

**HAVING THEIR SAY: CUSTOMER AND EMPLOYEE  
VIEWS ON THE FUTURE OF THE  
U.S. POSTAL SERVICE**

---

**JOINT HEARING**

BEFORE THE  
FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT  
INFORMATION, FEDERAL SERVICES, AND  
INTERNATIONAL SECURITY SUBCOMMITTEE

OF THE  
COMMITTEE ON HOMELAND SECURITY  
AND GOVERNMENTAL AFFAIRS  
UNITED STATES SENATE

AND THE  
FEDERAL WORKFORCE, POSTAL SERVICE, AND THE  
DISTRICT OF COLUMBIA SUBCOMMITTEE

OF THE  
COMMITTEE ON OVERSIGHT AND  
GOVERNMENT REFORM  
HOUSE OF REPRESENTATIVES

OF THE  
ONE HUNDRED ELEVENTH CONGRESS  
SECOND SESSION

JUNE 23, 2010

**Serial No. 111-141**

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

Printed for the use of the Committees on Homeland Security and  
Governmental Affairs and Oversight and Government Reform



U.S. GOVERNMENT PRINTING OFFICE

58-037 PDF

WASHINGTON : 2011

---

For sale by the Superintendent of Documents, U.S. Government Printing Office  
Internet: [bookstore.gpo.gov](http://bookstore.gpo.gov) Phone: toll free (866) 512-1800; DC area (202) 512-1800  
Fax: (202) 512-2104 Mail: Stop IDCC, Washington, DC 20402-0001

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

JOSEPH I. LIEBERMAN, Connecticut, *Chairman*

CARL LEVIN, Michigan	SUSAN M. COLLINS, Maine
DANIEL K. AKAKA, Hawaii	TOM COBURN, Oklahoma
THOMAS R. CARPER, Delaware	SCOTT P. BROWN, Massachusetts
MARK L. PRYOR, Arkansas	JOHN MCCAIN, Arizona
MARY L. LANDRIEU, Louisiana	GEORGE V. VOINOVICH, Ohio
CLAIRE McCASKILL, Missouri	JOHN ENSIGN, Nevada
JON TESTER, Montana	LINDSEY GRAHAM, South Carolina
ROLAND W. BURRIS, Illinois	
EDWARD E. KAUFMAN, Delaware	

MICHAEL L. ALEXANDER, *Staff Director*  
BRANDON L. MILHORN, *Minority Staff Director and Chief Counsel*  
TRINA DRIESSNACK TYRER, *Chief Clerk*  
PATRICIA R. HOGAN, *Publications Clerk and GPO Detailee*

---

SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT  
INFORMATION, FEDERAL SERVICES, AND INTERNATIONAL SECURITY

THOMAS R. CARPER, Delaware, *Chairman*

CARL LEVIN, Michigan	JOHN MCCAIN, Arizona
DANIEL K. AKAKA, Hawaii	TOM COBURN, Oklahoma
MARK L. PRYOR, Arkansas	GEORGE V. VOINOVICH, Ohio
CLAIRE McCASKILL, Missouri	JOHN ENSIGN, Nevada
ROLAND W. BURRIS, Illinois	

JOHN KILVINGTON, *Staff Director*  
BRYAN PARKER, *Staff Director and General Counsel to the Minority*  
DEIRDRE G. ARMSTRONG, *Chief Clerk*

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

EDOLPHUS TOWNS, New York, *Chairman*

PAUL E. KANJORSKI, Pennsylvania	DARRELL E. ISSA, California
CAROLYN B. MALONEY, New York	DAN BURTON, Indiana
ELIJAH E. CUMMINGS, Maryland	JOHN L. MICA, Florida
DENNIS J. KUCINICH, Ohio	JOHN J. DUNCAN, JR., Tennessee
JOHN F. TIERNEY, Massachusetts	MICHAEL R. TURNER, Ohio
WM. LACY CLAY, Missouri	LYNN A. WESTMORELAND, Georgia
DIANE E. WATSON, California	PATRICK T. McHENRY, North Carolina
STEPHEN F. LYNCH, Massachusetts	BRIAN P. BILBRAY, California
JIM COOPER, Tennessee	JIM JORDAN, Ohio
GERALD E. CONNOLLY, Virginia	JEFF FLAKE, Arizona
MIKE QUIGLEY, Illinois	JEFF FORTENBERRY, Nebraska
MARCY KAPTUR, Ohio	JASON CHAFFETZ, Utah
ELEANOR HOLMES NORTON, District of Columbia	AARON SCHOCK, Illinois
PATRICK J. KENNEDY, Rhode Island	BLAINE LEUTKEMEYER, Missouri
DANNY K. DAVIS, Illinois	ANH "JOSEPH" CAO, Louisiana
CHRIS VAN HOLLEN, Maryland	BILL SHUSTER, Pennsylvania
HENRY CUELLAR, Texas	
PAUL W. HODES, New Hampshire	
CHRISTOPHER S. MURPHY, Connecticut	
PETER WELCH, Vermont	
BILL FOSTER, Illinois	
JACKIE SPEIER, California	
STEVE DRIEHAUS, Ohio	
JUDY CHU, California	

RON STROMAN, *Staff Director*

MICHAEL MCCARTHY, *Deputy Staff Director*

CARLA HULTBERG, *Chief Clerk*

LARRY BRADY, *Minority Staff Director*

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

STEPHEN F. LYNCH, Massachusetts, *Chairman*

ELEANOR HOLMES NORTON, District of Columbia	JASON CHAFFETZ, Utah
DANNY K. DAVIS, Illinois	BRIAN P. BILBRAY, California
ELIJAH E. CUMMINGS, Maryland	ANH "JOSEPH" CAO, Louisiana
DENNIS J. KUCINICH, Ohio	_____
WM. LACY CLAY, Missouri	
GERALD E. CONNOLLY, Virginia	

WILLIAM MILES, *Staff Director*

# CONTENTS

Opening statements:	Page
Senator Carper .....	1
Representative Lynch .....	4
Representative Chaffetz .....	5
Senator McCaskill .....	7
Senator Coburn .....	28
Representative Holmes Norton .....	35
Senator Akaka .....	55
Prepared statements:	
Senator Carper .....	67
Senator Akaka .....	70
Senator McCain .....	72
Representative Lynch .....	74
Representative Chaffetz .....	76

## WITNESSES

WEDNESDAY, JUNE 23, 2010

H. James Gooden, Chairman, Board of Directors, American Lung Association, on behalf of the Alliance of Nonprofit Mailers .....	8
Donald J. Hall, Jr., President and Chief Executive Officer, Hallmark Cards, Inc. ....	10
Allen Abbott, Executive Vice President and Chief Operating Officer, Paul Fredrick MenStyle, Inc., and Chairman, American Catalog Mailers Associa- tion .....	12
Keith McFalls, Vice President of Operations, PrimeMail and Triessant, Prime Therapeutics, on behalf of the Pharmaceutical Care Management Associa- tion .....	14
Paul Misener, Vice President of Global Public Policy, Amazon.com .....	15
Andrew Rendich, Chief Service and DVD Operations Officer, Netflix, Inc. ....	17
Don Cantriel, President, National Rural Letter Carriers Association .....	38
Frederic V. Rolando, President, National Association of Letter Carriers, AFL- CIO .....	40
William Burrus, President, American Postal Workers Union, AFL-CIO .....	42
Richard Collins, Assistant to the President, National Postal Mail Handlers Union .....	44
Louis Atkins, Executive Vice President, National Association of Postal Super- visors .....	46
Charles Mapa, President, National League of Postmasters .....	47
Robert J. Rapoza, President, National Association of Postmasters of the United States .....	49

## ALPHABETICAL LIST OF WITNESSES

Abbott, Allen :	
Testimony .....	12
Prepared statement .....	89
Atkins, Louis:	
Testimony .....	46
Prepared statement .....	132
Burrus, William:	
Testimony .....	42
Prepared statement .....	121

# V

	Page
Cantriel, Don:	
Testimony .....	38
Prepared statement .....	109
Collins, Richard:	
Testimony .....	44
Prepared statement .....	124
Gooden, H. James:	
Testimony .....	8
Prepared statement .....	78
Hall, Donald J. Jr.:	
Testimony .....	10
Prepared statement .....	81
Mapa, Charles:	
Testimony .....	47
Prepared statement .....	137
McFalls, Keith:	
Testimony .....	14
Prepared statement .....	94
Misener, Paul:	
Testimony .....	15
Prepared statement .....	97
Rapoza, Robert J.:	
Testimony .....	49
Prepared statement .....	152
Rendich, Andrew:	
Testimony .....	17
Prepared statement .....	101
Rolando, Frederic V.:	
Testimony .....	40
Prepared statement .....	113

## APPENDIX

Vincent P. Giuliano, Senior Vice President, Government Relations, on behalf of Valassis Direct Mail, Inc., prepared statement .....	161
Questions and responses for the Record from:	
Mr. Hall with an attachment .....	168
Mr. Burrus .....	172



# **HAVING THEIR SAY: CUSTOMER AND EMPLOYEE VIEWS ON THE FUTURE OF THE U.S. POSTAL SERVICE**

**WEDNESDAY, JUNE 23, 2010**

JOINT HEARING WITH THE U.S. SENATE,  
SUBCOMMITTEE ON FEDERAL FINANCIAL  
MANAGEMENT, GOVERNMENT INFORMATION, FEDERAL  
SERVICES, AND INTERNATIONAL SECURITY,  
OF THE COMMITTEE ON HOMELAND SECURITY  
AND GOVERNMENTAL AFFAIRS,  
AND THE U.S. HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL  
SERVICE, AND THE DISTRICT OF COLUMBIA, OF THE  
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,  
*Washington, DC.*

The Subcommittees met, pursuant to notice, at 2:41 p.m., in room G-50, Dirksen Senate Office Building, Hon. Thomas R. Carper, Chairman of the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, presiding.

Present: Senators Carper, Akaka, McCaskill, Burris, and Coburn. Representatives Lynch, Holmes-Norton, Kucinich, Clay, Connolly, and Chaffetz.

## **OPENING STATEMENT OF SENATOR CARPER**

Senator CARPER. The hearing will come to order. Welcome, one and all. I especially want to welcome our witnesses, the first panel and our second panel of witnesses. Thank you for joining us. And a warm welcome to our House colleagues. We don't get to do this every day, so this is a real treat for us over here and thank you all for joining us.

I am going to make an opening statement, and then if anybody would like to—when I look at the names right here, I look at Akaka—it says “Akaka”—but I know that this is Senator Akaka. Representative Lynch, we are glad to have you here.

Mr. LYNCH. No offense to Mr. Akaka, either.

Senator CARPER. No. We are glad you guys are here, and if Senator John McCain is not here, we will just come to you and we will bounce back and forth.

I am going to ask Senator McCaskill to introduce one of her constituents from Missouri, so I am glad that you could join us.

I think this is the second hearing that I have chaired this year on the financial crisis currently facing the Postal Service, and we

are going to talk about that and the proposals that Postal management and the Government Accountability Office (GAO) have made to address that crisis.

We are joined at this hearing by our colleagues, as I mentioned, from the House Oversight and Government Reform Committee's Subcommittee on the Federal Workforce, Postal Service, and the District of Columbia. That is almost as long a name as the name of our Subcommittee. So if we put our names together, we could have a book, probably. But to our Chairman from the House, to our Ranking Member and your colleagues, we welcome you warmly and we look forward to working with all of you as we try to come to some consensus on the changes that are needed to help the Postal Service respond both in the short run and to the long-term challenges that they face.

Senator Coburn, welcome. Good to see you. You might know a couple of these fellows and gals from the House.

As we all know, the economic crisis that our country continues to face has impacted just about every family and just about every business in our Nation. It has been especially traumatic, I would argue, for the Postal Service, for the folks who work there, and for their key customers.

The Postal Service ended fiscal year 2009 with a 13-percent decline in mail volume compared to fiscal year 2008. This resulted in a year-end loss of some \$3.8 billion, up from \$2.8 billion a year before. And this loss came despite heroic efforts on the part of the Postmaster General, his team, and a lot of folks who work at the Postal Service to achieve more than \$6 billion in cost savings over a very short period of time. And the loss would have been significantly higher, a total, I think, of about \$7.8 billion, to be exact, if Congress and the President had not acted at the last minute to reduce the size of the Postal Service's overly large retiree health prefunding payment.

Unfortunately, the projections for the current fiscal year look no better than these results for fiscal year 2009. And despite an expected recovery in at least some areas of the economy, the Postal Service is anticipating a further decline in mail volumes. This, coupled with the fact that savings will likely be harder to come by this year, will result in the kind of massive \$7 or \$8 billion loss that we were expecting right up until the end of fiscal year 2009.

On top of this news, the Postal Service recently hired a group of three outside consultants, well respected, to look at the business model and to look at future prospects. The consultants came back with findings showing that the Postal Service will continue to lose mail volume, even when the economy recovers. They even pointed out that the Postal Service can be expected to lose more than, I think, \$230 billion over the next decade—\$230 billion over the next decade—if major changes are not made.

So in short, we have our work cut out for us. At the Postal Service, it is imperative that Postal management not let up on their efforts to streamline operations and find ways to save money. The processing, delivery, and retail networks that the Postal Service uses today were built, for the most part, with the thought that mail volume would continue to grow forever.



Based on the work that I have seen over the years from GAO, the Postal Service's Inspector General (IG), and others, we likely have some overcapacity and too large a workforce, and this must be confronted head-on. Postal customers, including those we will hear from today, still depend on the Postal Service, but at a time when the pace of electronic diversion is likely going to continue to pick up, we are aware that we can't rely forever on customers' willingness to continue paying more for a Postal system that seems in many ways to be larger than the one that we need.

Congress also has a role to play. All too often, we criticize the Postal Service for various management and service problems, but then we stand in the way when the Postmaster General puts painful but necessary changes on the table.

We have also failed recently to address the financial constraints that have worsened the Postal Service's problems. There is growing evidence that the formula created in the 1970s to determine how much the Postal Service must pay into the old Civil Service Retirement System has resulted in significant overpayments. In addition, it has become evident that in the 2006 Postal Reform legislation, we saddled the Postal Service with an overly aggressive retiree health prefunding schedule that has pushed Postal finances into the red for many years to come. These two issues need to be resolved sooner rather than later and in a comprehensive manner so that Postal management can be free to address the long-term structural problems that threaten the Postal Service's survival in the coming years.

Following this hearing, I plan to work with my colleagues here in the Senate, and I hope in the House, to begin the process of putting together legislation to help the Postal Service to execute the reform plans that Postmaster General John E. Potter put forth at our last hearing. This bill will not be another attempt at Postal reform. It is my hope, however, that it will remove the obstacles that prevent Postal management and the folks who work for the Postal Service from cutting costs while dealing once and for all with the pension and retiree health issues that we spent so much time discussing of late.

The Committee reported out legislation last summer to address the 2006 retiree health payment schedule. It also touched on labor costs through a provision requiring arbitrators to take the Postal Service's financial condition into account during labor disputes. Following the Postal Service's announcement this spring regarding its long-term deficit projections, however, it has become clear to me that this legislation does not go far enough.

So I look forward to working with all Postal stakeholders, including those in the room today, to put together a meaningful and effective bill. In doing so, I plan to urge everyone to put aside the biases and the political battles that made Postal reform so difficult in 2006 and that has prevented us from making progress on the pension and retiree health issues, at least so far.

It is long past time that those interested in the Postal Service, whether they be unions, mailers, or Members of the House or Senate, recognize that we all need to make some sacrifices in order to preserve the vital service that our Postal Service provides.

And what I am going to do now, in the absence of Senator McCain, we are going to come right to Representative Lynch and ask him to make his opening statement, and then if Senator McCain is here, we will yield to him, and then to Representative Chaffetz. Thank you. Welcome.

#### OPENING STATEMENT OF HON. STEPHEN LYNCH

Mr. LYNCH. Thank you, Senator Carper. I want to thank you and your staff for your great kindness in hosting this important hearing.

I don't know if I am going to be able to get my Members to go back to the House after they enjoy this air conditioning over here. I do believe you could hang sides of beef in this room and keep them fresh. [Laughter.]

This is great. This is a real treat.

Senator CARPER. Actually, that is what we normally use this room for. [Laughter.]

Mr. LYNCH. I heard that.

Senator CARPER. The question they ask over here a lot is, where is the beef, and we say—

Senator McCASKILL. Also known as Senators. [Laughter.]

Mr. LYNCH. Well, thank you. I also want to thank the Members of the Senate Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security for agreeing to hold this House and Senate joint hearing, which goes to show that both Houses of Congress recognize the critical state of affairs currently confronting the U.S. Postal Service (USPS).

As Chairman of the House Subcommittee with oversight of the Postal Service, I remain quite concerned about the financial and operational challenges that have caused our Nation's most trusted and prominent public institution to fall upon such difficult times. With new technology and the rise of electronic communications, the landscape for the way Americans communicate and transact business has been altered forever. Mail volume is declining dramatically as the cost of delivering mail to an expanding number of addresses continues to grow. The recent economic downturn has accelerated this trend and businesses have cut expenses and reduced their investment in the mail.

Statutorily imposed benefit obligations, such as prefunding of future retiree health benefits, as the Senator mentioned, have made the Postal Service's financial situation even worse. This perfect storm has resulted in the Postal Service's experiencing an unprecedented cumulative loss of nearly \$12 billion over the past three consecutive fiscal years.

While the Postal Service has recently revealed some relatively good news, that it is doing better this year than previously anticipated by approximately \$1.3 billion, if current projections come true, the Postal Service could stand to lose another \$7 billion by the end of this year.

Given these extraordinary financial challenges, I am encouraged in some parts by the efforts of the Postal Service's action plan for the future, as well as GAO's report entitled, "Strategies and Options to Facilitate Progress Towards Financial Viability at the Post

Office.” The Postal Service’s plan and the GAO’s report have spurred a meaningful dialog about how best to return the Postal Service to sound financial footing, a dialog upon which all interested stakeholders can participate.

While my Subcommittee and its Full Committee received some initial testimony on the Postal Service’s plan and GAO’s report in April of this year, constraints at the hearing did not allow for us to receive the testimony from other interested stakeholders such as the employees and customers who are here today. Customers and employees are the lifeblood of the U.S. Postal Service. Without them, there would be no U.S. Postal Service. It is essential that we hear the ideas, thoughts, and concerns of those most closely affected by the Postal Service before moving forward with any potential reforms. Only after hearing from the members of the Postal community can we fully explore and consider the ramifications of all viable options for ensuring a robust and vibrant Postal Service for decades to come.

I appreciate today’s witnesses for being here with us this afternoon to offer their feedback on the Postal Service’s plan and GAO’s recent report, as well as other suggested strategies on how to best increase revenue, reduce costs, and improve efficiency in order to help ensure the future sustainability of the Postal Service.

Again, I would like to thank you, Senator Carper, for agreeing to hold this House and Senate joint hearing and I look forward to an informative discussion this afternoon. Thank you.

Senator CARPER. Good. Mr. Chairman, thank you so much, and thanks also for coming over here and chilling out with us for a little bit.

I am pleased now to introduce from Utah, Representative Chaffetz. Has anyone ever mispronounced your name?

Mr. CHAFFETZ. Oh, never. Not here in the Senate, I guess not. [Laughter.]

Senator CARPER. We will try to do a good job here today. We are glad you are here and we welcome your testimony.

#### **OPENING STATEMENT OF HON. JASON CHAFFETZ**

Mr. CHAFFETZ. Thank you, and thanks to all of the witnesses who are coming today and testifying. I do appreciate the bipartisan way in which Chairman Lynch has approached this and I thank him and his staff. I think we work fairly collaboratively.

The issues before us are huge. We obviously need to talk about cutting costs and becoming more effective and efficient. What I think is often absent in this discussion along the way, though, is how is the Postal Service going to become more relevant in people’s lives?

And so while we do need to continue to discuss and examine and hear from the customers and the Postal Service and the unions and all of those folks who are involved in how to cut costs, let us also talk about the relevancy in the future. That discussion does not get enough out there. We have some of the great customers of the Postal Service and we look forward to hearing from you, but it is going to be the collective creativity, the collective genius of the users that are ultimately, I think, going to come up with the best solutions

on how to make the Postal Service more relevant and more useful in people's lives.

The community includes a \$1.2 trillion mailing industry. The Postal Service delivers nearly half of all of the world's mail. The numbers are absolutely unbelievable in what happens. The U.S. Postal Service still has more retail locations than McDonald's, Starbucks, Walgreen's, and Wal-Mart combined. I think it is something that we need to address in a very serious manner. But there is no blinking from the fact that the Postal Service continues to suffer a major economic crisis.

Now, I do think we should give recognition to the Postal Service for the cuts that they have made along the way. If only the rest of the Federal Government would follow the lead of the Postal Service—again, I still think there needs to be more, but as a whole you can look at the Postal community and say they have made difficult decisions. They have been bringing down costs. You can't say that about any other part of the Federal Government. And they don't get enough credit for that along the way and I think we should note that as we do that.

I do appreciate the bipartisan way in the House that we dealt with H.R. 22. It was a significant stride and I would make note of that.

The Postal Service continues to advocate cutting to a 5-day delivery. I personally am opposed to that. I am going to need to be convinced that we should move away from the 6-day delivery that we enjoy now. I, for one, believe that there is some sort of hybrid. I am going to introduce legislation that would give authorization to the Postal Service to allow up to 12 days of delivery. There are probably some Saturdays or Tuesdays in August or July where not many people are going to miss getting their mail that day. Maybe that is the balance between cutting 52 days. I don't think we are going to cut a Saturday before Mother's Day and satisfy the customers, but I do think there is some sort of hybrid in between, and maybe 12 days, allowing them to find 12 Postal holidays would be the right type of balance that would allow them to cut costs.

There are creative things that I think we can do in this. We are obviously going to have to deal with the Civil Service Retirement System. It is a key issue. I do think we need to look at a BRAC type of system, a PRAC, if you will, where we look at how to cut back the Postal issues. We are going to have to deal with the reality of the postmaster, who every time we say we are going to cut a physical facility, the Member of Congress in that district calls him up and says, oh, anywhere else but my district. We have to create a way where we can objectively look at how to cut the number of physical facilities and still meet the needs of the customers along the way. Somehow, creatively, we are going to have to do that and bypass the politics that are normally instilled there.

Again, I think for all the witnesses, I appreciate doing this in a bicameral way, and my colleagues who do pay attention to this issue. I thank the witnesses for being here today and look forward to the dialog.

I yield back. Thank you.

Senator CARPER. Congressman Chaffetz, thank you for the very thoughtful comments, from both you and the Chairman.

I am going to just give very brief introductions of our witnesses. I am going to call on Senator McCaskill to give a little bit longer introduction of Mr. Hall from Missouri.

But on the first panel, we have a number of witnesses who are here representing some of the major customers of the Postal Service and Postal groups.

First, we have James Gooden, and he serves as the Chairman of the Board of Directors of the American Lung Association, which is a major nonprofit mailer. Welcome. It is nice to see you.

Mr. GOODEN. Thank you.

Senator CARPER. Donald Hall is next, and he will be introduced in greater detail by Senator McCaskill.

Next is Allen Abbott, the Executive Vice President and Chief Operating Officer at Paul Fredrick MenStyle, representing the catalog industry. Mr. Abbott, nice to see you.

Following him is Keith McFalls from Prime Therapeutics, a major pharmaceutical mailer. Good afternoon.

Next, Paul Misener, who is the Vice President of Global Public Policy at Amazon.com. A pleasure. Welcome.

And finally, we have Andrew Rendich, the Chief Service and DVD Operations Officer for Netflix. Five years ago, if we had been having this hearing, would you have been here? Would Netflix have been here?

Mr. RENDICH. I would hope we would have been viewed as an up and comer, but I probably would not have been here.

Senator CARPER. All right. Fair enough. We are glad you are here.

Senator McCaskill.

#### **OPENING STATEMENT OF SENATOR MCCASKILL**

Senator MCCASKILL. Thank you, Mr. Chairman. It is an honor today for me to take just a couple of minutes to introduce one of the witnesses. Kansas City is fortunate for many reasons, but among them is the fact that we have the finest greeting card company in the world that has a home base in Kansas City.

A hundred years ago, our witness's grandfather founded Hallmark Cards, I think with a couple of shoeboxes of cards, and has built it into one of the most widely respected companies in the world, with international reach and with the kind of civic responsibility that is uniquely American. This is a company—both Donald Hall, Junior, his father, and his grandfather not only built an incredible company that everyone in Missouri is very proud of, they also built a culture around civic commitment, around giving back to the community, about participating in everything from the arts to the education of our citizens to the streets to our parks, you name it. Hallmark and the great employees at the Hallmark Company shape the civic community in Kansas City in all the right ways.

I know that Donald Hall is here today representing a company, but he is really here representing hundreds of artists, professionals, managers, salesmen and thousands of small businesses across this country that depend on the mail service and depend on the fine business culture of Hallmark for their livelihood and for, in fact, looking forward to getting out of bed in the morning.

I have many friends that have worked for Hallmark, and it is almost like there is something in the water at this company. You walk in, everybody is so damn happy, you want to know what the heck is going on because the people who work there are so proud.

So it is great to have you here today, Mr. Hall. Great that Hallmark is being represented today on this panel, and we look forward to your testimony.

And thank you so much for the courtesy of the introduction, Mr. Chairman.

Senator CARPER. You are quite welcome. Thanks a lot for providing the introduction.

The entire statements of our witnesses will be made a part of the record. I would just ask that you each proceed. Mr. Gooden, I am going to call on you to go first. I would ask you to try to stick to 5 minutes. If you go much beyond that, we will have to intervene.

We are going to have a series of votes here, in fact, I expected them to start by now, but they have not, so let us go ahead and go as far as we can. Thank you very much. Mr. Gooden, please proceed.

**TESTIMONY OF H. JAMES GOODEN,<sup>1</sup> CHAIRMAN, BOARD OF DIRECTORS, AMERICAN LUNG ASSOCIATION, ON BEHALF OF THE ALLIANCE OF NONPROFIT MAILERS**

Mr. GOODEN. Thank you, Mr. Chairman and Members of the Subcommittees, my name is Jim Gooden and I am the Chairman of the Board of Directors for the American Lung Association.

The American Lung Association was founded in 1904 to fight tuberculosis, and today, our mission is to save lives by improving lung health and preventing lung disease. We accomplish this through research, advocacy, and education.

I am honored today to testify on behalf of members of the Alliance of Nonprofit Mailers, of which the American Lung Association is a charter member. The Alliance of Nonprofit Mailers was established in 1980 as a national coalition of nonprofit organizations sharing a vested interest in nonprofit Postal policy. The Alliance is the primary representative of nonprofit mailers before the U.S. Postal Service, Postal Regulatory Commission (PRC), and on Capitol Hill. Our membership is a cross-section of America and it includes public health and medical groups, colleges and universities, consumer organizations, Farm Bureaus, and religious organizations.

In 1907, the American Lung Association invented direct mail fundraising in the United States through our Christmas Seals program. A volunteer named Emily Bissell came up with a plan based on one that had worked in Denmark. She designed and printed special holiday seals and sold them at the Post Office for a penny each. By the end of her holiday campaign, she and a large group of committed volunteers had raised 10 times her initial goal, and with it, the American Lung Association Christmas Seals was born. We have a sample over to my left.

The American Lung Association, like many other members of the Alliance, uses mail primarily to communicate with volunteers and

<sup>1</sup>The prepared statement of Mr. Gooden appears in the Appendix on page 78.

to raise money. However, unlike many other organizations, we are also responsible for driving additional mail volume across the country as our Christmas Seals encourage Americans to send Christmas and other holiday cards, thereby boosting First Class mail. But an oversize, over-budget Postal Service threatens the members of the Alliance of Nonprofit Mailers and all other nonprofits, as the Postal Service will inevitably fall back on raising postage rates, in part to make up for its projected deficit.

Our organizations are greatly troubled that the Postal Service has announced that it will raise postage rates by early 2011. The increase is expected to be 5 to 10 times the rate of inflation. Nonprofits will be forced to not only cut back on the number of pieces we mail, but it will also greatly impact nonprofit organizations' abilities to deliver key programs and services across the Nation.

For the Lung Association, it will impact our funding research to provide and improve treatments and to find cures for more than 35 million Americans with chronic lung disease, giving children the tools they need to manage their asthma so that they can stay healthy in school and be ready to learn, also for fighting for healthy air and fighting against tobacco. We, like other nonprofits, would also be forced to reduce mail volume, which will just reinforce the Postal Service's downward spiral.

The American Lung Association and all nonprofit organizations are heavily dependent on a fiscally sound U.S. Postal Service, a cost effective, efficient Postal System. We believe the only solution is for the Postal Service to finally bring its infrastructure and its capacity in line with actual demand. That is why the Alliance of Nonprofit Mailers has taken the difficult step to support the Postal Service's recommendation to eliminate Saturday delivery.

In addition to the threat of a general postage increase in early 2011, nonprofits are also concerned that preferred nonprofit postal rates could also be eliminated. This move would be a terrible mistake. Congress has authorized special nonprofit rates for more than 50 years and has repeatedly reaffirmed that policy because it still makes good sense. Reduced postage rates enable the American Lung Association and other nonprofit organizations, including churches and faith organizations, to provide a critical role in our society, one that is even more crucial today, when cash-strapped State and local governments are struggling to meet the basic needs of its citizens.

Thank you for this opportunity to testify before you today. Nonprofit organizations can be found in every State and every Congressional district in this Nation and they provide a unique and necessary role in America. On behalf of all nonprofits, we ask for your continued support moving forward to ensure that we can continue to rely on an affordable and fiscally sound U.S. Postal Service. Thank you.

Senator CARPER. Thank you very much. Were you ever in the Army?

Mr. GOODEN. No, sir. I play one on television. [Laughter.]

Senator CARPER. I thought so. It is not every day we have someone who has a distinguished career like you, and also—what was the name of the show, on Lifeline?

Mr. GOODEN. On Lifetime.

Senator CARPER. There you go. All right. Well, good to see you.

Mr. GOODEN. Thank you, sir.

Senator CARPER. You look younger in person. [Laughter.]

Mr. LYNCH. That is what they say about you, Mr. Chairman.

Senator CARPER. I wish they did. They say other things about me. [Laughter.]

All right. Mr. Hall, you are on. Welcome. Please proceed.

**TESTIMONY OF DONALD J. HALL, JR.,<sup>1</sup> PRESIDENT AND CHIEF  
EXECUTIVE OFFICER, HALLMARK CARDS, INC.**

Mr. HALL. Good afternoon, and thank you very much, Chairman Carper, Chairman Lynch, Ranking Member Chaffetz, and other distinguished Members of this Committee. I also want to thank Senator McCaskill for the warm Missouri welcome.

I appreciate the opportunity to speak with you about a critical situation, the sustainability of the U.S. Postal Service. It is a subject I care deeply about. I care because for much of Hallmark's 100-year history, the Postal Service has been a vital partner to us. We participate with others in our industry through the Greeting Card Association, and I am a member of the CEO Council of the Mailing Industry Task Force.

We all share a common goal for a robust and stable Postal Service, one that I believe is vitally important to the people of this country. Yet the Postal Service is facing the most severe crisis in its history. We have all heard the dire volume and revenue forecasts signaling potential losses of as much as \$238 billion by 2020. I compliment the Postmaster General for actions to date to bring Postal costs in line, but it is not enough if we are to sustain this institution.

Over the past 30 years, it has never been easy to manage the Postal budget. Often, shortfalls have been solved by raising Postal rates, which consumers have accepted. However, given this economic contraction, consumers' unwillingness to now accept price increases in every aspect of their lives, and the number of alternatives available to users of the mail system, solving budget shortfalls through price increases and reduction of service not only won't work, it will make matters worse. We are at a tipping point. We must find a sustainable solution now. No one knows better than you that that will not be easy. But we can no longer avoid this reality.

When the Postal Service was reorganized in the 1970s, it was charged with operating more like a business, less dependent on Federal subsidies. Operating like a business today means facing intensified pressures on volumes, costs, and pricing. Most businesses today are addressing the new realities of substitution and declining demand. I know of no business that is trying to compete by raising prices and degrading service.

And yet that is precisely what the Postal Service seems determined to do with its proposal to end Saturday delivery and to increase rates far in excess of inflation. The advisability of such a move is questionable. Some debate the projected savings. Others worry that this is just the first step toward 4- or 3-day delivery.

<sup>1</sup> The prepared statement of Mr. Hall appears in the Appendix on page 81.



I encourage you to reject the notion of reduced service as the path to sustainability.

I believe there are a number of things Congress can do. The manner in which the 2006 law requires the Postal Service to prefund future retiree health care costs is untenable. No other branch of the Federal Government is required to prefund at such an aggressive rate. I am not recommending that Congress eliminate this requirement, just extend its timeframe for meeting this obligation, thus lowering the annual costs.

Also, it should be determined immediately whether the Civil Service Retirement System obligation has been over-funded. If so, the \$75 billion could be reapplied toward funding the retiree health care obligation.

I encourage Congress to allow the Postal Service to close excess facilities by establishing a base closing-type commission, to eliminate the prohibition on closing Post Offices for economic reasons, and to allow arbitrators to consider the financial health of the Postal Service.

None of these actions alone is sufficient to solve the projected losses. With more than 80 percent of their costs allocated to wages and benefits, Postal management, union leaders, and stakeholders must work together to find solutions that reflect the current financial situation.

Over the next 2 years, labor and management will be renegotiating contracts. Both parties will raise legitimate issues. The only way to preserve the institution and maximize the number of quality jobs will be to take actions consistent with the long-term view.

And it is not just Postal jobs that I am worried about. The mailing industry has lost 1.5 million jobs since 2006. The remaining 7.5 million jobs rely on a robust Postal Service. Those jobs have to be considered, as well.

You have an opportunity to take bold action on behalf of the citizens and Postal stakeholders. You can make changes that will address undue financial burdens, allow the Postal Service to manage its facilities in light of required capacities, and continue to provide service at competitive pricing that will retain people in the Postal System.

I am here because we are a partner with the Postal Service and care deeply about its future. We value the people who work at the Postal Service, the people whose businesses depend on the mail, and the American public that is connected by it. Absent a long-term view, prices will continue to increase greater than inflation, more mail will be driven out of the system, and more jobs will be lost. The future of the Postal Service hangs in the balance. Thank you.

Senator CARPER. Thank you for an excellent statement. Very nice to see you. Mr. Abbott, please proceed.

**TESTIMONY OF ALLEN ABBOTT,<sup>1</sup> EXECUTIVE VICE PRESIDENT, CHIEF OPERATING OFFICER, PAUL FREDRICK MENSTYLE, INC., AND CHAIRMAN, AMERICAN CATALOG MAILERS ASSOCIATION**

Mr. ABBOTT. Good afternoon. I want to thank the Subcommittee Chairmen, the Ranking Members, and the other distinguished Subcommittee Members for hearing my testimony today. My name is Allen Abbott and I am the Executive Vice President and Chief Operating Operator of Paul Fredrick MenStyle, a direct marketer of men's apparel located in Fleetwood, PA.

Senator CARPER. Where is Fleetwood?

Mr. ABBOTT. Fleetwood is between Allentown and Reading.

Senator CARPER. OK. Thanks.

Mr. ABBOTT. Paul Fredrick originates about nine million pieces of mail each year and our Berks County employees are highly dependent on an efficient and affordable U.S. Postal Service.

I also serve as the Chairman of the American Catalog Mailers Association, an advocacy group that was formed on behalf of the catalog industry after the punishing rate hikes that our businesses experienced as a result of the 2006 Postal Rate Case.

Paul Fredrick operates no retail stores. We are 100 percent dependent on direct response marketing. Ten years ago, the vast majority of our marketing strategy was built around mailing catalogs. Since the increase that we experienced in 2007, however, while our sales have increased by 34 percent, our catalog circulation has dropped by 29 percent. So why is this?

Why, in a situation where we know a customer achieved and gained through catalog prospecting is actually the best customer in the long term, have we cut our spending? Because catalog postage rates have increased 58 percent between 1997 and 2008, while the general rate of inflation was just 34 percent during that period. This has skewed the economics of mailing catalogs versus other marketing options, especially in the area of new customer acquisition.

Paul Fredrick loses money when we acquire a new customer, assuming a fair return on investment downstream. When our postage rates went up 20 percent in 2007, with little prior notification, we were forced to reallocate much of our catalog prospecting budget to other channels. We now distribute only half the number of prospecting catalogs we distributed just 3 years ago.

The 2007 postal rate increase and the recession of 2008–2009 also required us to look carefully at mailings to our own customers. And now we are facing an exigent rate case that will further exacerbate the situation. Increasing catalog postage rates beyond the consumer price index (CPI) will further erode mail quantity in the years to come. This will put the jobs at Paul Fredrick in jeopardy, along with tens of thousands of other catalog-related jobs at other companies across the country.

The GAO has stated that the current USPS model is not sustainable, and they are right. The current situation is not sustainable and everyone involved in the system needs to face this fact, doing what is necessary to change the model. As a business leader, trade

<sup>1</sup> The prepared statement of Mr. Abbott appears in the Appendix on page 89.

organization chair, and U.S. taxpayer, I am asking that the following steps be taken to address this dire situation.

In the Postal reform legislation passed in 2006, Congress empowered the USPS to function more like a business. Please reinforce that mandate and encourage the USPS to aggressively move forward with both cost reduction and revenue enhancement activities.

Also, please encourage the USPS to start pricing products and services to maximize the individual customer variable marketing contribution, something every successful business model does. Many of the costs in the USPS pricing models are sunk. They will remain no matter what mail volumes are generated. The agency must understand those pricing strategies that will generate incremental customer contribution and go after them. Meaningful reduction in catalog prospecting postage rates will generate a great deal of incremental mail from Paul Fredrick.

Also, please aggressively challenge those who oppose the closing of non-productive Postal facilities or the amendment of archaic work rules that drive up costs. I am sympathetic that local changes can have a painful impact on those directly affected, but the efficiency it creates is good for the majority over the long term. If we don't do this, costs will continue to grow and mail volumes will continue to shrink, ultimately costing more jobs in both the public and private sector.

Also, please allow the USPS to shift to a 5-day-per-week delivery schedule. It is not optimal, but we can live with 5-day delivery if it generates the savings indicated by the Postmaster-General's Department (PMG).

Please adjust the inequities in the pension plan funding requirements for employees who have worked in both Civil Service and the Postal Service, ensuring a fair apportionment of costs between the USPS and the Federal Government, and also, please adjust the funding requirements for USPS retiree health care benefits to be aligned with actuarial need. The dramatic prefunding obligation, adding \$5 to \$6 billion in annual funding requirement, is a recipe for disaster for the long-term health of the USPS given where we are today.

The Postal Service has historically contributed a great service to the citizens of our country at no cost to the U.S. taxpayer. This won't last much longer if we do not all act to restore the fiscal health of this fine institution. I respectfully implore you to do so now. Thank you.

Senator CARPER. Thank you very much for that testimony.

Mr. ABBOTT. You are welcome.

Senator CARPER. Before I turn to Mr. McFalls, Chairman Lynch tells me he thinks the House might start voting again around 3:30 p.m. We have learned now the Senate is going to remain in what we call Morning Business until 4:30 p.m., which means we will have no recorded votes until at least that time. We have an opportunity maybe to actually complete this hearing without any interruptions, and we will just keep going while the House is in session. After Mr. Rendich has given his testimony, I am going to ask our Chairman from the House and our Ranking Member to go ahead and ask your questions before you have to go vote, and then we

will ask some questions while you are away, and when you come back you will have your turn.

Please proceed, Mr. McFalls.

**TESTIMONY OF KEITH MCFALLS,<sup>1</sup> VICE PRESIDENT OF OPERATIONS, PRIMEMAIL AND TRIESSANT, PRIME THERAPEUTICS, ON BEHALF OF THE PHARMACEUTICAL CARE MANAGEMENT ASSOCIATION**

Mr. MCFALLS. Thank you, Chairman Lynch, Chairman Carper, Ranking Member Chaffetz, and Members of the Subcommittees. My name is Keith McFalls and I am a pharmacist and the Vice President of Mail and Specialty Pharmacy Operations for Prime Therapeutics. Prime is a pharmacy benefit management company collectively owned by 12 nonprofit Blue Cross-Blue Shield plans. We manage the prescription drug benefits for enrollees in Blue's plans, employer groups, and union groups, covering approximately 17 million people.

While here representing Prime, I am also speaking on behalf of the Pharmaceutical Care Management Association (PCMA). PCMA is the national trade association for pharmacy benefit managers, which administers prescription drug plans for more than 210 million Americans. Pharmacy Benefit Managers (PBMs) such as Prime aggregate the purchasing clout of enrollees through their client health plans by negotiating price discounts from retail pharmacies, rebates from pharmaceutical manufacturers, and by running highly efficient mail service pharmacies. Last year, PBM mail service pharmacies collectively filled more than 238 million prescriptions nationwide, growing this year to over 250 million, nearly 90 percent of which were shipped via the U.S. Postal Service, which brings us here today.

Mail service pharmacies are not only a growing and reliable customer to the U.S. Postal Service, but increasingly are an essential point of treatment access for patients suffering from chronic conditions and relying on maintenance medications. Mail service represents the fastest growing distribution channel for prescription drugs. We expect continued growth in the coming years as mail service provides a means for controlling costs and increasing savings. This will be particularly important as health care reform implementation increases access to the health system overall.

