

A PATH FORWARD ON POSTAL REFORM

HEARING

BEFORE THE

COMMITTEE ON OVERSIGHT
AND GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

JULY 17, 2013

Serial No. 113-49

Printed for the use of the Committee on Oversight and Government Reform



Available via the World Wide Web: <http://www.fdsys.gov>
<http://www.house.gov/reform>

U.S. GOVERNMENT PRINTING OFFICE

82-401 PDF

WASHINGTON : 2013

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
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A PATH FORWARD ON POSTAL REFORM

Wednesday, July 17, 2013

HOUSE OF REPRESENTATIVES,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, D.C.

The committee met, pursuant to call, at 1:40 p.m., in Room 2154, Rayburn House Office Building, Hon. Darrell E. Issa [chairman of the committee] presiding.

Present: Representatives Issa, Mica, Duncan, Chaffetz, Walberg, Lankford, Meehan, Farenthold, Massie, DeSantis, Cummings, Maloney, Tierney, Clay, Lynch, Connolly, Speier, Pocan, Duckworth, Kelly, Davis, Cardenas, and Lujan Grisham.

Staff Present: Ali Ahmad, Communications Advisor; Alexia Ardolina, Assistant Clerk; Molly Boyd, Senior Counsel and Parliamentarian; David Brewer, Senior Counsel; Daniel Bucheli, Assistant Clerk; Drew Colliatie, Professional Staff Member; John Cuaderes, Deputy Staff Director; Linda Good, Chief Clerk; Tyler Grimm, Senior Professional Staff Member; Christopher Hixon, Deputy Chief Counsel, Oversight; Krista Boyd, Minority Deputy Director of Legislation/Counsel; Kevin Corbin, Minority Professional Staff Member; Elisa LaNier, Minority Director of Operations; Lucinda Lessley, Minority Policy Director; Safiya Simmons, Minority Press Secretary; and Mark Stephenson, Minority Director of Legislation.

Chairman ISSA. Good morning. The committee will come to order.

The Oversight Committee mission statement is that we exist to secure two fundamental principles. First, Americans have a right to know the money Washington takes from them is well spent. And second, Americans deserve an efficient, effective government that works for them. Our duty on the Oversight and Government Reform Committee is to protect these rights. Our solemn responsibility is to hold government accountable to taxpayers, because taxpayers have a right to know what they get from their government.

It's our job to work tirelessly, in partnership with citizen watchdogs, to deliver the facts to the American people and bring genuine reform to the Federal bureaucracy.

Let us be very clear today: The United States post office is in crisis. The American people lost in the range of \$16 billion last year. They never wrote a check, the appropriators never had a meeting and authorized anything. And this committee was unable to take effective action.

Last summer, the United States post office defaulted on \$11 billion in payments required by law, and every day they lose \$25 million, as we speak

The situation is both unacceptable and as much Congress and the administration's fault as any of the hundreds of thousands of workers at the post office. Ultimately, we have kicked the can down the road, first in 2006 by not doing enough, and then every year since then. In 2006, I don't think anyone was predicting an additional 25 percent reduction in postal volume in just 6 years.

The post office will and has continued to make some adjustments. Attrition has been a primary tool, but less people in large, out-of-date facilities is not the answer. Real reorganization, fundamental restructuring, rightsizing facilities, and being allowed to innovate new products is essential.

Today, we will hear from two panels. Those two panels are, in fact, essential to us. We have an obligation—and, Representative Smith, I appreciate your being here today—we have an obligation to 50-State and all the territorial delivery. We have a universal delivery system that is at the heart of what the post office does that no private sector company is tasked to do. And we're proud of that, and the post office has been proud of that for 200 years. But to preserve delivery to every point in the globe and every point in the United States by the U.S. Postal Service requires real change, including the retiree health care plan.

We will hear today from the second-largest postal union, which believes Mr. Cummings, my ranking member, does not go far enough and does not entirely do away with the retiree health care funding. Now, you will notice I didn't say prefunding, because if you stop making the payments, ultimately, you will not be able to make those payments.

Mr. Cummings knows that, I know that, and it's the reason that any bill that comes from this committee will restructure to the greatest extent possible, but recognizes that those bills will come due and they must be addressed by this committee if we're to be realistic about reforms that will guarantee a post office well into the next century.

We can discuss plenty of reforms here today, but the truth is reforms are going to come primarily from us enabling the system to work properly. Congress must reduce or eliminate the kinds of preconditions we have put on whenever possible, while maintaining our requirement of universal service.

Our commitment is bipartisan. Our need for a bill is urgent, and we intend to do it in the coming weeks. Among the most important cost savings that can no longer be overlooked is shifting the Postal Service from 6 day to 5 day. This was once opposed almost universally, but as time has gone on we have found more and more of the major shippers recognizing that the alternative of higher cost is more unacceptable than having to adjust when you ship a package so it arrives at the time that the customer needs it.

But let's understand, going from 6 to 5 day, even if it achieves the \$2 billion a year savings, is but a small down payment. We must look at every possible savings, and those savings must not be on the back of longtime workers. They cannot be on the back of those who have given their careers. We must find acceptable ways to offer retirement and rightsizing to postal workers, and I believe we can do that.

At the same time, postal unions must join with us to work together to make the kinds of efficiency increases that allow high pay, good benefits to be earned now and in the future while delivering a product that can meet the requirement of the customer. I believe we can do that. I believe we will do that.

I would like to take a moment to thank my ranking member who has worked hard on as far as we have gotten. I will not say that his vision of the bill and my vision of the bill are yet identical. But our teams have worked together and we have worked across the dome. As a matter of fact, I will now ask unanimous consent that a letter signed by both the chairman and ranking member, Senator Carper and Senator Coburn, be placed in the record. Without objection, so ordered.

Chairman ISSA. We in the House, we in the Senate must get together and we must do it this year if we are going to begin to have the post office make the changes now, with the money that we are currently losing being the money we invest in no longer losing in the future.

And with that, I recognize the ranking member for his opening statement.

Mr. CUMMINGS. Thank you, Mr. Chairman. I want to thank you for your words of bipartisanship. I am reminded that towards the end of last year we were working feverishly trying to come up with a bill, and I think we got about 85 percent there. And so I do believe we will be able to accomplish that, and I pledge to you we will work hand in hand to achieve that.

So I thank you for convening today's hearing, and I thank you for agreeing to my request to invite Mr. Cliff Guffey, the president of the American Postal Workers Union, to be with us today. During our April hearing we were able to hear from the letter carriers, and I'm pleased that today we have a chance to hear from officials who represent the men and women who work in our postal facilities. So, I have said repeatedly, the Postal Service is a vital link that binds our Nation together. Our job in Congress is to enact comprehensive legislation that will strengthen those links by ensuring that the Postal Service offers products and services that meet the changing demands of consumers while operating an efficient and effective network that provides all customers with timely and convenient access to these vital services.

The financial challenge facing the Postal Service is familiar to us all. Last year, the Postal Service reported losses of approximately \$16 billion—that is with a "B." Losses have continued this year, and the Postal Service has borrowed all of its \$15 billion it is authorized to borrow from the Treasury. Obviously, these losses are simply unsustainable.

Unlike any other agency or business in the Nation, however, the Postal Service faces the legal burden of prefunding 100 percent of its future retiree health costs, and this requirement is a key contributor to its losses. The Postal Service has taken numerous steps to reduce its costs, including offering buyouts to employees, reducing operating hours at thousands of post offices, and closing dozens of mail processing facilities.

And let me say this. I have said it in private and I have said it in public and I say it again today. I want to thank the unions for

working hard trying to help us get to where we can have a bill that makes sense and the unions for bending over backwards trying to make sure and understanding that the postal system has changed and therefore there has to be changes with regard to the number of employees that we have.

But the Postal Service cannot do this job alone. Congressional action is essential to put the Postal Service on a sustainable financial path. Although I am glad that the committee is poised to consider postal reform legislation and it must, I am disappointed with the draft legislation circulated by the chairman. The chairman's draft legislation would end 6-day mail delivery immediately and end most door delivery in this Nation by 2022.

Rather than returning the overpayments made into the Federal employment retirement system to the Postal Service, the chairman's bill would burden the Postal Service with yet more debt by increasing its borrowing authority, something the Postal Service has repeatedly said they simply do not want. The chairman's bill includes an extreme provision that would abrogate existing union agreements and require that they be renegotiated to include provisions allowing the Postal Service to unilaterally lay off or dismiss employees, including those who have decades of service.

The chairman's bill would also remove postal workers from the existing Federal worker's compensation system and establish a postal-specific system that would reduce benefits below those provided under current law.

There is a more sensible alternative to this approach. This morning I introduced the Innovate to Deliver Act, which has cosponsors, to enable the Postal Service to operate more like a business it was meant to be. My legislation would give the Postal Service increased operating flexibility while ensuring that revenue meets expenses. Specifically, my bill would create a new chief innovation officer in the Postal Service charged with leading the development of products and services that enable the Postal Service to capitalize on new business opportunities.

My legislation also would amend the schedule for retiree health payments, recalculate the Postal Service's pension surplus using postal-specific characteristics, return the surplus to the Postal Service, and provide key tools to rightsize the Postal Service workforce in a compassionate manner that respects and honors these employees' dedicated service over the years.

If we reject extreme measures that harm postal workers, increase the Postal Service's debt, and destroy existing services, I believe we can identify commonsense provisions that provide common ground solutions. It is possible to develop and finalize legislation that we can all support, and I urge the chairman to choose this path.

With that, Mr. Chairman, I ask for unanimous consent to enter into the record the statements of testimony from the following: the National Association of Postal Supervisors, the National Association of Postmasters of the United States, and the National Active and Retired Federal Employees Association.

Chairman ISSA. Without objection, so ordered.

Mr. CUMMINGS. And with that I yield back.

Chairman ISSA. I thank the gentleman.

Chairman ISSA. And before I recognize the chairman of the subcommittee, I just wanted to take a liberty here with the ranking member.

Pursuant to our practice of posting legislation and draft legislation on the site, and because your draft was circulated to us, the following are at Leg Counsel right now for redrafting in the bill. So for purposes of discussion today I hope that people will be aware the bill in its original form will include a chief innovation officer, something the ranking member had suggested. It will have a higher experimental product test cap added to it. It will have travel reporting for postal governors in the PRC. It also will, by popular demand, eliminate the requirement for any reopening of collective bargaining agreements related to reductions in force. It will, however, require that those be placed or harmonized with the rest of the Federal workforce at time of new contracts, but in no way effect current contracts for the life of those contracts. And it will have a workforce-specific pension assumptions.

Now, I realize it's unfair, since I don't have specific language, but I wanted to make sure that those, particularly the ones that the ranking member had included in his draft legislation, will be employed.

I recognize the ranking member.

Mr. CUMMINGS. Okay. Thank you very much, Mr. Chairman.

I just want to make sure I understand what you just said and that is what I was asking my staff. So you are saying that the things you just named are what? What are those?

Chairman ISSA. Those are being placed before the bill comes to the committee, those are being placed into the base text of the bill.

Mr. CUMMINGS. I see.

Chairman ISSA. Because we circulated draft legislation and it has been up on what is called Madison, we have had public comment in addition to yours. So I wanted to make sure the committee understands that, as you said, we were 85 percent last year with the Senate even though we had to start over. We want to get as close to that 100 percent as we can before it comes to the committee. So all of those will be changed prior to coming to the committee lest there be any need to offer those. Obviously, there are additional items that both sides will probably want to offer in amendments.

Mr. CUMMINGS. Thank you very much, Mr. Chairman.

Chairman ISSA. Thank you.

We now go to on the chairman of the Subcommittee on Postal, Mr. Farenthold.

Mr. FARENTHOLD. Thank you, Chairman Issa, for allowing me to make an opening statement.

As the chairman of the Subcommittee on the Federal Workforce, U.S. Postal Service and Census, Ranking Member Lynch and I have held hearings with the Postal Service itself, its customers, suppliers, and workers.

Today's hearing will focus on the big picture, postal reform, finding ways for the United States Postal Service to stand on its own two feet, to work harder and smarter for the future, and not to become a burden on taxpayers. It's all about finding innovative solutions that will make the United States Postal Service fiscally sound.

The Postal Service, this committee, and all of Congress cannot bury our heads in the sand, ignoring billions in deficits, technology changes that are lowering demand, and increased competition and huge liabilities for future employment benefits.

Even without the contractual prefunding contract, the Postal Service is losing in excess of \$5 billion a year. They are getting closer to not being able to meet the payroll and provide for retiree benefits. Moving to a modified Saturday delivery and cluster boxes alone could save as much as \$8 billion annually, and these are only two of the simple and obvious changes that need to be made when mail volume continues to decline.

I am hopeful that together we can use what we have learned from past mistakes and work in a bipartisan manner to identify ways that will make the Postal Service a more successful and viable service for the 21st century.

Thank you very much.

Chairman ISSA. The gentleman yields back.

We now recognize the gentleman from Massachusetts, the ranking member of the subcommittee, Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman. I want to thank the ranking member as well, and including Representative Smith and the other witnesses who have come before us to help us with our work.

Mr. Chairman, the United States Postal Service and our dedicated postal employees have long stood as a shining example of essential government service. Year after year, when polled, the American people have voted postal clerks, our mail handlers, letter carriers, and supervisors as among the most trusted and most appreciated government employees.

Importantly, the Postal Service is not defined by partisanship or politics, but rather embodies our core governmental mission to ensure the free flow of information, communication, and commerce. Towards that end, the agency delivers mail 6 days a week to over 152 million residences, businesses, and post office boxes nationwide, across every one of our congressional districts. And even in the face of dangerous events that threaten to halt mail delivery and upset the stream of commerce, our mail handlers, our letter carriers, our postal clerks continue their commitment to safeguarding the continuity of the mail processing and delivering operation.

It is out of respect for the vital national role of the United States Postal Service and its exceptional workforce that we must ensure that our most trusted government institution does not fall victim to customary partisan gridlock. Instead, the viability of the Postal Service depends on our willingness on both sides to set partisanship aside and work together towards the enactment of meaningful and commonsense postal reform legislation.

Regrettably, however, the discussion draft of the Postal Reform Act of 2013 that was recently circulated by the chairman fails to reflect the widespread consensus that exists among postal stakeholders and this Congress regarding certain practical steps that we could take to place the Postal Service on more solid financial ground. Notably, right off the bat, in measuring the Federal Employee Retirement System surplus, the chairman's draft bill would not require the Office of Personnel Management to consider the

unique position, salary growth, and demographic characteristics of postal employees when calculating the Postal Services' Federal Employee Retirement System surplus.

In December of 2012, the Office of the Postal Service Inspector General estimated that the use of that postal-specific, rather than government-wide assumption would result in a \$12.5 billion surplus, which the Postal Service could then apply to pay down its Treasury debt and satisfy other outstanding obligations.

This approach to postal reform has received the strong support of our postal unions, associations and mailers, and my own legislation, H.R. 961, to require the use of postal-specific formula when recalculating the postal FERS surplus has received the support of over 130 Members of Congress, including nine brave and exceedingly wise Republicans.

I'd also note that this language is also included in H.R. 2690, the Innovate to Deliver Act, the thoughtful postal reform legislation that our ranking member, Mr. Cummings, introduced last night, of which I am a cosponsor.

What Chairman Issa draft does mandate, however, is a series of drastic, far-reaching, and unnecessary changes to postal operations that I strongly believe would only serve to send the agency further into the red. It would compromise delivery standards and undermine our postal workforce. In particular, the proposed bill would immediately reduce mail delivery to 5 days per week and eliminate an essential Postal Service competitive advantage.

The bill also seeks to phase out another key Postal Service feature by replacing door-to-door delivery in favor of curbside delivery and even contemplates a shift to so-called neighborhood cluster boxes. Moreover, the chairman's draft would significantly expedite the review process for consolidating and closing and therefore further limiting the opportunity for the meaningful community and stakeholder input. And the bill would even require the abrogation of existing collective bargaining agreements that contain reduction in force provisions, despite the fact that these contracts are the end result of extensive and hard-fought negotiations in which the unions agreed to very, very, very modest increases in wages and benefits. And those were negotiated between postal management and employee representatives.

Mr. Chairman, while I appreciate the opportunity to discuss your draft legislation in greater detail prior to next week's business meeting, I do not believe that the bill in its current form would set the Postal Service on a path towards financial stability. Accordingly, it is my hope that today's hearing will also allow us to focus our collective attention on those areas of postal reform that can form the basis of a truly bipartisan postal reform package for the sake of the Postal Service, our postal stakeholders, and the American people.

Thank you, Mr. Chairman, and I yield the balance of my time.

Chairman ISSA. Thank you. Although you took 16 seconds over, I know you did the best you could. And hopefully you did recognize that two of your points we are changing and those will be incorporated. So for the remaining ones that's what markups are for.

We now go to our first panel—and, Adrian, you're called a panel here—the Honorable Adrian Smith, who represents Nebraska's

Third District. Although the committee's rules require that witnesses be sworn in, we do not require Members to be sworn in.

So, Congressman Smith, you're recognized for 5 minutes.

STATEMENT OF THE HON. ADRIAN SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Mr. SMITH. Thank you. Good afternoon Chairman Issa, Ranking Member Cummings, and members of the committee. Thank you for the opportunity to participate in today's hearing on the future of postal reform. We certainly need solutions.

I come before you today as Nebraska's Third District representative to discuss the importance of the United States Postal Service to our rural communities. The Postal Service continues to face a severe fiscal crisis, losing \$25 million per day. Congress needs to ensure the Postal Service continues to uphold its mission to serve all Americans while addressing its long-term challenges.

Throughout rural America, the post office is the center of the community and a link to the rest of the country, and even beyond. Every day I hear from constituents who are concerned about losing access to basic mail services. Those in my district are among the most reliant on the Postal Service. I myself reside just a short walk from my local post office in western Nebraska and I know firsthand the impact the Postal Service has on small town Americans. To us, the Postal Service is not just a convenience, it is a pathway to information, products, medications, and services which are essential to our daily work and lives.

Millions of Americans are at risk of being further isolated without access to mail services. Congress must enact postal reform which provides certainty for consumers and businesses alike.

Commercial options already are scarce in rural America. Arbitrarily targeting the mail in these areas may cause potential businesses to lay roots elsewhere, limiting consumer choice and harming rural economies. Two years ago, the Postal Service announced it was considering for closure more than 3,600 small mail facilities in an attempt to address its budget shortfall. Included on this list for possible closure were 90 locations in the entire State of Nebraska, with the great majority in the Third District. Locations across rural America were disproportionately singled out despite the minimal savings which would have been achieved by closing these facilities.

In fact shutting down the smallest 10,000 post offices in the United States only would save the Postal Service roughly 3 percent of the cost of operating its more than 31,000 post offices nationwide.

As co-chair of the Congressional Rural Caucus, I have spent the last 2 years closely working with the Postal Service, stakeholders, and this committee to ensure rural post offices are not unfairly targeted. Because of the importance of continuing this bipartisan effort, last week I introduced the Securing Access to Rural Postal Services Act, H.R. 2615. I appreciate my colleagues joining me in support of this bill. My Democratic co-chair of the Congressional Rural Caucus, Congressman Mike McIntyre, as well Rural Caucus and Oversight and Government Reform Committee member Con-

gresswoman Cynthia Lummis, both are original cosponsors of H.R. 2615.

This legislation would cap small post office closures and consolidations at 5 percent of the total number of closures and consolidations executed by the Postal Service in any given year. The bill also would set guidelines for closing or consolidating any post office to ensure those affected by such changes would maintain access to the Postal Service.

The Postal Service would be required to provide 60 days notice of its intention to close or consolidate a post office. In addition, it would need to survey affected customers to determine their preferences for alternative access to postal services. If the Postal Service is unable to provide access through the alternative chosen by survey participants or if the preferred option is determined to be cost prohibitive, it would be required to provide access to postal services through a different means and give written explanation for why the surveyed option was not possible.

The Postal Service should focus on changes which provide the greatest savings with the least service disruption. My measure allows the Postal Service flexibility to pursue needed cost-cutting reforms while ensuring rural Americans are not disproportionately affected. I am pleased the Securing Access to Rural Postal Services Act will be included in this year's comprehensive bill, the Postal Reform Act of 2013.

Mr. SMITH. I thank the chairman and committee staff for recognizing this unique set of challenges facing our rural communities and for their willingness to work with me on this important issue. I also want to acknowledge the constructive input I have received from my district over the last 2 years. I appreciate the many ideas shared with me from industry, postal workers themselves, and individual patrons of the Postal Service.

Congress must support a robust, efficient, and dynamic Postal Service. Without responsible legislation, the Postal Service will not be able to return to solvency. I am confident this committee will produce a comprehensive reform bill which provides universal service standards for consumers, opportunity for businesses, and stability for the Postal Service. I am committed to continuing to work with this committee, with members on both sides of the aisle, to ensure rural Americans continue to be an important part of the discussion on postal reform.

Thank you.

Chairman ISSA. Thank you.

[Prepared statement of Mr. Smith follows:]

**Written Testimony of the Honorable Adrian Smith
Prepared for the House Committee on Oversight and Government Reform**

Good afternoon Chairmen Issa, Ranking Member Cummings, and members of the Committee. Thank you for the opportunity to participate in today's hearing on the future of postal reform.

I come before you today as Nebraska's Third District Representative to discuss the importance of the United States Postal Service (USPS) to our rural communities.

USPS continues to face a severe fiscal crisis, losing \$25 million per day. Congress needs to ensure the Postal Service continues to uphold its mission to serve all Americans while USPS addresses its long-term challenges.

Throughout rural America, the post office is the center of the community and a link to the rest of the country. Every day, I hear from constituents who are concerned about losing access to basic mail services. Those in my district are among the most reliant on the Postal Service. I, myself, reside just a short walk from my local post office in Western Nebraska and know firsthand the impact the Postal Service has on small town Americans.

To us, the Postal Service is not just a convenience; it is a pathway to information, products, medications, and services which are essential to our daily work and lives. Millions of Americans are at risk of being further isolated without access to mail services.

Congress must enact postal reform which provides certainty for consumers and businesses. Commercial options already are scarce in rural America. Arbitrarily targeting the mail in these areas may cause potential businesses to lay roots elsewhere, limiting consumer choice and harming our rural economies.

Two years ago, USPS announced it was considering for closure more than 3,600 small mail facilities in attempt to address its budget shortfall. Included on this list for possible closure were 90 locations in the State of Nebraska, with a great majority in the Third District.

Locations across rural America were disproportionately singled out, despite the minimal savings which would have been achieved by closing these facilities. In fact, shutting down the smallest 10,000 post offices in the United States only would save the Postal Service roughly 3 percent of the cost of operating its more than 31,000 post offices nationwide.

As co-chair of the Congressional Rural Caucus, I have spent the last two years closely working with USPS, stakeholders, and this committee to ensure rural post offices are not unfairly targeted. Because of the importance of continuing this bipartisan effort, last week I introduced the Securing Access to Rural Postal Services Act, H.R. 2615.

I appreciate my colleagues for joining me in support of this bill. My Democrat co-chair of the Congressional Rural Caucus, Congressman Mike McIntyre, as well as Rural Caucus and Oversight and Government Reform Committee member, Congresswoman Cynthia Lummis, both are original cosponsors of H.R. 2615.

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If USPS is unable to provide access through the alternative chosen by survey participants or if the preferred option is determined to be cost prohibitive, it would be required to provide access to postal services through a different means and give written explanation for why the surveyed option was not possible.

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Congress must support a robust, efficient, and dynamic Postal Service. Without responsible legislation, USPS will not be able to return to solvency. I am confident this committee will produce a comprehensive reform bill which provides universal service standards for consumers, opportunity for businesses, and stability for the Postal Service.

I commit to continuing to work with this Committee, with members on both sides of the aisle, to ensure rural Americans continue to be an important part of the discussion on postal reform.

Thank you.

Chairman ISSA. And thanks to the CBO scoring of an estimate of closing all 10,000 rural post offices saving in the neighborhood of \$300 million, we fully concur that H.R. 2615, in its entirety, is intended to be folded into the base bill. We recognize, as you do, that there are literally dozens of fundamental alternatives to an outright closing of a post office, including part-time and other techniques that would allow service at an appropriate level. So the bill is anticipated to limit to 5 percent, as H.R. 2615 does, the total number of outright closings.

I have only one question for you, and we don't usually ask questions, but since you did mention rural, how many door deliveries would you have in a district like yours.

Mr. SMITH. I don't have that number with me.

Chairman ISSA. Wouldn't it be approximately zero? Wouldn't almost everybody in rural Nebraska go down to the curb, go down to the front, go down to a box, and pick up their mail, isn't that substantially how virtually all of your residents get their mail?

Mr. SMITH. I wouldn't say all of the residents, but keep in mind that it's not uncommon that someone would have a five-mile-long driveway in ranch country, at the end of which would be their mailbox, and perhaps that is a lot cheaper to have it out there by the paved road than five miles down the driveway at the doorstep.

Chairman ISSA. You know, it's our intention to make sure that we do not make that drive one foot further for any of those residents.

Mr. SMITH. Understood.

Chairman ISSA. Mr. Cummings, do you have any questions?

Mr. Smith, we thank you. We will see you on the floor in just a few minutes.

Mr. SMITH. Thank you.

Chairman ISSA. We will now set up the second panel. It will be just be a very short break.

[Recess.]

Chairman ISSA. I thank all the witnesses for their patience. Hopefully you've heard from rural America and there will be no disagreement here, since there seems to be none here on the dais.

We now welcome our second panel, the distinguished Postmaster General and CEO of the United States post office, Mr. Patrick Donahoe.

Mr. Joel Quadraccia?

Mr. QUADRACCI. Quadracci.

Chairman ISSA. Quadracci. Joel, I know you well enough, I should get the last name right. You are chairman, president and CEO of Quad Graphics, one of the largest printers and obviously one of the large stakeholders in anything we do.

And Mr. Cliff Guffey is president of, as previously announced, the second-largest, the American Postal Workers Union.

We're very pleased to have all of you. Your testimony is important. It will be listened to in the markup.

Pursuant to the committee rules, we would ask that you please rise, raise your right hand to take the oath.

Do you solemnly swear or affirm that the testimony you're about to give will be the truth, the whole truth? Please be seated.

Let the record reflect that all witnesses answered in the affirmative.

I will warn you all that about the time Mr. Donahoe finishes, there will be a bell. That will let us get through all three of you and then we will break for a period of time necessary to take the votes, and unfortunately, the once-in-a-Congress picture. So members, being politicians, are not likely to return until after they get their picture taken.

Mr. Donahoe.

WITNESS STATEMENTS

STATEMENT OF PATRICK DONAHOE

Mr. DONAHOE. Thank you, Mr. Chairman. Good afternoon. Good afternoon, Ranking Member Cummings, members of the committee. Thank you, Mr. Chairman, for calling this hearing today.

Let me begin by thanking the committee for taking on this important challenge of restructuring the business model of the Postal Service. The Postal Service continues to face systemic financial challenges because it has a business model that does not allow it to adapt to changes in the marketplace. We cannot pretend that these marketplace changes are not happening or that they do not require fundamental changes to our business model. We need comprehensive reform now.

In the past 18 months, the Postal Service reported \$19 billion in net losses, has defaulted on \$11.1 billion in retiree health benefits to the Treasury, and without legislation this year we will be forced to default on \$5.6 billion in payments due to the Treasury on September 30th, 2013. Our liquidity also remains dangerously low.

Our financial condition should not obscure the fact that the Postal Service plays a vital role in American commerce and delivers great value to its customers. Our package business is growing and very strong, and our marketing mail will remain strong for the long term. Unfortunately, declines in first class mail overshadow the healthy parts of our business and efforts we have taken to adapt to the lost revenue.

We have taken aggressive steps to reduce costs. Since 2006, we have reduced our annual cost base by over \$16 billion. We have reduced the size of our career workforce by more than 200,000 employees, have consolidated more than 350 mail-processing facilities, modifying hours right now in operations at 13,000 post offices, and have eliminated 21,000 delivery routes.

We have been able to accomplish these incredible operational changes because of the tremendous dedication and effort of our employees. It is to their credit that the organization continues to provide high levels of service to our customers and community during such change.

America deserves a Postal Service that can adapt to the basic marketplace changes and invest in the future. It needs a Postal Service that can evolve and change over time. The Postal Service has advanced a plan that can meet these expectations and it requires fundamental changes in the way that we currently do business.

Mr. Chairman, we are seeking the authority under law to control our healthcare and retirement costs. We can completely eliminate the need for prefunding retiree health benefits if we can move to our proposed solution. Our goal should be the elimination, not just reamortization of any prefunding, and this is achievable. Our employees and retirees will also benefit from lower premiums and get the same or better health benefits. Just by pursuing this one element of our plan, it can reduce annual costs by \$8 billion.

We seek the ability to establish a defined contribution retirement system for new employees. Given the changes that will occur in our industry in the coming decades, I believe it is fundamentally unfair to the Postal Service and future employees to maintain the defined pension system.

With the authority to move to a schedule that includes 6 days of package delivery and 5 days of mail delivery, the Postal Service can save nearly \$2 billion annually. The American public supports this delivery schedule and it's the financially responsible step to take.

We require a more streamlined governance model and flexibility under the law to develop, price, and implement products quickly. And we are also seeking a refund of approximately \$6 billion in overpayments into the Federal Employee Retirement System.

If Congress can pass legislation that addresses each of these areas, we can close a \$20 billion budget gap by the year 2016 and operate on a financially stable basis. If we do not gain that flexibility, our unsustainable losses will continue and we will risk becoming a significant burden to the American taxpayer.

There is a simple question to ask about the legislation this committee is in the process of developing: Does it enable \$20 billion in savings by 2016? We believe our plan meets this test and provides the most responsible approach for customers and employees, but we cannot implement it without legislation.

Mr. Chairman, we are quickly moving down a road that leads straight to a large financial chasm. The postal legislation can be a bridge over that chasm. If we build the bridge properly, the Postal Service can have a bright future. It can adapt and better serve the changing mailing and shipping needs of the American industry and the American public, and it can be a more powerful engine for economic growth and be profitable and operate without burdening the American taxpayer.

However, we can't get to that future if we don't build that bridge, and we need a bridge that gets all the way to the other side. Half measures are about as useful as a half bridge. We need legislation, together with our planned changes, that confidently enables the Postal Service to save that \$20 billion.

I strongly urge this committee to pass comprehensive reform legislation that effectively grants us the authority to operate the Postal Service in a financially responsible manner and creates a fiscally sustainable model for the next decade and beyond.

Let me conclude by thanking this committee for its willingness to address these tough issues and to pass comprehensive postal legislation this year. The Postal Service is a tremendous organization and needs your help. Thank you.

Chairman ISSA. Thank you.

