TALKING POINTS GUIDE for BRANCH PRESIDENTS on the POSTAL FINANCIAL CRISIS

The Truth about the Postal Service and the Need for Congressional Action

I. THE PROBLEM: WHY IS THE POSTAL SERVICE FACING A FINANCIAL CRISIS

- The Postal Service has lost $20 billion over the past four years (2007-2010) and it is fast approaching its $15 billion debt limit. As a result, the USPS has announced that it will not be able to meet certain end-of-the-fiscal-year payments that are due in September and October – a $ 5.5 billion payment to prefund its future retiree health benefits and $1.2 billion to pay the Department of Labor for workers' compensation costs.

- Although mail volume is falling, the internet is not killing the Postal Service and neither is the weak economy. A huge Congressional mandate is killing the Postal Service.

- The Postal Service is in trouble because of a Bush-era (2006) law that requires the USPS to massively prefund the cost of retiree health benefits over the next 75 years in just 10 years' time. This cost covers not only current employees, but employees who have yet to be hired – and it is on top of the cost for health benefits for current retirees. No other company or agency in America is required to pre-fund future retiree health benefits.

Pre-funding Payments to the Postal Service Retiree Health Benefit Fund (PSRHBF) Are Driving USPS Finances

(Figures in $Billions)

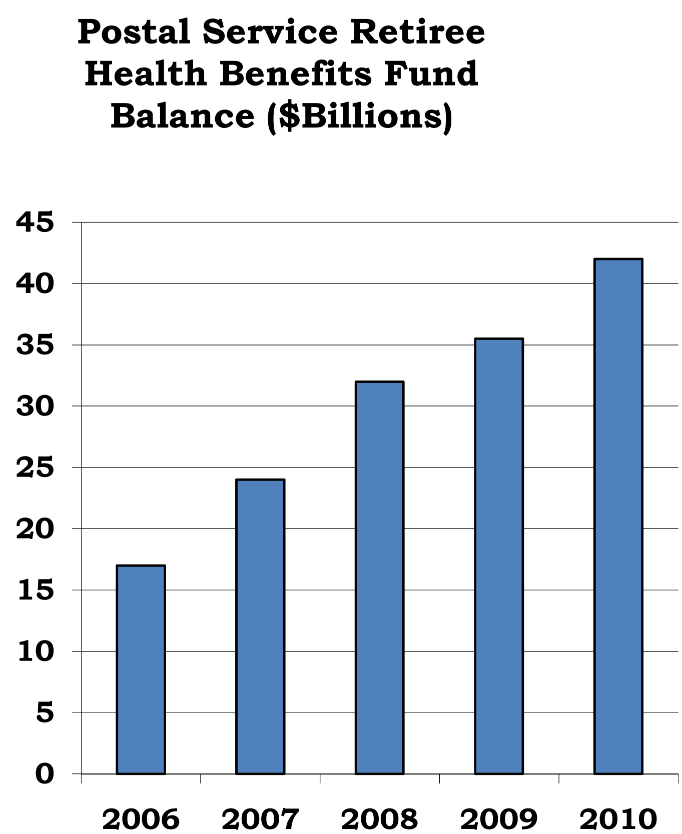
Year	Reported Net Income	Payments to PSRHBF	Net Income w/o Payments to PSRHBF	Added USPS Debt
2007	-$5.1	$8.4	$3.3	$2.1
2008	-$2.8	$5.6	$2.8	$3.0
2009	-$3.8	$1.4	- $2.4	$3.0
2010	-$8.5	$5.5	- $3.0	$3.0
Total	-$20.2	$20.9	$0.7	$13.2

Notes: A modified version of H.R. 22 was enacted in 2009, slashing the prepayment from $5.4 to $1.4 billion. The USPS has a $15 billion debt limit.

- Ten annual payments of about $5.5 billion per year to fund future retiree health benefits were mandated in the postal reform law of 2006, beginning in 2007 -- just when the Great Recession caused mail volume and revenue to plummet. (The same law required an additional $2.9 billion transfer in 2007, raising the total cost to $8.4 billion that year. This additional cost was the escrow account set up by an earlier law, the CSRS funding reform law of 2003.)

