American Postal Workers Union, AFL-CIO

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May 3, 2011

Darrell Issa, Chairman
Committee on Oversight and Reform
House of Representatives
2157 Rayburn House Office Building
Washington, DC 20515-6143

RE: American Postal Workers Union's Answers to Questions for Mr. Guffey from Chairman Issa - Committee on Oversight and Reform

Dear Chairman Issa:

This letter is to transmit answers to the questions posed by your April 11, 2011 letter following up the April 5, 2011 Hearing on "Are Postal Workforce Costs Sustainable."

We appreciate the opportunity to supplement the record with these answers.

Sincerely,

C J Guffey

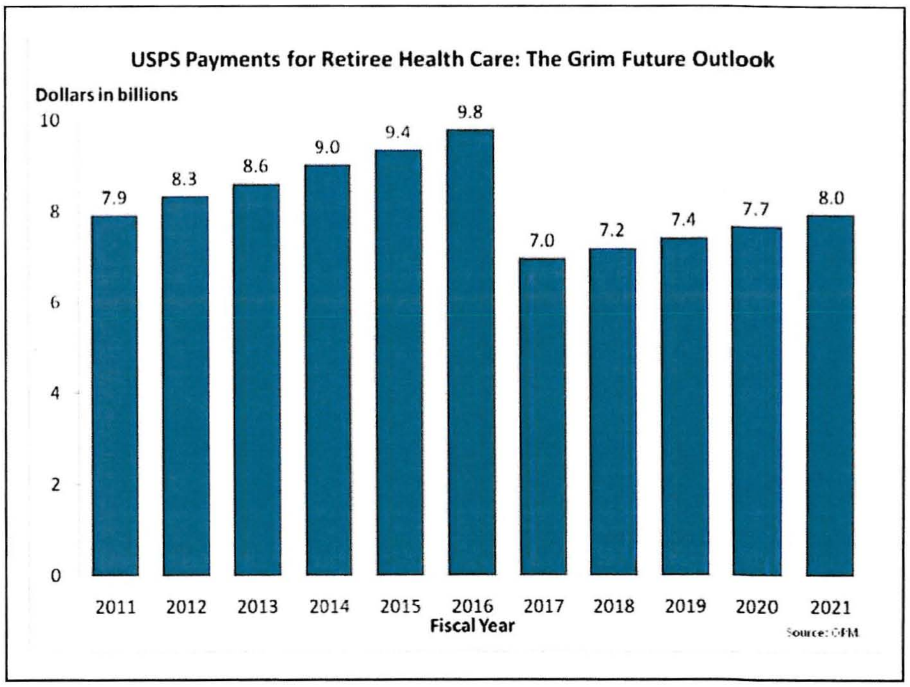
Cliff Guffey, President

Answers to
Questions for Mr. Guffey
President
American Postal Workers Union (APWU)

from

Chairman Issa
Committee on Oversight and Government Reform

Hearing on "Are Postal Workforce Costs Sustainable?"



1. The chart above shows the current law projections for USPS retiree health care costs through 2020, as provided this March to the Oversight Committee by the Office of Management and Budget (using updated Office of Personnel Management data). In your testimony you argue USPS must have relief from pre-funding payments that are set to occur through 2016. However, as you can see, after these pre-funding payments end, the growing costs to fund future benefits for current employees (called "normal costs") drives the costs almost all the way back to the prefunding levels.

    a. Assuming there is no turnover of the $75 billion in Civil Service Retirement System (CSRS) money that USPS has requested, how do you expect USPS to meet its obligations for retiree health benefits?

