
2014 5.7 billion
2015 5.7 billion

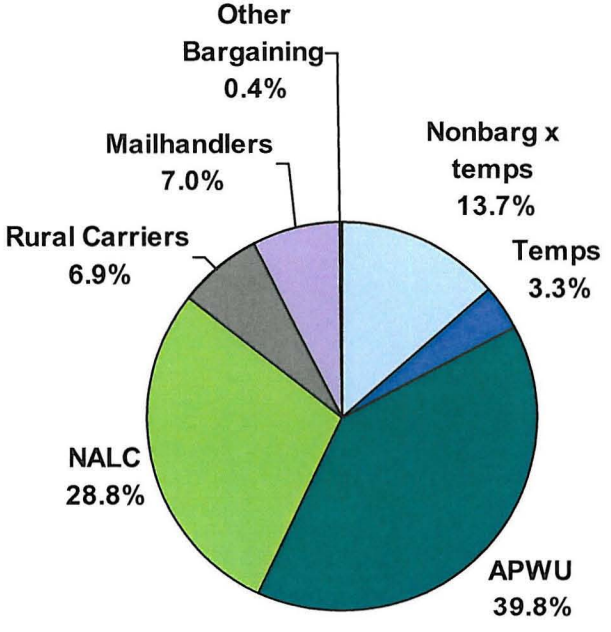
After 2015 5.8 billion

Exhibit B: Postal Service Productivity Growth—Total Factor and Labor Productivity
1972-2010 (1972=1.0)