- The $20 billion in deficits over the past four years have been the direct result of the $21 billion in pre-funding payments dictated by the Postal Accountability and Enhancement Act of 2006. See table above. In the absence of this mandate, the USPS would have been moderately profitable over this period despite the worst recession in 80 years and it would still have borrowing authority left to weather the bad economy.

- Congress and the Obama administration must take urgent action to avert a financial train wreck this fall at the Postal Service. The USPS will not be able to pay the next $5.5 billion payment to pre-fund future retiree health benefits. But this payment is totally unnecessary. The Postal Service Retiree Health Benefit Fund already has more than $42 billion in it – enough to cover retiree health premiums for the next 20 years:



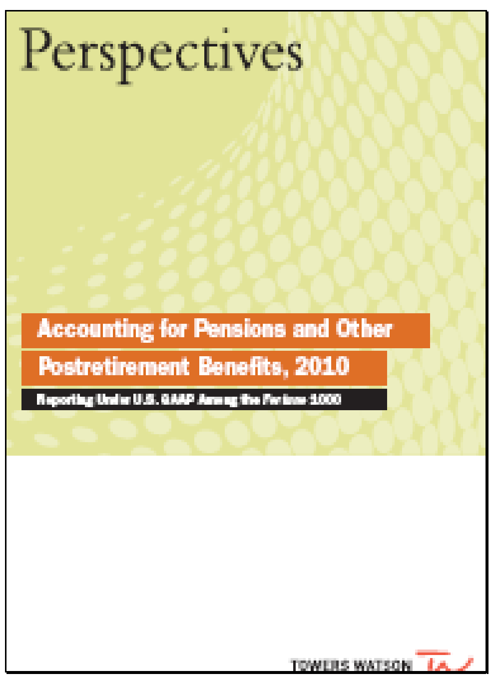
- The Postal Service and its unions successfully adapted to the recession, cutting more than 110,000 jobs, but they could not absorb the heavy cost of prefunding retiree health.

- No rational company would choose to make pre-funding future retiree health benefits the highest corporate priority in today's economy – and no company would use all its borrowing capacity to do so. But that is precisely what the Postal Service has been forced to do. As a result, it will soon exhaust its $15 billion borrowing authority -- a line of credit established in 1970 to permit the USPS to invest in its retail and mail processing networks and to keep its huge vehicle fleet up to date.

- In 2005, the Postal Service did not even have to use its borrowing authority. It had no outstanding debt; today it has $13.2 billion in debt. Virtually all this debt has been used to finance the pre-funding of retiree health benefits -- not to restructure the Postal Service's network of facilities, or to replace its old vehicle fleet, or to invest in new products and services to meet the emerging needs of the nation's economy.

- Only about a third of all the Fortune 1000 list of the largest American companies voluntarily pre-fund retiree health benefits, according to annual survey conducted by Towers Watson, a leading accounting and actuarial services company. Of those that do, the median level of pre-funding (31% of future costs) is far below that of the Postal Service (48%).

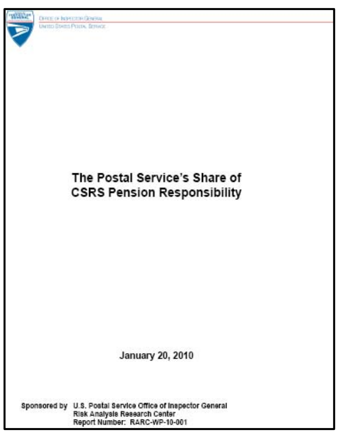
- No other federal agency in any of the three branches of government is required to pre-fund future retiree health benefits. Congress mandated prefunding for the USPS, but it does not pre-fund and none of its special agencies -- the General Accountability Office, the Congressional Research Service, the Congressional Budget Office or the Library of Congress – do either.



II. <u>WHAT MUST BE DONE: SAVING THE USPS WITH ITS OWN MONEY -- NO TAXPAYER BAILOUT!</u>

- As a matter of fairness, the USPS should be allowed to fund retiree health benefits on a pay-as-you go basis – just as most businesses do. But if we are to pre-fund, then we should be held to the same standard as private companies that pre-fund: The median level of funding among these firms is around 30 percent. Finally, if we are to be required to pre-fund 100% of future retiree health benefits, then it makes sense to allow the USPS to use its surplus pension funds to cover these costs.

