UNITED STATES
POSTAL SERVICE

STATEMENT OF
POSTMASTER GENERAL AND CHIEF EXECUTIVE OFFICER
PATRICK R. DONAHOE
BEFORE THE
COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

SEPTEMBER 19, 2013

Good morning, Chairman Carper, Ranking Member Coburn, and members of the Committee. Thank you, Chairman Carper, for your continued leadership on comprehensive postal reform legislation, and for calling this hearing to discuss S. 1486, the *Postal Reform Act of 2013,* and specifically the topics of rates, service, and innovation. Thank you, Ranking Member Coburn, for working in a bipartisan manner as an original cosponsor of the *Postal Reform Act of 2013*. The U.S. Postal Service needs comprehensive legislation that will allow us to achieve $20 billion in savings. During the 112th Congress, the Senate took action to pass bipartisan postal reform legislation in the form of S. 1789, the *21st Century Postal Service Act*. We appreciate that effort, and the effort extended by the Senate to work with the House until the final hours of the 112th Congress to find compromise on a major postal reform bill. However, those efforts ultimately did not lead to enacted legislation. We continue to urge the 113th Congress to act swiftly to pass comprehensive postal reform that will change our business model and combine with management actions to restore the financial viability of the Postal Service.

USPS FINANCIAL CONDITION

The Postal Service continues to be in a very poor financial position as the depth of its $62 billion liability could only be partially filled with $22 billion in assets, as of June 30, 2013. *[Figure 1]* The Postal Service has reached its statutory debt limit of $15 billion and it held unrestricted cash representing only 11 days of average daily operating expenses. Current projections indicate that it will continue to have a dangerously low level of liquidity in the foreseeable future. The Postal Service will be unable to make the required $5.6 billion Retiree Health Benefits (RHB) prefunding payment due by September 30, 2013. This is in addition to similar payment defaults on $11.1 billion in 2012. Our cash position will continue to worsen in October 2013, when the Postal Service is required to make its annual payment of approximately $1.4 billion to the Department of Labor (DOL) for workers' compensation expenses. By mid-October 2013, the Postal Service projects it will have a cash balance on hand of approximately five days of average daily expenses. For an organization the size of the Postal Service – which has revenues of $65 billion and a total workforce of approximately 490,000 career employees – that is a razor thin margin. By way of comparison, most private sector companies usually have available liquidity of at least two months of operating expenses.

USPS Financial Position as of June 30, 2013

Liabilities Exceed Assets by nearly $40 billion

The USPS has only 37 cents of Assets to cover each dollar of its Liabilities

ASSETS		LIABILITIES	
Cash	$ 3.1B	Retiree Health Benefits	$15.3B
Buildings & Equipment, net of depreciation	$ 17.8B	Workers' Compensation	$16.5B
		Debt	$15.0B
Other assets	$ 1.6B	Accrued Compensation, benefits and leave	$ 4.3B
		Deferred Revenue	$ 4.1B
		Other	$ 6.0B
Total Assets	**$22.5B**	**Total Liabilities**	**$61.2B**

Figure 1

The Postal Service has seen seven consecutive quarters of net losses and has recorded losses in 16 of the last 18 quarters. For the first nine months of Fiscal Year (FY) 2013, we recorded a net loss of $3.9 billion. Last year, the Postal Service recorded a net loss of $15.9 billion and defaulted on RHB prepayments to the United States Treasury of $11.1 billion. In the past six fiscal years since enactment of Congressionally-mandated prefunding, the Postal Service has incurred $41 billion of net losses, including $32 billion of expenses for prefunding RHB. As of June 30, 2013, we had $22 billion of assets versus $61 billion of liabilities – roughly 37 cents of assets to pay each dollar of liabilities. This financial condition, combined with continuing multi-billion dollar 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 comprehensive postal reform legislation.

The results from the most recent financial quarter show a continuous decline in First-Class Mail, our most profitable category of mail. The loss of First-Class Mail is the primary driver of the decrease in profit margins that the Postal Service has experienced since FY 2007. *[Figure 2]* The most significant factor contributing to the ongoing decline is the migration toward electronic communication and transactional alternatives.