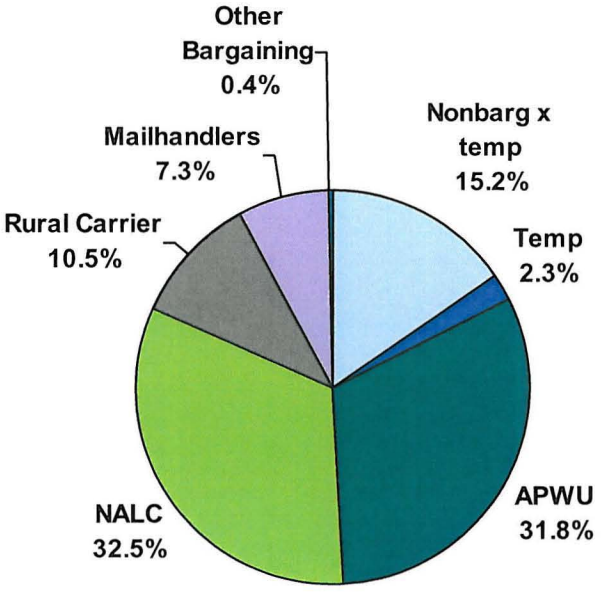


Source: USPS-Total Factor Productivity Tables

Exhibit C: Share of Total Compensation Attributable to Each Employee Group



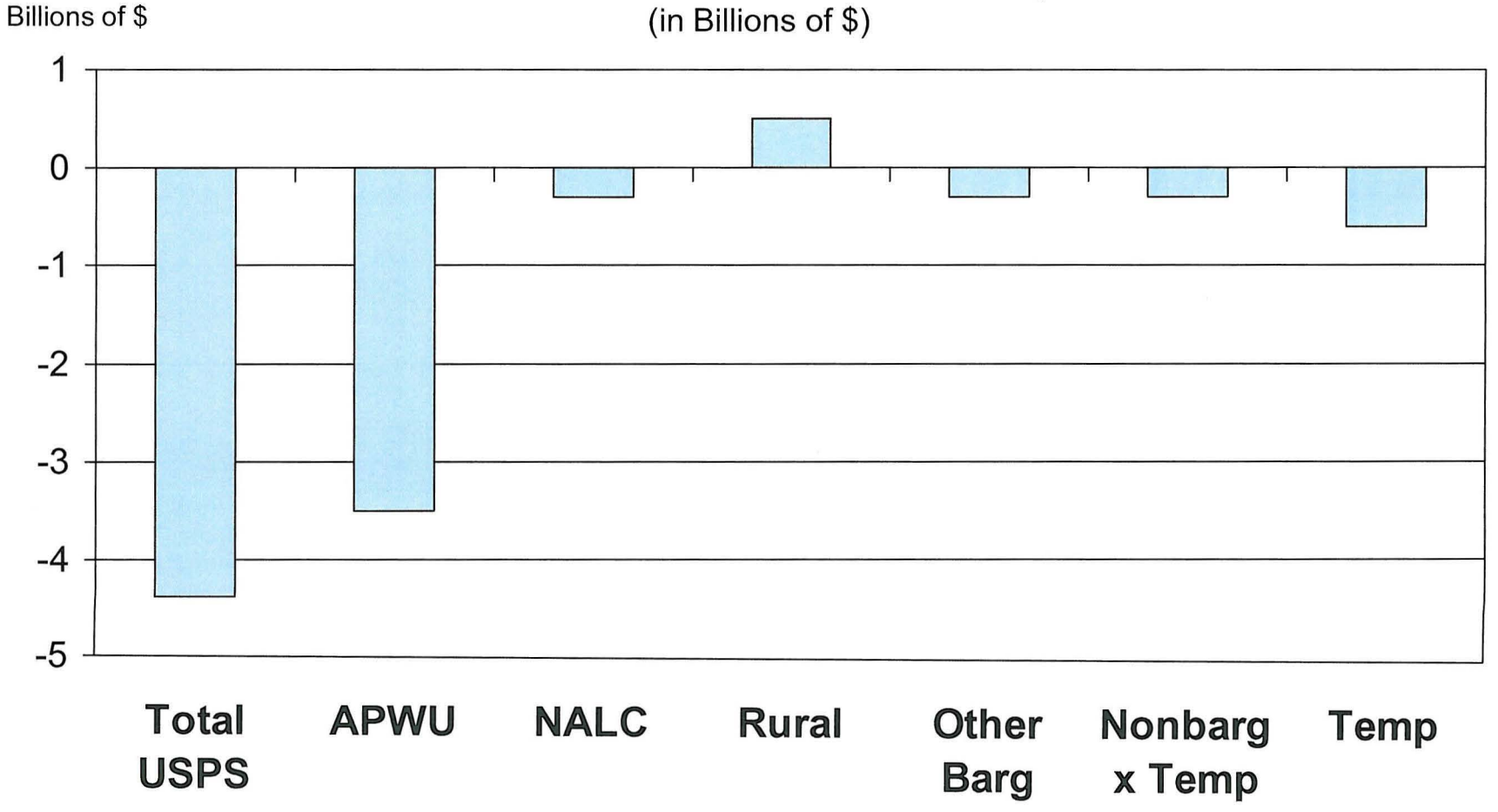
2000



2010