[Prepared statement of Mr. Donahoe follows:]



STATEMENT OF
POSTMASTER GENERAL AND CHIEF EXECUTIVE OFFICER
PATRICK R. DONAHOE
BEFORE THE
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
UNITED STATES HOUSE OF REPRESENTATIVES

JULY 17, 2013

Good afternoon, Mr. Chairman, Ranking Member Cummings and members of the Committee. Thank you, Chairman Issa, for calling this important hearing to discuss imminent postal reform legislation. I testified before this Committee exactly three months ago. My message remains the same, and our financial losses continue to mount. Since my testimony three months ago, the Postal Service released its Fiscal Year (FY) second quarter financial results, posting a six-month loss of \$3.1 billion. Since the introduction of H.R. 2309, the *Postal Reform Act of 2011*, in the 112th Congress, the Postal Service has reported net losses of \$19.0 billion in 18 months.

We also appreciate the effort that has gone into the creation of draft legislation from you, Chairman Issa and from Ranking Member Cummings. Both pieces of legislation help to continue the conversation on comprehensive postal reform. The Postal Service has laid out a path forward, detailed in my testimony today, to set up our organization for future growth and stability. The plan we developed will allow us to succeed without highly undesirable measures, such as large price increases, which would serve to dampen demand. Our plan addresses unfunded liabilities head on, such as a USPS-sponsored health plan which eliminates the need for Retiree Health Benefits (RHB) prefunding by integrating with Medicare as most private sector firms have done for years. Why debate amortization periods for unfunded balances when we should attack the root problem of high costs? We further address the unfunded liability issue through our proposal to create a defined contribution retirement plan for future employees, which eliminates the need to fund the Federal Employees' Retirement System (FERS) for those employees. Now is the time for bold and sweeping action, which will let us move forward with a solution that will last for years to come, instead of piecemeal efforts that will only bring us back here again, pursuing legislative reform in a few years. We need to act now to implement strategies designed not for the Postal Service of today, but for the Postal Service of ten, twenty, and even fifty years into the future.

The Postal Service continues to make great strides in adapting to the country's changing mailing and shipping needs. However, our efforts are severely limited by a statutorily-mandated, restrictive business model, and by excessive, bureaucratic oversight that prevents the Board of Governors and postal management from effectively running the business. We have the responsibility to provide and to fund

universal service for our nation, but we do not have sufficient authority or flexibility to carry out that mandate, and be profitable. Postal reform legislation is urgently needed. In its absence, continued significant net losses are inevitable, and the business is simply not sustainable.

If provided the ability to make needed changes, the Postal Service has a bright future. We could again be a model of self-sufficiency. I look forward to the swift passage of legislation and the end to Congressional hearings discussing the Postal Service's financial losses. Then, we can finally shift our full attention back to what is really important to the men and women of the United States Postal Service - delivering for the American people.

USPS FINANCIAL CONDITION

The Postal Service faces tremendous financial challenges. For the first half of FY 2013 we recorded a net loss of \$3.1 billion. Last year, the Postal Service recorded a net loss of \$15.9 billion. We defaulted on Retiree Health Benefits (RHB) prepayments to the United States Treasury of \$11.1 billion, and will default on an additional \$5.6 billion due on September 30, 2013. The Postal Service has already reached its debt limit of \$15 billion and continues to contend with serious liquidity challenges. As of June 30, it had just 10 days of cash on hand and has significant unfunded liabilities. In addition, the Postal Service owes an estimated \$17 billion for future workers' compensation payments. Our retirement, workers' compensation and debt obligations, which total \$96 billion, combined with continuing losses highlight the need for immediate legislative reform. To be clear, the Postal Service does not have the authority or the tools to manage these massive obligations without legislative action.

At one point last October, the Postal Service had less than four days' worth of cash on hand to fund operations. For an organization the size of the Postal Service – which has revenues of \$65 billion and a workforce of close to 500,000 career employees – that is a razor thin margin. By way of comparison, most private sector companies usually have at least two months of cash on hand to fund operations.

The Postal Service cannot continue along this current path. [Figure 1] We are weighed down financially by the increasing burden of our healthcare obligations and are projecting continuing financial losses unless significant changes are made to our business model.

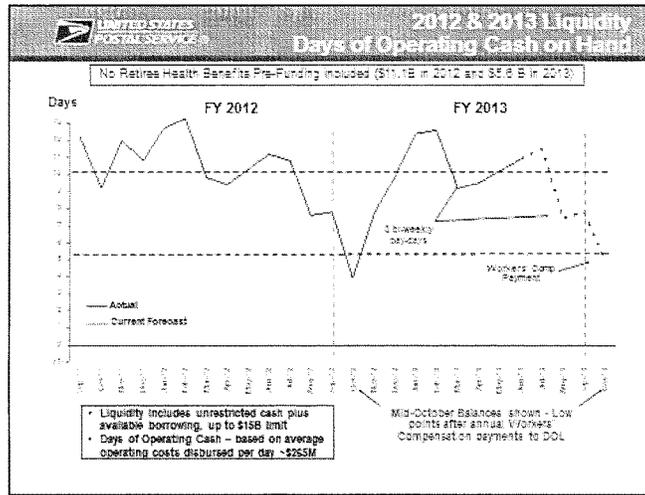


Figure 1

The results from the most recent financial quarter show a decline in total mail volume, including First-Class Mail, our most profitable category. The most significant factor contributing to the ongoing decline is the migration toward electronic communication and transactional alternatives. While the shift to electronic communication alternatives has a pronounced negative effect on First-Class Mail volume and revenue, the growth of e-commerce and successful marketing campaigns grew our Shipping and Package business. However, the growth in Shipping and Packages does not provide enough profit to offset the decline of First-Class Mail.

As one potential approach to address the Postal Service's financial situation, the Postal Service's Board of Governors has asked postal management to examine a possible exigent price increase. The Postal Service is currently in an information-gathering phase to determine revenue and volume impacts, as well as analyzing the long-term implications of such. To be sure, the Postal Service would much rather pursue legislative reforms to stabilize our business, than to enact price increases which could hurt demand. No decision has been made at this time, regarding an exigent price increase.

LEGISLATIVE REQUIREMENTS

Returning the Postal Service to solvency requires the comprehensive approach reflected in our Five-Year Business Plan, which was updated in April 2013 and is available for public viewing on our website. It has also been submitted, along with this testimony, to the Committee for the record. The plan provides a roadmap to restore financial stability and preserve affordable mail service for the American public. The major elements of the Plan must be executed within a short window of opportunity to avoid continued unsustainable losses which could become a long-term burden to the American taxpayer.

The Postal Service needs to save \$20 billion annually by 2017. Much of the savings cannot be achieved without legislative action. The legislative requirements put forward by the Postal Service constitute a fair and thorough way to stabilize the Postal Service as a platform for future growth. The requirements include:

1. Require USPS Health Care Plan (Eliminates Need to Prefund RHB)
2. Refund FERS Overpayment and Adjust Future FERS Payment Amount
3. Adjust Delivery Frequency (Six-Day Packages/Five-Day Mail)
4. Streamline Governance Model (Eliminate Duplicative Oversight)
5. Provide Authority to Expand Products and Services
6. Require Defined Contribution Retirement System for Future Postal Employees
7. Require Arbitrators to Consider Financial Condition of Postal Service
8. Reform Workers' Compensation
9. Right to Appeal EEOC Class Action Decisions to Federal Court

Each of the Postal Service's legislative requirements is explained in further detail below.

A. FIX THE UNAFFORDABLE BENEFITS SYSTEMS IN A RESPONSIBLE MANNER**Require USPS Health Care Plan:**

One of the most important proposals contained in our plan, and one which represents tremendous cost savings, is a change in the way we provide health care to our employees and retirees. More than 20 cents of every revenue dollar the Postal Service takes in goes toward health care costs. *[Figure 2]* The cost of this large component of our total operating costs, second only to wages, is largely outside of our control. To put it simply, the Postal Service would already be fully-funded in our retiree health benefits obligations if we could fully integrate with Medicare. Significant health benefits savings are created by integrating the plan for current and future retirees with Medicare in exactly the same way it is almost universally done in the private sector, and in state and local government plans. After a retiree reaches

age 65, Medicare becomes the primary insurance, and the employer plan is secondary. With Medicare responsible for paying first, that makes the employer sponsored plan much more affordable. This would eliminate the need to prefund retiree health benefits.

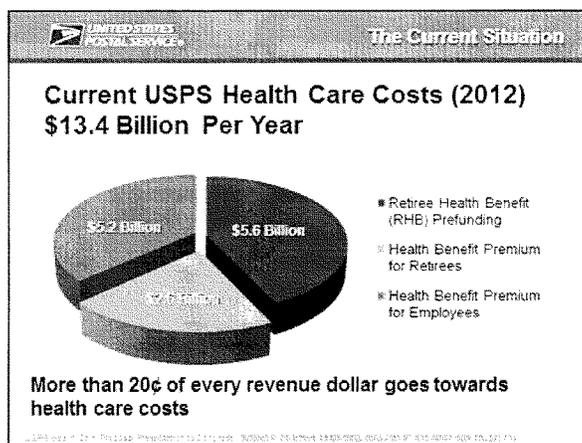


Figure 2

There is a substantial opportunity for savings – approximately \$8 billion each year through 2016 – by moving to a more modern, responsive and customer-focused system. This would be accomplished by allowing the Postal Service to sponsor its own healthcare plan, either within the Federal Employees' Health Benefits Plan (FEHBP) or outside of it. By moving away from the current system, nearly all of our employees and retirees would reap the benefits of getting equivalent or better healthcare coverage and paying less for it.

A Postal Service sponsored health care plan is critical. Without addressing the cost issue in a responsible way, the Postal Service may be unable to afford to provide health benefits to retirees. In its proposal, the Postal Service would sponsor its own health care plan for employees, as well as current and future retirees. Congressional action to allow this fundamental change would dramatically reduce health care spending, and help the Postal Service take a significant step toward financial stability.

Our health care plan proposal provides savings and benefits in a variety of ways:

- Helps return the Postal Service to financial stability. Preliminary estimates indicate cash savings for the first year would be approximately \$2.1 billion, in addition to savings from the elimination of the

prefunding. A savings of approximately \$660 million in reduced premiums for employees and annuitants (about \$700 annually per participant) is also projected.

- Eliminates the need for future scheduled RHB pre-funding payments (ranging from \$5.6 billion to \$5.8 billion annually) under the *Postal Accountability and Enhancement Act* and eliminates the unfunded liability.
- Leverages the tremendous buying power of more than one million employees and retirees to obtain better pricing.
- Achieves significant savings for the Postal Service, employees and retirees.
- Maintains the Postal Service's commitment to provide quality health care coverage to our dedicated workforce and retirees, as the cost of current FEHB plans is not sustainable.
- Implements best practices such as improved prescription drug coverage, integrated care and disease management, wellness incentives, and integrated Medicare and Employer Group Waiver Plans (EGWP) for retiree health benefits.
- Enables better choices with simple, more understandable options, as well as additional enrollment options.

The Postal Service's white paper on its proposed health care plan has been submitted, along with this testimony, for the record.

Refund FERS Overpayment:

Postal Service employees participate in one of three Federal government pension programs. These programs are administered by the Office of Personnel Management (OPM). OPM has determined that the Postal Service has overfunded its obligation to the Federal Employees' Retirement System (FERS) and that a surplus exists. According to the most recent actuarial estimate from OPM, the Postal Service has overfunded its FERS obligation by \$2.6 billion, as of September 30, 2011. This estimated surplus is less than amounts previously reported, due to changes in the government-wide economic and demographic assumptions made by OPM. OPM's most recent calculation (before adjustments using postal-specific assumptions and demographics) shows that the surplus is projected to have grown to approximately \$3.0 billion by September 30, 2012.

In December 2012, the US Postal Service Office of the Inspector General (OIG) issued an update to a previously released paper on the causes of the FERS surplus. The Postal Service agrees with the major conclusions in the OIG's report. First, the distinctive characteristics of the Postal Service workforce, including lower salary increases than the rest of the Federal government, indicate that our FERS surplus is larger than the OPM's current calculation, and OPM should use Postal Service specific data to calculate the surplus. Second, in order to prevent excessive surpluses from accumulating in the future, OPM should adjust the future USPS FERS contribution rate. The current FERS charges are too high, as evidenced by 20 years of surpluses, and contribute to the Postal Service's financial crisis. Third, once

calculated, the current surplus should be refunded to the Postal Service. The Postal Service, using postal-specific demographics and assumptions, estimates the FERS overfunding amount to be approximately \$6 billion. Directing OPM to utilize postal-specific demographics and assumptions in calculating the correct amount of the FERS surplus and returning the full amount of that surplus to the Postal Service is important, and needs to be completed this year. The Administration agrees with this approach, as evidenced in its 2014 budget request, which requires OPM to calculate FERS costs using actuarial assumptions and demographics specific to the Postal Service workforce.

Require Defined Contribution Retirement System for Future Postal Employees:

The Postal Service's current employees participate in one of three federal government pension programs, all of which include defined benefit plans. But the Postal Service is changing. Employees coming in now have a much different future than current employees. We should provide a retirement system that benefits both the employee and the Postal Service. The Postal Service proposes this new retirement system for four main reasons, including:

1. The ability to meet obligations under the Postal Reorganization Act (PRA).
The Postal Service is required to provide wages and benefits comparable to those provided in the private sector. The FERS system is not comparable to the private sector and is more costly. Permitting this move would allow the Postal Service, like the private sector, to adjust to market conditions by modifying plan design, portability, provider services, employee engagement and other factors.
2. The Postal Service's employee base is changing.
Our emerging workforce is younger and less likely to stay with one employer for their entire career, as most of our established employees have done. This type of portable and flexible retirement program holds a greater appeal for the younger demographic.
3. Permits a reduction in labor costs.
Benefit costs constitute roughly 48 percent of total labor costs, including RHB prefunding. Even if the RHB prefunding requirement were removed, benefit costs would still make up nearly 43 percent of the Postal Service's labor costs. As has been well reported, approximately 80 percent of the Postal Service's total costs are labor costs. We cannot resolve our fiscal issues without addressing these costs.
4. Separates Postal Service retirement system from the rest of the Federal Government.
There continue to be ongoing debates regarding Postal Service funding of both the CSRS and FERS retirement systems. These tensions will continue and will likely escalate, given that the Postal Service has funded substantially more of its pension obligations than the remainder of the federal government. Allowing the separation of the Postal Service's retirement obligations would resolve these disputes.

5. Protects the American taxpayer.

A defined contribution retirement system for future employees would ensure the Postal Service can fulfill its obligations not only to future employees, but to retirees and current employees as well. This, in turn, provides an added level of protection for taxpayers, as it significantly lessens the possibility that taxes would have to be used to fund these payments.

A defined contribution retirement system for future employees would be a triple win. It would be a win for employees, who would have more portability in their retirement plan; it would be a win for the Postal Service, freeing it from having to fund a defined benefit plan; and, it would be a win for the taxpayers, as it protects them from having to step in and fund any liabilities for these future employees. It should be noted that this change would not impact existing retirement systems for current employees.

B. ELIMINATE DUPLICATIVE OVERSIGHT AND UNNECESSARY BUREACRACY

Streamline Governance Model:

In order to meet the challenges it faces both today and in the future, the Postal Service must be given the tools to become a more nimble, streamlined organization, better able to respond quickly to the needs of a dynamic marketplace and to adjust our operations as demand for products and services evolves. The Postal Service does not need any additional bureaucracy to slow us down. We urgently need the flexibility to implement our Five-Year Business Plan.

The Postal Service Board of Governors should have the clear authority to make structural changes that reduce the costs of the retail, processing and delivery networks. Currently, the Governors must submit operational changes to the Postal Regulatory Commission (PRC) for an advisory opinion following a lengthy, litigious, administrative proceeding that does not promote timely and effective implementation of necessary, efficient cost reduction decisions. The current process imposes substantial costs on the Postal Service, delays savings and should be eliminated. At a minimum, PRC procedures should be substantially streamlined.

Another facet of restoring financial sustainability is the growth of revenue through product and pricing innovation, both with respect to existing lines of business and other lines of business. Giving the Board greater authority to exercise business judgment in this area does not mean the end of oversight by an external entity. A more nimble and well-defined regulatory approach is required to minimize unnecessary bureaucracy, recognize the Postal Service faces intense competition with respect to all of its products, and allow the Board to respond effectively to changing conditions. Even the PRC recognized in its Annual Report that the current system of regulation is not achieving the objective of financial stability.

Giving the Postal Service greater flexibility over pricing and product innovation would further advance the goal of providing universal service in a financially sustainable way. The Postal Service faces competitive pressures, and has strong commercial incentives to be efficient and responsive to its customers' needs. Extensive price and product controls are not necessary. Governors' decisions on new products and pricing should be subject to after-the-fact reviews (like the current Annual Compliance Determination) or handled through the complaint process. Pairing much greater flexibility over pricing and product innovation with additional flexibility to address network costs would put the Board in a position to create a multi-faceted and balanced approach to restoring financial stability. The Postal Service's white paper, detailing these streamlined governance proposals is submitted, along with this testimony, for the record.

Adjust Delivery Frequency (six-day packages/five-day mail):

In February 2013, the Postal Service put forward a proposal to move to a six-day package/five-day mail delivery schedule. Savings projected from this move (net of the cost of Saturday package delivery, primarily by non-career carriers, are estimated to be approximately \$2 billion annually when fully implemented. The proposal provides mail delivery to street addresses Monday through Friday. Mail addressed to P.O. Boxes would continue to be delivered on Saturdays. Post Offices already open on Saturdays would not be affected by this proposal. Packages would continue to be delivered six days per week, and our Express Mail offering, currently delivered seven days per week, would not be impacted. The proposal was designed to serve a dual purpose: to respond effectively to the increase in package growth, a 14 percent volume increase over the last two years, and to address the realities of the public's changing mailing habits. By continuing to deliver Express Mail, Priority Mail, and most other packages on Saturday, the modified plan responds to many of the concerns expressed by the Postal Regulatory Commission (PRC) and others about the impact of 5-day delivery on certain customer segments, such as recipients of medicine.

We believe the timing is right to implement this change, especially in light of overwhelming continued support for five-day mail delivery by a vast majority (over 70 percent) of the public. Additionally, in his FY 2014 budget proposal, released on April 10, the President again included a provision to allow the Postal Service to move to a five-day mail delivery schedule.

Authority to Expand Products and Services:

The Postal Service must be allowed authority to establish new revenue sources and respond to a changing marketplace. Provisions contained in both draft House bills will be helpful in providing flexibility to the Postal Service to offer products and services that would improve our net financial position. Both bills, for example, grant additional authority to the Postal Service to provide certain nonpostal services.

Such changes are vital to our ability to grow additional revenue and leverage our strengths. The Postal Service is fully engaged in exploring all options available to us under the existing structure. For example, we are currently focused on ensuring our presence in the digital world, through the work done by our Secure Digital Solutions group. Potential product offerings and services include identity and access management services and secure messaging. The Postal Service is confident it can leverage critical brand components, such as trust, convenience, security and privacy. The Postal Inspection Service, the law enforcement arm of the Postal Service, plays an important part in our efforts to move into the digital realm. The Postal Service has been named the Most Trusted Government Agency for seven years and the fourth Most Trusted Business in the nation by the Ponemon Institute. We value that trust and we intend to build upon it, in both the physical mail and the digital mail worlds. Our return to financial viability is dependent on finding innovative ways to use the mail. A critical part of that is obtaining legislative change that will enable the Postal Service to offer additional products and services and improve our financial condition.

C. CHANGES NECESSARY TO PUT THE POSTAL SERVICE ON A LEVEL PLAYING FIELD

Require Arbitrators to Consider the Financial Condition of the Postal Service:

More than 85 percent of the Postal Service's career employees are covered by collective bargaining agreements. The Postal Service requests that Congress enact provisions that instruct interest arbitration panels to consider the financial condition of the Postal Service in interest arbitration awards. Although some argue that interest arbitrators do this already, they cannot function like bankruptcy courts under Chapter 11 in the private sector. The panels cannot restructure the Postal Service's regulatory or business models. They do not have the authority to look at the entirety of the Postal Service's finances—indebtedness, pricing, operations, service standards, capital sources, debt relief, etc.

All the arbitration panels can do is address wages and benefits for a particular bargaining unit. Even there the panel's power is limited, because they cannot alter or modify statutory benefits like retiree health care or defined benefit pension plans. Given these inherent limitations (which were explicitly recognized by the panels in the two most recent awards involving the National Rural Letter Carriers' Association and the National Association of Letter Carriers), we believe it is especially important for Congress to make certain that the arbitration panels take into consideration the Postal Service's financial condition in the areas they do have authority to address - wage rates, leave, health care contributions, workforce mix, job protections and related matters - and to make that legislatively explicit. The Postal Service needs legislative language requiring arbitrators to consider the Postal Service's overall financial health. The Chairman's discussion draft bill includes this provision, which the Postal Service supports.

Reform Workers' Compensation:

Postal employees injured on the job are covered by the Federal Employees' Compensation Act (FECA), administered by the Department of Labor's (DOL) Office of Workers' Compensation Programs (OWCP), which makes all decisions regarding injured workers' eligibility for benefits. The Postal Service has made tremendous strides in reducing its accident and injury rate, as measured by the Occupational Safety and Health Administration (OSHA). Since 2003, the rate of reported injuries has dropped by over 50 percent. Despite the declining level of accidents and injuries in our workforce, our workers' compensation costs and liabilities continue to grow. We pay approximately \$1.4 billion per year to the DOL, and our workers' compensation liability is currently approximately \$17 billion, which is an extreme financial burden on the Postal Service. The OWCP program is also flawed because it does not allow cases to be settled, which makes it extremely difficult to remove participants, and allows participants to continue receiving payments after reaching retirement age.

We currently have around 17,000 employees on the workers' compensation periodic rolls, being paid for wage losses. Some of these employees have been on the workers' compensation rolls since before postal reorganization in 1971. Although one of the current draft measures would provide some flexibilities with regard to workers' compensation, specific provisions are still needed, such as providing the Postal Service with the ability to settle federal workers' compensation claims, as is done in the private sector. We urge that any future legislation include specific provisions to address this costly area of the Postal Service's total operating expenses.

Right to Appeal EEOC Class Action Decisions to Federal Court:

The Postal Service has seen a reduction in Equal Employment Opportunity Commission (EEOC) formal complaints of 40 percent since FY 2004, and continues to focus on ensuring compliance with the law. Today, however, despite these strides, the Postal Service has no right to appeal decisions of the EEOC administrative judges outside of the EEOC. To illustrate why this is problematic, the Postal Service is subject to class actions that we believe have been improperly certified in the EEOC process. Defending against these class actions is extremely costly and burdensome, regardless of their merit. We believe we should have a broader right to appeal to federal court the final class action decisions of the EEOC. This is similar to the Postal Service's existing authority to appeal decisions of the Postal Regulatory Commission (PRC).

POSTAL SERVICE ACTIONS

On April 17, 2013, the Postal Service released its updated comprehensive Five-Year Business Plan, which details the implementation of our targeted program to eliminate nearly \$20 billion of annual cost from the business by the year 2016. [Figure 3] This plan continues the Postal Service's efforts to aggressively pursue strategies to increase operational efficiency and to improve our liquidity position. By carefully managing what is within our control, the Postal Service is currently running ahead of plan in FY 2013 for revenue. In addition, cost reductions are ahead of schedule. But our actions alone are not enough to return us to profitability, and we continue to pursue all avenues for change, as detailed in the updated Five-Year Plan. The Plan requires a combination of operational realignment, aggressive cost reductions, and comprehensive legislation, as described earlier, to reform the Postal Service's current business model. Several key provisions include better alignment of network size and cost with reduced mail volumes, revenue management and increased growth, the implementation of a USPS sponsored healthcare plan for active and retired employees, and business model changes, including implementation of a new delivery schedule.

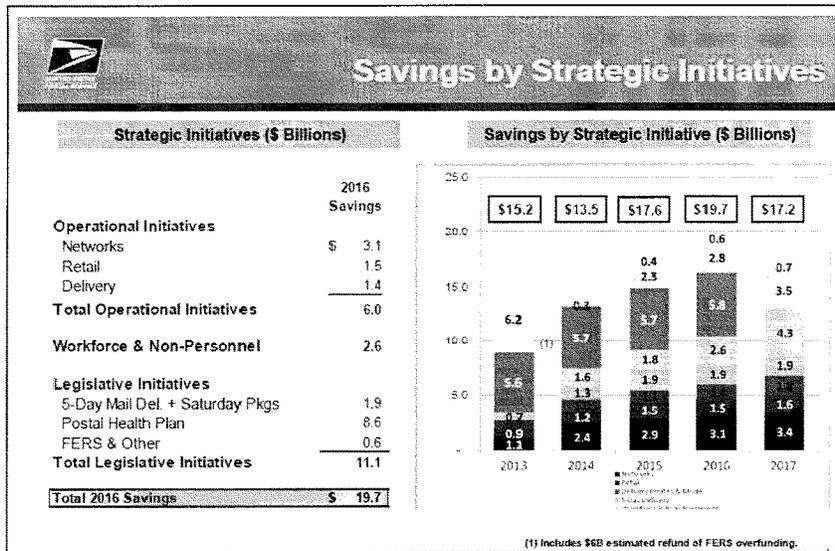


Figure 3

Alignment of network size and cost with reduced mail volumes:

Operational measures taken to achieve this goal include the accelerated consolidation of mail processing, retail, and delivery networks in order to better align them with mail volumes, and a reduction in hours at 13,000 Post Offices, accompanied by an expansion in alternate retail access. These extensive operational changes are being executed while the Postal Service continues to deliver high levels of service to communities throughout America. This realignment of mail processing, retail, and delivery operations is expected to generate nearly \$6 billion in annual cost reductions by the year 2016.

In conjunction with the operational realignment, the Postal Service continues to implement efficiency measures, and continues its actions to better align staffing levels with projected mail volume. These staffing level reductions will be achieved largely through attrition, as approximately one-half of career employees are eligible for optional retirement or voluntary early retirement. As a result of a special Incentive and Voluntary Early Retirement (VER) offer, approximately 22,800 eligible employees represented by the American Postal Workers' Union (APWU) retired or separated from the Postal Service in the second quarter of fiscal year 2013. This followed 4,275 eligible postmasters and 2,925 eligible mail handlers who retired or separated from the Postal Service in fiscal year 2012.

Recent contractual agreements with major postal unions allow for increased utilization of lower cost non-career employees, which will facilitate the realignment of staffing and workload levels and the reduction of costs. The number of career employees decreased by approximately 25,000 in the second quarter and by 46,000 in the last year. These reductions have been accomplished primarily through attrition and separation incentives. The Postal Service now has the lowest number of career employees since 1966. The Postal Service has increased its use of non-career employees, who currently comprise approximately 20 percent of the total workforce, improving workforce flexibility and better aligning pay scales with the organization's financial realities.

Revenue Generation:

The Postal Service also continues to introduce new service offerings to generate additional revenue and to slow the migration of existing revenue streams to electronic alternatives. Expanded use of digital technologies to enhance the mail experience, using connectivity to various websites, social media, and points of purchase is a focus in enhancing the mail experience. However, legislative action is also required to give the Postal Service authority to generate new revenue and adapt to changing business conditions, as the scope of products and services that the Postal Service can offer is currently limited by law.

CONCLUSION

Simply put, the enactment of comprehensive postal reform legislation cannot wait. The Postal Service has exhausted its borrowing authority, faces massive unfunded liabilities, and is constrained in how far it can go to right its financial ship. In no uncertain terms, the Postal Service does not want to become a burden on the American taxpayer. The successful implementation of strategic initiatives included in our Five-Year Plan would bring tremendous results, allowing for increased net profits and elimination of existing debt. [Figure 4] We cannot get there by our actions alone, however. There exists no scenario where the Postal Service returns to financial stability without enactment of postal reform legislation. Comprehensive and wide-ranging postal reform legislation, as opposed to narrow piecemeal efforts, is desperately needed. The sense of urgency I expressed when I last testified before this Committee three months ago has only deepened. We must avoid a situation where the Postal Service's financial crisis causes mailers to seek out alternatives. Mr. Chairman, we look forward to continuing to work with you and the rest of the Committee to accomplish meaningful postal reform legislation.

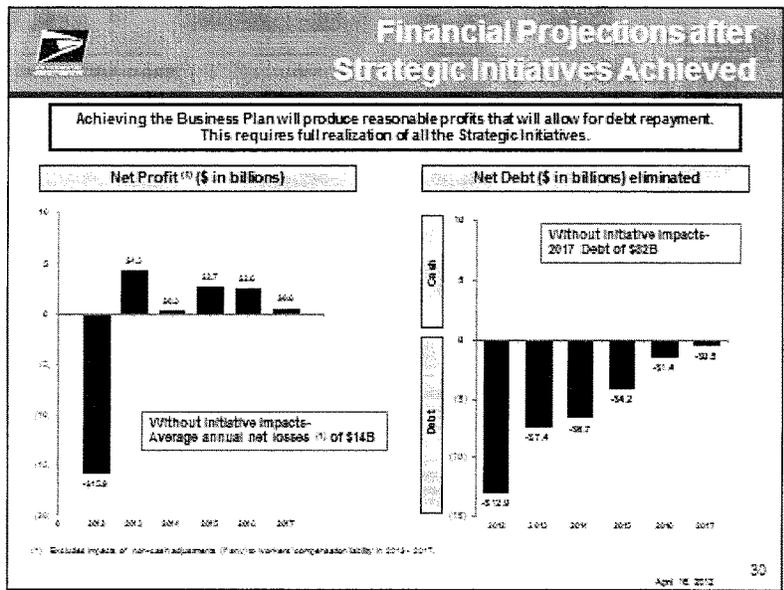


Figure 4

Chairman ISSA. Mr. Quadracci.

Mr. QUADRACCI. You're getting closer.

Chairman ISSA. You know, you'd think with a name that gets messed up as often as my four letters that I'd be better. Thanks.

STATEMENT OF JOEL QUADRACCI

Mr. QUADRACCI. Thank you, Chairman Issa and Ranking Member Cummings and distinguished committee members, for the opportunity to discuss Postal Service and its impact on Quad Graphics and the printing and mailing industries.

I am encouraged that both Chairman Issa and Ranking Member Cummings are taking leadership roles in pursuing reforms that would lead to the financial stabilization of the Postal Service. In some key respects, the drafts are quite close. In others, there are disagreements. But it is my hope, and the printing and mailing industry will lend strong support to any effort to earn bipartisan approval of the necessary reforms.