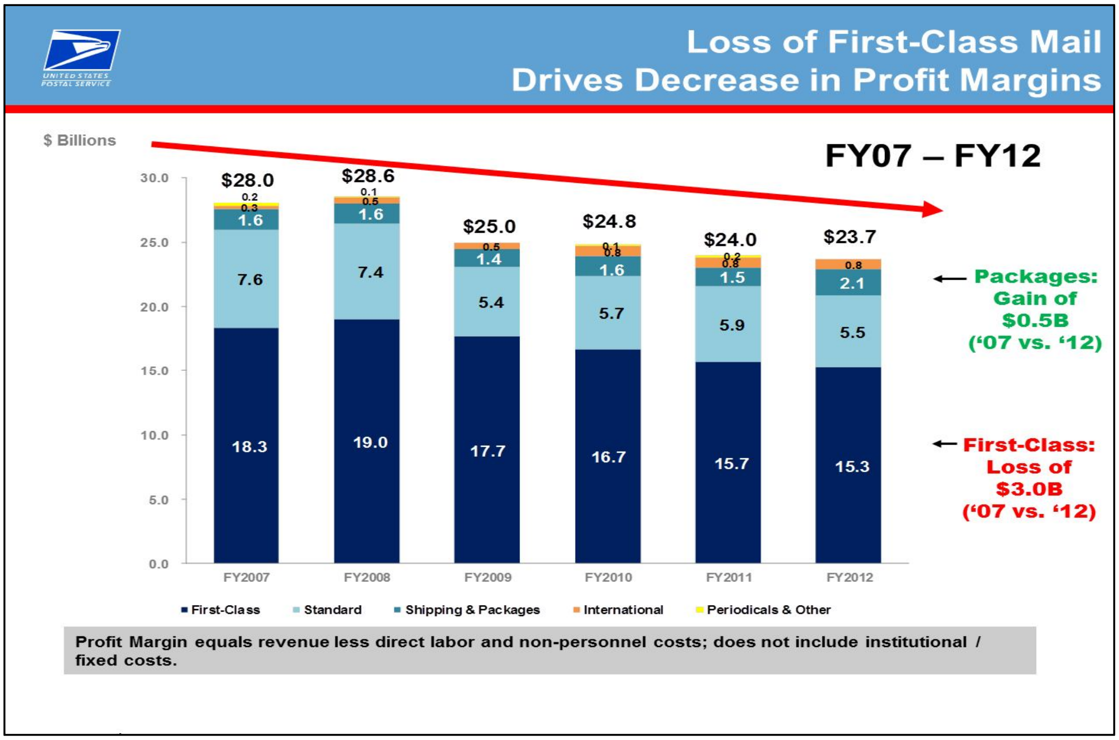

Figure 2

While the shift to electronic communication alternatives has a pronounced negative effect on First-Class Mail volume and revenue, the expansion of e-commerce and successful marketing campaigns has grown our Shipping and Package business. However, the increased revenue in Shipping and Packages does not provide enough contribution to offset the decline of First-Class Mail. Packages are far more expensive to process, transport, and deliver than letter mail. It takes approximately $3 in package revenue to make up for every dollar lost by First-Class Mail. To cover the $6 billion decline in First-Class revenue expected by 2017, package revenue would need to grow by $18 billion, or 55 percent, from its 2012 level.

The Postal Service has laid out a path forward for future growth and stability. On April 17, 2013, the Postal Service released its updated comprehensive 2013 Five-Year Business Plan, which details the implementation of its targeted program to eliminate $20 billion of annual cost from the business by 2017. The plan addresses our unfunded retirement liabilities head on, by proposing meaningful change, such as health benefit reforms that would properly integrate with Medicare either through a USPS-sponsored health plan or a redesign of some existing Federal Employees' Health Benefit Plan (FEHBP) plans. Such a plan would essentially eliminate the unfunded RHB liability primarily by integrating with Medicare, as substantially all 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 retirement liability issue through our proposal to create a defined contribution retirement plan for employees hired in the future, one that creates a more portable retirement plan for them. Now is the time for bold and sweeping action, which will allow us to move forward with solutions 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 only for the Postal Service of today, but for the Postal Service of ten, and even twenty years into the future.