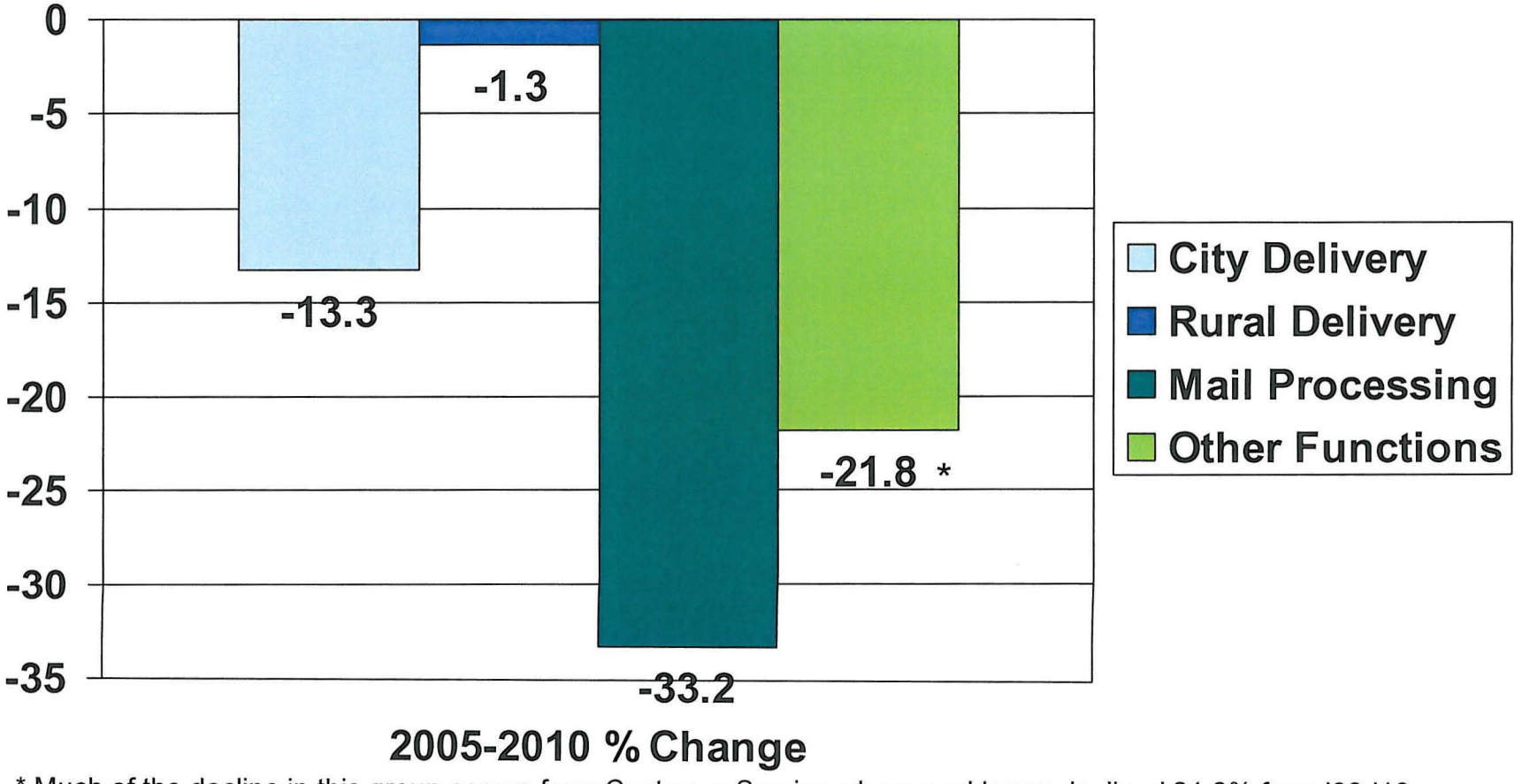
Source: USPS-National Payroll Hours Summary

Exhibit D: Change in Compensation Bill from 2006 to 2010 for USPS and by Major Employee Category
APWU is 78.5 Percent of the Total Improvement