A growing number of patients, including the elderly, disabled, and people living far from both Post Offices and pharmacies, prefer having regularly needed medications delivered to their home. In fact, 50 percent of the members serviced by Prime are rural patients. Prescriptions are filled and mailed to the customers, usually within a 3- to 5-day timeframe. Some mail service pharmacies offer delivery within 24 to 48 hours, depending on patient need and type of medication required. Mail service pharmacies also retain pharmacists on staff who are available to counsel patients and consult with physicians.

Prime Therapeutics has significant concerns with the Postmaster General's proposed elimination of a Saturday mail delivery. A reduction in service delivery days would mean a reduction in individ-

<sup>1</sup> The prepared statement of Mr. McFalls appears in the Appendix on page 94.

uals' ability to obtain their drugs easily and conveniently. Eliminating Saturday delivery would result in a prescription processing delay of at least one, but potentially multiple days in the case of Federal holidays.

Moreover, it is my understanding that Postmaster General Potter has suggested that additional counter service delays could also be considered. The U.S. Postal Service proposes that Saturday counter service would allow people needing a critical package or piece of mail to come to the Post Office to retrieve it. We would counter that the very reason some people use mail delivery of drugs is because they are unable to travel to a drug store or the Post Office to get their medication. For others, having to go to the drug store simply discourages them from getting their prescriptions filled at all.

About 25 percent of all prescriptions are never filled, in part because having to go to the drug store or the Post Office is an impediment for some people. Mail service pharmacies have helped improve drug adherence by delivering drugs to people's doorsteps. Research shows that poor adherence adds approximately \$290 billion in additional costs to our health system. Thus, our member companies would likely look for other ways to ensure timely deliveries. Indeed, PCMA has already received inquiries from organizations seeking to assure our member companies that they could fill in the delivery gap should mail delivery be reduced to 5 days.

PBMs rely heavily on the U.S. Postal Service for our mail service pharmacies and we are a growing business partner of the Postal Service. Ensuring continued Saturday delivery is not only in our interest, but also of critical importance to the millions of Americans who rely on mail service pharmacy to obtain their prescription drugs.

We look forward to working with this Committee to ensure the continued vitality of the U.S. Postal Service. We urge you to explore all possible options to expand the Postal Service's ability to remain competitive in this marketplace, including pricing and product flexibility.

Thank you for your time and I am happy to answer any questions that you may have.

Senator CARPER. You bet. Thanks very much for sharing your thoughts with us today.

And now we will turn to Mr. Misener. Welcome.

**TESTIMONY OF PAUL MISENER,<sup>1</sup> VICE PRESIDENT OF GLOBAL PUBLIC POLICY, AMAZON.COM**

Mr. MISENER. Thank you very much, Mr. Chairman. Chairman Carper, Ranking Member McCain, Ranking Member Chaffetz and Chairman Lynch and Members of the Subcommittees, my name is Paul Misener and I am Amazon.com's Vice President for Global Public Policy. On behalf of my company and our millions of American customers, thank you very much for inviting me to testify at this important hearing on the future of the U.S. Postal Service.

Amazon.com Inc.'s subsidiaries fulfill customer orders from our retail business and increasingly through Fulfillment by Amazon

<sup>1</sup> The prepared statement of Mr. Misener appears in the Appendix on page 97.

sales by third parties, including many of the nearly 2 million sellers who offer products on Amazon Web sites. Thus, Amazon's perspective is from that of a customer-focused company that ships parcels, not other types of mail, and I hope that our views will be helpful to the Subcommittees.

Amazon enjoys a strong and extensive relationship with the Postal Service. The USPS is an integral part of the service we provide our customers. Globally, we spent well over \$1 billion last year on outbound shipping, an increase of over 20 percent since 2008. In dollars, we spend nine figures annually on USPS, with over 2 million shipments per week using the Postal Service. And on behalf of our customers, we are talking with the USPS about ways to increase the number of these shipments.

We cooperate with the Service as efficiently as possible. For example, we worked closely with the USPS to begin using a postal consolidator to shift a large portion of our downstream injection shipments from bulk mail centers to further downstream to local Post Offices. For years, we have supported the Postal Service's efforts to make itself more competitive, such as by introducing new products, including downstream injection, and entering negotiated service agreements.

Our customers have come to appreciate and expect a Saturday delivery, and this is an instance where the USPS currently maintains a decided advantage over other carriers. And in some urban/suburban areas, we have even begun to use USPS for Sunday delivery via Express Mail.

Amazon was very interested to review the recent USPS report entitled, "Ensuring a Viable Postal Service for America," which confirms that parcel delivery is a bright spot for the service. While First Class and standard mail volumes are decreasing, parcel volume is increasing. This makes perfect sense, for although there are online or virtual substitutes for letters, bills, and advertising that decrease use of the mail, online shopping actually increases the need for physical shipments.

Oh behalf of our buyer and seller customers, the issue that I want to focus on today is the USPS proposal to cease Saturday delivery service, except for Express Mail. We believe this is a bad idea. Not only would it be bad for parcel shippers, who would face higher costs to reach their urban and suburban customers on Saturday, it would be even worse for rural consumers and for the USPS itself.

As I mentioned before, Amazon's customers have come to appreciate and expect Saturday delivery. While they may be willing to wait until Monday or Tuesday for a bill they don't really want, an advertisement they didn't ask for, or a magazine to which they subscribed long ago, they expect the items they purchased this week to be delivered as soon as possible. In addition to the United States, Amazon subsidiaries utilize Saturday delivery services in the United Kingdom, Germany, Japan, France, and China.

Ceasing Saturday street delivery service would be much worse for our rural customers who simply would not be able to receive parcels on Saturday because there are no delivery alternatives to the USPS. Maintaining Saturday Express Mail delivery would not address this serious problem because Express Mail has an even

less extensive rural coverage area than Saturday service from other carriers.

Moving to 5-day delivery service would even be bad for the Postal Service, which would abandon its competitive advantage on Saturdays. As I mentioned before, we are looking for ways to increase our business with the USPS, but eliminating Saturday delivery would cause us to significantly decrease spending and package count. This is a key point. Elimination of Saturday street delivery will cause us to shift a significant fraction, approximately a sixth, of our current USPS business to other carriers.

Unlike mailers that send other classes of mail, we have Saturday package delivery options for most of our urban and suburban customers who will not wait for Monday or Tuesday delivery if Saturday delivery is possible via other carriers. We likely would even shift some of the deliveries that otherwise would occur on Friday if we believe there is too much risk that delivery would miss Friday and then be held until Monday or Tuesday. That is, where we have a 2-day window in which our customer expects delivery, we may decide that some of the parcels that would be delivered by the USPS on Friday should now be shifted to other carriers to ensure Friday or Saturday delivery.

So ceasing Saturday delivery would make the USPS less competitive, significantly reduce the parcel volume the Postal Service carries in urban-suburban areas, and worst of all, would deny consumers in rural areas a service they currently appreciate and expect.

On behalf of Amazon's customers, particularly those living in rural America, we hope the USPS will withdraw this proposal. If the 5-day delivery proposal is not withdrawn, however, we ask that Congress ensure that Saturday delivery be maintained.

So thank you very much and I look forward to your questions.

Senator CARPER. Well, you are right on the money. Way to go. Mr. Rendich, please proceed.

**TESTIMONY OF ANDREW RENDICH,<sup>1</sup> CHIEF SERVICE AND DVD OPERATIONS OFFICER, NETFLIX, INC.**

Mr. RENDICH. Good afternoon. My name is Andrew Rendich. I am the Chief Service and DVD Operations Officer for Netflix. I am pleased to be here today and to discuss the issues related to the future of the Postal Service. I oversee all aspects of DVD operations, including shipping and receiving as well as our relationship with the Post Office.

Netflix is an online movie subscription company. We deliver movies and TV episodes to more than 14 million subscribers in two ways. First, we stream directly over the Internet. And second, we ship DVDs through the U.S. Postal System.

On average, we ship 2 million disks daily from our nationwide network of more than 50 distribution centers. These centers have been strategically located to optimize our fulfillment operations with that of the Postal Service, thus helping to provide 97 percent of our subscribers of DVD to getting their DVDs in one business day.

<sup>1</sup>The prepared statement of Mr. Rendich appears in the Appendix on page 101.

For 2010, we anticipate spending about \$600 million in First Class postage, making us the largest growing First Class mailer in the United States. While Netflix delivers movies and TV episodes in two ways, my comments today will only be about the DVD side of our business.

At the macro level, Netflix believes the Postal Service should have the ability to adjust and change technologies as customer demand shifts. The Postal Service is operating in a time of significant change and is facing many challenges. These challenges have been outlined by the Postal Service and confirmed by the GAO. We believe that multiple proposals put forward by the Postal Service in the Action Plan for the Future will help secure the vitality of the Post Office for many years to come and help assure that our Nation continues to enjoy a reliable, trusted, and affordable mail service.

With my limited time today, I would like to focus on three of the Postal Service's important proposals. First, we believe a well-functioning Postal Service positioned over the long haul to meet the changing customer demand is more important than maintaining the current delivery frequency. The Postal Service has proposed eliminating Saturday operations. While this change would affect our subscribers, we believe the overall impact would be fairly small. We support the proposal, but to be clear, Netflix does not favor ending Saturday delivery in a vacuum. Rather, it is a reasonable part of a comprehensive reform package that in totality will address the very difficult challenges facing the Postal Service in the future.

Second, with respect to the Postal Service's obligation to fund retiree health benefits, we are all concerned that additional rate increases might be used to cover this obligation and will unnecessarily impact businesses and consumers that use the Postal Service. Companies like Netflix would either have to bear the impact of these increases or pass that cost along to its customers. In either case, we believe that these additional costs will only further worsen the challenges faced by the Postal Service, making the products more expensive and further negatively impacting mail volumes.

Third, the Postal Service has announced its intention to seek a rate increase due to exceptional and extraordinary circumstances. Netflix believes the economic turmoil of the past few years, coupled with rapidly changing technology issues, constitute exceptional or extraordinary circumstances. Nonetheless, we hope that Congress will provide relief to the Postal Service on many of the issues it is facing, thereby minimizing any necessity to raise rates.

Finally, as noted in my written testimony, we also support the Postal Service's other proposals as a comprehensive approach to deal with the challenges that they face.

I would like to thank the Subcommittees for their time and the opportunity to be here today.

Senator CARPER. Mr. Rendich, thanks very much.

I am going to go ahead and start off with 5 minutes of questions and we will turn to Chairman Lynch and then to Congressman Chaffetz.

The first question I would ask is for Mr. Abbott. You tell a distressing story in your testimony about how the value of the mail has eroded in recent years for you, for your firm, and for at least



some of your colleagues in the catalog industry. It sounds, though, like you would like to remain in the mail, working with the Postal Service, and maybe even expand your use of it. What are some of the things that the folks at the Postal Service can do in order to make that happen?

Mr. ABBOTT. Certainly. I want to make clear that we are a big fan of the U.S. Postal Service for many reasons. I appreciate their cooperation over the last several years in my capacity with the American Catalog Mailers Association. And at the same time, a catalog customer acquired through a catalog mailing is our best customer downstream. We get a lot more value out of that customer than we do out of a customer acquired either online or through magazine advertising.

But it comes down to a simple question of economics. There is a value of a catalog-acquired customer, which is higher than any other customer, but the investment to acquire that customer has just gotten higher and higher as the cost of postage has outraced inflation, certainly. And what I ask is that the Postal Service look at us as a customer and speak with us and sit down and ask the question, OK, is there a price at which we will mail so much more mail than we are currently mailing that you will get more marketing contribution from us as a customer? That is what we do when we are talking strategy within our company. So we want to have that dialog.

Obviously, we are not asking for a reduction in rates just so that we can pocket the money. We are asking for a rate to be considered that would allow us to dramatically increase the amount of mail we send, which should be a win for everybody.

Senator CARPER. Thank you.

A question for the whole panel, if I could, and Mr. Rendich, if you will just start us off, please. One thing that hasn't received a whole lot of attention since the Postal Service issued its plan is the need for the Postal management to seek out new sources of revenue. Let me just ask, what has been your assessment of the Postal Service's recent efforts in this area and what else can they do?

Mr. RENDICH. Well, I think in the Post Office's case, seeking out new sources of revenue is obviously one of the key things that is going to help provide us with a stable, reliable Post Office. I know that many of the automated kiosks have been well received. They have been put in areas where consumers typically are, not unlike DVD kiosks, for example. They are out there and they are convenient and they get a lot of us.

So I think the efforts that the Post Office have made so far are great. I think they need to continue to invest in this, and invest diligently. It shouldn't just be a part-time thing.

I wish I had the solution for, where do we find the next Netflix? Where is there another big revenue stream that is coming? Unfortunately, I don't have that answer.

Senator CARPER. All right, thanks. Mr. Misener.

Mr. MISENER. Mr. Chairman, we have long advocated Postal Service flexibility to enter negotiated service agreements, and these would be one-off deals that they could do like any other business is able to do, and we would like to see expanded use of that. It seems to make a lot of sense for them to operate more like a busi-

ness and have that additional flexibility, which, for example, led to our cooperation to use a mail consolidator to move traffic further downstream. We have the volume to do that. Perhaps other mailers do, as well.

Senator CARPER. OK, thanks. Mr. McFalls.

Mr. MCFALLS. I am in agreement with my colleague here in that we are a new revenue source. We are a growing business that is starting to use the Postal Service more and more frequently. Ninety percent of everything we ship today goes through the Post Office. And our industry is continuing to grow at 4 to 5 percent every year as an industry. That is going to be new revenue for the Postal Service, and by impacting the number of days' delivery, we can potentially impact the patients' care. We need that additional service to be able to drive and grow this industry faster.

Senator CARPER. Thanks very much. I guess by virtue of the baby boomers coming online for retirement and Medicare Part D.

Mr. MCFALLS. It is a very big part of our growing business.

Senator CARPER. It has got to be. OK, thanks. Mr. Abbott.

Mr. ABBOTT. It was mentioned earlier that the Postal Service has more retail outlets than McDonald's, Wal-Mart, a couple others combined. I would love to see them use some of that space to introduce consumers to some of their mail customers like Paul Fredrick. We are not a household name like some of the bigger catalogers, but we could work with them to generate some introductory offers or just get acquainted with Paul Fredrick and others like us. I think it would be a terrific partnership opportunity.

Senator CARPER. OK. Thanks. Mr. Hall.

Mr. HALL. I think that innovation is terribly critical for every business today and I think there are some things the Postal Service is doing that can be amplified. For instance, one of the things we are taking advantage of is the intelligent bar code, which is making it more convenient for consumers to send mail. We are putting our advertising behind it so that we can promote it with the consumer. And I think those kinds of things, enjoin business to help promote the use of the mail is very important right now.

The summer sale that they had last year was very helpful in promoting the usage of mail and bringing people back into the mail stream. I think those kinds of efforts need to be sustained, and I think there was an opportunity this year to have gone further with that kind of promotional approach to get people back into the mail stream.

I think, apart from price, which we have all talked about, I think one of the things that will limit creativity will be adding slowness to the mail stream.

Senator CARPER. Say that again. Adding what?

Mr. HALL. Adding greater delay to the mail stream. Consumers today are looking for more and more immediacy in their lives, and I think immediacy has to be part of the total product bundle. I think the more time we add to the mail stream, the more of a perception we create around "snail mail" and the less likely we will be able to find carrying on opportunities that actually increase the relevancy and usage of the mail. So I think speed and price are very critical to help drive innovation.

Senator CARPER. All right. Thanks. Mr. Gooden.

Mr. GOODEN. Yes. The American Lung Association and all other nonprofit organizations are very heavily dependent upon a very fiscally sound U.S. Postal Service, and this is an ideal opportunity for the U.S. Postal Service to be more innovative, as Mr. Hall has said, in order to find better ways to reach the American people that we serve through the American Lung Association.

Senator CARPER. OK. Thanks. I am going to stop right there. I have gone about 6 minutes and 45 seconds, and we will just ask our other Members to keep their comments or questions within 7 minutes. I may slip out of the room for a moment, Mr. Chairman. If I do, you are in charge. Take it away.

Mr. LYNCH. Thank you, sir.

I was sort of keeping score here on the 5-day delivery question and I noticed that Mr. Gooden and Mr. Abbott, you came down in favor of the elimination of 6-day delivery, and Mr. Hall and Mr. Misener—and all of the testimony is good. I am not critical of your approach to this, but I thought it did come out in a counterintuitive way. Mr. Misener, I thought your remarks were very thoughtful on that, and I tend to agree with you. Mr. Rendich, you sort of hedged, reluctantly conceding that if something has to happen, you wouldn't want to just see Saturday go away, but some type of management of that transition.

But I was surprised that, Mr. Gooden, a nonprofit mailer that gets a discount from the U.S. Postal Service, and Mr. Abbott, the catalogs are probably one of the more costly items actually to mail and they get a substantial discount, you two folks are getting a discount from the Post Office and you want to see Saturday go away. And I am just curious, are UPS and FedEx giving you a discount for nonprofit?

Mr. GOODEN. To my knowledge, the other services do not provide discounts to nonprofit organizations. If there is a discount, it may be based on bulk volume, which goes to all consumers, not necessarily nonprofits only.

Mr. LYNCH. Mr. Abbott, are you getting a better rate from FedEx and UPS on catalogs?

Mr. ABBOTT. We don't distribute catalogs through FedEx and UPS.

Mr. LYNCH. Why is that? Too expensive?

Mr. ABBOTT. They don't offer that service. I mean, you could use their services. It would cost a lot more than it costs in the Postal Service.

Mr. LYNCH. Yes.

Mr. ABBOTT. But specifically to Saturday delivery, it is not optimal in my mind that it be eliminated. I think I am in agreement with Mr. Rendich that as part of a comprehensive cost reduction program that Postmaster General Potter has put forward, we can live with it.

Mr. LYNCH. Yes.

Mr. ABBOTT. Again, it is not optimal, but we are willing to make that concession for the overall good of the Postal Service's health.

Mr. LYNCH. I am glad you qualified and refined your statement.

Mr. Misener, I thought you were spot on in terms of, look, if we stop Saturday delivery, and if I am a customer and I know the Post Office is going to be closed on Saturday and Sunday and maybe it

is a holiday on Monday, I don't go to the Post Office. Just to make sure my stuff gets delivered, I pull my business over to FedEx or UPS just to be sure that it gets delivered within the next 3 days. And I think that is what Mr. McFalls was raising in his concern with folks' prescription drugs.

Mr. Misener said if you close on Saturday, one-sixth of my business goes from the Post Office to FedEx, UPS, or to somebody else. And if that happens across all industries and across all customers, and then on top of that, the halo effect of the Post Office being closed for Saturday and Sunday, I think you lose even more business. And so it is sort of like—there is water in the boat and it is sinking, so let us drill holes in the bottom of the boat, and then you just sink even faster. So I don't buy into the analysis.

I had a chance at a previous hearing to talk to Mr. Potter, who is a good man and I think he is really trying to find some ways to find some solutions and we are lucky to have him. But he did say that if we went to 5-day delivery now, he said he wouldn't lay off any career employees. He would have to cut all part-timers, but that he wouldn't have to lay off right now. I am just very concerned about the downward spiral that this—we have a lot of part-time workers, so unemployment is going to go up if we go to 5-day delivery because we will lose all those part-time employees that we have out there. I understand the need for efficiency, but I am very concerned about the long-term viability.

And also, think about this. If you stop Saturday delivery, FedEx and UPS will do the most profitable routes. They will pick that up. That is how capitalism is. But they will not adopt the standard of universal service. So if we go to 5-day delivery, that is the end of universal service because these locations that we are adding every year, and I think about my rural colleagues, how they are served, they will suffer the greatest, I think, those folks that are out in the boonies and don't have immediate access. So I worry about that aspect of it, as well.

Mr. Abbott, could you talk about those concerns?

Mr. GOODEN. With the American Lung Association, we would have to make some modifications in our delivery. We would have to change our drop dates to ensure that we would fall within that window of opportunity for mail delivery so that it would not fall on a traditional Saturday or a holiday. We take those things into consideration now, and it would require some more work on our end, but we would do that if it were necessary to save the Postal Service.

Mr. LYNCH. OK. Mr. Abbott, anything to add?

Mr. ABBOTT. I think we are in a similar situation. We would have to adjust delivery schedules of catalogs, but again, it is just something we are willing to do if it helps the overall situation.

Mr. LYNCH. OK. I have a minute left, so does anybody else have anything they would like to add? All right. Yes, Mr. Hall?

Mr. HALL. I would be willing to offer a contrary opinion from my colleagues on either side of me.

Mr. LYNCH. God bless you. [Laughter.]

Mr. HALL. I think, although we view it very differently, I think everybody who voiced support for the idea of 5-day have couched that very carefully around a commensurate reduction in cost. The

concern I have with that approach is I think it is a slippery slope. We would be giving up 16 percent of our total service commitment for what is purported to be a 4 percent decrease in cost. I think that when we really tie into those numbers, we will find that the cost is probably not that large, and I would suggest that what we will see in terms of trade-off in volume, people leaving the mail stream or people moving their choices to alternatives would very quickly start to erode whatever savings we were able to garner from a 5-day schedule.

Mr. LYNCH. Thank you. Any closing comments? My time has expired, but I am just looking at technology down the road. I know that in a couple of Scandinavian countries, they have this on the Internet now so that you can see your mail on the Internet and you can click whether you want that mail delivered or not, and I just think that technology is coming down the road and that technology will even further reduce the volume of mail that is out there. It will make us more efficient, no question about it, but it will reduce the volume, too, so I am fearful of that.

But I really appreciate all your testimony, regardless of whether necessarily I agreed with it all, but I think it is very thoughtful and it certainly helps us in making our decision. I yield back.

Senator CARPER. Mr. Chaffetz, before you start, we have a group of exemplary educators who are here today from my State and they are waiting to meet with me at 4 p.m. in the Visitors Center. I am going to slip out for a little bit to go spend some time with them and then come back and forth. It sounds like the House might reconvene and may start voting around 4:15 p.m.

Maybe we can get some extra time for our House colleagues so that they can get their questions in, and the Senate goes into session, I think, maybe a little bit later than that.

Mr. Chaffetz, you are on, and then after that, I think according to our list here, Ms. Norton and Senator Coburn, Representative Connolly, Senator McCaskill, Senator Burris, and we have maybe one more down there. I don't know. OK. Thank you.

Mr. CHAFFETZ. Thank you. I appreciate it. The time is short, so I want to just try to touch on a few things if I could.

I want to talk about price elasticity, because one of the things that you hear is we should have this postal rate increase in order to drive revenue. But when you raise prices, I have a hard time believing that the volume is going to start going in the right direction. Can you tell me what kind of effect that is going to have on something like Hallmark, and then perhaps if we could also talk about Netflix and what a rate increase does to your business and what you anticipate would happen in volume?

Mr. HALL. Yes, I would be happy to address that, and I think that the comments would be not only in terms of greeting card volume, but I think would affect all classes of mail.

I think there was a time when the Postal System enjoyed a monopoly, where there were price increases, they were readily accepted by the consumer and volumes were increasing. And I think we lived in that world for many years, until very recently. But I think that whole world has dramatically changed and why I think this is a tipping point.

The consumer today has many alternatives. They can move their mail many different directions, whether it is greeting cards or whether it is magazines or whether it is any of the types of mail that we are talking about. People can use different points of the mail stream.

The economy, I think, has changed that pricing elasticity dramatically, and I think we can look at it in terms of greeting card price elasticities, but I think we see it in virtually every consumer good today. There is the consumer speaking to that with their actions and choices, and we see it reflected in the CPI. We see it reflected by wholesalers and retailers having to constantly reduce their prices to engage the consumer again and——

Mr. CHAFFETZ. Thank you. The time is so short. Mr. Rendich.

Mr. RENDICH. In general, obviously, increasing postal rates is not going to be good for our business. Netflix does understand that periodically the Post Office does need to make a slight adjustment to the postal rates to cover its cost, and that is understandable. But if we are talking about big postal rates, in other words, trying to deal with the retiree issue or some of the other major issues that are going on with the Post Office, that would be prohibitive.

Netflix is growing its DVD shipment by 18 percent year over year. You hear a lot about streaming in the press about Netflix, but let me tell you, DVD is a big growth business for us. We are going to be shipping DVDs for 20 more years. DVDs has a whole new life in terms of BlueRay and HD-DVD. Anyone that has seen that knows that is a wonderful experience and it is going to give DVD a lot of legs. We have not yet peaked on our DVD shipments.

So what I am getting to is, as I said before, we need a reliable, trustworthy, affordable U.S. Postal Service. We all benefit from it, whether it is the folks at this table here or the American consumer in general. And I think slight price increments in terms of having to deal with what it actually costs to get mail delivered can be appropriate. But big rate increases will absolutely squash business. It will absolutely slow growth for a company like Netflix.

Mr. CHAFFETZ. Thank you. And for those of you that didn't have a chance to answer some of these questions, if you care to comment after the fact, to insert something in the record, we would certainly appreciate it. I know we are kind of hand picking and we have to go very briefly. If you want to expand on these, I would invite you to please do so.

Maybe, Mr. Abbott and Mr. McFalls and Mr. Misener, if you could very quickly, it was brought up earlier, under the model of a FedEx or one of the other models out there, there is a surcharge for Saturday delivery. Is that something you are open to? Would you be open to paying a premium for a Saturday type of delivery? Mr. Abbott.

Mr. ABBOTT. I would offer that option to our customers, if they are willing to pay for that delivery, which is the way we work it now with UPS and FedEx on our parcels. You know, we do have an option for Saturday delivery. It is an up-charge on the shipping charge to the customer. It is not something that we would want to absorb as part of our operating expenses.

Mr. CHAFFETZ. Mr. McFalls.

Mr. MCFALLS. We absolutely would pay that surcharge to ensure that the patient got their medications in a timely manner and that we didn't impact any patient care. It is just a very prudent approach within our industry to ensure that. We currently pay those surcharges now for all those expedited packages that we need to get there on a Saturday or at a member's request or because of the medication type that we have.

Mr. MISENER. Mr. Chaffetz, I think we would have to recognize, dependent on how much the surcharge would be, whether we would stay with the Postal Service or go elsewhere. But certainly maintaining Saturday delivery is so critical, especially, as I say, in rural areas of the country where there aren't those competitive alternatives. So perhaps in those areas, it makes sense to have a surcharge for the Postal Service, where you don't have the opportunity to go to another carrier.

Mr. CHAFFETZ. OK. Mr. Gooden, you mentioned the need and concern for a viable Postal Service. The one area in which the American taxpayers have a supplemental appropriation is with the nonprofit mailers. Certainly, the American Lung Association is the most worthy of causes that we could probably come up with as an example of nonprofit mailers. There are some others that, well, may be pushing the limits a little bit. How would you react—how do you think the industry, the nonprofit mailers would react to a rate increase to cover the very basic costs, because right now, it looks like, financially, they are upside down and the American people are supplementing the expenses of nonprofit mailers. How does that strike you?

Mr. GOODEN. I wouldn't be able to speak for all nonprofits—

Mr. CHAFFETZ. Sure. I understand.

Mr. GOODEN [continuing]. Especially those that fall into that dubious category that you mentioned, but for the American Lung Association, we depend on the preferred rates that Congress established for us 50 years ago, and has reaffirmed over those past 50 years, that nonprofits such as the American Lung Association serve a critical role in American society. We provide education, health care, information, and research, and we do this in part through our mailings. So it would directly impact our ability to serve those people in the United States who suffer from asthma and other lung diseases. So it is very critical for us to be able to maintain this preferred status.

Mr. CHAFFETZ. Thank you. And Mr. Rendich, I have just 30 seconds here. I have a hard time understanding or believing that somebody who goes online on a Thursday night and places an order and wants to get their DVDs, or pops it back in the mail so it starts to go back through the process, if that process starts on a Thursday and gets back on a Friday, that the next delivery possibility is on a Tuesday.

If you look at, for instance, a 5-day delivery, where we are eliminating a Saturday delivery, and Monday is a holiday, you have quite a gap here between that Friday and the Tuesday. I still am a little mystified, a little surprised in your testimony that, oh, yes, we will be OK with that.

Mr. RENDICH. OK. Well, to clear up the misunderstanding, not all days are actually consistent at Netflix. In fact, Tuesday happens

to be twice as many shipments and deliveries as any other day of the week. As it turns out, you go further in the week, a smaller number of DVDs come in.

And what ends up happening is most of our customers watch their DVDs over the weekend. They put them in the mail on Monday. We receive them on Tuesday, send them another shipment. They get it on Wednesday and they are set for the weekend.

I am sure there are some customers that might fall into your Tuesday example, but the fact of the matter is, it is actually a small number of customers in our customer base.

Mr. CHAFFETZ. Thank you, Mr. Chairman. I yield back.

Mr. LYNCH [presiding]. I thank the gentleman.

The Chairman recognizes the gentleman from Virginia, Mr. Connolly, for 5 minutes.

Mr. CONNOLLY. I thank the Chairman and thank the panel for being here.

Let me first begin, Mr. Chairman—I am sorry Senator Carper just left the room, but we have heard this figure of \$238 billion over 10 years bandied about. I will recall for my colleagues on the House side that at our Subcommittee hearing which you chaired, Mr. Chairman, in direct questioning—and I am passing this out now so all of my colleagues on the Senate and House side have a copy—in direct questioning to the Postmaster General about the validity of this \$238 billion figure, he admitted, “it was a theoretical number.” And when pressed, he admitted that he already has the authority and the plans to cut half of that number right now.

So we are not talking about \$238 billion over 10 years. We are talking about something quite less, and that assumed that the Congress would do absolutely nothing for the next 10 years. It assumed that economic performance would have no appreciable effect on performance, even though history tells us otherwise. We have actually had the debate about going from 6 to 5 days many times in the history of the Postal Service, always to be proved to be premature. Cassandra-like statements are followed by record profits. So a little word of caution.

But I just want my colleagues to have a copy of this exchange. It is a matter of public record that the \$238 billion number is a scare tactic to get us to make some decisions and maybe in some ways to substitute for a viable business model, which is really what we need to be talking about. What is the business model of the future for the Postal Service? And simply coming up with a list of cuts that may very well, as Mr. Hall was indicating, put us in a death spiral with the best of intentions.

But at some point, it is self-defeating for a business to cut core services in that business and then to expect to actually stay viable and make a profit. That is an odd way to run a business, and if we want to actually look at the model for how that is working, the newspaper business is a great example. That is exactly what they have done, and what has happened is they have fewer and fewer readers, fewer and fewer subscribers, and fewer and fewer advertisers because the product is no longer viable, and we have to be very careful about that with the Postal Service.



Mr. Gooden and Mr. Abbott, in response to the questioning of Chairman Lynch, you said that, well, if it was required to save the Postal Service or to make sure it was viable, you could live with going from 6 to 5 days a week. But if I understood your earlier testimony, what you also said was we are willing to sacrifice that for the public so long as our discounts aren't touched. Isn't that really true?

Mr. GOODEN. I don't know if it is an either/or.

Mr. CONNOLLY. So you would be willing to sacrifice your current discount rate if that is what it took to save the Postal Service?

Mr. GOODEN. I would not be able to speak on that right now.

Mr. CONNOLLY. No, I didn't think so. But you are able to speak about going from 6 to 5 days?

Mr. GOODEN. That, I am.

Mr. CONNOLLY. Yes. Well, that affects the whole public, not just you, and they might have something to say about that.

Mr. McFalls, I am a little concerned about the issue of prescriptions. There are prescriptions and there are prescriptions. There are some pills that maybe it wouldn't matter whether there was a 2- or 3-day hiatus, as Mr. Chaffetz suggested, depending on the weekend. But there are other drugs that need to be delivered fairly fresh. What are some of the consequences, potentially, in terms of medication on patients if we go to 5-day delivery?

Mr. MCFALLS. I think you will impact patient therapy, and there are some critical diseases that are affected. Diabetes is the first one that comes to mind. You can't go for a very long period of time without your diabetic medication, whether that be insulin or an oral medication. It is going to put you into some type of a medical crisis which could then end up in the emergency room or physicians or hospitalizations. So it is actually going to drive up health care costs.

That is one of the ways that we see this particular problem, is it is not really a budgetary issue, it is a health care issue from our side. Hypertension is the same way. I take high blood pressure medicine, as many Americans do, one day here or there, I don't worry about it too much. But if I know I am going to have to go 3 or 4 days without medication, that starts to concern me. Is it going to throw me into a crisis that ends up into the emergency room? Probably not, but is it going to create anxiety and change me a little bit? Absolutely, and I am going to make sure that I don't run out of that and have to figure out how to hoard, which then creates a whole other issue of medication use and waste.

Mr. CONNOLLY. And, Mr. McFalls, if I start to get worried about the reliability of the mail service for my medication, are there other alternatives available to me in terms of getting my medication?

Mr. MCFALLS. There absolutely are. We are going to go to other alternative delivery systems, whether that be a FedEx, a UPS, or some other business that is going to fill into that niche, whether it be a consolidator, and injecting further down into the Post Office, but being able to expedite through.

We also are going to come back and look at what it takes us within our own operations to improve or to shorten that length of time. Right now, we talk about that it takes 3 to 5 days to deliver a prescription. Well, out of that 3 to 5 days, typically 1, 1½ days

of it is only spent in our facility. The rest of it is delivery time, incoming and outgoing through the Post Office. So we would increase our operating capabilities, even shorten that more, which then again is going to drive different economic impacts.

Mr. CONNOLLY. Mr. Misener has pointed out that in his business, in his line of business, it could affect maybe more rural areas especially in terms of delivery of goods. Mr. Hall, you were in sort of the midst of a pretty thoughtful statement when your time ran out, but I wonder if you want to continue that statement.

But, obviously, greeting cards, if we go, as Mr. Chaffetz suggested, with a whole 3-day period of no mail delivery because Monday is a holiday, and that holiday is a greeting card holiday, you are going to have to look at some alternatives to the Postal Service.

Mr. HALL. There is no question that the consumer is looking for more and more immediacy. We see it with every one of our seasons, that the purchase of greeting cards gets later and later in the season. That happened for Father's Day. It happened for Mother's Day. It happened last Mother's Day, last Father's Day, last holiday. People are waiting longer because they are used to greater immediacy.

The more we add to the time dimension, the less the Postal Service will be a viable opportunity for people to connect with others, and I think that will be true in many other industries beyond greeting cards.

Mr. CONNOLLY. And again, I have alternatives.

Mr. HALL. Yes.

Mr. CONNOLLY. In the old days, I didn't have alternatives. Now, I have alternatives.

Mr. HALL. Yes.

Mr. CONNOLLY. Mr. Chairman, my time is running out. I just want to quote H.L. Mencken, who once said that "for every human problem, there is a solution that is simple, neat, and wrong." Going from 6 to 5 days is one of those solutions. I yield back.

Mr. LYNCH. Thank you, Mr. Mencken.

The Chairman recognizes the distinguished gentleman from Oklahoma, Senator Coburn, for 7 minutes.

#### OPENING STATEMENT OF SENATOR COBURN

Senator COBURN. Thank you, Mr. Chairman.

All of you, with the exception of Mr. Gooden, run businesses or are involved with businesses. How many of you all would negotiate a labor contract not considering the financial state of your business? Anybody? And yet we do that every year with the Postal Service when we negotiate contracts, that we are forbidden to consider the financial condition of the Postal Service. How many of you all think it is a wise idea? How many of you think it is unwise?

[Show of hands.]

Senator COBURN. Yes. Nobody would do that. In the Postal Reform bill that mandate was removed, that we would start considering the financial condition of the Post Office in negotiating labor contracts. That is idiocy at its best.

Mr. McFalls, do you have data that shows the length of overlap on prescriptions that you repeatedly send to your customers? In

other words, how many of them are out of medicine at the time the medicine arrives?

Mr. MCFALLS. We can provide that data. I do not have it with me. One of the things that we have built into place, though, is that there is a window of opportunity that we allow a refill to occur so that we have adequate time to get that prescription to a person before they run out.

Senator COBURN. Right. So Saturday delivery really wouldn't make any difference on that unless it is insulin or some other medicine that is an injectable, right?

Mr. MCFALLS. I disagree with that, because I do think it would, because it comes back to human behavior, and right now, we have challenges. People don't use that window to its full effect.

Senator COBURN. Well, they are not using it now. Why would it be any different if we had 5- or 6-day delivery. I am not advocating either way but you all have to have data that shows that.

Mr. MCFALLS. We do have the data and we can provide that.

Senator COBURN. You are doing these critical medicines not through the Postal Service anyway. You are doing a lot of the Saturday stuff through other shipping mechanisms, as well, are you not?

Mr. MCFALLS. No, sir. Ninety percent of everything we ship right now goes through USPS.

Senator COBURN. OK. What is the other 10 percent?

Mr. MCFALLS. The other 10 percent is products that are typically temperature sensitive and need to have some high handling.

Senator COBURN. Right.

Mr. MCFALLS. Those are going overnight, next day. It may be Saturday—

Senator COBURN. So you are not shipping insulin through the mail. You are doing overnight—

Mr. MCFALLS. We are doing that under an overnight—

Senator COBURN. That is right, and so critical drugs like insulin, which is one of the most critical, you are already handling a different way.

Mr. MCFALLS. We are.

Senator COBURN. As a physician, there aren't many other drugs other than injectables that have to maintain a temperature range that fall into that category.

Mr. MCFALLS. That is correct.

Senator COBURN. That is correct.

You have all premised an opinion. I would like for you to restate your opinions, if you would, on what you think the Postal Service should do in terms of maintaining, or eliminating some of the cost factors that you know are there that could be changed. Do you have any ideas to offer this bicameral panel that we could give the Postal Service? We have heard several of you mention the fact that closing things that are not efficient, yet we can't close them because a politician gets in front of that. Any suggestions? Mr. Hall.

Mr. HALL. The GAO has estimated that we are 50 percent over capacity in the system. The Inspector General has noted in a recent report that since 2005, we have only reduced the costs in our bulk mailing centers by 2 percent and our processing and distribution centers by 1 percent. I think bringing capacities in line is some-

thing that any business has to do to be able to be vital, and as Mr. Abbott mentioned, a lot of costs are fixed.

Senator COBURN. Yes. You would agree that you have probably had more productivity increase in your organization during that period of time than what the Postal Service has had?

Mr. HALL. Well, I think every business has to drive more, and to be viable, you have to drive at higher rates than this.

Senator COBURN. Would anybody disagree with the fact that they ought to fix those things before they ever consider a rate increase? Does anybody disagree with that? So that is true.

Mr. Rendich, I seem to recall a statement by your company talking about this fast conversion from mailing to digital. Am I in error on that, or did I hear that in the last month as a press release from your company, that the expected growth on digital transmission of your service was going phenomenally, and they made some comment about how the postal side of that would be declining?

Mr. RENDICH. I believe—

Senator COBURN. Did I make that up? Did I dream that, or is that—

Mr. RENDICH. It is true that our digital delivery is growing quite nicely. However, as I stated here and we have stated publicly other times, our DVD business—in other words, the number of shipments, the number of times we are making First Class mailings each and every day—is growing by 18 percent year over year. Most businesses would love to have that type of growth. And so for us, the U.S. Post Office is a long-term partner.

We have been on the record of saying we will be shipping DVDs for the next 20 years. We have not yet hit the peak for DVD's. With a business that is growing like that and has such other alternatives, like the high-definition BlueRay, we believe DVD has a lot of legs to it.

The reason that I am here is because the Post Office is a long-term partner for us. It is very serious, and we want to make sure that we have a sound, resilient, affordable U.S. Postal Service to best serve our business as well as the American consumer.

Senator COBURN. I don't think I have any further questions, Mr. Chairman. Thank you.

Mr. LYNCH. I thank the gentleman.

The Chairman recognizes the gentleman from Missouri, Mr. Clay, for 7 minutes.

Mr. CLAY. Thank you, Mr. Chairman.

Let me start with Mr. Hall. Mr. Hall, what motivated Hallmark to start a product initiative utilizing the Postal Service's intelligent mail bar code technology?

Mr. HALL. I thank you. The technology was being developed by the USPS and we were very interested in it. We partnered with them. They developed this new technology and we saw that it could be applied and would address the convenience that is important to consumers, and we thought that by helping to market it and bring it to life in a product, it would utilize the technology and help introduce it to people.

Mr. CLAY. And how successful has this initiative been?

Mr. HALL. The working relationship with the USPS has been very good on this, and we have been very appreciative of the focus

and attention they put around innovation. We will be launching it the first of next year.

Mr. CLAY. And was it difficult to undertake? Did you have to change out personnel or hire new personnel or make technological changes?

Mr. HALL. I don't know how much technological change was needed within the Postal System, but I think from the other standpoint, it is purely about product and innovation and promotion. So it has been all additive and good for everybody.

Mr. CLAY. And do you think other mailers can work with the Postal Service to create innovative solutions to help alleviate future postal issues?

Mr. HALL. I think that is a really good point, because I think we all have to look for innovative ways to get people to use the mail more, and we all have a vested interest in helping to drive more to the mail stream.

Mr. CLAY. Thank you for your response.

Mr. Gooden, in your role as a member of the Alliance of Non-profit Mailers, do you believe that a rise in postal costs will disproportionately affect nonprofits?

Mr. GOODEN. Yes, I do. We depend greatly upon return mail to be sent to the national office and to other offices around the country, and an increase in postage would also take away the money that they would be donating to the American Lung Association and other nonprofits for us to do our important work.

Mr. CLAY. Are there any other proposed changes that, in your opinion, would disproportionately affect nonprofit mailers?

Mr. GOODEN. I wouldn't be able to answer that off the top of my head, no.

Mr. CLAY. Can you explain how the Alliance of Nonprofit Mailers came to support the elimination of 6-day service?

Mr. GOODEN. Those details, I would be glad to submit for the record, to be put into the record.