My company, Quad Graphics, has grown over the past 40-some-odd years into one of the largest printers of magazines and catalog and retail inserts. We employ about 20,000 American workers in the United States, 58 plants, plus dozens of other support facilities across 28 states. And I want to be clear that we are believers in print. We do believe that print is here to stay, but it is evolving, and we have worked with the Postal Service on innovative ideas that entail things like mobile devices, QR codes, interactive print to make print a much more viable part of the multichannel world. And so print is here to stay, and we have to make sure we have the ability to deliver it in an efficient manner.

So what's at stake here is that the Postal Service is a \$65 billion business supporting a \$1.3 trillion industry that provides 8.4 million Americans with family-supporting jobs, all of which accounts for 9 percent of the U.S. gross domestic product. So it really is about deciding whether or not we want to have the post office self-funding and sustainable or whether we want to offload the problem onto the taxpayers.

In terms of the decline in volume and excess capacity that exists, pricing back in 2007, the significant increase that happened then, along with the recession, has led to a permanent reset within the printing and mailing industry. The last great increase before the CPI cap was implemented in 2007, which was double digit in size, led to double-digit decrease in volume. On the heels of that rate case, the great recession continued the erosion of volumes to the combined impact of about 25 percent out of the volume of not only the post office, but our industry.

This, we believe, has become a permanent reset because people have figured out how to be more efficient as well as have used things like the internet and tablets to take the place of some of that spend.

The reality is the USPS and private industry must rightsize to the demand as price increases will not provide additional revenue, but will lead to further erosion of demand. Excess capacity and costs are the problem and it must be fixed. The Postal Service has the capacity to produce approximately 300 billion pieces of mail; however, the projected volume in 2013 is closer to 150 billion. This

is an unsustainable fact that leads to costs far outweighing the actual demands. If excess cost were removed, the costs of delivering the products would be much closer to being aligned.

Quad Graphics has a lot of experience in rightsizing, unfortunately. When the great recession happened and the industry lost its volume, because we had a strong balance sheet and a strong business, we were able to take advantage of it. We are about a \$1.7 billion company. We acquired a \$3 billion competitor who had gone through bankruptcy and lots of issues. We knew that the opportunity was consolidation because we knew the industry had to. There was excess capacity. We took on the hard work of closing over 21 plants throughout our network to make sure that the remaining business, the resulting business of this combination would be sustainable on into the future.

The private sector economic activity is at risk unless Congress acts to ensure the Postal Service is sustainable. The Postal Service reform cannot wait until the last minute as it hurdles towards insolvency. The crisis of confidence is already costing the industry customers and volumes as marketers decide how best to spend their advertising dollars. Fear of more large increases in pricing will scare volume away.

Our industry changes rapidly. Quad, our customers, and the Postal Service need to be nimble and flexible, and the Postal Service must be allowed to make the business decisions that are necessary without artificial constraints in order to allow that to happen.

For reform to be legitimate and effective, we believe there needs to be six key provisions in this. Assuring the Postal Service has the authority to streamline its operations to rightsize the capacity. Maintain a postage rate structure with a CPI cap. Change in the delivery schedule to 5 days, something the industry hasn't been clear on, but I think we feel that, in conjunction with the rest of the reforms, we are willing to support 5-day delivery and can adjust to it. Return to USPS its overpayments to the Federal Employees Retirement System. Reamortize of payments for prefunding retiree health benefits from 10 years to 40 years without impacting what is due to the employees. And also provide the USPS the ability to go out and shop different healthcare benefits, something that Quad Graphics has experience at doing, and our cost happens to be 20 to 30 percent lower than all industry. And so there are options out there not only to shift where things are paid, but actually to reduce how much has to be paid.

So I thank you, Mr. Chairman, for the time, and I urge you to move this along as we are at a stage where our customers are concerned. Thank you.

Chairman ISSA. Thank you.

[Prepared statement of Mr. Quadracci follows:]



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U.S. House Committee on Oversight and Government Reform
July 17, 2013

Joel Quadracci, Chairman, President & CEO
Quad/Graphics, Inc.

Good morning Mr. Chairman, Ranking Member Cummings and Members of the Committee. I want to thank you, Mr. Chairman and Ranking Member Cummings, for your leadership, and the rest of the Committee for your focus and efforts on the urgent matter of restoring the U.S. Postal Service (USPS) to financial stability. This is a vitally important issue for communications and commerce in our country. A financially hobbled postal system cannot provide the service the public needs and deserves. The Postal Service must right-size its network and substantially reduce its costs, but it also needs help from Congress. We, as an industry, are truly grateful for the thoughtful proposals that have been prepared for consideration by Congress. I believe the Chairman's discussion draft, in particular, will facilitate the cost reductions and right-sizing that are necessary to ensure the Postal Service's long-term financial viability.

It is clear that you and the members of this committee, in particular, clearly understand the importance of a financially sustainable Postal Service. So, with respect, I urge you and your colleagues to act as quickly as possible to find the common ground that is evident and ensure that these necessary reforms are enacted into law. In order to thrive the mailing industry must have a cost-effective and efficient postal service. At times even just the uncertainty surrounding the Postal Service will lead to additional customers leaving the mail-stream in favor of other more predictable marketing media.

As we know all too well, the Postal Service is losing money at a rate of nearly \$25 million a day with a total planned loss in 2013 of \$7.6 billion. This is clearly unsustainable. This financial instability and the constant threat of insolvency is obviously troubling for the Postal Service, but it is even more troubling for the American economy overall. Although the Postal Service is financially challenged it is still a \$65 billion business that supports a private sector economy worth more than \$1 trillion, employing some 8 million private sector workers and accounting for 9% of our nation's Gross Domestic Product (GDP).

The Postal Service is the backbone of the private sector mailing industry and it plays an integral role in the modern economy ranging across every type of mailer and the printing, paper and technology industries that supply the industry. These businesses support services in a marketplace that includes cost-effective advertising, magazines, catalogs, e-commerce, prescription drug fulfillment, and what is still a huge amount of statements, bills and greeting cards as well as an expanding package delivery segment. These are products that consumers in all 50 states value, and, in some cases, rely on, and they depend on the Postal Service to deliver them right to their door.

While it is clear that the printing and mailing industries are a vital part of our economy, there is no doubt that our industries are changing and change can be challenging. Since 2009, the mailing



industry lost 4.5% of its jobs. The biggest problem facing the printing industry is the same problem the Postal Service faces: excess capacity. This is a problem that we, at Quad/Graphics, are addressing head on. We continue to work hard to acquire marketshare by attracting and retaining clients and pursuing strategic acquisitions, both large and small. Over the past three years we have completed two major acquisitions (World Color Press Inc. and Vertis Holdings Inc.). Through these acquisitions we acquired more volume. At the same time, we also acquired more underutilized capacity. Therefore, we were required to make the tough but necessary choices to close facilities and consolidate work into other locations where we believe we can produce the work most efficiently and competitively. This has resulted in the closure of 21 facilities accounting for more than 7 million square feet of printing capacity. These decisions are necessary in a mature industry and challenging marketplace.

The Postal Service must make similarly difficult decisions. It must take an honest look at its business model and make sure that the size of its business matches the reality of the marketplace. Right now, the Postal Service has too much capacity and must continue to be "right-sized." Mr. Chairman, your bill's focus on continued cost reductions will help ensure that excess capacity is eliminated.

Our company, Quad/Graphics, is one of the largest mailers in the United States, accounting for nearly 12 billion pieces of mail each year. We print magazines, catalogs, retail inserts and direct mail for many well-known publishers and marketers. For example, Quad/Graphics has contractual relationships with leading magazine publishers, including Conde Nast, Hearst Magazines, Meredith Corporation, The National Geographic Society, Rodale Inc., The Reader's Digest Association Ltd., Source Interlink Media, LLC, Time Inc., Sports Illustrated, and Wenner Media LLC. Quad/Graphics prints catalogs for industry-leading marketers such as Cabela's Incorporated, J. Crew Group, Inc., L.L. Bean, Limited Brands Inc. (Victoria Secret), and Redcats USA, and direct mail products for companies such as Charter Communications, American Family Insurance, American Eagle Outfitters, Publishers Clearing House, Inc. and Weight Watchers International, Inc. The success of Quad/Graphics and our 20,000 American workers -- which include 6,700 in Wisconsin, 700 in Oklahoma, 1,200 in Georgia, 300 in Tennessee and more than 1,500 in Pennsylvania and many more people throughout 28 other states, is directly tied to the existence of an efficient and cost-effective Postal Service. Those 20,000 workers are counting on this committee and this Congress to take the necessary steps to help them succeed.

Point being, you are not alone on this journey. We are part of the Direct Marketing Association, PostCom, American Catalog Mailers Association, Alliance of Nonprofit Mailers, MPA -- The Association of Magazine Media, and the Coalition for a 21st Century Postal Service all of which stand beside us, ready to continue their work with you to ensure the future of the Postal Service as well as the 8 million American families that depend on the Postal Service for their livelihood.

The continued sluggish economy and the decline in mail volumes pose a threat to the Postal Service's sustainability. These challenges can be overcome with bold reforms, cost-cutting and streamlining -- the same types of tough measures that thousands of American businesses like ours have made during difficult times. In addition to measures the Postal Service must take, Congress can



help by alleviating the unreasonable financial burdens that have been placed on the Postal Service. Without Congressional action, not only will the financial situation of the Postal Service continue to be dire, but the uncertainty for our clients and the entire mailing industry will stifle volume as customers make decisions about how to spend their advertising budgets, among other concerns. The uncertainty surrounding the USPS is referred to by many as a “crisis of confidence.” Many clients may choose to move away from print only because they do not have confidence that the Postal Service will continue to be a viable option. This uncertainty can be resolved by Congress taking decisive action to show that the Postal Service will remain a strong and practical option for our marketers and publishers to distribute and advertise their products.

Given the Postal Service’s current financial condition and the continuing decline in mail volume, we support proposals to move to 5-day mail/6-day package delivery as part of a comprehensive reform approach focused on cutting costs and excess capacity. The mailing industry will make the necessary changes to adjust if five-day mail delivery is implemented as part of a comprehensive plan to ensure the Postal Service’s financial viability, and with an adequate period of time (at least six months) to prepare for the change. Moving to a 5-day delivery schedule is a cost-cutting measure that Quad/Graphics and other mailers can manage as we help our clients through the transition while continuing to add value.

While we are confident that we can adjust to a 5-day delivery schedule, I cannot say the same about dramatic increases in postage rates (higher than the current CPI cap). Our clients have budgets and they will meet those budgets one way or another – either by cutting back on volume to cover the costs of the increased postage or, worse yet, leaving the mailstream completely, thereby exacerbating the Postal Service’s financial problems and costing private sector jobs throughout the mailing and related industries. Substantial postage rate increases would do damage to both the Postal Service and the mailing industry. No such provisions should be included in postal reform legislation.

RECOMMENDATIONS FOR CORE ELEMENTS OF LEGISLATION TO STABILIZE THE USPS

As an industry, we believe there are core components that should be part of any Postal Service reform legislation and request that Congress, at a minimum, act on the following.

Provide the USPS with the authority to streamline its network. With the precipitous plunge in mail volumes, the network of postal facilities has become far too large for the business the system has or is likely to have in the foreseeable future. Therefore, the postal system must downsize. The USPS is in the process of doing precisely that, having closed numerous facilities with little operational disruption because of continual communication with mailers. Mailers are very pleased with the way this process has been managed. The USPS also heard Congress loud and clear, and instituted a well-received program to keep rural and small post offices open. We urge Congress to exercise its customary, thorough and cautious oversight of the USPS as it downsizes, but not to unduly inhibit or restrict the Postal Service’s ability to do so, and do so quickly.

- Mail volume has declined 25% since its peak year in 2006. The associated revenue drop has outpaced the USPS’ actions to cut costs.



- Prior to implementing Network Rationalization, the USPS had the infrastructure and capacity to handle and process more than 300 billion pieces of mail. Unfortunately mail volume continues to decline and is expected to be only 153 billion pieces in 2013 (of which Quad/Graphics accounts for approximately 12 billion pieces of mail).
- The USPS must reconfigure its system (facilities and workforce) to the business it has and projects to have over the coming years.
 - The decline is unlikely to be substantially reversed, but further losses may be slowed.
 - The USPS is implementing plans to consolidate and close processing facilities and reduce post office costs without widespread closings. Implementation of these plans ought to be allowed to proceed in accordance with the USPS' best professional judgment, without Congressional intervention.
- The USPS must be provided with and use its authority to continue the effort to "right-size" its system to current and anticipated future mail volumes.

Shift to an affordable payment plan for retiree health benefits. Prefunding retiree health benefits is admirable but virtually without precedent in the private or public sector, especially on the massive scale of \$5+ billion per year. The current payment schedule is simply unaffordable and already we have seen the USPS default on two payments. Thus, the business community, including Quad/Graphics, supports proposals to modify the prefunding schedule for retiree healthcare.

- Ensuring retiree health is not an unfunded liability is financially sound. However, the current \$5+ billion per year payment schedule, which the USPS has defaulted on twice, is unaffordable.
- Adopting a more affordable amortization schedule, as proposed in the Chairman's and Ranking Member's discussion draft, guarantees full pre-funding at much lower annual payments.

Allow the USPS access to potential pension system overpayments. There appears to be bi-partisan support for ensuring that the USPS adequately funds its retirement obligations and the business community supports that as well. However, if there is a surplus, the USPS ought to have access to the excess funds to be used for debt reduction, necessary capital investments, and efforts to restructure and right-size itself.

Provide the USPS with needed flexibility to manage healthcare costs. While not explicitly addressed in current discussion drafts, healthcare costs are a significant issue for every business and making sure that employees get the necessary services at an affordable price is paramount to business success.

- Quad/Graphics has a unique, in-house, healthcare model, called QuadMed, which focuses on preventive primary care, based on a wellness model that rewards employees for choosing a healthy lifestyle. It generates significant savings for the company *and* the employee while improving the quality of care. Due to this unique model, Quad/Graphics has seen a significant reduction in healthcare costs.
- It seems beneficial that USPS be able to go out in the marketplace and negotiate for better service at a lower cost, which is something it has explored and recommends to Congress. Those beneficial options do exist and can save the USPS money.



Retain the Consumer Price Index (CPI) cap on postage rate increases. Congress, in its wisdom, capped postage rate increases to the CPI as part of the 2006 Postal Accountability and Enhancement Act (PAEA). Doing so has provided an enormous incentive for the USPS to move quickly and prudently to improve the cost-efficiency of its services without substantially reducing the quality of its mail services. Without such an incentive, the fiscal position of the USPS would be much worse than it currently is.

- An increase in postage has a direct and profoundly negative impact on postal volumes, resulting in a “death spiral” where additional price increases are necessary to cover the costs, driving additional volume out of the mailstream.
- In general, since 2001, postage prices have increased by 50% while other costs relating to being in the mailstream have risen at a much slower rate or have even decreased. For example:
 - The cost of paper has increased 9%
 - The costs related to printing have decreased 33%

Switch to a 5-day delivery schedule. Given the Postal Service’s current financial condition and the continuing decline in mail volume, we support the Chairman’s proposal to move to 5-day mail/6-day package delivery as part of a comprehensive reform to cut costs and excess capacity. It is important that the USPS provide adequate notice (at least six months) and continue the transparent process of working with mailers to ensure a smooth transition.

- Moving to a 5-day delivery schedule is a cost-cutting measure with which Quad/Graphics and other mailers can assist our clients through the transition all while continuing to add value.
- The move to 5-day delivery along with the proposed conversion to curbside and, where feasible, clusterbox box delivery, will result in major savings to the USPS annually and, taken as a whole package, will be part of the necessary cost reductions that are necessary to ensure the USPS is sustainable for the long-term.

Ensure that arbitrators take into consideration the fiscal position and the marketplace challenges facing the USPS. Regardless of the outcome of management-labor disputes, it is the mail users who are ultimately impacted by the outcome as a result of price and service changes driven by the resolution.

- Explicitly requiring the arbitrator to consider the markets served by the USPS and the fiscal challenges the USPS faces ensures that mailers’ interests will be represented at the bargaining table.

Reform workers’ compensation rules. The rules governing eligibility for workers’ compensation need to be reformed to ensure that workers whose age would otherwise qualify them for retirement-related benefits have their future compensation and benefits provided in accord with those retirement programs in lieu of continued coverage under workers’ compensation.

The issues laid out above are the items that, at a minimum, ought to be included in any postal reform legislation. There are also a few items that have been discussed over the last few years that would be extremely harmful to the Postal Service as well as, have direct consequences on Quad/Graphics, the mailing industry, and the USPS itself if enacted. In particular, proposals to



substantially increase postage rates – such as those included in the Ranking Member’s discussion draft – must not be included in reform legislation.

I would like to take some time to put a finer point on the impacts of postage rates on our business and the business of many mailers across the country. There are three main components to printing a magazine, catalog, retail insert or direct mail piece: 1) the cost of the physical printing of the item; 2) the paper on which the product is printed; and 3) postage. I cannot stress enough how damaging postal rate increases are to our industry. There is a direct negative correlation between rate increases and volume. Our clients demand predictability and affordability and if prices suddenly increase more than expected, they react by reducing their volumes to cover the extra postage or move away from print altogether. Of course, this hurts the revenue of the printer, but it also reduces the volume going to the Postal Service, further exacerbating its financial challenges. Over the last 25 years, through technological advances and process changes resulting in productivity gains of more than 4% annually, the printing industry has been able to reduce the price for printing (adjusted for inflation). The Postal Service should address its problems by achieving the same cost control success.

Paper prices have fluctuated during that same period based on supply and demand. To ensure that we are providing our clients with the lowest possible cost and highest quality product, Quad/Graphics has dedicated staff who continually work with paper manufacturers to coordinate with transportation companies (be they rail or over-the-road-trucking) to ensure the most cost-effective and timely delivery of paper from the mills to our plants. We’ve also developed and initiated standards for managing inventories and waste, all in an effort to be the low-cost provider and deliver quality products for our clients. Despite the fact that we are not in control of paper prices, these efforts have resulted in the management of paper prices and costs overall for our clients for our printed products.

During that same time period, the price of postage has continued to increase and, as a result, the single largest expense of printing is now the postage associated with delivering the final product. In order to help control these costs, Quad/Graphics, along with other printers and mail service providers, offer co-mail services that combine and then ship numerous, individual clients’ mailpieces together, relieving the Postal Service of significant sorting, handling and transportation costs. A large volume of the product we co-mail is sorted to the individual letter carriers and sequenced exactly in the order in which they walk their route. This reduces Postal Service costs and qualifies our company and our clients for postage discounts. These “work share” discounts were put in place in cooperation with the Postal Service at a tremendous capital expenditure for the printing industry. The equipment necessary to provide these co-mail services is expensive. However, the private sector is able to provide this service efficiently, saving the Postal Service the added expense of installing this technology in its own processing facilities. This not only reduces the Postal Service’s costs, but helps to control our clients’ postage bills, facilitates consistent and predictable delivery and provides our clients with a significant return on their marketing dollar. Except for the ability of Quad/Graphics and other mail service providers to help clients manage their postal costs through work sharing, mail volumes would have been reduced to an even greater extent over the last decade.



Postage rate increases that are above the rate of inflation simply cannot be part of this solution (whether they are from straight rate increases or reductions in work-share discounts). The rate caps enacted as part of the PAEA have worked well to control postage rates and provide our clients with that much needed certainty. These caps must be retained and action taken by Congress must lead to a cost-effective Postal Service. As confidence grows that the USPS is a long-term viable option, marketers will have the wherewithal to make volume and pricing commitments into the future to the benefit of both the USPS and the industry as a whole.

Quad/Graphics remains bullish on print. We live in a multichannel world where our clients have choices. If the Postal Service can manage its costs and maintain an affordable pricing structure, its business can remain sustainable and ours, in turn, along with it. We are encouraged with the direction we have seen the USPS take over the last two years. We've seen a difference in the way the USPS manages the "customer experience" with new products and services being developed. Innovation is what drives our business today. For example, we invest in new technologies and ways to keep print relevant in our multichannel world. We believe print is the foundation of successful multichannel strategies for both marketers and publishers. Our own innovations with mobile technology apps related to QR codes, image recognition, and near-field communications keep Quad/Graphics on the cutting-edge of our industry and give our clients a competitive advantage. We need similarly innovative thinking from the USPS.

As an example, the Postal Service recently initiated a new strategy for growth through incentive promotions tied to value-added products and services and partnering with its customers and mail service providers. The principle is simple: value-added = greater response = growth. As we know from our experience with our clients, the risk really isn't that great when it comes to using mail to drive response. Therefore, we consider this a good example of the Postal Service using its pricing flexibility under PAEA to drive the growth of mail, and we fully support those efforts.

I thank the Chairman, the Ranking Member and the Committee for allowing us the opportunity to discuss our company and the importance of the Postal Service to the 8 million families our industry supports. I look forward to working with you to enact reforms that will put the USPS on a path to sustainability. I applaud you for making the Postal Service a priority, and I would be happy to answer any questions that you may have.

Chairman ISSA. Mr. Guffey.

STATEMENT OF CLIFF GUFFEY

Mr. GUFFEY. Thank you, Chairman. I want to thank you for adopting some of senior member Cummings' proposals right up front, especially the using the postal demographics. I think that's a huge step forward

The Postal Service was not broken in 2006 when Congress passed the PAEA. As a consequence of that legislation, it is nearly broke. But it still is not broken. Even today it delivers mail to every address in the United States and delivers 6 days per week at less than half the cost of mail in other industrialized nations. As a matter of fact, I think we looked at England. England's is 0.6 of a pound, so it's a dollar a letter there, and there are no discounts. I think the discounts in this country are appropriate, they are well, but taken in a whole with the whole Postal Service, everything is operating properly and there needs to be some adjustments to save this grand institution.

Congress needs to legislate to remove the burden of health benefits prefunding. With that and a few other changes, the Postal Service can continue to provide excellent and universal service to the American public. Individual mail-processing plants and post offices should not be judged in isolation. They are a necessary part of the universal service network. I would like to point out that probably over 250 plants have already been rightsized, and we are to the point now where the more rightsizing that we get, the more that the mail is delayed.

In other words, if the mail is delayed 2 or 3 days by going to other plants and getting to the point where it loses its value to the customers and we lose the opportunity to keep the customers that we have now if we keep rightsizing. Rightsizing is not wrong, it's not inappropriate as long as it doesn't damage the product. And the product needs to be universal service, overnight or 2 days at maximum.

Small offices where the mail is going is just as important as large offices where the mail begins. Without the network, none of the network pieces will work. All the pieces fit together. Cutbacks due to financial pressures have caused a severe cut in service. The situation will only get worse if postal management is forced or permitted to continue its present course.

The network consolidation plan the Postal Service announced on May 17th, 2012, is really a plan for dismantling and weakening the Postal Service. After reviewing that plan, the PRC concluded that the net savings from all these cuts in service could be as little as \$46 million. Although this may sound like a great deal of money, it is only about 0.06 of 1 percent of postal revenues. More optimistic cost-savings projections are built on ridiculously high assumed productivity increases.

I am sure the members of this committee have seen numerous press accounts, as I have, that report strong complaints from postal customers about delayed mail because of the network consolidations. We received an article today about the fact that Fastenal Corporation's finances have been damaged by delayed mail. Their

accounts receivable are not receiving the moneys in a proper time-frame.

Mail is being delayed more than the Postal Service thought it would be. When a mail processing facility is closed, mail is sent to a distant facility for processing. It is very common for delays to occur and for mail not to be transported back to the original processing area for an on-time delivery.

In many places, postal managers have tried to address this by requiring mailers to mail before the end of the business day. When mailers cannot do that, such changes cut off mail and delay it a full additional day. These unintended delays are compounding the effects of the Postal Service reduction in delivery standards. Where the Postal Service is intended to delay mail 1 or 2 days, the actual effect is greater. The Postal Service now plans to deliver Tuesday's mail on Wednesday or Thursday. Often it does not get delivered until Friday. Mail intended for delivery later in the week is not being delivered until the following week.

These are unnecessary cuts in service to the public. Congress should require the Postal Service to provide overnight delivery of first class mail in local delivery areas and prompt delivery of first class mail elsewhere.

Congress also must recognize that solving this problem will require an increase in postage rates. The Postal Service should be permitted to raise rates to increase postal revenue as long as the increases are consistent with the market for postal services. The CPI cap should be repealed. The situation facing the Postal Service is dire. It is important for the Congress to refund Postal Service overpayments to CSRS and FERS. Postal Service payments to CSRS and FERS should be recalculated on the basis of Postal Service employees' experience.

Congress should reject proposals to create a new class of business mail. Further, the Congress should not require to make some of the changes that the Postmaster General is asking, but should allow it. The unions and management can work together to create a better Postal Service for all of the employees of the Postal Service. I think the unions are willing to do so, it's necessary, but do not require that which could be allowed to happen. Thank you.

Chairman ISSA. Thank you.

[Prepared statement of Mr. Guffey follows:]

THE HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

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

(July 17, 2013)

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 200,000 members.

Repeal Retiree Health Benefits Pre-Funding Requirement

The most important postal-related task facing the United States Congress is the urgent need to repeal the requirement that employee retirement health benefits be pre-funded. Seldom has there been such universal consensus in the postal community on any issue. The pre-funding burden is unbearable. It is also wrong and unfair to postal customers. As we have pointed out in testimony here and elsewhere, no other enterprise, either public or private, is required to pre-fund 100 percent of its retiree health benefits liability. Without this burden that was imposed on the Postal Service and postal customers beginning in 2006, the Postal Service would today be in reasonably sound condition

Virtually the entire current debt of the Postal Service has been caused by this pre-funding requirement. Pre-funding payments have grown to nearly \$50 billion. That is more than enough. Large companies that have chosen to pre-fund for retiree health benefits typically do not fund to a level of more than 30 percent. The pre-funding requirement should be repealed effective immediately.

We appreciate the efforts made to compromise on this issue so that postal reform

legislation can be enacted. While we think reducing the funding requirement to 80 percent does not go far enough, that step in combination with re-amortizing the pre-funding obligation over a period of 40 years would provide the Postal Service significant financial relief.

There also is virtually universal agreement that Postal Service overpayments into CSRS and FERS should be made available for the use of the Postal Service. It is critically important, in addition, that the amount of those overpayments be calculated on the basis of Postal Service and postal employee actuarial data.

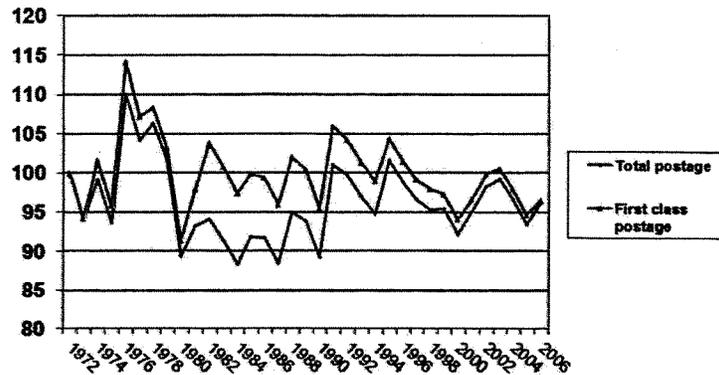
The APWU has made a concerted effort over the past two years to inform the American public that the Postal Service does not receive any government subsidy. It is self-sustaining on the basis of income from postal ratepayers. In fairness to postal ratepayers, Postal Service costs, including in particular the cost of funding its employees' retirement benefits, should be calculated on the basis of an accurate measurement of the real cost of postal employees' benefits. This is not only required to be fair to postal ratepayers and the Postal Service, it is also the most appropriate and businesslike approach to an important financial and public policy issue. So, as an initial step in preserving the Postal Service for the American people, Postal Service overfunding must be returned to the Postal Service for its use; and that overfunding should be calculated on the basis of actual Postal Service costs. Actual Postal Service costs also should be used as the basis for calculating future Postal Service contributions to its retirement funds.

For the same reasons, we oppose restrictions on how the overpayments to be returned to the Postal Service may be used. Postal management has the obligation to manage the Postal Service. It should be left to postal management, with the policy guidance of the Board of Governors to determine how to utilize available funds. We strongly oppose any restriction that would require that excess retirement funding be deposited in the retiree health benefits fund.

The CPI Cap Should be Repealed

The issue of repealing the CPI cap on postal rates should be considered by looking at how postal rates changed when there was no CPI cap. As Table I shows, rates increased overall at approximately the same pace as the CPI during the 35 years the postal reorganization act permitted rates to be set to cover postal costs instead of strictly limiting them to changes in the CPI. By restricting rate increases to CPI changes and confining increases to separate classes of mail, the 2006 legislation in effect took a system that was not broken and fixed it in a way that has made it too confining and unworkable.

In Real Terms (Adjusted for Inflation) Postage Costs Were Below 1972 Levels in 2006 (1972=100)



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

When the 2006 law was passed, Congress recognized that there is a relationship between service and rates. The Postal Service and the Postal Regulatory Commission were required to

establish service standards to provide service to the American public at fair and reasonable rates. That service includes providing universal First Class service to the American public at a uniform rate. Because of changes made due to the lack of funds, it is clear that we are now at a point where mail is being delayed and postal facilities are being closed, and the American public is no longer receiving the service it deserves from the United States Postal Service. These circumstances require that Congress reconsider the statutory CPI cap on postal rates.

There are sound policy reasons for repealing the CPI cap. It is no longer possible to argue that first-class letter mail is a monopoly that requires protection against excessive rates being exacted from mailers. Quite the opposite is true. The postal service monopoly on letter mail is necessary to protect and preserve the postal network and to continue providing universal service to the American public. But there is a lot of competition with the Postal Service, and there is no economic reason to deny the Postal Service the right to set rates that are appropriate for the amount of demand in the marketplace for postal services.

Comparison of postal rates in the United States to postal rates in other industrialized economies shows that our postal rates are unusually low. Table II in this testimony shows a comparison of rates in this country as compared to other countries on a basis that provides a fair economic comparison.

TABLE II

**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		

The CPI cap is too restrictive, and it has damaged the Postal Service. It should be repealed. We recognize, however, that repealing the CPI cap may not be possible. If repeal is not possible, we think it is important to take steps suggested in a draft of postal legislation recently published for comment. The CPI should, at least, be applied across all postal products and not limited to individual postal services separately. A study by the Office of Inspector General shows that the limitation of CPI increases to each class has had a significant detrimental effect on postal ratemaking.

In addition, we support the proposal to permit the Postal Service to re-set rates in 2014 at a level necessary to cover all postal costs. In our view, even that step will not be enough, and the

CPI cap will prove to be too restrictive. But a recalibration of rates would be a healthy step in the right direction. The need for this adjustment shows that the exigent rate increase provision in current law is too tight. The Postal Service proposed an exigent rate increase that was denied by the Commission. Even though that Commission's decision was vacated by the Court of Appeals and the case remanded to the Commission, it is clear that the difficulty of obtaining an exigent rate increase is too great.