USPS-National Payroll Hours Summary

Exhibit E: Percent Decline in Workhours 2005-2010 by Function

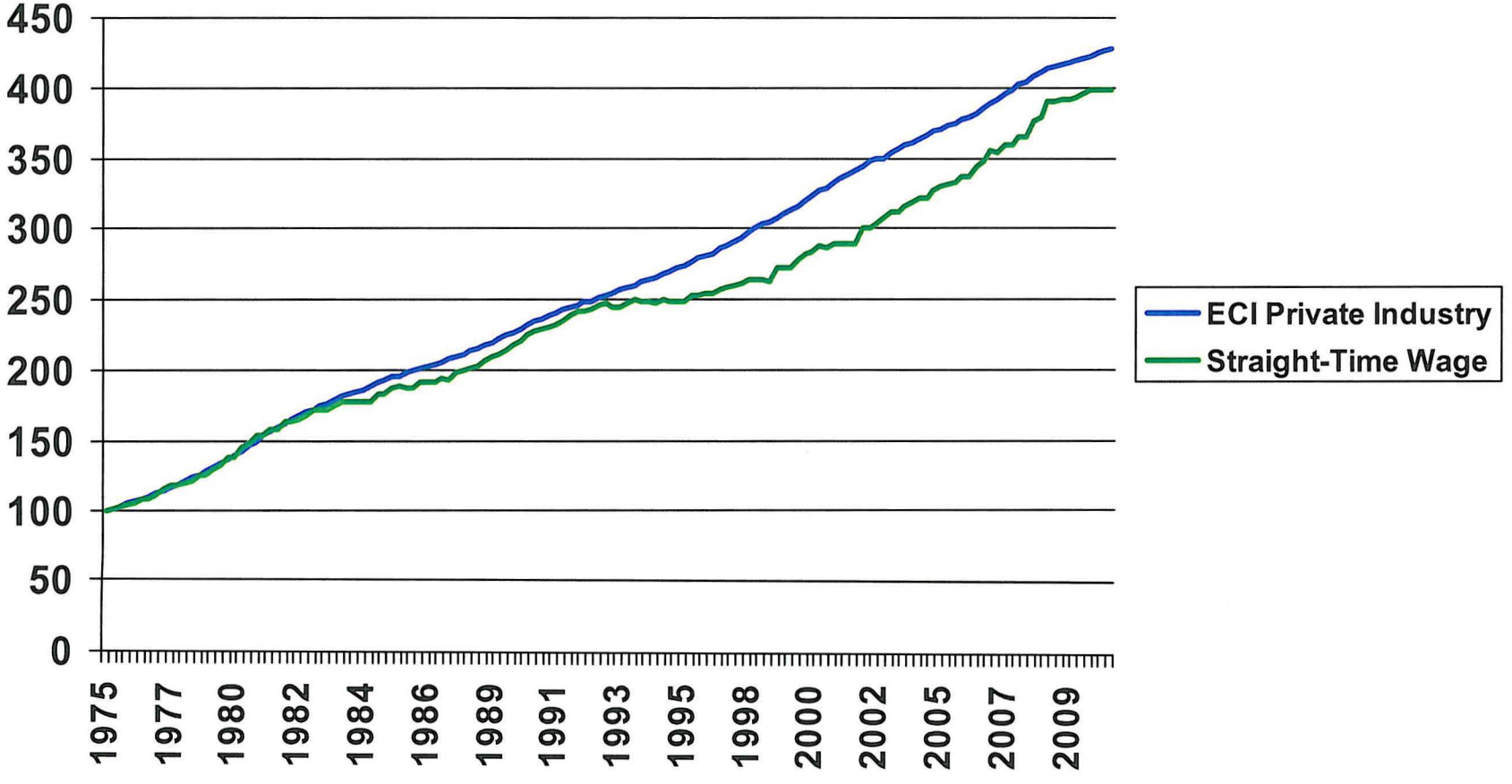


* Much of the decline in this group comes from Customer Service where workhours declined 21.2% from '08-'10

Source: Annual Reports of the Postal Service

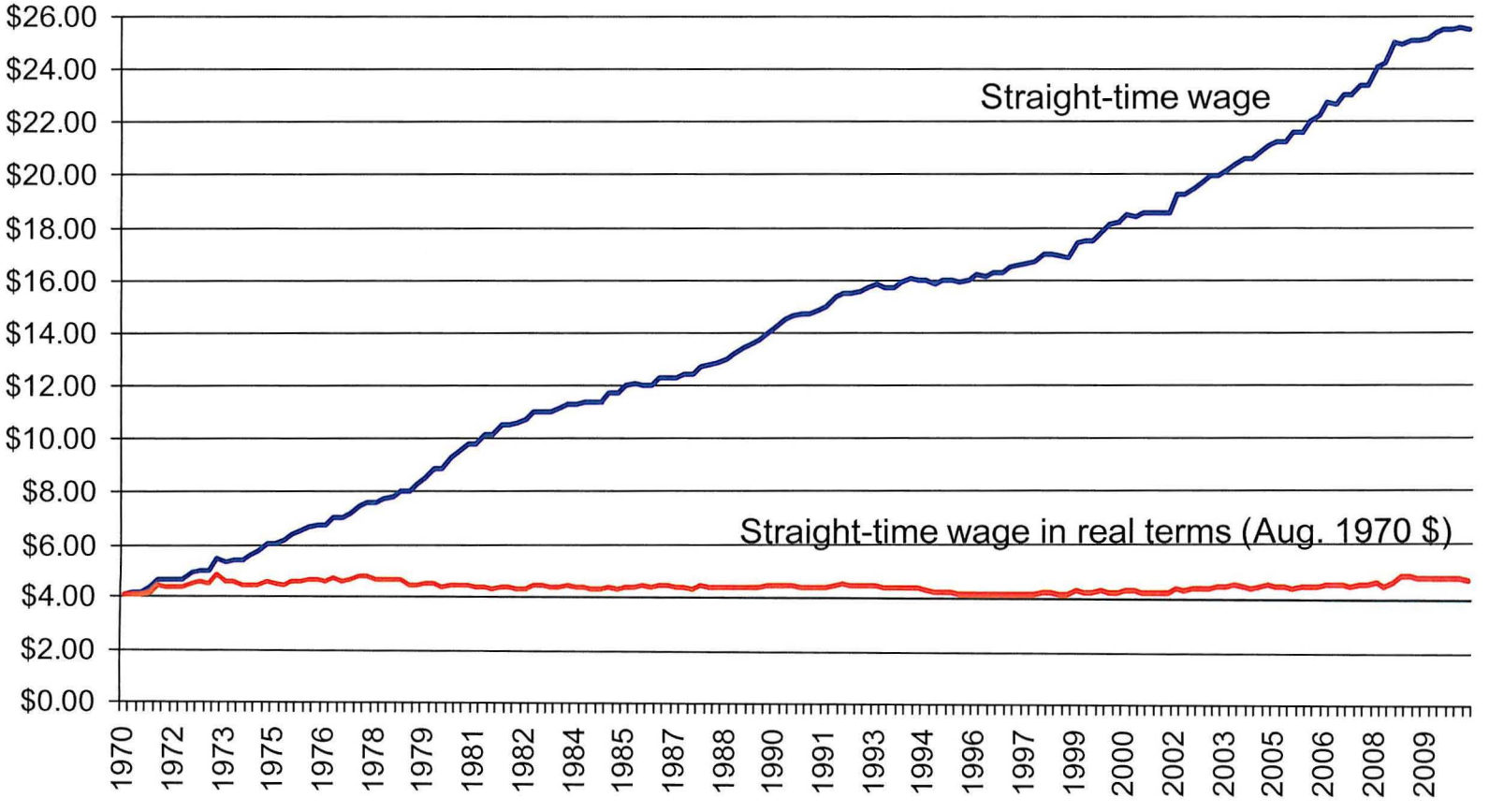
Exhibit F: Increase in the Wages and Salaries of Private Industry Workers Compared to the Increase in the Average Straight-Time Wage for the APWU Bargaining Unit