We expect the Postal Service to continue as a vital public service agency funded solely by postal customers for the foreseeable future. As discussed in more detail below in answers to other questions, the Postal Service will be able to meet its obligations to fund retiree health benefits in fiscal years 2017 and beyond. However, the USPS needs immediate and short-term relief from the unique and unreasonable requirement that it pre-fund retiree health benefits. In addition, the Postal Service must have access to the excess funds it has paid into CSRS and FERS even if the retiree health benefits pre-funding requirement is repealed. Those funds are important to the ability of the Postal Service to modernize and rationalize its mail processing and retail operations and to develop new products that will increase revenues and spread costs among more product lines. It would be unfair to postal ratepayers if the overfunding is not corrected and ratepayers continue to subsidize the federal government while suffering a degradation of postal networks and service because the Service is starved of needed capital.

b. Given the dismal financial projections for USPS, do you think it will be able to pay $7 billion in 2017 when it claims it cannot afford a $7.9 billion payment in 2011?

We do not agree that the financial projections for the Postal Service are "dismal." The Postal Service has shown itself to be remarkably resilient during the recent very deep recession. Absent retiree health prefunding payments, it actually showed a profit from its operations from 2007 through 2010. The artificial imposition of the unreasonable requirement to pre-fund retiree health benefits is responsible for the Postal Service's massive deficits in recent years.

Despite the challenge posed by the ongoing decline in First Class mail volume, postal revenues are projected to stabilize as the economy continues its recovery from the recession. Given the most likely scenario for postal volume, revenue and costs over the next six years, we believe the Postal Service will be able to meet its funding obligations for retiree health benefits in 2017 and beyond.

We observe that the OPM projections in the graph are overstated. The bars from 2017 and beyond sum amortized payments of the unfunded liability presumed to remain at the end of 2016 and the "normal cost" assigned for the current workforce. As to the amortized costs, OPM assumes a 40 year stream of $2.785 billion dollars to cover the liability. This is certainly too large. As to trending the "normal cost" OPM used a "stationary workforce" and did not credit the Postal Service plans to reduce its work force to 400,000 career employees. The 2017 payment will be substantially less than $7 billion. And each of the subsequent payments will also be substantially smaller.

Regardless of the actual payment, the Postal Service's best opportunity to meet the future payments and its other obligations is to cease the current requirements to continue to overpay FERS, to return FERS and CSRS overpayments, and to rationalize prefunding of retiree health benefits. With such needed capital, the Postal Service can invest in more efficient networks and processes and innovative product development – and continue to be the vital and essential service the citizenry and its customers need and expect.

c. Would you support a taxpayer subsidy to USPS to fund retiree health care for postal workers?

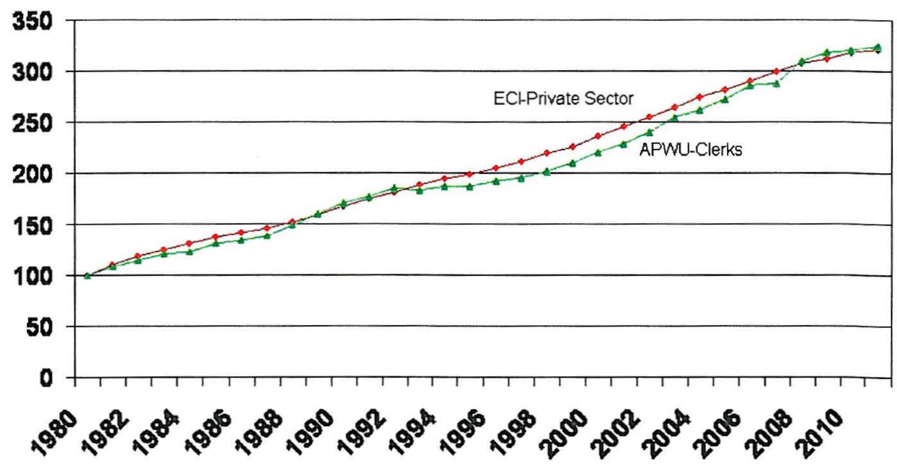
The question of a taxpayer "subsidy" for the Postal Service is completely hypothetical at this time. The Postal Service has overfunded its CSRS and FERS retirement funds. Presumably, before Congress would give any serious consideration to a postal subsidy, it would restore the Postal Service's own funds to postal use. Although this might, depending on how it is done, "score" as an expenditure by the federal government, it would in no sense constitute a subsidy of the Postal Service. As matters stand, postal ratepayers are subsidizing the federal government. Whether a federal payment to permit the continuation of universal postal services might be necessary in the distant future or desirable as a matter of public policy, is so speculative as not to permit reasonable discussion at this time.

