

APWU CONGRESSIONAL TESTIMONY

**American
Postal
Workers
Union,
AFL-CIO**

WILLIAM BURRUS
PRESIDENT

Before The
**FINANCIAL SERVICES AND GENERAL GOVERNMENT
SUBCOMMITTEE**

U.S. SENATE COMMITTEE ON APPROPRIATIONS

**"Proposals for Addressing the Current Financial Situation
Facing
The United States Postal Service"**

**TESTIMONY OF WILLIAM BURRUS, PRESIDENT
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Mr. Chairman and members of the Subcommittee, my name is William Burrus, President of the American Postal Workers Union, AFL-CIO. On behalf of the 260,000 members of my union, I thank you for holding this hearing today to examine the financial condition of the United States Postal Service (USPS), and for providing the APWU an opportunity to submit testimony.

Since 1775, the Postal Service has sorted, transported and delivered mail throughout the nation. The Service began as a conduit for communication between the Continental Congress and our armies during the Revolutionary War. In 1863, pursuant to statute, the USPS began delivering mail to certain addresses if postage was enough to “pay for all expenses of the service.” By 1896, the Postal Service was making deliveries to certain rural and urban homes six days a week. In some cities, in fact, delivery occurred more than once per day until 1950. In other more remote rural areas, deliveries continued to occur fewer than six days per week. Today, the USPS delivers to 146 million homes and businesses, six days a week. Throughout the Service’s history, however, there have been discussions about reducing the number of delivery days to conserve fuel and reduce costs.¹

The Postal Service’s mission is to provide the nation with affordable and universal mail service. However, the USPS’ authority was revised on December 20, 2006, with the enactment of the Postal Accountability and Enhancement Act (PAEA). Through this legislation, Congress sought to provide the USPS with tools and mechanisms to help ensure that the USPS is efficient, flexible, and financially sound, but the law has had the opposite effect.

USPS Financial Condition

The PAEA has forced the Postal Service virtually into insolvency. It imposed on the Postal Service a \$75 billion obligation to pre-fund retiree health benefits, a liability that is not borne by any other federal agency.

This requirement, more than any other single factor, has created a USPS deficit of alarming size. A 2008 GAO report found the USPS’s \$5.3 billion shortfall in FY 2007 was caused primarily by this provision of the PAEA.²

If the USPS were to release financial records showing liabilities minus this obligation, such documents would clearly demonstrate the disastrous effect the legislation has had. Absent this pre-funding burden, the Postal Service would have experienced a cumulative surplus of \$3.7 billion over the last three fiscal years, despite declining mail volume, an economy in chaos, and electronic diversion.

The APWU is compelled to ask: If funding future healthcare liabilities meets sound accounting standards, why isn’t this requirement applied to all federal and private enterprises? Why doesn’t every branch of government, including Congress, pre-fund future healthcare liabilities?

¹ Congressional Research Service, The U.S. Postal Service and Six-Day Delivery: Issue for Congress, July 29, 2009, p. 1

² U.S. Government Accountability Office, U.S. Postal Service: Mail-Related Recycling Initiatives and Possible Opportunities for Improvement, GAO Report GAO-08-599, June 2008, p.1.

The PAEA was a mistake, a gross miscalculation, which provided no new revenue stream for the Postal Service while imposing massive, artificial new costs. The pre-funding provision is the central cause of USPS financial difficulties, and we urge Congress to correct it. If this single requirement were rescinded, the elimination of Saturday mail delivery would be unnecessary.

USPS Share of CSRS Pension Responsibility

We also strongly urge Congress to give serious consideration to the USPS Office of Inspector General's findings that the methodology for determining the Postal Service's contribution to the Civil Service Retirement and Disability Trust Fund is flawed.

For employees who began their career before the Postal Reorganization Act of 1970, pension responsibility is shared between the federal government and the USPS. The Office of Personnel Management (OPM) established the methodology to be used in determining the contribution of both entities. The USPS OIG commissioned the Hay Group, a well-known actuarial firm, to review the allocation of liabilities for postal pensions between the federal government and the USPS. The Hay Group's findings, *"Evaluation of the USPS Postal CSRS Fund for Employees Enrolled in the Civil Service Retirement System,"* describes the results of its analysis.

Among the findings in the report is that if "the more equitable years-of-service allocation methodology had been used to determine the value of the Postal CSRS Fund, the OIG estimates its value on September 30, 2009, would have been approximately \$273 billion rather than \$198 billion – a difference of \$75 billion." The \$75 billion overpayment would allow the Postal Service to pay a \$10 billion unfunded liability, pay off its remaining debt, and add approximately \$55 billion into the Retiree Health Benefits Fund, which already has an approximately \$35 billion balance. With \$90 billion, the Postal Service would be positioned to fully fund the PAEA obligation.