(Sept 1975=100)



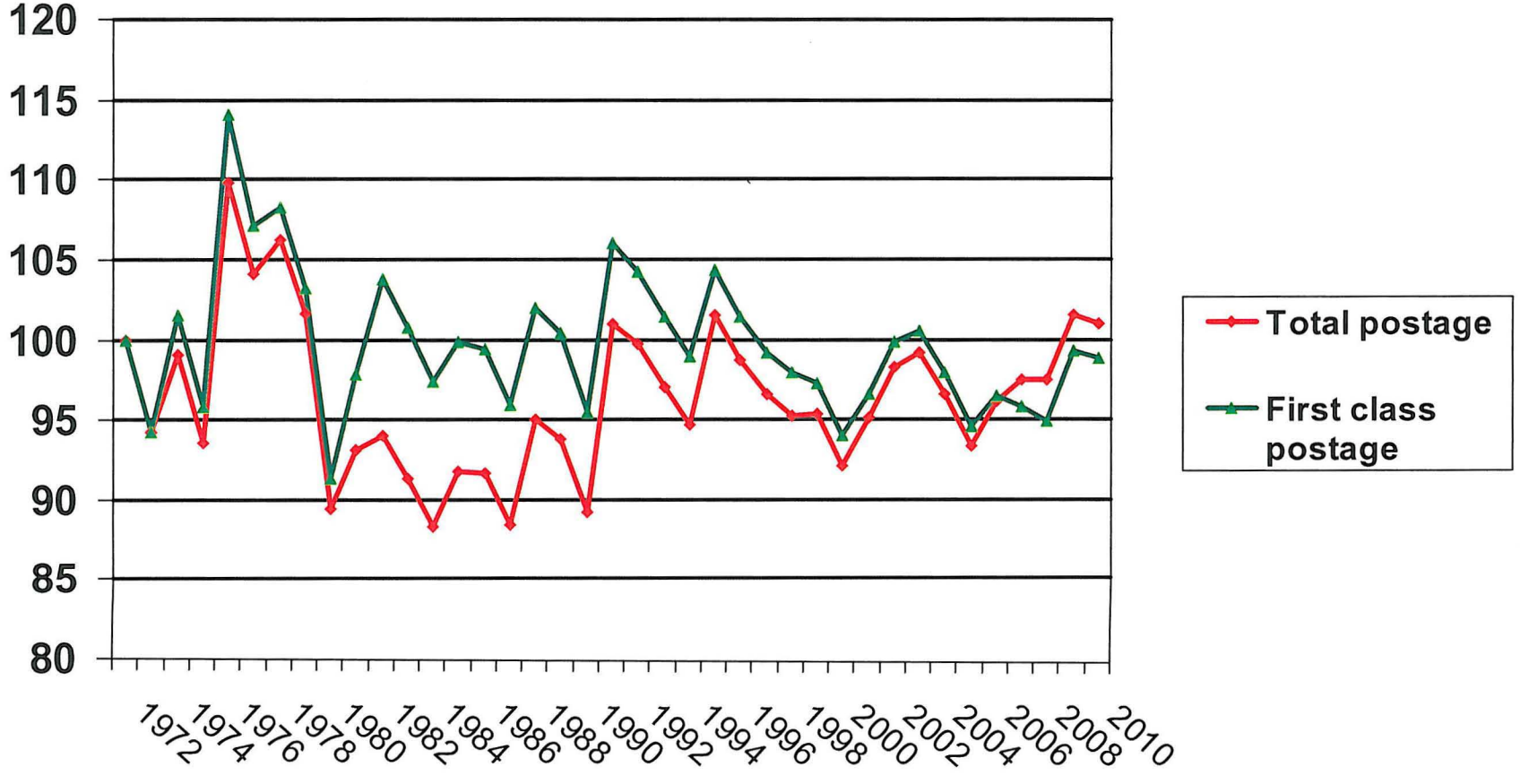
Source: Bureau of Labor Statistics, DOL and USPS-National Payroll Hours Summary