If the question is intended as a philosophical inquiry, we generally would prefer legislative changes that would permit the Postal Service to raise rates to market levels and that would permit the Postal Service to use its very valuable infrastructure to provide additional services that would generate revenue for services provided. Such changes would be preferable to the current law, which artificially limits rates to the Consumer Price Index (CPI).

2. Please provide a chart similar to Exhibit G in your testimony for the salary and benefits cost per total work hour for APWU employees from 1970-2009. If possible, include the accrual cost of retiree health care benefits for APWU members in these figures and indicate their inclusion.

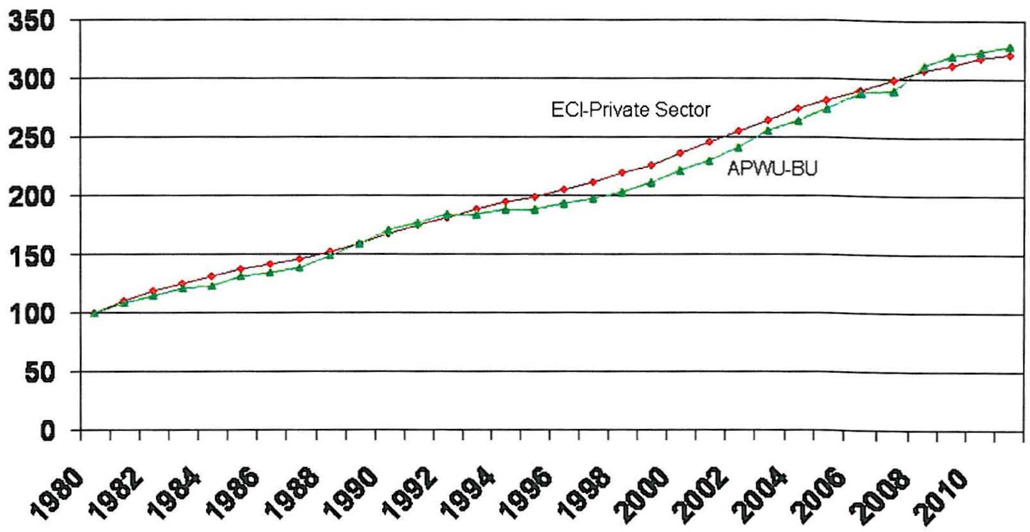
We provide two charts below. Please note that while ECI for wages goes back to 1970, ECI for compensation only goes back to December 1979, so these charts begin with 1980. For several reasons, the charts do not include the accrual cost of retiree health care benefits: (1) As we explain in answer 1.b OPM calculations of accrual costs of health care benefits are incorrect. (2) We do not have sufficient information with which to make the calculations correctly. (3) OPM has not provided any APWU-specific numbers or share of the total costs OPM calculates. (4) The comparator line, ECI-Private Sector, does not include any accrual costs.

Comparison of ECI for Private Sector Workers' Compensation to Compensation per Work Hour for APWU Clerks



Source: APWU-National Payroll Summary Hours (Sept of each year) and March 2011
Private sector ECI for compensation is from the Bureau of Labor Statistics for Sept of each year and March 2011
ECI for private sector compensation was not calculated prior to December 1979.