Mr. CLAY. To be put—

Mr. GOODEN. Put into the record, yes. I don't have that information on hand.

Mr. CLAY. So you took a vote, or did your Association take a vote on it, discuss it?

Mr. GOODEN. The details on how we came to this conclusion?

Mr. CLAY. Yes.

Mr. GOODEN. That, I am not sure of.

Mr. CLAY. You don't want to discuss it in open hearing?

Mr. GOODEN. I will be glad to get you the information.

Mr. CLAY. What does that mean?

Mr. GOODEN. I don't have the information with me.

Mr. CLAY. OK. So you were—

Mr. GOODEN. I would have to confer with those others who put together this package and be able to give the information necessary.

Mr. CLAY. I see.

And Mr. Misener, do you have any suggestion of how your Association could work with the Postal Service to come up with strategies and utilize the Service?

Mr. MISENER. Thank you, Mr. Clay. As I mentioned before, the delivery of parcels sent by companies like Amazon.com to our customers is growing at a terrific rate and USPS is benefiting from this. Our global shipping expenditures are growing at the pace of about 20 percent a year. And so this is a bright spot for the Service.

My points simply were that if the Postal Service were to drop Saturday delivery, there would be a disproportionate impact on rural communities for which there is no competitive alternative, and in the places like urban/suburban areas where there is a competitive alternative, we would simply shift carriers, taking business away from the USPS and giving it to the alternative carriers.

Mr. CLAY. Yes, but also, I have witnessed that on Sundays and some holidays, the Postal Service making deliveries. I mean, could you still utilize those services with the USPS?

Mr. MISENER. Yes, sir. In fact, we do use Express Mail in some limited markets for delivery on Sunday, and that certainly is an alternative on Saturday, except that the geographic coverage of Express Mail is even smaller than that of other carriers. And so rural areas still would have no alternative on Saturday.

Mr. CLAY. I see. OK. So it is about populations and sparsity.

Mr. Chairman, those are the questions I have and I yield back.

Mr. LYNCH. I thank the gentleman.

The Chairman recognizes the gentlelady from Missouri, Senator McCaskill, for 7 minutes.

Senator MCCASKILL. Thank you. Let me start, Mr. Hall, I assume that you have had an opportunity to look at the recent GAO report about the efforts on excess capacity, and I know that the previous report that you referenced in your testimony was that the capacity was at 50 percent. That certainly catches my eye as an auditor. It certainly catches my eye as someone who realizes that we have the U.S. Postal Service in direct head-to-head competition with businesses that have much more flexibility and many times much more nimble about their ability to adapt to the marketplace. What is your reaction to what was deemed satisfactory progress by the GAO in terms of the excess capacity issue?

Mr. HALL. Yes. I think you are referring to the June 16 report, which indicated that—and acknowledged the fact that the USPS has made progress and reduced costs by about \$140 million. And while that is progress and a step in the right direction, it is not a big enough step to have a meaningful difference. And I think to look over the timeframe and to see that we have had such little impact at reducing those capacities and introducing flexibility, that the mountain has only gotten bigger. And I think as Representative Chaffetz said in his opening remarks, the mail volume isn't expected to come bounding back, and I think some decline is something that we have to continue to envision. So those capacities, if not addressed, will only become more burdensome.

Senator MCCASKILL. Now, it seems to me that as we look at the labor issues and if we look at the 6-day delivery issues and we look at the cost of mailing things issue and then we look at the excess capacity, it seems to me the excess capacity is the least painful. I certainly agree with the points you made in your testimony.

To what extent have Hallmark's customers, and to what extent have Americans gravitated toward the Internet when it comes to personal greetings? I hate to say this to my friends who have sent them to me—I get emailed Christmas cards, and my emailed birthday wishes, and emailed “hope you are having a nice day,” and, I don't know, they feel spammy to me compared to opening an envelope, seeing the signature or reading the personal note. Now, I know it sounds like I am making a commercial for you, but I am curious. Am I the only one? I mean, is this happening? Are Americans gravitating towards the Internet for personal greetings?

Mr. HALL. Well, I am really glad to hear you feel that way. A lot of people feel that way. The e-cards have been around almost 15 years. We do offer e-cards. But they have been incremental. They have not been substitutes. And we have seen that greeting card volumes have not varied greatly over that period of time. So they have not had an impact on the usage of this part of the mail stream. In fact, it has been one of the more stable parts of the mail stream.

The thing that will make it unstable, and I think the reason why I feel such a great sense of urgency about this moment in time, is that people are making important economic choices, and while they would prefer to send a greeting card, postage will become a factor, and we are seeing that dramatically in box Christmas cards, where postage is actually now more expensive than the greeting card. I have heard members of the magazine industry indicate similar kinds of experiences.

I think at this point in time, consumers have an elasticity that is very different, and I think that if they make those choices to stop because of price, we will see the volume declines accelerate dramatically.

Senator MCCASKILL. Mr. Abbott, I get lots of catalogs and they are my reading of choice in that period of time before I can turn on my electronic device while I am sitting on the runway and they won't let me do anything electronic, but you need to let some of your fellow members know that I don't need four Pottery Barn catalogs. Maybe this is a signal of how much I shop over the Internet, but there is an awful lot of duplication that is going on that I think could help with the cost structure.

Let me get to Mr. Misener. I am a huge customer of yours. I am Prime. I can't figure out how you make that work. I pay very little and get free shipping all year long. I am curious why you ever use anyone other than USPS. Why are the competitors, other than the rural component, why is it that—because I kind of watch to see if it is a brown truck or a white truck or a red, white, and blue truck that pulls up my driveway, and I am curious who makes that decision and why can't we get more of your business? Why can't we get 90 percent of your business like we are getting 90 percent of Mr. McFalls' business?

Mr. MISENER. Thank you, Senator, very much. There are a variety of reasons that go into which carrier we choose. If you count all of our carriers in the United States, there are probably 15 or so that specialize in different areas. The Postal Service is obviously one of the very biggest ones. A lot of it has to do with the guarantee, how certain are we that it will land within the promise that

we make to our customers. Which day that it will land on is very important to us, and this is why I mentioned in my testimony that we would likely move a lot of our Friday delivery service from the Postal Service to competitive carriers——

Senator MCCASKILL. Right.

Mr. MISENER [continuing]. For fear of missing the Friday-Saturday window, or actually missing the Friday window when we gave them Friday-Saturday as the possibility.

So it has to do with a lot of factors. Cost is one of them, of course. We are always trying to drive down our cost for our customers. But the USPS is vital to us in rural areas. It really is, especially, for example, on Saturday deliveries, and it would just be a very unfortunate disproportionate impact on our rural customers if Saturday delivery were dropped.

Senator MCCASKILL. I am not talking about the people that sell on your side, but for Amazon, what percentage of your business is going to the U.S. Postal Service now?

Mr. MISENER. It is a very large percentage. We don't release the number, Senator——

Senator MCCASKILL. I am looking for a number.

Mr. MISENER. It is nine figures business, and——

Senator MCCASKILL. But what percentage? Like, let us assume that—is it 50 percent? Is it 70 percent? Is it 80 percent?

Mr. MISENER. It is tens of percents, Senator. I am sorry. We just don't release that number, and it changes all the time. But we do rely on the service. We have recognized that they have these unique abilities in particular in rural areas, but in other areas, particularly on Saturday, we do have alternatives and we simply will switch to those alternatives if necessary. We just can't wait to ship our products until next week. As I say, a bill, a customer, consumer can wait for. Perhaps a catalog, a couple of days, it doesn't make a difference. But a parcel that has been ordered just a few days earlier makes a huge difference——

Senator MCCASKILL. No, I know. It is free, 2-day—one click, free, 2-day. I pay extra if I want it in 1 day.

Mr. MISENER. Right.

Senator MCCASKILL. But is it a majority? If you can't give me a percentage, is it more than 50? I am a prosecutor. I won't give up. [Laughter.]

Mr. MISENER. It is a large percentage, Senator.

Senator MCCASKILL. OK. So you are not going to tell me.

Can you tell me why? Let us just say I order from Amazon and it is something relatively small. A book is probably not a good example, because I would probably order the book electronically, but let us assume I was ordering a hard-cover book I can't get on Kindle. So is that something—let us assume it is a book. Why would you choose FedEx or UPS as opposed to the Postal Service to ship a book?

Mr. MISENER. To meet our promise to our customers.

Senator MCCASKILL. OK.

Mr. MISENER. Especially a Prime customer, as yourself—we want to ensure that delivery occurs as quickly as possible, and that is often not possible or is not predictable through the Postal Service.



Senator MCCASKILL. Well, the reason I am trying to pin you down is I am trying to figure out what the competitive advantages and disadvantages are for the Postal Service. There is a reason for this line of questioning. So I am going to go to work trying to figure out a way to ask this question of all of you for the record so that I can try to figure out what are the competitive advantages for the Postal Service and what are the competitive disadvantages so we can begin in our oversight capacity to really hone in on making the Postal Service as good as they can possibly be when they have a competitive advantage, and that might very well be 6-day delivery.

Mr. MISENER. It is——

Senator MCCASKILL. Maybe we need to focus on 6-day delivery as the lead of why we can compete as opposed to abandoning it first. Since I don't think I am going to get you to answer the question the way I want you to today, I am going to work on trying to figure out a way to get you to answer it a different way in writing and maybe we can get to the nub of the matter, what is the business advantage the Postal Service has and are they exercising it to the best of their ability.

Thank you, Mr. Chairman.

Mr. LYNCH. I thank the gentlelady. And to the gentlelady's point, we are going to leave the record open. I know that a lot of other hearings are going on today, so we will leave the record open for 5 legislative days for Members who are otherwise occupied to ask you further questions which you would be required to respond to in writing.

With that, I will recognize the gentlelady from the District of Columbia, Ms. Eleanor Holmes Norton, for 7 minutes.

**OPENING STATEMENT OF HON. ELEANOR HOLMES NORTON,  
DELEGATE, DISTRICT OF COLUMBIA**

Ms. HOLMES NORTON [presiding]. Thank you very much, Mr. Chairman. I have been on this Subcommittee ever since I have been a Member of Congress and I have gotten to the point of fear and trepidation about the loss of the only agency that is in the Constitution, where the Framers intended there to be a universal Postal Service. And frankly, I have heard so much nickeling and diming of the Postal Service, including by the Postal Service, that I am rather much past that. I believe the Postal Service is in such danger that if we cannot find larger trunks, that we are just fooling ourselves. It is going to go down the drain while we find smaller and smaller trunks.

I have seen some reference, minor references, in some testimony you have offered. This whole hearing has discussed eliminating Saturday delivery as if it were the centerpiece because there is so much money there. Do you realize how much money? Have any of you any notion of how much money you would save on an annual basis? Does anyone know that figure, because——

Mr. ABBOTT. If I may, I think the Postmaster General indicated about \$3 billion——

Ms. HOLMES NORTON. That is about right.

Mr. ABBOTT. And the PRC is saying maybe \$2.3 or \$2.4 billion.

Ms. HOLMES NORTON. That is about right. And if we look at the shortfall, whether Mr. Connolly is right or not, it is plus or

minus—mostly right—and given the condition of the Postal Service, I don't want them to lowball it, frankly. So the Postal Service says, 10 years, 2010 to 2020, \$238 billion shortfall. See, I am through with Saturday service as a lead, even a lead, as my good friend from Missouri says, because you are leading with a very weak leg. And then you are going to be back here doing the same thing.

I just think we are all being very irresponsible, not you, but the Congress knows good and well that if we go after 6-day service, that Congresswoman Norton, a big city girl, won't mind much, but her good friends from smaller communities will be up in arms, and it is probably going to be impossible. So let me look at something that has been mentioned in the testimony of at least two of you, and it may have been in others, but I picked it up in two testimonies.

How many of you are required to prepay your health benefit premiums? Any of you?

[Heads shaking.]

MS. HOLMES NORTON. How many of you on an accelerated basis prepay your retirement benefits? Gentlemen, you are from the private sector. Do you realize that we are requiring the Postal Service to do something that none of you in the private sector do, and the Federal Government looks very hypocritical because it is the last entity to do that.

But this Congress hasn't moved off that and yet you want to talk about 6-day delivery knowing full well that that doesn't crack this nut. Why wouldn't the private sector, which is in the business of staying in business, look beyond the low-hanging fruit and get up in the trees where the big money is and where nobody can say that the Postal Service somehow would be reneging on something to use what we always use the private sector understands should be done?

So I want to know, and I will refer to two pieces of testimony from Mr. Hall. Mr. Hall, there was certainly some mention of what you called the need for a sustainable cost structure, and you recognize, without saying so, that \$3 billion annually is not going to get you there. I was particularly intrigued, Mr. Rendich, by what you had to say, because you not only discussed these retiree health benefits, but you indicate that at the rate that the Postal Service is required to pay them, that the Postal Service will have no alternative but to raise the costs on entities like your own.

I would just like to devote my time here to hearing your discussion of this accelerated prepayment for the retiree benefits and the prepayment for the health benefits, which no entity in the United States does, and whether you would recommend that the Congress look for some real money first, at which time I think we would all have a lot more credibility to even talk about a lousy \$3 billion.

So I want to go right across—you don't have to do it—and ask you whether you would recommend that we engage in some greater equitable policy with respect to retirement and health benefits for the Postal Service, perhaps modeling it on what others do, like the Federal Government or even the private sector, and I would like an answer from everyone here, since none of you, you tell me, has to prepay the way the Postal Service does, and yet few of you even mentioned this as a possible way to break through this and finally get at this deficit—I should say, at least two of you did. But I want

to hear from all of you and whether you would recommend that Congress, in fact, look into—consider as a priority making what the—or allowing the Post Office to do what apparently every other entity, public and private in the United States, does in some form or fashion. Mr. Gooden.

Mr. GOODEN. I would hope that the Congress would look at the higher fruit in the tree and find the greatest cost savings that could be found.

Ms. HOLMES NORTON. I am asking you about the cost savings, Mr. Gooden, that I indicated, and the reason I asked you about them is I asked what yours were first. So compare it to yourself and your entity and tell me whether you would recommend something similar for the Postal Service, which is in far greater trouble, as I understand it, than you are, sir. So please try to answer my question directly. This is a very serious situation here.

Mr. GOODEN. I agree. It is very serious. I am with the American Lung Association and I can only speak for the American Lung Association in that capacity today at this point with your question. And we do not, as far as I know, participate in the plan that you are talking about that the Postal Service does.

Ms. HOLMES NORTON. If you did, would your business be harder to conduct from a cost-benefit point of view?

Mr. GOODEN. I would imagine so, yes.

Ms. HOLMES NORTON. Thank you. Mr. Hall.

Mr. HALL. Yes, Representative Norton. I think that you are putting your finger right on one of the most important issues in front of Congress right now as you address this question. I think that the funding formula should be addressed, at least in the short term. It is untenable to expect that kind of prefunding of the retiree medical plan.

I think, also, the Civil Service Retirement System obligation has perhaps been over-funded, and I think that one of the things that you could do is determine whether it has, and if so, that money could be reapplied to the benefit.

Ms. HOLMES NORTON. Thank you very much, Mr. Hall. Mr. Abbott.

Mr. ABBOTT. Congresswoman Norton, I absolutely agree with you. It is included in my testimony that both the prefunding of the health care benefits for retirees and the pension issue must be addressed.

Ms. HOLMES NORTON. Thank you very much, Mr. Abbott. I am sorry if I overlooked you. I was trying to get this by listening to who mentioned it, so I appreciate that you had done so. Mr. McFalls.

Mr. MCFALLS. Yes, ma'am. I would absolutely agree with you on this point.

Ms. HOLMES NORTON. Thank you. Mr. Misener.

Mr. MISENER. Yes, ma'am, I also agree. I didn't include it in my testimony. We are not experts in the pension funding issue. But certainly, it seems to be the low-hanging fruit, and as you point out, there is at least the order of several orders of magnitude difference between that and eliminating Saturday delivery as a savings for the Post Office.

Ms. HOLMES NORTON. Thank you, Mr. Misener. Mr. Rendich.

Mr. RENDICH. Yes, Representative Norton. You have hit the nail on the head. It is the single biggest financial issue that the U.S. Post Office faces. Five to \$6 billion a year is a lot of money to come up with. No wonder that the Post Office has been unable to do it successfully so far. So the answer is, I would wholeheartedly agree that this is an area that needs to be adjusted, and as such, I devoted a large part of my oral testimony and written testimony to the subject.

Ms. HOLMES NORTON. Your advice on this point is extremely valuable to us. We really do look to the private sector to try to compare what we in the government do and what the private sector does, and sometimes those comparisons are not apropos. But it does seem to me that they are apropos here because the Postal Service is treated as a private business and it is forced to compete against other private businesses, and yet they are hamstrung with something that would put us out of business. And so it makes the Federal Government look—shall I be kind about it—a bit hypocritical to continue to do so, and your opinion on this important point of where money is that, with even some delay, some greater sense of how to apportion what was due when they could help the Postal Service out of a burden that is certainly not all its to bear.

Thank you very much for this testimony. My colleagues will return soon and the respective Chairmen has asked me to dismiss this panel with the appreciation of both the Members of the Senate and the House and to ask for the second panel to come forward at this time.

Will the second panel please take their seats.

The organizations represented on our second panel play a key role in our Subcommittee's oversight efforts, so I am going to identify you as I call upon you.

First, Don Cantriel, President of the National Rural Letter Carriers Association. You may begin.

#### **TESTIMONY OF DON CANTRIEL,<sup>1</sup> PRESIDENT, NATIONAL RURAL LETTER CARRIERS ASSOCIATION**

Mr. CANTRIEL. Our country is experiencing numerous economic challenges and the Postal Service has not been immune to these difficult financial times. Unusually low mail volumes have caused the Postal Service to consider drastic steps to change its business model and its operations. The cornerstone of the Postal Service plan is to do away with Saturday mail delivery to the millions of homes and businesses that receive mail. This idea is terribly misguided and will hurt, not help, the Postal Service's business and the customers it serves.

Chairman Carper, Chairman Lynch, and Members of the Senate and House Subcommittees, I urge you in the strongest and most forceful way, do not support the Postal Service's proposal to eliminate the congressionally mandated 6-day delivery of mail. The Postal Service cannot expect that by working less, it will achieve more. Consumers and businesses will not use a Postal Service that reduces services by 17 percent.

<sup>1</sup>The prepared statement of Mr. Cantriel appears in the Appendix on page 109.

Once consumers and businesses find an alternative, and they surely will, they likely will stay away from the Postal Service for good. The vacuum that would be left by shutting down delivery operations on Saturday is sure to be filled by a competitor, and once we lose that business, we will forever be fighting at even greater expense to get it back. If Saturday delivery is eliminated, customers and businesses that rely on the mail will see an increase in the delivery time for their product. Failure to meet Postal customers' delivery expectations could negatively impact the Postal Service's business model and the public's expectation that mail will be delivered in a timely manner.

If we go to 5-day delivery, there will be no need for most of our relief carriers. Tens of thousands of rural carrier relief employees will be without a job, without a livelihood.

If there is no Saturday delivery, the intangible functions our carriers perform at no cost to the American public will be missed. The report of a house fire, an accident, or assistance to the elderly that our carriers routinely provide will be diminished. These byproducts of the work we do and the fact that we are out and visible, working with the public in communities large and small, will be curtailed on the weekend.

Our public health and safety function will also be curtailed if rural carriers are not working on Saturdays. Back in 2002 in the wake of September 11, 2001, and the anthrax attacks that terrorized the Nation and killed private citizens and Postal workers alike, the Postal Service prepared itself to serve as a public health army. In the event of biological terrorism, the Postal Service will play an important role in the delivery of medicines. We continue to play that role still today, but we cannot fulfill that mission completely if our employees are not working on Saturdays.

Customers want the contact with their rural carrier and many absolutely depend on it. Whether it is prescription drugs, public assistance, vital legal documents, or important business mailings, our customers and mailers want and need Saturday delivery.

There is an easier way to put the Postal Service on firm financial footing that does not involve eliminating Saturday delivery. First, something must be done about the prefunding of the Future Retirees Health Benefit Plan. No other government agency or corporation is required to prefund their retiree health benefits, let alone required to almost fully prefund them at an accelerated pace. Reducing the amount of money the Postal Service is required to pay into the Retiree Health Benefits Fund has the potential to save the Postal Service billions of dollars and still not put employees' pensions at risk.

The Inspector General reported that the Postal Service has been overcharged \$75 billion on its CSRS Pension Fund responsibility. The report continues to say that if the overcharge was used to prepay the Retiree Health Benefits Fund, it would fully meet the retiree health care liabilities and eliminate the need for the Postal Service to continue paying \$5 billion annually, as mandated by the Postal Accountability and Enhancement Act (PAEA). The Postal Service should be permitted to have the money it was overcharged returned.

Additionally, the Postal Service can initiate internal cost cutting measures right now to reduce its operating expenses. If a Postal employee is not involved in processing, collecting, or delivering the mail, their job should be under the microscope. We have managers that do nothing but manage other managers.

The Postal Service can also reduce its operating expenses by consolidating many of its current districts and areas. The consolidation of districts and areas with the repetitive position in each of those districts and areas would save the Postal Service millions, if not billions, and in my opinion would make for a more consistent policy and better provide, more consistent service.

Thank you for inviting me to testify today on behalf of the National Rural Letter Carriers. I would be happy to answer any additional questions you may have.

Senator CARPER [presiding]. Mr. Cantriel, thank you so much for your testimony, and later on when we do some questions, I am going to come back and ask you, of those items you mentioned right there at the end, to what extent have you heard from the management side about their willingness to take up some of those ideas, OK.

Frederic Rolando, President of the National Association of Letter Carriers, we are happy that you are here. It is nice to see you. Please proceed.

**TESTIMONY OF FREDERIC V. ROLANDO,<sup>1</sup> PRESIDENT,  
NATIONAL ASSOCIATION OF LETTER CARRIERS, AFL-CIO**

Mr. ROLANDO. Likewise. Good afternoon, Chairman Carper and Representative Norton. I am pleased to be here on behalf of the National Association of Letter Carriers (NALC).

Senator CARPER. And before you start, I just want to say a special thanks to our Delegate Eleanor Holmes Norton. Thank you so much for being here to run this ship. You were the captain and, I am told, a very good one. Thanks so much. Go ahead, Mr. Rolando.

Mr. ROLANDO. Although the economy has begun to recover from the 2007–2009 economic meltdown and the Postal Service has recorded a profit of nearly a billion dollars so far this year before accounting for the massive retiree health prefunding payment that no other company or agency in the country is required to make, we are not out of the woods yet.

To help the Postal Service survive and adapt to an uncertain post-crash economy, Postal employees and their unions have to embrace innovation and seek win-win solutions with the Postal Service at the bargaining table. NALC has recently negotiated a route adjustment process that has saved the Postal Service hundreds of millions of dollars. Going forward, we are committed to doing what is necessary to promote new, innovative uses of the Postal Service's networks, even as we lose some traditional mail to electronic alternatives.

But for us to be successful, we need Congress to act, as well. Although we have never objected to the principle of prefunding of future retiree health benefits, it is now clear that the policy adopted

<sup>1</sup> The prepared statement of Mr. Rolando appears in the Appendix on page 113.

in 2006 was deeply flawed. Even if the economy had not crashed, hard-wiring a 10-year schedule to prefund 80 percent of a 75-year liability was, in hindsight, a mistake. This decision by Congress, not the recession and not the impact of the Internet, is primarily responsible for the financial crisis faced by the Postal Service in recent years.

The fact is, if not for these payments, the Postal Service would have been profitable in 3 of the last 4 years, despite the deepest downturn since the Great Depression. No private company would have borrowed billions to prefund future retiree health benefits in the middle of a recession. The Postal Service has been forced to use most of its borrowing authority to make \$12.4 billion in payments to prefund retiree health benefits rather than to invest for the long term or to restructure its operations. There is no way to sugar coat this. Congress must undo the unintentional error of 2006.

Fortunately, there is a way to do this without retreating from the laudable goal of prefunding retiree health benefits. The IG's January report now being reviewed by the PRC provides a road map to Congress for reform. Indeed, the Postal Service has recently proposed legislation based on that report that the NALC fully endorses. It calls for Congress to direct the Office of Personnel Management (OPM) to recalculate the allocation of pre-1971 pension costs on a years-of-service basis and then to transfer the resulting surplus in the Postal subaccount of the Civil Service Retirement System to the Postal Service Retiree Health Benefits Fund. This would correct a grossly unfair allocation of costs made by OPM in 2007 and allow the Congress to repeal the hard-wired and crushing prefunded schedule in the PAEA.

Of course, we understand that the budget rules make this a lot easier said than done. Nevertheless, it is regrettable that good policy often takes a back seat to the peculiar world of budget scoring and the arcane rules of pay go. Every time Congress has made changes in this area of the law, allocating pension costs between taxpayers and rate payers, compromises have been made to deal with scoring issues. These compromises have often backfired.

We understand that the years-of-service approach adopted by the IG has its critics, and we acknowledge that there are compromise positions being discussed between the approaches taken by OPM and the USPS IG. Had the Postal Service given away grossly excessive wage increases after 1971, the critics would have a legitimate dispute with the years-of-service allocation of costs. Pre-1971 pension costs would soar and taxpayers would be punished by these wage decisions.

However, that was not the case. The inflation-adjusted wages of Postal employees are roughly the same as they were in 1972. We therefore believe that the Postal Service and the IG approach is reasonable. However, if a fair compromise is needed, OPM should hold the Postal Service accountable for pension costs associated with wage increases above and beyond what other Federal employees received from Congress. Reforming the pension retiree prefunding provisions of the law is the essential first step to giving the Postal Service a fighting chance to adapt and survive in the post-crash Internet age.

Let me finish by briefly addressing a major issue between the House and Senate Appropriations Committee. As you know, the Postal Service has proposed the elimination of Saturday collection and delivery services. We think this would be a blunder of the first order, saving very little money and risking the loss of much more revenue over time. Cutting service is not a way to strengthen the Postal Service. In America, business is conducted 24 hours a day, 7 days a week. Many businesses, especially small businesses such as eBay retailers, rely on Saturday delivery, and reducing the speed and quality of service will simply drive customers away. At a time when the Nation is suffering an acute job crisis, throwing another 80,000 decent jobs away in a moment of panic does not make sense.

Both the Obama Administration and a bipartisan majority of the House of Representatives who have cosponsored House Resolution 173 oppose the elimination of Saturday delivery. We urge all of you to reject this proposal, as well.

Thanks again for inviting me to testify.

Senator CARPER. You bet. Thanks so much for being here and for your testimony and for your leadership, as well.

Mr. Burrus, it is great to see you. Thank you so much for coming, and we welcome your testimony.

**TESTIMONY OF WILLIAM BURRUS,<sup>1</sup> PRESIDENT, AMERICAN  
POSTAL WORKERS UNION, AFL-CIO**

Mr. BURRUS. Chairman Carper and Congresswoman Norton, thank you for providing this opportunity to share the views of our union, the American Postal Workers Union, on the difficulties currently facing the Postal Service and on Postal management's plans to address them.

The request that oral presentation be limited to 5 minutes restricts my remarks to a summary of our positions on a wide range of issues, but we welcome the opportunity to speak on the subject of concern.

My union has analyzed the current state of hard copy communication and we reject the projection that is currently in vogue, that mail is destined to perpetually decline. Our evaluation signals that, in fact, mail volume will experience growth in fiscal year 2012, and I ask that you make note of our prediction. When we revisit this issue in 2013, let us see if mail volume actually increased or declined. Virtually every other study of mailing trends has concluded that mail volume will continue to decline and this projection has served as the basis for the recommendations for radical changes to the Postal structure and to the services that we offer. If we are right in our prediction that volume will, in fact, grow in the relative near future, these dire predictions must be discarded as the alarmist projections that they are.

After much soul searching, the Postal community has concluded that the payment schedule for prefunding future retiree health care liabilities is driving the Postal Service to the brink of insolvency and must be modified. Correction of this overpayment of the Civil Service Retirement and Disability Trust Fund would more than

<sup>1</sup>The prepared statement of Mr. Burrus appears in the Appendix on page 121.



satisfy this obligation, and there seems to be unanimous agreement within the Postal community that the prefunding obligation is the primary source of the Postal financial difficulties and that it must be corrected. I urge lawmakers to find the appropriate methods to do so.

I would be remiss in my testimony if I did not include in this summary what not to do. Drastic reduction in service must be removed from consideration. This includes the poster child for service reductions, the elimination of Saturday delivery. We should not even seriously engage in discussion of this proposal. The reason is simple. No service-oriented business can grow by reducing service. The very concept must be abandoned. To the contrary, we believe the Postal Service can and must expand the services it offers.

In addition, we believe the Postal Service must eliminate excessive work share discounts. These discounts, to the tune of over \$1 billion a year, deprive the Postal Service of desperately needed revenue and subsidize major mailers at the expense of small business and individual citizens. They are illegal and self-defeating. I want to digress for a moment to commend Chairman Lynch for holding the first ever hearing on this crucial topic last month.

Finally, I cannot miss the opportunity to remind policy makers that the business model that governs the Postal Service was a creation of the Postal Accountability and Enhancement Act of 2006. Now, less than 4 years after its adoption, many of the groups that supported the PAEA are again denouncing the business model as severely flawed. Those who advocated the passage of PAEA must take responsibility for the results, and their recommendation must be evaluated in light of the miscalculation of the effect of the law.

The GAO, the Office of the Inspector General, Congressional Committees, mailers associations, and others drank the Kool-Aid of Postal reform and now we are offering solutions to the very problems that were created by that reform. Included in that is payment for future health care liability. Ironically, it seems that hardly a week goes by without these same agencies issuing reports to substitute their judgment for those of Postal management. Frankly, their attempts to micromanage the Postal Service are counter-productive.

I have submitted for the record some of the written testimony that the American Postal Workers Union (APWU) has provided at recent hearings and forums, which expand our views on these and other important topics, and I would be pleased to respond to any questions that you may have.

Senator CARPER. Mr. Burrus, thank you very much for that testimony.

Mr. Collins, have you testified before us before?

Mr. COLLINS. Not at this level. I testified back at the congressional hearings on the anthrax situation.

Senator CARPER. OK, good. Well, we are glad you are here today. Are you the Assistant to John Hegarty?

Mr. COLLINS. I am.

Senator CARPER. OK, Mr. Collins from the National Postal Mail Handlers Union. We are delighted to see you. Thanks.

**TESTIMONY OF RICHARD COLLINS,<sup>1</sup> ASSISTANT TO THE  
PRESIDENT, NATIONAL POSTAL MAIL HANDLERS UNION**

Mr. COLLINS. Thank you, Congressman Lynch and Senator Carper, for holding this important joint hearing.

Senator CARPER. Are you from Mississippi?

Mr. COLLINS. I am, yes. [Laughter.]

Senator CARPER. You are not. [Laughter.]

Mr. COLLINS. No, sir. I am from Dorchester, Massachusetts.

Senator CARPER. I thought you might be.

Mr. COLLINS. Thank you. [Laughter.]

Mail Handler National President John Hegarty sends his regrets that he couldn't be here to testify today. My name is Richard Collins and I have served since 1994 as the Assistant to the National President. I was also a mail handler with the Postal Service for almost 30 years. My current duties include working on a daily basis with the U.S. Postal Service on a vast array of issues, including mail security, ergonomics, and labor-management relations.

The Mail Handlers Union represents nearly 50,000 craft employees, the overwhelming majority of whom work in the large processing plants. Our members often perform the most dangerous jobs in the Postal system. We staff large machines. We drive the forklifts and other heavy machinery. And our members are the first and last to touch the mail when it arrives and leaves for processing.

Mail processing is time sensitive. Any reduction in processing hours or days will have a dire impact on the timely delivery of both standard and First Class mail. This is especially true for mail items that need prompt processing and delivery, such as medicines from various pharmacy companies, newspapers and magazines, and a host of other mail items. That is why the Mail Handlers Union is opposed to the Postal Service's proposal to eliminate residential delivery on most Saturdays.

We are in the worst recession since the Great Depression. The Postal Service has been losing significant amounts of money, even with drastic cuts in the number of employees. But in reality, looking at Postal operations, the Postal Service has been a break-even or even profitable enterprise for 2 of the past 3 fiscal years. There has been tremendous downsizing of the Postal Service, including over 100,000 career jobs eliminated, producing billions of dollars in savings in each of the past few years.

These changes have not been accomplished easily or without friction, but they have shown that without extraneous factors, the Postal Service remains a viable and vibrant institution. By extraneous factors, my union is referring to mandates placed on the Postal Service to fully fund the Retiree Health Benefits Fund during the next 7 or 8 years. And, Senator Carper, we agree with your characterization of these payments as overly aggressive. That is why Congress needs to focus on and fix the Retiree Health Benefits Fund. That fix is needed before the end of this fiscal year, on September 30.

We understand that relying on a fix for the Retiree Health Benefits Fund and stating that the Postal Service is a viable institution

<sup>1</sup>The prepared statement of Mr. Collins appears in the Appendix on page 124.

runs directly counter to the narrative coming from Postal headquarters. The Postal Service's dominant message is, we are broke and swimming in a sea of red ink. We have a debt-ridden institution whose survival is dim, but we can be saved by cutting service and becoming less reliable. To us, that is not very reassuring and not very realistic.

We disagree with the Postal Service's basic analysis. As already noted, despite a recession since 2008, the Postal Service has been a break-even or profitable enterprise for 2 of the past 3 fiscal years. To be sure, there has been diversion of a significant amount of mail to the Internet and other electronic means of communication. But the Postal Service has reduced its workforce and is reducing its network to address those issues.

Congress should deal immediately with the funding of the Retiree Health Benefits Fund, which already contains more than \$35 billion. In addition, it would be worthwhile for Congress to require recalculation of the Postal Pension surplus in the Civil Service Retirement System. The bottom line is that simply suspending the mandated payments in the Retiree Health Benefits Fund for several years will provide the necessary space needed for the Postal Service to ascertain its real needs in a realigned economy. Significantly, it also makes good business sense and is consistent with common sense bookkeeping and the actions taken by private enterprise.

The Retiree Health Benefits Fund currently is healthy and growing, which is a good position to hold during good economic times. But in the current economic climate, mandated payments into the fund have become both an unacceptable burden and an unjustified luxury required of no other Federal agency or private sector employer.

The calculation of the Civil Service Retirement System pension costs is also an internal matter that deserves resolution. If, as the Inspector General and others have concluded, the numbers are wrong to the tune of \$75 billion, then they need to be fixed in order to accurately assess the future of the Postal Service. The Postal Service should not take an action of emergency proportions that may be based on faulty bookkeeping.

In short, the Mail Handlers Union believes that we need legislation focusing on two issues, the Retiree Health Benefits Fund and the over-funding of the Civil Service Retirement System, possibly even to use the over-funded pension obligations as a substitute for payments to the Retiree Health Benefits Fund.

Thank you, Chairmen Lynch and Carper, for holding these hearings, for allowing me to testify, and for making the future of the Postal Service an important front-burner issue. I look forward to answering any questions you may have.

Senator CARPER. Good. Thank you for that testimony, Mr. Collins.

Mr. Atkins is Executive Vice President of the National Association of Postal Supervisors. Great to see you. Welcome. Please proceed.

**TESTIMONY OF LOUIS ATKINS,<sup>1</sup> EXECUTIVE VICE PRESIDENT,  
NATIONAL ASSOCIATION OF POSTAL SUPERVISORS**

Mr. ATKINS. Good afternoon, Chairman Carper and Representative Norton. My name is Louis Atkins. I am the Executive Vice President for our organization. Thank you for inviting me to testify on behalf of the National Association of Postal Supervisors (NAPS).

Organized in 1908, NAPS exists to improve the Postal Service and the pay, the benefits, and working conditions of its members. Its members include first-line supervisors, managers, and postmasters working in mail processing and mail delivery. But NAPS also represents men and women working in virtually every other functional unit in the Postal Service, including sales, marketing, human resources, training, law enforcement, health and safety. NAPS takes seriously its responsibility to work with the Postal Service to preserve the health and vitality of the Nation's Postal System.

Postal supervisors are doing more than their share to help the Postal Service modernize and change. We collaborate with the Postal Service because there is no other responsible option, given how much revenue and mail volume are projected to drastically fall in the next few years.

The revenue shortfall that the Postal Service once again faced this year is the result of three factors. The first factor, the deep recession, the worst in 80 years, and its downturn impact on mail volume, particularly advertising mail. We believe that the poor economy will be mitigated, though not entirely, as economic conditions improve. The consensus by many Postal experts is that much mail, though not all, will return to the system as the economy slowly rebounds.

The second factor, the Internet migration, will continue to erode mail volume going forward and represent a long-term concern.

The third factor is the burdensome and accelerated statutory requirement established by Congress that forced the Postal Service to set aside funds for future retiree health benefits at a cost of \$5.5 billion per year, or nearly \$40 billion during the next 7 years. The overly aggressive prefunding schedule for retirement health benefits presents a viable area to pursue that could have a significant bottom-line impact upon the Postal Service.

While benefit prefunding as a Postal policy can assure that assets will be available to satisfy obligations down the road, no other Federal entity or private sector enterprise other than the Postal Service has been required to or voluntarily committed itself to retiree health benefits prefunding at such an aggressive schedule. The Postal Service is bearing this burden now during the recession. In fact, in 2 out of the last 3 years, the Postal Service would have been in the black were it not for the aggressive prefunding schedule that Congress established. The sooner that Congress deals with this problem and realigns the prefunding schedule, the better it will be for the Postal Service and the mailing community.

Recalculating the Postal pension surplus in the Civil Service Retirement System, using the so-called service ratio method to allocate pension costs related to the pre-1971, would provide a signifi-

<sup>1</sup> The prepared statement of Mr. Atkins appears in the Appendix on page 132.

cant amount to cover the entire cost of the future retiree health benefits. This would permit the Congress to transfer the Postal CSRS surplus to the Postal Service Retiree Health Benefits Fund, either now or at some future point, and repeal the current prefunding schedule. It will place the Postal Service on a more certain financial footing and restore confidence by large volume mailers in the future of the Postal Service.

During the past several years, NAPS has collaborated with the Postal Service on major organizational changes to cut costs and find efficiencies. Some of those changes eliminated management and supervisory jobs. In 2009 alone, nearly 3,600 management and supervisory positions were eliminated in the Postal Service. These changes have dramatically impacted the lives of and supervisors and managers represented by NAPS.

We also support changes in the laws, infrastructure, and operation of the Postal Service that modernize and sustain Postal Service operations, production, and services. The first change in the law should revolve around the restructuring of the retiree health benefits prefunding schedule and the resolution of the past pension overpayment by the Postal Service for pre-1971 Post Office Department employees. This would help put the Postal Service on a more certain financial footing. As those actions and other continuous USPS cost cutting efforts take place, Congress and the Postal Service will be better situated to discern what needs to come next, including 5-day delivery and other significant cuts.

The steep decline in mail volume over the past 2 years means that all Postal operations, including processing, transportation, and delivery, are operating at less than full capacity. A letter carrier that used to deliver six pieces of mail to a house is now delivering four. A business that used to get two trays of mail may be getting less than those two today. But nonetheless, we are still delivering to that address and every other business in the country. Consolidation of some processing and retail Postal facilities may need to occur based on facts and circumstances of best business judgment and the level of service that customers expect.

Our organization will continue to work with the Postal Service to solve the current crisis and ensure that individuals who we represent can manage the operations that they have been entrusted to manage.

Thank you again for the opportunity to express these views. I will be happy to answer any questions you may have.

Senator CARPER. Good. Thank you so much for that testimony. We appreciate it very much.

Our next witness is Charles Mapa, President of the National League of Postmasters. It is very good of you to come. Thank you. Please proceed.

#### **TESTIMONY OF CHARLES MAPA,<sup>1</sup> PRESIDENT, NATIONAL LEAGUE OF POSTMASTERS**

Mr. MAPA. Chairman Carper, Chairman Lynch, and Representative Norton, my name is Charles Mapa and I am President of the National League of Postmasters. The National League of Post-

<sup>1</sup> The prepared statement of Mr. Mapa appears in the Appendix on page 137.

masters represents thousands of postmasters from around the country, particularly in rural areas. Thank you for inviting us here today for this very important hearing on this vital issue.

Mr. Chairman, the League would like to stress the critical importance of fixing the overpayment of the Postal Service's Civil Service Retiree Pension obligations by allowing the pension surplus to go to prefund the Postal Service's retiree health obligation. This is absolutely essential to any long-term financial solution for the Postal Service. Mr. Potter has said several times to me, taking care of this problem would allow other problems to be handled more slowly, in a measured fashion over the next 10 years. This, to me, makes sense, for much of the mail volume will come back when the economy comes back. Even the doom and gloom predictions of the Postal Service's consultants said that volume would go down by only 1.5 percent per year. If those doom and gloom predictions are off by only two points, volume will increase.

Much has been said about Post Offices today. Let me turn to Post Offices. First of all, Mr. Chairman, let me remind everyone that the American public wants its Post Offices. In a survey published in the *Washington Post* earlier this year, 80 percent of those surveyed did not want the Postal Service to start closing Post Offices. We have heard time and again over the last several months that the Postal Service has 37,000 retail facilities, more than Starbucks, McDonald's, Sears, and Wal-Mart combined. The suggestion is then made that if we get rid of the retail function of the Postal Service by moving it online, then all this brick and mortar, the Post Offices, and all the costs associated with them could be eliminated. Chairman Carper, Chairman Lynch, Representative Norton, this is patent nonsense.

