National Association of Letter Carriers

Fredric V. Rolando
President

100 Indiana Ave. NW
Washington, DC
20001-2144
202.393.4695
www.nalc.org

Testimony of Fredric V. Rolando
President, National Association of Letter Carriers
AFL-CIO
Subcommittee on Federal Workforce,
Postal Service and the District of Columbia
July 29, 2009

Good morning Chairman Lynch, Ranking Member Chaffetz and other distinguished members of the Sub-Committee. My name is Fred Rolando. I am the President of the National Association of Letter Carriers, which represents more than 300,000 active and retired letter carriers nationwide. Thank you for inviting me to testify.

This is my first time testifying before Congress. Although I am now in my fourth week serving as the NALC's President, I am in my 31st year as a postal employee and have served more than 20 years as a union officer. I have seen the Postal Service thrive and I have seen it struggle through some very difficult times, but I have never seen a crisis like the one we are facing today.

Because the worst recession in decades began in some of the most mail-intensive industries in our economy – housing, real estate and banking – mail volume has plummeted over the past 18 months. In fact, volume is expected to drop by 30 billion pieces this year -- the worst decline since the 1930s. When you couple the economic crisis with the grossly unfair policy advanced by the previous administration to require the Postal Service to pre-fund a massive 75 year liability for future retiree health benefits over just a 10 year period, it should come as no surprise that the Postal Service faces a crisis of its own. No other company in America is required to prefund future retirement benefits at all, much less at such an accelerated pace. The exorbitant cost of prefunding -- $5.4 billion this year – accounts for most of the $6-7 billion that the USPS has indicated they will lose this year.

In the face of a possible 15% drop in mail volume this year and in view of a potential year-end cash flow crisis due to the excessive cost of prefunding retiree health benefits, the Postal Service's is responding with service cuts and downsizing. Its *branch and station optimization program* and the 5-day delivery study are part of that response. As Congress reviews these developments, it should ensure that the Postal Service does not make structural decisions that will do more harm than good over the long run. Down-sizing to meet depression-level demand without considering the long-term impacts on the ability of the Postal Service to meet new demands when the economy recovers would be short-sighted. Short-term savings that undermine the Postal Service's capacity to offer new services and to take advantage of future growth opportunities (such as Vote by Mail, e-commerce deliveries, and the other potential uses of our incomparable delivery network) would be self-defeating.

NALC has a long history of working with the Postal Service to improve efficiency and adjust to change – for example, with the Dispute Resolution Process, a variety of health and safety initiatives, DPS letter mail automation and, most recently, with the Flat Sequencing System. We have continued that tradition in this crisis. But we have never stopped thinking about the long run. So the special expedited route adjustment process we developed to help the Postal Service adjust to the rapid decline in mail volume caused by the recession is specifically designed to be used in the future when the economy recovers and mail volume begins to grow again. We are currently completing the second of three scheduled rounds of nationwide adjustments under this process. These adjustments, along with the FSS initiatives, have reduced the number of city carriers by more than 11,000 during the past year and will save the Postal Service billions of dollars over time.

In the near term, these changes have made the jobs of all letter carriers much more difficult. With lower volumes come more deliveries per route -- and longer hours on the street, in the elements. Although these changes may pose new problems to solve with respect higher injury rates and other health and safety concerns, my members recognize that our duties will change as we expand the uses of our delivery network.

Looking ahead, it will be just as important to boost postal revenues as it will be to reduce costs. For that reason, NALC has embraced the Customer Connect program to use letter carriers to sell USPS services to small businesses and has aggressively promoted Vote by Mail initiatives. We believe the uses of our unmatched delivery network could be expanded to provide a whole range of valuable services – like the one proposed by the leaders on this sub-committee to use Letter Carriers to conduct the next census. That is why we must be careful with branch and station consolidations and reject drastic proposals like the elimination of Saturday delivery. The cost of lost opportunities from service cuts and other operational changes must be recognized.