With the backdrop of the 112th Congress's inability to pass comprehensive postal legislation and the March 2013 decision by Congress to prevent the Postal Service from implementing a modified delivery schedule, the Postal Service's Board of Governors asked management to evaluate further options to increase revenue, including an exigent rate increase to raise revenues across current Postal Service product categories. In weighing this option, the Governors are very aware of the concerns expressed by the mailing industry about the potential negative effects that an exigent rate increase may have. These concerns, however, must be balanced against the Board's fiduciary responsibility to effectively manage the Postal Service's finances and ensure that the American people continue to receive effective mail service. While they continue to evaluate the benefits and risks of an exigent rate increase, the Governors have indicated that prompt enactment of comprehensive postal legislation that substantially addresses the long-term $20 billion financial gap would be an important factor in the decision to pursue an exigent rate increase. However, unless the Postal Service is given the legal authority to close the budget gap, an exigent price adjustment may be necessary in order to ensure that the Postal Service will be able to maintain and continue the development of postal services of the type and quality the country needs.

COST CONTAINMENT AND IMPROVED EFFICIENCY

The Postal Service has taken actions to contain costs and improve efficiency to adapt to the country's changing mailing and shipping needs. Operational initiatives have been implemented to better align network size and cost with reduced mail volumes. These initiatives include the accelerated consolidation of mail processing and delivery networks, and the reduction in hours at 13,000 Post Offices, in conjunction with the expansion of alternate retail access. We listened to the American public, and we preserved Post Offices in rural areas throughout the country. The POSt Plan keeps rural Post Offices open by matching retail hours to customer demand. In addition, there are almost 400 Village Post Offices (VPOs) now open as a way to increase access to postal products and services in rural communities. Rationalization of our mail processing facilities allows us to provide an efficient and affordable network and supporting infrastructure that corresponds to reduced mail volume. Savings from these network consolidations are, in almost all cases, more than the Postal Service anticipated, and have been implemented without forced career job losses. These extensive operational changes are being executed even as 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 $6 billion in annual cost reductions by the year 2016.

The Postal Service also continues to implement efficiency measures by aligning staffing levels with projected mail volume. These staffing level reductions will be achieved primarily through attrition, as approximately one-half of career employees are eligible for retirement. 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 (FY) 2013, as a result of a special incentive and voluntary early retirement offer. In the fourth quarter of FY 2012, 4,275 eligible postmasters and 2,925 eligible mail handlers retired or separated from the Postal Service. The Postal Service also successfully convinced recent arbitration panels to allow for increased utilization of lower-cost non-career employees in the letter carrier and mail handler crafts, consistent with the contractual agreement with the American Postal Workers' Union (APWU), which will facilitate the realignment of staffing and workload levels and the reduction of costs. The Postal Service's current career workforce of 492,000 is the smallest it has been in decades and is down nearly 26 percent in the past five years.

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, using connectivity to various websites, social media, and points of purchase are a focus in enhancing the mail experience. The July 28, 2013 rebranding of Express Mail as Priority Mail Express leverages the strong Priority Mail® brand with a money-back guarantee for next-day service to most U.S. destinations. Changes to the Priority Mail® lineup of products include features such as improved USPS Tracking®, day-specific delivery, and free insurance coverage. However, legislative action is 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.

LEGISLATIVE REQUIREMENTS

Repairing the Postal Service's financial condition requires the comprehensive approach reflected in our Five-Year Business Plan, which is available for public viewing on our website. 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, as the longer the wait, the greater the "crisis of confidence" that will be created with our customers.