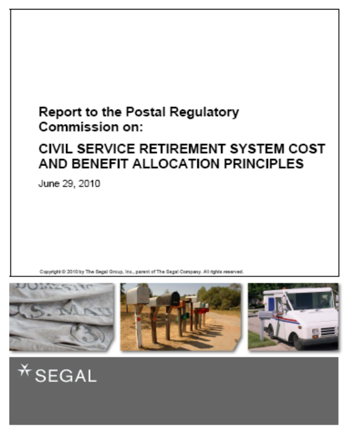
- There is a sensible solution to the postal financial crisis that won't directly cost any tax money: The Office of Personnel Management (OPM), which administers the federal and postal employee pension plans, should acknowledge the findings of two external, private sector audits that found a pension surplus of between $50 billion and $75 billion in the postal portion of the Civil Service Retirement System. Congress should then allow the Postal Service to use the surplus to cover the cost of pre-funding future retiree health benefits.


Office of Inspector General
United States Postal Service

The Postal Service's Share of
CSRS Pension Responsibility

January 20, 2010

Sponsored by U.S. Postal Service Office of Inspector General
Risk Analysis Research Center
Report Number: RARC-WP-10-001


Report to the Postal Regulatory
Commission on:

CIVIL SERVICE RETIREMENT SYSTEM COST
AND BENEFIT ALLOCATION PRINCIPLES

June 29, 2010

Copyright © 2010 by The Segal Group, Inc., parent of The Segal Company. All rights reserved.

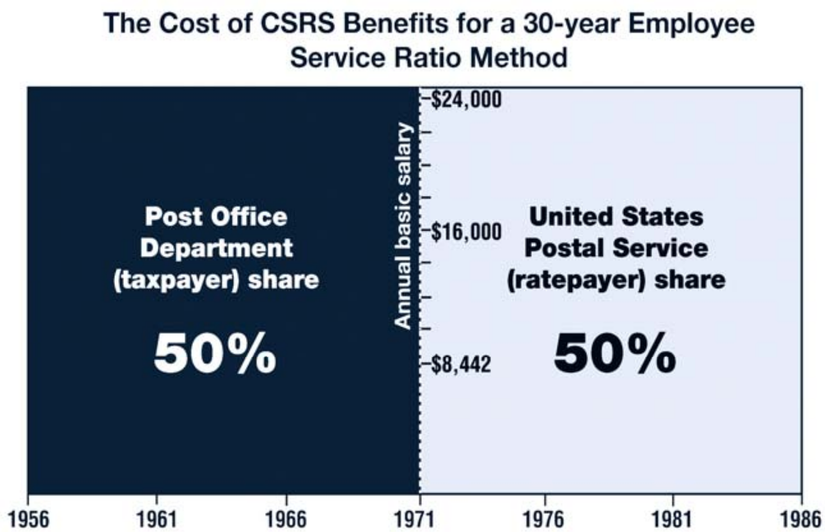
SEGAL

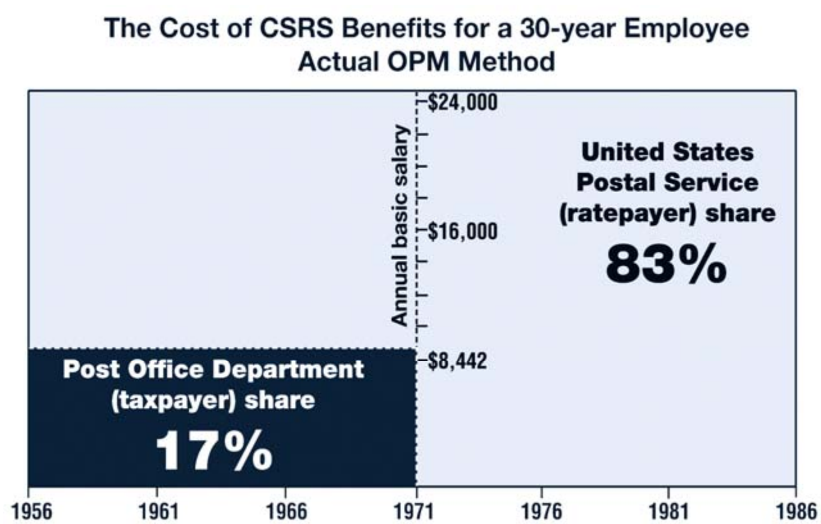
- The Hay Group found a USPS CSRS pension surplus of $75 billion in a January 2010 study it did for the Office of Inspector General of the USPS. The Segal Company found a $50-$55 billion postal surplus in the CSRS using slightly more conservative assumptions in a June 2010 study for the Postal Regulatory Commission.

