REFORMING THE POSTAL SERVICE: FINDING A VIABLE SOLUTION

HEARING

BEFORE THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM HOUSE OF REPRESENTATIVES

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REFORMING THE POSTAL SERVICE: FINDING A VIABLE SOLUTION

Wednesday, May 11, 2016

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

The committee met, pursuant to call, at 10:02 a.m., in Room 2154, Rayburn House Office Building, Hon. Jason Chaffetz [chairman of the committee] presiding.

Present: Representatives Chaffetz, Duncan, Jordan, Walberg, Amash, Farenthold, Lummis, Massie, Meadows, DeSantis, Buck, Walker, Blum, Hice, Russell, Carter, Grothman, Hurd, Palmer, Cummings, Norton, Clay, Lynch, Connolly, Kelly, Lawrence, Lieu, Watson Coleman, DeSaulnier, Boyle, Welch, and Lujan Grisham.

Chairman CHAFFETZ. The Committee on Oversight and Government Reform will come to order.

And without objection, the chair is authorized to declare a recess at any time.

Good morning, and thank you for being here. This is an important topic that affects every American, and it is a vital part of our commerce in the United States of America. We are here to discuss the future of the United States Postal Service and to address options for ensuring its long-term viability.

Each year, more than 40 percent of the world mail volume is carried through the United States Postal Service. The Postal Service employs more than 400,000 full-time workers spread throughout the country. It is also the backbone of more than a trillion-dollar mailing industry that employs more than 7.5 million people.

However, due to the ongoing changes in the way Americans use the mail, the Postal Service faces an unprecedented financial crisis. Since 2006, mail volume has declined more than 25 percent or about 60 billion pieces of mail annually. As a result, the Postal Service has lost money for 9 straight years. With nearly a decade of running behind, the Postal Service faces mounting long-term financial challenges. The agency has $125 billion in unfunded liabilities, including $54 billion for retiree health care, and has exhausted its $15 billion statutory debt limit.

Further, the Postal Service lacks the funds it needs for critical infrastructure investments. Chief among those is the purchase of a delivery fleet projected to cost roughly $6 billion. Think about all those millions and millions of postal boxes that need somebody to come actually deliver the mail to them. It is a miraculous thing, I think, in this country that for less than 50 cents you can put a stamp on an envelope and a day or 2 or 3 days later, that is going to show up at another address within the country. It really is truly amazing. But if you are going to purchase new delivery vehicles and prepare for the next decade or two, you are going to need some money, and it is something that the Postal Service does not have.

In the meantime, they must manage a delivery fleet of vehicles, which on average is 24 years old and costs $1 billion a year in maintenance. That is just the maintenance cost. While the Postal Service has made efforts to cut cost and streamline its operations, it is not enough.

I think it is important to note that many of the unions have been very helpful in actually working with the Postal Service and making cuts, but they don't want to keep continuing to cut the number of personnel, and neither do I. We want to see a growing, vibrant, thriving Postal Service.

So today, we are going to hear from representatives of five key stakeholders within the postal community, including the postmaster general, the Postal Regulatory Commission, the Government Accountability Office, private industry, and one of the more important postal unions. There are a number of postal unions. I wish we could have them all up at the same time, but we have one here with us today.

The witnesses will discuss reforms as needed, as well as how certain reform proposals would work. One of the things that is most critical in dealing with this has to do with Medicare, and I look forward to hearing from the Postmaster General Brennan and the NALC union President Rolando about a joint proposal to require the Postal Service retirees to fully enroll in Medicare in order to receive Federal health care benefits in their retirement.

Since 1983, postal workers have paid some $29 billion, $29 billion they have paid into Medicare. Currently, postal retirees have a choice in enrolling in Medicare. As Federal retirees, they can continue their sole enrollment in Federal employee health care plans, or they can enroll in both a Federal plan and Medicare. While three-quarters of retirees already enroll in both Medicare and the Federal plan, the Postal Service and its retirees could see significant savings if all retirees were duly enrolled.

I look forward to hearing more about this proposal. It is one of the most key elements, biggest elements in our drafting and coming forward with a reform package that has a vibrant and sustainable Postal Service. Let me just say I think it is important to note the approach that we are taking here.

Are there costs to be cut? Yes. Are there things that we can do to become more effective, more efficient? Yes. But I also do believe that the Postal Service is a vital tool of commerce, and a thriving, vibrant, productive Postal Service is essential to our economy. We cannot ignore this.