Comparison of ECI for Private Sector Workers' Compensation to Compensation per Work Hour for all APWU Bargaining Unit



Source: APWU-National Payroll Summary Hours (Sept of each year) and March 2011
Private sector ECI for compensation is from the Bureau of Labor Statistics for Sept of each year and March 2011
ECI for private sector compensation was not calculated prior to December 1979.

As between these two graphs, the graph of Compensation per Work Hour for APWU Clerks gives a better picture of compensation trends, because the effect of the change in mix of employees is less. As work hours are reduced, more productive, higher paid hours are retained; and that effect explains much of the change in the all APWU bargaining unit line. The ECI holds employment mix constant, while the APWU lines do not hold employment mix constant.

3. How many career employees do you believe USPS currently needs?

We observe that the Postal Service has consolidated its facilities and reduced its workforce at a rapid rate while productivity has been increasing. Between 1999 and 2010 the postal workforce has been reduced by 458.5 million workhours. This is the equivalent of removing 259,500 full-time employees from the employment rolls.

We also observe that the Postal Service is presently paying overtime to some employees. The Postal service reduced overall work hours by 77.3 million hours, or $1.51 billion in 2010; but still increased the use of overtime by 17.2 percent compared with 2009. The OIG found that the Service paid an additional $419.5 million in overtime due to lower staffing levels.[1]

Understandably the Service is not replacing employees it will not need in a year; but at this moment it needs most of the people it now has. This would suggest that the Postal Service is not presently overstaffed. Attrition is a little ahead of the consolidations, automation and productivity programs that will eventually lead to a career workforce of about 400,000 in 2020. The Service can't reduce the workforce much quicker without significantly harming service performance. It is our understanding that the Postal Service intends to continue to reduce its workforce. It should be noted that if the Postal Service were not cash-starved, it could more quickly deploy changes in technology and networks designed to reduce work hours, while also doing more to develop products and improve service.

4. How many Area and District offices do you believe are necessary for the efficient operation of USPS?

We do not have sufficient information to suggest how many Area and District Offices the Postal Service needs for efficient operations. Area and District Offices currently play critical roles in operations, customer service, and even labor relations. Any changes would also result in changes in the ways customers and employees deal with the Postal Service. Such changes should be carefully planned and executed. We respectfully suggest that the Committee direct this inquiry to postal management.

[1] Source: OIG Audit Report, Overtime Usage, HR-AR-11-003 (March 31, 2011).

5. How much excess mail processing capacity do you believe USPS has?

This is a difficult question to answer with specificity because so many factors must be considered to determine optimum capacity. For example, the Postal Service may have sufficient capacity in plant A to process the mail from plant B, but could not process the mail in plant A and transport it quickly enough between the plants to meet current delivery standards. In such a case, it would be hard to characterize the capacity at Plant B as unnecessary. The Postal Service has published its own strategic plans that include information about its current and future mail processing capacity needs. In a time of rapid change in mail processing operations, it is not very meaningful to pick a static number as an "excess" amount of capacity. Evaluation of mail processing capacity and potential efficiencies is an ongoing process.

We also observe that the Postal Regulatory Commission and the Inspector General of the Postal Service have found that 30 workshare discounts exceed the amount that can be justified by the Efficient Component Pricing required by the Postal Accountability and Enhancement Act. [2] The Inspector General asserts that 19 of these excess discounts cannot be justified by any statutory exception to the legal requirement that workshare discounts not exceed costs avoided. Correcting these inefficient discounts would strengthen the Postal Service's financial outlook and return some mail processing activity to the Postal Service from the less efficient consolidators presently performing that work.

[2] OIG Audit Report, Workshare Discounts Exceeding Avoided Costs, December 23, 2010 (No. MS-AR-11-001)

6. Do you believe that a Pay-for-Performance system would be beneficial for APWU members and USPS as a whole?

We oppose "pay for performance" compensation for hourly-rate workers. Variations in productivity or financial performance from Area to Area, District to District, or facility to facility occur due to factors that are beyond the control of individual employees.