First, the primary function of a Post Office is not a retail function but a delivery function. Indeed, Post Offices are the final processing and distribution nodes in the Postal delivery system, and online buying of stamps does not replace that function. True, stamps are sold in Post Offices, but Post Offices are located where they are for delivery reasons, not for retail reasons. They are the units out of which the carrier function works and is managed, and you need a brick and mortar establishment for that. Eliminate Post Offices, then, and you eliminate delivery.

Second, Post Office boxes are very important delivery points. They are very valuable because the businesses of this country use them to get their remittance mail. Without them, Postal business patrons would lose millions of dollars of float. Critically, Post Office boxes work and work well because they are located next to the delivery function, where the distance between the boxes and the carrier is measured in feet, not in miles. For this reason, they work. Closing significant numbers of Post Offices will hurt this efficiency and the value of Post Office boxes.

We do believe, however, that our Post Office network is greatly underutilized by the Postal Service and that they could be used for a variety of other purposes. For instance, we could partner up with various Federal, State, and government agencies, as well as companies in the private sector to provide a variety of services and products. We could also sell advertisement in our Post Offices. The revenue from these projects would not be enormous, but they would

be enough to offset much of the cost of the retail function of the Post Office.

Thank you for considering our views.

Senator CARPER. Thanks very much for those ideas, especially at the end of your testimony.

Our final witness, Robert Rapoza. Good to see you. President of the National Association of Postmasters of the United States. Once you conclude your testimony, we are going to be turning to Congresswoman Holmes Norton for the first round of questions for our witnesses. Thanks. Please proceed.

**TESTIMONY OF ROBERT J. RAPOZA,<sup>1</sup> PRESIDENT, NATIONAL ASSOCIATION OF POSTMASTERS OF THE UNITED STATES**

Mr. RAPOZA. I want to thank Chairman Carper, Chairman Lynch, Congresswoman Norton, and my favorite Senator, Senator Akaka, and Subcommittee Members for allowing me to share the views of the——

Senator CARPER. Now, wait a minute. There is another Senator here. [Laughter.]

No, actually, he is our favorite Senator, too, so you have good judgment.

Mr. RAPOZA. Thank you for allowing me to share the views of the National Association of Postmasters of the United States (NAPUS) regarding the future of the Postal Service.

NAPUS is a management association of 39,000 dues-paying members. We are the managers in charge of Post Offices who care deeply about a universal mail system. Postmasters are proud of the work we do for our Nation and the service we provide to our communities.

My testimony has four themes. First, the financial challenges facing our Postal Service. Second, liberating the Postal Service from unfair, unnecessary, harmful funding obligations. Third, exploiting our national scope and consumer support. And fourth, safeguarding our universal Postal System.

Immediately following the enactment of the Postal Reform Act of 2006, a deep and broad recession inundated our country. The economic downturn devastated Postal reliant industries, resulting in less mail. It may be too early to tell how much of this volume drop is permanent. Nevertheless, over the past 2 years, the Postal Service has shed approximately \$10 billion in expenses and slashed its workforce by 84,000 employees. Regrettably, these actions do not come without consequences. Postmaster positions remain vacant. Post Offices have been suspended and hours curtailed. In addition, there is considerable understaffing that has led to late mail deliveries and a stressed workforce.

Unfortunately, two pieces of legislation that were crafted to promote Postal self-sufficiency and viability have inadvertently undermined both goals. Congress must correct the flawed 36-year-old statute that has compelled the Postal Service to over-fund its retirement obligations by \$75 billion. And Congress should revisit a 4-year-old provision that embeds an inaccurate Postal charge of prefunding retiree health care costs.

<sup>1</sup>The prepared statement of Mr. Rapoza appears in the Appendix on page 152.

We understand that the Subcommittees have under consideration a proposal that strives to address the overly burdensome prefunding requirement and more accurately calculate the Postal Service's true pension obligations. NAPUS believes that legislation to address these dual issues must be passed expeditiously and should exclude controversial provisions that would obstruct passage.

The Postal Service is well positioned to develop new and innovative revenue streams to help support universal service. According to a recent Pew Research Center survey, 83 percent of Americans view the Postal Service favorably. The Postal Service needs to make good use of this good will to generate revenue and partner with others, such as Federal agencies, local governments, and even the private sector. Post Offices can be used for credentialing, licensing, and permitting services. The high trust value of Post Offices and Postal personnel provides assurance of privacy and accountability.

We must be careful not to undermine the lofty trust and strong support of the agency by ending community due process rights in Post Office closings. I understand that there are two proposals under consideration that could jeopardize small and rural Post Offices. The first proposal would delete the statutory prohibition against closing a Post Office solely for having expenses that exceed revenue. The second proposal would establish a commission to close Post Offices. Both of these ideas garner meager Postal savings. According to the Postal Regulatory Commission, closing every small and rural Post Office would yield only about 0.07 of 1 percent of the Postal budget.

Compounding that small number with the overwhelming public support of Post Offices and there is little reason to accelerate the rate of Post Office closures. A recent Gallup poll reported that 86 percent of Americans oppose Post Office closings. Moreover, Post Offices provide a key economic anchor for towns and rural communities that support small businesses. It is also important to remember that the Postal Service can and does close Post Offices under current law.

I know that Postal Service headquarters has suggested that Post Office operations be moved into big box stores because of traffic. However, this plan assumes that the Postal Service products are impulse purchases, which they are not. NAPUS believes that a viable Postal Service needs to offer the American public more products and services, not less.

In addition, despite consistent characterizations of the agency as a business, it is not a business. The Postal Service is a constitutionally established federally operated public service.

NAPUS looks forward to working with Congress and the Postal Service to continue to provide the American public with the universal service that our citizens deserve and to which they are entitled to. Thank you very much.

Senator CARPER. Mr. Rapoza, thank you very much.

I am going to withhold and ask my questions last. It has been a very good panel, very excellent testimony, in fact, from both panels, and we are grateful for that, a lot of ideas and some thinking outside the box here which we certainly welcome.



Since Congresswoman Holmes Norton was good enough to stay here through thick and thin when everyone else bailed to go vote and meet with their outstanding educators from States like Delaware, I am going to ask you to lead off the questioning. Thanks again.

Ms. HOLMES NORTON. Well, thank you, Mr. Chairman.

I was intrigued as we look for ways to get the Postal Service in some kind of permanent state of reform, as opposed to nibbling at the edges, and I agree with what all of you had to say about prefunding. It is so obvious. We know there are scoring problems. We also know that it was a huge mistake, an error made in 2006. It was not—the formula used was in error and it does seem to me that we have to—there is no way to get around that large tranche of money being used in a way no other entity uses it.

But, Mr. Burrus, I was intrigued by, leaving that aside, and apparently with that on the table, I am not sure, but you in your testimony speak of volume, and you predict, indeed, you even doubly-dare us to invite you back to check on this, that mail volume will experience a growth in fiscal year 2012. I would like to know on what you base that, what is your basis for saying it and whether any of your colleagues agree with you.

Mr. BURRUS. I have challenged my economists to prepare for me a model of Postal volume over the last 40 years, determining its rise and when it stalled and when it declined most notably in recent years and graph out for me exactly what were the influencing factors. Now, this is not the first occasion in the civilization of the human race that we have had diversions of communications. The highest volume period for the U.S. Postal Service in its history was 2006. That is not close to the invention of the Internet or the other forms of diversion that we are now claiming are causing the decline.

Ms. HOLMES NORTON. Why did it increase then?

Mr. BURRUS. Economic activity. That was when we created the economic bubble in this country, and economic activity went up. Mail volume followed.

Ms. HOLMES NORTON. And you think that is going to happen in 2012?

Mr. BURRUS. Our economy is going to recover, as certainly as night follows day that the economy will recover, and as the economy recovers, mail volume will follow, and—

Ms. HOLMES NORTON. So you are basing that on the recovery that we all anticipate?

Mr. BURRUS. Yes, that we anticipate, and the history—

Ms. HOLMES NORTON. Of the recovery.

Mr. BURRUS [continuing]. Of what volume did under a recovered economy, yes.

Ms. HOLMES NORTON. I wonder if all of you could—one of our colleagues from the Senate on the other side puzzled me when he indicated that—and I literally ask this question out of total ignorance—that despite the fact that the Postal Service and its unions have free collective bargaining the way other entities in the private sector do, that there was some kind of mandate that the state of the business not be taken into consideration apparently in whatever result was reached in collective bargaining. Could you en-

lighten me on what—I am sorry he isn't here, but I don't think we can leave that question on the record without expanding on it and indicating what it could mean or if that was, in fact, the case.

Mr. ROLANDO. Yes. I am sorry he is not here, also. I would like to expand on that a little bit. We talked a little bit about that at the hearing that I was invited to last year, and it appeared what we learned at that hearing is much of the support for that particular provision to require an arbitrator to consider the financial condition of the Postal Service was based on an understanding that the arbitrator was currently prohibited from doing that, which was totally inaccurate and that was pointed out at the last hearing. In fact, not only are they not prohibited, in every interest arbitration that we have had since Postal reorganization, the arbitrator has clearly considered the financial status of the Postal Service because it is an issue in every one of those interest arbitrations.

Ms. HOLMES NORTON. Now, when you say it had to be indicated because there had been some notion that perhaps he couldn't take into account—

Mr. ROLANDO. There was some notion at the time last year, from our understanding of the discussions in the Senate, from what we learned, is that there was a thought that the arbitrator was currently prohibited from considering—

Ms. HOLMES NORTON. But nothing in writing to show that?

Mr. ROLANDO. Absolutely nothing, no.

Ms. HOLMES NORTON. The reason I—

Mr. ROLANDO. It is contrary.

Ms. HOLMES NORTON. I just think it is very important to clarify that. That is an almost incendiary statement, because in our country where we have free collective bargaining, and we have that with the Postal Service, even the Congress, with all of the thumping that we do up here, always say that collective bargaining is part and parcel of the free enterprise system, and we can't put our thumb on the scale, either, even though as Members of Congress and as citizens we can express our strong view.

If, for example, you were to bargain—I am not even sure this is subject to bargaining—let us say the 6-day week, whatever things are subject to bargaining, if you were to make some concession that Members of Congress disagreed with, we would be in hot water if we then said, well, collective bargaining doesn't work when some of us don't like the outcome of collective bargaining.

So, Mr. Chairman, I just thought it was important so that wasn't put on us in the Congress and wasn't put on any of our colleagues who in the past, even in 2006, where we made this terrible error, that none of that was a matter of public record that the Congress had, indeed, mandated anything with respect to collective bargaining. Thank you very much.

Senator CARPER. I am going to reserve my comments for later on. I was not in the room when the Senator that apparently raised this issue spoke, so I am not sure what exactly was said in exchange. My recollection is that there is language in the Federal law, that says that arbitrators must consider pay comparability, and the idea is to try to provide some comparability to the wages that we pay to Postal employees with other people who do, I don't know if it is similar kind of work, but we will say similar kind of work. I don't

know that there is anything in the law that says while they are doing that, trying to make sure there is pay comparability, that the arbitrators have to consider the condition of the economy, the financial state of the Postal Service. So we will have a chance to expand on this further.

One other point I would like to clarify. Several of our witnesses, this panel and the earlier panel, I think, suggested that the Congress made a mistake. We make mistakes all the time. The only people that don't make mistakes are people that don't do anything, and in our jobs, we do a lot of stuff. And hopefully, when we make mistakes, we don't repeat those mistakes.

But the issue of the 2006 legislation, and the adoption of a very conservative approach to the prefunding of health benefits for retirees and future retirees, was a compromise. It was a demand by the previous Administration, in order for them to go along with, for example, ending the policy whereby the Postal Service had to assume the Military Retirement Service obligation for those who later on come to work, after serving in the military, come to work for the Postal Service. The Postal Service was the only, you may recall, the only Federal entity that had to assume and pay for those military service obligations. That wasn't fair. That wasn't equitable. In order to get the Administration to agree to back off of that, to stop that policy, one of the things we had to give on was this very conservative approach for prefunding health benefits. So I just want the record to be clear on that.

All right, my friend, Mr. Chairman, do you want to jump right in here?

Mr. LYNCH. Sure.

Senator CARPER. Thanks.

Mr. LYNCH. Thank you, Mr. Chairman.

Let me see. Mr. Rapoza, I just want to push back a little bit. I don't believe when we talk about closing Post Offices—and to be honest with you, that is one area that I think the Postal Service has fallen down on. We have 37,000 Post Office stations and we asked them to go out and look, because the volume of mail has dropped so low, we said, go out and look and try to find surplus locations that could be closed without impacting universal service and without harming the delivery process, but allowing consolidation.

I know as an iron worker—I was an iron worker for 18 years—it seemed like every time we put up a high rise, whether it was in Boston or New York City, every time we would throw up a 30, 40, 50, or 60-story building, we would put a Post Office on the bottom floor, and just because of the volume in that building, it would justify the location of that Post Office.

Now, I don't believe if we had closures it would happen in rural areas, and I know you cited the meager savings that would be obtained by closing rural Post Offices. And I don't want Mr. Cantriel to get upset. That would not be our idea. As a matter of fact, to preserve that universal service, we would have to maintain the rural Post Offices, because you close down a Post Office out there in Nebraska or Oklahoma, someone has to drive for 400 miles to the next Post Office.

However, in some of the heavily urban areas, you have situations like we have in the major cities, where you have in a downtown area, a Post Office directly across the street from another Post Office. And you have also got the fact that the Post Office is paying downtown office space lease agreements, which are very high in Manhattan and Boston and San Francisco and Houston and Los Angeles and Chicago, all across this country. Those aren't neighborhoods. Those are downtown commercial areas. So the mailroom from one place would have to shift their mail over across the street, and it would save probably hundreds of millions of dollars at a minimum by doing that consolidation.

So at the end of the day, we asked the Post Office to look at those 37,000 Postal facilities and they came back with 140 locations. And when I looked down the list of locations, they were at airports, they were at shopping malls, they were indeed low traffic locations, but it wasn't nearly what we were looking for.

Now, there has been a suggestion put out there about a BRAC process—instead of a Base Relocation and Consolidation, it is going to be a Post Office Consolidation and Relocation and Closure. The difference between the two is that I have one military base, one military facility in my congressional district, but 37,000 Post Offices in 435 congressional districts, that is 85 Post Offices in the average member's district. I probably have more than most. And if you asked me if I could find a Post Office in my district or a couple, I bet you I could find a couple that could be consolidated, like the ones I mentioned downtown.

And I just think that there is an opportunity to do that and take some pressure off of our bottom line, and I am disappointed that the Postal Service didn't do a better job. They came up with 140 out of 37,000, and I think we have to revisit that. I think we can do it without causing layoffs at the Postal Service. I think we can do it without great inconvenience to the customers, including those mailers who are up here and the average person, the individual mailer, the individual Postal customer. I think we can do it without threatening universal service. I think there are savings out there. But I think we are just stuck in doing things we have done in the past when we could afford to do it that way.

So that is one area I am going to push on, and you tell me why I shouldn't.

Mr. RAPOZA. Chairman Lynch, you mentioned the rural offices, and we are not against closing Post Offices. We are against closing Post Offices for solely economic reasons. The retail facilities that you mentioned are in downtown areas, these are stations and branches. They are not Post Offices where a postmaster is the manager, they come under a postmaster. I will give you an example of what we have in Hawaii.

The Honolulu Post Office, and surrounding the downtown area have about four, five, or six different stations, and those stations are being consolidated. They are not Post Offices.

Mr. LYNCH. Right. But out of Post Offices, stations, and—

Mr. RAPOZA. Branches.

Mr. LYNCH [continuing]. Branches, they came back with 140 locations out of 37,000. That was it. Out of 37,000, 140. So that is one area that I think Postmaster General Potter does a wonderful job.

He is a good man and he is trying. But he didn't try hard enough in this one particular area. And if I have to go to Plan B, that is going to lay off carriers or mail handlers or clerks when we shouldn't have to consider that if they had done the closure piece of this correctly, so I think there is an answer out there where we can institute a BRAC-like process.

But I think there is an opportunity to give the consumers out there—if I went to people in my district and said, we have to close a couple of Post Offices in my district, 640,000 people, 19 towns and two cities, and we have to close a couple, I bet we could find a couple. And if every congressional district did that, I think we could save a lot of money. And in this environment, we have to save a lot of money.

I am just saying, we can do this more efficiently without negatively impacting the quality of service, and it won't fall on the backs of the Postal employees, who, by the way, I think it was the Pew Foundation did a poll of public servants and they rated public servants. And when they rated customer satisfaction among public servants, the Postal employees, the clerks and carriers and mail handlers, came in at the very top. Congress did not come in at the very top. [Laughter.]

We came down around swine flu and the Taliban, down at that level.

Senator CARPER. No, let the record show. The Taliban are at 6 percent. We are many times that. [Laughter.]

Mr. LYNCH. OK. I stand corrected. But we did not do as well.

So it would be counterintuitive to punish employees who are getting the highest rating in government service, and I am trying to avoid a bad situation. We have to look at every opportunity. I know you don't like to do that. People don't like change. However, we have no alternatives. We have either got to grapple with this or I think the system will collapse and then we won't like the changes that are absolutely necessary at that point.

I will yield back.

Senator CARPER. Thanks, Mr. Chairman.

From the Aloha State, every Senator's favorite Senator, Senator Akaka. Please proceed with whatever questions you want to ask.

#### OPENING STATEMENT OF SENATOR AKAKA

Senator AKAKA. Thank you. Thank you very much, Mr. Chairman. I want to thank you for holding this hearing. I want to add my welcome to this panel and I would also welcome with much aloha, our friend, Bob Rapoza from Hawaii, who is presently the President of the National Association of Postmasters of the United States. We are proud of you, Mr. Rapoza, and what you are doing.

We have had a tough 4 years here. There have been dramatic changes in our communities and the economy of our country and there has been a lot of loss of jobs and restructuring of programs, as well. The Postal Service has been very successful, however, during this period in finding efficiencies wherever it can. However, there are some changes that require action by Congress, including modifying the burdensome payment schedule for prefunding retiree benefits, and health benefits.

The Inspector General, as you know, also recently found the Postal Service may have overpaid its retirement obligations by up to \$75 billion. If true, the Postal Service should be allowed access to those funds.

Perhaps the most controversial recommendation by the Postal Service is moving to a 5-day delivery. The Postal Service claims this would save over \$3 billion, a 5 percent overall savings, by eliminating 17 percent of delivery service. I know that many of my constituents in Hawaii rely on the Postal Service for delivery of basic necessities. I also understand that some customers would sacrifice a day of service in order to keep rates low and make it also predictable.

However, a Postal Service survey showed that consumers prefer the service cut to a 10 percent rate increase. However, an across-the-board increase of 10 percent would raise far more than the \$3 billion saved by reducing delivery. I look forward to the PRC's full review of this particular issue.

Many of you here today have also called for more concessions by Postal unions in the coming negotiations. As Chairman of the Senate Oversight of Government Management, the Federal Workforce, and the District of Columbia Subcommittee, and a strong believer in the established collective bargaining process, I hope that management and the unions will negotiate in good faith, recognizing the circumstances that we are all faced with. This will require tough sacrifices by both labor and management and may require arbitration. However, negotiations free from precondition are the cornerstone of the collective bargaining process.

I would like to ask a question of Mr. Cantriel, Mr. Rolando, Mr. Burrus, and as well of Mr. Collins. As you know, economic conditions across the country have harmed many businesses in addition to the Postal Service, leading to high unemployment and wage cuts. I know you have worked hard with the Postal Service to reduce costs and improve efficiency. Would you discuss those efforts as well as how you expect the current economic crisis will affect the upcoming contract negotiations? Mr. Burrus.

Mr. BURRUS. My union is the largest Postal union and we are the first up in negotiations in 2010. The other unions follow. I certainly trust that you will appreciate my reluctance to negotiate in public and to lay out my demands or my expectations of the bargaining process in an open forum. The worst a negotiator can do is negotiate with one's self. I look forward to going to the bargaining table where the Postal Service will come and voice their demands on behalf of the American public, the Postal ratepayer. I will speak on behalf of the members of the American Postal Workers Union. And hopefully, we will come to an agreement.

I enter negotiations with no preconditions, with no prior demands of what I expect the outcome to be. I expect free and open collective bargaining and I expect, truly expect to negotiate a contract. That means that the Postal Service will agree and the union will agree to the conditions of employment. Certainly, if we fail to reach agreement, the law requires binding arbitration. But I am not even considering arbitration at this point.

I believe we can reach agreement, understanding the gravity of the situation that we are operating in today, the pressures, the ex-

ternal pressures, the internal pressures, the demand of the PAEA. All those factors will be taken into consideration at the bargaining table, and I will speak on behalf of the 260,000 Postal employees who I represent and I expect Postal management to speak on behalf of the Postal consumer.

Senator AKAKA. Thank you. Mr. Rolando.

Mr. ROLANDO. Yes. Thank you. The NALC, we are going to continue to seek win-win solutions with creative and responsible bargaining with the Postal Service, as well as trying to engage the Postal Service's efforts in innovative revenue generation that we can work on together in the future. We will continue a lot of the projects that we are working on now. I mentioned in my testimony that we saved hundreds of millions of dollars through the route adjustment process, and as long as we have a willing partner, we will certainly continue down that road. This year, we will reach a billion dollars in revenue to the Postal Service generated solely by the efforts of letter carriers with the businesses on their routes. So we are going to continue to just seek win-win solutions through bargaining, as we have.

Senator AKAKA. Thank you. Mr. Cantriel.

Mr. CANTRIEL. We are going to approach negotiations with a completely open mind and listen to proposals from the Postal Service. We have ideas of our own. I actually am going to meet tomorrow with the Postal Service to discuss some ideas that we have to cut costs on the adjustment procedures that we have and the way we count our mail and our ability to utilize some of the data that the Postal Service has without doing a physical count, which could account to millions of dollars of savings for the Postal Service.

So we will approach it similar to President Burrus, that we will try to get the best for our people and keep in mind that the Postal Service has to survive. That is where we work. That is where our checks come from. But we will approach it with a very open mind and look to continue to generate revenue for the Postal Service in any way we can and try to work with them the best we can to make sure that they survive and we survive.

Senator AKAKA. Thank you, Mr. Cantriel. Mr. Collins.

Mr. COLLINS. Thank you, Senator Akaka. One of the reasons that I am pinch hitting here, in fact, the only reason I am pinch hitting today is that National President Hegarty is in a meeting with the National Executive Board of the Mail Handlers Union this week and they are the highest governing body of this union. And one of the things that they are discussing this week is the upcoming contract negotiations.

So I can't speak for them except to tell you that we are confident that we will enter those negotiations and conduct those negotiations with good faith and with due diligence and that we are hopeful that the result of those negotiations will be a contract and solutions that will be good for our members, for the Postal Service, and for the American public.

Senator AKAKA. Thank you very much, Mr. Collins.

I have a question for supervisors and postmasters, Mr. Atkins, Mr. Mapa, and Mr. Rapoza. I understand that there has been concern that as craft positions have been reduced, your working hours have grown and many managers are covering craft positions or ad-

ditional management responsibilities. Can more be done to ensure reasonable working conditions for managers? Mr. Atkins.

Mr. ATKINS. Thank you, Senator Akaka. To address that issue, we as an employee group, supervisors, we do everything viable and efficiently as possible to make sure we have one core process that we think about every day. That is delivery of the mail. And we take that option very seriously.

Many of the budget cuts that the Postal Service headquarters have employed have been placed on the back of our first-line supervisors, managers, and postmasters. They have applied real diligence to the effort of delivering the mail, they have worked many hours that they are not being paid for, which technically if they are special exempt they shouldn't be. And some of the budget that their office is given each year does not fully and actually calculate the number of work hours that are given there.

But to answer your question directly. Now, how much more can be employed? I am not a techie advisor to go back and psychologically examine workers and see how much more they can do, but they are doing more than their fair share right now. I guess the honor of being a Postal employee is the dignity that they go to work with every day, and the ability to get the mail to our American public is foremost in their mind, and they have endured a lot and it is coming to a breaking point. But they are going to take whatever they can bear and get the mail delivered.

Senator AKAKA. Thank you very much, Mr. Atkins. Mr. Mapa.

Mr. MAPA. Senator Akaka, thank you for that question. As we have cut back on our workforce clerks, our carriers, both rural and city carriers—the load has shifted to postmasters. Also, we have cut back even on our supervisor workforce. So somebody has to get the work done, and these days, it is the postmaster. Postmasters have never shied from the responsibility, as my brother, Mr. Atkins, has said, to get the mail home.

However, this has caused many work hours to be added to the backs of postmasters, and as Mr. Atkins said, generally speaking, they don't get paid extra money to do that. So we have postmasters working 50, 60, 70 hours a week. Can we put some more on them? I think it would be the wrong thing to do, to expect them to work more. I think we have to look at more creative ways to enable our existing workforce to fill in where they are needed and maybe even to look at filling clerk-carrier positions so that we can allow the postmasters to work a more reasonable work day.

Senator AKAKA. Thank you. Mr. Rapoza.

Mr. RAPOZA. Senator Akaka, it is good to see you again. Thank you.

Senator AKAKA. It is good to see you, too.

Mr. RAPOZA. First of all, I want to thank you for introducing legislation to strengthen Title 39 to ensure reasonable and sustainable managerial workloads and schedules, and also to protect the integrity of management pay talks. We appreciate that very much.

Postmasters are loyal. They are loyal to their communities. They are loyal to the Postal Service. We will do whatever is needed to get the job done.

One of the areas that are really affecting us now is by having postmaster vacancies. Normally, these vacancies are filled with



craft employees, so the vacancy ends up in another office. This is an area that is hurting us and causing postmasters to perform more craft duties.

Senator AKAKA. Thank you very much. I look forward to continuing to work with all of you and look forward to trying to resolve the present problems that we have. Thank you very much.

Senator CARPER. Senator Akaka, thank you. Thanks so much, and thanks for your questions and for all that you do here. As you know, it is just a joy to be your colleague.

I am going to yield back again to Chairman Lynch to ask some more questions he wants to ask, and then I want to wrap it up with about 2 hours of questions. [Laughter.]

No, it won't be that long. Chairman Lynch, jump in here, please.

Mr. LYNCH. Thank you, Mr. Chairman.

I want to talk for a bit about the CSRS dispute. You all are alleging, and I think you have a good case, with the support of the Inspector General for the U.S. Postal Service that you have overpaid into the pension plan to the tune of, I guess, approximately \$75 billion. Let us call it \$75 billion.

I recently received a proposal from your group to try to reset that and to restore the overpayment to the U.S. Postal Service, and that would greatly improve your financial standing, more so if we put the Postal Service on a normal payment schedule instead of the prefunding requirement that you are under now, which is—it is extraordinary and I think it is unwarranted.

However, this proposal, it is \$75 billion, there is a dispute with OPM. They are saying it is something less or that the payment schedule is not abusive. So we have an active dispute going on. You have put forward a proposal that would artfully reconcile the amount that you believe and that by some, including the Inspector General, is supported. However, for us to reduce an amount from OPM's column and put it in the Postal Service column, it triggers a scoring factor for us and that, in this environment, is—I won't say insurmountable, but nearly so.

And so we need to figure out a way that we can address the scoring issue, providing that your position is substantiated. And again, I think you have a case. And I don't know if it is the \$75 billion or \$68 billion or whatever that number might be, but I think there is a fair case that you have made for a substantial overpayment, and as you have pointed out, that number is desperately needed and it could cure, at least in the short term and medium term, some of the requirements and some of the pressures that you are under now.

Would you object if we came to some agreement as to the amount that you are owed, and it has to be in that range that you have suggested, but I don't want to tie anybody else to a specific dollar amount, if there were legislation as you have offered to correct that situation? There is some dispute as to whether or not the scoring would be required. But I can't find that out, I can't get that answer without filing the bill.

So what I would like to do is perhaps proceed, file the proposal that you have offered, but hold it until we get a CBO scoring decision. Either they are going to decide that it doesn't have to be scored or they are going to decide from a budgetary standpoint that

it needs to be scored. I think before we can actively discuss that, we need to know that answer. So that is sort of the dilemma we have with settling out this negotiation about the amounts due for overpayment to CSRS.

Is that something that you would entertain, or are you just hell bent on trying to push that legislation come hell or high water?

Mr. ROLANDO. I guess we would need to clarify, Mr. Chairman. I think it is two-part legislation. I think the first part is, as OPM has said, they are not against the accounting method. They just said it would require a change in the law to use the other accounting method. So I think the first stage is to have it recalculated based on whatever methodology is agreed to and acknowledge the surplus. And once we have the surplus acknowledged, whatever that might be, like you said, then possibly to move forward with some legislation, like you said, to see how it scores.

But I think that first step of acknowledging a surplus is there or whatever legislation is necessary to recognize the surplus, I think is what we would have to do first. I don't know if that is what you meant, legislation to establish the surplus, and then legislation for some type of movement to see how that would score.

Mr. LYNCH. Well, I think we need to do the two-step, then. We need to offer both suggestions and get that to the CBO and say, assuming that we approve this new accounting method, is this a solution that will require us to score because that is a lot of time and a lot of energy for a solution that no one will vote for, and I just don't want to occupy the Members' time and Congress's time and the President's time with that type of approach if ultimately it is not going to succeed. It is just a colossal waste of time.

So I guess what I want to know is if we could try that method to get the decision by CBO, and they will only score it if it is live legislation. They won't score it if it is hypothetical, or at least that is what they are telling me.

Mr. ROLANDO. Right.

Mr. BURRUS. I concur that I believe it would be a two-step process, that first get the decision that what the Postal Service's obligation is in terms of funding. And then deal with the transfer of the money, which may or may not be scored, secondary. Deal with that later. We might choose to score it over a period of time, just as they imposed the payment over a period of time. You know, there are a lot of options in terms of the scoring process. But score what? You have to change the law before you know what has or does not have to be scored.

So I would prefer a two-step process, and we will work in tandem, all the Postal community will work in tandem, because we are joined at the hip on this issue, Postal management, all of the unions, management associations. We will be moving in lock step on this issue. I believe it—I think it would be a better approach through a two-step process, one just to set the record straight first what the Postal Service's obligation is.

Mr. LYNCH. Right. I see my time has expired. My concern is that Congress is not locked at the hip, but I appreciate your input. Thank you. I yield back.

Senator CARPER. Mr. Chairman, thanks for all your questions. Thanks so much for letting us be your partner and your teammate,

your wingman or your wingwoman as we approach again these important but challenging issues.

I learned during the course of our discussion here today and the questioning and during an aside with our Chairman from the House that he is the father of two daughters and he represents an area in the greater Boston area, well beyond Boston, but in Massachusetts. One of my sons just graduated from school, and I am the father of two boys, a little bit older than his girls.

Part of my goal, one of my goals in life is to pass on to my kids, and hopefully someday to their kids, just a better country, a better place in which to live and work and raise their families. I suspect that is one of the goals for all of us who are fortunate enough to be parents or grandparents or aunts or uncles, for that matter.

Delaware is the last State on the East Coast where there was any auto assembly operation. From Maine to Florida, it is the last State where any autos were assembled. We had a General Motors (GM) plant. We had a Chrysler plant. And we lost our Chrysler plant December 31, 2008. We lost our GM plant about a year ago. Very painful. I worked for 30 years to help keep that Chrysler plant going and almost 20 years on the GM plant. We lost them both. Ron Gettelfinger is a fellow that some of you all know, a UAW leader. He came out of Ford UAW and led the UAW through one of the toughest times I can imagine any union president leading an organization, and he presided during the leadership of the UAW at a time when their membership dropped by more than half, probably by as much as two-thirds, and in the end agreed to make concessions and changes that resulted in the UAW taking over ownership of the Employee Health Fund and using that as a way to help save the industry, but to provide some up-side, I think as the industry comes back, some up-side benefit for the union.

But I have real high regard for him, and for those of you who know him, you probably share that regard. During the course of the give and take, as GM and Chrysler went into bankruptcy and then out of bankruptcy, the UAW did some remarkable things in terms of what they were willing to sacrifice and put on the line in order to save not all the jobs, but to save the industry and give the folks who work there, maybe their sons and daughters, the hope that some day they could have a good job.

Really, I think of the Postal Service, I think of the auto industry as really opportunities for employment that help people move into the middle class and stay in the middle class. I want to ask you to kind of reflect on what the UAW has gone through in this country, some of the, I think, rather remarkable changes they were willing to accept in terms of, first of all, the wage benefit structure maybe for some of the new people that are coming in. They won't be able to participate at the same level of pay and benefits. Their willingness to do more of multiple training of employees who can do a variety of different tasks on the job.

But just reflect, if you will for me, on what they have done to save the industry. Ford is coming back strongly. I think GM is going to make a profit this year, and I think, God willing, Chrysler will do that next year. We, as taxpayers, own 60 percent of GM and about 10 percent of Chrysler. Not many people know that. Most people think we threw our money away. But those of us who voted,

and I know the Chairman here did, as well, who voted to save the industry, we didn't do it just out of the goodness of our heart. Later this year, GM is going to hold the first of a series of IPOs, stock offerings. The monies that will be raised, 60 percent of it will come back to the Treasury, the taxpayers. Next year, Chrysler will do a similar kind of thing. So people, I think, will be pleasantly surprised when that happens.

But just reflect for us on what the UAW was willing to do and what lessons there might be for us with respect to the Postal Service, and for you.

Mr. ROLANDO. I think it is somewhat of an unusual comparison because, of course, the UAW was dealing with companies that were involved in a taxpayer bailout, whereas the Postal Service is just trying to get access to what would be their own money.

But certainly when we enter into collective bargaining, like I said, we want to be completely creative and innovative and adjust to what has to be done. Any particular thing the UAW did, of course, it is difficult to discuss without looking at the total package involved and the situations the Postal Service is in.

Senator CARPER. You once mentioned to me in a conversation we had, Mr. Rolando, we were talking about how do we save 6-day service, and one of the ways I think you all had actually discussed at the bargaining table with Postal management was the possibility of folks who worked on Saturdays, maybe deliver the mail on Saturdays, would work under a different pay-benefit structure. Would you just mention that for us?

Mr. ROLANDO. Yes. That was one of the proposals that we discussed in the last negotiations, where it would actually make Saturday delivery a little bit less expensive for the Postal Service by using a different workforce that would be primarily made up of possibly retirees, family, and so forth. But it never went anywhere, but it was an interesting proposal that we discussed last time.

Senator CARPER. Thank you. Others, please. Mr. Burrus or Mr. Collins?

Mr. BURRUS. Yes. As I said, we begin negotiations in August of this year, the first of the Postal unions that will be engaged in the process with Postal management during the period of this massive loss of volume as well as revenue. Everything is on the table. We will consider everything. However, there are some demands at the outset.

I don't expect the membership of the American Postal Workers Union, the people that I represent, to save the Postal Service. The Postal Service is a huge community. There are a lot of factors that have to be considered, many of them that were discussed here today. But among those are if the Postal Service is going to set the cost of the work that my members perform at the rate of 10.5 cents a letter in discounts, that has to be on the table. It has to be.

If you are going to determine the value that is given to that activity, then that has to be on the table as we consider what is the value for my members to do the exact same work. So everything has to be on the table. Supervisors, managers, the structure, the employees, the hourly wage, all of that is on the table and we will work our way through it. If there is good faith on both sides, I expect that we will reach an agreement.

But one of the key factors is going to be—because the Postal management has a right to arbitrarily determine what the value of the work that my members perform is with the people that perform it. Those are the consolidators and others that perform that activity that set that rate. I certainly can't go there in good faith and say, you determined if X does this work, it has value at 10.5 cents a letter, but if your members perform this work, half-a-cent per letter. That doesn't lead to an agreement.

Senator CARPER. OK, thanks. A vote has just started and we have between 5 and 10 minutes to go and vote.

Let me just make a comment. Mr. Rolando said it seemed like an unlikely comparison, the situation that the UAW was in and the situation that we have in the Postal Service. One of the things to keep in mind, and I think I mentioned this in my opening statement, there are a number of stakeholders with respect to the Postal Service and this obviously includes customers, business, and otherwise, nonprofits and residents and so forth. But there are a number of stakeholders who include the folks who work at the Postal Service, retirees. They include the taxpayers.

And when it came to the U.S. auto industry, there are a lot of stakeholders there, too, bond holders, those that owned shares, common stock, preferred stock, the folks who worked there, the retirees, their families, taxpayers. And what we tried to work out with the auto industry was a fair, equitable sharing of the sacrifice and everybody did a little bit, and I think at the end of the day, people said, they did good. So hopefully we can figure out something like that in this regard, too.

Mr. Cantriel.

Mr. CANTRIEL. I am a little bit in a unique situation because I worked for 8 years for Chrysler, from 1972 to 1980, during the period of time where gas prices did some weird things and jobs came and went overnight. So I experienced a lot of what the UAW went through during that period of time.

Senator CARPER. Where did you work?

Mr. CANTRIEL. I was at the Fenton, MO, assembly plant.

Senator CARPER. OK.

Mr. CANTRIEL. And I am familiar with some of our workers from that area went up to the Newark plant.

Senator CARPER. Yes.

Mr. CANTRIEL. So I am somewhat familiar with what you have and what you are talking about. I am not sure that I make the complete connection you do because of the universal service obligation that we have and so many things that are mandated to the Postal Service that Chrysler and GM are dependent on, the whims of the customers that they have, whether they like one product or another. If they move to another, the pricing is different.

So it is significantly different on several aspects of it, and whenever you look at what makes this country great, the stronger the middle class, the stronger the country is going to be. And I don't think that we want to erode the middle class any more, and I view the Postal Service jobs as good, strong middle class jobs. I think we have to be very careful when we look at eroding that and taking away from the value of our country.

There are a lot of things the Postal Service can do and look at before they start two-tiering the workers that do exactly the same job, because that tends to make it difficult to draw the class of people that you need in the Postal Service, where they look across the hall at someone doing exactly the same job they are doing for a third of the salary or a fourth or a fifth or half the salary. So I think we have to be very careful how we approach that.

There are a lot of things in collective bargaining that we can open up and look at and both sides can benefit from. I am more interested in revenue generation and putting the Postal Service back on a solid base rather than eroding the middle class any more than it already has been.

Senator CARPER. I think there might be room for both approaches. We will see. I focus a lot on revenue generation, as well, and I think that is important. And you and the folks that you represent probably have better ideas on revenue generation than most of us who sit on this side of the dais. We need those ideas and welcome them.

Does anybody else want to make a comment on this issue? Please.

Mr. ATKINS. Yes. Like the representative of the National Association of Postal Supervisors, I would like to make one comment. I agree with the gentlemen over here and my cohorts over here to my left as far as negotiations, but we have to negotiate, you have to have fairness on both sides, and that is somewhat disturbing. Being through a couple negotiations, there has been little give and take on the Postal Service headquarters side and we have to have—to obtain anything, we need to be fair, and I know workers that belong to the National Association of Postal Service will be willing to give and do everything to make the Postal Service survive. But the thing that they have to employ, that they are getting fair treatment and a fair break and have honest figures and have an honest day's work before they sit down and actually can entertain and trust the other side. And it is trust that we build upon that leads to a relationship, and that is somewhat hard to—I would say that is somewhat hard to believe at this period in time.

But we do want to look forward and make sure that the next negotiation period is one built on trust relationship and what is good for the American people, what is good for the Postal Service, and what is good for the National Association of Postal Supervisors' members.

Senator CARPER. All right. Thank you.

I have a number of questions I am going to submit for the record. I may try to work one question in. In terms of what we need to do here, a lot of people have done a lot of work. You all have done a lot of work in the organizations that you lead. You have done a lot of work in trying to identify ways to raise revenues, increase the revenue stream, trying to find ways to provide better service for maybe less money, at least equal service for less money.

And the three consulting firms that the Postal Service hired to do the work, I thought for the most part did good work. It is not to suggest that we should buy everything they said lock, stock, and barrel, but there is a lot of good work that has been done and a lot of good ideas, and if we are really smart, we will synthesize

those and try to figure out a comprehensive path forward. Some work has been done already to do that.

Among the things I think we agree on, one, this formula by which we are required in the 2006 law to prepay retiree health benefits, the most conservative approach I have ever seen for any State or local government, any company in this country, is something that needs to be modified.

I think another thing we can agree on, if the Inspector General for the Postal Service is right and the Postal Service has overpaid its Civil Service obligation, we need to try to use that money to meet, I think, the health care benefit obligation and try to pay that down. I think that will help in the near term and the long term, as well.

I think part of the solution, as some of you suggested, is just to be very creative, very thoughtful in terms of identifying revenue generating opportunities. We don't do a lot of voting by mail. They do in a couple of States. Oregon is one of those, and some of us, Senator Wyden and myself and others have been pushing that. For all I know, the Chairman over here to my left, Chairman Lynch, has been an advocate of that, as well. That could be a pretty good revenue stream for the Postal Service. It could also increase voter turnout and save money in terms of reducing the cost of having elections.

There are ideas out there that if we just be smart and think outside the box and identify them, we can identify those.

I want to say in terms of the collective bargaining work that is upcoming that is before all of you, you have a tough challenge ahead of you. We get elected and reelected if our people think that we are fairly representing their interests. We can't continue with trillion-dollar deficits and we certainly can't continue with the Postal Service running a deficit of \$200 billion or whatever it is over the next 10 years.

But we need as elected officials to ask people to, in some cases, get less in terms of benefits for programs or whatever from the Federal Government, and in some cases, if they are not paying their fair share of taxes, to ask them to pay a little bit more. That is not a combination for getting reelected.

And for those of you who have to be elected and to run for office in many cases, to ask your folks to be willing to work maybe a little more, maybe a little smarter, a little bit harder for maybe not much more money, or maybe even the same, that is not an easy thing to do and to get reelected, as well. As one sort of political animal to another, we understand and we appreciate the challenges that provides for all of you.