Exhibit G: Straight-time Hourly Wage of the APWU Bargaining Unit in Current Dollars and After Adjustment for Inflation



Source: Straight-time wage is calculated from USPS National Payroll Summary Hours
Converted to real terms using the CPI-W from the Bureau of Labor Statistics

Exhibit H: In Real Terms (Adjusted for Inflation) Postage Costs are at 1972 Levels (1972=100)



Source: Bureau of Labor Statistics-Producer Price Indexes for USPS and CPI-W

Cliff Guffey
President
American Postal Workers Union

Cliff Guffey is President of the American Postal Workers Union, which represents 220,000 employees in the clerk, maintenance and motor vehicle crafts.

Prior to assuming the APWU's highest elected office in November 2010, Guffey served as Executive Vice President for nine years. He was Director of the union's Clerk Division from 1999 to 2001, and Assistant Director of the Clerk Division from 1986 to 1999. Throughout his career, Guffey has relentlessly fought for job security for postal workers, whose jobs are threatened by a changing work environment and subcontracting.

Guffey began his postal career in 1971 as a Letter Carrier in Oklahoma City, and transferred to the Clerk Craft in 1972, where he worked as a Letter Sorting Machine operator. He also served a brief tenure at a neighborhood post office.

In his first foray into elective office in 1979, Guffey won the presidency of the Oklahoma City Area Local APWU. He served two terms before running for national office.

Prior to his work at the Postal Service, he served in the United States Marine Corps from 1968 to 1970 as a rifleman in the 2nd Battalion, 3rd Marine Division in Viet Nam.

Guffey was born in Shawnee, OK. His father was a career pilot in the United States Navy and was stationed around the world. The family moved frequently, living in Hawaii, California, Alabama, and Naples, Italy, among other locations.

Guffey and his wife, Donna, have two daughters and four grandsons.

Committee on Oversight and Government Reform
Witness Disclosure Requirement – "Truth in Testimony"
Required by House Rule XI, Clause 2(g)(5)

Name:

1. Please list any federal grants or contracts (including subgrants or subcontracts) you have received since October 1, 2008. Include the source and amount of each grant or contract.

None.

2. Please list any entity you are testifying on behalf of and briefly describe your relationship with these entities.

I am President of the American Postal Workers Union, AFL-CIO.

3. Please list any federal grants or contracts (including subgrants or subcontracts) received since October 1, 2008, by the entity(ies) you listed above. Include the source and amount of each grant or contract.

None.

I certify that the above information is true and correct.
Signature: C J Hegg

Date: March 31, 2011