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 means to stabilize the Postal Service and create a platform for future growth. The requirements include:

1. Require USPS Health Care Plan (Eliminates RHB Unfunded Liability)
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 is required to go toward health care costs. *[Figure 3]* 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 nearly 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 predominantly done in the private sector by every responsible employer that offers health care benefits to its retirees, 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, the employer sponsored plan becomes much more affordable. With reduced long-term health benefits costs, the RHB liability will be cut nearly in half, eliminating the need for prefunding. However, while the Postal Service has been the second-largest employer contributor of Medicare taxes, we are not getting full value from that program, because a significant proportion of our retirees do not enroll in Medicare when they become eligible.

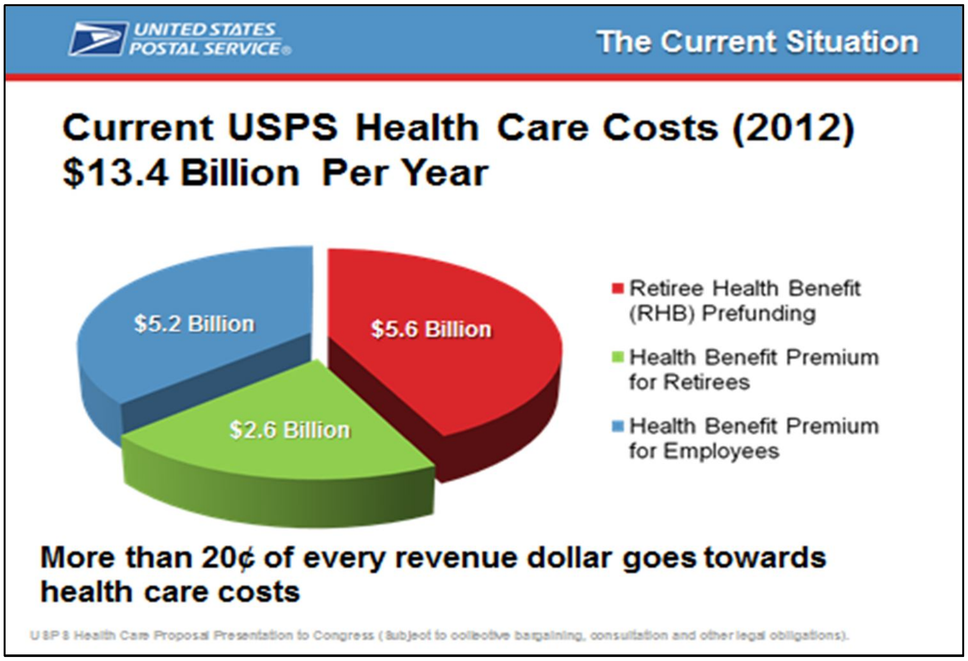

Figure 3

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, or design plans within the FEHBP. Indeed, the Government Accountability Office (GAO) found in a recent report that the Postal Service would likely realize large financial gains from its proposed health care plan, which would go a long way toward putting the Postal Service on a path to solvency and long-term financial stability. The GAO also estimated that if the proposed health plan had been implemented in 2013, most postal employees and retirees would have had similar or lower premiums compared to the selected FEHB plans, with similar or higher levels of coverage for many services.

A Postal Service-sponsored health care plan that properly integrates with Medicare 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. 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, by taking full advantage of Medicare Parts A, B, and D benefits. The chart below *[Figure 4]* illustrates what the FEHB Plan paid in claims costs in 2011 for annuitants who were older than 65 and had not signed up for Medicare A and B. For a retiree older than age 65, the average claims cost if the retiree had not signed up for Medicare was $10,731. By integrating with Medicare A and B, FEHB claims cost are estimated to be reduced to $4,600. Full Medicare integration (i.e. Medicare A, B, and D) would save an additional $1,200 per Medicare retiree, resulting in an average cost of $3,400. These average claim costs drive the total liability (shown on the right side of *Figure 4*). As you will note, full Medicare integration eliminates the unfunded liability for retiree health benefits.