The other issue we have had some discussion back and forth on is facilities, whether they happen to be Post Offices, they happen to be like substations or branches or whatever, or the processing centers. We have to find a way. There have been a bunch of good ideas on how to do that in a fair and humane way and a smart way, and we need to identify those. I don't know if the idea is a BRAC-like process. I am not sure what the answer is, but that has got to be part of the solution.

And in that mix there, there is a pretty good strategy, and it includes some of the things that you have mentioned. I tried to sum-

marize some other ideas. There is a pretty good strategy there that asks a little bit of sharing and sacrifice from almost everybody with the potential for having a Postal Service that will be there when your daughters are 110 and 115 and my sons are 120 and 121.

Mr. LYNCH. There you go.

Senator CARPER. So our job is to figure that out and to work in that direction together, and that is what we pledge to do.

Again, you all have been very good to spend this much time with us today to share your thoughts. Thank you for your leadership in this tough time. It is a real privilege to spend this time with you and I am grateful for all that you are doing in the House. Obviously, we don't solve these issues in the Senate by ourselves, nor in the House by yourselves, nor without the Executive Branch, nor without your help and input, as well. So together, we will see if we can't get this done.

Thank you all very much, and with that, we are adjourned and we are going to go start voting. Thank you.

[Whereupon, at 6:16 p.m., the Subcommittees were adjourned.]



# APPENDIX

FOR IMMEDIATE RELEASE



**TOM CARPER**

UNITED STATES SENATOR • DELAWARE



FOR RELEASE: June 23, 2010  
CONTACT: Emily Spain (202) 224-2441

**SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT  
INFORMATION, FEDERAL SERVICES, AND INTERNATIONAL SECURITY**

**COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS**

**HEARING: "Having Their Say: Customer and Employee Views on the Future of the  
U.S. Postal Service"**

## **Opening Statement of Senator Thomas R. Carper, Chairman**

"This is the second hearing I've chaired this year on the financial crisis currently facing the Postal Service and the proposals postal management and GAO have made to address that crisis.

"We're joined at this hearing by our colleagues from the House Oversight and Government Reform Committee's Subcommittee on the Federal Workforce, Postal Service and the District of Columbia. To Chairman Lynch, Ranking Member Chaffetz and your colleagues – welcome. I look forward to working with you as we try to come to a consensus on the reforms necessary to help the Postal Service respond to both the short- and long-term challenges it faces.

"As we all know, the economic crisis that our country continues to face has impacted just about every family and business in our nation. It has been especially traumatic, I would argue, for the Postal Service and its customers.

"The Postal Service ended fiscal year 2009 with a 13 percent decline in mail volume compared to fiscal year 2008. This resulted in a year-end loss of some \$3.8 billion, up from \$2.8 billion a year before. This loss came despite heroic efforts on the part of the Postmaster General and his team to achieve more than \$6 billion in cost savings over a very short period of time.

"And the loss would have been significantly higher – a total of \$7.8 billion, to be exact – if Congress and the President has not acted at the last minute to reduce the size of the Postal Service's overly-large retiree health pre-funding payment.

"Unfortunately, the projections for the current fiscal year look no better than these results for fiscal year 2009. Despite an expected recovery in at least some areas of the economy, the Postal Service is anticipating a further decline in mail volume. This, coupled with the fact

that savings will likely be harder to come by this year, will result in the kind of massive, \$7 billion or \$8 billion loss we were expecting right up until the end of fiscal year 2009.

“On top of this news, the Postal Service recently hired a group of three outside consultants to look at its business model and future prospects. They came back with findings showing that the Postal Service will continue to lose mail volume even when the economy recovers. They even pointed out that the Postal Service can be expected to lose more than \$230 billion over the next decade if major changes are not made.

“So we have our work cut out for us. At the Postal Service, it is imperative that postal management not let up in their efforts to streamline operations and cut costs. The processing, delivery, and retail network the Postal Service uses today was built, for the most part, with the thought that mail volume would continue to grow forever.

“Based on work I’ve seen over the years from GAO, the Postal Service’s Inspector General and others, we likely have some overcapacity and too large of a workforce. This must be confronted head on. Postal customers – including those we will hear from today – still depend on the Postal Service. But at a time when the pace of electronic diversion is likely picking up, we probably can’t rely for very much longer on customers’ willingness to continue paying for a postal system that seems in many ways to be much larger than we need.

“Congress also has a role to play. All too often, we criticize the Postal Service for various management and service problems but then stand in the way when the Postmaster General puts painful but necessary changes on the table.

“We’ve also failed recently to address the financial constraints that have worsened the Postal Service’s problems. There is growing evidence that the formula created in the 1970s to determine how much the Postal Service must pay into the old Civil Service Retirement System has resulted in significant overpayments. In addition, it’s become evident that, in the 2006 postal reform legislation, we saddled the Postal Service with an overly aggressive retiree health pre-funding schedule that has pushed postal finances into the red in recent years.

“These two issues need to be resolved sooner rather than later – and in a comprehensive manner – so that postal management can be freed to address the long-term structural problems that threaten the Postal Service’s survival in the coming years.

“Following this hearing, I plan to work with my colleagues begin the process of putting together legislation to help the Postal Service execute the reform plans Postmaster General Potter put forward at our last hearing. This bill won’t be another attempt at postal reform. It is my hope, however, that it will remove the obstacles that prevent postal management from cutting costs while dealing once and for all with the pension and retiree health issues we’ve spent so much time discussing recently.

“This committee reported out legislation last summer to address the 2006 retiree health payment schedule. It also touched on labor costs through a provision requiring arbitrators to take the Postal Service’s financial condition into account during labor disputes. Following

the Postal Service's announcement this spring regarding its long-term deficit projections, however, it's become clear to me that this legislation does not go far enough.

"So I look forward to working with all postal stakeholders – including those in the room today – to put a meaningful, effective bill together. In doing so, I plan to urge everyone to put aside the biases and political battles that made postal reform so difficult in 2006 and that have prevented us from making progress on the pension and retiree health issues so far. It's long past time that those interested in the Postal Service – whether they be unions, mailers, or even members of the House and Senate -- recognize that we all need to make some sacrifices in order to preserve the vital services the Postal Service provides."

###

**Statement of Senator Daniel K. Akaka**

**Senate Homeland Security and Governmental Affairs Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security**

**"Having Their Say: Customer and Employee Views on the Future of the U.S. Postal Service"**

**June 23, 2010**

Thank you, Chairman Carper and Chairman Lynch, for continuing this important oversight of the Postal Service and the challenges that lie ahead.

As I said at our last hearing in April, the financial situation of the Postal Service has changed dramatically over the last four years. Volume and revenue have declined greatly and will not all come back.

The Postal Service has been very successful in finding efficiencies wherever it can under current law. Some unnecessary work hours have already been reduced. In addition, the Postal Service is looking at its retail network to see if there may be excess capacity, and in cooperation with the letter carriers, consolidating unneeded routes. This work will need to continue in order to further modernize the postal system. However, there are some changes that require action by Congress.

The Postal Service has requested that Congress modify the burdensome payment schedule for pre-funding retiree health benefits. Without this pre-funding obligation, the Postal Service could close its deficit. I support the Postal Service's request and I supported Senator Carper's bill to adjust these payments. Unfortunately, I could not support the bill after a provision affecting collective bargaining rights was included during the Committee process. As I have said before, in the interest of moving forward with immediate payment relief, this controversial debate should take place apart from this otherwise good and important legislation.

The Inspector General also recently found that the Postal Service may have been overpaying its retirement obligations by up to seventy-five billion dollars. If true, the Postal Service should be allowed access to those funds.

Perhaps the most controversial recommendation that the Postal Service has put forward is moving to five-day delivery. Six-day delivery is a requirement that is included in an appropriations bill yearly. Cutting a day of service, the Postal Service claims, would save over \$3 billion. I have been very cautious about this proposal, which could eliminate seventeen percent of service for only five percent in overall savings, assuming that the Postal Service realizes every bit of the projected savings. Additionally, many of my constituents in Hawai'i rely on the Postal Service for delivery of basic necessities.

However, I understand that many customers would sacrifice a day of service in order to keep rates low and predictable. The Postal Service commissioned a study that, in part, asked consumers if they would rather lose a day of service or face a ten percent rate increase. As the Postal Service has pointed out, faced with that choice, consumers prefer to cut service. However, an across the board increase of ten percent would raise far more than the \$3 billion that a delivery cut would.

As we speak, the Postal Regulatory Commission is reviewing this proposal. I hope that they will be able to give us an independent assessment of what the real impacts of five-day delivery would be.

I also want to mention the other challenges we will be facing as union contracts come due for renegotiation. Many have called for more and dramatic concessions by the postal unions in the coming negotiations. As Chairman of the Senate Federal Workforce Subcommittee – and a strong believer in the established collective bargaining process – I hope that management and the unions will negotiate in good faith, recognizing the circumstances that we are all faced with.

I hope that neither they, nor my colleagues, will pre-judge these negotiations or push for one side to make concessions over the other. The negotiations will require tough sacrifices by both labor and management and may require arbitration. However, negotiations free from precondition are the cornerstone of the collective bargaining process.

To all of the Chairmen and Ranking Members, and to each of our witnesses here today, thank you for your leadership as we examine all of these issues and work to strengthen the Postal Service.

**STATEMENT OF SENATOR JOHN MCCAIN, RANKING MEMBER****SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT,  
GOVERNMENT INFORMATION, FEDERAL SERVICES AND  
INTERNATIONAL SECURITY****COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL  
AFFAIRS****“Having Their Say: Customer and Employee Views on the Future of the U.S.  
Postal Service”****June 23, 2010**

Senator Carper and Congressman Lynch, thank you for holding this joint hearing on the future of the U.S. Postal Service, and welcome to our colleagues from the House. I look forward to hearing the views of the mailing community and postal employees on how to ensure a sustainable Postal Service.

The Postmaster General testified in April that mail volumes continue to drop significantly, the cost of delivering mail continues to increase, and the Postal Service’s financial situation remains “precarious.” The Postal Service again faces an estimated \$7 billion loss at the end of this fiscal year. It is so strapped for cash that it will not be able to make both retiree health benefit trust fund payments and October’s payroll, despite drawing on another \$3 billion from the U. S Treasury.

The Postal Service’s financial problems are exacerbated by restrictive collective bargaining agreements and enormous labor costs, which accounted for nearly 80% of total expenses in 2009. The Postal Service is statutorily required to pay wages and benefits comparable to the private sector, yet it does not have the workforce flexibility of the private sector. During business downturns, it cannot lay off employees or assign idle employees to perform tasks outside their designated craft. Furthermore, it is restricted from exercising some of its outsourcing capabilities. And, the Postal Service must pay for health and life insurance benefits greater than those offered by other federal agencies.

Given the backdrop of these labor restrictions and costs, I was alarmed to read a June 13, 2010 article in *The Columbus Dispatch* that postal employees were getting paid for doing no work. The article states:

*"A group of Postal Service employees in Columbus spent five days in late May and early June being paid to do no work. A supervisor told them to stay in an area of the processing and distribution center near Port Columbus. The nine men played cards and took naps. One of them brought in coloring books and they had a contest to see who could make the prettiest picture. They all earned their regular wages, \$20.58 to \$26.34 per hour."*

Such scenarios occur because of restrictions placed in collective bargaining agreements. These agreements should not and cannot be so restrictive or costly that they lead to the demise of the Postal Service. It is the job of postal management to press for adequate flexibility in workplace rules during collective bargaining negotiations. Likewise, it is the responsibility of employee unions to ensure a sustainable cost structure for the Postal Service and not negotiate themselves out of a job. The past failures of postal management and the continued inflexibility of employee unions must change.

Earlier this year, the Postal Service's Inspector General identified a \$75 billion pension overpayment by the Postal Service. There have been some disagreements between the Postal Service and the Office of Personnel Management as to whether an overpayment exists. The Postal Regulatory Commission is currently evaluating the potential overpayment and is expected to issue a ruling on the matter in mid-July. If the ruling goes in favor of the Postal Service, it will be a substantial financial boost, but it will not fix the Postal Service's broken business model. We need comprehensive reform, and everyone must do their part.

Thank you again, Chairman Carper and Chairman Lynch.

EDOLPHUS TOWNS, NEW YORK  
CHAIRMAN

PAUL E. KANJORSKI, PENNSYLVANIA  
GARDIN B. MALONEY, NEW YORK  
ELIJAH E. GUMMINS, MARYLAND  
DENNIS J. KUCINICH, OHIO  
JOHN F. TIERNEY, MASSACHUSETTS  
WM. LLOYD CLAY, MISSOURI  
DAVE E. WATSON, CALIFORNIA  
STEPHEN F. LYNCH, MASSACHUSETTS  
JIM COOPER, TENNESSEE  
GERALD E. CONNOLLY, VIRGINIA  
MIKE QUIGLEY, ILLINOIS  
MARCY KAPTELUS, OHIO  
REANOR HOLMES, DISTRICT OF COLUMBIA  
PATRICK J. KENNEDY, RHODE ISLAND  
DANNY K. DAVIS, ILLINOIS  
CHRIS VAN HOLLEN, MARYLAND  
HENRY CUELLAR, TEXAS  
PAUL W. HODES, NEW HAMPSHIRE  
CHRISTOPHER S. MURPHY, CONNECTICUT  
PETER WELCH, VERMONT  
TILE FOSTER, ILLINOIS  
JACKIE SPEDER, CALIFORNIA  
STEVE DRINKWATER, OHIO  
JIMMY CHAO, CALIFORNIA

ONE HUNDRED ELEVENTH CONGRESS

## Congress of the United States House of Representatives

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM  
2157 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, DC 20515-6143

Majority (203) 225-9051  
Facsimile (202) 725-4768  
Minority (202) 725-8074

www.oversight.house.gov

DARRELL E. ISSA, CALIFORNIA  
RANKING MEMBER

DAN BURTON, INDIANA  
JOHN L. MICA, FLORIDA  
JOHN J. GONCALVES, JR., TENNESSEE  
MICHAEL R. TURNER, OHIO  
LYNN A. WESTMORLAND, GEORGIA  
PATRICK T. McHENRY, NORTH CAROLINA  
BRIAN P. BILIRAY, CALIFORNIA  
JIM CROMAN, OHIO  
JEFF FLAKE, ARIZONA  
JEFF FORTENBERRY, NEBRASKA  
JASON CHAFFETZ, UTAH  
KARON SCHOK, ILLINOIS  
BLAINE LUTHEMEYER, MISSOURI  
ASH JOSEPH, CALIFORNIA  
BILL SHUSTER, PENNSYLVANIA

### STATEMENT OF CHAIRMAN STEPHEN F. LYNCH

HOUSE SUBCOMMITTEE ON FEDERAL WORKFORCE,  
POSTAL SERVICE, AND THE DISTRICT OF COLUMBIA AND SENATE  
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT  
INFORMATION, FEDERAL SERVICES, AND INTERNATIONAL SECURITY

#### JOINT HEARING

**“Having Their Say: Customer and Employee Views  
on the Future of the Postal Service.”**

**Wednesday, June 23, 2010, 2:30 p.m.  
G50 Dirksen Senate Office Building**

Let me begin by thanking Senator Carper, his staff, and the members of the Senate Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security for agreeing to hold this House and Senate joint hearing, which goes to show that both houses of Congress recognize the critical state of affairs currently confronting the United States Postal Service. As Chair of the House Subcommittee with oversight of the Postal Service, I remain quite concerned about the financial and operational challenges that have caused one of our nation's most trusted and prominent public institutions to fall upon such difficult times.

With new technology and the rise of electronic communications, the landscape for the ways Americans communicate and transact business has been altered forever. Mail volume is declining dramatically as the cost of delivering mail to an expanding number of addresses continues to grow. The recent economic downturn has accelerated this trend, as businesses have cut expenses and reduced their investment in the mail. Statutorily imposed benefit obligations, such as the prefunding of future retiree health costs, have made the Postal Service's financial situation even worse. This perfect storm has resulted in the Postal Service experiencing an unprecedented cumulative loss of nearly \$12 billion over the past three consecutive fiscal years. While the Postal Service has recently revealed some relatively good news – that it is doing better



this year than previously anticipated by some \$1.3 billion – if current projections come true, the Postal Service could stand to lose another \$7 billion by the end of this year.

Given these extraordinary financial challenges, I am encouraged by the Postal Service's "Action Plan for the Future" as well as GAO's report "Strategies and Options to Facilitate Progress towards Financial Viability." The Postal Service's plan and GAO's report have spurred a meaningful dialogue about how best to return the Postal Service to sound financial footing; a dialogue upon which all interested stakeholders can participate. While my Subcommittee and its Full Committee received some initial testimony on the Postal Service's plan and GAO's report in April of this year, constraints at the hearing did not allow for us to receive testimony from other interested stakeholders, such employees and customers.

Customers and employees are the lifeblood of the United States Postal Service. Without them, there would be no United States Postal Service. It is essential that we hear the ideas, thoughts, and concerns of those most closely affected by the Postal Service before moving forward with potential reforms. Only after hearing from these members of the postal community can we fully explore and consider the ramifications of all viable options for ensuring a robust and vibrant Postal Service for decades to come.

I appreciate today's witnesses for being here with us this afternoon to offer their feedback on the Postal Service's plan and GAO's recent report as well as other suggested strategies on how best to increase revenue, reduce costs, and improve efficiency in order to help ensure the future sustainability of the Postal Service. Again, I'd like to thank Senator Carper for agreeing to hold this House and Senate joint hearing, and I look forward to an informative discussion this afternoon.

**OPENING STATEMENT OF JASON CHAFFETZ  
RANKING MEMBER  
SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL  
SERVICE, AND THE DISTRICT OF COLUMBIA  
JUNE 23, 2010  
HEARING: "HAVING THEIR SAY: CUSTOMER AND EMPLOYEE  
VIEWS ON THE FUTURE OF THE U.S. POSTAL SERVICE."**

- **Thank you Mr. Chairman. This is the first joint House-Senate hearing for our Subcommittee this Congress, and it is certainly timely.**
- **I've enjoyed working in a bi-partisan way with Chairman Lynch during the 111<sup>th</sup> Congress, as we have attempted to come to grips with key postal issues.**
- **While the United States Government is enormous and growing, the United States Postal Service continues to shrink.**
- **Cost-cutting efforts by USPS have been substantial and must be vigorously pursued in upcoming contract negotiations with postal unions.**
- **The vast postal community includes a \$1.2 trillion dollar mailing industry, and its views must be taken into serious account.**
- **Even in its diminished state, USPS still delivers nearly half the worlds mail, and the number of addresses in the nation is growing.**
- **USPS still has more retail locations than McDonalds, Starbucks, Walgreens, and Walmart combined.**
- **But there is no blinking at the fact that the Postal Service continues to experience a major economic crisis.**
- **The Postal Service is rapidly approaching a "free-fall" state of operation, and will soon be unable to sustain itself.**

- **Last year Congress enacted H.R. 22, bi-partisan legislation which granted a limited reprieve on retiree health plan payments. These annual payments, first required in 2006, have reached over \$5 billion a year, and are a major drain on USPS cash flow.**
- **The Postal Service Financial Relief Act of 2009, included in a Continuing Resolution signed by the president, reduced for 1 year the payment due from USPS into the Retiree Health Benefits Trust Fund from \$5.4 billion to \$1.4 billion.**
- **This year I joined others in sponsoring a bi-partisan series of briefings to better acquaint congressional offices with the latest policy concerns and issues confronting the Postal Service.**
- **Our Subcommittee has held postal hearings March 25, 2009; May 20, 2009, and April 15, 2010, as we work ourselves through these tough issues.**
- **While USPS continues to advocate for 5 Day delivery, I have stated before and reiterate here that I do not think that is the way to go.**
- **The Government Accountability Office and the Postal Inspector General assert that there has been a massive overpayment from USPS into the Civil Service Retirement System, a key issue we will continue to explore today.**
- **GAO has also suggested that Congress consider enacting BRAC-type legislation, and I have been exploring that option with others.**
- **The vast postal community and its customers are all in this together, and we must continue to seek solutions.**
- **I look forward to the testimony from our distinguished witnesses, and to their responses to our questions. Thank you.**



H. James Gooden  
Chair

Albert A. Rizzo, MD  
Chair-Elect

Mary H. Partridge  
Past-Chair

Christine L. Bryant  
Secretary/Treasurer

Ross P. Lanzafame, Esq.  
Speaker  
Nationwide Assembly

Geri Reinardy, MPA  
Speaker-Elect  
Nationwide Assembly

**NATIONAL HEADQUARTERS**

Charles D. Connor  
President &  
Chief Executive Officer

1301 Pennsylvania Ave., NW  
Suite 800  
Washington, DC 20004-1725  
Phone: (202) 785-3355  
Fax: (202) 452-1805

14 Wall Street, Suite 8C  
New York, NY 10005  
Phone: (212) 315-8700  
Fax: (212) 315-8800

[www.LungUSA.org](http://www.LungUSA.org)

**Having Their Say: Customer and Employee Views on  
the Future of the U.S. Postal Service**

**Statement of H. James Gooden  
Chair  
Board of Directors**

**before**

**Senate Homeland Security and Governmental Affairs  
Committee's Subcommittee on Federal Financial  
Management, Government Information, Federal  
Services, and International Security  
and  
House Committee on Oversight and Government  
Reform Subcommittee on Federal Workforce, Postal  
Service, and the District of Columbia**

**June 23, 2010**

Mr. Chairmen and members of the Committees, my name is H. James Gooden and I am the Chairman of the Board of Directors of the American Lung Association. The American Lung Association was founded in 1904 to fight tuberculosis and today, our mission is **to save lives by improving lung health and preventing lung disease**. We accomplish this through research, advocacy and education.

I am honored to testify today on behalf of the members of the Alliance for Nonprofit Mailers of which the American Lung Association is a charter member. The Alliance of Nonprofit Mailers was established in 1980 as a national coalition of nonprofit organizations sharing a vested interest in nonprofit postal policy. The Alliance is the primary representative of nonprofit mailers before the United States Postal Service, Postal Regulatory Commission and on Capitol Hill. Our membership is a cross-section of America and includes:

- **Public health and medical groups** including St. Jude Children's Research Hospital, the American Cancer Society and the American Heart Association.
- **Colleges and universities** including Utah State University, Boston University, the University of Delaware and Oklahoma State University.
- **Consumer organizations** including Consumers Union and Consumers Checkbook.
- **Farm bureaus** including the American Farm Bureau Federation and the Illinois, Ohio and Texas Farm Bureaus as well as the National 4-H Council.
- **Religious organizations** including many Roman Catholic organizations, the American Baptist Churches, the Church of Jesus Christ of Latter-day Saints and the Association of Christian Schools.
- **Arts and humanities organizations** including the Cleveland Museum of Art, the Smithsonian Institution and the League of American Orchestras.

In 1907, the American Lung Association invented direct mail fundraising in the United States through our Christmas Seals program. A volunteer named Emily Bissell came up with a plan based on one that had worked in Denmark: She designed and printed special holiday seals and sold them at the post office for a penny each. By the end of her holiday campaign, she and a large group of committed volunteers had raised ten times her initial goal. With it, the American Lung Association Christmas Seals were born.

The American Lung Association – like many other members of the Alliance – uses mail primarily to communicate with volunteers and to raise money. Last fiscal year, the Lung Association mailed 48 million pieces of nonprofit standard mail. However, unlike many other organizations, we are also responsible for **driving** additional mail volume across the country, as our Christmas Seals encourage Americans to send Christmas and other holiday cards – thereby boosting First-Class mail. But an oversized, over-budget Postal Service threatens the members of the Alliance of Nonprofit Mailers and all other nonprofits, as the Postal Service will inevitably fall back upon raising postage rates to, in part, make up for its projected \$7 billion deficit.

Our organizations are greatly troubled that the Postal Service has announced that it will raise postage rates in early 2011. The increase is expected to be five to ten times the rate of inflation – which will result in a decrease in mail from nonprofits during already difficult financial times. Nonprofits will be forced to not only cut back on the number of pieces we mail but it will greatly impact nonprofit organizations' abilities to deliver key programs and services across this nation.

According to the Lung Association's calculations, if the Postal Service files an exigent rate case to increase nonprofit mailing rates by 8 percent, our Association would take a hit of nearly \$550,000. That cost would come right out of our net income and ability to deliver programs – including funding research to improve treatments and find cures for the more than 35 million Americans with chronic lung diseases; giving children the tools they need to manage their asthma so that they can stay healthy in school and be ready to learn; fighting for healthy air and fighting against tobacco. We – like other nonprofits – would be forced to reduce mail volume, which will just reinforce the Postal Service's downward spiral. If this trend continues, some nonprofits may be forced out of using direct mail as a fundraising tool, since the return on investment for direct mail fundraising is quickly plummeting toward the point where it may no longer be a sustainable method of generating net income to fund important programs. We believe the only solution is for the Postal Service to finally bring its infrastructure and capacity in line with actual demand. That is why the Alliance for Nonprofit Mailers has taken the difficult step to support the Postal Service's recommendation to eliminate Saturday delivery.

Why would we do this given all the potential downsides? Because the American Lung Association and all nonprofit organizations are heavily dependent on a fiscally sound U.S. Postal Service – a cost-effective, efficient postal system. And we wish to partner with the Postal Service and will provide a healthy volume of mail as long as we are not priced out of the market. But the only way we see that happening is if the Postal Service reduces its capacity.

In addition to the threat of a general postage increase in early 2011, nonprofits are also concerned that preferred nonprofit postage rates could be eliminated. This move would be a terrible mistake. Congress has authorized special nonprofit rates for more than fifty years, and has repeatedly reaffirmed that policy. The policy still makes good sense. Reduced postage rates enable the American Lung Association and other nonprofit organizations, including churches and faith organizations, to provide a critical role in our society. The role of the nonprofit sector in providing social support services is even more crucial today, when cash-strapped state and local governments are struggling to meet the basic needs of citizens.

Thank you for the opportunity to testify before you today. Nonprofit organizations can be found in every state and congressional district in this nation. We provide a unique and necessary role in America – one that has been enhanced by the U.S. Postal Service. On behalf of all nonprofits, we ask for your continued support moving forward to ensure that we can continue to rely on an affordable and fiscally sound U.S. Postal Service.

**Testimony of Don Hall, Jr.  
President and CEO of Hallmark Cards, Inc.**

**Before a Joint Hearing of the Senate Subcommittee on Federal Financial Management,  
Government Information, Federal Services and International Security and the House,  
Postal Service and the District of Columbia**

**June 23, 2010**

Good afternoon. Chairman Carper, Chairman Lynch, Ranking Members McCain and Chaffetz and other distinguished members of the Committees. My name is Don Hall, Jr. and I am President and CEO of Hallmark Cards, Inc. Thank you for the opportunity to speak to you today about the future of the United States Postal Service.

2010 marks the one hundredth anniversary of Hallmark Cards, Inc. For more than a century we have helped our consumers connect with friends, relatives and loved ones and to give voice to their feelings. In January, 1910 my grandfather, Joyce Hall started a business with two shoeboxes of greeting cards. That business has grown into a \$4 billion corporation offering products to consumers in one hundred countries around the world and in 40,000 stores in the United States. We offer employment to more than 27,500 people in the United States and work closely with thousands of small business entrepreneurs in every state through our 3,200 independently owned Gold Crown stores.

Our slogan "when you care enough to send the very best." has been more than an advertising phrase – it's been a promise to our consumers.

We at Hallmark care a great deal about postal issues. I care because for much of our history, the Postal Service has been a vital partner to us. We participate with others in our industry through the Greeting Card Association, and I am a member of the CEO Council of the Mailing Industry Task Force. We all share the common goal of a robust and stable Postal Service – a goal that I believe is vitally important to the people of this country.

Hallmark has been working with the Postal Service to develop new products and services to increase mail volume. We have undertaken a major product and marketing initiative to use the USPS's Intelligent Mail Barcode technology to offer prepaid postage to our consumers and generate additional First Class mail volume.

Along with the GCA, we have helped promote two new and popular innovative products. They are the popular "Forever Stamp" and the new "Butterfly Stamp" for square greeting cards.

#### **USPS Sustainability – A Crisis**

The issue of sustainability is what compels me to be here today. Clearly, the Postal Service is facing its most severe crisis. The country's economic downturn, competition from newer technologies made possible by the Internet and Broadband in particular, and the Service's continuing challenges of the new realities of shrinking demand, have come together to create the "perfect storm" for the Postal Service. By 2020, it is forecasting losses of as much as \$238 billion. I compliment the Postmaster General for actions to date to bring postal costs in line, but it is not enough if we are to sustain this institution.

Over the past 30 years it has never been easy to manage the Postal Budget. Often shortfalls have been solved by raising postal rates, which consumers have accepted. Given this economic contraction, significant changes in consumers' willingness to accept price increases in



all aspects of their lives, and the number of alternatives available to users of the mail system today, solving budget shortfalls through price increases and reduction of service not only won't work, it will make matters worse. We are at a tipping point.

We must find a sustainable solution now. No one knows better than you that it will not be easy. But we can no longer avoid this reality.

#### **The Problem – A Two-Legged Stool**

Many of you are all too familiar with the ten-year effort to pass postal reform legislation. During that long period of debate, a bi-partisan Commission issued a report in 2003 calling for changes in three key areas: 1) Rate Setting, 2) Regulatory Oversight and 3) Cost and Capacity Controls. The legislation that ultimately passed in 2006 addressed only the first two of these areas.

Although the price cap rate-setting scheme was intended to help management control costs, few specific provisions were included for the Postal Service or its regulator to do so. I think of it as having constructed a stool with only two legs and expecting it to stand. As I have monitored the debate over how to solve the current crisis, it is imperative now to address the third leg of the stool – costs and capacity controls.

Simply put, the Postal Service cannot survive without a sustainable cost structure, and that means one that is considerably lower than what it is today. The 2006 postal reform law imposed an enormous financial burden for fully funding future retiree healthcare costs, an imposition that hasn't been applied to any other government organization. While the Postmaster General has made great strides removing costs and increasing productivity through workforce attrition, those savings have not come close to matching the declines in volume and revenue.

The loss of mail to the Internet, compounded by the severe recession that began in 2008, has made this burden untenable.

**Reducing Services and Increasing Prices**

As you know, the Postal Service has proposed a dual strategy of reducing services and further raising rates. I would argue that there is no other business in America that would pursue such a strategy to achieve its long-term viability. In the past, pricing increases could make up this shortfall. In this environment whether it is for greeting cards, magazines, advertising, catalogs or bill paying, all segments will tell you that the Postal Service cannot price its way to solvency by raising rates. Rate increases at this time will only serve to drive more volume away, increasing costs for mail remaining in the system. This, in turn, will lead to more volume losses creating a vicious cycle that some have described as a "death spiral."

Similarly, eliminating Saturday mail service will further drive volume away, and ultimately result in less volume and revenue. I am concerned that going down this path does not address the critical issues and we will soon be talking about 4-day or 3-day delivery. Such a Postal Service would no longer "bind the nation together" as required by law -- of rich and poor, city and country. Rather, it will add to the cynical feelings the general public has about government, and it will further erode the value consumers ascribe to the mail as it becomes less timely and less relevant.

**What Congress Can Do**

So if not rate increases or service cuts, then how should the Postal Service proceed? I submit that Congress should – as a matter of great urgency – make those changes within its power to provide a sustainable business environment in which the Postal Service can stabilize its finances and reduce its costs of operations to protect jobs now and into the future. First, the retiree healthcare pre-payment obligation discussed earlier should be restructured to provide a longer period of time in which to satisfy the responsibility. This would serve to mitigate the year-to-year impact to the USPS operating deficit. No other federal agency is funding these obligations at the rate the Postal Service is required to do and no private company could – and still survive.

Also it should be determined immediately whether the Civic Service Retirement System obligation has been overfunded. If so, this \$75 billion could be applied toward funding the retiree healthcare obligation.

I also support the language, now pending in the Senate, which would allow the arbitrator to consider the financial health of the Service. This is a practical provision that offers the ability to achieve contracts appropriate to the prevailing economic conditions.

Finally, I believe that Congress should provide the Postal Service with the means to manage its facilities in light of volume and capacities. The Presidential Commission on the United States Postal Service recommended the adoption of the military base closing model for a postal commission to make such decisions without undue political interference. The Postal Service has proposed removing language barring the closure of Post Offices for economic reasons. While it is important to protect the public interest by ensuring adequate access to a full

range of postal services, this can be accomplished while allowing the Postal Service to reshape its network for maximum efficiency.

**Excess Capacity – A Hidden Opportunity**

One area where the USPS can cut costs substantially is mail processing capacity. Unlike delivery service cuts, rate increases, or closing retail post offices, eliminating excess plant capacity is largely invisible to the general public and the customer base of the Postal Service. Yet, despite this advantage, the USPS has gone through three plans since 2005 with little tangible cost savings.

The GAO (General Accountability Office) estimates there is 50 percent excess capacity in mail processing. No business could be sustained with this kind of cost overhang. In addition, the Office of the Inspector General (OIG) has cited data that is quite telling:

- There were 270 mail processing and distribution facilities (P&DCs) in 2005. Only 1% was eliminated by the end of 2009.
- Twenty-one Bulk Mail Centers (BMCs) were determined to be obsolete yet their budgets were reduced by only 2%.
- In 2005 there were 195 customer service centers and by 2009 not a single one had been cut.
- Incredibly, the number of mail processing logistics and distribution centers increased from 11 to 14 between 2005 and 2009.

Clearly no business can be sustained if a 50% over capacity is not acted on.

**Key to Sustainability**

None of the actions I have mentioned alone is sufficient to solve the projected losses. With more than 80 percent of Postal costs allocated to wages and benefits, Postal management, Union leaders and stakeholders must work together to find solutions that reflect the current financial situation. Over the next two years Labor and Management will be renegotiating contracts. Both parties will raise legitimate issues. The only way to preserve the institution and maximize the number of quality jobs, will be to take actions consistent with a long-term view.

During much of the Postal Service's history continually growing volumes and revenues mitigated the need to become highly efficient. With declining volumes and resources, it will be imperative to become more efficient. Raising prices or cutting service will only work to drive more volume of mail out of the system and put even greater pressure on costs in the future.

**Conclusion**

The Postal Service's future depends on affordable rates and the ability to provide high levels of service. Current volume and revenue projections make it essential that the Postal Service achieve a sustainable cost structure. Congress has the authority to adjust the obligation for future retiree healthcare costs, grant authority to develop new products and establish greater control over its facility network creating an environment in which the Postal Service can thrive. It should be encouraged to work towards a set of contracts that recognize the current economic realities facing the Service in order to ensure their mutual long term benefit.

And it's not just postal jobs that I'm worried about. The mailing industry has lost 1.5 million jobs since 2006. The remaining 7.5 million jobs rely on a robust Postal Service. Those jobs must be considered as well.

You have an opportunity to take bold action on behalf of the citizens and postal stakeholders. You can make changes that will allow the Postal Service to address undue financial burdens, manage its facility network, continue to provide service and competitive pricing, and retain people in the mail stream.

I am here because we are a partner with the U.S. Postal Service and care deeply about its future. We value the people who work at the Postal Service, the people whose businesses depend on the mail and the American public that is connected by it. Absent a long-term view, prices will continue to increase greater than inflation, more mail will be driven out of the system, and more jobs will be lost.

The future of the Postal Service hangs in the balance.

89

TESTIMONY OF

ALLEN ABBOTT

EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER

PAUL FREDRICK MENSTYLE, INC.

AND

CHAIRMAN,

AMERICAN CATALOG MAILERS ASSOCIATION

BEFORE THE

US SENATE COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS,

SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT  
INFORMATION, FEDERAL SERVICES, AND INTERNATIONAL SECURITY

AND

US HOUSE OF REPRESENTATIVES COMMITTEE ON OVERSIGHT AND GOVERNMENT  
REFORM

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

JUNE 23, 2010

Good afternoon. My name is Allen Abbott, and I am the Executive Vice President and Chief Operating Officer of Paul Fredrick MenStyle, Inc., a direct marketer of men's apparel located in Fleetwood, PA. We design and distribute high quality men's clothing to customers throughout the United States. Paul Fredrick originates about 9 million pieces of mail each year and our Berks County employees are highly dependent on an efficient and affordable United States Postal Service.

I also serve as the Chairman of the American Catalog Mailers Association, an advocacy group that was formed on behalf of the catalog industry after the punishing rate hikes that our businesses experienced as a result of the 2006 postal rate case. The recent announcement of an exigent rate case by the USPS has sent shudders through an industry that is still trying to recover from the double whammy of the postal rate increase of 2007 and a full-blown economic recession that still lingers almost two years after its beginning.

Paul Fredrick operates no retail stores – we are 100% dependent on direct response marketing. Ten years ago the vast majority of our marketing strategy was built around mailing catalogs. Most of our customer communications and all of our new customer efforts started with a catalog distributed through the Postal Service. Today we are still committed to catalog distribution through the USPS, but the dramatic increase in the cost of mailing catalogs has caused us to commit more and more of our resources to alternative communications strategies. This occurs despite the fact that we know a new customer acquired through a catalog is more valuable than a customer acquired through any other prospecting channel.

Why the strategy shift? Why has our catalog circulation decreased by 29% from 2006 (the year prior to the exorbitant postal rate increases), while our overall sales have grown by 34%? Why do we now acquire only 10-15% of our new customers via catalog prospecting? According to our catalog printer, Quad/Graphics, catalog postage costs increased by 58% between 1997 and 2008, while the general inflation rate during that same period was just 34%. Since postage represents about half of our variable catalog costs, this has skewed the economics of mailing catalogs versus other marketing options, especially in the area of new customer acquisition.



Paul Fredrick loses money when we acquire a new customer – we are making an investment in the short term in order to assure downstream profits from those new customers in the long term. When our postage rates went up by 20% in 2007 with little prior notification, we needed to improve our prospecting response rates by about 15% just to maintain the same new customer cost. Since we knew we couldn't achieve this savings level in the short term, we were forced to reallocate our catalog prospecting budget to other channels. Additionally, the impact of other catalog businesses doing exactly the same thing was causing the size of all mailing lists to shrink, further reducing the universe of potential prospect names and thus the total number of prospecting catalogs mailed. This has been a vicious downward cycle and Paul Fredrick now mails only about half the number of prospecting catalogs we distributed just three years ago.

The recession of 2008-2009 also required us to look carefully at mailings to our own customers. The 2007 postal rate increase raised our "break even" sales per catalog requirement significantly. Reduced response rates during 2008-2009 further eroded our customer file circulation. As we have learned to be more effective email marketers, catalog mailings to our existing customers have been reduced even further. And now we are facing an exigent rate case that will further exacerbate the situation. I can absolutely assure you that increasing catalog postal rates beyond the CPI will further erode mail quantity in the years to come. This will put the jobs at Paul Fredrick in jeopardy, along with tens of thousands of other catalog-related jobs at other companies across the country.

PMG Potter's 10-year plan for the USPS indicated potential losses of \$230 billion over that period of time. By implementing a myriad of cost savings opportunities, that deficit might be reduced to \$115 billion. The General Accounting Office responded by stating that the current USPS model is not sustainable. This is correct. The current situation is not sustainable, and everyone involved in the system needs to face this fact, doing what is necessary to change the model. As a business leader, trade organization chair and U.S. taxpayer, I am asking that the following steps be taken to address this dire situation:

- In the Postal reform legislation passed in 2006, Congress empowered the USPS to function more like a business. Please reinforce that mandate and encourage the USPS to aggressively move forward with both cost reduction and revenue enhancement activities rather than its intent to impose unfair postage increases.
- Encourage the USPS to start pricing products and services to maximize the individual customer variable marketing contribution, something every successful business does. Many of the costs in USPS pricing models are sunk; they will remain no matter what mail volumes are generated. The agency must understand those pricing strategies that will generate incremental customer contribution and go after them. I can guarantee you that a meaningful reduction in catalog prospecting postage would generate a great deal of incremental mail from Paul Fredrick. And this is true across the catalog industry. This is an example of a simple lever that will stimulate future mail volumes across all catalog companies, complete with the variety of mail this will generate in other catalogs, Standard and First Class mail letters and post cards, and packages, all of which will help cover USPS fixed costs.
- Aggressively challenge your fellow Members of Congress, the postal unions and everyone else who oppose the closing of non-productive postal retail and plant facilities or the amendment of archaic work rules that drive up costs. I am sympathetic that local changes can have a painful impact on those directly affected, but the simple truth is that the efficiency it creates is good for the majority over the long term. If you don't do this, costs will continue to grow and mail volumes will continue to shrink, ultimately costing more jobs in both the public and private sector.
- Allow the USPS to shift to a five-days-per-week delivery schedule. It is clearly not an optimal solution for my business, but we can live with five-day delivery if it generates the savings indicated by the PMG.
- Please adjust the inequities in the pension plan funding requirements for employees who have worked in both civil service and the Postal Service, insuring a fair apportionment of costs between the USPS and the federal government.

- Please adjust the funding requirements for USPS retiree health care benefits to be aligned with actuarial need. The dramatic pre-funding obligation adding \$5-6 billion in annual funding requirement is a recipe for disaster for the long-term health of the USPS given where we are today.
- Please encourage persons with business backgrounds to be appointed to the USPS Board of Governors and the Postal Regulatory Commission in proportion to those with political experience. Today, 95% of the cost of running the nation's mail service is borne by businesses. It is critical that business interests and experience be represented in your top policy-making bodies.

The Postal Service has historically contributed a great service to the citizens of our country at no cost to the U.S. taxpayer. This will not last much longer if we all do not act to restore the fiscal health of this fine institution. I respectfully implore you to do so now.