We oppose proposals to create a new class of business mail for many of the same reasons. There is virtually unanimous agreement among economists that Efficient Component Pricing (ECP) is the most efficient way of determining how to set prices for mail that is workshared. This means that, as required by current law, workshare discounts may not exceed costs avoided due to the worksharing activity. Proposals to create a new business class of mail which would receive First-Class service but which would not be compared to individual First-Class mail for purposes of ratemaking would violate this principle. It also would be unfair to individuals and small businesses that are not in a position to take advantage of workshare discounts. First Class mail must be preserved for all Americans, not just for large business mailers. The Postal Service should be permitted to set rates that reflect current economic realities in the postal marketplace. Establishing a business mail rate would be a step in the wrong direction.

Maintain Service Standards and Preserve the Mail Processing Network

Congress also must give immediate attention to the need to preserve the Postal Service mail processing network. Failure to do so will lead to a significant degradation of service and ultimately to the demise of the Postal Service itself. Network consolidation was the subject of lengthy hearings and a comprehensive report by the Postal Regulatory Commission. (Advisory Opinion on Mail Processing Network Rationalization Service Changes; N2012-1.) On May 17, 2012, the Postal Service announced a modified plan for network consolidation that would have preserved approximately 80 percent of previous overnight service until January 31, 2014. Under that plan, intra-SCF mail would, in theory, have continued to receive overnight service until February 31, 2014. That network consolidation plan was followed by a July 1, 2012, announcement in the Federal Register of interim service standards that provided for the elimination of overnight service for inter-SCF First-Class Mail. 77 FR 31190 (May 25, 2012).

The Postal Service plan called for closing or consolidating 229 plants in two phases. Phase 1 would include the closing of approximately 140 plants to be completed by February 2013. Phase 2 was to require the closing of approximately 90 more plants beginning in February 2014.

This Postal Service plan was never a good one. Evidence presented to the Postal Regulatory Commission showed that potential cost savings would be offset by very substantial loss of postal revenue that would result from the lowering of service standards. The Commission concluded that the net savings from these substantial cuts in service could be as little as \$46 million annually. *Id.*, at 2.

It is important to recognize, as did the Postal Regulatory Commission, that the most negative impacts on service and on revenue that would result from the network closing and

consolidation plan would happen because of the phase 2 closings and consolidations that were scheduled for 2014. Notwithstanding that fact, and the Commission's strong cautionary language that the Postal Service should reconsider its plan for phase 2, the Board of Governors has instructed postal management to proceed to implement 57 of the planned 90 closures for 2014. This action by the Board of Governors is irresponsible and unjustifiable. The Board can speak for itself about why it chose to take this action, but it seems very clear on the public record that it flowed from a sense of desperation on the part of the Board because it could find no other way to reduce costs or avoid the impact of the retiree health benefits pre-funding requirement in the near-term.

The APWU has received reports from our locals around the country that strongly suggest that the consequence of this mistaken policy of excessive facility closures is that the Postal Service is now violating its own service standard regulations. There also have been numerous reports in the press about mail being delayed. Unquestionably, network consolidation is having a very negative effect on postal customers. It is delaying mail not just one day but as much as two or three days.

An example will serve to illustrate the effects of network consolidation. Prior to consolidation, mail is first processed in the Sectional Center Facility (SCF) near where it originates, call it SCF-A. This means that mail picked up from mail drop boxes all over the area, is transported from stations, branches and Area Offices (AOs) in the area around SCF-A for processing. This occurs in the late afternoon and early evening. Typically, collection times from the AOs, stations and branches are around 5 p.m. that is, around the normal close of business. That collection time permits carriers, who left early that morning to deliver their routes, to return to their AO, Station or branch with mail they have collected from postal customers and from

collection boxes on their routes. It also permits individuals and small businesses to prepare mail during the day and mail it at the end of the day. Mail collected at the end of the day in these ways is then processed at SCF-A that evening and throughout the night, if necessary.

Mail that is addressed to a person in the area serviced by SCF-A is then dispatched early the next morning to all the AOs, stations and branches served by the SCF-A mail processing facility. This permits overnight delivery of mail that originates and destines in the same SCF.

When that facility, SCF-A, is closed, the mail must be transported from stations, branches and AOs in the vicinity of the closed SCF-A to a more-distance SCF-B. Several things then happen that prevent overnight delivery of the mail. One is that mail that is transported longer distances may not arrive in time for overnight processing and redistribution. In an effort to solve this problem, the Postal Service typically requires that mail be collected at an earlier time in the area of the closed SCF-A so that it can be transported to the more distant SCF-B for processing. This means that the mail of businesses and individual mailers who deposit their mail after the earlier collection time, and all mail picked up by letter carriers that day, will not be counted and mail received on that day for the purpose of determining delivery standards. All that mail is being delayed because it must wait for processing until the next day. It is being delayed an entire day but that delay does not show up in Postal Service on-time statistics.

In the case of large mailing businesses with their own separate mail pickup arrangements, or which deposit their own mail at SCF-A, the effect of this sort of change is to require that they prepare their mailing for pickup earlier in the day or transport it longer distances for mailing. These requirements are imposed by the Postal Service by changing its business practices. In this case, it changes the critical entry time (CET) after which mail cannot receive the service it would have received. Typically when the Postal Service changes a pickup time, a box closure time, or a

Critical Entry Time, the Postal Service does not acknowledge that it is not meeting its service standards. Therefore, while the customer experiences a substantial cut in service, the Postal Service does not acknowledge that fact and reports that it is still meeting its service standards.

The other thing that happens when SCF's are closed is that mail sent to a distant SCF for processing, although it may be processed overnight if it can be transported to the SCF in time for that to occur, may not be transported back to the original SCF or to the AOs, stations and branches surrounding the original SCF in time to be sent out with the letter carriers for delivery the next day. Mail that arrives too late either delays the carrier in leaving to deliver a route or it is left in the carrier station for delivery the following day. At times, this results in idle time while the carrier waits for mail or overtime due to carriers having to work an extended day. And it is unsafe for carriers and annoying to the public to have carriers delivering mail after dark.

The unintended delays due to closings and consolidations compound the effects of the Postal Service's formal change of delivery standards. Where the Postal Service may intend that overnight mail delivery continue, or that it be changed from one-day service to two-day service, the actual effect is greater for the reasons I have explained. Substantial amounts of mail are being delayed two or even three days. This means that mail that should have been delivered on Wednesday may not be delivered until Friday. Mail intended for delivery late in the week is not being delivered until the following week.

In the case of time-sensitive mailings this means that mailers must plan and complete their mailing preparations days in advance. These problems no doubt explain why research on the effects of network consolidation and service standards changes has shown that the Postal Service will lose a substantial amount of business by delaying the processing of mail.

The unwarranted closing of mail processing facilities threatens to further weaken the

Postal Service's competitive position in the critical parcel market. Studies have shown that the parcel mailing industry is one that is strong and growing, and that will continue to grow. The Postal Service is well-positioned to provide competitive low-cost services to the American public in this area. It would be very counterproductive to permit the Postal Service to so deplete its network that its ability to provide these services cannot be maintained.

The dismantling of the essential Postal Service mail processing network is tragic and unnecessary. The evidence is very clear that cost savings and efficiencies can be obtained, and many have been obtained, through less drastic closing and consolidation actions that preserve essential services.

It also is important to recognize the impact these unnecessary facility closings have on our communities and on postal workers. Where mail processing plants are closed, communities suffer economic hardship, and postal employee's lives are disrupted. Postal workers are extremely dedicated and have continued to perform at the highest levels to provide postal services. It is wrong for the Postal Service to demand sacrifices from its workers where, as in the case of these excessive facility closures and consolidations, these actions cannot be justified by net financial benefit to the Postal Service.

We support proposed legislation that would require that service standards be maintained at the level established beginning in February 2012 and that would prohibit the closing of mail processing facilities where those Delivery standards could not be met. In addition, legislation should strengthen the procedures the Postal Service must follow before closing a mail processing facility and the postal regulatory commission should be given the authority to delay, stop, or reverse facility closing decisions.

Preserve and Strengthen Retail Services and Rural Services

As in the case of its mail processing network, the Postal Service is taking actions that are harmful to communities by closing or consolidating post offices. These actions cannot be justified by the relatively small cost savings to be gotten from them. Again, the Board of Governors seems to have been stampeded into taking actions that it knows, or should know, will be counterproductive in the long run.

We support legislation that would impose a temporary moratorium on the closure of post offices and require Postal Service to establish retail service standards. The Postal Service should be required to conduct a detailed review and provide full disclosure of its findings at least 90 days in advance of a post office closing. The public should be given a full and adequate opportunity to oppose the closure, and the Postal Regulatory Commission should be given the authority to provide a thorough de novo review of a post office closing decision and to suspend or reverse that decision.

Legislation that would require reliance on Contract Postal Units (CPUs) would be inefficient and counterproductive. Too often today there are CPUs that are unnecessary because they duplicate postal services available from nearby post offices. This expensive duplication of postal retail outlets is inefficient; and such duplication should be eliminated. This is not to say that the APWU opposes the provision of postal services in alternative ways. We are available to work with the Postal Service in finding creative ways to extend the official Postal Service presence into non-traditional outlets.

Non-Postal Services Must Be Authorized

The need for authorization of non-postal services to be provided by the Postal Service is also extremely urgent. The subject is closely related to the subject of the Postal Service retail

network. By offering non-postal services through its retail facilities, the Postal Service can strengthen its network, maintain more facilities, and provide important public services – both postal services and non-postal services. Authorized non-Postal Service and should include:

- Micro-banking
- Check cashing
- New technology and media services
- Warehousing and logistics
- Facility leasing, and
- Public internet access services
- Driver licensing
- Vehicle registration
- Hunting and fishing licenses
- Notary services, and
- Voter registration

Wherever necessary, the Postal Service must be authorized to enter into cooperative arrangements with other federal agencies, state and local governments, and private enterprises.

A full discussion of these services, how they should be provided, and their importance to the communities served by the Postal Service is beyond the scope of this testimony. However, the APWU will be more than happy to provide information and assistance to the committee and its staff to facilitate legislation to authorize these services.

Oppose Interference with Collective Bargaining

The APWU strongly opposes legislation that would interfere with collective bargaining rights. We know that Chairman Issa and other legislators oppose collective bargaining provisions that protect against layoffs and propose to legislate restrictions on collective bargaining rights for no-layoff protection. We have several responses to such proposals. The first is that there is no justification for restricting collective-bargaining in this manner. The Postal Service has drastically reduced its workforce without laying off its workers. There is no need for layoffs. This might not be true, of course, if some of the more aggressive privatizing legislative proposals

some have suggested were to be enacted. Of course, if the United States Postal Service is to be handed over to private enterprise, there will be far less need for postal employees.

No layoff provisions in collective-bargaining agreements have been negotiated for many years and are part and parcel of the agreement between postal unions and the Postal Service. It would be fundamentally unfair to take away protection for which postal employees have bargained over the years.

In this connection, I want to remind the committee that the 2010 APWU National Agreement is one that will save the Postal Service billions of dollars. Postmaster General Donohoe testified before this committee in 2011 that implementation of the APWU 2010 national agreement could save the Postal Service more than \$3.5 billion. To accept the flexibility and monetary savings that agreement provided the Postal Service and to deny APWU-represented employees the job security they bargained for would be a violation of our contract rights and would be grossly unfair.

We also oppose any change in the standard of comparable pay and benefits that must be paid to postal employees. Proposals that would require that postal employees' compensation be compared to the compensation of all employees in our economy are unsound as a matter of economics. Postal employees are highly trained and highly responsible workers who protect the sanctity and safety of mail. Most employees work with mechanized or automated equipment and are very productive. In fact, postal productivity in the United States is the best in the world.

We also oppose proposals to require that last best final offer (LBFO) arbitration be used invariably to resolve deadlocks in postal bargaining. It is not that we invariably oppose LBFO interest arbitration, but it would be a mistake to take away from the parties their flexibility to use

other possible means of resolving disputes. Our experience has shown that no one method should be used to the exclusion of all others.

Oppose New Governance Structure or Temporary Board or Commission

Notwithstanding the fact that the APWU has been critical of the Board of Governors, we oppose proposals to replace the Board of Governors with a temporary or permanent board of a different sort. The Postal Reorganization Act of 1970 was based upon careful consideration of the need to de-politicize the Postal Service. History has shown the wisdom of that decision. Even though the Board of Governors has often been lacking, it has at least been partially insulated against political pressures. Proposals to appoint a short-term body to engage in a quick review and supposedly corrective change in postal management would inevitably subject the Postal Service to political pressures. Those who wish to privatize the Postal Service would seize upon such an opportunity to attempt to make wholesale changes that this Congress would never approve.

We suggest that it is instructive to look at what happened when President Bush appointed a commission to examine the Postal Service. That commission found that even -months of intensive study was insufficient for outsiders to comprehend the postal industry and to make useful recommendations. In effect, those appointed to the commission issued a report reflecting the views and positions they brought to that task.

Oppose Expedited Consideration of Service Standard Changes

We oppose legislation that would require expedited consideration of service changes for several reasons. First, our experience with postal regulatory commission consideration of service changes has convinced us that no important service standard change can receive the consideration it needs in 90 days. Setting a standard of 90 days for consideration of serviced

standard changes would, therefore, be unrealistic. The Postal Regulatory Commission is in the process of changing its procedural regulations concerning service standard cases. It appears that the Commission is headed in the direction of setting an unrealistically short standard for such proceedings. We hope that they will be persuaded to leave considerable flexibility to extend such proceedings if, as we believe will be the case, it is necessary to take a longer period to give important service standard changes sufficient consideration. In any event, legislation in this area would be unnecessary and unwise.

Chairman ISSA. I'm going to try and squeeze in a first round of questions, try to minimize the time you have to wait.

Mr. Quadracci, you listened to the head of the second-largest union say that a rate increase fixes the problem. What does a rate increase do to the customers that you serve, which represent in flat mail probably more than any other single group?

Mr. QUADRACCI. Well, I think it would be devastating. I mean, selfishly I should want it because I'd have fewer competitors at the end of the day, but I don't think that's what we want to do here.

We saw in 2007, when our customer base had a significant increase, we saw a direct correlation to the drop in count. Remember, for people like catalogers, people who are using the mail to sell product, there is two lists. There is the customer list, people they already have captive, but then there is the prospecting list where they're trying to get more customers, and the problem is, there's a response rate. If the response rate isn't great enough to offset the cost, they drop that and they find other ways to prospect. So we will see a devastating reduction in volume from our customer base if that were to happen.

Chairman ISSA. Thank you.

Mr. Donahoe, you have exigent authority to raise rates, so in a sense you could do what Mr. Guffey is asking. You have to balance those. What do you think would happen if, without reducing most of the loss through other means, if you simply sort of wrote a rate increase of 20 percent roughly across the board, roughly, what would be needed to balance the books, right?

Mr. DONAHOE. If I wrote a rate increase of 20 percent, Mr. Quadracci would faint.

Chairman ISSA. But you'd lose how much business? Let's say \$4 billion, what would you be—

Mr. DONAHOE. It would be more than 20 percent. More than 20 percent. In our plan—

Chairman ISSA. And what would that do to the efficiency of the system if that much volume dropped off?

Mr. DONAHOE. We already have a substantial amount of overcapacity. Our plan calls for no rate increases over the CPI. It's predictable, customers can plan on that. They're planning budgets right now for what they're going to mail next year. That's why we are so careful and that's why we are pressing hard for the legislation now. Let's get this done. These guys can plan on what they're going to put in the system. We're getting some growth back. We don't want to hurt that growth.

Chairman ISSA. Now, if we did do this increase and we lost 20 percent volume, in a sense, we would have 20 percent of the letter carriers idled. In other words, there would be, even though it's not allowed under the current collective bargaining, 20 percent of letter carriers would have nothing to do if 20 percent of the volume went away. Wouldn't that be true?

Mr. DONAHOE. If we lost 20 percent of the volume, it would be devastating to our finances.

Chairman ISSA. I just want to understand from a labor standpoint. If we want to maintain the maximum number of efficient, effective postal workers in the processing centers, in the retail operations, and carrying the mail to every point in the Nation, the max-

imum number of people being used efficiently is based on the maximum volume. Isn't that true?

Mr. DONAHOE. That's true

Chairman ISSA. So volume drives the question of employment, assuming people are efficient and effective, right?

Mr. DONAHOE. That's correct.

Chairman ISSA. Mr. Guffey, one of my questions, one of Mr. Cummings' ultimate questions, too, is don't we need to get the maximum level of efficiency, use attrition and other means to help reduce the workforce to match the current volume and keep the price low or as low as possible to maintain the maximum volume and thus the maximum employees for your union and all the other trade unions?

Mr. GUFFEY. Of course, and that's what's been going on for the last 10 years, the reduction and the productivity increasing and consolidating the plants.

Chairman ISSA. Okay. So when you sort of sneered a little bit, just a little, about these money savings, if I understand correctly, what you're really saying is you'd like to have an active role in whether something pencils out or not, but you're not objecting to the Postmaster finding ways to deliver the same amount of mail with lower total labor, lower total costs, and maintaining that volume.

Mr. GUFFEY. Well, it might be done with lower labor and additional lower costs, and we have done a lot of that in our last contract. We saved the Postal Service \$3.8 million. When I talk about raising the rates, I'm not talking about a 20 percent raise. I think I would faint just as much as—

Chairman ISSA. I just want to look at \$16 billion of loss, or even if you did all the maneuvering you could do under current law, it would still be, you know, on \$64 billion in revenue, you're losing more than \$12, sans these readjustments of retirement. To me that's 20 percent. You got to get it from somewhere, and if you don't get it from the American Lung Association's mailer, you've got to get it from somebody else's mailer to get more.

Mr. GUFFEY. There are reductions that we're talking about here in refinancing the long-term health insurance for the retiree.

Chairman ISSA. Right—

Mr. GUFFEY. We are talking about many things.

Chairman ISSA. Right. And all of that's on the table. Absolutely, all of it's on the table

Mr. GUFFEY. So that would not throw all of the cost savings into a rate increase.

Chairman ISSA. Okay. I just want to understand that—and the point that I was making, and hopefully all three of you are going to agree, is the least desirable part of any reform is the rate increase that inherently drives down volume. Is that agreed across the board? That that's the last thing you really want. If you can find savings without, including healthcare cost savings, if you can find savings without reducing those things which drive people to use your service, that's the best solution, right?

Mr. GUFFEY. Correct, but that would also include the fact not slowing the mail down because that will also drive them away.

Chairman ISSA. This committee is very concerned about quality of service, quality of service, and we want to define it and we want to make sure our final legislation provides the guidance that is going to assure quality of service.

Now, understand, I flew to Alaska, and I understand that their needs are for a certain type of delivery. They are less concerned about speed, while others are more concerned about time perhaps than whether they can get a can of Coke delivered—or case of—actually a pallet of Coca-Cola delivered.

Mr. Ranking Member, I think it would be fairer if we pick you up when we come back. I want to thank you all, and we'll stand in recess until after that last vote.

[Recess.]

Chairman ISSA. Okay. While we wait for others to get back, I'm going to use the fact that I sprint better than some of the other old guys.

Two quick things. Mr. Donahoe, when you talked about the savings of about \$8 billion in your opening statement, I was intrigued because you and I have had this discussion before, and I've been very willing to give you that jurisdiction if we can, although we are working on a government-wide attempt to save quite a bit in healthcare cost.

The question I have is, if we were—and again, Mr. Guffey will be back in a minute, I'm sure—but if we were to give you that authority, allow you do it, and essentially give you back, quote, your prefunding, would the Federal Government be off the hook? And if so, how would we eliminate the contingent liability if, let's say, 20 years from now there wasn't enough money and ultimately people, retired postal workers, looked to the Federal Government as the bailout? You might remember the railroad retirement.

Mr. DONAHOE. Mr. Chairman, we've put together a proposal on the healthcare. What we proposed was that we would take our plan over Postal Service wide. The key to success with that plan, we'll also be able to cover the retirees.

Now, we have had discussions with the unions. There has been some suggestions from Mr. Rolando, as you remember at the last hearing—

Chairman ISSA. Yes.

Mr. Donahoe. —that we try to organize that under FEHB because there was been a concern from the employees of not moving away from FEHB. From our perspective, we're okay to wait, as long as we get the savings. The savings are what's key to us. If I could put a chart up here.

Chairman ISSA. Sure, if they have it.

[Slide]

Mr. DONAHOE. Yes. If I could explain, this chart is the key to the \$8 billion savings. If you look on the far left, you'll see a \$10,700 column. What that is, that represents the average healthcare cost for a 65-year and older postal retiree on average. The Postal Service retiree pays that. We pay 70 percent. They pay 30 percent.

Chairman ISSA. Right.

Mr. DONAHOE. So, if you take a look at the concurrent bar on the right, the largest bar, that represents where we are from a prefunding perspective right now. We've got about \$49 billion in

the bank, with another \$46.9 billion on the hook. It's \$96 billion prefunding.

Now, we are required to make these payments because this is the most affordable plan that you can get existing in the system right now, the FEHB system. The next chart, the next column over, you can see it says, "With Medicare A and B" in the blue. The second one to the left.

[Slide]

Chairman ISSA. I'm going to cut you short in one sense. It is at least under consideration to move the entire Federal healthcare benefit to one that would put Medicare in first position as you were talking about doing.

Mr. DONAHOE. That's excellent.

Chairman ISSA. So if we do that with the entire Federal workforce, including postal workers, if I understand correctly, that will take a substantial portion of the \$8 billion you hope to save in addition to the amount would be saved within the Federal system.

Mr. DONAHOE. If you require A, B, and D. We pay for everything now. The mailers pay for it. It's postage money. What's happens is, the farthest right-hand column, you can see we in fact would have a small surplus. We would have completely prefunded everything we needed.

Chairman ISSA. Okay. We'll follow up more on that. I wanted to make sure I understood it because our committee, of course, controls the entire Federal workforce's benefits, and we are looking specifically at—and if the ranking member were here, I know he would chime in positively—we are looking at making sure that Federal employees do not pay, and the Federal Government on behalf of Federal employees do not pay more or less than Lockheed Martin, IBM, or any other private sector company.

Currently, as you've said to us, and we fact checked it, the Federal Government is more generous to the savings, not of the Federal worker necessarily, but of Medicare, which means we're not properly saving. And of course, as you know, since the mid-1980s, your postal workers and all Federal workers have paid into—

Mr. DONAHOE. Yes.

Chairman ISSA. —the system so, they're fully vested.

Mr. DAVIS, are you ready to go?

Mr. DAVIS. Yes, sir.

Chairman ISSA. Then it is my distinct pleasure to recognize the ranking member in presence, Mr. Davis.

Mr. DAVIS. Thank you very much, Mr. Chairman. And let me thank you and the ranking member for moving us to the point where we have actually got legislative initiatives to take a good hard look at. I want to thank all of the gentlemen for being here and testifying.

We talk a great deal about the quality of service that is provided, and we've talked a great deal about universal service. Let me ask you, Mr. Donahoe, could universal service be maintained when the service standard requirements are degraded through unilateral and/or arbitrary reductions in the workforce or by realignment of the network, that is the mail network? And, you know, there is the claim that we lose \$25 million a day. Is that an assessment that we are pretty comfortable with?

Mr. DONAHOE. Thank you, Congressman. Let me first off on the service standards. We measure everything. We measure first class mail, commercial first class standard mail and periodicals. Our people are doing a tremendous job. And right now everything we measure is showing us at all-time service levels. And that's from taking the mail all the way through delivery. And so with all the consolidations we've been doing, the people have been doing a very good job with that.

One of the things that we're weighing for next year, we are looking at the system right now to figure if there is a way that we can maintain current service standards and continue to make the consolidations to absorb in the excess capacity that we have. That's a balancing point. No final decision has been made on that right now. But we think that as we have run through the first sets of consolidations, we find the service levels have held very high and we do check this with our customers, both those who send mail through the blue mailboxes, as well as the commercial mailers.

As far as the \$25 million a day, that's a number that we have used based on the fact that we have not only had operating losses within the system, but we've had the loss that's been associated with the prefunding. I think if you check today, this year, we are going to finish our finances approximately, this is approximately, about a billion dollars better than we said in the beginning of the year because we've had revenue increases, especially in the package business, we have been able to absorb those in. We have also been able to work and take advantage of negotiated contracts with Mr. Guffey and our other union leaders and be able to reduce the rate of pay with the employees. So that's helped. So it's a little less than the \$25 million a day right now. Thank you.

Mr. DAVIS. Thank you. Let me ask you a little bit about the 5-day delivery discussions that we've been having. Have you asked the PRC for an updated advisory opinion on the savings from moving to a 5-day modified delivery?

Mr. DONAHOE. The last time we had an official discussion with them was last year when they came out with the savings statement of \$1.7 billion. We think it's a little bit higher. There have been some other adjustments we've made, as you know, because we've said we would deliver packages, especially medications, on Saturday, too.

Mr. DAVIS. Are we currently losing money on Saturday delivery?

Mr. DONAHOE. Well, when you take a look at universal service, you could look at pretty much by address. Some places you are always going to make money Monday through Saturday, and other places, just by as hard as it is to get to the places, you're going to lose.

So from a fairness perspective, that's why we've made the pitch around Saturday because it's the lightest day of the year—or lightest day of the week. It's a day of the week where you have fewer business open. So we've always tried to figure out in order to maintain universal service to, you know, hard-to-reach places across the country, we would just go with Saturday as the standard for everybody.

Mr. DAVIS. Well, let me just quickly, Mr. Guffey, given the continuous decline of mail volume, do you think that eliminating the

postal monopoly on access to the mailbox would create a serious disadvantage for the Postal Service?

Mr. GUFFEY. I think it would create a serious disadvantage for the American public. Keeping the monopoly on the mailbox is what keeps the Postal Inspection Service able to follow through and investigate problems with lost mail and what have you. If other people have routine access to postal mailboxes, I think that would deteriorate.

The Postal Service, to have its universal service, needs that right, and if it doesn't have that right, then universal service will deteriorate very fast in this country.

Mr. DAVIS. Thank you, gentleman, very much.

And thank you, Mr. Chairman. And I yield back

Chairman ISSA. I thank the gentleman.

We now go to the gentleman from Texas, the subcommittee chairman, Mr. Farenthold.

Mr. FARENTHOLD. Thank you very much. I appreciate you all being here.

I'll start with Mr. Quadracci. Did I get that right.

Mr. QUADRACCI. Quadracci

Mr. FARENTHOLD. Quadracci.

Chairman ISSA. Quadracci. Couldn't you get it right on the 15th time the way I finally did?

Mr. QUADRACCI. Here, everybody together, Quadracci.

Chairman ISSA. Quadracci.

Mr. FARENTHOLD. Quadracci. All right.

There was some testimony earlier on—and I'm sorry, I forget who made it—that as a result of some of the consolidations—and maybe it was just part of a question—there have been substantial delays in getting product delivered. Have you noticed that within your experience and for your customers?

Mr. QUADRACCI. I would say in our experience over the last 2 years, the performance has been better than it's ever been. A couple of years ago, the post office put in a system to really help monitor performance throughout the network.

Now, I want to be clear I'm speaking about catalog, magazine, and direct mail. We have not seen those disruptions as they've realigned things. And we have better visibility to when there are disruptions, we can contact them very quickly and resolve the issues. So it's actually been quite good.

Mr. FARENTHOLD. Thank you.

And, Mr. Donahoe, we're talking a lot about giving the Postal Service the flexibility to do what they need to do to be competitive in the 21st century. The bill, the draft legislation you've seen, did we go far enough? Did we give you what you need to do that?

Mr. DONAHOE. I think that, as I've stated before, it's our intention to continue to press for comprehensive legislation. We think that what the bills do in terms of the reamortization helps, it gives us some breathing space, but as the chairman said, you would be looking at overall healthcare of the Federal system. I would strongly encourage that. I would strongly encourage a good deal of competition in those systems and bring the prices out, because we know we're paying way too much now.

So from that perspective we think it's good. We like the fact that there's this 6- to 5-day considerations in there, and we would also like to encourage the continuation on flexibility with governance in pricing.

Mr. FARENTHOLD. All right. And just so we get it in the record, and I know we've talked about this in subcommittee hearings, I do want to make sure it's clearly in the record, can you explain to us why mail volume is going down and whether or not you see any way of turning that around?

Mr. DONAHOE. Let's break it down into three categories—first class, commercial standard, and packages. Packages are growing. We are seeing double digit growth. It's been great, mainly tied in—

Mr. FARENTHOLD. Even with competition from private carriers?

Mr. DONAHOE. Yes. And we compete with FedEx and UPS. We also work with FedEx and UPS, as well as Newgistics, DHL. We provide a lot of last-mile delivery for them, so it's been growing in leaps and bounds very good.

From a standard mail, advertising mail, Mr. Quadracci can tell you it's stabilizing. There's a lot more technology being applied in that area. So it gives the customers the ability to match up digital and physical, use it for advertising. We think that there is a nice growth opportunity.

Where we're seeing dropoffs is first class. Single piece mail, we've lost 60 percent of it in the last 10 years. People pay bills online. It's cost us about \$14 billion in today's 46-cent stamp, if we had that. The other area that we're worried about, it's been fairly stable, but that's commercial first class, bills and statements. We've done a lot of work to try to keep people in that mail.

Mr. FARENTHOLD. And with respect to some of the proposals. A chief innovation officer, you think that's probably a good idea, too?

Mr. DONAHOE. I think that's a great idea. We pride ourselves on a lot of the innovations we've been doing now. I think that we work very well, listen to our customers. Our people, from a craft perspective, come up with a lot of good suggestions, too. I think it's a great idea.

Mr. FARENTHOLD. And we talk about the drop in volume of first class mail. Do you think it would be a more substantial or quicker drop in that if the standards of the service dropped where, for instance, if I dropped—you know, put a piece of mail in the mailbox at my house, put the little red flag up, now it gets to wherever it's going within Corpus Christi the next day. If that went to 2 or 3 days within the city, do you think that would accelerate that drop substantially?

Mr. DONAHOE. It certainly would if it was 3 days, and we're looking at that now to try to figure how, as we continue to shrink the network down, we can try to maintain some level of overnight service. But, you know, we've got to see where we're at in that.

Mr. FARENTHOLD. All right.

And I want to ask Mr. Guffey, do you see some areas for cost savings in innovation, specifically, that we need to address above and beyond the obvious issues of prefunding and the stuff we normally talk about? Do you see some efficiencies we can find and some ways we can go that you and your folks could get behind?

Mr. GUFFEY. I think that—

Mr. FARENTHOLD. Microphone, please, sir.