- Both studies rejected the methods used by the OPM to allocate pension costs between the Postal Service and the Treasury Department for workers with CSRS service both before and after postal reorganization. All agree that the cost of pre-1971 service for the P.O.D. is the responsibility of taxpayers while the cost of post-1971 service for the Postal Service is the responsibility of postage ratepayers. But when it came to measuring the cost of pre-1971 benefits, the OPM shifted a huge amount of the P.O.D. pension costs to the Postal Service by calculating benefits based on 1971 salaries – not the high-three average salaries in place at the end of the workers' careers, the actual average salaries used by the CSRS benefit formula to determine pension benefits.

- The OPM method ignored the fact that the cost of prior service rises as wages rise. Postal wages rose in line with inflation after 1971, but the cost of P.O.D. pension benefits for pre-1971 service was frozen at 1971 wage rates. This unfairly shifted the cost of wage inflation on P.O.D. benefits to the USPS.

- As the charts below indicate, the OPM methods were grossly unfair to the Postal Service. The first chart shows the fairest way to split the cost of pension benefits for a letter carrier who worked 30 years, 15 years for the P.O.D. and 15 years for the USPS. This fair way to allocate the costs is to split them proportionally – what the Hay Group calls the "service ratio" method. In this case, the split would be 50-50, half and half. The second chart shows how the OPM actually splits the costs – by using 1971 wage rates to compute the cost of pre-1971 service. This method is grossly unfair to the Postal Service – shifting an additional 30% of the cost to the Postal Service.





- The OPM claims that a 1974 law mandates it to use the unfair methods for allocating CSRS pension costs to the USPS – and that Congress must change the law before it can adopt the modern methods endorsed by the private audits.

- NALC, the USPS OIG and the Congressional authors of the 2006 postal reform law disagree with OPM's legal analysis. A 2003 statute (Public Law 108-18) that reformed the Postal Service's pension contributions to prevent massive pension overfunding repealed the 1974 law cited by OPM. Moreover, the 2006 postal reform law gave the OPM broad authority to make "*any determination or redetermination"* regarding its cost allocation methodology, a view that is shared by both Sens. Susan Collins and Tom Carper who were intimately involved in passing both the 2003 and 2006 laws. (Source: September 28, 2010 letter from Sen. Collins to OPM Director John Berry.)

- A subsequent report from the OPM revealed that the USPS has a $6.9 billion surplus in the other federal pension plan, the Federal Employees Retirement System (FERS). There is no dispute about this surplus. Indeed, citing this surplus, the Postal Service announced in June 2011 that it would suspend making FERS pension contributions to preserve its cash reserves.

- The Postal Service and its employees don't want a taxpayer bailout – we have NOT received ANY taxpayer funds in nearly 30 years. We want to use our own surplus pension funds–calculated using fair methods– to pay for pre-funding.

- The USPS wants the administration to require the OPM to adopt the fair methods for allocating pension costs proposed by the private audits. If it does so, under current law, any postal surplus will be transferred into the Postal Service Retiree Health Benefits Fund in 2015**. This is the approach included in Sen. Susan Collins' bill, S. 353.**

- **We also support the approach included in Title I of the S. 1010, Sen. Carper's bill (S. 1010)**, which would require the OPM to fairly calculate the postal surpluses but keep them in CSRS while allowing the USPS to pay its pre-funding payments out of the surplus funds. This minimizes the negative impact on the CSRS funding balance and addresses the Office of Management and Budget's concern that a massive shift of funds between the two trust funds (CSRS and the USPS Retiree Health Benefits Fund) will increase the deficit since the Treasury must amortize any increase in the CSRS's unfunded liability over 30 years.