Thank you.

**Keith McFalls, RPh**  
**Vice President Pharmacy Operations PrimeMail and Triessent**

Thank you, Chairman Lynch and Chairman Carper, as well as Ranking Members Chaffetz and McCain. My name is Keith McFalls, and I am a pharmacist and the Vice President of Mail Pharmacy Operations for Prime Therapeutics. Prime is a pharmacy benefit management company collectively owned by 12 non-profit Blue Cross and Blue Shield Plans. We manage the prescription drug benefits for enrollees in Blue plans, employer groups, and union groups, covering about 17 million people. While here representing Prime, I am also speaking on behalf of the Pharmaceutical Care Management Association (PCMA). PCMA is the national trade association for pharmacy benefit managers (PBMs), which administer prescription drug plans for more than 210 million Americans.

PBMs such as Prime aggregate the purchasing clout of enrollees through their client health plans, enabling plan sponsors and individuals to obtain lower prices for their prescription drugs. We do this by negotiating price discounts from retail pharmacies, rebates from pharmaceutical manufacturers, and by running highly efficient mail-service pharmacies. Last year, PBM mail-service pharmacies collectively filled more than 238 million prescriptions nationwide, nearly 90 percent of which were shipped via the US Postal Service – which brings us here today. Mail-service pharmacies are not only a growing and reliable customer of the USPS, but increasingly are an essential point of treatment access for patients suffering from chronic conditions. Mail service represents the fastest growing distribution channel for prescription drugs. We expect continued growth in the coming years as mail service provides a means for controlling costs and increasing savings. This will be particularly important as health care reform implementation increases access to the health system overall.

#### **Mail Service Background**

While retail pharmacies are essential for medications needed urgently, a growing number of patients, including the elderly, disabled, and people living far from both post offices and pharmacies, find that having regularly needed medication delivered to their home is more convenient. Consumers, physicians, or other medical professionals can use the telephone, fax, mail, or internet to communicate with the mail-service pharmacy. Prescriptions are filled and mailed to the consumer, usually within a three- to five-day time frame. Some mail-service pharmacies offer delivery within 24 to 48 hours depending on the patients needs and the type of medication required.

Mail-service pharmacies also provide many of the other services offered by full-service retail pharmacies. They retain pharmacists on staff who are available to counsel consumers and consult with physicians on appropriate drug therapies. Counseling is done primarily through toll-free telephone communication, which offers more privacy than the in-store setting, and is available 24 hours a day/seven days a week in some cases.

Mail-service pharmacies are thoroughly regulated by both federal and state governments. All pharmacies must be licensed by and be in good standing with the boards of pharmacy in the states in which they are physically located. This licensure includes full compliance with all state

pharmacy and controlled substances laws as well as federal DEA regulations. In addition, mail service pharmacies must comply with the rules and regulations of each state in which they provide care.

#### **Benefits of Mail-Service Pharmacy**

The benefits of receiving prescriptions by mail are well documented, including not only increased savings, but also safety and adherence.

- According to the Federal Trade Commission, mail-service pharmacies provide more savings than retail pharmacies.<sup>1</sup> Mail-service pharmacies have lower drug acquisition costs and fewer logistics expenses. A mail-service pharmacy buys in bulk and stores large quantities in a single, centralized location. Looking at total prescription expense (plan sponsor cost plus consumer co-payment), mail-service pharmacies save 27% for a generic drug and save 14% for a brand drug versus a retail pharmacy.<sup>2</sup>
- Peer reviewed data has also found that highly automated mail-service pharmacies dispensed prescriptions with 23-times greater accuracy than retail pharmacies.<sup>3</sup>
- In addition, research has shown that patients who receive their medication in 90-day supplies, the typical quantity dispensed through mail, have higher adherence rates compared to 30-day supplies.<sup>4</sup>
- A 2006 by the Lewin Group concluded that mail pharmacy, at the current state of market penetration, could save our healthcare system as much as \$85 billion over ten years.<sup>5</sup>

#### **Delivery Service Cuts**

While we appreciate the current financial situation of the USPS, Prime Therapeutics has significant concerns with the Postmaster General's proposed elimination of Saturday mail delivery. A reduction in service delivery would mean a reduction in individuals' ability to obtain their drugs easily and conveniently, and could keep much needed medication out of patients' hands. PBM mail-service pharmacies rely heavily on the Postal Service for both inbound and outbound mail, utilizing the full range of classes, from first class and priority to express mail.

<sup>1</sup> Federal Trade Commission, *Pharmacy benefit manager: Ownership of mail-order pharmacies*, August 2005, available at <http://ftc.gov/reports/pharmbenefit05/050906pharmbenefitrpt.pdf>

<sup>2</sup> 2009-10 Prescription Drug Benefit Cost and Plan Design Report, Pharmacy Benefit Management Institute, 2009, 18, 20.

<sup>3</sup> J. Russell Teagarden et. Al., *Dispensing error rate in a highly automated mail-service pharmacy practice*, *Pharmacotherapy: Official Journal of the American College of Clinical Pharmacy*, Volume 25, Issue 11, pgs 1629-1635 (2005)

<sup>4</sup> Hermes M, et al. *Adherence to Chronic Medication Therapy Associated with 90-Day Supplies Compared with 30-Day Supplies*. *J Manag Care Pharm* 2010;16:141-142.

<sup>5</sup> The Lewin Group, *Mail-Service Pharmacy Savings and the Cost of Proposed Limitations in Medicare and the Commercial Sector*, Sept. 2006

Our pharmacies often receive paper copies of prescriptions for filling at mail facilities. Cutting service would result in a prescription processing delay of at least one, but potentially multiple days.

For patients, eliminating Saturday deliveries will add additional complications and delays during weeks with a federal holiday. A Monday holiday would require patients relying on USPS delivery to go from Friday to Tuesday without mail delivery. It is my understanding that Postmaster General Potter has suggested that service days, in addition to Saturdays, could be cut to save money. This would further compound delays for patient waiting for prescriptions. For example, eliminating Tuesday deliveries, which is currently the lightest delivery day for the USPS, would result in four consecutive days without delivery during weeks with federal holidays falling on a Monday.

The USPS proposes that Saturday counter service would allow people needing a critical package or piece of mail to come to the Post Office to retrieve it. We would counter that the very reason some people use mail delivery of drugs is because they are unable to travel to a drug store, or the Post Office, to get their drugs. For others, having to go to the drug store simply discourages them from getting their prescriptions filled at all. About 25 percent of all prescriptions are never filled, in part because having to go to the drug store – or the Post Office – is an impediment for some people.

As noted above, mail service pharmacies help improve drug adherence by delivering drugs to people's doorsteps. Thus, our member companies would likely look for other ways to ensure timely deliveries. Indeed, PCMA has already received inquiries from organizations seeking to assure our member companies that they could fill in the delivery gap should mail delivery be reduced to five days.

In order to continue to ensure timely delivery of prescriptions to plan enrollees, mail-service pharmacies would be forced to look to the postal service's competitors for deliveries that need to be made over the weekend (and potentially for all deliveries). Eliminating Saturday delivery would likely mean that the Postal Service's competitors would increase their delivery rates on weekends. This development would no doubt drive up costs for patients, as we would have no choice but to shift these costs to our customers. Research shows that as patient cost sharing increases, adherence to medications decreases. Poor adherence adds approximately \$290 billion in additional costs to our health system.

PBMs rely heavily on the USPS for our mail-service pharmacies, and we are a growing business partner of the Postal Service. Ensuring continued Saturday delivery is not only in our interest, but is also of critical importance to the millions of Americans who rely on mail-service pharmacy to obtain their prescription drugs.

We look forward to working with this Committee to ensure the continued vitality of the US Postal Service. We urge you to explore all possible options to expand the Postal Service's ability to remain competitive in this marketplace, including pricing and product flexibility. Thank you for your time. I am happy answer any questions that you may have.

Statement of

Paul Misener  
Vice President for Global Public Policy, Amazon.com

At the Hearing

“Having Their Say: Customer and Employee Views on the Future  
of the U.S. Postal Service”

Before the

Senate Committee on Homeland Security and Government Affairs  
Subcommittee on Financial Management, Government Information, Federal Services,  
and International Security

House Committee on Oversight and Government Reform  
Subcommittee on Federal Workforce, Postal Service, and the District of Columbia

June 23, 2010

Chairman Carper, Ranking Member McCain, Chairman Lynch, Ranking Member Chaffetz, and Members of the Committees, my name is Paul Misener and I am Amazon.com’s Vice President for Global Public Policy. On behalf of my company and our millions of American customers, thank you very much for inviting me to testify at this important hearing on the future of the U.S. Postal Service.

Amazon.com, Inc. subsidiaries fulfill customer orders from our retail business and, increasingly, through the “Fulfillment by Amazon” program, sales by third parties, including many of the nearly two million sellers who offer products on Amazon websites. Thus, Amazon’s perspective is from that of a customer-focused company that ships parcels, not other types of mail, and I hope our views will be helpful to the committees.

Statement of Paul Misener  
June 23, 2010  
Page 2

Amazon enjoys a strong and extensive relationship with the Postal Service. The USPS is an integral part of the service we provide our customers. Globally, we spent well over a billion dollars last year on outbound shipping – an increase of over 20% from 2008. In dollars, we spend nine figures annually on the USPS, with over two million shipments per average week via the Postal Service. And, on behalf of our customers, we are talking with the USPS about ways to *increase* the number of these shipments.

We cooperate with the Service as efficiently as possible. For example, we worked closely with the USPS to begin using a postal consolidator to shift a large portion of our downstream injection shipments from bulk mail centers to further downstream to local post offices. For years, we have supported the Postal Service's efforts to make itself more competitive, such as by introducing new products, including downstream injection, and entering negotiated service agreements. Our customers have come to appreciate and expect Saturday delivery, and this is an instance where the USPS currently maintains a decided advantage over other carriers. And, in some urban/suburban areas, we have even begun to use the USPS for *Sunday* delivery, via Express Mail.

Amazon was very interested to review the recent USPS report entitled, "Ensuring a Viable Postal Service for America," which confirms that parcel delivery is a bright spot for the Service. While First Class and Standard Mail volumes are decreasing, parcel volume is increasing. This makes perfect sense, for although there are online or "virtual" substitutes for letters, bills, and advertising that decrease use of the mail, online shopping actually *increases* the need for physical shipments.



Statement of Paul Misener  
June 23, 2010  
Page 3

On behalf of our buyer and seller customers, the issue that I want to focus on today is the USPS proposal to cease Saturday delivery service except for Express Mail. We believe this is a bad idea. Not only would it be bad for parcel shippers, who would face higher costs to reach their urban and suburban customers on Saturday, it would be even worse for rural consumers and for the USPS itself.

As I mentioned before, Amazon's customers have come to appreciate and expect Saturday delivery. While they may be willing to wait until Monday or Tuesday for a bill they don't really want; an advertisement they didn't ask for; or a magazine to which they subscribed long ago; they expect the items they purchased this week to be delivered as soon as possible. In addition to the United States, Amazon subsidiaries utilize Saturday delivery services in the UK, Germany, Japan, France, and China.

Ceasing Saturday street delivery service would be much worse for our rural customers, who simply would not be able to receive parcels on Saturday because there are no delivery alternatives to the USPS. Maintaining Saturday Express Mail delivery would not address this serious problem because Express Mail has even less extensive rural coverage area than Saturday service from other carriers.

Moving to five-day delivery service would even be bad for the Postal Service, which would abandon its competitive advantage on Saturdays. As I mentioned before, we are looking for ways to *increase* our use of the USPS. But eliminating Saturday

Statement of Paul Misener  
June 23, 2010  
Page 4

delivery would cause us to significantly *decrease* spending and package count. This is a key point: elimination of Saturday street delivery will cause us to shift a significant fraction – approximately a sixth – of our current USPS business to other carriers.

Unlike mailers that send other classes of mail, we have Saturday package delivery options for most of our urban/suburban customers, who will not wait for Monday or Tuesday delivery if Saturday delivery is possible via other carriers. We likely would even shift some of the deliveries that otherwise would occur on Friday if we believe there is too much risk that the delivery would miss Friday, then be held until Monday or Tuesday. That is, where we have a two day window in which our customer expects delivery, we may decide that some of the parcels that would be delivered by the USPS on Friday should now be shifted to other carriers to ensure Friday or Saturday delivery.

So, ceasing Saturday delivery would make the USPS *less* competitive, significantly reduce the parcel volume the Postal Service carries in urban/suburban areas and, worst of all, would deny rural consumers a service they currently appreciate and expect. On behalf of Amazon's customers, particularly those living in rural America, we hope that the USPS will withdraw this proposal. If the five-day delivery proposal is not withdrawn, however, we ask that Congress ensure that Saturday delivery be maintained.

Thank you. I look forward to your questions.

\* \* \* \* \*

Written Testimony of Andrew Rendich  
Chief Service and DVD Operations Officer of Netflix, Inc.

Before a Joint Hearing Of

The Senate Homeland Security and Governmental Affairs Committee's Subcommittee  
on Federal Financial Management, Government Information, Federal Services, and  
International Security

And

The House Committee on Oversight and Government Reform Subcommittee on  
Federal Workforce, Postal Service, and the District of Columbia

On

Having Their Say:  
Customer and Employee Views on the Future of the U.S. Postal Service

Wednesday, June 23, 2010

## INTRODUCTION

Chairmen Lieberman, Carper, Towns, and Lynch, Ranking Members Collins, McCain, Issa and Caffretz, and members of the subcommittees, I am Andrew Rendich, Chief Service and DVD Operations Officer of Netflix, Inc. I am very pleased to appear before you today to discuss issues related to the future of the Postal Service.

## EXECUTIVE SUMMARY

With more than 14 million subscribers, Netflix is the world's largest online subscription service streaming movies and TV episodes over the Internet and sending DVDs by U.S. mail. On average, approximately two million discs are shipped by U.S. mail from our nationwide network of distribution centers every day. For 2010, we anticipate spending approximately \$600 million dollars on postage, making us the largest growing first-class mailer in the country. While Netflix delivers movies and TV episodes two ways – by streaming directly over the Internet and through DVDs by mail – my comments today will be focused on the DVD side of our business.

Our subscribers depend upon the Postal Service to deliver their DVDs quickly and in good condition. Since starting our business in 1998, the Postal Service has been an extremely reliable partner, helping Netflix achieve award-winning customer satisfaction and scaling with our own growth. In light of this relationship, we are keenly interested in working with the Postal Service and Congress to ensure that our nation's mail service continues to be reliable, trusted and affordable.

Among our key comments, which are outlined below in more detail, we offer the following highlights:

- Netflix believes that a well-functioning Postal Service, positioned over the long haul to meet changing customer and consumer demand, is more important than maintaining current delivery frequency at the expense of the broader health and continued operational reliability of the nation's mail service. We believe that those subscribers who currently rely upon Saturday postal delivery to receive and watch movies on the weekend would adjust their rental habits to account for the Postal Service's change in delivery and would plan their DVD rental selections around the fact that mail would not arrive on Saturday. As such, we believe the impact of a change in delivery frequency on our subscribers and our business would be relatively small. To be clear, however, Netflix does not favor ending Saturday delivery in a vacuum; rather, it is a reasonable proposal in light of the very difficult challenges facing the Postal Service.
- We believe that additional rate increases necessary to cover the Postal Service's retiree health funding obligation will unnecessarily impact businesses and consumers that utilize the Postal Service. Companies like Netflix will either have to bear the impact of this increase or pass that cost along to its customers. In either case, we believe that these additional costs will only further exacerbate the challenges faced by the Postal Service - making their products more expensive and further negatively impacting mail volumes.

- The Postal Service has indicated that it plans to seek rate changes in 2011 due to “exceptional or extraordinary circumstances.” Netflix believes that the economic turmoil of the past few years coupled with the increasingly rapid technological changes reshaping the consumer marketplace, constitute exceptional or extraordinary circumstances. Nonetheless, we are hopeful that Congress will provide relief to the Postal Service on many of the issues discussed below, thereby minimizing the scope and extent of any necessary rate increase.

#### **WITNESS BACKGROUND**

I am currently the Chief Service and DVD Operations Officer of Netflix. In this capacity, I oversee all aspects of our DVD operations, including software and automation engineering as well as all shipping and receiving activities associated with our nationwide network of over 50 distribution centers. I am also responsible for all customer service operations which includes our call center located in Hillsboro, Oregon as well as our information technology and business intelligence groups. In total, I am responsible for the management of more than 2,500 Netflix workers.

I have worked for Netflix since 1999, serving in a variety of engineering and management roles. Prior to my current position, I served as Vice President of Operations and Vice President of Systems Development at Netflix, which included the development of all systems related to the DVD service, ERP, Customer Service and Content Purchasing. I also played a key role in developing the automation that drives the company's DVD processing and delivery.

My primary focus is to improve the company's DVD rental service by reducing service errors and lowering costs. During my tenure at Netflix, daily DVD shipments have grown from a few thousand to more than two million. Over this short period, I have helped scale our logistics system to handle high transactional volumes while keeping the systems extremely reliable, available and cost effective. For example, we have automated much of our shipping process, replacing legacy processes that manually inserted 650 DVDs into a mailer per hour with automation that inserts more than 4,000 an hour.

As the Chief Service and DVD Operations Officer, I supervise all our interactions with the United States Postal Service and as such am well qualified to represent Netflix's views on the future of the Postal Service.

#### **COMPANY BACKGROUND**

With more than 14 million subscribers, Netflix is the world's largest online subscription service streaming movies and TV episodes over the Internet and sending DVDs by U.S. mail. Netflix is a publicly traded company whose stock is listed on the NASDAQ stock market under the symbol, NFLX. For calendar year 2009, Netflix had total revenues of \$1.6 billion and has forecasted 2010 revenues to exceed \$2 billion.

Our subscribers can instantly watch unlimited movies and TV episodes streamed to their TVs

and computers and can receive DVDs delivered quickly by U.S. mail to their homes. We offer a variety of subscription plans, with no due dates, no late fees, no shipping fees and no pay-per-view fees. Aided by our proprietary recommendation and merchandising technology, subscribers can select from a growing library of titles that can be watched instantly and a vast array of titles on DVD. On average, approximately two million discs are shipped daily by U.S. mail from our distribution centers across the United States. These centers have been strategically located to optimize our fulfillment operations with that of the Postal Service, helping to provide 97% of our subscribers with delivery of their DVDs in about one business day. Additionally, as of the first quarter of 2010, over half of our subscribers instantly watched 15 minutes or more of streaming content.

Subscribers can:

- Watch streaming content without commercial interruption on their computers and TVs. The viewing experience is enabled by Netflix controlled software that can run on a variety of consumer electronics devices. These devices currently include Blu-ray disc players, Internet-connected TVs, digital video players, game consoles and other devices such as the Apple iPad.
- Receive DVDs by U.S. mail and return them to us at their convenience using our prepaid mailers. After a DVD has been returned, we mail the next available DVD in a subscriber's queue. Typically, we mail out the next available DVD on the same day as we receive a returned DVD.

Our core strategy is to grow a large subscription business consisting of streaming and DVD-by-mail content. By combining streaming and DVD as part of the Netflix subscription, we are able to offer subscribers a uniquely compelling selection of movies and TV shows for one low monthly price. We believe this creates a competitive advantage as compared to a streaming only subscription service. This advantage will diminish over time as more content becomes available over the Internet from competing services, by which time we expect to have further developed our other advantages such as brand, distribution, and our proprietary merchandising platform. Despite the growing popularity of Internet delivered content, we expect that the standard definition DVD, along with its high definition successor, Blu-ray, will continue to be the primary means by which a majority of Netflix subscribers view content for the foreseeable future. However, at some point in the future, we expect that Internet delivery of content to the home will surpass DVD as the primary means by which most Netflix subscribers view content.

We launched our DVD-by-mail rental subscription business in 1999 and expanded our business to include streaming content over the Internet in 2007. This recent expansion of our business model to include Internet streaming of content is rapidly changing the way many of our customers utilize our service. As mentioned above, as of the first quarter of 2010, over half of our subscribers instantly watched 15 minutes or more of streaming content. This was up from 38% when compared to the first quarter of 2009. Nonetheless, despite this growth in Internet streaming, our disc shipments continue to grow. For 2010, we anticipate spending approximately \$600 million on

postage, making us the largest growing first-class mailer in the country. In light of this, we continue to invest in the DVD-by-mail component of our business, strengthening our service to achieve more consistent delivery and lower costs. Given the continued growth and investment in our DVD-by-mail business and its importance to our overall company strategy, we are very much interested in assuring that the Postal Service continues to deliver reliable and affordable mail service to the nation.

#### **POSTAL REFORM PROPOSALS**

We have reviewed the Postal Service's "Ensuring a Viable Postal Service for America: An Action Plan for the Future" and the recent report from the Government Accountability Office "U.S. Postal Service: Strategies and Options to Facilitate Progress Toward Financial Viability." These reports highlight some of the difficult decisions the Postal Service and the Congress face in assuring that the Postal Service continues to deliver reliable and affordable mail service to the nation.

There is no doubt that the Postal Service is currently operating in a time of significant change. What better example than that of the Netflix service itself? Only three short years ago, Netflix's entire business was DVDs-by-mail. Our delivery of movies was totally dependent on the Postal Service. In just three short years, we have seen a significant change to our business model, with more than half our subscribers instantly watching 15 minutes or more of streaming content in the first quarter of 2010. While our mail volume is still growing, and will likely grow for some time and thereafter continue to be an important part of our business for many years, this rapid shift to Internet streaming of content is emblematic of how new technology has changed the way Americans communicate and transact business and of the challenges facing the Postal Service.

We believe the actions called for by the Postal Service will help secure its viability for many years to come and help assure that our nation continues to enjoy reliable, trusted and affordable mail service. Many of the proposals made by the Postal Service reflect sound business practices that would likely be implemented by private enterprise faced with similar challenges. While we understand the unique nature of the Postal Service as a quasi-governmental agency, we do believe it is instructive to look at some of the proposals from this perspective.

Set forth below are specific comments we have related to each of the proposals made by the Postal Service under their Action Plan for the Future:

- **Retiree Health Benefits Prefunding**

While not directly related to postal operations, the current mandates on the Postal Service with respect to retiree health care benefits payments have become so burdensome on its bottom line that this issue dwarfs nearly all day-to-day operational issues. To the extent the Postal Service does not receive relief from the hefty obligation of paying \$5.5 to \$5.8 billion per year, it will likely need to raise rates even higher than necessary to cover its ongoing operating activities. We believe that additional rate increases necessary to cover this funding obligation unnecessarily impact businesses and consumers that utilize the Postal Service. Companies like Netflix will either have to bear the impact of this increase or pass that cost along to its customers. In either case, we believe that these additional costs will only further exacerbate the challenges faced by the Postal Service - making

their products more expensive and further negatively impacting mail volumes. Allowing the Postal Service to restructure retiree health benefits payments under a "pay-as-you-go" method, comparable to what is used by the rest of government and the private sector, would improve the service's cash flow and likely reduce pressure to raise rates above what is necessary to cover its ongoing operating activities.

We also believe that the Postal Service has made credible arguments with respect to possible overpayments to the Postal Service's Civil Service Retirement System pension fund. This type of large financial discrepancy needs to be reviewed and resolved as soon as possible to either improve the organization's financial posture (and perhaps avoiding the necessity of implementing other service changes) or make clear that additional cost-cutting may be necessary on top of other proposals under consideration.

- Delivery Frequency

Currently, Netflix processes DVD shipments and its subscribers receive delivery of their rented DVDs six days a week. The Postal Service has proposed eliminating Saturday operations. The result of this proposal would be obvious: our subscribers would no longer receive DVDs nor would Netflix process shipments on Saturday. We believe the impact, however, on our subscribers and our business would be relatively small. In particular, we believe that those subscribers who currently rely upon Saturday postal delivery to receive and watch movies on the weekend would adjust their rental habits to account for the Postal Service's change in delivery and would plan their DVD rental selections around the fact that mail would not arrive on Saturday. As to our Saturday shipping operations, we would revert back to our historical five-day shipping operations. Netflix only began shipping on Saturdays last year. For the nine years prior to that, we processed returns and shipped out DVDs Monday thru Friday. In light of this, we would not anticipate any material negative impact to our business arising from returning to a five-day operating schedule.

To be clear, Netflix does not favor ending Saturday delivery in a vacuum; rather, it is a reasonable proposal in light of the very difficult challenges facing the Postal Service. Netflix believes that a well-functioning Postal Service, positioned over the long haul to meet changing customer and consumer demand, is more important than maintaining current delivery frequency at the expense of the broader health and continued operational reliability of the nation's mail service. Of course, we would want any change to delivery frequency to be implemented with significant lead time and with substantial outreach to postal users. By so doing, the Postal Service would help minimize any disruption and allow consumers plenty of time to reset their delivery expectations.

- Expanding Access

Over the past several years, the Postal Service has expanded its use of retail facilities to conduct postal business, developed innovative options for Internet use and expanded automated kiosks. These improvements, however, have largely been additive to, not in lieu of, the traditional network of physical post offices. We believe the Postal Service, like Netflix itself, should have the ability to adjust aspects of its business model to changes in technology and consumer demand.



- Workforce

By its own account, the Postal Service is going to be handling less volume in coming years and the organization's headcount would likely need to reflect that decline. Some experts have concluded that as many as 300,000 full-time employees are eligible to retire over the next ten years. The key question for the Postal Service is whether these vacancies are filled with new full-time employees or a mix of full-time and part-time employees. Netflix believes that the Postal Service, whether by collective bargaining, arbitration or legislation, would benefit from additional flexibility in its workforce to control costs while maintaining manpower capabilities sufficient to meet demand in peak delivery times.

- Pricing

The ability of the Postal Service to meet its costs with changes in pricing has been limited by numerous mandates from Congress. Although Netflix is a very large first-class mailer, we agree with the Postal Service that it should be given discretion to review pricing not only for sub-sets of a class of mail, but for the class itself. This discretion would require a change in the law to apply the cost-of-living cap on increases only to the total increases and not to each class of mail.

The Postal Service has indicated that it plans to seek rate changes in 2011 due to "exceptional or extraordinary circumstances." Netflix believes that the economic turmoil of the past few years coupled with the increasingly rapid technological changes reshaping the consumer marketplace, constitute exceptional or extraordinary circumstances. Nonetheless, we are hopeful that Congress will provide relief to the Postal Service on many of the issues discussed above, thereby minimizing the scope and extent of any necessary rate increase.

- Expand Products and Services

The Postal Service has described the numerous steps it must undertake to garner approval from both its Board of Governors and the Postal Regulatory Commission before entering into customer contracts and/or introducing new services. In an era where competitors with the service are not only other shippers of physical mail and goods but also Internet-based telecommunications companies, the Postal Service needs to be nimble in competing with other options and in responding reasonably to customer needs. We have found the Postal Service to be responsive and proactive in working with us to streamline our postal operations but we also recognize that we are an unusually large mailer. Small businesses and niche business lines also deserve attention from the service in a quickly-evolving market. With respect to expanding products and services that could be offered by the Postal Service, Netflix appreciates the need to adjust business models but would nonetheless caution the Postal Service about distractions that could impact its core mission of facilitating the post of physical mail.

- Oversight

The Postal Service oversight model was modified in 2006. While there are a number of parties that share oversight responsibility, we have not experienced any problems with the established

regulatory structure. Nonetheless, we are supportive of clear roles and responsibilities and for providing the Postal Service with flexibility to adapt and respond to a rapidly changing marketplace.

#### **CONCLUSION**

On behalf of Netflix, I appreciate the opportunity to provide comments concerning the future of the Postal Service. In light of the very difficult challenges facing the Postal Service, we believe the actions called for by the Postal Service will help secure its viability for many years to come and help assure that our nation continues to enjoy reliable, trusted and affordable mail service. I look forward to your questions and would be happy to be a resource to both of your committees as you consider the future of the Postal Service.



# NATIONAL RURAL LETTER CARRIERS' ASSOCIATION

1630 Duke Street, 4th Floor

Alexandria, VA 22314-3465

Phone: (703) 684-5545

## Executive Committee

Robert Horne, *Chairman*

P. O. Box 7930  
Thomasville, GA 31758-7930  
(229) 228-6111

Susan Knapp

P.O. Box 599  
New Hampton, NY 10958-0599  
(845) 956-1117

Steven Traylor

P.O. Box 520  
Hillsboro, IL 62049-0520  
(217) 532-2166

Don Maston

P.O. Box 902710  
Palmdale, CA 93590-2710  
(661) 266-3879

Don Cantriel, *President*  
Jeanette Dwyer, *Vice President*  
Clifford D. Dailing, *Secretary-Treasurer*  
Joey Johnson, *Director of Labor Relations*  
Ronnie Statts, *Director of Steward Operations*

## Written Statement of Don Cantriel, President National Rural Letter Carriers' Association

Before the

Senate Homeland Security and Governmental Affairs Subcommittee on  
Federal Financial Management, Government Information, Federal Services,  
and International Security

And the

House Committee on Oversight and Government Reform Subcommittee on  
Federal Workforce, Postal Service, and the District of Columbia

June 23, 2010

Chairman Carper and Chairman Lynch, and members of the Senate Homeland Security and Governmental Affairs Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security and the House Committee on Oversight and Government Reform Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, my name is Don Cantriel, and I am President of the National Rural Letter Carriers' Association (NRLCA), which represents 123,000 bargaining unit rural letter carriers. Our members work in rural, suburban, and urban areas throughout the United States and function as a "post office on wheels" because rural letter carriers offer Postal customers all of the services performed over the counter at a post office. We sell stamps and money orders, accept express and priority mail, offer signature and delivery confirmation, registered and certified mail, and, of course, collect our customers' parcels.

Mr. Chairman, our country is experiencing a myriad of economic challenges, and the Postal Service has not been immune to these difficult financial times. The typical mailers who represent a large portion of the mailing business -- the financial, mortgage, and credit card industries -- have all scaled back their mailings as a direct result in cost cutting measures by businesses and the American consumer, resulting in unusually low mail volumes. These unusually low mail volumes have caused the Postal Service to consider drastic steps to change its business model and its operations. The cornerstone of the Postal Service's plan is to do away with Saturday mail delivery to the millions of homes and business that receive mail. This idea is terribly misguided and will hurt, not help, the Postal Service's business and the customers it serves.

Chairman Carper and Chairman Lynch and members of the Senate and House Subcommittee, I urge you in the strongest and most forceful way *not* to support the Postal Service's proposal to eliminate the congressionally-mandated 6-day delivery language provision. The provision stating "That 6-day delivery and rural delivery of mail shall continue at not less than the 1983 level" *must* be included once again in the annual 2011 Senate Appropriations bill.

The Administration's Budget Proposal recommends the inclusion of the mandated 6-day delivery provision. The Administration recognizes that the Postal Service is facing real financial challenges. The Administration has pledged to work with the Postal Service, the employee unions, Congress, and other stakeholders to make sure that the Postal Service remains viable and a pillar of the economy. I encourage you to follow the Administration's lead by supporting the mandated 6-day delivery language in the 2011 bill and allow the Postal Service to do what it does best -- serve the American public.

The Postal Service cannot expect that by working less it will achieve more. There is a dispute between the Postal Service and the Postal Regulatory Commission (PRC), which has regulatory oversight of the Postal Service, over how much money may actually be saved by eliminating a day of delivery. The Postal Service claims it will save \$3.5 billion if it were to eliminate Saturday delivery. The PRC disagrees, reporting the savings will be only \$1.9-\$2.1 billion. Either number represents a very small savings compared to the amount of revenue the Postal Service will lose as businesses or consumers find other methods of delivery to have their mail, packages, and products delivered. Recent history supports my contention that there will be a major loss of revenue if the Postal Service is given the green light to stop Saturday delivery. After passage of the Postal Reorganization Act of 1970, the Postmaster General essentially gave away the parcel business, because the Postal Service believed that its future was going to be in the collection and delivery of letters - not parcels. The Postal Service thereafter created an Express Mail product, only to give that business away -- once again -- to private delivery companies. The Postal Service has been fighting ever since to regain a share of each of those markets.

The point I am trying to make Mr. Chairman, is that consumers and businesses will not use a Postal Service that reduces service by one day a week or 17 percent. Once consumers and businesses find an alternative – and they surely will – they likely will stay away from the Postal Service for good. The vacuum that would be left by shutting down delivery operations on Saturdays is sure to be filled by a competitor and once we lose that business, we will forever be fighting -- at even greater expense -- to get it back. Customers and businesses that rely on the mail will see an increase in the delivery time for their product. Failure to meet postal customer's delivery expectations could negatively impact the Postal Service's business model and the public's expectation that mail will be delivered in a timely manner. This is why I urge you not to support the elimination of Saturday mail delivery.

But there would be other catastrophic effects of moving to Saturday delivery and those effects would disproportionately hurt rural letter carriers. In our craft, we have a unique system of substitute employees who fill in for regular, full-time rural carriers at the drop of the hat. There are approximately 53,000 rural craft employees who do this work and it is a condition of their employment to be available at all times. It is a tough job. The wages could be higher and there are no benefits – no sick or annual leave or retirement program. These substitute employees – we call them relief carriers – typically work three or more days per week (in more metropolitan areas often six days a week) and must do so until a regular route goes up for bid. It can take five or more years for a route to become vacant so these relief employees have, in effect, a very long apprenticeship period. It is hard work and many must provide their own vehicle suitable for mail delivery. They have had to make that investment. They did not have a choice. If we go to five-day delivery, there will be no need for most of these relief carriers. Tens of thousands of rural carrier relief employees will be without a job, without a livelihood, and this is particularly difficult to stomach, especially when our folks have been waiting five or more years to obtain full-time employment with the Postal Service. It is also tough to accept when the proposed solution simply will not work -- will not do what the Postal Service says it will do. Our people need not be sacrificed in this way.

If there is no Saturday delivery, the ancillary functions our carriers perform at no cost to the American public will be missed. There will be no heroic actions out on the route -- the report of a house fire, an accident, or assistance to the elderly. These byproducts of the work we do and the fact that we are out and visible working with the public in communities large and small – will be curtailed on the weekend. Our public health and safety function will also be curtailed if rural carriers are not working on Saturdays. Back in 2002, in the wake of 9/11 and the anthrax attacks that terrorized the Nation and killed private citizens and Postal workers alike, we were prepared to serve as a public health army. We were to play an important role in the delivery of medicines in the event of biological terrorism. We play that role still today but we cannot fulfill that mission completely if our employees are not working on Saturdays.

Our customers will miss Saturday service. We hear that message. They want the contact with their rural carrier and many absolutely depend on it. Whether it is prescription drugs, public assistance, vital legal documents, or important business mailings, our customers and mailers want and need Saturday delivery. A radical response to cyclical change and a down economy is not good for the Postal Service or our customers. Indeed, our greatest concern is that we may have far fewer customers if we are unable to provide them the service to which they have become accustomed.

There is an easier way to put the Postal Service on firm financial footing that does not involve eliminating Saturday delivery. First, something must be done about the pre-funding of the Future Retirees Health Benefits Fund (FRHBF). When the 2006 Postal Accountability and Enhancement Act (PAEA) was passed, the Postal Service was experiencing high mail volumes and record revenues. Much has changed since then. Under the PAEA, the Postal Service's statutorily-required payment schedule is too much to bear and is patently unfair

during these trying times. No other government agency or corporation is required to pre-fund their retiree health benefits -- let alone required to almost fully pre-fund them at an accelerated pace. Reducing the amount of money the Postal Service is required to pay into the FRHBF has the potential to save the Postal Service billions of dollars and still not put employee pensions at risk.

Moreover, the Inspector General reported that the Postal Service has been overcharged \$75 billion on its CSRS Pension Fund responsibility. According to the OIG report, this overcharge has been used to pay the retirement costs of federal employees, not just postal employees. The report continues to say that if the overcharge was used to prepay the FRHBF; it would fully meet the retiree health care liabilities and eliminate the need to continue for the Postal Service to continue paying \$5 billion annually as mandated by the PAEA. The Postal Service should be permitted to have the monies it was overcharged returned.

Additionally, the Postal Service can initiate internal cost-cutting measures right now to reduce its operating expenses. I have gone on record before, and I will go on record again as saying if an employee is not involved in the processing, collecting, or delivering of mail, their job should be under the microscope. What I mean by this is there are simply too many layers of middle management that can be eliminated. We have manager's managing managers. The ratio of manager's overseeing employees is approximately one to seven. Think about this for a second. For every seven postal employees, there is a manager looking over their shoulder. This is among one of the highest manager-to-employee ratios in the country. This is simply not necessary.

The Postal Service can also reduce its operating expenses by consolidating many of the current Districts. There is no logic to the number of Districts or Areas that currently exist. One only has to look at a map to see how illogical the current structure really is. The consolidation of Districts and Areas, with the repetitive positions in each of those districts and areas would save the Postal Service millions; if not billions of dollars, and in my opinion would make for more consistent policy and better consistent service.

Thank you for inviting me to testify today on behalf of the National Rural Letter Carriers' Association for today's Joint Subcommittee hearing. I would be happy to answer any additional questions you may have.



**National Association of  
Letter Carriers**

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

**Fredric V. Rolando, President**

Testimony of  
Fredric V. Rolando  
President, National Association of Letter Carriers, AFL-CIO  
to a joint hearing of the  
Senate Sub-Committee on Federal Financial Management, Government  
Information and International Security and the  
House Sub-Committee on the Federal Workforce, Postal Service  
and the District of Columbia  
June 23, 2010

A-11031-1

Good afternoon Chairman Carper, Chairman Lynch, Ranking Members McCain and Chaffetz, and other members of the sub-committees. On behalf of the 290,000 members of the National Association of Letter Carriers, I am pleased to be here today. Thank you for inviting me to testify.

Although the economy has begun to recover from the 2007-2009 economic meltdown and the Postal Service has recorded a profit of nearly a billion dollars so far this year (through the month of April) before accounting for the massive retiree health pre-funding payment that no other company or agency in the country is required to make, we are not out of the woods yet. As we learned during the 18<sup>th</sup> annual NALC National Food Drive last month, tens of millions of American families are still suffering. For the Postal Service, a full recovery won't come until the housing sector stabilizes and the 25 million Americans who are unemployed or underemployed find jobs. Until that happens, mail volume is likely to remain depressed.

To help the Postal Service survive and adapt to an uncertain post-crash economy, postal employees and their unions will have to embrace innovation and seek win-win solutions with the Postal Service at the bargaining table. NALC has demonstrated repeatedly over the past three years that it is prepared to do its part. Recently we completed the third of three agreements negotiated over the course of the crisis to expedite route adjustments in reaction to the steep decline in mail volume as a result of the recession – a process that has improved the fairness of the adjustment process and saved the Postal Service hundreds of millions of dollars. The new Joint Alternate Route



Adjustment Process or JARAP is a major breakthrough and will allow us to adjust most routes in the country for the fourth time in two years. (It used to take 5 years to adjust all routes just once.) Going forward, we are committed to doing what is necessary to promote new, innovative uses of the Postal Service's networks even as we lose some traditional mail to electronic alternatives. Our goals are to provide decent middle class jobs to our members while serving the American people and helping grow the businesses that rely on the Postal Service.

But for us to be successful, we need Congress to act as well. Although we have never objected to the principle of pre-funding of future retiree health benefits – even though, I repeat, no other agency or company in America is required to pre-fund such health benefits – it is now clear that the policy adopted in 2006 was deeply flawed. Even if the economy had not crashed, hard-wiring a 10-year schedule to pre-fund 80% of a 75-year liability was, in hindsight, a mistake. While I understand that the aggressive timing was dictated by arcane budget scoring rules, the fact remains: this decision by Congress, not the recession and not the impact of the Internet, is primarily responsible for the financial crisis faced by the Postal Service in recent years.

The inescapable fact is that if not for these payments, the USPS would have been profitable in three of the past four years – despite the deepest downturn since the Great Depression. No private company would have done what the Postal Service has done over the past several years, which was to borrow billions to pre-fund future retiree health benefits in the middle of a recession. The USPS has been forced to use most of

its borrowing authority to make \$12.4 billion in payments to pre-fund retiree health benefits, rather than to invest for the long term or to restructure its operations. There is no way to sugar coat this, Congress must undo the unintentional error of 2006.

Fortunately, there is a way to do this without retreating from the laudable goal of pre-funding retiree health benefits. As you learned from the hearing you held earlier this year, the USPS Office of Inspector General has found that the USPS was overcharged by the OPM for \$75 billion in pension costs associated to service performed for the taxpayer-funded Post Office Department before the Postal Service was reorganized in 1971. The IG's January report, now being reviewed by the PRC, provides a roadmap for Congress for reform. Indeed, the Postal Service has recently prepared a legislative proposal based on that report that the NALC fully endorses.

It calls for Congress to direct the Office of Personnel Management to recalculate the allocation of pre-1971 pension costs on a "years of service" basis and to transfer the resulting surplus in the postal sub-account of the CSRS to the Postal Service Retiree Health Benefit Fund. This would correct a grossly unfair allocation of costs made by OPM in 2007 and allow the Congress to repeal the hard-wired and crushing pre-funding schedule in the PAEA. And it would also grant the Postal Service the financial space to restructure itself for the Internet age.

Of course, we understand, that the budget rules make this a lot easier said than done, and we acknowledge that there are compromise positions being discussed between the

current OPM approach and the approach supported by the IG and the Postal Service. I want to address both these points.