Mr. GUFFEY. I think there are some opportunities at this time to work with the Postal Service on some of the healthcare issues. It's something that—we recognize the problem, and the whole country has the problem.

We think there is opportunities to sit down with the Postal Service and do something about the cost to the Postal Service for the retirees. In other words, it's not fair for the Postal Service to pay a full boat, the full cost of a health insurance plan for a person who's going to get most of his services from Medicare.

Now, that is a tremendous cost to the Postal Service, we recognize that, but because they pay that much money for the retiree, that money goes into the healthcare system for the current employee. So, you know, in this dynamics, there's going to be some shift of cost to the Medicare and there's going to be a lot of shift to the current employees.

Meeting that fine balance is something that we think we can do. I think all the unions can get together and work that out with the Postal Service. It's something we don't want to be required to do but allowed to do.

Mr. FARENTHOLD. Well, I see my time has expired. I appreciate you all's coming before the committee and testifying today. Thank you.

Chairman ISSA. I thank the gentleman.

And, Mr. Donahoe, when I was explaining what we were doing with the health care, we were also doing the one-, two-family that you had proposed. So that was one of your other savings. Both of those would be included, which I think is another—

Mr. DONAHOE. Thank you very much. That would really help.

Chairman ISSA. Thank you.

We now go to the gentleman from California, who was one of the first back, for 5 minutes, Mr. Cardenas.

Mr. CARDENAS. Thank you very much, and boy am I tired. Thank you, Mr. Chairman. I tried to rush back, and I guess it paid off.

Chairman ISSA. You need to know the shortcuts.

Mr. CARDENAS. I'm learning, I'm learning. Thank you very much. And I'd like to thank the panel for being here and answering our questions.

My first question is, according to the Congressional Research Service, Postal Service employees are the largest single pool of workers within the Federal Employees Compensation Act program, otherwise known as FECA. In its report, the CRS noted that, and I quote, "Postal workers are injured on the job at rates disproportionate to the rest of the Federal Government. Postal employees make up almost 22 percent of the Federal workforce but they account for almost 40 percent of the cases recorded in 2012."

Mr. Donahoe, do these figures sound correct to you?

Mr. DONAHOE. Yes, sir.

Mr. CARDENAS. Okay. Could you explain why the Postal Service accounts for such a large percentage of Federal workers compensation cases?

Mr. DONAHOE. Yes. Number one, the Postal Service—the work that our people do is hard work. If you think about today, in Wash-

ington, D.C. or anywhere up the east coast, you've got letter carriers out in 95-degree heat delivering mail. If you go into our processing plants in the evening where Mr. Guffey represents the people, that's a hard job. You're on your feet 8 hours a night, you're putting mail in a machine and taking mail out.

We are very proud of the fact that in the last 10 years the Postal Service, working with the unions and working with OSHA, have been able to reduce workplace accidents as measured by illness and injury rate by 50 percent. And if you take a look at what's happened over that time, there has been a lot of work with ergonomics and whatnot. We still have a high injury rate. Any accident is unacceptable. But we're proud of the fact that we have been able to push those rates down.

Mr. CARDENAS. So, basically, so that everybody understands, even in our most automated times that we've ever seen in the world and in this country, the Postal Service is still very manual intensive in the sense, like you mentioned, postal workers walk door to door, they don't electronically meet people at their front door. In addition to that, we still have people who are actually, such as in warehouse-type situations, where they're moving goods, et cetera?

Mr. DONAHOE. Yes.

Mr. CARDENAS. Okay. So in general, I would assume that organizations who are still doing an intense amount of that kind of work have injuries in their workplaces more than perhaps maybe in an office setting in general?

Mr. DONAHOE. Yes, I think that's true.

Mr. CARDENAS. Okay. So also my next question is, does having a higher than normal injury rate reduce overall productivity and efficiency within the Postal Service?

Mr. DONAHOE. Yes, that's why we focus so hard on making sure that we reduce the rates. Because an accident is something that, you know, has a cost in the short term, but what we also worry about is long-term injury to employees. You can get injured at work and carry a back injury for the rest of your life. So that's why we focused on trying to reduce this.

Mr. CARDENAS. And you mentioned earlier about the ways in which—or the methods that you've taken advantage of as a department such as ergonomics. Can you condense for that what exactly does that mean? It sounds kind of foreign.

Mr. DONAHOE. Well, if you think about on a nightly basis a person would go and work on a certain machine. There's work that we've done to help people learn to stretch better so that when they lift things or move things that they don't have a tendency to hurt themselves. And then you can also employ various—a piece of equipment, some back support, and things like that. These are all the things we've learned over the years to try to reduce the accidents.

Mr. CARDENAS. And they have been reduced, right?

Mr. DONAHOE. Yes, 50 percent down in 10 years.

Mr. CARDENAS. Okay. I think it's important for the taxpayer—excuse me, the ratepayers to know that.

In your April testimony before this committee, you asked Congress to reform the workers' compensation program and specifically

you requested that the Postal Service, “be provided with the ability to settle Federal workers’ compensation claims. This would allow the Postal Service and the employee to agree on a settlement, sever ties and end the employee’s receipt of FECA benefits.” Why did you make that request and is it practical? And do you still believe that we should give you that authority?

Mr. DONAHOE. Yes. We believe it is. What we’d like to see, there is a bill presently being sponsored and being discussed, I don’t know where it is exactly right now between the Senate and the House, that talks about changing some of the retirement requirements for people on FECA to move to, you know, move people off FECA, onto retirement. We support that.

We would also like to have the ability to have a buyout process like the States do where a person could take a buyout and go on with their lives. We have 17,000 people as we speak on the periodic rolls right now. It’s going to cost us, we estimate, about \$16 billion in liability. We think that we could reduce that, let a person get on with life, they could go work somewhere else and they would be off our rolls.

Mr. CARDENAS. Okay. Thank you very much.

My time has expired. I yield back. Thank you.

Mr. FARENTHOLD. [presiding] Thank you very much.

We’ll now recognize the gentleman from Florida, Mr. Mica, for 5 minutes.

Mr. MICA. Thank you.

Well, I guess a lot of your costs, Mr. Donahoe, are related to labor, something like 80 percent of the costs?

Mr. DONAHOE. Yes, 79 percent.

Mr. MICA. And how about benefits like health care and stuff like that? You seem to have a lot of issues with this so-called prepayment, but what percentage are the benefits?

Mr. DONAHOE. In terms of benefits, benefits make up 48 percent of all postal salary and benefit costs.

Mr. MICA. Now, you know the President is delaying, I guess, the employer mandate. What if we opened up for savings purposes the postal employees to join—well, actually just put them on Obamacare? What would you think of that?

Mr. DONAHOE. Well, we have actually gone out and solicited in the private market and secured private insurance outside the Federal system for our noncareer employees.

Mr. MICA. So you wouldn’t object if I have an amendment to open it up? What about a mandate?

Mr. DONAHOE. I would like to open it up for free competition. We’d like to go out and bid, get everybody to bid and give us the best price for health care. We don’t do that now.

Mr. MICA. How about you, Mr. Guffey? Would you like to either have a mandate or to open it up to Obamacare?

Mr. GUFFEY. I think Obamacare was written in such a manner that a person could keep their current insurance, and we’re very happy with our current insurance, thank you.

Mr. MICA. Well, we are shifting some of the employees, I think Members of Congress and also staff. And 40 percent of his cost. And it seems to be touted as such an economy saver for maybe re-

ducing some of their costs. Maybe I could look at that and work on an amendment with you all when we get the bill up.

Let's see. How many employees do you now have, Mr. Donahoe?

Mr. DONAHOE. Currently we have 492,000 career employees and 119,000 noncareer.

Mr. MICA. And how many would be—are sort of mandated by your union agreements, labor agreements? All of those positions?

Mr. DONAHOE. No. No. We've got about 50,000 people in the organization on the career side, that would be the Postmaster, supervisors, administrative people in that, and they are not mandated by union agreements.

Mr. MICA. Okay. So you could go down—I mean, you have, say, 440,000 that are mandated?

Mr. DONAHOE. Yes.

Mr. MICA. Do you have vacancies?

Mr. DONAHOE. We have vacancies. We continue to absorb the vacancies.

Mr. MICA. So you're not filling them?

Mr. DONAHOE. No. We have absorbed 200,000 people under our system in the last 6 years.

Mr. MICA. Right. And to get to sort of a break-even is there any projected, is it going to be 300,000, 400,000?

Mr. DONAHOE. Right now if we were in a 5-day delivery mode with the downsizing of the network we think we would be able to support about 400,000 career employees and about 65,000 to 70,000 noncareer. That would equate to around an operating expense with noncareer of about \$62 billion a year.

Mr. MICA. I noticed the different proposals to try to increase your revenues. I support the 5-day service. But there could be the availability of a special service. Is that anticipated? Or pay a premium to get mail on a Saturday?

Mr. DONAHOE. One of the things we've looked at, of course, is to provide package service on Saturday. There is an option if we sort, because we will be sorting mail for post office boxes on Saturday, so there could be an option if somebody wanted to pay—

Mr. MICA. But you could have a method and also increase your revenue, I think.

Mr. DONAHOE. That is an option.

Mr. MICA. I pay sometimes for Saturday delivery extra with some package carriers, I think.

And you said you're a billion dollars better off than you were, you've had some reductions. So what's the loss, is it from \$16 to \$15, or \$15 to \$14?

Mr. DONAHOE. No. NO. The loss this year was projected to be \$7.6 billion. We're thinking—and this is not, you know, it's not 100 percent firm at this point—somewhere between \$6 and \$6.4. So it's a little better than a billion better.

Now, here is the reason why. Operationally, we are probably going to be fairly close to a billion dollars better. The health care costs are fixed and we'll have a little bit better of a rate change with the interest rates, which help us in the long-term liabilities for workers' comp, so we get some credit on that.

Mr. MICA. Finally, the unfunded liability. The report I got says about \$100 billion in unfunded liabilities. Is that correct?

Mr. DONAHOE. High \$90s, yes.

Mr. MICA. Okay. Thank you.

Yield back.

Mr. FARENTHOLD. Thank you very much, Mr. Mica.

We'll now recognize Mr. Clay for 5 minutes.

Mr. CLAY. Thank you, Mr. Chairman.

And according to a recent press release, the APWU's 2010–15 collective bargaining agreement saved the Postal Service almost \$3.8 billion over the lifetime of the contract.

Mr. Guffey, considering those savings, would you say that Postal Services' financial condition was taken into consideration when you negotiated that agreement?

Mr. GUFFEY. Definitely. Definitely. Every negotiation and every arbitration the information about the status of the Post Office and the problems they're having is under consideration.

Mr. CLAY. Thank you for that response. And the draft bill released by the chairman would require the abrogation and renegotiation of any existing collective bargaining agreements prohibiting the use of reduction in force authority. Instead, this bill would require provisions allowing the Postal Service to unilaterally fire employees.

Mr. Donahoe, has your legal department reviewed this provision? And if so, have they provided you with an opinion on what the consequences of abrogating existing contracts might be?

Mr. DONAHOE. Well, we haven't looked at that, and I'm not so sure that today that whenever the chairman spoke, I wasn't sure if he changed some of that. So I think there might have been a change afoot. But we have not looked at that.

Mr. CLAY. I would suggest that your legal counsel look at it and—

Mr. FARENTHOLD. If the gentleman would yield for a second.

Mr. CLAY. I'm sure it's not too far off from what was initially proposed.

Mr. FARENTHOLD. We've agreed to take the mandatory renegotiation provision out of the final bill. It is at Leg Counsel being drafted now.

Mr. CLAY. Okay. I would hope their legal counsel would look at it.

Mr. FARENTHOLD. Right. And we intend to take that out.

Mr. CLAY. The more eyes the better.

Mr. Guffey, did the APWU's 2011 agreement have a provision prohibiting the use of RIF authority?

Mr. GUFFEY. There are specific provisions that go into if you do conduct a RIF, and those provisions are spelled out in article 6 of our contract. The danger has been, and I don't think it's really a danger because the Postal Service and the unions are both very concerned about the employees and we've been able to manage the downsizing of our organization by almost 200,000 employees by attrition/buyouts and excessing people to other crafts or to other functions. And I would caution that the repeal of the contracts or to prohibit negotiating of these things is not necessary.

Mr. CLAY. Would a new collective bargaining agreement require the consent of your members?

Mr. GUFFEY. Yes.

Mr. CLAY. Okay. And, Mr. Donahoe, is there a particular reason why the Postal Service has chosen not to try to renegotiate RIF authority in its existing collective bargaining agreements?

Mr. DONAHOE. Not that I'm aware of. As Mr. Guffey said, we've worked very hard over the last number of years to try to make what we call for soft landing for people. As a matter of fact, in the latest negotiation we were able to reach an agreement to expand the number of noncareer people. We've got about 30,000 on the rolls. And they would be used if we needed to as a buffer for any big loss in volume. They're hired with the idea that they are only temporary. So we've tried to figure out how to give the Postal Service the flexibility if workload changes.

Mr. CLAY. Also the chairman's bill would replace the current conventional arbitration process with a last best final offer process. This process establishes a set timeframe within which an arbitration board must select a final offer.

Mr. Guffey, as the president of APWU, do you think the current arbitration process moves too slowly?

Mr. GUFFEY. It definitely moves too slowly, but the goal of the union and management both is to negotiate agreement, get to an agreement. There's been few times in our history where we've had to go to arbitration. In those panels right now there is always a neutral, there's one person from the unions and one person from management on those panels to determine what the final outcome would be.

Mr. CLAY. And, Mr. Donahoe, would the Postal Service benefit from a structured process as required by this provision?

Mr. DONAHOE. I think that the timing would help if we would resolve things faster. But I like the idea of having a little bit more flexibility in terms of what we do now. We have used what's commonly referred to as baseball arbitration, and it can be a little bit worrisome, it's a lot less predictable.

Mr. CLAY. Thank you both for your response.

I yield back.

Mr. FARENTHOLD. Thank you very much.

We'll now recognize the gentleman from Kentucky, Mr. Massie, for 5 minutes.

Mr. MASSIE. Mr. Donahoe, in talking about the partnership with UPS in a press release called "Brown and Blue Make Green," you said that, "It's a great template for how posts and private enterprises can work together to better serve our customers, the planet and the bottom line. We hope our partnership can serve as a model for others to work together in new ways, whether they are competitors, collaborators, customers or all of the above."

Is it a template for how the U.S. Post office can implement more partnerships with private industry to deliver a better package at a lower price?

Mr. DONAHOE. We work very strongly right now with private industry in many different ways. If you would take a look at the volume of mail, we have a \$65 billion revenue base, it would probably be a good \$15 billion to \$18 billion more in just revenue alone if we didn't have work-share partnerships with companies like Quad Graphics. Mr. Quadracci's company produces mail, sorts it. At the

same time, it is very efficient. He can drop it into our system and our clerks sort it and letter carriers deliver it.

So that's been a very good working relationship. I think that opportunities to work with companies like FedEx UPS, DHL, Newgistics has been very good, especially for the paying customer, because they're able to get the best price, the best value and very timely service.

Mr. MASSIE. What about in the area of first class delivery? Is there an opportunity to do something similar to what you did with UPS with other companies to deliver first class mail?

Mr. DONAHOE. We do what we call first class presort now where a lot of companies actually produce the mail and sort it and then bring it into us. So that's a pretty active process now.

Mr. MASSIE. How about in the delivery of it, the final delivery?

Mr. DONAHOE. Final delivery to a large extent we've got a great delivery force out there, and we do what's called post office Delivery Unit drop ship where a lot of packages and mail come in at that point and then we deliver the final mail.

Mr. MASSIE. How about some innovative ways to deal with the problem of keeping up the rural service to rural areas? What are some reforms you've implemented? But more importantly, what are some that you've thought about that you haven't yet?

Mr. DONAHOE. Well, we're working with our rural carriers union right now on what we call a new evaluation system. It's come out of our last arbitration. We think it'll be a good process to get a good handle on costs for delivery in rural areas.

Of course there's a lot of work that's been done with both city carriers and rural carriers on visibility. Our visibility to package and soon to be mail delivery is going to be very good, so people know within 10 minutes when they got mail in their mailbox.

Mr. MASSIE. How about the services in the rural areas? For instance, when we have a post office close down, there are certain services that are no longer provided. Are there opportunities to work with private organizations there?

Mr. DONAHOE. Yes. We're doing what's called the Post Plan, which is trying to match up the revenues and the workload on the window services. But we also have opportunities for people, like in a small store, to have what's called a village post office. We've got about 350 of them now with another 100 on the way. If you own, let's say, a small gasoline station in a rural area, it's a little bit extra revenue and it creates foot traffic, too, where people come in and mail a package or buy stamps at their local store.

Mr. MASSIE. So far is that a model that you think could work or is working?

Mr. DONAHOE. Yes. Absolutely. There has been a lot of interest and we'll continue to expand in that area.

Mr. MASSIE. So what is your overall plan for addressing the financial crisis?

Mr. DONAHOE. Financial crisis pretty much boils down to this: We've got to resolve the healthcare issue. As I was saying to the chairman when people came back in, it is worth \$8 billion. We strongly advocate exactly what he has mentioned about moving out, taking a look at the entire Federal system. We overpay substantially for our retiree health benefits, as Mr. Guffey mentioned.

On average we pay \$10,000 for a post-65-year-old retiree when, in fact, that post-65-year-old retiree should be paying \$3,300. Very inefficient. Big changes there. Six to five-day delivery, we keep Saturday delivery of package. We're looking for some other changes in structure as far as some of the opportunities for new growth.

Mr. MASSIE. But there are still opportunities available to partner with private industry and you found that to work so far——

Mr. DONAHOE. Absolutely.

Mr. MASSIE. —in rural areas——

Mr. DONAHOE. Absolutely. Rural, cities, across the entire gamut. Yes.

Mr. MASSIE. Okay. Thank you very much.

I yield back, Mr. Chairman. Thank you.

Chairman ISSA. [presiding.] Thank you.

We now go to the ranking member of the subcommittee, the gentleman from Massachusetts, Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman.

Mr. Donahoe, I just want for the record just to express my disagreement with you on going to 5-day. I think America is on a 6-day schedule now. And we've had this conversation in private, you're a good man, we just disagree on this. I just think that America's business and America's workers, America's families live on a 6-day schedule. And I am very concerned that by stopping delivery on Saturday, which is pretty much the consensus day that will be dropped off, we would basically enhance or exacerbate the downward spiral of the Postal Service and we would lose a lot of volume. Our problem right now is we don't have enough volume of mail. And I think by eliminating Saturday we're going to exacerbate that problem, we're going to have less volume, and it's going to be a self-fulfilling prophecy.

And I could just picture myself as a consumer and I'm about to mail something on a Wednesday or a Thursday, and if I know it's not going to get there by Friday and it's closed on Saturday and it's closed on Sunday, well, wouldn't it make more sense for me to call UPS instead of putting it in the mail. I just think you're going to invite a further decline. But that's me. That's my schtick.

But I want to talk to you about door-to-door delivery. And I have great sensitivity to the rural community. I do. I understand a lot of the rural communities consist of a gas station, a post office, maybe a grocery store, and that's downtown for a lot of those small towns. So losing a post office is a big thing, it's a big deal, it could be very damaging to rural communities, especially given the fact that you might have to drive another 200 miles to find another post office. So I am very sensitive to their needs. And we've got to figure out a way to hold them harmless if possible. And I appreciate Mr. Smith's testimony earlier.

But I also see a proposal in the chairman's bill that says that, well, for instance, right now, according to your folks in our briefing, they said you provide door delivery to about 37 million—a little bit more than 37 million homes and businesses. And the chairman's plan is to eliminate 30 million of that in door delivery. And that's largely urban. And the idea is to replace that with cluster boxes or some other means of delivering mail.

Now, I come from a very thickly settled, densely settled urban neighborhood where the houses are basically attached. There's no open space, there's no place to put a cluster box. And you're talking about basically eliminating door delivery for urban residents.

I don't see how this works. And I'm not just speaking for south Boston or for the city of Boston, I'm talking about New York, Chicago, Los Angeles, Houston, Baltimore, you know. And on top of this you're going to have to buy land or find land and then construct these cluster boxes. I don't understand how you're making money on that, instead of having somebody just deliver it the way they have been for the past 80 years.

Mr. DONAHOE. Let me comment on a couple of those. First of all, on the small post offices, we have the Post Plan, so there's no plan on closing small post offices. So those towns that have just got the gas station and whatnot can rest assured. We may have fewer hours there, but we'll keep them open.

In terms of 6- to 5-day delivery, my biggest concern is, as we lose volume, we do not want to raise prices to make up the difference, so we've got cut some infrastructure out. That's what's driven. We certainly aren't excited about moving in that direction, but our fear is if we don't do something from an infrastructure standpoint it'll push price.

Let's talk about cluster boxes. Cluster boxes are an interesting proposal because if you look at what customers say when you make changes, probably the biggest thing that upsets customers. So as we move into that area there's definitely an economic opportunity, it costs about \$161 per year for delivery at a cluster box versus \$353 for a door-to-door.

But what we're looking at is, is there a way to make this a win-win, so that if you put a cluster box, say, in a street in Boston or Baltimore or northern Virginia, could you set it up in a way that's designed differently than we have today? Today, see, we've got two slots for packages and 10 or 12 slots for letters.

Mr. LYNCH. What I'm trying to say is, though, you have to knock a house down.

Mr. DONAHOE. Well, there's ways of looking at this. We've been looking to try to figure out how you'd have a freestanding unit that you can put packages in as well as mail, so that if you were worried about having to come home and then go to the post office to pick a package up that you ordered on eBay or Amazon, we could put it right in your box. So what we're thinking is, is if we can design these things in a way that you can fit more than a couple of letters in, people may start to like them. And what we would try to do would be to work with neighborhoods to test them out and see what the feedback looks like.

I've had door delivery in my house, I've had cluster box, I've had street box. With a cluster box it's pretty good once you understand how they work. And I think the key thing for us to is to make sure that customers see it as a win and not taking something away from them.

Mr. CONNOLLY. Mr. Chairman?

Chairman ISSA. Yes, the gentleman from Virginia.

Mr. CONNOLLY. Would you allow just one observation as a Bostonian by birth?

Chairman ISSA. As long as the voters of Virginia do not mind.

Mr. CONNOLLY. They know.

Chairman ISSA. I will give you that 1 minute. But understand it could be at your own peril, especially if you the if you talk about the Red—the White Sox.

Mr. CONNOLLY. Red Sox.

Chairman ISSA. Red Sox, White Sox, those non-Yankees.

Mr. CONNOLLY. Mr. Lynch is talking about the lack of land. My family lives in West Roxbury in Mr. Lynch's district. There is no land to put in boxes. There's none. It's not a matter of what shape the box would be or what you put in it, there is no common land at all. The urban set backs are such—

Chairman ISSA. I thank the gentleman.

Mr. DONAHOE. We understand that. Thank you.

Chairman ISSA. Mr. Chaffetz, you're recognized. Could I have 15 of your seconds?

Mr. CHAFFETZ. Absolutely.

Chairman ISSA. Mr. Donahoe, isn't it true that the highest density area practically you can name is New York City, and in New York City cluster boxes are a reality of high rises? So isn't it true that some of the noncurb, nonchute is in fact apartment houses where there's whole rooms the size of a post office. So at the end of the day, isn't it true that if you do it where you can and do it the way you can, you save money?

Mr. DONAHOE. Yes. And what we're trying to do in New York, too, is put a lot more package boxes in so we can—

Chairman ISSA. So we can protect the kind of thing you're delivering more of.

Mr. DONAHOE. Yes.

Chairman ISSA. I thank the gentleman.

Mr. CHAFFETZ. And thank the chairman. I appreciate this piece of legislation, the good work that's gone into it. It's not perfect, but it is a move in the right direction. I think everybody understands and knows that we have to engage in some postal reform.

One of the things that I'm deeply concerned about, we've heard the mention of rural multiple times. I have a county in my district that's larger than the size of Connecticut. It has 15,000 people in it. And I do hope that one of the strongest considerations we have as we look at how to deal with the rural markets is proximity. That should be the case as it is in the density of Boston or south Boston or Cape Cod where they just have a ridiculous number of post offices, as opposed to maybe some of the other areas where you literally could go 100 miles before you see the next one. I think proximity is that key metric that we need to look at.

At that same time I would encourage, Chairman, that we need the ability to have some flexibility and actually close some post offices from time to time. Now, I happen to come from a high-growth area. We had a situation in one of my largest cities in my congressional district where there was a major fire. It just so happens with this post office there is no longer access from the north end of this facility. Nor can you get access to this postal facility from the eastern side. No longer can you access it from the western side. Only from the south side, with no sidewalk, can you actually get to this post office. We have been begging and pleading with the Postal

Service to look at the extenuating circumstances, make a change for the betterment of the community, which is a reflection of the postal workers, they're going to be on the brunt end of the criticism that the Postal Service is negligent and reluctant to make this change. And we're hamstrung because deep within the bowels of your organization everybody's scared to death of making a change.

And somehow, some way, Mr. Chairman, there has got to be some flexibility. We had a fire. We're closing in on a year here and our people are not served yet, but they keep saying, well, we've got to keep waiting because there's postal reform and there are some Senators that don't want any post offices closed. We have to do more. We have to do better that way.

The other thing that I would encourage, Mr. Chairman, is we have this opportunity, and I've said this many times before, the great opportunity in my mind for the Postal Service is to become more relevant in people's lives. And the balance that we have to find is to make sure that we don't cannibalize into some of the private sector.

And so my question, which is a long one here, long time coming, is what are we doing to galvanize other government agencies and be the conduit and the opportunity to be the face, if you will, the access point for other government services. When I think of passport services, for instance, Mr. Chairman, it's great, that appears to be a great success. When I think, hey, I got to renew my passport, got to go to the Post Office.

FEMA, we've talked about for a couple years, is spending untold millions of dollars trying to recreate and remap the entire United States, but it's the postal worker who knows if that sign gets blown down in a hurricane, they know where that street, they probably know how many people live there.

There are other services that wouldn't cannibalize the private sector but would open up an avenue and a conduit, if you will, so that people can actually access government services. I think in my rural district I would love to have the State government do the Department of Motor Vehicles through the post office. What a great place to come do that. And yet it would be a good revenue source for the Postal Service.

So my question about the bill is the flexibility, but also making sure that we're being innovative but without cannibalizing the private sector, so that little mom and pop who's selling coffee doesn't suddenly have to compete with a post office that suddenly wants to sell coffee and T-shirts and other things that they're doing. You have 15 seconds, so good luck.

Mr. DONAHOE. Pass comprehensive legislation and it will get people away from being fearful that the Postal Service cannot meet their needs. Get it behind us, and I guarantee you'll see plenty of that spring up because that's what people are looking for. Thank you.

Mr. CHAFFETZ. Yield back.

Chairman ISSA. Thank the gentleman. Johnny on the spot, on the button, zero.

We now go again to the Bostonian, the third member from Massachusetts on the top of the dais, the gentleman, Mr. Connolly.

Mr. CONNOLLY. And by the way, Mr. Chairman, there are three of us from the Virginia delegation from Massachusetts, including my good friend Bob Goodlatte, who loves being reminded he is from Massachusetts.

Chairman ISSA. You know, there were three of us from the same high school at one time. Two are gone. I'm the lone survivor from Cleveland Heights High. But I do not make it a point of talking about growing up in Cleveland with those sidewalks and those chutes and those doors on those homes produced before 1974 as though that was the only solution to mail delivery. I just wouldn't do it.

Mr. CONNOLLY. Well, my parents appreciate my advocacy.

Mr. Donahoe, we had Walt Francis before this committee talking about your proposal to pull out of FEHBP. Now, Walt Francis is probably the living walking expert on the Federal health program. He writes an annual book analyzing every single plan and option in great detail, his checkbook, and he looked at your claims, which seem a little vague. He said, you say you can better manage health insurance than OPM? Highly unlikely, extremely unlikely, he says. You say FEHBP fails to match other employee benefits; KFF data on private employer insurance shows no such disparity. USPS says it can offer the same and possibly even better health care choices; he says extremely unlikely and inconsistent with claims to offer more understandable set of choices by USPS.

You say FEHBP fails to provide health promotion and wellness incentives, chronic condition and disease management programs. Absolutely false. They most certainly are offered by FEHBP.

And then finally, he says you say, it can communicate benefits to enrollees more effectively. Well, that's interesting because every employee group I've talked to with the Postal Service is utterly confused about what it is you're proposing and quite anxious about it. I think we heard Mr. Guffey say, as the president of a union, we have our options with FEHBP and we're happy with them.

Is that true, Mr. Guffey?

Mr. GUFFEY. More or less, but we would be willing to sit down and negotiate with the problems.

Mr. CONNOLLY. But I'm looking at what USPS has posted, the so-called healthcare proposal. It's two pages. And it's utterly lacking in detail in terms if you're an employee wanting to know, well, is this a better deal than I'm getting currently right now, if I'm an annuitant over 65, if I want to look at how it folds in with Medicare, if I want to know what my annual out-of-pocket deductions might be, what about prescription drugs, there is no specificity.

So, Mr. Donahoe, how would you answer Mr. Francis' rather profound critique of this proposal to pull out of FEHBP.

Mr. DONAHOE. Let me ask if we can put the slide back up there. Can we put that slide back up with the charts?

[Slide]

Mr. DONAHOE. Here is the way I'd answer Mr. Francis. If you look at the far left, that \$10,000 healthcare plan is what a post-65-year-old Federal employee has to pay, period. That's the average pay that we all pay, any Federal employee. If you're in the private sector where you have Medicare wrap-arounds, A and B, you pay

on average \$4,500. If you have A, B, and C, which we feel we have every right to, you pay \$3,000.

Why in the world would we ever tolerate spending three times the health care for our retirees in an FEHBP plan when they don't compete it, when they don't offer wrap-around, when they don't offer single plus one? That's the way the rest of the Federal Government has worked. In 1962, back when the OMB was created, FEHBP was a wonderful plan. That was 40, 50 years ago. We need to update it.

Mr. CONNOLLY. Mr. Donahoe, can you commit to providing specific data—

Mr. DONAHOE. I can give you—

Mr. CONNOLLY. —and dollar amounts?

Mr. DONAHOE. I can give you a specific—what you've got in your hand I'm not so sure where you got that from. But I can give you a much more detailed presentation in person and we'll go step by step and cover every detail.

I would state on the record that it is in the best interests of the Federal Government, not just the Postal Service, to compete these plans. There's money to be saved. We should not as Federal employees be subsidizing everybody else like I've showed you on that chart.

Mr. CONNOLLY. Well, I'll look forward to the data. By the way, this was handed up by your congressional relations in meetings with our staff.

Mr. DONAHOE. I'll get you an updated one.

Mr. CONNOLLY. With specificity so we know—we can compare.