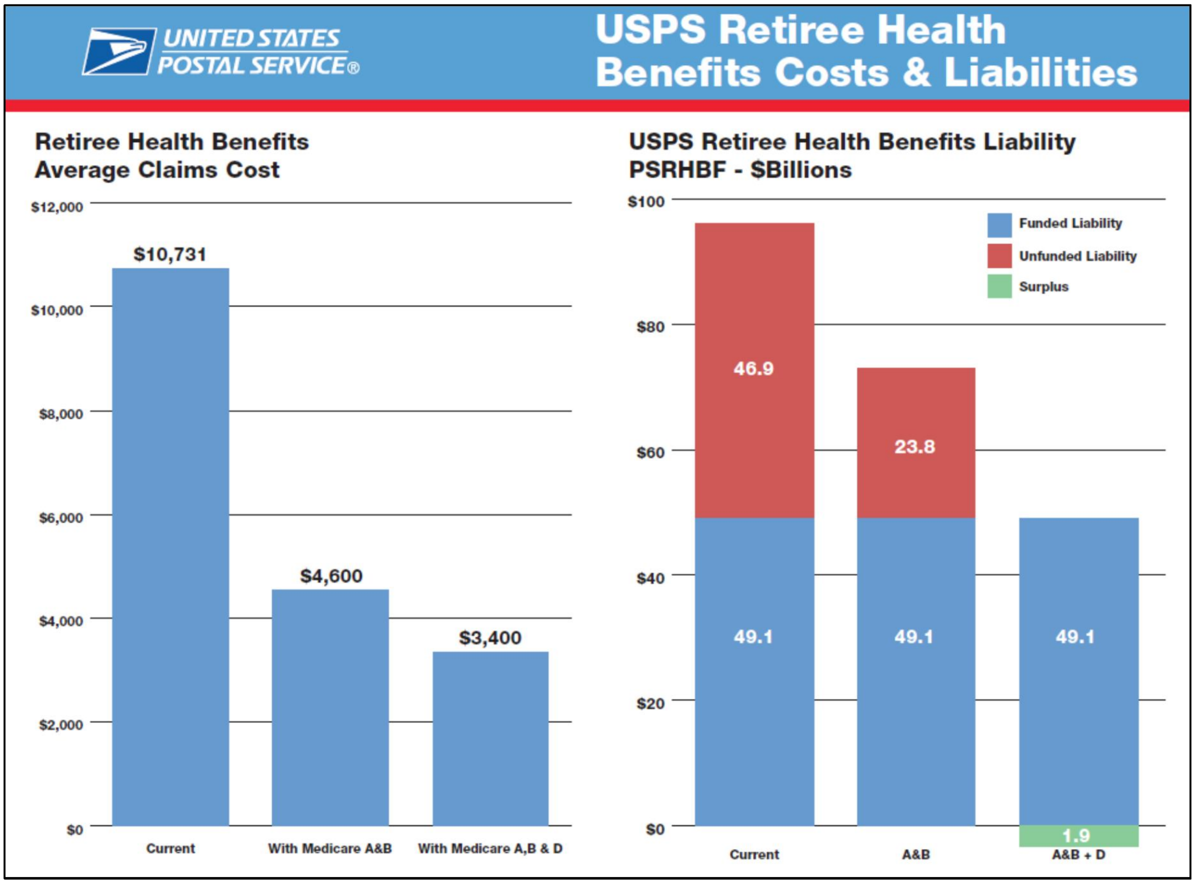

Figure 4

<u>Refund FERS Overpayment:</u>

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). According to the most recent actuarial estimate from OPM, the Postal Service has overfunded its FERS obligation by $3.0 billion, as of September 30, 2012. This estimated surplus is less than amounts previously reported, due to changes in the government-wide economic and demographic assumptions made by OPM.

In December 2012, the 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. <u>First</u>, 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 and assumptions 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 to also take into account Postal Service-specific data and assumptions. 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. We appreciate that S. 1486 requires OPM to use postal-specific demographics and salary growth assumptions in calculating both the surplus and the Postal Service's ongoing contribution rate, and that it also returns the resulting surplus to the Postal Service.