The compensation system for postal workers provides a fair day's pay for a fair day's work. Postal employees are proud of providing an important public service and of providing it very efficiently. Despite sharp reductions in staffing over the past few years, and numerous facility closures and consolidations that have disrupted operations – and employees' lives – postal services continue to be delivered on time and with great accuracy. As the chart below shows, first ounce postal rates in the United States compare favorably to other industrialized countries. The Postal Service continues to provide the best service in the world at the lowest rates.

Comparative First Class Letter Mail Rates for Different Countries

Country		Cost in US$
United States	Up to 1 oz. (28.3 grams)	$0.44
Canada	Up to 30 grams (1.08 ozs.)	$0.61
Australia	Up to 250 grams (9 ozs.)	$0.62
Japan Post	Up to 25 grams (0.9 ozs.)	$0.71
German Post	Up to 20 grams (0.7 ozs.)	$0.78
France	Up to 250 grams (9 ozs.)	$1.07
Royal Mail (UK)	Up to 100 grams (3.5 ozs.)	$0.74
Source: Various Posts, April 4, 2011 exchange rates Cost is for sending a letter to a domestic destination that weighs approximately 1 ounce		

7. Do you believe that the cost-cutting measures at USPS have sufficiently mirrored the cost-cutting measures in the mailing industry?

This question seems to assume that Postal Service cost-cutting measures should mirror the cost-cutting measures in the mailing industry. Because the Postal Service is a unique institution with its own structure and functions, including the obligation to provide universal service, Postal Service cost cutting cannot and should not be expected to mirror cost cutting by its customers.

If the question implies that cost cutting by the Postal Service should be in the same order of financial magnitude as cost cutting by postal customers, that is an assumption that would be difficult to justify as a matter of business management or economics.

The very large over-funding of CSRS and FERS trust funds by the Postal Service, and the unique and unreasonably rapid pre-funding of retiree health benefits required under current law, have imposed heavy financial burdens on the mailing industry. These burdens are unrelated to the requirements of the industry. They are caused by the fact that mailers are subsidizing the federal government; they have nothing to do with Postal Service efficiency or cost cutting.

Apart from the fact that the premise of the question is ambiguous, we do not have sufficient information about cost-cutting measures in the mailing industry to respond specifically to this question. Postal Service cost-cutting measures have been very aggressive.

8. Do you believe that USPS cost-cutting measures adequately reflect the idea of shared sacrifice among all USPS employees?