Real quickly, have you—why haven't you signed an MOU with the Department of Labor with respect to disclosure of FECA records? You're looking at a new FECA process for the Postal Service, but you have not yet agreed to their privacy standards, and they're concerned that that could lead to violations of the Privacy Act.

Mr. DONAHOE. We're stuck between a rock and a hard spot on that one because for years, as I mentioned earlier, we've been working to bring people back to work from workers' comp. We've got 16,000, 17,000 people in the periodic rolls.

What we do now is, is when we have discussions with the people at the DOL we share that information electronically with the unions as required by our contract. What we think is, is if we have to go to the manual process that they're suggesting and a more restricted electronic process, we won't be able to share the information with the unions, and that becomes a Labor Department issue on the other side.

So it's kind of, we'd like to get this thing worked out, matter of fact I've written a letter that's gone over to the Acting Secretary to sit down and see if we can figure this out.

Mr. CONNOLLY. Thank you.

And, Mr. Chairman, I know my parents thank you for the extra time.

Chairman ISSA. You're most welcome and your parents are welcome.

With that we go to the gentleman from Oklahoma, Mr. Lankford.
Mr. LANKFORD. Thank you.

Mr. Donahoe, you have a tough job in a lot of ways, you know that full well, because we need significant reform, you're waiting on the House and the Senate to get its act together to be able to help provide that. You're trying to do stuff in the meantime. And across America people say over and over again, that's my post office, whether they like or don't like or disagree on how many days it took to get there this time or whatever it may be, they set their drive home from work based on a certain drive route to stop by to get to their box and be able to check in at a certain time in the morning. There's a tremendous sense of ownership. So I do not envy that task. And thanks for what you're doing, and for all of you and what you're doing. There are a lot of folks that don't get a lot of thanks that are out there in the heat today. And so we do appreciate that.

Mr. Guffey, let me ask you a question. You've made some proposals and some different ideas that have come up. What cost-saving proposals would you support that are efficiency structures or that are labor related or that are the way the post office does its business? You kind of live and breathe, you're around it. The people are experts that are there. I interact with some of the union folks at our military base that do civilian work. They know better than anyone where the efficiencies are, where they can do reductions and such.

Where do you see cost savings?

Mr. GUFFEY. We are trying to work with the post office right now in saving and transportation of mail. We think we can work with the post office—

Mr. LANKFORD. Give us a couple of those ideas. What does that look like?

Mr. GUFFEY. Redoing the routes and making routes more efficient so that a truck can take more than one or two, three stations at the same time to different locations, making sure that the facilities can handle a certain size truck, and if it can handle a bigger truck we'll make a bigger truck so that truck can go to two or three locations. There's a lot of things we're getting into it, and those are in negotiations and I can't speak on them too much.

I said we are willing to talk about doing some more efficient things with the health plan inside FEHB, want to aggressively look at those approaches and everything.

There are other things that happen on different types of containers. We talk about on-the-job injuries, and we think there are a lot of containers that are within the post office that shouldn't be utilized when they're utilized, not that they can't be utilized but there's areas that they're utilized that they shouldn't be utilized, which by themselves can cause on-the-job injuries.

There's a myriad of things that we're looking at in rotations and how to get more flexibility. We negotiated more flexibility with the post office in this last negotiations by giving them noncareer people, but we also went away from the traditional five 8-hour days to allow the post office to schedule in such a manner that without paying overtime they could keep post offices open later. We did a lot of things that we could do to work together with the post office to provide a workforce that was more conducive to them providing services to the American public.

Mr. LANKFORD. Okay. Are we at the right size as far as total workforce?

Mr. GUFFEY. It's hard to say yet. The volume is constantly changing. Our concerns on the consolidation is when it hits the point where it delays the mail. And when I say delay the mail, we could have instances—I'm from rural Oklahoma, too, I graduated with 32 kids, so I know what we're talking about. But you have situations where mail was processed in office A and now it's going to be processed in office B, which may be 80, 90 miles away or something. The mail that was taken to office A to be processed was in 5 or 10, 20 different cities around that area, and it would go to office A and turn around and get back and delivered the next day.

Well, now to get it to office B many times they have to change the dispatch times in these one, two, three, four, five, six, seven, eight offices to 1 o'clock or 2 o'clock in the afternoon. In Grove, Oklahoma, now I think it's like 1 o'clock in the afternoon to make the dispatches so it can get to Tulsa or Oklahoma City to be turned around and worked back. Well, that means the businesses in Grove, they can no longer can put the mail on their counter for the mailman to pick up because he may not get back to the post office until 5. And if he doesn't get back until 5 that means the mail doesn't get dispatched that day. It sits there until the next day.

Now, scales of economy are important, and what can happen in these offices, it's going to vary. And I think if the Postmaster General has the tools to get things done properly, I think we'll get it done. We can work together. I mean, I have said several times to Postmaster General we are going to solve this problem. We've got to solve the problem in the long run. And I think we can if the post office gives us the ability—not the post office, but the Congress gives us the opportunity to do certain things, we'll do our best to work through the problems. It's not in anyone's interest to destroy the post office.

Mr. LANKFORD. Oh, no, it's not ours either, nor is that the goal there. As Mr. Quadracci can tell you, there are a tremendous number of private sector jobs that are affected by what happens to the post office by rates, by times, by scheduling efficiencies, all these things are all built in. So this is very important to you, it's important to us, it's important to the private sector as well. So it's got to be right. But I do hope there is a way to be able to get together and everybody look for efficiencies and find a way to be able to resolve it.

So with that I yield back.

Chairman ISSA. I thank the gentleman.

We now go to the gentlelady from New York for her round.

And you are from New York, not Boston.

Mrs. MALONEY. I am. But I have relatives in Boston.

Chairman ISSA. Yeah, but you're not rooting for anyone with sox in their name, right?

Mrs. MALONEY. No.

Chairman ISSA. Okay. Just check.

Mrs. MALONEY. Well, first of all thank you to the ranking member and to the chairman for holding this hearing and to the distinguished panel. I also recognize in the audience the former chief of staff to the committee here, Ron Stroman.

Very good to see you, Ron. Congratulations on your new move to be Deputy Postmaster General. That's great. But it's good to see you and we miss you. So good to see you. I just noticed you.

Mr. Chairman, I really truly want to thank you for holding this hearing. We all know that postal reform is something that needs to happen, and I hope we can work on this in a bipartisan way to make it happen.

I have some very serious concerns with the discussion draft of the Postal Reform Act of 2013. As it stands, the current discussion draft requires a dramatic downsizing of the Postal Service, reduces customer service by moving to a 5-day delivery, and guts collective bargaining agreements.

I deeply and greatly oppose these kinds of initiatives that hurt seniors, businesses, and take a major step back in the rights of hardworking letter carriers. These kinds of initiatives not only hurt seniors, rural areas, and low-income urban areas, but many businesses and postal workers will be hurt.

I do, however, want to commend the chairman for including in his discussion draft the underwater classes provision to address the problem of mail classes whose rates do not always cover their costs, such as magazines. Too many magazines are going out of business. This provision prevents a seriously negative impact on the magazine publishing industry, which employs a great number of people in our country, much of which is headquartered in my congressional district, including Time Inc., Hearst, and Conde Nast.

The draft takes a sensible approach on this issue, delaying the implementation of any rate increase on periodicals and other so-called underwater classes of mail until the Postal Service has time to remove excess costs from the system. After 2 years of reforms at the Postal Service, if periodicals do not cover 90 percent of their true costs, a reasonable rate increase of 2 percent would go into effect. I think this approach makes sense, and I hope it is included in whatever final postal reform bill this committee considers.

Mr. Donahoe, I know that there's a review of postal services across the country and I want to know your criteria, specifically in closing post offices, if you look at cost-benefit. Are the post offices making money? Regrettably, I've had some cases where the post offices are making money, literally a profit, which is what we want, in fact the competitors are opening up stores across the street or next door to them hoping that people will come to them instead of staying in the lines at the post office. But even when they are making money, they are sometimes slated to be closed. And I'd like to know what is your criteria for closing post offices and why is not the cost-benefit analysis or a productivity. I would think we want to a strong post office, those that are making money we should be keeping because that's going to cover the costs.

Mr. DONAHOE. Yes, I agree with you. We have a process for large cities all the way down to the smallest rural office that we do review if we do propose any closures. We have really moved away from that to a large extent as we put changes into place to change hours mainly in the smaller offices.

In a big city like New York what we've run into, and I think there's been a couple in your district, where we've unfortunately lost the lease on the building that we were in and then we've had

to move. So I know that we've been actively seeking some retail space in your area because some high rises are being built and buildings that we were in probably for the better part of 30 or 40 years we're now forced out of.

We are looking at relocating in some cases. Other cases, whether its stamps online or being able to pick postage up at a local drug-store in the city, we're moving in that direction, too.

So I think the key thing for working with your people in the upper Manhattan area is to make sure that we do a good job to find the retail space close so that we don't have to move too far away from the places where we lost our lease. So you've got my commitment to work with you on that.

Mrs. MALONEY. Thank you very, very much. And I want to commend the postal workers. They work in really terrorist conditions. Anthrax has been discovered in the mail in several offices in the great city of New York and they have responded with great courage and devotion to their jobs.

Mr. DONAHOE. Thank you.

Mrs. MALONEY. So thank you.

Chairman ISSA. I thank the gentlelady.

We now go to the gentleman from Tennessee, Mr. Duncan.

Mr. DUNCAN. Well, thank you very much, Mr. Chairman.

Mr. Donahoe, I see that one of your recommendations, and you have mentioned this, is to reform workmen's compensation. And I see notes that said some employees have been on workmen's compensation, some postal employees, since before the Postal Service was established in 1971. You said you've got 17,000 employees drawing what you refer to as periodic payments?

Mr. DONAHOE. Periodic rolls, yes, yes.

Mr. DUNCAN. How would you reform workmen's compensation, and have you done a wild estimate or guess as to how much you could save if your reforms were put into place?

Mr. DONAHOE. Well, it's been a multistep approach. Number one, we've been working this issue for a number of years, and the key thing first was to reduce accidents so people didn't end up on workmen's comp. So we've been very aggressive with vehicle accidents and illness, injury. We have seen nice reductions there.

Mr. DUNCAN. And I've read there is a big reduction in the—

Mr. DONAHOE. We still have people on workers' compensation. Some people we would like to have the ability to have them retired out of the system and there is legislation I know that's afoot here both in the House and over in the Senate. We would support that. That would address people who have been on workers' comp since 1981—or 1971. The problem with that in some cases is that they make more money on workers' compensation than they do going into retirement, so we've got to figure out how to resolve that issue.

The other approach, and it's for a much larger group, is to either help to get them back to work or actually buy them out like a private sector company would do. On the back-to-work efforts we have worked very closely with Mr. Guffey, we have insourced some work in which we have employed—reemployed people off the periodic rolls, and it's been helpful because it helps us pull that large liability down. We still have a long way to go as far as getting people back to some active duty.

We think that probably there's about 10,000 people who one way, shape, or form would be able to get back to work. That's what we're looking at. And then the other 6,000 to 7,000 probably would either have to be retired or have some kind of a buyout.

But the key thing here is we have a liability of about \$17 billion that is part of the chairman's note, that we're sitting on almost \$100 billion worth of liability. We've got to resolve that.

Mr. DUNCAN. Let me ask you this. Another one of your recommendations is the right to have appeals of EEOC class action decisions to Federal Court. Do you have a large number of those—

Mr. DONAHOE. What happens, it's a small number but it's an extremely expensive process. I'll give you an example. And this is something—this is not what we would normally see in an EEOC type of complaint. We're proud of the fact that the EEOC complaints have dropped over the years we've focused on that, but we have some situations where class actions come about. We just settled one for \$17 million and the class action was, I didn't get overtime while I was on workers' compensation. If you're on workers' compensation you shouldn't get overtime. And we had to pay out \$17 million to settle that. And there's no point—we couldn't go anywhere from a plea bargain up to say—I'm sorry—an oversight up to the courts. What we're asking for is give us the opportunity, if we disagree with some of these big class actions, to take them to court to have somebody impartially look at them.

Mr. DUNCAN. All right. Mr. Guffey you said a while ago your employees are happy with their present health plan. Do you think they would be willing to go under Obamacare and would you be willing to recommend that they do that?

Mr. GUFFEY. I would not be willing to recommend they go to Obamacare. Obamacare allows them to stay in their own insurance and that's what we recommend that they do.

Now, we are willing to sit down with the Postmaster General and negotiate on a different type of health care within the FEHB family. I'm a single-payer type person. I think you take out all the costs and overhead of all the different plans, the CFOs and the CEOs and all these different people, and the boards and different people that these different health plans have to pay. For the same amount of money I think we can probably come up with a health plan that will deliver services to the membership and to the post office and can come up with something.

But that is something, I think, the type of insurance that our people go into is something that's negotiable, and we're more than willing to negotiate on it.

Mr. DUNCAN. Have you seen the letter that the three unions recently sent objecting to the provisions—or the requirement that they go under Obamacare and give up their so-called Cadillac health plans?

Mr. GUFFEY. I would sign it today.

Mr. DUNCAN. You would sign that same letter?

Mr. GUFFEY. Yes.

Mr. DUNCAN. All right.

Chairman ISSA. I thank you, Mr. Duncan.

If I can just clarify the record. Are you saying that from a union position—I know you can't speak for all the members—but that if a comprehensive reform eliminated, if you will, sort of the letter carriers' bidding within the system and went to a larger group with less overhead, that as long as the unions had some form of representation in that process, they would be supportive if it lowered the cost. Because right now the Federal employee health care plan has specific grandfathers for letter carriers and so on, if you will, for these special groups. Is that what you were saying? I wanted to make sure I understood, because those have separate overhead costs that could be eliminated.

Mr. GUFFEY. We could come up with a health plan, I think, that we could tell our members that this is the health plan that you will get your matching funds from the post office for, and it's going to be within FEHB. We could come up—maybe we could. I think there's an opportunity, a real opportunity to negotiate that, to take out all those other costs.

Now, having said that, I think the real savings for the Postal Service is in not paying the full freight for the same type of health insurance for the retirees.

Chairman ISSA. Right, and we're working on that.

Mr. GUFFEY. But if you do that, and save the money for post office there, it throws additional costs back to the current employees.

Now, working on a plan, a universal type plan which would give our membership what they have wanted, to change the benefits would have to go through OPM, we could probably come up with a lower cost that would also save the post office money and prevent the costs from going up.

Chairman ISSA. And I don't want to take more time today, but I would invite you and the other union representatives to engage with our staff, we have working groups on both sides, because we control, if you will, that question for the entire Federal workforce and we are currently working on a reform, sans the Postmaster's leaving the system, that is intended to achieve several of the areas the Postmaster has put forward.

But if there's a willingness to give us additional opportunity that would come specifically out of changes as to how we deal with postal to the benefit of all the workers, we'd love to work with you on it. We'd like to make sure you see what we're proposing for the Federal workforce.

Mr. GUFFEY. I understand, but our position is, we will provide you some information and what have you, but we believe our position is negotiate with the post office and not with the committee. You understand what I'm saying?

Chairman ISSA. No, no, we're happy to have your input.

Mr. GUFFEY. Right.

Chairman ISSA. To be honest, you don't get a vote.

Mr. GUFFEY. I understand that.

Chairman ISSA. Currently, the committee's position—and it has to be for now—is we're making a decision on behalf of the Federal workforce. The post office is part of the Federal workforce and so therefore we'd like to have that large section of current and retirees have input into it just as I would any other Federal worker.

Like I say, the Postmaster and I are discussing whether or not there is a cost savings in departing.

The problem we have—and I hope Mr. Tierney will understand, I'll give him all his time of course—but is that we cannot get a CBO score that supports the Postmaster's position. If we can't get that, that makes legislation difficult. And that's why we're trying to work on things which we know will score real savings for the post office and put it into a comprehensive health care reform, and we certainly would welcome union input in addition. Of course the Postmaster has a seat at the table.

Thank you.

Chairman ISSA. Mr. Tierney, why don't you take about 7 minutes, because I owe your side that.

Mr. TIERNEY. Well, I appreciate that, but I don't think my time will take all of that time.

Mr. Donahoe, I just really wanted to finish on the thought that Mr. Connolly started about the Federal Employees Compensation Act. You had not signed the memorandum of understanding. That's your answer to him, right?

Mr. DONAHOE. Yes.

Mr. TIERNEY. So the Department of Labor says that these FECA records really require protection under the Privacy Act. Do you agree with that?

Mr. DONAHOE. Yes.

Mr. TIERNEY. Okay. Do you, or does the Postal Service ever disclose the FECA records, and if you do, in what circumstances?

Mr. DONAHOE. I'll have to get back to you. I don't know what we do with those other than share information, talk with the doctors. And there may be some time, if there is a grievance filed, that some information would be shared with the unions, but I cannot tell you that for certain. I'll have to follow up on that.

Mr. TIERNEY. You'll follow up with the committee and give us that?

Mr. DONAHOE. Yes.

Mr. TIERNEY. Thank you. So let me ask you this. Has the Postal Service ever used the FECA record to discredit an employee when that employee was before the EEOC or the Merit System Protection Board?

Mr. DONAHOE. I'm not aware of that, but I'd have to get back to you on that.

Mr. TIERNEY. Would you do that as well, check as many instances as that happened?

Mr. DONAHOE. Sure.

Mr. TIERNEY. As a general matter of policy, would you generally commit that you would not use them that way?

Mr. DONAHOE. Absolutely we wouldn't want to do that, no.

Mr. TIERNEY. The Department of Labor went to the Justice Department's Office of Legal Counsel to get an opinion concerning your dispute.

Mr. DONAHOE. Right.

Mr. TIERNEY. They reported back that they thought the Office of Legal Counsel agreed with them on the matter. And you, however, wouldn't participate in those conversations. Why not?

Mr. DONAHOE. Me, personally?

Mr. TIERNEY. Or the Postal Service. Why wouldn't the Postal Service—

Mr. DONAHOE. I'm not aware of that. I would have to get back to you on that, too.

Mr. TIERNEY. Okay. So what the Department of Labor said the Office of Legal Counsel determined was that the Department has exclusive authority over the FECA records on that.

Mr. DONAHOE. Right.

Mr. TIERNEY. Following that, they then told this committee that they no longer provide access to the FECA records to the Postal Service.

Mr. DONAHOE. Yes.

Mr. TIERNEY. Has that caused you problems in any way?

Mr. DONAHOE. It hasn't caused problems in the short term, but it will cause problems in the long term because you turn the whole process into a manual process.

I think there is a win-win in here somewhere. Like I told Mr. Connolly, we don't want to end up with a situation where we end up violating agreements we have with the unions because of other agreements that we've made. So we've got to figure that out.

Mr. TIERNEY. So when you report back to the committee, will you be able to share with us the reasoning behind your reluctance or the Postal Service's reluctance to sign that memorandum of agreement?

Mr. DONAHOE. Yes.

Mr. DONAHOE. The other thing, as I mentioned, we've sent a letter up for me to go up and speak with the Acting Director so that we can—or Acting Secretary—so that we can get a common area where we might be able to work together on that.

Mr. TIERNEY. Okay. Barring Mr. Lynch or the ranking member having any other questions, I'll yield back. I yield back.

Chairman ISSA. I thank the gentleman.

We now go to the gentleman from Mr. Pennsylvania, Mr. Meehan.

Mr. MEEHAN. Thank you, Mr. Chairman. And, Mr. Chairman, just as a matter to make sure that we correct the record as a—

Chairman ISSA. You're not a Bostonian?

Mr. MEEHAN. Well, you know, I've got to tell you, as somebody who suffers—is a suffering Red Sox fan for all these years, Yaz, Carl Yastrzemski would pass out in front of the Green Monster if he thought Congress believed that he actually played for the White Sox. So as long as we can—

Chairman ISSA. You know, I'm a Cleveland Indians fan through and through.

Mr. MEEHAN. My condolences.

Chairman ISSA. You know, they were once a professional baseball team, and they still have a great ballpark. So you know, as we run down your clock, I just want you to remember you started this.

Mr. MEEHAN. I appreciate that.

Mr. Donahoe, I appreciate the work that's being done by you and all the organizations and the tough choices that have to be made and the spirit of collaboration that everybody has to work on to try to define resolutions. And I find myself looking for the right ways to help support the post office in making their calculations and de-

cisions. But I also live and work with, you know, my neighbors who work for the post office, and sometimes I get very frustrated with the process that we've gone through. And you and I have discussed some of this.

But let me just say that it's very difficult, as we're getting to the end of some of these issues, and I'm talking about the whole question of consolidation that has been pushed forward, and I've seen a process, and to walk through it, you know. We began with the identification that there was going to be a consolidation that was going to be proposed, and they suggested that there was, you know, a line of savings. And so, right from the outset, the Southeastern facility in my region was slated to be closed and projected a \$16 million savings.

We looked at the thing and realized that they didn't even calculate within the four corners of the letter correctly, and we asked for a recalculation of that. It went to—and a GAO study to confirm that it was being done appropriately. The GAO came back and said, well, based on the information that you had given to them, they could see how a decision could be made. They didn't weigh in, just how a decision could be made, so to speak.

Then we find that during this process, that there is a second consolidation that's being considered in which, even though we've asked for a stay while this is being studied, that mail that was supposed to go to Philadelphia under the process that was being proposed to keep Philadelphia open was actually being diverted to Delaware. It was being diverted to Delaware because there was an overflow, and we really began to question the efficiency of that, finding that there is then a second study that's being done during the period of time that we all believe that the first consolidation is still being considered.

Come back the second time and say, okay, they are actually going to consolidate everything down in Delaware now, which makes no sense to me because I've got a big city between Delaware and Southeastern, and this has an impact not just on the Postal Service, but businesses that use the Postal Service and rely on it for its efficiency.

So now we begin to see that there is a proposed savings of \$13 million by closing down the Southeastern facility as part of plan B, but we found out it's being consolidated and pushed even quicker.

So the bottom line in the process is, how can I have confidence that the decisions and calculations that were made were accurate and corrected in the best interest of the Postal Service and not due to some other kinds of issues which, quite frankly, I can't understand because the logistics don't make sense to me, that you would close Southeastern and keep a Delaware and Philadelphia facility within a short distance of each other open at the same time, as well as one in New Jersey, right across the river.

Mr. DONAHOE. Let me comment on the—first of all, the history of Southeastern came about because of the overflow in Philadelphia. We built a new facility in Philadelphia in the mid-2000s and right before the mail volume loss, we've lost 27 percent of our volume, and a substantial portion of that was what we would consider outgoing mail, which we processed in Southeastern.

The idea was to originally move everything from Southeastern into Philadelphia. As we looked, there were some opportunities to move the 193 ZIP Code area down into Wilmington because of the geographical proximity. From what I know, all of Southeastern, with the exception of 193, is still going into Philadelphia. The Wilmington will get the far south 193 portion and will split the mail up.

We've already started that move. We've made these moves because financially we are in a desperate situation. You know, we've been trying to keep our head above water. We've got 8 days of cash on hand. And I know, you know, it hurts whenever—it hurts when it happens to a local facility, but we've had to make these changes across the country.

There will be no service degradation because Philadelphia, Wilmington, and Southeastern are all considered overnight service. That will not change. And we'll watch that like a hawk, you've got my commitment. But we've got to make these changes. We just have too much capacity, and we've got to take the capacity out of the system. We can eliminate the building in Southeastern, we'll be able to find jobs, landing spots for the people. Most of them are within that area anyway. And we'll continue to make sure we provide great service.

Mr. MEEHAN. Let me ask you about some of those employees right now. What kind of job security is there for those who are at Southeastern? Is there an assurance that they are going to continue to receive work within the area?

Mr. DONAHOE. We have eliminated in the last 6 years 200,000 jobs. In the last 13 years 314,000. We've never laid anybody off, never. I have been fanatical about holding jobs, using overtime, noncareer people, we always find a landing spot. Mr. Guffey and I worked together to eliminate the need to excess people for farther distance than 50 miles. That makes us even hold ourselves more to account to try to find landing spots.

Because when you start moving people all over the country, it's bad for them personally. Economically, it's a disaster. And so you've got my commitment that we will find landing spots for the people at Southeastern. We know that. I know that for a fact as I sit here.

Mr. MEEHAN. All right. Well, thank you.

Mr. Chairman, just one last question for Mr. Quadracci.

The company prints all kinds of different mail, and in my region as well, including standard flats and magazines. And I have heard from some of those who do that in my area that aggressive postage rates increases for their mail can sometimes be devastating.

Can you tell me, from your experience, what happened to your business with the postal rate increases once you began to have to deal—whether in the end it was really more cost-effective, that you might lose more business by virtue of the rate increase? Tell me how you were impacted by that.

Mr. QUADRACCI. Well, 2007 would be the last example where it was the last time they could raise prices beyond the cap and there were double-digit increases, you know, to many of my clients, and we saw double-digit decreases in volume as people pulled back. And I was explaining before that a lot of it has to do with, you

know, there is different files that people mail to. One is a prospecting file where they're trying to get new customers, and that one is very delicate based on response rates. And so if you get a rapid spike in pricing on postage, you'll see them cut that way back, and we saw it. In fact, the whole industry saw it.

You know, we ended up consolidating a couple of businesses that couldn't make it because of this, much larger than us. Some of them in your district were a part of that. And as a part of that, we closed over 21 plants to rightsize the infrastructure. And it was tough. I mean, I know it's important to try and save jobs, but in the private sector we had to release jobs. Very tough for us to do as a company, but to be sustainable we made the tough decisions.

Let's put this into perspective. Since 2001, postal rates went up 50 percent. Since 2001, print prices went down 33 percent. And we've had to make tough changes every part of our business to stay profitable and we've been able to do that.

And so, you know, when you talk to the private sector and you're dealing with a declining situation, you have to get ahead of the curve, you have to make the tough decisions to do it. You know, it's challenging but it's real. Those price increases beyond CPI have devastated this industry and it will devastate it again if we let that happen.

Mr. MEEHAN. Well, thank you for your indulgence, Mr. Chairman.

Chairman ISSA. I thank the gentleman.

We now go to the gentlelady from Illinois, Ms. Duckworth.

Ms. DUCKWORTH. Thank you, Mr. Chairman, and thank you for holding this very important hearing.

Mr. Quadracci, I want to sort of follow up a little bit. It would seem to me that some of the mail that's going out in the standard flat rate, catalogs specifically, are generating more mail, and mail that actually generates more revenue. So when people decide to purchase something, and now that has to be delivered via package mail. Do you keep—does your industry keep any data, statistics on that, how much subsequent mail is created out of the catalog mail?

Mr. QUADRACCI. I'm not sure if we have some of that data. Some of the organizations might. But there has been a decline in catalog mail through this timeframe. We're seeing some stabilization, but there is still a decline. It does generate package products, you know, through the post office, which is a good thing.

Ms. DUCKWORTH. Mr. Donahoe, do you have any data on it at all in terms of how much follow-up mail at a higher rate, such as package mail, is generated by the catalog mail delivery?

Mr. DONAHOE. There are some statistics, and we can get that for you, from the industry. To Mr. Quadracci's point, some catalogs, a lot of times, will generate first class mail and then packages, too. So there is a multiplier effect, and I can have our marketing people get in touch with you on that.

Ms. DUCKWORTH. That would be great. Thank you.

Ms. DUCKWORTH. Mr. Donahoe, the second quarter of this year the Postal Service reported having approximately 616,000 employees, of whom 498,000 were career.

Mr. DONAHOE. Yes.

Ms. DUCKWORTH. Is it correct that this is the smallest workforce of the U.S. Postal Service since 1966?

Mr. DONAHOE. Yes, it is.

Ms. DUCKWORTH. Could you explain why labor costs continued to represent such a large portion of your overall costs?

Mr. DONAHOE. Labor costs are high in terms of total for two reasons. Number one, we are a people-intense organization. A lot of times we're compared to FedEx and UPS. They're both great companies, but they run air systems—they run airlines, I should say—large trucking firms. We contract a lot of that type of work out.

The major driver for our costs are the benefits costs. As I mentioned before, it's 48 percent of our cost, a large chunk with the prefunding, but we also think there are some efficiencies that we can get, working with the unions and with everyone here, around the health costs for the current employees.

Ms. DUCKWORTH. So under the chairman's bill, postal employees receive lower employer contributions to their health benefits and life insurance than they do now, requiring that the employees contribute more. That seems to me to be a pay cut for the current postal employees.

Mr. DONAHOE. We're working through that right now. In the course of the last 3 years we have moved management employees to—we'll be very close to the Federal rate, I think, in 2014. It's been a part of our union negotiations that will start back up in 2015, and of course we'll ask to continue to move that.

Ms. DUCKWORTH. Thank you.

Mr. GUFFEY, did APWU's most recent collective bargaining agreement with the Postal Service include any concessions to incrementally increase your members' share of these costs?

Mr. GUFFEY. Yes, we moved, I think, 3 to 4 percent so much per year. Like I say, these things were won sometimes in the past based on the wages then. We took less wages to get more pay for the health benefits. And now the post office is negotiating to take it back, and that's why we don't believe it belongs in legislation to require us to go there because it's a negotiation issue. They're not in the same legislation. They're not trying to give us back what we gave up to get that. And we think that's imperative, and when you have a labor organization dealing with management, it's a give and take, quid pro quos, and what have you, and to take back our quid pro quo for something that we gave up years ago we think is not right.

Ms. DUCKWORTH. So how would the chairman's bill affect the agreement that I was just talking about with the concessions to incrementally increase your share. Are you saying that this bill would actually do that?

Mr. GUFFEY. We haven't seen the final bill and everything, but we believe that anything that deals around labor relations and negotiations should not be legislated. It should be allowed, maybe, under the bill, but not required. And that's what I was talking about earlier, dealing with the Postmaster General on a whole realm of issues that, we can work through a lot of issues if we have the ability to do so.

Ms. DUCKWORTH. Thank you.

I'm out of time. Thank you.

Chairman ISSA. Would the gentlelady yield just for a colloquy?

Ms. DUCKWORTH. Yes.

Chairman ISSA. So the gentlelady understands, the intent of the bill is at the expiration of their contracts they would harmonize with the rest of the Federal workforce. However, the intent, and clear intent, and I want to make sure it's understood during the markup, too, is that that allows 100 cents on the dollar to be moved back into pay or other benefits not covered by Federal harmonization.

So the intent was to be able to say once and for all that the Federal workforce has, based on category, substantially the same reimbursements, benefits, retirements. That was more a matter of comparing apples and apples, because for this chairman's time there has always been, well, you know, they make less but they do this, but they don't do that. And quite frankly, our employees here in the House, employees over at the White House and so on, we wanted to make a statement that if you're a Federal employee, to the greatest extent possible, the benefits, which are not ordinarily negotiable, in other words, Federal workers cannot negotiate benefits as part of their collective bargaining, the union can, but to be honest, it created a different interpretation of what a fair reimbursement was to a Federal worker.