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 will likely have different careers than current employees. We should provide a retirement system that benefits both the employee of the future and the Postal Service. The Postal Service proposes this new retirement system, for future employees only, for five main reasons:

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 entire private sector. The FERS system is not comparable to pension programs in the entire 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.
   The Postal Service is a labor intensive organization, with labor costs making up the majority of its total costs. Benefit costs constitute approximately half of total labor costs when RHB prefunding is included. Even if the RHB prefunding requirement were removed, benefit costs would still

make up a substantial portion of the Postal Service's labor costs. We cannot resolve our fiscal problems without addressing this issue.

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 Civil Service Retirement System (CSRS) and FERS retirement systems. These tensions will continue, 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 ensure that these disputes do not arise with respect to future employees.
5. Protects the American taxpayer.
   A defined contribution retirement system for future employees would help ensure that the Postal Service remains financially viable, and can therefore 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.

It should be noted that this change would not impact the existing retirement systems for current employees. The new system would be implemented for newly hired employees in the future.

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 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 advisory opinions which are then coupled with lengthy, litigious, administrative proceedings that do not promote timely and effective implementation of necessary, efficient cost reduction decisions. The current process imposes substantial costs on the Postal Service, delays the realization of cost savings and should be eliminated. S. 1486 replaces the current process with one where the Board conducts formal outreach to customers prior to implementing significant service changes, a change to the law that we strongly support. At an absolute minimum, the law should require that the PRC use substantially streamlined procedures to produce timely opinions.

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 new 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. Rather, a more nimble and well-defined regulatory approach is required to minimize unnecessary bureaucracy, and recognize that the Postal Service faces intense competition with respect to all of its products, including those subject to the statutory monopoly. Such an approach will allow the Board to respond more effectively to changing conditions. Even the PRC has recognized, in its *Annual Report to the President and Congress*, 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 manner. The Postal Service faces intense competitive pressures, and has strong commercial incentives to be efficient and responsive to its customers' needs. Extensive price and product controls are therefore not necessary to protect customers, as has been recognized in other countries that have streamlined their regulation of the post in recent years, including countries that, like the United States, continue to have a government post whose provision of universal service is supported by a monopoly. 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. S. 1486 has language that would implement such a system with respect to market-dominant products, which we strongly support.

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 package/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 Priority Mail Express offering, currently delivered seven days per week, would not be impacted. The proposal was designed to serve a dual purpose: first, to respond effectively to the increase in package growth, a 14 percent volume increase over the last two years, secondly, and to address the realities of the public's changing mailing habits. By continuing to deliver Priority Mail Express, Priority Mail, and most other packages on Saturday, the modified plan responds to many of the concerns expressed by the PRC and others about the impact of five-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 80 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. We appreciate that S. 1486 would allow the Postal Service to move to a five-day schedule, though we request that the one-year delay required in the bill be shortened or eliminated.

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 the Senate bill will be helpful in providing flexibility to the Postal Service to offer products and services that would improve our net financial position. S. 1486, grants the authority to introduce new non-postal services and governmental services, and permits the Postal Service to ship beer, wine, and distilled spirits. 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 our existing legal authority. 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 that 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 fifth 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. By law, when the parties are unable to conclude an agreement through negotiations, they must resort to final and binding interest arbitration, meaning that at impartial third party writes their contract. This process is of crucial importance to the Postal Service, as approximately 80 percent of its expenses are labor costs.

Interest arbitrators should be required, by law, to take into account the Postal Service's financial condition when issuing an award of a multi-year collective bargaining agreement worth tens of billions of dollars to the parties. While some interest arbitrators do consider the Postal Service's financial condition, there is no legal requirement that they do so. The past several years have focused the attention of the Postal Service and the Congress on the Postal Service's financial situation; interest arbitrators should be directed to apply the same focus. S. 1486 would require arbitrators to consider the financial condition of the Postal Service when rendering decisions, 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's) Office of Workers' Compensation Programs (OWCP), which makes all decisions regarding injured workers' eligibility for benefits. The Senate bill, S. 1486, would substantially reform the workers' compensation process for the entire federal government, and we applaud the Senate's efforts in this vein. Specifically, similar to many state systems, the Senate bill would require employees who receive long-term workers' compensation benefits to retire upon becoming eligible to do so. While we endorse this change, there is another modification of the current system that is necessary: allow the Postal Service to settle workers' compensation claims. While many state systems allow employers to settle these claims, current federal law does not. Allowing the Postal Service to settle workers' compensation claims would be fair to the employees and beneficial for the Postal Service.