The Postal Service and its employees are doing all they can to help respond to this crisis. But Congress can also help to both minimize the short-term pain of the recession for the Postal Service, its employees and customers, and maximize the long-term potential of the

Postal Service. It can do so by reforming the retiree health prefunding provisions in the law. The current schedule of prefunding payments – designed to fund 80% of a 75-year liability by 2016 – is unaffordable and unreasonable. Moreover, the actuarial methods adopted by OPM to implement the prefunding policy discriminate against the Postal Service and significantly increase its costs.

As the USPS Inspector General confirmed in a study released July 22, the OPM has inflated the cost of future postal retiree health benefits by tens of billions of dollars by using an unreasonable assumption about the long-term growth rate of health care costs under FEHBP. While most Fortune 1000 companies and the Centers for Medicare and Medicaid Services use a higher rate of cost inflation in the short run (7%-9%) and a lower rate in the long run (5%), OPM uses a 7% assumption in both the short and long term. This substantially raises USPS prefunding costs -- by some $3.5 billion annually according to the USPS OIG **(see http://uspsoig.gov/foia_files/ESS-MA-09-001R.pdf).** OPM says it uses this rate for all its accounting of FEHBP costs and does not support a "carve-out" for the Postal Service. Yet the law has already carved out the Postal Service by making it the only agency in the government required to prefund retiree health insurance. While NALC supports prefunding our retiree health benefits, we do not support being overcharged for it.

The OPM also severely short-changed the Postal Service when it set up the Postal Retiree Health Benefit Fund by grossly underestimating the "postal surplus" in the CSRS pension plan, a surplus that was transferred to the Retiree Fund in 2007. Indeed, a significant portion of the cost of pension benefits earned by employees of the taxpayer-funded Post Office Department was shifted to the rate-payer funded U.S. Postal Service in this transaction. And for employees with both POD and USPS service, the OPM unfairly assigned the high-cost years of service under the CSRS benefit formula to the USPS instead of bearing the cost equitably. Together these decisions cost the Postal Service tens of billions of dollars that could have and should been used to fund the Postal Service Retiree Health Benefits Fund **(see *Actuarial Report in Support of U. S. Postal Service Request to the Board of Actuaries of the Civil Service Retirement System,* The Hay Group, January 22, 2004.)**

As things now stand, the Postal Service finds itself in the bizarre position of using scarce borrowing authority that might better be used to weather the worst economic crisis in 80 years to instead borrow money from the Treasury, only to hand it over to the OPM where it will be placed into a retiree health fund that already has $32 billion in it. In this economic environment, no company would make such an absurd allocation of resources. Indeed, two thirds of Fortune 1000 companies do not prefund at all and those that do are likely to suspend prefunding payments until the recession ends **(see pages 13-16, *Accounting for Pensions and Other Post Retirement Benefits 2008: Reporting Under FAS 87 and FAS 106 Among the Fortune 1000,* A Watson Wyatt Survey Report).**

While both H.R. 22 and the legislation developed by the Office of Management & Budget offer similar short-term relief for the Postal Service and while we have given our support to both proposals, they simply do not provide a long-term solution. Comprehensive reform is needed to address the Postal Service's financial situation and future viability. Overhauling the prefunding policy and reforming the OPM's policies with respect to the Postal Service must be a part of this reform if the Postal Service is to continue to provide affordable, universal postal service.

I realize that all legislative proposals are subject to scoring rules established by the Congressional Budget Office. But future reform proposals should not be dismissed simply because they will "quote-unquote" score. We don't want to relieve the Postal Service of prefunding health benefits. We don't want any special treatment. We don't want a taxpayer bailout. What we do want is to be treated fairly.

The Postal Service is the nation's oldest and most trusted government agency. It would be a tragedy to sacrifice its future viability because of unfair and questionable policy decisions made by OPM that are fossilized into current law because CBO scoring rules prevent their reconsideration. My members hope that this sub-Committee and the full House of Representatives will not let this happen.

Thank you for this opportunity to testify. I would be happy to answer any questions.