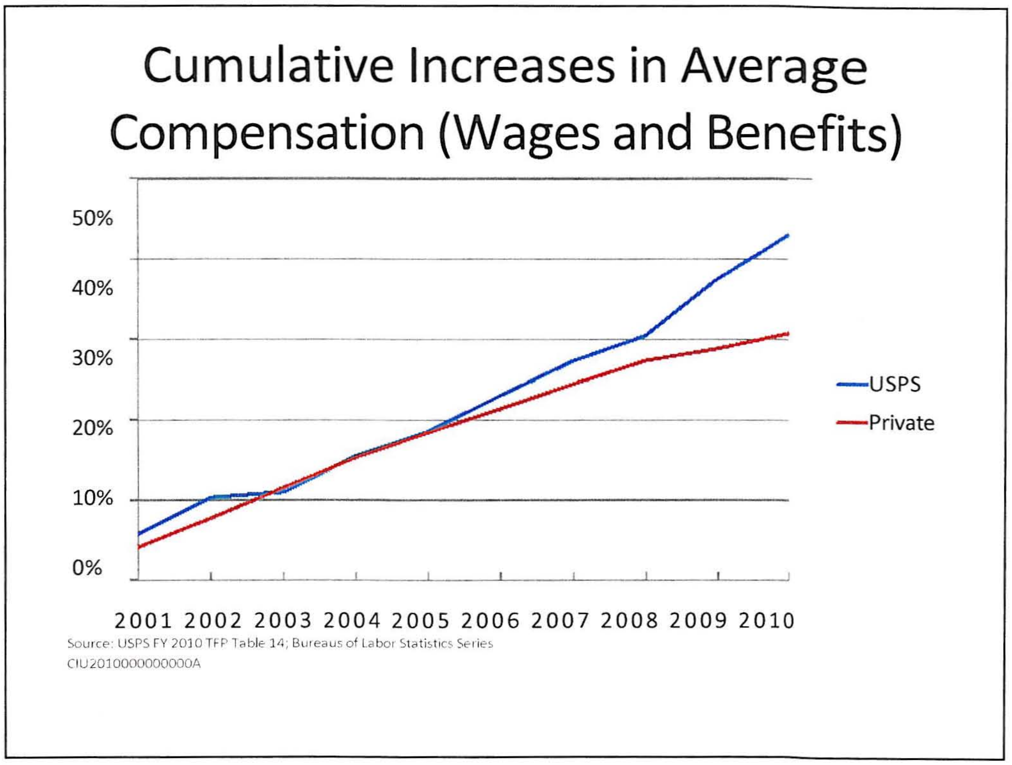
APWU members have made great sacrifices in recent years. From 1999 through 2010, the USPS reduced annual workhours by 458.5 million workhours. Sixty-seven percent (67%) of that total, 308 million workhours, were cut from the APWU bargaining units. That is the equivalent of eliminating 174,306 full time jobs from APWU bargaining units. USPS cost-cutting measures have caused severe disruption to postal operations – and to the lives of postal employees. Thousands of APWU members have been forced to uproot their families, sell their homes, and relocate hundreds of miles away from the communities they have called home. The APWU has worked cooperatively with the Postal Service to negotiate a collective bargaining agreement that, if ratified, would help address the Postal Service's need to control costs and increase flexibility.

9. Your organization has actively resisted the consolidation of mail processing operations to eliminate excess capacity in postal processing facilities. You have acknowledged that the use, demand and the value of the mail has declined significantly. What is the appropriate role of employee organizations in working with USPS to adapt its operations, facilities, and workforce to the continuing decline in mail volume?

The APWU has actively resisted the consolidation of mail processing operations because we question the accuracy of the Postal Service's projected cost savings and service impacts. In many cases, we have found that cost savings have been over-estimated and that actual potential cost savings cannot justify the adverse service impacts of the changes under consideration.

The APWU also has been a vocal critic of the Postal Service's plans to close or consolidate its retail operations. As we showed in proceedings before the Postal Regulatory Commission (Docket No. N2009-1), these closures adversely affect individual postal customers who are least able to afford alternative services. In many cases, postal customers, community leaders, and elected representatives have strongly opposed post office closures because of the negative impacts they have on affected communities. The APWU cannot stop the Postal Service from closing or consolidating facilities. Our insistence that decisions to do so be made transparently, with rigorous analysis of their costs and benefits, is not only in the interest of our members, it is in the public interest. No less should be expected of this important public service agency.

10. The chart above shows the rate of labor unit cost growth at USPS compared to the Employment Cost Index (which measures private sector labor cost growth). Based on this chart, is it fair to say that compensation at USPS has grown more quickly over the last decade. than the private sector? This appears to be particularly true since 2006, correct?



The question refers to "labor unit costs." Neither line on the graph tracks labor unit costs. Both lines track compensation. The Postal Service informs us that USPS FY 2010 TFP Table 14 includes retiree health benefits prefunding. This explains much of the increase in the slope of the USPS line. As one divides larger payments by fewer work hours, the slope increases. The comparative ECI line does not include accrual costs. There is also a change in the mix of employees in the USPS line; but the ECI holds employment mix constant. The charts provided in our answer to question 2 provide a more meaningful picture of compensation trends. They show that USPS compensation growth has been at about the same rate as ECI growth over time.