So although it's open to amendment, and we're certainly happy to take your input, the intention in the bill was to not reopen negotiations. We're clearly saying that it simply would be harmonized when they renegotiate their new contracts. And the intent is that any givebacks would then be passed on so that it would translate into higher pay, but a different benefit for current employees, and obviously it has no effect directly on retirees.

We now go to the ranking member of the full committee, who has been patiently waiting for his first round.

Mr. CUMMINGS. Let me ask you—first of all, let me say that we got to resolve this. Mr. Donahoe, I've said that if we can send somebody to the moon, seems like we ought to be able to resolve this. And I think that our constituents have sent us here to work through problems, and I think our constituents are getting more and more frustrated when we fail to do so. We have a limited amount of time. We do not—we hold these positions for a temporary period, and this is our watch.

Mr. GUFFEY, I insisted that you be here, and I want to thank the chairman for making sure that happened. I want you to tell me what is it, what in a bill—we're going to do a bill—what must you see in a bill that would make you feel comfortable supporting it? Can you give me the elements, the things that you must see? Is that a fair question?

Mr. GUFFEY. I think it's fair. I think, personally, and I think my organization would like to see something that took care of the prefunding issue with the long-term health insurance. I think we would like to see something done with the overfunding of the retirement plans. I think we would like to make sure, and I think I heard Chairman Issa say that they will be using postal-only calculations to take care of the overages in the different accounts.

I think we would like to see more opportunities for the post office to do more things in other government agencies. We'd like to see

them do more, have the postal management have the greater flexibility to deal with agencies or mailers to generate income to the Postal Service.

We would like to make sure that the issues that need to be done in collective bargaining remain in collective bargaining. But there are some things that maybe need to be changed in the law to allow certain things to happen. Part of that might be part of the health insurance issues.

There are a myriad of things that we would like to see, but the main thing we'd like to see, I think, is just a viable post office for the future.

Mr. CUMMINGS. Now, Mister—were you finished?

Mr. GUFFEY. Sure.

Mr. CUMMINGS. Mr. Donahoe, what issues do you have with regard to anything he just said?

Mr. DONAHOE. I think the, you know, the key for us is resolving the health care. I think that we're in 100 percent agreement with that, so I don't think that there is any issues there.

I think that probably the difference between where the unions are and the Postal Service is, is the degree and speed of change. I think that we're all in agreement that we have to make some changes. So when we're pushing for the 6- to 5-day, I understand why Mr. Guffey and Mr. Rolando are a little more reticent, because their members are worried about that. So those type things.

I think we're both in—we're in full agreement with FERS refund, Federal Employee Retirement, and getting the payment set right. We still continue to overpay, and that's money that's coming out of our pocket, the ratepayer's pocket. Those are some things.

I also think that we're in full agreement on opening up for new products. You know, there's discussions around other government services, even shipments of things like wine, beer, and spirits. There's a big business in that. We think we'd do a great job. So there is a lot of points of agreement that we have.

Mr. CUMMINGS. Did you have something else, Mr. Guffey?

Mr. GUFFEY. No. I think as long as the service standards. We just want to see a viable Postal Service, you know, whatever that is in the future.

Mr. CUMMINGS. Now, Mr. Chaffetz, a little earlier talked about the cannibalism of the private side. I remember cannibalism. I know you remember that. I don't remember all the rest of what he said. But what he was referring to is that he didn't want, when we go into the innovation piece and trying to make money through the Postal Service, that we not interfere with the private side. He listed something about passports and some other things, and you just mentioned wine shipments and whatever.

I guess, you know, I'm trying to figure out where we draw the balance. On the one hand, you know, in my bill we talk about this innovation officer to come in and bring as much innovation as possible to the table, but on the other hand, you have folks who are saying, oh, no, no, no, no, no, no, no, no, don't step on this, don't step on that, don't step on this. And by the time you start eliminating the private things you could get into, there's nothing left, and it's talking out of both sides of our mouths.

So, Mr. Donahoe, you mentioned wine. Can you think of other things?

Mr. DONAHOE. Sure.

Mr. CUMMINGS. Other than passports, and I think you mentioned a few other things.

Mr. DONAHOE. I think the thing that we should challenge ourselves with is build things or perform work that helps not only the Postal Service, but others. I'll give you an example. We're working through this whole digital approach now. We think that we can fill a very important role in the space on secure digital messaging, authentication, things that really can't be done by the private sector because there's always a concern of lack of trust or, you know, who's got what information, that from a Postal Service perspective we think that we would be able to fit in that spot.

What that does then, that allows other people to grow. I mean, if you think about the group of us sitting here. We have an excellent infrastructure network of plants and processing centers and retail and delivery that Mr. Quadracci can bring volume in that he prints for thousands of customers. So if we can replicate a lot of that same thought going out into the future, I think there is a real win for us, and we don't end up tramping on toes of people who, you know, would claim foul, that we're government and not private sector.

Mr. CUMMINGS. Mr. Chairman, I would just ask for unanimous consent. The Chairman has taken all kinds of time. I just want to make—I want to just have 3 more minutes and I'll be finished. I've been here. I see you reaching for your gavel. I just thank you very much.

Mr. LANKFORD. [Presiding] You've got 3 minutes there.

Mr. CUMMINGS. Thank you very much.

Let me ask you this. You know, I believe, you know, if given the proper tools, the Postal Service could expand its use of new technologies to offer new products and services. I also believe the Postal Service should be given expanded authority to offer non postal services such as check cashing, warehousing and logistics and facility leasing.

Let me you this, Mr. Donahoe. How much of the space in the Postal Service existing facility for print is vacant? Do we have a lot of space?

Mr. DONAHOE. There's a number. I'd have to get back to you on that because it kind of varies by facility. We've squeezed a lot of that out in the last year or so, but we probably still have some space available.

Mr. CUMMINGS. So the Postal Service could lease that space out or collocate it with other agencies?

Mr. DONAHOE. Yes. We've talked to other agencies, we've talked to other firms that would like to move into space that we have and actually use our facility as a fulfillment site because they can operate a little warehouse right there and hand it across to us and we can get it delivered.

Mr. CUMMINGS. So make sure that we understand this. You all are doing things right now that are in the pipeline that would yield substantial funds that you just haven't gotten to yet? In other words, you haven't—the deal has not been sealed? Is that—

Mr. DONAHOE. I would say from a digital perspective, yes, we've been careful because we didn't want to get ahead of legislation—

Mr. CUMMINGS. Right, right, because that was my next question. Are we hindering you from going where you're trying to go?

Mr. DONAHOE. As fast as we can get legislation—

Mr. CUMMINGS. You didn't answer.

Mr. DONAHOE. As fast as we can get the legislation passed, that helps us.

Mr. CUMMINGS. So in other words, you're out there and you're going toward some things and you're kind of worried that you don't want to reach a deal or you can't reach a deal or you're sitting down with somebody to reach a deal, but you're so worried that the Congress has not caught up with where you are. And so you, even if you were able to reach a proposed deal, you couldn't carry it through right now.

Mr. DONAHOE. That's in some cases, and in some cases the opposite, where customers are a little afraid to do deals with us because they're afraid that we would have some problems with our finances. So it goes both ways.

Mr. CUMMINGS. All right. Thank you, Mr. Chairman.

Mr. LANKFORD. Thank you for being here very much.

With that, this hearing is adjourned.

[Whereupon, at 4:55 p.m., the committee was adjourned.]

APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD

THOMAS R. CARPER, DELAWARE, CHAIRMAN

CARL LEVIN, MICHIGAN	TOM COBURN, OKLAHOMA
MARK L. PRYOR, ARKANSAS	JOHN MCCAIN, ARIZONA
MARY L. LANDRIEU, LOUISIANA	RON JOHNSON, WISCONSIN
CLARE McCASKILL, MISSOURI	RICH PORTMAN, OHIO
JON TESTER, MONTANA	RAND PAUL, KENTUCKY
MARK BISHOP, ALABAMA	MICHAEL B. ENO, WYOMING
TAMMY BALDWIN, WISCONSIN	KELLY AYOTTE, NEW HAMPSHIRE
HEIDI HEITKAMP, NORTH DAKOTA	JEFF CHESNA, NEW JERSEY

RICHARD J. KESSLER, STAFF DIRECTOR
KEITH B. ASHDOWN, MINORITY STAFF DIRECTOR

United States Senate

COMMITTEE ON
HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
WASHINGTON, DC 20510-6250

July 16, 2013

The Honorable Darrell E. Issa
Chairman
Committee on Oversight
and Government Reform
U.S. House of Representatives
2157 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Elijah Cummings
Ranking Member
Committee on Oversight
and Government Reform
U.S. House of Representatives
2471 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Issa and Ranking Member Cummings,

We regret that we are unable to testify at the House Oversight and Government Reform Committee hearing tomorrow on the state of the U.S. Postal Service and proposals that have been made to address the challenges it faces.

As you know, postal reform has been and remains a priority for us and our committee. The Postal Service is a vital part of our economy, supporting by some estimates a \$1 trillion mailing industry that employs as many as 8 million people. The financial crisis the Postal Service has been dealing with in recent years has created uncertainty for postal employees, postal customers, and all Americans who continue to rely on the mail. It's vitally important that Congress act as soon as possible to provide the Postal Service with the reforms needed to ensure it is placed on a long-term, financially sustainable path. To that end, we remain committed – as we stated we were when you testified at our committee's postal reform hearing earlier this year – to working with both of you to get a postal reform bill to the President's desk as soon as possible.

Thank you for your invitation to testify and for your continued commitment to finding bipartisan consensus on this important issue.

With best personal regards we are,

Sincerely yours,

Thomas R. Carper
Chairman

Tom A. Coburn, M.D.
Ranking Member



NATIONAL ASSOCIATION OF POSTAL SUPERVISORS

National Headquarters
1727 KING STREET, SUITE 400
ALEXANDRIA, VA 22314-2753
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July 16, 2013

The Honorable Elijah E. Cummings
Ranking Member
Committee on Oversight and Government Reform
U.S. House of Representatives
Washington, DC 20515

Re: Discussion Draft of "Innovate to Deliver Act of 2013"

Dear Ranking Member Cummings:

The National Association of Postal Supervisors, representing over 28,000 active and retired supervisory and managerial employees of the United States Postal Service, appreciates the opportunity to respond to your discussion draft of comprehensive postal reform legislation. As you know, our organization has long urged Congress to pass postal legislation that responsibly ends the financial crisis afflicting the Postal Service and provides a foundation for future stability and growth.

We commend you for your legislation's commitment to stabilize the Postal Service's finances and provide for longer-term stability through growth and innovation. We endorse your measure and look forward to continuing to work with you and other members of the Committee in achieving passage of legislation that provides immediate and lasting benefit to the Postal Service.

Thank you for considering the attached comments of your draft measure. Please contact us if you have questions or require assistance.

Sincerely,

A handwritten signature in black ink that reads "James F. Killackey III".

James F. Killackey III
Executive Vice President

Encl.

cc: Members of the House Committee on Oversight and Government Reform

Representing supervisors, managers and postmasters in the United States Postal Service

NATIONAL ASSOCIATION OF POSTAL SUPERVISORS

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**Comments of the National Association of Postal Supervisors
Concerning the Discussion Draft of the “Innovate to Deliver Act of 2013”**

The National Association of Postal Supervisors, representing over 28,000 active and retired supervisory and managerial employees of the United States Postal Service, strongly supports the passage of comprehensive postal reform that ends the financial crisis afflicting the Postal Service and provides a foundation for future stability and growth.

NAPS believes that comprehensive postal reform should embrace short-term and long-term solutions. The immediate crisis facing the Postal Service is largely due to past actions taken by Congress. Short-term solutions should correct those errors and aim at restoring financial solvency. Longer-term solutions should aim to fortify revenue and provide wider authority to the Postal Service to transform itself and sell innovative products and services. While no single action will solve the Postal Service’s problems, NAPS believes that four key solutions lie at the heart of comprehensive postal reform:

- Repeal or modify the retiree health prefunding requirement
- Return pension overfunding to the Postal Service
- Preserve Saturday delivery and other delivery standards
- Authorize the Postal Service to sell additional products and services

NAPS provides these comments in response to the discussion draft of comprehensive legislative, entitled the “Innovate to Deliver Act of 2013,” prepared by Rep. Elijah E. Cummings, Ranking Member of the House Committee on Government Oversight and Reform. NAPS endorses the legislation and believes it represents an effective, balanced approach toward encouraging innovation and comprehensive postal reform. Our comments are organized by title of the bill.

Title I – USPS Profitability and Revenue Generating Enhancements

Subtitle A - Postal Service Products and Pricing

1. **Section 101: Establish the position of USPS Innovation Officer.** This section calls for the USPS to create and the Postmaster General (PMG) to designate a Chief Innovation Officer (CIO) to “lead the development of innovative postal and non-postal products and services” by January 1, 2014. The PMG must also propose a comprehensive innovation strategy to Congress and periodically report to Congress on the progress and proposed revisions to the Innovation Strategy.

NAPS Response: *NAPS supports the creation of a CIO and more aggressive action by the USPS to identify and take advantage of the vast opportunities for smart innovation that exist within the postal infrastructure. With the extensive logistical network, retail presence and on-line opportunities that the USPS possesses, the appointment of a designated officer to focus on growth and expansion is overdue.*

The Postal Service and the American public stand to benefit from the creation of an aggressive innovation strategy. NAPS members, as they have for over 100 years, stand ready to manage and supervise the implementation of innovation strategy in the field.

2. **Section 102: Authority to Offer Non-Postal Services.** This section allows the USPS to expand its business operations into new lines of business it has previously been prohibited from participating in.

NAPS Response: *NAPS agrees with granting the Postal Service the ability to provide additional services to the American public including check cashing, basic banking services, and internet services. These services could raise additional revenue and extend a variety of convenient services to millions of Americans.*

3. **Section 103: Requirement that Market Dominant Products Cover Attributable Costs.** This section repeals current statute and requires each category of mail to cover its own separate costs.

NAPS Response: *NAPS agrees that the rate structure of the Postal Service should be set to have all postal services cover their actual costs, and not continue subsidies for particular businesses to the detriment of the broader American public.*

4. **Section 104: PRC Review of CPI CAP Instituted Under PAEA.** This section requires the Postal Regulatory Commission's consideration of the merits of the current CPI price cap, established by the Postal Accountability and Enhancement Act. Current exigency requirements to alleviate the burden of the current cap structure are too narrowly constructed under the current law and do not provide sufficient pricing flexibility to USPS.

NAPS Response: *NAPS agrees that the Postal Service should not be burdened by current statute that unnecessarily restrains the USPS from setting prices and rates.*

5. **Section 105: Enhanced Product Innovation.** This Section streamlines the implementation process for experimental USPS products.

NAPS Response: NAPS agrees that the Postal Service requires the latitude to develop and test new products without the restrictions that are currently in place. Innovative products have the power to rejuvenate the Postal Service and increase revenue.

6. **Section 106: Authority to Ship Beer, Wine and Distilled Spirits.** This section allows the USPS to serve as a carrier for alcoholic beverages.

NAPS Response: NAPS agrees with this change in the law. Currently other shipping service companies have the ability to engage in these services for the American public, and the Postal Service should compete in this lucrative market like private carriers.

7. **Section 107: Repeal of Uniform Rates for Books, Films and Other Materials.** This section lifts requirements on what the USPS is required to charge for media materials.

NAPS Response: NAPS agrees with this provision as it complies with Section 103 of this proposal, which require all classes of mail cover their attributable costs, and does not unfairly shift the costs for some products on those who do not enjoy them.

Subtitle B – Postal Service Management

8. **Section 108: USPS Balanced Budget Minimum Requirement.** This section requires the Postal Service to maintain a balanced budget in relation to revenues and costs.

NAPS Response: NAPS agrees that the costs of the Postal Services should be balanced with the rates that are charged for services. This is common business sense in any industry.

9. **Section 109: Reporting Requirement for Board of Governors and Postal Regulatory Commission.** This section requires members of the PRC to disclose their travel and expenses at the end of the fiscal year to Congress.

NAPS Response: In the spirit of transparency, NAPS agrees that all costs associated for travel and expenses should be available for review and audit.

10. Section 110: Restrictions on Postal Service Executive Compensation. This section places significant permanent and temporary limitations on the maximum salary for postal executives, limits how many executives can earn this salary, and establishes the maximum benefits these executives can receive.

NAPS Response: *NAPS members have expressed concerns about the ability of the USPS Board of Governors to enter into contractual agreements with postal executives that create additional methods of compensation that enable them to bring their own compensation and benefits above the limits for other federal employees. NAPS agrees with salary and benefit ceilings consistent with the rest of the federal government.*

11. Section 111: Investment of Competitive Product Monies. This section permits the Postal Service to invest the profits made from competitive products into a broader range of investments than is currently permitted by law.

NAPS Response: *NAPS agrees that the Postal Service should enjoy the latitude to invest any generated surpluses as it chooses, subject to the Department of Treasury's oversight.*

Title II – Postal Service Workforce Realignment and Right-Sizing

1. Section 201: Separate Normal-Cost Percentage Recalculation of FERS. This section requires the Office of Personnel Management to amend the formula used to determine the USPS's contribution to FERS, making strategic assumptions tailored to the USPS.

NAPS Response: *NAPS agrees that the federal government must fairly modify the formula used to calculate future payments to the FERS system by the Postal Service, and not punish the Postal Service for the government's actuarial errors.*

2. Section 202: Treatment of Surplus Contributions to the FERS. This section requires that the surplus calculated in section 201 be used first to repay the Postal Service's loans from the US Treasury, and that any subsequent surpluses pay down remaining liabilities the USPS may have to the CSRS or the FRHBP.

NAPS Response: *NAPS agrees that any excess funds that are identified through the enactment of Section 201 should be returned to the Postal Service so it can pay down outstanding debt. NAPS also agrees that once these loans have been satisfied that any*

other excess funds be used to offset any other postal liabilities, including health plan costs.

3. **Section 203: Sense of Congress.** This states the non-binding sense of Congress that the USPS should have the ability to offer early retirement and buyout packages without restriction.

NAPS Response: *NAPS agrees that the Postal service should have the authority to offer incentives that reduce workforce costs and are mutually beneficial to the USPS and its employees.*

4. **Section 204: Contributions to Thrift Savings Fund of Voluntary Separation Incentive Payments.** This section allows postal employees to voluntarily deposit part of their buyout into their TSP.

NAPS Response: *NAPS supports this change because it provides incentives to further reduce workforce costs through voluntary retirement.*

5. **Section 205: Service Credit Contributions of Voluntary Separation Incentive Payments.** This gives the USPS and employees the flexibility to offer service credits as a part of or instead of buyouts.

NAPS Response: *NAPS agrees with the flexibility granted to USPS, as it gives workers the opportunity to take the voluntary separation incentive most beneficial to them, as opposed to forcing a one size fits all policy on a diverse workforce.*

6. **Section 206: Modification of Prepayment Schedule Relating to Postal Retiree Health Benefits Fund.** This provision modifies the pre-funding requirement for future retiree health benefits to amortize over a 40-year schedule, reduces the prefunding requirement for future retiree benefits from 100% to 80%, and delays the commencement of future payments until Fiscal Year 2017.

NAPS Response: *NAPS supports the recalculation of the prefunding requirement to a longer amortization period, and the extension of relief to the Postal Service for several years while it acquires greater financial stability*

7. **Section 207: Study on Workforce Realignment and Right-Sizing Options.** This section requires the Comptroller General to report to Congress on the methods used to right-size the postal workforce.

NAPS Response: NAPS agrees that a comprehensive plan on workforce realignment and right-sizing options would be desirable and preferable to current piecemeal approaches.

8. **Section 208: Applicability of Provisions Relating to a Reduction in Force (RIF).** This section allows the USPS to engage in RIF activity except when prevented by collective bargaining agreements, and to exercise this power in conjunction with an evaluation system based on comparative performance.

NAPS Response: NAPS believes that current RIF rules are still applicable to dealing with any changes in the workforce that would require reductions in positions. At the present time the USPS has the authority to have up to 20% of their workforce as non-career. This flexibility precludes the need to have massive cuts in the workforce of career employees as non-career workers may be adjusted without impacting career employees.

9. **Section 209: Enhanced Reporting on Facility Network Initiatives:** This section requires the PMG to submit reports to Congress that provide extensive reasoning for the potential closing of postal facilities, including addressing several factors related to how these closings will impact the postal infrastructure and postal employees.

NAPS Response: Considering the severe and permanent impact closures of postal facilities have on both the USPS infrastructure and employees, NAPS believes that all network changes require the oversight necessary to ensure that the overall service and mission of the delivery of services to the American public is not adversely impacted by the poor planning or execution of a restructuring plan.

Title III – Postal Service Improvements and Regulatory Relief

1. **Section 301: Permit Appeal Rights for Closing of Postal Stations and Branches.** This section creates uniformity between the processes for closing post offices, and those for closing postal stations and branches.

NAPS Response: NAPS supports eliminating this arbitrary distinction, and believes that all postal installations should be subject to the same process for closing, regardless of their designation. While there are parts of the postal infrastructure that are more visible and understandable to the American Public, the parts that are not as visible can play just

as or an even more important role within the Postal Service, and should enjoy equal protection.

2. **Section 302: Intra-Agency Cooperative Agreements:** This section allows the Postal Service to work with other governmental agencies for their mutual benefit.

NAPS Response: NAPS agrees that the Postal Service should more aggressively seek revenue from collaborative relationships with other federal components and that intra-agency cooperative agreements could play an important role toward that end.

3. **Section 303: Grouping of Negotiated Service Agreements.** This section authorizes USPS to engage in Negotiated Service Agreements and private businesses.

NAPS Response: NAPS agrees with allowing the Postal Service to enter into Negotiated Service Agreements with postal customers much in the same manner as other delivery services are allowed to enter into such agreements with their customers.

4. **Section 304: Standardization of the Process for Classification of Competitive Products.** This section requires the PRC to review and approve potential competitive products that comply with current requirements as quickly as possible.

NAPS Response: NAPS agrees that the timeliness of approvals for classification of competitive products would benefit the Postal Service in bringing products and services to the American public.

5. **Section 305: Development of New Market-Dominant Classes of Mail.** This section requires the PRC to establish on its own, or when formally requested, new classes of mail that adhere to specified criteria.

NAPS Response: NAPS agrees that the Postal Service should have the power to market different classes of mail to improve its income while better tailoring its products to the individualized needs of the American public and the business community.

6. **Section 306: Expedited Consideration of Service Changes by the Postal Regulatory Commission.** This section permits the USPS to request expedited consideration from the PRC for time sensitive advisory opinions.

NAPS Response: *NAPS agrees that the Postal Service should have the ability to request that PRC expedite certain advisory opinions warranted by their time sensitive nature or their relative importance as compared to other issues before the PRC.*



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July 16, 2013

The Honorable Darrell E. Issa
Chairman
Committee on Oversight and Government Reform
U.S. House of Representatives
Washington, DC 20515

Re: Discussion Draft of "The Postal Reform Act of 2013"

Dear Chairman Issa:

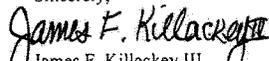
The National Association of Postal Supervisors, representing over 28,000 active and retired supervisory and managerial employees of the United States Postal Service. We appreciate having the opportunity to respond to your discussion draft of comprehensive postal reform legislation. As you know, our organization has long urged Congress to pass postal legislation that responsibly ends the financial crisis afflicting the Postal Service and provides a foundation for future stability and growth.

We commend you for your commitment to stabilize the Postal Service's finances by including in your draft measure provisions addressing the foremost cause of the Service's current problems: the unwise and unfair pension and retiree health financing policies that Congress and the Office of Personnel Management have created. We also commend you for your efforts to extend greater authority and responsibility to the Postal Service for pushing the envelope of innovation, especially to leverage its premier assets: its first-mile and last-mile networks.

We believe these policy elements of comprehensive policy reform can be strengthened further. Short-term and long-term solutions together provide the prescriptions for the Postal Service's stability and growth. We look forward to continuing to work with you, other Committee members and your staff in achieving legislation that provides immediate and lasting benefit.

Thank you for considering the attached comments on your draft measure. Please contact us if you have questions or require assistance.

Sincerely,


James F. Killackey III
Executive Vice President

Encl.

cc: Members of the House Committee on Oversight and Government Reform

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**Comments of the National Association of Postal Supervisors
 Concerning the Discussion Draft of The Postal Reform Act of 2013**

The National Association of Postal Supervisors, representing over 28,000 active and retired supervisory and managerial employees of the United States Postal Service, strongly supports the passage of comprehensive postal reform that ends the financial crisis afflicting the Postal Service and provides a foundation for future stability and growth.

NAPS believes that comprehensive postal reform should embrace short-term and long-term solutions. The immediate crisis facing the Postal Service is largely due to past actions taken by Congress. Short-term solutions should correct those errors and aim at restoring financial solvency. Longer-term solutions, meanwhile, should aim to fortify revenue and provide wider authority to the Postal Service to transform itself and sell innovative products and services. While no single action will solve the Postal Service's problems, NAPS believes that four key solutions lie at the heart of comprehensive postal reform:

- Repeal or modify the retiree health prefunding requirement
- Return pension overfunding to the Postal Service
- Preserve Saturday delivery and other delivery standards
- Authorize the Postal Service to sell additional products and services

NAPS provides these comments in response to the discussion draft of comprehensive legislative, entitled the "Postal Reform Act of 2013," prepared by Rep. Darrell Issa (R-CA), chairman of the House Committee on Government Reform and Oversight, and posted on June 13 on the Committee website. NAPS believes that the draft legislation is an improvement over H.R. 2309, as proposed by Rep. Issa in the 112th Congress. Nonetheless, NAPS believes the legislation falls short in some areas and overreaches in others. Our comments are organized by section of the bill.

Title I – Postal Service Modernization

1. Allows the Postal Service to Shift to a Modified-Saturday Delivery Schedule (Section 101). The legislation will establish a nationwide schedule of 5 days of mail delivery per week and require that there cannot be more than 2 consecutive days on which mail is not delivered, including as a result of public holidays. It will terminate Saturday delivery of competitive products, like packages, beginning in 2018. It also will extend the current mailbox-monopoly Sunday exemptions for newspapers to other days in which the Postal Service does not deliver letter mail.

NAPS Response: NAPS opposes reductions in mail delivery schedules that degrade service and contribute to volume erosion. Cutting mail service is inherently counter-productive to "growing the business." Maintenance of the semblance of Saturday delivery to post offices boxes, and caller services coupled with parcel delivery on

Saturdays and even on Sunday's, is ill-conceived. NAPS is doubtful that the service reductions contemplated by the legislation will provide the \$2 billion in projected savings. In fact, Postal Service delivery plans for parcel delivery on Saturday and Sunday will be costly and unprofitable, unless the attributable costs of delivery are recovered through a fee for such "premium" service.

2. Requires the Expansion of Curbside Delivery (Section 101). The legislation will phase-out "door delivery" and require that curbside or centralized (clusterbox) delivery of mail become the default delivery option for new addresses, residential addresses and business addresses, according to timetables and criteria proposed by the legislation. The legislation also will require the Postal Service to begin efforts to convert as many residential addresses as possible to curbside delivery, reaching 30 million converted addresses in the next 10 years. A working capital fund will be created finance to offset the costs of conversion to curbside delivery.

NAPS Response: NAPS agrees that there are opportunities to modernize and create additional efficiencies in the delivery of mail to addresses throughout the country. The Postal Service should seek to use the most cost-effective options of mail delivery wherever possible, where consistent with the maintenance of service quality. r. Physical barriers and conditions associated with urban areas present significant challenges to the success of centralized delivery service in these areas. There are security issues, mobility issues involving elderly and handicapped Americans, and storage and delivery issues associated with parcels. NAPS believes that curbside delivery cannot be an all-or-none proposition, and that the considerations requiring the continuance of door delivery, as contemplated in the legislation, should be expanded.

3. Closures of Post Offices (Section 103). The legislation will remove the prohibition on closing post offices solely for operating at a deficit.

NAPS Response: It is critically important that postal service is maintained regardless of profitability in rural areas. While the Postal Service needs to have the authority to determine the appropriate level of service that should be afforded to communities, the fulfillment of universal service mandates attention to the needs of rural America and its citizens and business interests.

4. Enhanced Reporting on Postal Service Efficiency (Section 105). The legislation requires the Postal Service to use a PRC-recommended formula to determine changes in Postal Service productivity and the resulting effect on overall costs.

NAPS Response: NAPS is uncertain as to the value of this approach. The Postal Service already has well developed methodologies to measure volume of mail and equipment and personnel performance.

5. Area and District Office Structure (Section 106). Requires the Postal Service, in consultation with the Postal Service Inspector General, to close or consolidate 30 percent of Postal Service Area and District offices that existed as of September 30, 2012 and to fully achieve that goal by October 1, 2015.

NAPS Response: The current management structure of Area and District offices supporting the work of local post offices and processing facilities should be studied, but a goal of eliminating 30% of these offices may not be realistic credible.

Title II – Postal Service Governance

1. Establishment of the “Postal Service Financial Responsibility and Management Assistance Authority.” The legislation would abolish the current Board of Governors and replace the Board with five executives, comprising the “Postal Financial Responsibility and Management Assistance Authority,” authorized to govern the Postal Service during a control period until such time as the Postal Service returns to profitability and can properly fund its retirement obligations. At that point, the Board of Governors would return to power.

NAPS Response: NAPS believes that the last thing that the USPS needs is to bring in a group of “experts” to temporarily replace the current Board of Governors. Currently the Postal Service is managed by an internal group of executives, the Board of Governors and overseen, in some respects, by the Postal Regulatory Commission. Adding a new temporary layer of leadership is unnecessary. Instead NAPS believes that the size of the current Board of Governors should immediately be reduced from nine members to five members, as contemplated by the legislation upon completion of the control period

Title III – Postal Service Workforce

1. Applicability of Reduction-in-Force Procedures (Section 301). The legislation will subject postal workers to the same reduction-in-force (RIF) regime as other federal workers. No-layoff clauses will be prospectively barred in Postal Service collective bargaining agreements. Any collective bargaining agreement ratified prior to the date of enactment of the legislation will be renegotiated within nine months if the agreement includes any restrictions on the use of RIF procedures. Any employees who lose their job due to current restructuring will have preferential hiring status among Postal Service contractors.

NAPS Response: Current postal workers already have RIF procedures that work effectively in balancing the workforce. Since 2009, over 8,000 management positions represented by NAPS have been eliminated through the reorganization and RIF procedures. NAPS has worked with management to ensure the best interests of the Postal Service and the recognition of the rights of our members.