First, it is regrettable that good policy often takes a back seat to the peculiar world of budget scoring and the arcane rules of PAY-GO. In view of the Postal Service's off-budget status, transferring assets from one of its retirement funds to another to satisfy the obligations to pre-fund retiree health may be common sense. But we understand that it will score in this case. In fact, this is a recurring problem. Every time Congress has made changes in this area of the law – allocating pension costs between taxpayers and rate payers – compromises have been made to deal with scoring issues. In 2003, Congress took up a CSRS pension funding bill when an audit revealed that the USPS was on track to massively over-fund its CSRS obligations. But scoring issues led the Bush administration to unfairly reduce the cost of the bill by shifting the totally unrelated expense of military pension benefits earned by postal employees before they were hired by the USPS to the Postal Service and its ratepayers. That unfair decision had to be repealed by the PAEA. Unfortunately, when it took up the PAEA in 2006, Congress again dealt with scoring concerns by adopting an unsustainably accelerated schedule of pre-funding, while declining to address the unfair method of allocating pension costs between the USPS and the Treasury.

Second, we understand that the "years of service" approach adopted by the IG has its critics. They often cite the 1974 law (Public Law 93-349) in which Congress decided to make the Postal Service pay for any increase in the unfunded liability for pension

benefits resulting from pay increases. Although the OPM has mistakenly suggested in its testimony to you that Congress made a conscious decision to shift the cost of pre-1971 service onto the Postal Service, that legislation did effectively shift any increase in pension costs resulting from postal wage increases (for both pre- and post-1971 service) to the Postal Service. The rationale for this decision is outlined in the House of Representatives' report on the legislation. House Report 93-120 notes that after the Postal Reorganization Act was passed "The Congress now has no control – no oversight whatsoever – with respect to the pay machinery in the Postal Service" (see p. 4). Having no control over wage costs, Congress decided to make the Postal Service responsible for any increase in pension costs resulting from USPS pay decisions. But as implemented by the OPM, this policy is grossly unfair to the Postal Service and its ratepayers – the OPM calculated the pension costs of pre-1971 service at frozen 1971 wage rates, even though pension benefits are based on end-of-career salary rates. This effectively shifted the cost of all post-1971 wage inflation as it relates to work performed by employees of the Post Office Department onto the Postal Service and its ratepayers. Some level of wage inflation was expected in the years after 1971 and taxpayers should legitimately bear those costs – as they relate to pre-1971 POD service.

Had the Postal Service given away grossly excessive wage increases after 1971, the critics would have a legitimate dispute with a "years of service" allocation of costs – taxpayers would be punished by these wage decisions. However, that was not the case. The inflation-adjusted wages of letter carriers today, for example, are the same as they

were in 1972. Nevertheless, since postal wages increased somewhat more than the wages of other federal employees covered by CSRS, the Postal Service could be held liable for the additional cost of pensions had the PRA not been passed. If Congress wants to adjust the years of service method, this would be the fairest approach – OPM should index the 1971 postal wage levels to the pay increases received by other federal employees in order to calculate the cost of pre-1971 service payable by the Treasury.

Some have suggested that we index 1971 postal wage levels to the Consumer Price Index (CPI) for the purpose of this cost allocation. Although this is a huge step in the right direction, it would still allow the federal government to pay much less for the pensions of Post Office Department employees for years of service before 1971 than it would for other federal employees service for those same years of service. And it would still shift billions in costs onto postage rate payers.

We raise these complications because we know you must grapple with them. Indeed, both sets of problems might be used to justify inaction. But we hope you will not succumb to that. The Postal Service is too important. It is a vital national utility that is essential to a \$900 billion segment of our national economy – its employees work hard and provide excellent service at some of the lowest postage rates in the world. We deserve a fighting chance to adapt and meet the evolving needs of the country. Reforming the pension and retiree health pre-funding provisions of the law is the essential first step. So we appeal to the leaders of both parties to find a way to overcome the scoring and other policy obstacles in front of us.

Let me finish by briefly addressing a major issue before the House and Senate Appropriations Committees. As you know, the Postal Service has proposed the elimination of the requirement to provide six-day collection and delivery services. We think this would be a blunder of the first order – saving very little money and risking the loss of much more revenue over time. Cutting service is not a way to strengthen the Postal Service. In America, business is conducted 24 hours a day, seven days a week. Many businesses, especially small businesses such as e-Bay retailers, rely on Saturday delivery and reducing the speed and quality of service will simply drive customers away. We have already seen some customers begin to drift away, on the false assumption that 5-day delivery is a done deal. *The Economist* magazine has already opted out, outsourcing its Saturday deliveries to contractors in this area, and we can expect private delivery firms that use the USPS for cost-effective last-mile delivery to reconsider their business plans. Weekly newspapers and direct advertisers who value Saturday delivery will follow suit.

At a time when the nation is suffering an acute jobs crisis, throwing another 80,000 decent jobs away in a moment of panic does not make sense. Both the Obama administration and a bipartisan majority of the House of Representatives who have co-sponsored H. Res 173 oppose the elimination of Saturday delivery. We urge all of you to reject this proposal as well.

Thanks again for inviting me to testify. I am ready for any questions.

# **APWU CONGRESSIONAL TESTIMONY**

**American  
Postal  
Workers  
Union,  
AFL-CIO**

**WILLIAM BURRUS  
PRESIDENT**

**Before The  
SENATE COMMITTEE ON HOMELAND SECURITY AND  
GOVERNMENTAL AFFAIRS**

**SUBCOMMITTEE**

**FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT  
INFORMATION, FEDERAL SERVICES, AND INTERNATIONAL  
SECURITY**

**AND THE**

**U.S. HOUSE COMMITTEE ON OVERSIGHT AND  
GOVERNMENT REFORM**

**SUBCOMMITTEE**

**FEDERAL WORKFORCE, POSTAL SERVICE, AND THE  
DISTRICT OF COLUMBIA**

**"Having Their Say: Customer and Employee Views on the  
Future of the U.S. Postal Service"**

**TESTIMONY OF WILLIAM BURRUS, PRESIDENT  
AMERICAN POSTAL WORKERS UNION, AFL-CIO**

**June 23, 2010**

1300 L Street, NW  
Washington, DC 20005  
202-842-4250  
Fax 202-842-4297  
[www.apwu.org](http://www.apwu.org)

Chairman Carper, Chairman Lynch, and members of the subcommittees: Thank you for providing this opportunity to share the views of the American Postal Workers Union on the difficulties currently facing the Postal Service and on postal management's plans to address them. The request that oral presentations be limited to five minutes restricts my remarks to a summary of our positions on a wide range of issues, but we welcome the opportunity to speak on the subjects of concern.

The APWU has analyzed the current state of hard-copy communication, and we reject the projection that is currently in vogue -- that mail is destined to perpetually decline. Our evaluation signals that, in fact, mail volume will experience growth in Fiscal Year 2012. I ask you to make note of our prediction and I suggest we revisit the issue in 2013: *Let's see if the APWU's forecast was right.*

Virtually every other study of mailing trends concludes that mail volume will continue to decline, and this projection serves as the basis for recommendations for radical changes to the USPS structure and to the services we offer.

If we are right in our prediction that volume will grow in the relatively near future, those dire predictions must be discarded as the alarmist projections they are.

### **What to Do, What Not to Do**

After much soul searching, the postal community has concluded that the payment schedule for pre-funding future retiree healthcare liabilities is driving the Postal Service to the brink of insolvency, and must be modified. Correction of the Postal Service's overpayment to the Civil Service Retirement and Disability Trust Fund would more than satisfy this obligation. There seems to be unanimous agreement within the postal community that the pre-funding obligation is the primary source of the USPS' financial difficulties and that it must be corrected. I urge lawmakers to find the appropriate methods to do so.

I would be remiss if I did not include in this summary what not to do: Drastic reductions in service must be removed from consideration. This includes the poster child for service reductions, the elimination of Saturday delivery. We should not even engage in serious discussion of this proposal.

The reason is simple: No service-oriented business can grow by reducing service. The very concept must be abandoned. To the contrary, we believe the USPS can and must expand the services it offers.

In addition, we believe the USPS must eliminate excessive worksharing discounts. These discounts deprive the Postal Service of desperately needed revenue and subsidize major mailers at the expense of small businesses and individual citizens. They are illegal and self-defeating. (I want to digress for a moment and commend Chairman Lynch for holding the first-ever hearing on this crucial topic last month.)



### **Flawed Business Model**

Finally, I cannot miss the opportunity to remind policymakers that the business model that governs the United States Postal Service was a creation of the Postal Accountability and Enhancement Act of 2006 (PAEA). Now, less than four years after its adoption, many of the groups that supported the PAEA are again denouncing the USPS business model as severely flawed.

Those who advocated the passage of the PAEA must take responsibility for the results, and their recommendations must be evaluated in light of their miscalculation of the effect of the law. The GAO, the Office of Inspector General, congressional committees, mailers' associations and others "drank the Kool-Aid" of "postal reform" and now are offering solutions to problems that they created.

Ironically, it seems that hardly a week goes by without these same agencies issuing reports that seek to substitute their judgment for those of postal management. Frankly, their attempts to micromanage the USPS are counterproductive.

I have submitted for the record some of the written testimony the APWU has provided at recent hearings and forums, which expand on our views on these and other important topics.

I would be pleased to respond to any questions that you may have.

Thank you.

#### **Attachments:**

- Testimony of William Burrus before the House Federal Workforce Postal Service and the District of Columbia Subcommittee. *"The Price is Right, or is it? An Examination of USPS Workshare Discounts and Products that Do Not Cover Their Costs,"* May 12, 2010;
- Testimony of William Burrus before the Senate Financial Services and General Government Subcommittee. *"Proposals for Addressing the Current Financial Situation Facing the United States Postal Service,"* March 18, 2010;
- Testimony of William Burrus before the Senate Federal Financial Management, Government Information, Federal Services. *"The U.S. in Crisis,"* Aug. 6, 2009.

**TESTIMONY ON BEHALF OF THE  
NATIONAL POSTAL MAIL HANDLERS UNION  
PRESENTED BY  
RICHARD COLLINS  
ASSISTANT TO THE NPMHU NATIONAL PRESIDENT**

**BEFORE THE  
SUBCOMMITTEE ON  
FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION,  
FEDERAL SERVICES, AND INTERNATIONAL SECURITY  
OF THE  
SENATE COMMITTEE ON  
HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS**

**AND THE  
SUBCOMMITTEE ON FEDERAL WORKFORCE,  
POSTAL SERVICE, AND THE DISTRICT OF COLUMBIA  
OF THE  
HOUSE COMMITTEE ON  
OVERSIGHT AND GOVERNMENT REFORM**

**“Having Their Say: Customer and Employee Views on the  
Future of the U.S. Postal Service”**

**June 23, 2010**

Thank you, Congressman Lynch and Senator Carper, for holding this important joint hearing. Mail Handlers National President John Hegarty sends his regrets that he could not be here this morning to testify personally.

My name is Richard Collins. I have served since 1994 as the Assistant to the National President. I also was a mail handler with the Postal Service for almost thirty years. My current duties include working on a daily basis with the U.S. Postal Service on a vast array of issues. I have served as the Union representative to the Mail Security Task Force, which met periodically about bio-hazards, including anthrax, and I serve as a member of the National Joint Steering Committee of the Quality of Work Life process and as the Union representative on the Ergonomic Work Group.

The Mail Handlers Union represents nearly 50,000 craft employees, the overwhelming majority of whom work in the large processing facilities. Our members often perform the most dangerous, dirty, and difficult jobs in the postal system. We staff mail sorting machines that sometimes are a city block or more long. We drive the forklifts and other heavy machinery. Our members are the first to touch the mail when it arrives for processing, and often are the last to touch it when as it winds its way to delivery facilities.

Processing is time-sensitive, and any reduction in processing hours or days will have a direct, and, we believe, a dire impact on the timely processing and delivery of both Standard and First Class Mail. This is especially true for mail items that need prompt processing and delivery, such as medicines from various pharmacy companies, DVDs through Netflix, newspapers and magazines, and a host of other mail items that are time sensitive.

That is why the Mail Handlers Union is opposed to the Postal Service's proposal to eliminate residential delivery on most Saturdays. We firmly believe that cuts in service that are expected by the American public, both consumers and business, are not the answer to the Postal Service's current financial woes.

The Mail Handlers Union has been working closely with the Postal Service to achieve whatever savings can be accomplished. Mail handlers have approved and participated in several early retirement programs, reducing our ranks by almost 14% in the last few years. In the safety and health field, we have joined with the Postal Service in an Ergonomics Risk Reduction Program and a Voluntary Protection Program, which have significantly reduced workplace injuries and saved hundreds of millions of dollars in the costs of workers' compensation. We also have partnered with the Postal Service in our Quality of Work Life program, improving employee morale and jointly producing best practices and programs that save money. These important and money-saving activities, however, alone are not sufficient. The Mail Handlers Union

looks to Congress to aid with certain aspects of the ongoing financial crisis faced by the Postal Service. We believe that this crisis is caused not only by the recent recession, but by various policy decisions that have been made, and can be fixed, by the Congress.

Everyone understands the bottom line: During the worst recession since the Great Depression, the Postal Service has been losing significant amounts of money, even with drastic cuts in the number of employees. But in reality, looking at postal operations, the Postal Service has been a break-even or even profitable enterprise for two of the past three fiscal years. How many Fortune 500 companies can say that? Not FedEx and not UPS, competitors whose volume is down more than the Postal Service.

As noted, there certainly has been tremendous down-sizing of the Postal Service, including over 100,000 career jobs eliminated, producing billions of dollars in savings in each of the past few years. These changes have not been accomplished easily or without friction. But they have shown that, without extraneous factors, the Postal Service remains a viable and vibrant institution grappling with tough times.

By extraneous factors, my Union is referring to unreasonable mandates placed on the Postal Service to fully fund the Retiree Health Benefits Fund (RHBF) during the next seven or eight years. That is why Congress needs to

focus on – and fix – the RHBF. That fix is needed immediately, certainly before the end of this fiscal year on September 30th.

My Union understands that relying on a fix to the RHBF, and relying on the economic reality that the Postal Service is a viable institution, runs directly counter to the narrative coming from Postal Headquarters. The Postal Service's dominant message is: We are broke. We are swimming in a sea of red ink. We are a debt-ridden institution whose survival is dim. But we can be saved by cutting service and becoming less reliable. To the Mail Handlers Union, that is not very reassuring nor is it very realistic.

We can think of no Fortune 500 company projecting the same, consistent doom-and-gloom outlook. Critics of the Postal Service, with an ideological agenda to eliminate universal service and privatize postal delivery, have picked up on the Postal Service's mantra to urge cuts in service and other draconian measures. But this approach will lead to a gradual demise of the Postal Service, and will become a self-fulfilling prophesy.

We disagree with the Postal Service's basic analysis. As already noted, despite an incredibly bad recession since 2008, the Postal Service has been a break-even or profitable enterprise for two of the past three fiscal years. To be sure, there has been diversion of a significant amount of mail to the internet

and other electronic means of communication, but the Postal Service has reduced its workforce, and is reducing its network, to address those issues.

The Mail Handlers Union believes that Congress should deal immediately with the funding of the Retiree Health Benefit Fund, which already contains more than \$35 billion. In addition, it would be worthwhile for Congress to require recalculation of the postal pension surplus in the Civil Service Retirement System. The bottom line is that simply suspending the mandated payments in the RHBf for several years will provide the necessary space needed by the Postal Service to ascertain its real needs in a realigned economy. Significantly, it also makes good business sense, and is consistent with common-sense bookkeeping and the actions taken by the private sector. Indeed, most economists now predict a general leveling of the economy, so that by 2012 there will be a much better picture of the Postal Service's real financial future.

The RHBf currently is healthy and growing, which is a good position to hold during good economic times. The Mail Handlers Union firmly believes in a healthy RHBf. But in the current economic climate, mandated payments into the Fund have become both an unacceptable burden and an unjustified luxury, required of no other federal agency or private-sector employer. Rather, the current payments are dictated by arcane budget rules that tie Congress in knots. Preserving a fiscally sound and historically important institution like

the Postal Service, which serves as the core of this nation's communications network and the producer of hundreds of thousands of productive jobs, should not be sacrificed because of some economists' vision of "scoring." With all respect, such budgeting is not rational, and does not produce rational solutions.

The calculation of the CSRS pension costs is similarly an internal matter that deserves resolution. If, as the Inspector General and others have concluded, the numbers are wrong to the tune of \$75 billion, then they need to be fixed. The importance of this situation cannot be overstated. To paraphrase the Postmaster General when appearing before Senator Durbin's subcommittee, if the Postal Service had the \$75 billion, we would not be sitting here talking about reducing delivery to five days. In other words, the Postal Service is proposing to take an action of emergency proportions that may not be necessary – an action that has generated much resistance on Capitol Hill, and has hurt the Postal Service's reputation among customers and employees. Instead of discussing Saturdays, we should focus on an increased role for the Postal Service and an improved business model for the 21st Century.

In short, the Mail Handlers Union believes that we need legislation focusing on two issues – the RHBF and the overfunding of the CSRS – possibly even to use the overfunded pension obligation as a substitute for payments to the RHBF. In our discussions with many of the mailers, a clean bill is a viable



bill. Such legislation is reasonable during a recession. A diverse coalition of mailers, unions, and management groups would back it. It would allow Congress and the Postal Service to determine the future unencumbered by these unjustified payments. The Postal Service would have a much clearer idea of its real liabilities and necessities for the upcoming decade. If the legislation reaches beyond those two goals, it begins to accumulate unnecessary opposition.

We understand that recalculating the pension fund can be accomplished either through Congress or by the Administration. We urge both branches of government to work together to resolve the issue.

In sum, the Mail Handlers Union believes that adjustments to the Retiree Health Benefit Fund and the funding of the CSRS will go a long way towards addressing the Postal Service's future financial needs. To be sure, the Postal Service has spent a lot of money to produce reports from consultants whose authors addressed a "worst case scenario." In fact, however, their reports were based on a scenario that does not exist and will not exist. They were inaccurate before they were published, and it would be foolish to base important policy decisions on such inaccurate information.

Thank you, Chairmen Lynch and Carper, for holding this hearing, for allowing me to testify, and for making the future of the Postal Service an important, front-burner issue. I look forward to answering any questions you may have.

**STATEMENT OF**  
**LOUIS ATKINS, EXECUTIVE VICE-PRESIDENT**  
**NATIONAL ASSOCIATION OF POSTAL SUPERVISORS**

**BEFORE**  
**SUBCOMMITTEE ON FEDERAL FINANCIAL**  
**MANAGEMENT, GOVERNMENT INFORMATION,**  
**FEDERAL SERVICES, AND INTERNATIONAL SECURITY**  
**SENATE COMMITTEE ON HOMELAND SECURITY**  
**AND GOVERNMENTAL AFFAIRS**  
**AND**  
**SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL**  
**SERVICE, AND THE DISTRICT OF COLUMBIA**  
**HOUSE COMMITTEE ON OVERSIGHT AND**  
**GOVERNMENT REFORM**

**JUNE 23, 2010**

Good afternoon Chairman Carper, Chairman Lynch, Ranking Member McCain, Ranking Member Chaffetz and other distinguished members of the Senate and House subcommittees. My name is Louis Atkins, Executive Vice President for our organization. Thank you for inviting me to testify on behalf of the National Association of Postal Supervisors.

As you know, the National Association of Postal Supervisors is a management association representing more than 33,000 active and retired postal supervisors and managers employed by the U.S. Postal Service. Organized in 1908, NAPS exists to improve the Postal Service and the pay, benefits and working conditions of its members. NAPS is a management association, not a labor union. Its members include first-line supervisors and managers working in mail processing or mail delivery, but NAPS also represents men and women working in virtually every other functional unit in the Postal Service, including sales, marketing, human resources, training, law enforcement, health and safety.

NAPS takes seriously its responsibility to work with the Postal Service to preserve the health and vitality of the nation's postal system. Postal supervisors are doing more than their share to help the Postal Service modernize and change. We collaborate with the Postal Service because there is no other responsible option, given revenue and mail volume projections that point to the potential of continuing, dramatic losses.

#### **Dealing with the Postal Revenue Shortfall**

The revenue shortfall that the Postal Service once again faces this year is the result of three factors:

- The deep recession – the worst in 80 years -- and its downward impact on mail volume, particularly advertising mail;
- The continued migration of the mail to the internet; and
- The burdensome and accelerated statutory requirements established by Congress that force the Postal Service to set aside funds for future retiree health benefits – at a cost of \$5.5 billion per year or nearly \$40 billion over the next seven years.

We believe the first factor – the poor economy -- will be mitigated, though not entirely, as economic conditions improve. The consensus by many postal experts is that much mail, though not all, will return to the system as the economy slowly rebounds.

The second factor – internet migration – will continue to erode mail volume going forward and represents a long-term concern.

The third factor – the overly aggressive prefunding schedule for retiree health benefits – presents a viable area to pursue that could have a significant bottom-line impact upon the Postal Service. While benefit prefunding as a public policy can assure that assets will be available to satisfy obligations down the road, no other federal entity or private sector enterprise other than the Postal Service has either been required to or voluntarily committed itself to retiree health benefit prefunding at so aggressive a schedule. The Postal Service is bearing this burden now, during a recession. In fact, in two out of the last three years, the Postal Service would have been in the black were it not for the aggressive prefunding schedule that Congress established.

The sooner the Congress deals with this problem and realigns the pre-funding schedule, the better it will be for Postal Service revenues and the mailing community. Recalculating the postal pension surplus in the Civil Service Retirement System, using the co-called “service ratio” method to allocate pension costs related to pre-1971, would provide a sufficient amount to cover the entire cost of future retiree health benefits. This would permit the Congress to transfer the postal CSRS surplus to the Postal Service Retiree Health Benefits Fund – either now or at some future point and repeal the current pre-funding schedule. It will place the Postal Service on a more certain financial footing and restore confidence by large-volume mailers in the future of the Postal Service.

### **Cutting Costs and Finding Efficiencies**

During the past several years NAPS has collaborated with the Postal Service on major organizational changes to cut costs and find efficiencies. Some of these changes have eliminated management and supervisory jobs. In 2009 alone, nearly 3,600 management and supervisory positions were eliminated in the Postal Service. These changes have dramatically impacted the lives of management and supervisory employees represented by NAPS.

We also support changes in the law, infrastructure and operations of the Postal Service that make sense and will modernize and sustain Postal Service operations, products and services. The first changes in the law should revolve around the restructuring of the retiree health benefit prefunding schedule and the resolution of past pension overpayments by the Postal Service for pre-1971 Post Office Department employees should occur before . That will help to put the Postal Service on a more certain financial footing. After those actions and other continued USPS cost-cutting efforts take place, Congress and the Postal Service will be better situated to discern what needs to come next, including five-day

delivery and other significant service cuts. The consideration and balancing of those actions should take into account possibility of a subsidy for mail service.

The steep decline in mail volume over the past two years means that all postal operations – including processing, transportation and delivery – are operating at less than full capacity. A letter carrier that used to deliver six pieces of mail to a house is now delivering four. A business that used to get two trays of letter mail may be receiving far less than two today but, nonetheless, we are still delivering to that, and every other business in the country. Consolidations of some processing and retail postal facilities may need to occur, based on the facts and circumstances of best business judgment, but the levels of service the customers now expect must be maintained.

Cost management is critical to keeping the Postal Service afloat. Large downward adjustments in the size of the USPS workforce and work hours of rank-and-file employees have caused considerable strain on the supervisors. For example, a supervisor of 25 delivery routes now is expected to assure delivery with 20 carriers. NAPS members who work in processing facilities are expected to cover vacancies created by those who are on vacation or out on sick leave. Always the operational targets must be met. When carrier routes are not covered, the supervisor is expected to get the remaining carriers to sort and deliver mail from open routes. These continuing challenges are increasing and straining the human capacity of the system. Ultimately, the reasonableness of current Postal Service delivery standards will need to be re-examined, if current trends continue.

Cost-cutting efforts should also include streamlining the Postal Service organizational and top-level management structure. It is time that the Postal Service applies the same rigorous cost-cutting scrutiny to the numbers of its upper ranks as it is applying to middle and lower-management. The goal should be to create a flatter, leaner organization -- one consistent with a smaller workforce. This should involve consolidations at all levels of the organization.

We have compared the nationwide management framework, currently built around 8 geographic areas and 74 districts, versus the organization that managed the Postal Service twenty years ago. Today the total number of organizational units (which is 82, the total of 8 areas and 74 districts) is actually larger than it was nearly two decades ago, when 78 organizational units existed (five regions, 73 divisions) and the USPS workforce was one-third larger in size.

In addition to these necessary reviews, the Postal Service needs to restructure how work is assigned throughout the carrier, clerk and mail handler workforce, to secure wider versatility and flexibility among the craft in getting the work accomplished.

### **The Postal Service Clearly Needs to Modernize**

Finally, the current business model of the Postal Service is outdated and out-of-touch with the future needs of America. Today's United States Postal Service needs to become tomorrow's United States Communications Service. Without a larger electronic footprint that bridges the tangible and virtual worlds of logistics and communications, the Postal Service eventually will go the way of the telegraph.

For the foreseeable future, Americans will continue to demand services that ship and deliver hard-copy communications and packages to businesses and households. But demand for hard-copy communications also will continue to decline, as more and more Americans turn to the internet.

American businesses will continue to find value in hard-copy advertising mail that is delivered to homes across America. Priority mail and package services – in competition with the private sector – will remain an important part of the Postal Service's product offerings. But the revenues these products alone will generate likely will not be enough to sustain the infrastructure needed to sustain universal postal services across America.

Thus, the Postal Service will need to generate additional revenues in innovative ways. Congress should provide the Postal Service with wider flexibility to enter new markets and introduce new products that reflect changing customer needs and tastes. This should involve the introduction of products and services that expand the definition of "mail."

However, the Postal Service lacks the vision, resources and know-how to develop these products itself. Partnerships with the private sector are key to assuring that the Postal Service leverages new technology to create cutting-edge electronic mail products.

The parallel experience of the CIA in tapping new technologies is instructive. In 1999 the CIA, with the approval of Congress, created a not-for-profit investment firm to identify, adapt and deliver innovative technology solutions to support the missions of the U.S. intelligence community. That technology development arm, called "In-Q-Tel," has engaged over the past decade with entrepreneurs, growth companies, researchers and investors to deliver technologies that provide superior capabilities for the CIA and the intelligence community. To date, In-Q-Tel has engaged with more than 175 companies and delivered more than 260 technology solutions to the intelligence community.

The Postal Service needs its own In-Q-Tel to achieve the same leverage that connects technology advances to improvements in communications – including and going beyond hard-copy mail itself. Congress should be the catalyst for the creation of such a non-profit investment firm for the Postal Service to better assist it to truly modernize.

Thank you again for the opportunity to express these views. I will be happy to answer any questions you may have.

**Testimony of Charles Mapa**  
**President National League of Postmasters**  
**June 23, 2010**

Chairman Carper, Chairman Lynch, thank you for inviting us here today to testify before you on this vital issue. It is a pleasure to be here. The National League of Postmasters was founded in the late 19<sup>th</sup> century and represents postmasters from across the country. Rural postmasters are a significant part of our membership.

At the outset, the League would like to commend the Chairmen, Subcommittee members, and staff for undertaking this very important hearing on the Future of the Postal Service. It is a very important issue and a very tricky one. This is because a century and a half of predictions concerning the impact of developments in communications technology on mail have shown that generally such predictions have been pessimistic and inaccurate. Moreover, many of those who are making recommendations understand neither the postal delivery system nor the consequences of their actions on that system. This is particularly relevant with regard to the issues of Post Offices, what they do, why they are there, and why they are needed.

Before going into any further detail, I must strongly express the League's support for resolving the question of the overpayment of the Postal Service into its employee retirement fund, an overpayment that the Postal Service IG has put at somewhere around \$75 Billion. That overpayment should be credited towards the Postal Service's obligation to prefund its retirees' health benefits and a way found to do so without upsetting the Congressional "scoring" applecart.

The rest of this testimony will deal with two items: 1) Post Offices, what they do, how they impact a community, and what they cost, and 2) mail volume projections.

Before turning to that, however, the League needs to emphasize that, regardless future mail volumes, efforts to make the Postal Service more efficient must continue.

In a variety of forums, we have suggested that efficiency in operations could be increased by streamlining or eliminating many of the Postal Service's unnecessary bureaucratic procedures. For instance, there is no reason, when we undertake a procedure such as checking the accuracy of a machine, or scanning a mailbox, to create a procedure whereby we do the procedure, record that, verify that we did the procedure, record that, and then verify that we verified that we did the procedure, and then record that. Such redundancy costs time and wastes money. We are pleased to report, however, that at the strong urging of the League, the Postal Service is actively working with postmasters on this issue, in terms of reports, we are optimistic that significant progress is going to be made soon. Further, as we have suggested in the past, postal management could be streamlined by eliminating the regions and district structure and replacing it with a flatter structure with just one management layer between us and Postal Service headquarters. More work would get done, and it would get done better and more efficiently.

**I. The Role of Post Offices Is Not Well Understood by Those Making Recommendations for the Future.**

We have heard, time and time again over the last several months, that the Postal Service has 37,000 Post Offices and that this 37,000 are more retail facilities than Starbucks, McDonald's, Sears and Wal-Mart combined. The suggestion is then made that if we essentially eliminate the brick and mortar retail function of the Postal Service by moving the sale of stamps and postage online, then all this post office brick and



mortar—and all the costs associated with it—could be eliminated.

Chairman Carper, Chairman Lynch, this is patent nonsense.

The reason this is nonsense is that this analysis assumes that the retail function that Post Offices play is the only function or at least the primary function that they perform. This simply is not true. Indeed the exact opposite is true. Most Post Offices *are not primarily retail units*. Rather, *they are primarily delivery units* and they ARE the totality of the local delivery function. Close them down and you have closed down the final distribution node of the entire postal system, and online buying of stamps does not replace that delivery function.

Yes we have a lot, but when you realize that there are 3,500,000 square miles in the United States, that might not seem so outrageous. Granted, there are places where people do not live and where there is no postal service. Nevertheless, if one does the math, one finds that there is one Post Office for every 135 square miles. Few analysts making recommendations seem to realize this, and simply focus on the retail function. Often, the retail function is an add-on to the operation, because the unit and the postmaster must be there in order for the delivery function to work, and given this, the incremental cost of the retail function is not high.

In terms of costs, I have been told that the "costs" of Post Offices encompass both retail and delivery elements, and the USPS costing system does not distinguish between the two functions very well. Thus, efforts to break out which costs should go to the retail function and which costs should go to the delivery function have not been very productive. The truth of the matter is that we really don't know how much the retail function costs (as compared to the delivery function) except that it logically is less than the figure currently used, which I believe is an overall number that blends both.

Even the Postal Service's Inspector General's office just doesn't quite seem to face the issue, and its recent Report "Analyzing the Postal Service's Retail Network Using an Objective Modeling Approach," (June 14, 2010), does not directly face the issue. While admitting the difficulty in calculating and dividing the duties (and thus costs) of a Post Office staff between the retail and delivery functions<sup>1</sup> the report does not quite seem to grasp that the primary role of the Post Office is a delivery function, and that any analysis of whether there should be a Post Office in a given locality generally depends on delivery matters—density, number of stops, etc.—more than on retail matters. It is interesting, however, that the Report does seem to suggest that, in terms of the retail function, there are not enough retail units in big cities. That, of course, would be because the functions of most Post Offices in big cities are primarily delivery not retail functions.

Finally, the Report's author, who is an economist, clearly does not understand the social and cultural role of small rural Post Offices role in rural society, which is discussed below. This is one of the main reasons that such Post Offices still exist.<sup>2</sup>

**A. A Post Office is Primarily A Delivery Facility, Not A Retail Facility.**

While many (but not all<sup>3</sup>) Post Offices do indeed have a retail function, they are primarily the facilities out of which the Postal Service's carrier force operates and is managed. Further, Post Offices and the post offices boxes in them, are absolutely

---

<sup>1</sup> See Section I C of this Testimony below.

<sup>2</sup> See Section I E and I F of this Testimony below.

<sup>3</sup> For instance, because of space limitations in older buildings, as communities have grown, many postmasters have created carrier annexes which are Post Offices where there are only carriers and no retail facilities.

critical final delivery points for most of the remittance mail that tens of thousands of businesses depend upon. These functions would still be necessary and present even if every aspect of the retail function disappeared. There is, after all, 3,500,000 square miles in the country, and the Postal Service goes by the doors of almost all citizens every day.

**1. Distribution Nodes.** While a typical Post Office has a set of retail windows, where retail functions occur, most Post Offices also have carriers. Indeed, for every clerk found in a typical Post Office, there are at least two carriers. In larger Post Offices, there are many more carriers than clerks. If the Post Office is big enough, several supervisors are employed to aid the postmaster in managing the carriers.<sup>4</sup>

Further, in larger areas there are also a variety of stations and or branches, as well as carrier annexes. All of these brick and mortar facilities made up the final distribution node in the system and all are managed by the postmaster. Thus all the brick and mortar is primarily there for the delivery function and not the retail function, and the vast majority of these brick and mortar units are still necessary to deliver the mail today in a timely fashion, even in this electronic age, even if the retail function moved online, and even if mail volume has declined.

Eliminating or reducing retail functions might reduce clerk time, but not the necessity of having the facilities that house the carrier operations, and having the managers that manage them.

---

<sup>4</sup> Some very small Post Offices have no carriers, but that is because all their distribution is through their Post Office boxes. Hence they still serve as the final distribution node and, as explained below, as the actually final delivery point as well.

**2. Final Delivery Points.** In terms of remittance mail, more and more small, medium, and large businesses have obtained special post office boxes for their remittance mail. The businesses have their remittance mail sent directly to that box, even though the rest of their mail goes to the normal business address, and is delivered by the carrier in the normal course of business. In this day and age, for a business to have a post office box—where mail is typically up by 11 a.m.—means that they can get their checks early and deposit them before the banks close at 2 or 3. If they would wait for their normal mail delivery, which often comes after the banks are closed, they would lose a day. This slows a company's revenue stream and the loss due to float and other financial limitations can be significant. That box function, which is becoming increasingly more important, is compromised where access to post offices boxes in a Post Office is not convenient. It is also compromised if boxes would not be collocated with the delivery function and the carriers.

In as much as the Postal Service is doing all it can to maintain remittance mail in the face of electronic diversion, making it less convenient to pick up that mail is a terrible idea and would increase the speed of electronic diversion, perhaps significantly. We note that the key to the potential success of the Postal Service's six day to five day plan is the delivery of remittance mail to P.O. boxes in Post Offices and the continued easy accessibility of Post Offices to the American Public.

Thus, the facile assumption that many make, which is that Post Offices are not necessary in an environment where stamps are purchased in other places, is not accurate. Having efficient final distribution nodes is critical to the system.

**B. Why Are There So Many Small Post Offices So Close Together In Urban And Suburban Areas?**

Historically, as the populations of urban and suburban communities grew, and increased capacity was needed to service all the new delivery points (regardless of mail volume). The postmaster and his management had a choice—close the current Post Office and open a bigger one that could handle the increased number of carriers that would be needed, or open a second smaller facility and put the new carriers and new routes into the second facility. In many cases, it was more economical to open up the second smaller facility instead of closing the first now-too-small Post Office and opening a newer and larger one.

Obviously that was not the case everywhere, but in the Northeast, where larger tracts of available land were more scarce, it happened frequently. In the West, where more open land was reasonably available, postal executives tended to open newer and larger Post Offices and close the old one more than in the Northeast. Hence, in older areas such as Boston and other parts of New England, there tend to be more smaller urban and suburban Post Offices than in the West.

**C. Should the Postal Service Close down Post Offices that Are Losing Money?**

While one would think that the question would be obvious, the problem is that the “cost” of the Post Office, against which the retail revenue that comes in the door is measured, includes delivery costs not just retail costs. Thus one may be comparing retail revenue against both retail AND carrier costs, which makes the comparison somewhat senseless, for one is comparing apples to apples and oranges. It certainly does not lead to the conclusion that if a Post Office’s retail revenue is less than the

combined retail and delivery costs of the unit, then the Postal Service is “losing money” by keeping it open.

Of course, one could just disaggregate the retail costs of a Post Office and make an apple to apple comparison to the retail revenue of the unit. However, as noted above our understanding is that the way the Postal Service's costing system is set up makes this very difficult if not impossible to do.

**D. The Cost of Small Rural Post Offices Less than One Percent of the Postal Service's Budget.**

Most Post Offices are delivery units, not retail units and have far more carriers than clerks. That is not necessarily true for small rural Post Offices for many of these Post Office have no clerks. Often this is because no carriers deliver mail in that locality, and the only way local residents get their mail is by coming into the Post Office and picking it up. Take away this Post Office, and you have to give mail delivery over to a rural carrier. In any case, it would be *de minimus*.

This is because the total cost of the 10,000 smallest Post Offices—more than one-third of all Post Offices in the United States—was about seven tenths of one percent (0.7%) of the total budget of the Postal Service in 1999.<sup>5</sup> More recent figures do not differ significantly. Perhaps a tenth or two higher because of the recent downturn in volume due to the recession. However, since added costs would be incurred in delivering the mail that would no longer be delivered at those Post Office Boxes, the net savings from closing every single rural Post Office in the country would be less.

---

<sup>5</sup> See Testimony of Robert H. Cohen, Director of Rates, Analysis and Planning of the Postal Regulatory Commission, Testimony before the President's Commission on the Postal Service (February 20, 2003) at 2, 9-10.

#### **E. The Role of Small Rural Post Offices in America.**

Regardless of cost, small rural Post Offices are absolutely critical to the well-being of rural America and they are worth many times their costs to those rural citizens. That is the reason that there are specifically targeted Post Office Sections in the law.

For instance, Section 101(b) of the Postal Accountability and Enhancement Act states that "The Postal Service shall provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where Post Offices are not self-sustaining."<sup>6</sup> That same section also specifically states that "No small post office shall be closed solely for operating at a deficit, it being the specific intent of the Congress that the effective postal services be insured to residents of both urban and rural communities."<sup>7</sup>

Section 404(d) of that same law provides a formal procedure which the Postal Service must follow before it is allowed to close any small Post Office. Among the matters it must consider are the views of the local community that would be affected by the closure of the small Post Office.

The reasons that these provisions are in law is that small rural Post Offices do far more for their rural communities than just deliver the mail. Small rural Post Offices are the lifeblood of American rural life.<sup>8</sup> They provide the essence of social cohesion in

---

<sup>6</sup> 39 U.S.C. §101(b).

<sup>7</sup> Id.

<sup>8</sup> My testimony today are limited to rural American society because that is what the League knows and that is where the League's expertise lies. It appears, however, that these same factors appear in rural societies around the world, or at least in English-speaking countries. See for example, the following shorts from Utube concerning rural British Post Offices. These shorts feature several Members of the British Parliament (MPs), newscasters, and prominent rural British residents discussing the insensitivity of the Royal Post to England's small rural Post Offices and the role they play in the social fabric of rural England. <http://www.youtube.com/watch?v=9Ri8Ht6cFFM&feature=related>  
[http://www.youtube.com/watch?v=9P3Jl\\_t13ZY&feature=related](http://www.youtube.com/watch?v=9P3Jl_t13ZY&feature=related)  
[http://www.youtube.com/watch?v=VYDXQ-r\\_7il&feature=related](http://www.youtube.com/watch?v=VYDXQ-r_7il&feature=related) ;

rural areas, and that is what creates "community" in these areas. Healthy rural Post Offices are absolutely critical to keep rural American healthy, and that in turn is vital for the political, economic, and social well-being of America as a whole.

The glue that binds rural America together is our postal system and the local Post Offices. Rural America has not gone out of style. Nor is it about to. Communication by paper has not disappeared from our system. Nor is it about to. If we want to keep rural America strong, and by extension keep America strong, we need to keep our rural postal system strong.

The rural Post Office is an institution that literally binds rural America together, culturally, socially, politically, and economically. It, along with the rural newspaper, set the framework within which rural communities operate. To interfere with either is to interfere with the fundamental dynamics of rural communities and to risk the destruction of them.

It is in the rural Post Offices where community members encounter one another each and every day, greet each other every morning, and daily reinforce their ties of community. Rural Post Offices serve as gathering places where social news is exchanged and political issues are discussed. It is in the rural Post Offices that political questions are addressed, sides argued, and opinions formed. It is where friendships are made and maintained. It is the forum where municipal and county leaders are formed, the forum where their criteria for office discussed and debated, and the forum where the decisions that will be carried out at the ballot box are made. It is the one place where local leaders can go and take the pulse of their community, and see each

---

<http://www.youtube.com/watch?v=2r3hl32AUuU&feature=related>. This following short contains a bit of typically British "humor" on the subject: <http://www.youtube.com/watch?v=yB64XtfPRIQ&feature=related>.



other every day. Local Post Offices also provide space for community bulletin boards and post federal notices. They are a shelter where children can wait for the school bus. None of these functions are functions that can be filled by having rural letter carriers sell stamps from their cars. Moreover, the local rural Post Office is often "the" face of the government in these rural areas.

These are concepts that may well be foreign to many big city natives and residents, who sometimes find this phenomena difficult to understand or to believe. Nevertheless— and I say this as a postmaster of a very small town—it is true. Rural postmasters play a very important social role that has nothing to do with the postal system or postal revenues. These are roles whose value cannot really be measured in dollars, and it is in part for these roles that the Universal Service mandate exists and the private express statutes remain. For instance, many rural Postmasters help customers with low literacy levels in a variety of ways, providing assistance in writing checks and money orders to pay bills. Many rural Postmasters address envelopes for their patrons, as well as read and explain mail to them. As such, they perform a valuable social function and have done so not merely for decades, but now for centuries. Indeed, the rural postmasters is the eyes and ears of his or her community. He or she is the first to notice and respond to something "just not right." Whether that be flood or fire, or illness or death, the postmaster is always on the watch. If Mrs. Jones, contrary to her usual habits, doesn't stop by to pick up her mail, the postmaster wonders if something is wrong with her, and after a day or so will stop by her house to check.

