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MAILERS COUNCIL

TESTIMONY BEFORE THE HOUSE SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE, AND THE DISTRICT OF COLUMBIA

MAY 20, 2009

TESTIMONY OF
ROBERT E. MCLEAN, CAE
ON BEHALF OF THE
MAILERS COUNCIL

Good afternoon, Mr. Chairman, and members of the subcommittee. The Mailers Council appreciates the opportunity to testify on postal issues. My name is Bob McLean, and for the past 13 years I have been the Council's executive director.

BACKGROUND

The Mailers Council is the largest group of mailers and mailing associations in the nation. We represent for-profit and nonprofit mailers (large and small) that use the United States Postal Service to deliver correspondence, publications, parcels, greeting cards, advertising, and payments. Collectively the Council accounts for approximately 70% of the nation's mail volume.

The Mailers Council believes that the Postal Service can be operated more efficiently, supports efforts aimed at containing postal costs, and has the ultimate objective of keeping rates below the Consumer Price index without compromising service. We believe that the Postal Service should be given the discretion it needs, and which it received under the Postal Accountability and Enhancement Act (PAEA), to operate in a way that will allow it to maintain high-quality service at the lowest possible rates.

We welcome this opportunity to testify about the Postal Service's declining finances and how it can address this problem while maintaining service to avoid further reductions in mail volume. As you requested in our invitation to testify, we also will address the need to rightsizing the postal network.

THE POSTAL SERVICE IS FACING A CRISIS THAT IS COSTING JOBS

It is now clear the Postal Service is facing a crisis—what may be the most serious in its long history, more serious than the situations that prompted passage of the postal reform laws approved in 1970 and 2006. We do not believe the Postal Service will be able to meet its financial obligations in the next several years without new federal legislation. We firmly believe that even with the best possible management or dramatic service cuts, the Postal Service will be financially unsustainable unless Congress quickly approves legislation that will give the agency help in responding to unprecedented declines in mail volume—a situation that extraordinary rate increases would only exacerbate.

It is important to remember that although the Internet has taken away millions of pieces of mail, the Postal Service remains an essential tool of American business. It supports a mailing industry that constitutes more than 9% of the GDP. The industry has already seen the elimination of thousands of jobs; without swift congressional action many of the more than nine million jobs in the industry will be eliminated, perhaps permanently.

There are two primary reasons why the Postal Service's finances are so bad. First, the recession is largely responsible for much of the recent, steep decline in mail volume. Businesses, from credit card companies to realtors to small retail businesses, have all drastically reduced all marketing programs, including those that include marketing by mail.

The second reason why the Postal Service is reporting large losses, including \$1.9 billion in the second quarter alone, is the unnecessarily aggressive schedule for prepaying retiree health care costs imposed by the Postal Accountability and Enforcement Act of 2006.

HOW CONGRESS AND POSTAL MANAGEMENT CAN HELP

As dire as the Postal Service's condition is today, we believe Congress can help address both the short- and long-term problems and ensure that the Postal Service does not become a drain on the federal treasury—which could occur this fiscal year. There are also steps postal management can take to restore the agency to financial health.

The single most important short-term step is one that only Congress can take. We ask you to approve HR 22, the bill to revise the schedule for pre-funding retiree health care costs. Although we understand and agree with the need for prefunding, the retiree fund contains \$32 billion. Making large, additional payments to this fund now places an unnecessary fiscal burden on the Postal Service—and cost jobs nationwide. So, we support HR 22, legislation that would alter the payment schedule while the economy recovers, at which time payments to the fund would resume.

If the Postal Service does not get this short-term relief, it may be unable to make its payroll or retiree payments at the end of its fiscal year. And if that happens, the Treasury is the guarantor, and Congress would have to spend billions to support the agency.

As for more long-term solutions, we believe the time has come for postal management to revisit every aspect of postal operations and compensation. We need a comprehensive plan because we do not know if or when volume will come back once the economy begins to rebound. Everyone in the mailing industry may have to give up something they don't want to give up—including mailers and postal employees.

An example is the postal proposal to move to five-day delivery. We have opposed this idea because the Postal Service has yet to offer details on how it would be implemented. Will it be temporary or permanent? What day of the week will be dropped? Will there be a pilot program to test this concept? And will mailers be a participant in planning this service cut?

There are other measures underway that postal management should accelerate, such as right-sizing the delivery network. The Postal Service simply has more mail processing capacity than it needs today and will need in the future.

As one example, the Washington, DC, area has three mail processing plants. When one was closed following the discovery of anthrax in the mail, the other two facilities began processing that mail—and did so while maintaining service levels. Let me add that closing small post offices is an idea we have not proposed because the savings are simply too small. We need to find big solutions more appropriate for the big problems the Postal Service now faces.

We also hope the Postal Service will look for ways to increase revenue. The recent “summer sale” proposal is an idea worth considering because of the potential it has for attracting revenue now by encouraging more mail that mailers would send without this incentive.

As for more long-term solutions, we support any process changes to make work sharing easier, as the last Presidential Commission on the Postal Service recommended. We can perform some mail preparation work less expensively than the USPS, which can help hold down the price of postage—and that will help save jobs in the mailing industry, including postal jobs.

Finally, whether discussing short- or long-term management proposals, we have encouraged postal managers to talk with their customers more often and earlier when planning new programs or operational changes. As the Intelligent Mail Barcode project indicates, working with mailers on new ideas and testing them with mailers is essential to their success.

Also, when creating new procedures the Postal Service must consider their effects on mailers and our products rather than exclusively focusing on changes that would only benefit the agency. Too often well-intentioned postal managers have sought to improve efficiency through counter-productive measures that push clients to use other media, stifle creativity, or move customers to less expensive products, which only reduces revenue.

That's why we were so encouraged by a recent and unprecedented meeting where mailer representatives were invited to a lengthy discussion with members of the Board of Governors and senior postal managers. We must work together more often in this type of meeting on the problems both the mailing industry and the Postal Service face.

AVOID MEASURES THAT WOULD BE COUNTERPRODUCTIVE

There are some measures that have been discussed in the postal community and on Capitol Hill that we oppose because we believe they would only exacerbate the Postal Service's financial condition. For example, we would oppose raising the USPS' debt limit. The Postal Service will find it difficult enough to repay the funds allowed under the current borrowing limit.

Another concept, one allowed under the PAEA of 2006, that we oppose would be the filing of an exigent rate case or any rate changes that would merely transfer costs to mailers. A more significant increase than the one implemented last week will also drive down mail volume further. The Postal Service must avoid transferring expenses to its customers, rather than controlling their expenses.

Ideas such as these are not solutions; they would only postpone needed change.

THE PRICE OF INACTION WILL BE HIGH

As we noted in testimony delivered last year before this subcommittee, Congress has given the Postal Service a mandate to deliver excellent service to every American in every state without government financial support, which it has done for the past several decades. Right now my members report that service is very good and the Postal Service is meeting its delivery standards, a tribute to good management and the support of postal employees.

We want quality service to continue, but that cannot happen unless Congress, the Postal Service, and the mailing industry all recognize that as early as September 30 the agency may be unable to

meet its financial obligations. We ask for your help so we may avoid having the Postal Service become a burden on taxpayers.

Mr. Chairman, thank you again for the opportunity to present our view on the daunting challenges the Postal Service now faces. I would gladly answer any questions you and your colleagues may have.