- Title I of the Carper bill should be included in the debt limit legislation now being developed in Washington. There is broad business-labor-mailer support for the finance provisions in Title I, which would mandate a fair calculation of the CSRS postal surplus and allow the USPS to use the postal surpluses in both the CSRS and FERS to cover the pre-funding costs. **Given the position of Sen. Collins, this approach offers the best prospect for bipartisan support.**

- At a minimum, NALC wants the Administration to make the undisputed $6.9 billion FERS postal surplus available to the USPS to cover the cost of the 2011 payment due on September 30, 2011 to avoid the economic and political damage that would result if the Postal Service fails to make the payment. **This minimal step is included in H.R. 1351, a bill sponsored by Rep. Stephen Lynch and co-sponsored by 169 other representatives from both parties.**

III. WHY CONGRESS AND THE ADMINISTRATION MUST ACT

- If no action is taken, the USPS will fail to make the next $5.5 billion payment. This could set off a firestorm of bad publicity that will have disastrous political and economic impacts. Indeed, there is growing evidence that doubts about the viability of the USPS is already leading businesses to exit the mail system, cutting jobs and hurting a weak national economy. A USPS “default” would also undermine public confidence the USPS and the U.S. government.

- The Postal Service has exhausted nearly all of its $15 billion borrowing authority to meet the heavy cost of pre-funding. This has damaged the Postal Service’s ability to function as a business – forcing us to keep out-dated vehicles and equipment and to delay needed investments in technology, green processes and product innovation. This further depresses mail volume and employment.

- If the USPS runs out of money, the economy’s financial payments system would be threatened – well over half of all monthly bills are paid through the mail, safely and efficiently permitting trillions of dollars of transactions each year. A loss of service would severely damage millions of businesses and threaten the economic recovery.

- Taking action to resolve the Postal Service’s finances is not just pro-labor, it is also pro-business. There is a $1.3 trillion mailing industry in the U.S. that supports between 7 - 8 million private sector jobs that is heavily dependent on a health and efficient Postal Service.

- A large coalition of businesses urged President Obama to adopt the policy we are advocating earlier this year. Another large group of businesses and trade associations joined NALC and the six other unions and management associations wrote to all 435 Members of the House of Representatives to support H.R. 1351. <u>Permanently</u> fixing the prefunding mess will help keep the economic recovery on track and the business mailers whose postage payments helped fund our pension plans deserve fairness as much as our members do.

- A failure to avert a financial crisis at the Postal Service will empower political forces led by House Republicans who want to force a massive downsizing of the Postal Service. House Government Oversight and Reform chair Darrell Issa has announced his desire to force the USPS to eliminate 170,000 to 200,000 jobs – a cut that would destroy the quality of service and damage the economic recovery.

- The U.S. Postal Service is broadly popular with an 80%-plus favorable rating (Pew Research Center, see below). It also has deep underlying strengths – it has fully funded pensions and has been rated the most trusted federal agency for protecting privacy by the Ponemon Institute for several years running. It reaches every house and business every day and could be used to achieve important national goals (homeland security, a retail network for a national infrastructure bank, state and local needs, etc.). The last-mile, transport and retail networks are very valuable to the nation and are worth preserving.

IV. ELIMINATING SATURDAY DELIVERY IS NOT THE ANSWER

- Tens of millions of businesses and customers rely on Saturday delivery, including prescription drug providers, credit card companies and weekly magazines. Thousands of businesses filed petitions against eliminating Saturday delivery with the Postal Regulatory Commission last year.

- A shift to five-day delivery would do more harm than good by driving customers out of the mail system.

- It would also invite new competitors into the industry – private companies would emerge to offer the service on Saturday that the USPS would drop. Once established, they would demand access to the mail box and perhaps lobby for deregulation.

- The Postal Regulatory Commission's year-long review of the USPS plan to eliminate Saturday delivery concluded that 5-day delivery would: Save 45% less than forecast, risk much greater revenue losses than projected and slow mail delivery by two days for 25% of the Postal Service's mail volume.

- Lower quality service is not the answer. A 17% cut is service is not worth it – saving just 4% of costs, even assuming the USPS was right about the loss of revenues.

- The shift to 5-day delivery would destroy 80,000 full and part-time jobs in the USPS, including 25,000 city carrier jobs. This would exacerbate the national jobs crisis and damage the economic recovery.

o 

- Congress must ensure that the six-day requirement included in the annual Financial Services appropriation bill (HR 2434 this year) is retained, just as it has been in every year since 1984. This means rejecting any effort to leave the 6-day language "unprotected" from a Point of Order challenge.