On the bargaining unit side of the Postal Service, the implementation of the most recent contracts of the four major postal unions provided for the hiring of up to 20 percent non-career employees. This large percentage of non-career employees presents adequate opportunities to alter staffing needs at the local and national level to adjust for workload. NAP believes that the current system in place works well and does not need to be changed.

2. FEHBP and FEGLI Funding Requirements (Section 302). The legislation will require postal workers by 2020 to pay the same premium contribution that other federal workers pay for health and life insurance benefits.

NAPS Response: At first glance, this recommendation would appear to make sense; after all, why should different groups of federal employees receiving the same group health insurance and life insurance coverage pay different rates for these benefits. The justification lies in how the pay and benefits of federal and postal employees are arrived at.

The size of health and life insurance premiums paid by the Postal Service for its workers are negotiated and set through the collective bargaining agreements the Postal Service reaches with its unions. The compensation of

civil service employees, on the other hand, is statutorily fixed and federal employee unions may not negotiate pay and other compensation matters with the government. Negotiation over postal compensation, thus, may yield higher payments of health insurance premiums by the Postal Service than the federal government, but not as high a base pay rate due to a lower priority assigned to it by the unions during negotiations. Pay and benefit variances are compounded by the availability of locality pay to federal workers, depending on where such workers live. Locality pay is not available to postal workers, including supervisors.

Title IV – Postal Service Revenue

1. Adequacy, Efficiency and Fairness of Postal Rates (Section 401). The legislation will require each market-dominant product to cover its costs, while maintaining the statutory price cap based on the Consumer Price Index. It also require rates for any market-dominant class of mail covering less than 90 percent of costs, within two years, to increase annually at a rate of 2 percent above the rate of inflation. It also will require the PRC to conduct a study during the two-year delay period on the excess capacity on attributable costs.

NAPS Response: NAPS supports any effort that would result in all classes of mail bearing their own costs for processing and delivery.

2. Repeal of Rate Preferences for Political Parties (Section 402). The legislation will immediately eliminate the ability of the national and state political committees to use the non-profit mail rate.

NAPS Response: NAPS agrees that all mailers, including political mailings, should be charged the cost for processing and delivery.

3. Nonpostal Services (Section 404). The legislation permits the Postal Service to pursue new revenue. It allows USPS to sell advertising space at facilities and on its vehicles to offer state and local services, such as the sale of fishing licenses.

NAPS Response: NAPS supports focused, intensive effort to assist the Postal Service in reinventing its business model. The Postal Service needs to generate new revenue as aggressively as it is pursuing efficiencies in mail processing and delivery. This involves the pursuit of business opportunities within existing authority, as well as the offering of non-postal products, subject to Congressional approval.

NAPS supports legislation that would allow the Postal Service to raise additional revenues by providing additional products and services that the American public needs and would use. The Postal Service should be permitted to offer non-postal products or services if the Postal Regulatory Commission has determined that the products and services make use of USPS's processing, transportation, delivery, retail network, or technology and are consistent with the public interest. In many respects, this can be best accomplished through public-private and inter-governmental partnerships. It also should be permitted offer services on behalf of state and local governments as it does today on behalf of federal agencies and to ship wine and beer like its private-sector competitors do.

4. **Appropriations Linkage (Section 406).** The legislation will eliminate current authority permitting the Postal Service to ask for a public service taxpayer subsidy and will eliminate two other provisions that authorize direct taxpayer expenditures in support of the Postal Service.

NAPS Response: The public service taxpayer subsidy should be preserved as a safety valve should the financial health of the Postal Service unexpectedly deteriorate. Prior non-use of the subsidy and the overall reliance of the Postal Service on postage revenue should not diminish the potential value of the public service taxpayer subsidy as a safeguard in extraordinary circumstances.

Title V -- Postal Service Finance

1. **Treatment of CSRS and FERS Funding Surpluses (Section 501).** The legislation will require any net projected actuarial surpluses between the Postal Service's CSRS and FERS accounts be transferred to the Postal Service Retiree Health Benefits Fund on an annual basis.

NAPS Response: NAPS believes that any surpluses in USPS payments for CSRS or FERS should be first used to pay down the current debt of the Postal Service. Once the debt has been paid down, then options should be explored as to the future use of surpluses.

2. **Retiree Health Benefit Liability Payment Schedule (Section 502).** The legislation will restructure the Postal Service's plan to fully fund its retiree health care benefit. Starting in 2014, all future payments will be based strictly on an actuarial calculation designed to achieve full funding in 2056. Past due prefunding payments are covered in the restructured payment plan. The legislation will eliminate the two statutory retiree health care prefunding payments the Postal Service has previously defaulted on, as well as the future payments for FY 2013-2016.

NAPS Response: NAPS agrees that there must be a restructuring of the methodology for funding retiree health care benefits. However, it is concerned that forty-year amortization based on full funding of the Postal Service's retiree health liability by 2056 may yet impose intolerable financial burdens upon the Postal Service.

3. **Supplementary Borrowing Authority During a Control Period (Section 503).** The legislation authorizes the Postal Service, to assume an additional \$5 billion in debt, but requires repayment of 20 percent of the debt each year.

NAPS Response: NAPS supports the authorization of additional debt service for the Postal Service, especially to satisfy increasingly critical infrastructure and fleet needs.

Title VI – Postal Contracting Reform

1. **Advocate for Competition (Section 702).** The legislation requires the Postal Service and PRC to establish competition advocates for promoting the contracting out of functions that the private sector can perform equally

well or better and at lower cost. The competition advocates are to promote competition to the maximum extent practicable consistent with obtaining best value, and to review procurement activities.

NAPS Response: There are already sufficient policies and resources in place within the Postal Service to promote the contracting out of appropriate postal functions. The USPS Inspector General additionally assists in making recommendations on contracting out and cost savings. At a time of scant resources, the creation of competition advocates does not warrant priority attention.

2. Delegation of Contracting Authority, Posting of Noncompetitive Contracts, Ethical Issues (Sections 703-706). The legislation requires the Postal Service and PRC to issue policies on contracting officer delegations of authority and provides for other reforms, including requirements of transparency and ethics compliance.

NAPS Response: Legitimate recent concern over the Postal Service's recent management of its contracting authority create the need for the reforms established by the legislation.



**National Association of Postmasters of the
United States**

Testimony of

Robert Rapoza

National President

Hearing

House Committee on Oversight and
Government Reform

Washington, DC

July 17, 2013

Chairman Issa, Ranking Member Cummings and committee members. on behalf of the 25,000 members of the National Association of Postmasters of the United States (NAPUS), I appreciate your invitation to share our views regarding the pending "discussion drafts" that were recently unveiled by the chairman and ranking member. NAPUS represents Postmasters, the managers-in-charge of our nation's post offices. Our membership also includes Postmaster Relief personnel, officers-in-charge of post offices, and retired Postmasters.

As this committee knows, formidable obstacles continue to confront the United States Postal Service as it struggles to remain a viable and universal public service. Our Constitution recognizes the preeminent status of the Postal Service as an inherently governmental entity. Indeed, Article I, Section 8 of the foundation of system of government stipulates an explicit Congressional responsibility to establish the national postal system; and, now, in 2013, Congress must ensure its continued viability.

Postmasters and the communities they serve have been acutely impacted by Postal Service cost-cutting initiatives that have decreased the number of full-service post offices available to the mailing public, as well as dramatically reduced the hours of service at thousands of post offices, particularly those in rural areas and small towns. I might add that urban and suburban communities have also suffered service reductions. In total, within the next year, approximately 14,000 post offices will experience significant hour reductions, and these service cuts will have a negative impact on postal retail revenue. While Postmasters recognize the financial rationale underlying these painful actions, NAPUS believes that congressional failure to enact constructive postal reform has been a catalyst in fostering these service reductions; these actions also have had a significant adverse effect on NAPUS members.

Postmasters believe that constructive postal relief legislation would be the most effective means of averting a postal collapse that would put at risk a substantial portion of our national economy, harm countless small and home-based businesses, jeopardize the employment of thousands of middle-class jobs, and endanger the hard-earned benefits of

postal employees. I believe that the chairman, ranking member, and committee members recognize that NAPUS has and will continue to play a constructive role in developing and enacting beneficial postal relief legislation. As you may know, last year, NAPUS strongly supported the Senate-passed consensus postal bill, S. 1789. It was not a perfect bill, but was a thoughtful, responsive and bipartisan measure that facilitated sensible postal relief. With all this in mind, I am providing you with NAPUS' input relating to those provisions of your draft bills, in which, I believe, there is consensus among NAPUS members. The core elements of NAPUS' framework for postal legislation are fairly simple: revenue generation through innovation, financial relief from the inequitable treatment of postal retirement and health care trust funds, realistic postage rate-setting, and assurance of universal service.

Almost six months ago, I testified before the Senate Homeland Security and Governmental Affairs Committee, at which time NAPUS forcefully argued that the primary focus of postal relief legislation should be revenue generation. This legislative priority has not changed. It is foolish to endlessly eviscerate the postal institution, suggesting that these actions will restore the Postal Service to financial vitality. Responsible partnerships with other governmental entities --federal, state and municipal -- and with the private sector provide opportunities for growth. NAPUS is pleased that both the chairman's and the ranking member's drafts recognize the need for new postal products. We are also supportive of the provisions in the ranking member's draft that establishes innovation as a major priority.

Expansion of the small parcel market is accelerating, and the Postal Service must capture a significant share of it. There is absolutely no reason that the Postal Service cannot be the dominant participant in this segment of the postal market. Post offices are uniquely equipped to provide a secure, affordable, and accessible point for parcel preparation, acceptance, and delivery. Moreover, post offices provide a comprehensive network for parcel returns. The physical presence of post offices provides a major competitive advantage for Postal Service dominance in the small parcel market. Postmasters are exceptionally qualified and capable to promote small parcel products, particularly to

small and medium-sized businesses. It should be noted that, according to the Small Business Administration, there are presently about 23 million small businesses in the country and they contribute annually about \$9 billion in postal revenue. There is ample evidence their postal needs are accelerating and, as a result, increased postal revenue is within reach. Postmasters will be pivotal to tapping into this potential postal revenue. A recent Postal Inspector General report concluded that Postmaster visibility is a priceless tool to successfully market revenue producing postal products to local businesses. “Postmasters are typically at the forefront of interactions with local small business customers, either by providing service, addressing service issues, or selling Postal Service products or services.”¹ Moreover, the Postal Service recognizes the key role that Postmasters can play in postal marketing, “the Postmaster title weighs heavily in the community as a valued resource to assist customers with their mailing and shipping needs.”²

In addition, at this year’s Senate hearing, NAPUS noted that the Postal Service is an effective, reliable and trusted communications conduit, and, as a consequence, can be responsibly used to deliver essential government services to vulnerable populations, particularly in the aftermath of a disaster. Disaster relief in the wake of Super Storm Sandy and the Moore Oklahoma Tornado are illustrations. For example, for those who lack accessible financial institutions, Social Security cash cards could be delivered and reloaded through local post offices. Additionally, Federal Emergency Management Agency (FEMA) benefits and Small Business Administration (SBA) assistance could also employ the U.S. Postal Service cash card concept. In fact, the concept of USPS-issued cash cards is not alien to postal operations, because post offices have been issuing postal money orders for years. Moreover, assorted financial services may be made available through the post offices, much as such services are provided in other nations.

Post offices have already demonstrated their value and security in partnering with the U.S. State Department in the passport application process. Other agencies, at all levels of

¹ *Small Business Growth Audit Report*, Office of Inspector General USPS, page 1, June 20, 2013.

² *Employee Engagement Program Guide*, Version 14, page 4, November 16, 2012.

government, should be encouraged to seek out comparable partnerships with the Postal Service. Indeed, identity and residence verification services for a variety of governmental purposes can be effectively conducted through the post office. For instance, state or municipal licensing and permitting can be conducted at the post office. Also, the Postal Service should be designated the preferred shipper for federal agencies and the agencies should be able to avail themselves to preferable postal rates and volume discounts. In sum, NAPUS believes that House legislation needs to encourage and dramatically expand the opportunities for the Postal Service to generate revenue.

Two of the most vexing issues for Congress have been how to refund the Postal Service's overfunding of its employee pension contributions and how to tackle the debilitating requirement to prefund retiree health benefits. Although these issues are independent, both the chairman's and the ranking member's drafts have joined them in an attempt to address a budgetary scoring issue. NAPUS believes the scoring issue to be a red-herring. The real issue is equity and fairness, both which are shockingly absent in the discussion. The Postal Service pension surplus should be remitted directly to the agency. Separately, the current retiree health care liability should be immediately recalculated, and a more manageable and equitable amortization schedule should be established. However, addressing the specifics of the two legislative drafts, NAPUS would prefer the ranking member's proposal for addressing the trust fund dilemma. We do not believe that the chairman's proposal to apply the surplus to past year's liability payments will be helpful in stabilizing postal finances, because the Postal Service will not accrue a timely benefit from the rightful refund. In contrast, the ranking member's proposal would enable the Postal Service to free up its credit line and, thereby, access essential funds for updating its infrastructure and assist in operational necessities.

It is clear that the Postal Service needs greater flexibility in adjusting postal rates, and setting rates that more accurately reflect the true cost of providing services. And, yes, the rates should include an identifiable component that helps underwrite the American citizen's access to a universal postal system. We understand that the decision to seek an "exigent rate case" rests squarely with the Postal Service – NAPUS believes that the time

has come for such a filing. Moreover, statutorily mandated deep discounts should be reviewed. Indeed, such discounts should be repealed if the appropriations for the reimbursement of past postal "revenue forgone" are to be eliminated, as proposed in the chairman's draft. Both the chairman's and the ranking member's drafts seek to provide the Postal Service greater latitude in setting certain postage rates and more realism in setting other rates.

A preeminent NAPUS-promoted issue has and continues to be universal access to postal services. Accessibility should not rely on neighborhood demographics or be compromised due to a community's rural or small-town location. Economically depressed and rural communities tend to be more postal-dependent. Additionally, delivering postal services to rural venues contribute very little to Postal Service expenditures. For this reason, NAPUS appreciates the chairman's decision not to include a post office closing commission in his draft. Nevertheless, the proposed elimination of the statutory prohibition against closing a post office solely for operating at a deficit and the removal of the requirement that the Postal Service provide a *maximum degree* of postal services to small towns and rural areas would deal a devastating body blow against postal-dependent communities. Many of these communities already are trying to adjust to retail hour reductions of up to 72%. Moreover, NAPUS is deeply concerned about the provision in the chairman's draft that would prohibit a community from appealing the closing of a post office if a contract postal unit (CPU) is opened within two miles of the post office targeted for closure. It is important to note CPUs, as well as privatized so-called Village Post Offices, do not offer a full array of services and, as a consequence, impacted postal customers would be significantly disadvantaged if they, for example, needed to file a claim or send accountable mail, or purchase postal money orders. NAPUS urges you to extract section 103 from the measure and replace it with a provision to provide the Postal Regulatory Commission with binding authority over post office closure appeals.

NAPUS agrees with the proposal in the chairman's draft that area and district offices should be consolidated. Multiple levels of postal bureaucracy hamper the ability of

Postmasters to effectively manage their post offices. It is far more efficient and useful for Postal Headquarters or areas to directly communicate with frontline managers. Delaying the postal bureaucracy has been a long-held conviction of NAPUS. In fact, in 2003, we testified in favor of such delaying before the President's Commission on the United States Postal Service.

However, NAPUS does not believe that replacing the Board of Governors with a Postal Financial Responsibility and Management Assistance Authority would successfully address the Postal Service's current and future operational and fiscal issues. It simply substitutes one governing authority for another, and creates the mere illusion of being temporary. Moreover, the qualifications for serving on the new Authority are grossly inadequate for managing the operations and finances of our national postal system, and, in performing its responsibilities, it is not required to ensure that a universal postal system will be maintained. Also, under the chairman's draft proposal, the Authority could dismantle the national postal system.

Although NAPUS is not entitled to collective-bargaining, it participates in a consultative process with the Postal Service in regard to adjustments relating to compensation and fringe benefits. The chairman's proposal would undermine the ability of NAPUS to represent the interests of its members during pay consultations by removing the minimum value of such pay and benefits. Moreover, the proposed legislation dramatically alters the measurement for pay comparability to, among other criteria, inaccurately uses pay and benefit data from organizations that do not perform tasks or engender a level of trust comparable to the United States Postal Service.

Finally, let me indicate that NAPUS appreciates the chairman's and the ranking member's decision not to include a provision in their proposals that would have removed postal employees from the Federal Employees Health Benefits Program (FEHBP). There are simply too many unanswered questions about the feasibility of a postal-only plan outside of the FEHBP. There is considerable skepticism about the capability of the Postal Service to manage such a program, the degree to which postal retiree health protection

would be maintained, its cost and efficiency relative to the FEHBP, and whether such a program would actually provide a benefit package comparable to the insurance extended through the FEHBP.

It would be unfortunate for the American public if Congress is unable to enact meaningful legislation to address the fiscal difficulties that confront the Postal Service, which are not of its making. Some view the Postmaster General's recent actions as acts of desperation that are doomed to backfire; others see it as part of a bold, calculated plan for the survival of the Postal Service, an organization of which I have been an employee for the past 46 years. In either case, my fear is that if this Congress does nothing to resolve its fundamental differences, the integrity of our nation's universal postal system will be irrevocably compromised.

Consequently, NAPUS urges this Congress to act responsively and responsibly to assist the U.S. Postal Service, the greatest and most efficient postal service in the world, to continue to provide the products and services that Americans expect and deserve. NAPUS pledges to assist the chairman, the ranking member and this committee to that end. The future of the Postal Service is in your hands.

Joseph A. Beaudoin
National President

Paul H. Carew
National Vice President



Elaine C. Hughes
National Secretary

Richard G. Thissen
National Treasurer

July 16, 2013

Committee on Oversight and Government Reform
U.S. House of Representatives
2157 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Issa, Ranking Member Cummings and Members of the Committee on Oversight and Government Reform:

As you examine postal reform proposals, including the discussion draft of the "Postal Reform Act of 2013" and the draft of the "Innovate to Deliver Act," I would like to share the concerns of the five million federal and postal employees and annuitants represented by the National Active and Retired Federal Employees Association (NARFE). Before I do, I would like to thank Chairman Issa and Ranking Member Cummings for posting their draft legislation and soliciting feedback from stakeholders prior to introducing the bills. NARFE appreciates the opportunity to provide its comments.

Generally, NARFE supports the approach taken by the "Innovate to Deliver Act" (Cummings draft) and rejects the approach taken by the "Postal Reform Act of 2013" (Issa draft). The Issa draft places the burdens of cost-cutting on the backs of the postal workforce while undermining the mission of universal mail service provided by the United States Postal Service (USPS). In so doing, it threatens the future of the postal service as we know it today.

In contrast, the approach in the Cummings draft seeks to preserve the postal service for the American public through policies encouraging innovation and growth. Notably, the Cummings draft seeks to remove statutory obstacles to the USPS' ability to increase its revenues, for example, by allowing USPS to deliver wine, beer, and liquor. It also allows greater flexibility for USPS in setting rates. Additionally, it calls for common-sense reforms to the funding requirements for both retirement and health benefits.

NARFE has the following comments regarding particular provisions of the draft bills.

Reduction in Annual Prefunding Payments for Retiree Health Benefits

First, NARFE supports the adjustment of the payment schedule to prefund retirees' health benefits represented by Section 502 of the Issa draft and Section 206 of the Cummings draft. This general approach is a major improvement over the status quo, which requires USPS to make set statutory payments over an accelerated ten-year period that is more the result of the quirks of congressional budget scoring than common sense. The amortization of payments over forty additional years will allow for reduced payments and improve USPS' financial outlook while

ensuring there is adequate funding for retiree health benefits. Such an approach should be included in any postal reform proposal considered by Congress.

Termination of Federal Workers' Compensation Benefits for Postal Employees

Section 306 of the Issa draft takes away, completely, the protections of the Federal Employees' Compensation Act (FECA) from postal employees injured on the job. Instead, it allows the USPS to create its own program for providing workers' compensation to its employees. While the draft provisions require USPS to design the program "in consultation with appropriate employee representatives," to account for various "recommendations," and specifically envisions congressional oversight (a redundancy), none of these provisions limits USPS' legal authority to craft whatever program it sees fit. In other words, there is no legal limit on USPS' ability to reduce or limit the amount it compensates its injured employees. This provides too much authority over the lives and compensation of injured employees to an independent agency already looking for ways to cut costs.

The legislation makes clear that USPS must reduce the compensation provided to injured employees (i) once they reach retirement age, and (ii) if they have dependents, compared to the current structure. By doing so, the new program would threaten to deprive injured employees of the level of income security they deserve and would have earned had they been able to continue working. NARFE strongly opposes Section 306 of the Issa draft.

Reduced Service Standards

NARFE supports preserving current service standards for the Postal Service, including maintaining six-day delivery, to-the-door or curbside delivery where in place, and keeping post offices open based on customer service standards rather than profitability. Postal service is a basic government service that has existed since the 18th century, not a for-profit business enterprise.

Unfortunately, the Issa draft removes the protections necessary to keep in place current service standards. Section 101 allows for an end to six-day delivery. Section 102 allows for a transition away from to-the-door or curbside delivery, moving to cluster box delivery. This is of particular concern to NARFE members, as most of them are retired and some may not have the ability to walk several blocks to retrieve their mail, and they shouldn't have to. Section 103 removes a provision that prevents USPS from closing post offices solely for operating at a deficit, even though profit is not the mission of the USPS.

Conclusion

The Cummings draft represents the best approach to reform efforts, while the Issa draft takes the wrong one. The goal should be to find ways to preserve the postal service as we know it through innovation and growth – how the Cummings draft addresses the problem. Unfortunately, the Issa draft does not do this. Instead, it ignores the longstanding role of the postal service in American history and misapprehends the nature of the service as a profit-making enterprise rather than an essential government service. That's not something the American people want or deserve.

Thank you again for providing NARFE the opportunity to submit comments on the legislation. Should you have any questions or concerns regarding NARFE's views, please contact NARFE Legislative Director Jessica Klement at jklement@narfe.org or 703.838.7760.

Sincerely,

A handwritten signature in cursive script, appearing to read "Joseph A. Beaudoin".

Joseph A. Beaudoin
National President

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ONE HUNDRED THIRTEENTH CONGRESS

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COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

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Opening Statement
Rep. Elijah E. Cummings, Ranking Member

Committee on Oversight and Government Reform
Hearing on "A Path Forward on Postal Reform"

July 17, 2013

Thank you, Mr. Chairman, for convening today's hearing, and thank you for agreeing to my request to invite Mr. Cliff Guffey, the President of the American Postal Workers' Union.

During our April hearing, we were able to hear from the letter carriers, and I'm pleased that today we have a chance to hear from officials who represent the men and women who work in our postal facilities.

As I have said repeatedly, the Postal Service is a vital link that binds our nation together. Our job in Congress is to enact comprehensive legislation that will strengthen those links by ensuring that the Postal Service offers products and services that meet the changing demands of consumers while operating an efficient network that provides all customers with timely and convenient access to these services.

The financial challenge facing the Postal Service is familiar to us all. Last year, the Postal Service reported losses of approximately \$16 billion.

Losses have continued this year, and the Postal Service has borrowed all of the \$15 billion it is authorized to borrow from the Treasury.

Obviously, these losses are unsustainable. Unlike any other agency or business in the nation, however, the Postal Service faces the legal burden of pre-funding 100% of its future retiree health costs, and this requirement is a key contributor to its losses.

The Postal Service has taken numerous steps to reduce its costs, including offering buy-outs to employees, reducing operating hours at thousands of post offices, and closing dozens of mail processing facilities.

But the Postal Service cannot do this job alone. Congressional action is essential to put the Postal Service on a sustainable financial path. Although I am glad that the Committee is poised to consider postal reform legislation, I am disappointed with the draft legislation circulated by the Chairman.

The Chairman's draft legislation would end six-day mail delivery immediately and end most door delivery in this nation by 2022.

Rather than returning the overpayments made into the Federal Employee Retirement System to the Postal Service, the Chairman's bill would burden the Postal Service with yet more debt by increasing its borrowing authority, something the Postal Service has repeatedly said they do not want.

The Chairman's bill includes an extreme provision that would abrogate existing union agreements and require that they be renegotiated to include provisions allowing the Postal Service to unilaterally lay off or dismiss employees, including those who have decades of service.

The Chairman's bill also would remove Postal workers from the existing Federal workers' compensation system and establish a Postal-specific system that would reduce benefits below those provided under current law.

There is a more sensible alternative to this approach. This morning, I introduced the *Innovate to Deliver Act*, which has co-sponsors, to enable the Postal Service to operate more like the business it was meant to be. My legislation would give the Postal Service increased operating flexibility while ensuring that revenue meets expenses.

Specifically, my bill would create a new Chief Innovation Officer in the Postal Service charged with leading the development of products and services that enable the Postal Service to capitalize on new business opportunities.

My legislation also would amend the schedule for retiree health payments, recalculate the Postal Service's pension surplus using postal-specific characteristics, return this surplus to the Postal Service, and provide key tools to right-size the Postal Service workforce in a compassionate manner that respects and honors these employees' dedicated service.

If we reject extreme measures that harm Postal workers, increase the Postal Service's debt, and destroy existing services, I believe we can identify common-sense provisions that provide common-ground solutions.

It is possible to develop and finalize legislation that we can all support, and I urge the Chairman to choose this path.

Contact: Jennifer Hoffman, Communications Director, (202) 226-5181.

HOUSE OVERSIGHT AND GOVERNMENT REFORM COMMITTEE
"A Path Forward on Postal Reform"

Wednesday, July 17, 2013

*Post-Hearing Questions for the Record
Submitted to the Honorable Patrick R. Donahoe*

From Representative Mark Pocan (D-WI):

1. What is it about postal employee demographics that makes you think that seeking health care on your own might result in premium savings that USPS could realize while still delivering excellent health care?

While the demographics of the USPS population is similar to the federal population, there are a large number of retired postal employees who are not enrolled in Medicare even though the retirees, and the USPS on their behalf, paid into Medicare throughout their career. According to the latest data received from OPM, 22 percent of USPS retirees do not participate in Medicare part B; and more surprisingly, 8 percent are not enrolled in Medicare part A, despite the fact that part A is free. That non-participation in Medicare has the effect of shifting claims costs from Medicare to the FEHBP plans and this cost shifting drives costs up for both USPS and all plan participants.

Under the USPS proposal, the new plan would administer the health plan to require/incent retirees to enroll in Medicare. This would be accomplished in accordance with essentially universal practice in private sector and state and local government plans which provide continuing health care coverage into retirement. This will avoid the cost-shift from Medicare to the plan and result in lower health care claims and therefore both retirees and the USPS would realize certain savings.

In our review of the relative demographics of the two populations (the USPS population--actives and annuitants--and the balance of FEHBP participants) we found that USPS claims costs are predicted to be about 1 percent greater than the costs for the balance of the FEHBP population. This difference, however, is more than overcome by taking full advantage of the Medicare program for current and future annuitants, and that in turn has an enormous effect on the unfunded retiree health care liability.

USPS plan savings would be augmented by the adoption of an Employer Group Waiver Plan (EGWP) for prescription drug benefits for Medicare eligible annuitants. The EGWP plan will produce additional cash savings and an additional reduction in the unfunded liability. Taken together, these two changes, which will integrate the plan fully with Medicare, will eliminate more than 90 percent of the unfunded liability for USPS' retiree health care obligations, and produce substantial current reductions in costs for USPS and all plan participants. The savings associated with the EGWP plan will grow over time because of the discounts for drug purchases.

These factors are explained in much more detail in the white paper we prepared for Congress and our stakeholders. We have provided a copy of this paper for your convenience.

2. Do you presently have postal-specific FEHBP claims data on health premiums? If no, how can you make accurate premium projections that would justify leaving the Federal worker plan?

USPS does not have claims data from FEHBP plans that is postal specific. We can make accurate premium projections because we have data on how many postal retirees are not enrolled in Medicare parts A and B, and we have estimates from the Center for Medicare and Medicaid Services (CMS) and other sources on the savings to the plan from participation in Medicare Part D (the EGWP plan). We also have reviewed the relative demographics, as we explained above.

The savings estimates developed in modeling a separate health plan were based on a combination of actuarial cost models that value the cost and offset to FEHBP claims of Medicare coverage, and the experience with comparative benefit plans and features for clients of both Aon Hewitt and Hay Group. Aon Hewitt and Hay Group provide ongoing review and analysis of all the cost savings proposals considered for the USPS, for many of their other clients both in the private sector, and for state and local government plans.

Our estimates have been reviewed by an independent actuary retained for that purpose by the USPS Office of Inspector General (OIG) and also by the Government Accountability Office (GAO). The OIG's report confirmed that the estimates USPS has arrived at are conservative. It is our understanding that the GAO report will provide further information on the potential savings based on their review of the documentation we provided in the course of their review of the USPS proposal as requested by the Congress.

3. Could you tell me how many insured individuals would be covered under a USPS postal plan? I understand that Blue Cross Blue Shield insures about 4.8 million federal and postal employees and retirees. Why do you believe that a Postal plan will have greater market leverage regarding negotiating with health care providers than FEHBP's government-wide service benefit plan?

It is expected that a separate USPS plan would cover around 2 million participants, equating to approximately 1 million active and retired employees plus their dependents, or about 25 percent of the FEHBP population. Data from OPM indicates that Blue Cross Blue Shield covers 2.5 million contracts (active and retirees, plus their dependents), which totals 4.8 million participants. While a separate USPS plan would have fewer participants than Blue Cross and Blue Shield, it would have substantially more participants than any other FEHBP plan. The next largest FEHBP plan, Government Employees Health Association (GEHA), has 280,000 contracts, or about 6 percent of the total FEHBP population.

The purchasing power represented by the FEHBP program is dissipated across some 200 plans offered in the system, sacrificing potential economies of scale and creating redundancies that inevitably affect both the costs of administration and the economies that could be achieved by negotiating better discounts and managing care more effectively across the entire FEHBP population. With the large number of FEHBP plans, there are many redundancies including, plans each purchasing their own claim processing systems, fragmented claims and utilization reporting, and a complex enrollment, data management and tracking process. A separate

USPS plan would eliminate these redundancies and greatly increase the purchasing power under a single plan sponsorship.

4. Can you outline your plan to insure retirees who are not yet eligible for Medicare?

USPS intends to cover retirees not yet eligible for Medicare in the same health plan pool as employees and Medicare-eligible retirees, consistent with current practice within FEHBP. All participants (active employees, pre-Medicare annuitants, and Medicare eligible annuitants) would be able to enroll in the plan offered, and their contributions would be the same in a blended rate structure that treats all participants as a single pool. That is also consistent with current practice under FEHBP.