There is no dispute that the USPS faces a serious financial challenge as a result of the requirement to pre-fund retiree healthcare liabilities and the flawed pension allocation methodology. A more equitable allocation of pension liabilities would offer the USPS stability, which could delay any reduction in the number of mail delivery days and other policies that would undermine its ability to provide universal service at uniform rates to American citizens.

The APWU urges Congress to develop a legislative solution to correct the formula which so unfairly requires postal customers to subsidize pension obligations that should be covered by the federal government.

Recently, Postal Service announcements have included projections of a \$238 billion deficit over the next 10 years. Frankly, these predictions are outlandish and unsupported. The USPS has offered no justification for these wild claims, and, unfortunately, the media has failed to challenge them.

Six-Day Delivery

Following the USPS briefing on March 2, 2010, I was critical of USPS proposals to reduce mail delivery to five days per week, writing to APWU members, "It would be the beginning of the demise of the Postal Service."

In 2008, both the PRC and the USPS conducted studies of mail delivery. The USPS study concluded that the elimination of one delivery day could save the Service \$3.5 billion per year, while the PRC finding was savings of \$1.93 billion.

Congress considered the reduction in service delivery days more than 30 years ago in response to an earlier study by the USPS. After holding a dozen hearings with hundreds of witnesses, the House of Representatives approved a resolution opposing the service reduction by a vote of 377-9.

Then, as now, the key question was: Is the USPS a profit-driven organization, or a public service?

In 1980, Postmaster General William F. Bolger appeared before Congress insisting that reducing the number of delivery days was necessary to ensure the Postal Service's economic stability. He estimated that the switch to five-day delivery would result in the loss of 15,000 to 20,000 Postal Service jobs. Based on statements reported by participants in a 2010 meeting of the Mailers Technical Advisory Council, the 2010 version could result in the loss of as many as 199,000 good-paying, middle-class USPS jobs.

However, the APWU's opposition to eliminating Saturday delivery is not based on a concern about losing jobs. (Approximately 2,500 jobs in positions represented by the APWU would be affected.) We are concerned about protecting the vitality of the USPS for the future, and we support the right of every citizen – including those without Internet access and the disabled – to receive high-quality mail service.

Former Postal Regulatory Commission Chairman Dan G. Blair addressed some of the dangers of the proposal in testimony before the Senate Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security on January 28, 2009. Senator Susan Collins stated that the decision to further reduce postal services would cause “an even bigger drop” in mail volume that could lead to a “death spiral” for the USPS.

New Services

It is easy to suggest that the Postal Service should offer new services in order to remain financially sound while ignoring free-market obstacles. However, it is unlikely that a single new service or product would be accepted without challenge by private-sector competitors; furthermore, it is unlikely that such services would result in short-term profits for the USPS.

In testimony before the House Subcommittee on Federal Workforce, Postal Service, and the District of Columbia on November 5, 2009, GAO officials said, “Allowing USPS to compete more broadly with the private sector would raise risks and concerns. As with USPS's non-postal ventures before PAEA was enacted, new non-postal ventures could lose money; and even if they were to make money, issues related to unfair competition would need to be considered.”

How can the USPS be expected to fund new enterprises that would require significant start-up costs while it is saddled with a \$75 billion debt? The reality is that requiring a

payment averaging \$5.6 billion annually for 10 years would bankrupt any American corporation.

Savings and Collective Bargaining

In recent years, the USPS has achieved unprecedented savings through productivity increases, a series of cost-cutting initiatives, and sacrifices by workers. More than 100,000 jobs have been eliminated through attrition over the last two-and-a-half years, and workers have begun paying an increased share of health insurance premiums.

In addition to five-day mail delivery, the USPS has proposed numerous changes that relate directly to workers' rights and benefits and are governed by collective bargaining. We reject any effort to influence the process with threats of severe work-rule changes. Contract negotiations for both the American Postal Workers Union and the National Rural Letter Carriers Association begin in the fall.

We believe it is unreasonable to single out a handful of provisions achieved through bargaining that benefit workers (such as protection against layoffs) from the host of negotiated stipulations that are contrary to workers' objectives.

Conclusion

Mr. Chairman, we believe the rush to five-day mail delivery is an ill-conceived reaction to declining mail volume during an economic slowdown. While volume may never return to 2006 levels, even a modest return, coupled with repeal of the requirement to pre-fund retiree health benefits, would go a long way toward sustaining the Postal Service for many years into the future.