- Congress must not sacrifice Saturday delivery in a package of spending cuts attached to legislation to raise the debt limit.

V. BACKGROUND ON THE U.S. POSTAL SERVICE

- The Postal Service is an independent establishment of the U.S. government that is specifically authorized by the Constitution of the United States. It was established as the Post Office Department (P.O.D.) in 1775 and was a cabinet department until 1970, when it was reorganized as an independent agency and renamed the U.S. Postal Service. As such it is one of the oldest institutions in America.

- The USPS employs 560,000 career employees, making the Postal Service the nation's second largest employer next to Wal-Mart. Its annual sales of $67 billion would place it at number 34th on the Fortune 500 list of largest American companies if it were a private company.

- The Postal Service delivers 40% of the world's mail.

- The USPS is financially self-sufficient. It pays for its operations through the sale of postage and has not received any taxpayer subsidy since 1982. In 1971, before postal reorganization took effect, Treasury appropriations covered nearly 25% of the P.O.D.'s budget. In today's dollars, that would cost taxpayers approximately $16.25 billion. So postal reorganization has saved taxpayers tens of billions of dollars since 1970.

- Postage rates in America are among the lowest in the industrialized world and, relative to wages, stamp prices are among the most affordable anywhere.

International Postage Rates for Domestic Letters

First Class Postage Rates Compared

Country	Price	Currency	$US Equivalent
United States	0.44	$US	$ 0.44
Canada	0.59	$C	$ 0.61
Australia	0.60	$A	$ 0.64
Britain	0.46	£	$ 0.73
Germany	0.55	€	$ 0.77
France	0.60	€	$ 0.84
Italy	0.60	€	$ 0.84
Japan	80.00	¥	$ 1.00
Switzerland	1.00	CHF	$ 1.20

- Since postal reorganization, postage rates have increased in line with general inflation even though taxpayer subsidies were eliminated in the early 1980s – so the real cost of mailing letters has declined dramatically.

- The Postal Service delivers six days a week to 150 million households and businesses. Private companies like FedEx and UPS deliver 5 days a week in most places and serve at most 20 million addresses each day.

- Critics complain that labor costs make up a higher percentage of total USPS costs (80%) than they do in the private companies (50%-65%). But the comparison is misleading. The USPS is a universal service provider of basic services that requires daily delivery to 7 -8 times as many addresses each day than the private companies, which focus on parcels and freight services that are targeted to a much narrower range of recipients. The USPS function is inherently more labor intensive. Indeed, the Postal Service's last mile delivery network is so efficient that the private companies rely on it to reach places they don't serve. The Parcel Select product allows private companies to drop ship to post offices for last mile delivery by letter carriers – the Fed Ex version of this service, FedEx SmartPost is the fastest growing division within the Memphis-based company.

- Since the recession began in 2007, the USPS has dramatically cut labor costs, eliminating 110,000 jobs in response to falling mail volume while maintaining service quality at record levels. Thanks to these measures, productivity is at an all-time high.

- The Postal Service is overwhelmingly popular with the American people: According to a recent Pew Research, the USPS has an 83% approval rating – by far the highest for any government agency.

Pew Research Center Survey on Federal Agencies

Public Favorability Ratings, 2010

Agency/Department	Percent Favorable
U.S. Postal Service	83%
Centers for Disease Control	67%
Department of Defense	67%
Federal Bureau of Investigation	67%
NASA	61%
Food & Drug Administration	58%
Environmental Protection Agency	57%
Veterans Administration	57%
Central Intelligence Agency	52%
Justice Department	51%
Social Security Administration	49%
Internal Revenue Service	47%
Department of Education	40%

Source: Pew Research Center poll, 3/18/10 - 3/21/10

- The USPS is a national treasure that binds the nation together; its unmatchable universal networks provide an essential infrastructure service that is worth preserving. The USPS provides a trusted presence in our neighborhoods that pays off in countless ways, such as the Carrier Alert program, the Cities Readiness Initiative, the national NALC Food Drive and countless acts of everyday heroism by the nation's letter carriers.