Without rural postmasters, this social need would not be met. The Rural Post Office is an icon of rural America, and neither Congress nor the Postal Service should

tamper with it. This is because, as the Committee knows well, once a rural town's Post Office disappears, the town often shrivels up and dies.

**F. What could be Done to Offset the Costs of Small Rural Post Offices.**

We believe, and we know that the Direct Marketing Association concurs, that the network of Post Offices in the United states should be leveraged. Since, commonly, the Post Office is THE presence of the government in the community, Congress should allow the facilities to become a revolving office for other governmental services and for appropriate partnerships with the private sector. For example, on a monthly or biweekly basis, a Social Security Administration personnel can meet citizens at the Post Office. In March and April, IRS representatives could partner with Post Offices help taxpayers at the Post Office. State Department of Motor Vehicles administrations could partner with Post Offices to handle registration issues, hunting and fishing licenses could be sold, etc. In essence you could have rural Post Offices become the face of government—federal, state and local.

Additionally services that are valuable to rural citizens, such as Redbox DVD movie rentals, prepaid cell phone cards, Wifi access, copy and fax services, and limited banking services such as ATMS could be provided. These services are rare in tiny rural communities, since there is not enough population to attract the private sector. Thus, these private sector (as opposed to governmental) services should be done in cooperation with the private sector, which would not require a lot of capital investments.

Most probably, the net revenue effect of offering these services would not be huge, certainly not billions of dollars. But it would be enough to compensate for the cost

of small rural Post Offices, and it would also provide valuable services to rural America that they do not have now.

## **II. The Future of Mail and Mail Volume.**

**A. Historical Doom and Gloom Predictions.** Forecasting volume mail drop off because of diversion to new technology is not new. It started in the early mid 19th century and has been continuing ever since. Indeed in the mid 1800s, "experts" predicted that the telegraph would drive the Post Office Department out of business within five years. Even though that did not happen, such predictions have routinely continued as each new communications technology—telephone, fax, email, etc.—developed. All the Committee need do is check the postal hearings records of the mid to late 1800s and later, and it will find ample examples of these type of predictions.

It is instructive, as former Deputy Postmaster General Jim Finch was fond of pointing out, that in each instance of where doom and gloom was predicted, the exact same thing occurred. While the new technology did indeed divert some mail out of the mail system, the new technology in turn created new uses for the mail. The net effect turned out to be that ultimately more new mail was created than was diverted. While some argue that this is not the case this time around, the jury is still out on the matter. Further, given this long history of unjustified cries of doom and gloom, we suggest that the most prudent approach is to wait and see what the mail volume looks like after the economy has recovered before coming to any conclusions.

**B. Three Quick Facts About The Future Of Mail Volume.** Finally, let us consider the following three quick sets of fact, all of which go against the doom and gloom notion.

First, in terms of future revenues, particularly in First Class, much will depend upon what happens to Bulk First Class Mail, of which a huge component is bill and

statement delivery.<sup>9</sup> While many suggest that the American public will soon switch to electronic delivery of this type of mail, leaving the Postal Service in the dust, that is not clear.

For instance, only last month the Foundation of the Envelope Manufacturing Association released a study concerning adult preferences of electronic versus paper mail. The study, which was based on research survey work done earlier this year, found that *two-thirds* of all Americans prefer to have their bills and financial statements delivered via mail and *not* electronically. The survey also found that only 14% of Americans prefer to receive that material electronically. Specifically, the EMA study came to the following conclusions :

- A majority of Americans prefer to receive their bills and financial statements through the mail.
- Americans are strongly opposed to paying more to receive papers bills and statements.
- American wants to decide how they, personally, receive their bills and statements.

While it is true that many companies today are trying very hard to incent their customers to receive their bills electronically, it is not clear whether those efforts will work, given the findings of the EMA study. We urge the Committee not to pass judgment on this very important issue but to watch it very closely and wait until the returns come in before passing judgment.

---

<sup>9</sup> The League concedes that bill payment mail is rapidly leaving the system and at some point relatively soon, electronic payment will be the norm, and mail payment the exception.

Second, during the first quarter of 2010, credit card offers in the mail were up 29 percent over last year, according to the latest study by Synovate Mail Monitor. <http://mailmonitor.synovate.com/> Now, while this statistic is not of any overwhelming significant importance by itself, it is instructive to note that some of the doom and gloom prophets predicted that this could *never* happen, and that credit card offers in the mail would continue to decline year over year.

Third, the financials of this Postal Service's first six months are in and they suggest that FY 2010 revenue and volume will be significantly better than the projection made last September and included in its budget. As one economist has observed, "This means that instead of having percentage declines in revenue in the mid to high single digits in 2010, the Postal Service could see a revenue decline of between zero and four percent . . ."<sup>10</sup> That is significant, and in turn suggests to me that the reality of mail growth over the next twenty years will be significantly better than the doom and gloom predictions that have recently been made.

I do want to be perfectly clear about one point. None of these facts "show" that the volume is necessarily coming back to former levels. Moreover, a revenue decline of between zero and four percent is still a revenue decline, and it is coming after several terrible years. Nevertheless, these developments do show not only that mail volume is tied intrinsically to the health of the economy, but also that things are getting better. It will take the economy getting back on its feet and employment returning to normal levels, before one can accurately judge how electronics is affecting mail volume.

Thank you for considering our views.

---

<sup>10</sup> <http://courierexpressandpostal.blogspot.com/2010/02/usps-december-better-but-still-on.html>



**NATIONAL ASSOCIATION OF POSTMASTERS  
OF THE UNITED STATES**

TESTIMONY OF

**ROBERT RAPOZA**

**NATIONAL PRESIDENT**

**JOINT HEARING**

**SENATE SUBCOMMITTEE ON FEDERAL FINANCIAL  
MANAGEMENT, FEDERAL SERVICES, AND  
INTERNATIONAL SECURITY**

**AND**

**HOUSE SUBCOMMITTEE ON THE FEDERAL  
WORKFORCE, POSTAL SERVICE, AND THE  
DISTRICT OF COLUMBIA  
WASHINGTON, DC**

**JUNE 23, 2010**

Chairmen and Subcommittee Members, thank you for asking me to participate in this hearing. This is my first opportunity to testify as President of the National Association of Postmasters of the United States. On behalf of the approximately 39,000 dues-paying NAPUS members, I want to assure the Subcommittees that Postmasters care deeply about the Postal Service and the continuance of a universal postal system. NAPUS members manage Post Offices of all sizes, and work in rural, suburban, and urban areas. We are proud of the work we do for the nation, and the service we provide to our communities.

It is in our national and communal interest to fortify our Postal system. The postal system is inherently governmental and is a constitutionally mandated function. However, unless Congress acts very soon, the Postal Service's financial situation will be far more daunting than it is today. The agency and its stakeholders are crawling out from a deep and broad recession that has crippled so many postal-dependent industries.

The Postal Service and its employees have performed extremely well in desperate times. Over the past two fiscal years, the Postal Service has reduced its costs by approximately \$10 billion and cut its employment by more than 84,000 employees. However, these reductions do not come without consequences. Postmaster positions remain vacant throughout the country. In addition, reduced Post Office hours, understaffing, Post Office suspensions, late deliveries and a stressed workforce are testament to these cutbacks.

NAPUS firmly believes that Congress needs to address two underlying causes of the agency's current financial instability that impact postal services – a flawed 36-year-old

statute that has resulted in the Postal Service possibly overfunding its retirement obligation by \$75 billion, and a 4-year-old provision that implants an inaccurate charge for pre-funding retiree health costs. This year's prefunding charge is \$5.6 billion. The Civil Service Retirement Fund overpayment is especially troubling because of its duration and its magnitude. It appears that the Office of Personnel Management passed upon an opportunity to remedy the problem in 2003. The health insurance pre-funding requirement, an obligation borne by no other institution, is unrelated to the Postal Service's actual retiree health liability. We would caution that Office of Personnel Management and Office of Management and Budget analysts are not neutral referees in assessing the Postal liabilities – the White House has consistently viewed the Postal Service as a “cash cow.” In times of fiscal insufficiency, the Treasury looks to the Postal Service for revenue to offset huge budget deficits; and, in times of plenty, the Federal government garnishes revenue to enrich a surplus. Therefore it is crucial that Congress direct an independent and qualified umpire to settle on the correct postal liability, using a “years-of-service” methodology.

We understand that Chairman Lynch has under consideration a proposal, that strives to address the overly burdensome pre-funding requirement and more accurately calculate the Postal Service's pension obligations. NAPUS believes that this legislation should be considered expeditiously, and should exclude controversial provisions that would impede passage.



As we look beyond immediate retiree health care funding and pension reform – which are the most important issues – NAPUS believes that the Postal Service needs to generate greater revenue by maximizing its postal network, leveraging its national footprint, and exploiting its high-trust factor.

Digital commerce and online social networking challenges the Postal Service to adapt to the present and the future. A Postal Service relying solely on hardcopy correspondence, physical bill presentment and paper advertising may not have a bright future. While there continues to be a need for traditional postal products, the Postal Service must offer the American public innovative postal products and services. The agency needs to evolve and exploit its basic strengths – nationwide presence and impeccable trust.

In April, *the Pew Research Center for People and the Press*, reported that 83 percent of Americans view the Postal Service favorably – the Postal Service is the highest rated government agency. Moreover, even so-called angry Americans rated the Postal Service very favorably – 55 percent graded the agency's performance either "good" or "excellent". Consequently, the Postal Service must exploit the tremendous reservoir of good will to promote revenue generating prospects.

To achieve this goal, Congress needs to lessen legislative impediments to capitalizing on opportunities where they exist. For example, legislation and regulations needs to provide a broader definition of "postal products". The products cannot be solely hard-copy communications. There has been ample discussion about the Postal Service becoming

more visible and active in financial services. Financial postal products date back a considerable amount of time; after all, the Postal Service issues postal money orders. For individuals who are uncomfortable with electronic fund transfers, there is no reason that Post Offices can not be the “certified” prompt payment agents for public utilities and other institutions. For example, the Post Office can accept electric or water bill payment as an agent of the utility and that date of receipt would be the date of payment.

Congress should aid the Post Offices in becoming the “public portal” to the wide variety of federal, state, and municipal government services and products. Passport services provide a prime example of an existing Postal partnership with another federal agency. Partnerships with agencies such as the Department of Agriculture, Interior Department, Health and Human Services, the Social Security Administration, and the Patent and Trademarks Office could offer new opportunities for the Postal Service. In addition, state and local governments can make use of Post Offices and its trusted employees to offer credentialing, licensing and permitting services. This local-postal partnership can foster even closer relationships among the Postal Service, municipal governments and the American public.

Also, alliances should be fostered with commercial entities, so they can access outlying communities and markets, and, thereby, enter into win-win opportunities with the Postal Service. Space in large and medium sized Post Offices can be leased to commercial enterprises, such as coffee shops or snack bars. Lobby LCDs and postal vehicles could

provide a medium for advertising and public service announcements. Growing business relationships can help underwrite the cost of universal postal accessibility.

The Postal Service should more aggressively implement and promote “intelligent mail bar-coding” and create new products stemming from it. Indeed, such potential postal products, as state vote-by-mail ballots, would benefit by such tracking systems. The Postal Service’s retail and delivery network offers government institutions and commercial interests tremendous market opportunities.

Earlier this year, NAPUS submitted testimony to the Senate Appropriations Committee and suggested that Congress appropriate the \$460 million currently authorized in statute to help reimburse the Postal Service for the continued maintenance of small and rural Post Offices. In 1970, Congress recognized that certain Post Offices would not be self-sustaining; however, the facilities are integral to a universal postal system. Post offices are the welcomed face of the federal government throughout the nation. Post offices are not simply stamp retailers. They are the origination, distribution, and destination points for commerce and communications. They are civic centers, providing community identity and, most importantly, an economic anchor for small businesses that provide jobs for America. In fact, the Urban Institute recently outlined some of these characteristics for further review by the Postal Regulatory Commission.

One recurring and consistently unpopular Postal Service request is for Congress to strike the statutory prohibition against closing a Post Office solely for economic reasons. In

addition, I understand that there is consideration being given to establishing a commission to close Post Offices. Both of these proposals are deeply troubling, especially to rural and small communities. Both ideas threaten the existence of countless small and rural Post Offices, and undermine a universal postal system. Both proposals assume that the Postal Service is barred from closing Post Offices. This is not the case. So long as the Postal Service follows the legal requirements, including community notification, it can and does close Post Offices. The only restriction is that the Postal Service cannot close an individual Post Office for simply having expenses that exceed revenue. In fact, since 1971, the Postal Service closed 15%, or approximately 5,000 Post Offices.

Ironically, closing “money losing” Post Offices would barely scratch the surface of reducing the Postal Service’s operating budget. Last year, the Postal Regulatory Commission calculated that the Postal Service would save \$549 million or 0.7% of its operating budget if it closed all of its small and rural Post Offices. When adding to the equation the overwhelming public opposition to closing Post Offices, the proposal does not make good public policy. In March 2010, a nationwide *Gallup Poll* reported that 86% of Americans oppose closing Post Offices; in the same time frame, a *Washington Post-ABC News* survey also demonstrated widespread national opposition to the idea.

I would add that, as a Postmaster who once served as a Postal Operations Manager, I oversaw contract retail units. These are the units that normally assume postal operations in the wake of a Post Office closure. Many of those contracts did not go well, and they

undermined the integrity of local Postal operations. I know that the Postal Service and others are advancing the idea that Wal-Mart and other “big-box” stores could replace Post Offices, providing space and personnel for postal retail functions. Shouldn’t the Postal Service ask for Wal-Mart’s business, rather than the Postal Service relinquishing its core business to Wal-Mart? Wal-Mart, K-Mart, Home Depot and Target’s core competence is selling consumer commodities, not service – Post Offices sell service. Therefore, NAPUS strongly cautions against giving a green light to the Postal Service expanding its Post Office contracting capabilities to replace Post Offices. Post Offices are much more than retail counters. They are mail origination and destination points, which are integral to a national delivery network.

NAPUS believes that prior to reducing Post Offices and cutting postal services, the Postal Service should trim its expansive bureaucracy. NAPUS has advocated “de-layering” the bureaucracy since our 2003 testimony before the President’s Commission on the Postal Service. 74 Postal Districts and 7 Postal Areas may not be conducive to these challenging economic times and declining mail volume. The latest information technology offers the Postal Service opportunities to restructure upper level management and its support functions in ways to increase efficiencies and save money. In addition, NAPUS had suggested numerous times that the Postal Service and the unions agree to cross-craft training that would yield a cost-effective, well-trained, highly efficient and flexible full-time career workforce.

In conclusion, Postal observers incorrectly argue that the new postal business model is a function of size. That is, the new model must be smaller and offer less. NAPUS believes that a viable Postal Service needs to offer the American public more products and services. In addition, despite repeated characterizations of agency as a business, it is not a business – the U.S. Postal Service is a constitutionally-established federally-operated public service. NAPUS looks forward to working with Congress to continue to provide the American public with the universal postal services that our citizens deserve and to which they are entitled.

Thank you for the opportunity to share NAPUS' views.

STATEMENT OF VINCENT P. GIULIANO  
ON BEHALF OF VALASSIS DIRECT MAIL, INC.  
BEFORE THE  
SENATE SUBCOMMITTEE ON FEDERAL FINANCIAL  
MANAGEMENT, GOVERNMENT INFORMATION, FEDERAL  
SERVICES, AND INTERNATIONAL SECURITY  
AND THE  
HOUSE SUBCOMMITTEE ON FEDERAL WORKFORCE,  
POSTAL SERVICE, AND THE DISTRICT OF COLUMBIA  
ON  
"HAVING THEIR SAY: CUSTOMER AND EMPLOYEE VIEWS  
ON THE FUTURE OF THE U.S. POSTAL SERVICE"

I am Vincent P. Giuliano, Senior Vice President of Government Relations for Valassis Direct Mail, Inc. (Valassis), a company that currently enters more than 3.5 billion pieces of shared mail containing more than 38 billion pieces of advertising from national, regional and local small business retailers and service providers. On behalf of more than 18 thousand customers, Valassis pays over \$550 million in postage annually. I have been actively involved in postal affairs for over thirty years on behalf of my company, our customers and through various industry trade associations.

We applaud the leadership of the subcommittees for convening this joint hearing soliciting customer and employee views on the future of the U.S. Postal Service. As your own statements and those of the witnesses emphasize, the Postal Service is facing an unprecedented crisis, much of it beyond its control and materially detrimental to all users of mail services. Significantly, all witnesses – both customers and employees – unanimously agree that the most immediate pressing issues are: (1) the crushing legislatively-mandated prefunding schedule for USPS retiree health benefits; and (2) the necessity for Congress to properly credit and correct the \$75 billion overfunding of CSRS pension benefits as identified by the USPS Office of Inspector General. The very fact that subcommittees from both houses of Congress are meeting together in a rare joint hearing evidences the seriousness of the problems and the crucial need for prompt congressional action to remedy this crisis that threatens the viability of America's postal system.

**I. The PRC's Recent Report On Overfunding Of The USPS's CSRS Pension Obligation Is A Clarion Call For Congressional Action**

The Postal Regulatory Commission (PRC) just last week issued its watershed report in PRC Docket No. SS2010-1 confirming the existence of a massive overfunding

of CSRS pension benefits. That proceeding was initiated by an appeal filed by the Postal Service pursuant to section 802(c) of the Postal Accountability and Enhancement Act, requesting that the Commission review the Office of Personnel Management's calculation of its CSRS pension liability. The Postal Service's appeal was predicated on the finding of its Office of Inspector General that in allocating the pension obligations between the USPS and the federal Treasury for former Post Office Department employees who continued employment with the successor USPS, the Postal Service had been overcharged by \$75 billion. The just-issued report of the Segal Group, the independent actuary retained by the PRC pursuant to the statute, concludes that under a "fair and equitable" allocation based on generally accepted accounting principles, the Postal Service has indeed overpaid its pension obligations in the magnitude of \$50-55 billion.

I previously submitted a written statement on behalf of the Association of Postal Commerce ("PostCom") to the Senate Subcommittee following its April 22nd hearing on "The Future of the U.S. Postal Service." That statement focused on the pension overfunding issue, describing its historical cause and explaining its unfairness and inequity.<sup>1</sup> The PRC's report confirms our conclusion. For many years, I have urged greater transparency on this USPS overpayment issue. Now it has reached crisis stage. We therefore urge Congress to turn its attention to promptly rectifying this overpayment by properly crediting it back to the Postal Service and applying it to past and future health care obligations.

Congress bears responsibility for these employee-benefit funding problems, which were caused initially by the 1974 legislation that unfairly burdened the USPS with an inequitably high share of the pension obligation. Although Congress repealed that law in 2003, OPM has continued to rely on it even though the specific language it relies on no longer exists. More recently in the PAEA, Congress imposed an arbitrary prefunding schedule for retiree health benefits that all experts now agree was too aggressive. For many years, these problems were masked by ever-growing mail volumes that enabled the Postal Service to pass these excessive costs through to customers with rate increases that, by virtue of an expanding volume base, were disguised as somewhat manageable. That is no longer possible. Mail volumes have been declining for much of this decade due to diversion by electronic alternatives, a loss greatly magnified by the recession. Mailers simply can no longer afford to pay the excessive rates needed to cover these unjustified costs which are equivalent to a "stamp tax" imbedded in the postal rates being paid by all mail users, businesses and citizen mailers alike. Mailers have options now that they never had before.

Fortunately, Congress had the foresight to create a mechanism in the PAEA for independent review of OPM determinations by the PRC, pursuant to section 802(c) of the Act. The PRC has now exercised its statutory authority and issued its report finding that the Postal Service has overpaid its pension obligation as measured by fair and

---

<sup>1</sup> See my statement to the Senate Subcommittee, submitted on May 5, 2020, at pages 3-7, and in the attachment to my statement at pages 1-4.



equitable actuary and accounting principles. It is therefore incumbent on Congress to fix this core systemic problem now.

**II. The Excessive Retiree-Related Costs Are Causing A "Crisis of Confidence" Among Mailers, Exacerbated By The Prospect Of Service Cuts And Exigent Rate Increases That Would Further Undermine The Affordability And Value Of Mail Service**

In my prior statement to the Senate Subcommittee on behalf of PostCom, I described the harmful impact that the staggering \$7 billion annual retiree health funding obligation and the resulting USPS financial losses are having on the mailing industry, causing a "crisis of confidence" about the continued viability and affordability of postal distribution. Yet because of the financial crisis caused by the excessive retiree health payments, the Postal Service has just filed for an "exigent" rate increase far in excess of CPI inflation. The timing for our industry could hardly be worse.

My own company, Valassis, operates in a highly competitive market that serves the print-advertising needs of thousands of retail and service businesses across the nation, including small businesses and individual entrepreneurs. In the current depressed economic environment, our customers are themselves struggling to cope, and have told us they cannot afford to increase their advertising budgets. Their response to an increase will be to cut their mail distribution to maintain their advertising budgets or to divert existing dollars, leaving the mail entirely for affordable, more price-dependable alternative advertising channels, such as digital. That, in turn, will force us and other mailers to look for ways to trim costs and maintain profitability by cutting mail distribution and earnestly exploring non-postal distribution.

The financial crisis is also causing the Postal Service to devise operational solutions to its public policy problem by proposing other extraordinary actions such as the elimination of Saturday delivery, the filing of an exigent rate increase, and the imposition of more costly and complex preparation requirements on mailers. While these may save it some money in the short-term, these operational responses are hastening volume declines and also lessening the ROI value and affordability of postal distribution. Within the mailing industry, there is a growing realization that things could get worse, with additional above-CPI rate increases and quality-of-service cuts down the road.

The gravest danger is that this palpable fear and uncertainty concerning the Postal Service's viability – exacerbated by its efforts to cut service, raise rates, and impose more preparation costs on mailers – will cause mailers to leave before it is too late. Mailers who are learning from articles in the press quoting the Postal Service's own reports of repeated monthly net losses will come to more emphatically believe that "the postal ship is sinking." They will be forced to abandon ship and "take to the lifeboats" of other alternatives to avoid having themselves pulled under water. This crisis of confidence, in turn, feeds on itself and heightens the risk that, absent congressional relief from the staggering and unaffordable burden of retiree-related costs, our nation's postal system will become locked in a downward death spiral.

**III. Correction of the CSRS Pension Overfunding Will Restore USPS Profitability And Mailer Confidence, And Mitigate The Need For Extraordinary Measures That Impair Service And Affordability**

Much of the attention on the Postal Service's financial crisis has focused on its "net losses." These net losses are, indeed, the driving force that is causing the Postal Service to seek extraordinary operational actions such as elimination of Saturday delivery and a just-filed exigency rate increase – actions that, in the face of a depressed marketplace, further undermine the value and affordability of postal distribution.

But closer scrutiny of USPS financials reveals that those "net losses" are entirely attributable to its excessive "non-operating expense" obligations to Treasury. On a "current operating" basis – i.e., its revenues and expenses for current operations before consideration of retiree health prefunding obligations – the USPS is *profitable*. It is the retiree payment schedule that is drowning the Postal Service. This telling fact is shown in the following table based on the Postal Service's actual financial performance in the current 2010 fiscal year through May:

**The Postal Service Is Profitable Except For The Excessive Retiree Health Payments That Should Be Corrected By Crediting The CSRS Overfunding <sup>2</sup>**

	As Reported (thru May 2010)	If Past RHB Obligation Funded	If Past & Future RHB Obligation Funded
<b>OP REVENUE</b>	\$45,979M	\$45,979M	\$45,979M
<b>OP EXPENSES:</b>			
- Comp and Benefits	38,862	38,862	38,862
- Retiree Health Benefits	5,131	2,000*	0
- Other	4,804	4,804	4,804
<b>NET INTEREST</b>	87	87	87
<b>NET INCOME</b>	<b>(\$2,905M)</b>	<b>\$226M</b>	<b>\$2,226M</b>
<b>OPERATING MARGIN</b>	<b>-6.3%</b>	<b>0.5%</b>	<b>4.8%</b>

<sup>2</sup> The first column of numbers is from actual USPS May YTD Unaudited Preliminary Financial Information. The second column assumes that the overfunding of the USPS pension obligation is applied to offset just the past portion of the USPS retiree health obligation, representing a swing of about \$3.1 billion year-to-date. The final column assumes that the overfunding is applied to cover both the past and future components of the retiree health obligation, producing a swing of over \$5.1 billion. The \$2 billion "normal" component of retiree health benefit cost for current employees is estimated from the USPS FY09 Form 10K filing.

As the table demonstrates, the current retiree health expense comprises 10.5% of total USPS expenses and eats up a huge 11.2% of postal revenues. Yet despite the depressed marketplace and the current trend of reduced mail volumes, the current rates are generating sufficient revenues from current mail volumes to cover all the expenses for providing universal delivery service six days a week. The retiree health expense hides the positive postal net reported in the first eight months of FY 2010 and is the governmental choke hold that is forcing the USPS into financial insolvency and into making operational solutions to its public policy problem. If the overpayment of the Postal Service's pension obligation as identified by either the OIG or the PRC were credited to the payment of its retiree health obligation, the Postal Service would be profitable!

This makes it all the more critical that Congress promptly and fully correct this overfunding of the CSRS obligation. Not only would such action restore USPS profitability and mailer confidence, it would also lessen or eliminate the need for extreme measures such as service cuts or above-inflation rate increases. Postmaster General Potter has already publicly stated that if the CSRS overfunding were corrected and credited to its onerous retiree health prefunding obligation, the Postal Service would not need to eliminate Saturday delivery at this time. Moreover, its just-filed exigent rate increase proposal is clearly predicated on the financial losses caused by the prefunding obligation, and would not be necessary if Congress acts promptly to correct the CSRS overfunding problem.

#### **IV. The Need For Congressional Action Is Immediate**

Everyone who has thoughtfully considered the CSRS and retiree health funding issues, including most recently the PRC, agrees that the Postal Service has been overcharged by many tens-of-billions of dollars. We understand the budget pressures that Congress faces, and that its "scoring" process serves a purpose of restraining unnecessary spending. But when it comes to correction of these Postal Service overpayments, the scoring issue seems to an outsider as a bizarre amalgam of "Catch 22," "Alice In Wonderland" and "The Twilight Zone" where up is down. "Yes, we've overcharged you for years and pocketed the money, but we can't pay you back, now or ever, because it would upset our current checkbook balance."

We submit, however, that this is *not* the ordinary kind of "scoring" issue that Congress typically confronts. In particular, this is *not* a "subsidy" or "bailout" of the Postal Service. Unlike the recent multi-billion dollar federal bailouts of companies and entire industries in the private sector – including both auto manufacturers and financial institutions whose financial plights were due not just to the recession but to their own actions and misjudgments – what we are seeking here is *recrediting* of excessive CSRS pension obligations imposed on the Postal Service by prior congressional actions, and applying those overpayments as a *credit* to its retiree health benefit obligations.

Importantly, this action would not require that Treasury "write a check" to the USPS out of taxpayer funds. Rather, all that is required is a simple intra-account

transfer of existing funds within the pension trust account, crediting the USPS sub-account for the excessive payments that it has made into the federal government sub-account. Those funds should then be transferred to the Postal Service Retiree Health Benefit Fund to more-than-cover the annual payments required by the PAEA.

The PAYGO scoring requirements are designed to protect appropriations of *taxpayer* dollars. But here, there are no taxpayer dollars involved; the existing funds in the pension trust account have already been paid in by postal employees and ratepayers. Given these circumstances and the crushing burden of the current retiree health payments on the Postal Service, an emergency waiver to PAYGO scoring requirements would be entirely appropriate. Surely, with its vast knowledge and expertise, Congress can find a way to correct this enormous and troublesome inequity by recognizing the Postal Service's CSRS asset and using it to cover the postal retiree health benefit liability. For the future, the Postal Service's finances should be disentangled from the federal government's.

Even more critically, the cost to the federal Treasury of doing this correction now will be *far less* than if Congress delays until the postal ship has sunk, along with much of the 8.4 million jobs and over \$1 trillion in revenues associated with the mailing industry. By acting now to make the Postal Service financially viable, confidence in postal distribution as an effective and affordable medium will be restored.

Moreover, the corrective action taken by Congress needs to be comprehensive and permanent. Merely restructuring the retiree health payment schedule by pushing the current obligations into future years – as was done last year – will not solve the problem or restore mailer confidence, but will merely perpetuate uncertainty and likely require a true and far most costly "bailout" of a failing Postal Service by taxpayers in the future.

Congress's goal must be to rectify these overpayments in order to ensure that the Postal Service *remain* an essential *user-funded* service for the American people in the long run and that the national economy will not be harmed by unnecessary postal rate increases and service quality degradations.

**V. Congress Should Also Correct Other Excessive Retiree-Related Obligations That Are Unfairly Imposed On the Postal Service.**

The overfunding of the USPS CSRS pension obligation is not the only area where the Postal Service is being overcharged for employee benefit obligations. Correcting and crediting the CSRS overfunding alone – estimated at \$75 billion by the OIG and \$50-55 billion by the PRC's independent actuary consultant – would be sufficient to fully prefund the Postal Service's retiree health obligation. Furthermore, in addition to this CSRS overpayment, the OIG has identified three other areas that require correction and crediting to the Postal Service:

Excessive Prefunding Targets for Pensions and Retiree Health Benefits

The Postal Service is required to prefund 100 percent of pension and retiree health benefits. The private sector and the federal government fund much less. The Postal Service funding targets should be set at the private sector gold standard of 80 percent for pension and 30 percent for retiree health benefits. *Correcting these excessive prefunding targets would make \$55 billion available for operations and to pay current retiree's health care premiums.*

FERS Pension Obligation Overpayments

According to the OIG, the Postal Service has overfunded its FERS obligation by an amount that, if corrected, *would make \$5.5 billion available for operations.*

Excessive Healthcare Inflation Assumption

OPM's assumption for healthcare inflation is 2 percent higher than the industry standard. *Correcting this assumption at the same time as fixing the retiree healthcare funding target would make an additional \$6.8 billion available for operations.*

Together with the \$75 billion CSRS overfunding, these additional items amount to a total of *\$143 billion in overfunding* of federal obligations that should be credited to the Postal Service. Even at the lower \$50-55 billion CSRS overfunding estimated by the PRC's actuary, the grand total would still exceed \$120 billion.

In closing, I again applaud the initiative taken by your subcommittees on these critical issues facing the Postal Service and ultimately all mail users. The stakes are great. We urge Congress to be equal to the task, and to do what is right and necessary to preserve a viable and affordable postal system as "a basic and fundamental service provided by the Government of the United States" for its people, in accordance with section 101(a) of the PAEA.

Respectfully submitted,

Vincent P. Giuliano  
Senior Vice President,  
Government Relations  
Valassis Direct Mail, Inc.

**Response Comments from  
Donald J. Hall, President and CEO, Hallmark Cards, Inc.  
To Follow-up Questions Posed by Sen. Claire McCaskill**

Joint Hearing of the Senate Subcommittee on Federal Financial Management, Government Information, Federal Services and International Security and the House Subcommittee on the Federal Workforce, Postal Service and the District of Columbia  
June 23, 2010

1. What are the competitive advantages and disadvantages of using the United States Postal Service, as compared to other mailing options? See below.
2. It appears that a majority of the public would support a reduction in delivery days rather than rate increases. If the choice is between a rate increase and cutting delivery days, how much of a rate increase would your company be able to weather?

While it is true that much of the Postal Service's consumer research asked participants to pick between a rate increase and a reduction in delivery days, with the filing of the exigency case, it is clear that the Postal Service is pursuing both. The impact of both actions combined was not studied by the Postal Service. The leader of their survey effort, Ms. Elmore-Yalch, testified that the data from the earlier survey could not be used to assess the likely reaction by consumers to both a cut in service and hike in rates. Since Hallmark is the provider of a product that is frequently mailed, rather than the consumer making the postage purchase, we know that an increase in price leads to a decline in usage. Furthermore, research sponsored by the Greeting Card Association in prior proceedings before the PRC, tells us that when the price of a stamp reaches 50 cents, a significant number of consumers will re-evaluate their decision to remain in the mail. We believe that such a reduction in the proportion of highly desirable mail such as greeting cards and periodicals can only have a deleterious effect on the viability of the mail as a communications medium.

- a. In the event that one of these options is exercised, what will be the impact on your business?

We firmly believe that the Postal Service, either through service reductions or price increases, will accelerate movement away from the mainstream and ultimately the Postal Service will become less and less relevant in consumers' lives. The reaction will be that consumers will send less and less personal mail. We have described the impact of higher stamp prices above.

- b. Beyond the issue of USPS finances, what other external factors are jeopardizing your business or forcing you to change your business model?

The recession has had a broad impact across the economy and the greeting card sector is no exception. Hallmark, like many other businesses, has been forced to make tough choices in terms of seeking greater efficiencies by reducing the size of our staff, lowering prices and improving service to retain consumers. All of these actions are in stark contrast to the path taken by the Postal Service to limit service and to raise prices while maintaining an 80 percent labor-

to-cost ratio that has been unchanged for decades.

3. Your company is not totally reliant on the Postal Service to conduct your business. In the case of greeting cards, the internet presents a viable alternative that you were utilizing even before the economic downturn. In the next five to ten years, what portion of your Postal business will you move to the internet?

Our experience to date suggests that the Internet is not a viable alternative for communicating lasting and meaningful sentiments as it is for other types of routine or non-personal communication. Internet or E-cards represent a small fraction -- our industry estimates suggest more than 20 paper cards are purchased for every one e-card sent -- of such communications compared to cards sold. The reasons are clear. Research tells us the experience of receiving an E-card is far less satisfying to recipients than opening an attractive, tangible card and message in the hand of the sender. The pace of conversion from physical cards to E-cards is nowhere near that of the shift that has been experienced in many other types of communication. We expect over the next five years that the portion of Hallmark's E-card business will remain relatively static. It is important to note, however, that anything that the Postal Service does that directly or indirectly causes consumers to migrate to the Internet will result in fewer jobs in certain sectors whether it is the mailing industry at-large, the greeting card industry or retail not to mention the Postal Service itself. In my testimony I mentioned that the mailing industry already has lost 1.5 million jobs since 2006. The remaining 7.5 million jobs rely on a strong U.S. Postal Service, and many of them could be in jeopardy.

**To assure that both your corrections and QFR answers appear in the final print, this transcript must be returned to the Subcommittee by or before: September 14, 2010.**

Please return (via e-mail, or fax) to:

Deirdre Armstrong  
Chief Clerk  
Subcommittee on Federal Financial Management, Government Information, Federal Services, &  
International Security  
Committee on Homeland Security & Governmental Affairs  
(202) 224-7155 (Phone)

**Competitive Advantages of the USPS**

**Submitted by Don Hall, Jr.  
President and CEO, Hallmark Cards, Inc.**

**Aug. 13, 2010**

As I see it, the United States Postal Service (USPS) has three compelling competitive advantages over other hard copy delivery providers. They include: Universal Service, 6-Day Delivery, and Uniform and Affordable Rates. These three competitive advantages offer mail users an option for delivery that is reliable, secure, user friendly and affordable. It also guarantees that no U.S. citizen will be deprived of delivery service based on where they live or work or their economic circumstances.

I believe the Postal Service is at a tipping point. Notwithstanding its statutory monopoly on the delivery of letter mail, it must acknowledge that it no longer has an economic monopoly on this product – and that in fact it has serious competition. The Internet and Broadband are powerful alternatives. The drop in the cost of Broadband to the consumer between 2005 and 2008 was 14 percent annually. During that same time, the cost of First Class postage increased 9.3 percent while losing 684 million pieces of single piece First Class mail.

In the future, the Postal Service expects First Class mail volume to decline further by 4 percent per year. This new competitive marketplace, where speed of delivery and price are both becoming increasingly important, requires the USPS to leverage its advantages more effectively. The Postal Service must begin to think of itself as a marketer, using its competitive advantages to stimulate mail volume and revenue.

**Universal Service**

First, I want to discuss the Postal Service's Universal Service Obligation (USO), which was mandated by Congress. It provides the hard copy communication network that "binds the nation together," and it has become the centerpiece of the \$900 billion mailing industry. Thankfully, the USO was not a subject of the recent Joint Subcommittee Hearing, but I feel it does need to be mentioned since it is the linchpin for this great delivery system. As you are aware, it requires the Postal Service to provide service to every address in the country. While its cost implications are significant, they are largely offset by its economies of scale and scope. No other physical delivery service has the reach of the USPS. That is a definite benefit for citizen mailers and for competitors who have recognized its benefit as well. Competitors use the Postal Service to provide last mile service and to deliver packages to locations they do not serve. Consequently, this geographic ubiquity has enabled the Postal Service to become an essential business partner with its competitors as well as providing an effective and competitive alternative to their service.

**Six-Day Delivery**

The competitive advantage of Saturday delivery cannot be overstated. I strongly believe that eliminating Saturday mail service will achieve only limited short-term cost benefits but will subject the USPS to extensive and permanent reductions in mail volume and revenue. Anything that would slow



## Competitive Advantages of the USPS

Page Two

Aug. 13, 2010

down the mail, in an environment where the consumer is looking for greater immediacy, will not only eliminate a critical competitive advantage, it will render the mail system less relevant.

Furthermore, the effects of eliminating Saturday delivery have not been factored into the Postal Service's advisory case on five-day delivery now before the Postal Regulatory Commission. One of the Postal Service's current bright spots is its growing parcel service. The USPS falsely assumes that the elimination of its Saturday parcel service will have no impact on this part of its business. The USPS must act to protect and leverage its competitive advantages, not purposefully take actions that would harm them.

On the upside, six-day delivery offers benefits to the USPS. Beyond providing Saturday service at no additional charge to the consumer, having regular service on a day when many consumers are home allows them to interact with their carrier, thereby promoting brand awareness, creating a stronger sense of community, and developing a personal connection with the USPS.

Consumer surveys affirm that Americans' views of their mail carriers are extremely favorable. These interactions provide ongoing and unique opportunities for the USPS to develop customer loyalty and gain a competitive advantage that others cannot match. The lack of consistent Saturday service from competitors, and the fact that most residential consumers never see their delivery person, results in a much different consumer perception of those organizations.

Uniform, Predictable Rates and Ease of Use

The Postal Service's rate structure is a significant advantage. The uniform rate structure is predictable and ensures that consumers are not subjected to add-on fees for residential delivery or fuel surcharges that can make the rates for competitors' services even more expensive for the citizen mailer. Also, with the uniform rate structure, consumers know the cost of mailing a letter to a next door neighbor or to an aunt across the country. This simplicity and ease of use means that consumers -- and retail clerks -- don't have to spend time determining rates for distant destinations -- they are all the same. If they had to contend with endlessly complex and unpredictable rates, the outcome would be a more frequent and quicker diversion of consumers to the Internet.

Conclusion

Americans are fortunate to have a universal and affordable communications network. This service must be preserved. In my opinion, to remain competitive, the USPS must continue to manage costs, but do so in ways that do not undermine its competitive advantages and revenue generation. It must retain its commitment to universal service, provide timely and relevant six-day delivery, and keep rates uniform and affordable.

I urge policymakers to focus on leveraging these strengths.

Response Comments from  
Mr. William Burrus, President, American Postal Workers Union To Follow-up Question Posed by  
Representative Kucinich

Joint Hearing of the Senate Subcommittee on Federal Financial Management, Government  
Information, Federal Services and International Security and the House Subcommittee on the  
Federal Workforce, Postal Service and the District of Columbia  
June 23, 2010

Question from Representative Kucinich:

Your testimony provides an optimistic forecast of the future of mail volume, and you echo many of my concerns regarding the possible detrimental effect of cuts in service on the future viability of the Postal Service. Has your union considered the viability of providing government services as a method of revenue-generation? In your opinion, are revenue-generation proposals inside, or outside, of the USPS' historical mission the most promising? What proposals would your union support?

Response from Mr. William Burrus:

As you explore the "viability of providing government services as a method of generating revenue" the principle question is "for what purpose"? The premise of your question suggest that you conclude that the Postal Service is in need of additional revenue to balance revenue to expenses. Such assumptions are wrong. During this period when mail volume has declined an unprecedented 30% in response to the worst recession in 60 years the Postal Service has generated revenue in excess of expenses in an amount that should be the envy of any financial analysis. They have eliminated 213,000 positions, consolidated offices and initiated many other cost reduction schemes that have responded appropriately to volume reductions. But for the imposed liabilities, the Postal Service would have averaged surpluses in every year since 2006.

The deficit you ask that I respond to is externally imposed through a Congressional imposed requirement to fund future retiree health care obligations. This obligation is not required by any actuarial standard and is not applied to any other federal agency or private entity. Congress has chosen to impose this expense and has within its power to repeal this manner of payment. To suggest that the "historic mission" of the Postal Service must be altered in response to this expense would pose many adjustments to the balance between government and private enterprises. The Postal Service is not taxed and is not subject to state laws so competition in non postal services with the private sector would not be competitive, requiring amendment to numerous laws restricting monopoly powers.

This search for a solution to the current deficit ignores the obvious. Restructure payments for future retiree health care or accept the decision of two independent audits and return the overpayment into the CSRS fund. These options can be accomplished without blurring the lines between government monopolies and private enterprises that will produce at best uncertain results. The solutions that you suggest are not viable responses to current USPS financial issues and will raise more questions to be resolved than solutions.