Right to Appeal EEOC Class Action Decisions to Federal Court:

The Equal Employment Opportunity Commission (EEOC) currently possesses largely unreviewable authority in applying employment discrimination statutes to federal employers. While individual employees and applicants for employment may file actions in the federal courts when they are dissatisfied with the Commission's decisions, federal employers do not have that right. Class actions certified by the EEOC are a particular problem for the Postal Service, given the size of these cases. For example, the Postal Service is currently litigating a class action before the EEOC with more than 130,000 putative class members. The EEOC does not apply the same class certification rules that the federal courts do, meaning that large and unmanageable cases are often certified as class actions under circumstances that would not pass muster in federal courts. Even class actions with no merit can cost millions of dollars to defend. Under current law, if a class is certified improperly, the Postal Service cannot initiate a challenge to the certification decision in federal court. We propose that this be changed, and that the Postal Service be allowed to seek judicial review of EEOC decisions certifying class actions.

POSTAL SERVICE ACTIONS

The Postal Service's updated Five-Year Business Plan eliminates nearly $20 billion of annual cost from the business by the year 2017. *[Figure 5]* By carefully managing what is within its control, the Postal Service is currently running ahead of plan in FY 2013.

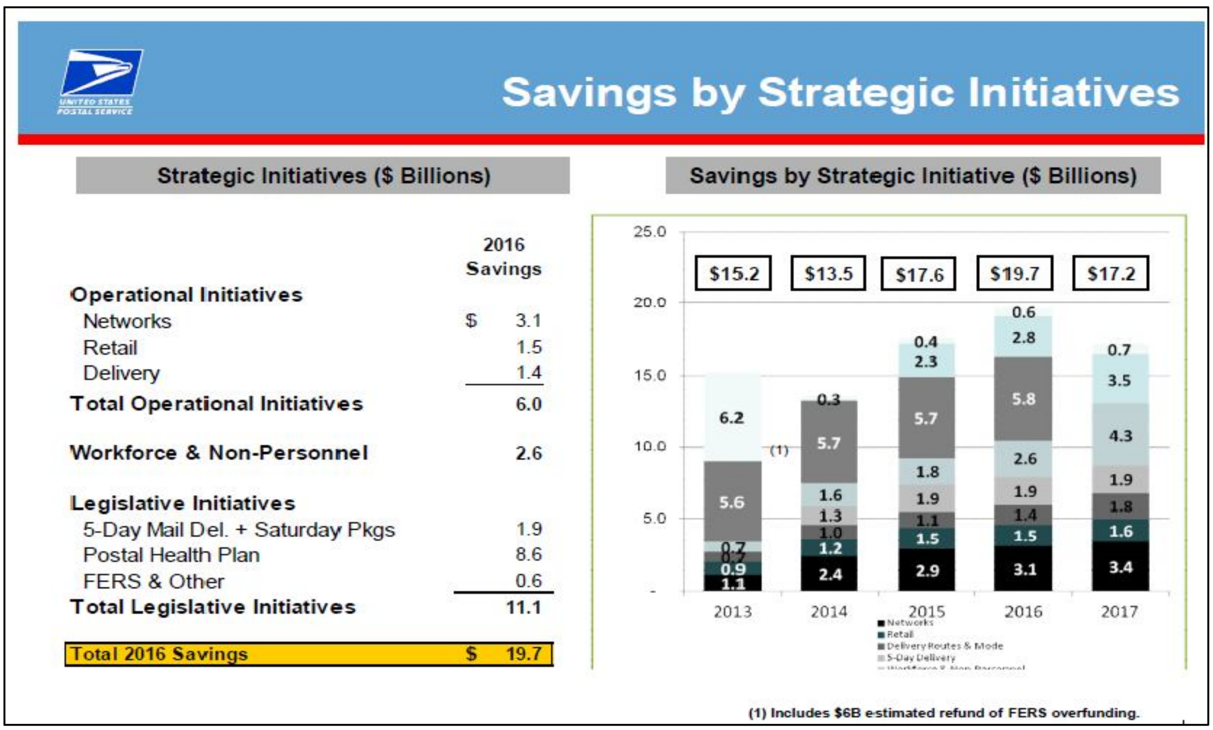

Figure 5

The actions of the Postal Service alone are not enough to return us to profitability, and we continue to pursue all avenues for change. 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.

CONCLUSION

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 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 efficiently carry out that mandate. Postal reform legislation is urgently needed. In its absence, continued significant net losses are inevitable. 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.

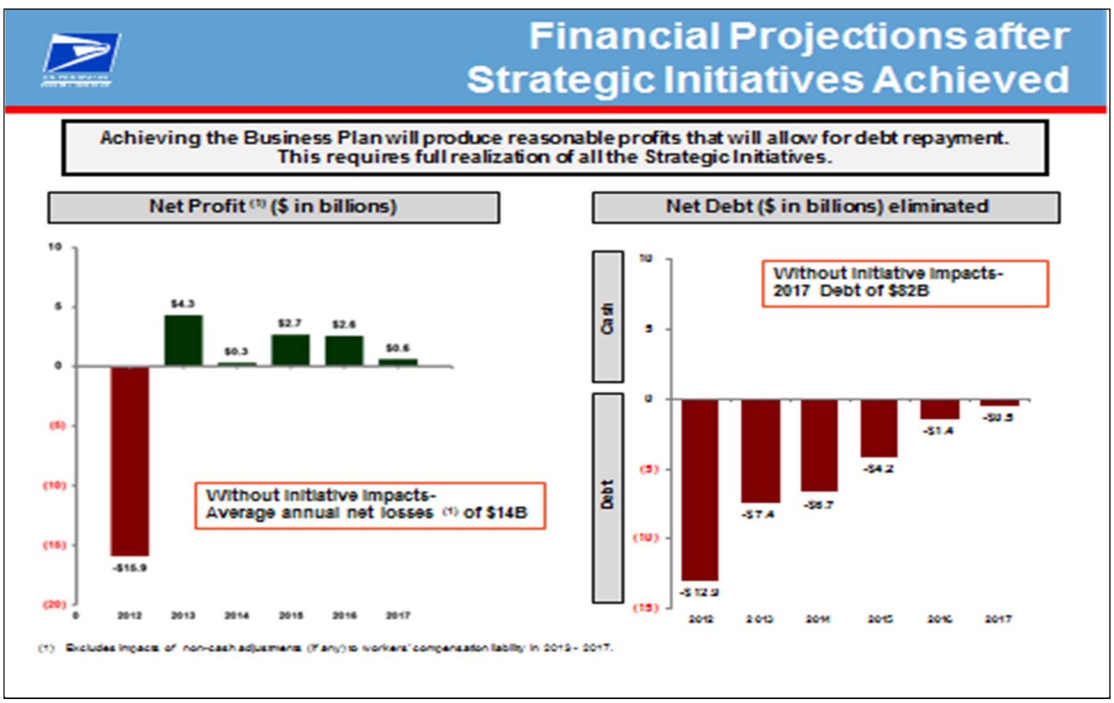

Figure 6

Simply put, the enactment of comprehensive postal reform legislation cannot wait. The Postal Service has exhausted its borrowing authority, faces massive unnecessary unfunded liabilities, and is constrained in how far it can go to bridge the massive gap between revenues and expenses. 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 Business Plan would bring tremendous results, allowing for increased net profits and elimination of existing debt. *[Figure 6]* 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. 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.