Think about the world of the internet. Think about the way commerce is moving. Think of the way we communicate. Think of how we send bills and communicate as nation. You have to have a vibrant, thriving Postal Service in order to achieve all of that. That is why I think so many people are here today, and it is one of the most important things that our committee will be addressing and taking care of. That is the goal, and that is what we are trying to achieve.

And thank you all for being here. We should have a good hearing today.

Chairman CHAFFETZ. With that, I will now recognize the ranking member, my good friend Mr. Cummings of Maryland.

Mr. CUMMINGS. Thank you very much, Mr. Chairman. And I, first of all, want to thank you, Mr. Chairman, for your hard work and staff on both sides working so hard for a long time to try to resolve the many complex issues that Postal Service faces. And I want to thank the Postal Service community and all of those affected by it because there is a genuine effort to try to come to some type of resolution that is a win-win-win-win for everybody. And I express my appreciation because it helps us as we move along.

I also want to thank our witnesses for being here to discuss ideas for addressing the significant challenges facing this very critical institution. Since its establishment more than 240 years ago, the Postal Service has served as the critical link that touches each one of our lives and connects us all together, our families, our businesses, and our communities.

Through more than 32,000 post offices staffed by more than 600,000 people, the Postal Service delivers more than 150 billion pieces of mail a year to more than 150 million addresses. Since the last postal reform legislation was enacted some 10 years ago, the Postal Service has encountered deepening financial challenges. As a result of the increasing popularity of one-line communications and transactions, the volume of mail handled by the Postal Service has fallen by more than 25 percent since 2006, and this trend is expected to continue.

The cost of the Postal Service's operations have also risen in part because the Postal Service is required to provide universal delivery service to every address in the United States. Every year, about 900,000 new addresses are created in this country, and the Postal Service, its network and facilities, letter carriers and workers must expanded to deliver to every single new address.

Congress has also imposed substantial burdens on the Postal Service that have nothing to do with providing universal service. The Postal Accountability and Enhancement Act of 2006 required the Postal Service to fully prefund its liabilities for retiree health care costs, a requirement that no other Federal agency or private sector company faces. These liabilities, together with unfunded pension liabilities, currently amount to about $125 billion, which is almost double the agency's annual revenues.

Since 2006, the Postal Service has instituted many cost-saving measures, including the following: cutting 200,000 positions through attrition, cutting work hours by 331 million, consolidating more than 360 facilities and 20,000 delivery routes, and changing retail operation hours in approximately 13,000 post offices to match customer demand and reducing the number of administrative areas and districts.

And let me say this. I have said it to their faces; I have said it behind their backs. I think the unions have bent over backwards trying to work with the Postal Service and have done—I mean, of all the committees I have sat on and dealt with, I think here we have a genuine effort by unions to understand what is going on, to make sure that they do right by their members, and at the same time make sure that we have a viable and strong postal system. And I want to thank them.

The Postal Service reports that these initiatives have saved the agency some $15 billion a year. However, there are significant legal restrictions that limit the Postal Service's ability to cut costs and introduce new products to counteract its deteriorating financial condition. As a result, despite its diligent efforts, the Postal Service has reported a net loss of $5.1 billion for fiscal year 2015, its ninth consecutive year of losses. The Postal Service projects $5.9 billion in net losses for fiscal year 2016.

Only Congress can modify the nature and the structure of the funding obligations imposed by statute on the Postal Service's health care and pension programs. Of course, these problems are not new, and we have gone far down the road of developing reform legislation in previous Congresses. But Congress has been unable to reach a final bill. The time now is to act.

And so I want to again thank you, Mr. Chairman, for your commitment to working on a bipartisan basis, and it truly has been bipartisan with me and other colleagues to develop a realistic reform proposal. I am encouraged by our discussion and hopeful that we will be able to help put the Postal Service on a viable and sustainable path.

I believe that any postal reform legislation that this committee considers should do the following, as I close: alleviate the burdensome requirement for prefunding retiree health benefits, allow the Postal Service to have separate postal-only health plans that integrate fully with Medicare, allow the Postal Service to offer nonpostal financial services such as post-office-to-post-office money orders and certain types of gift cards, and require the Postal Service to create a new chief innovation officer charged with developing new, innovative products, as any other business.

And so we need to work together to address the problems facing the Postal Service, and we need to treat the employees of the Postal Service fairly and compassionately. Waiting until the Postal Service runs out of cash is simply not an option. The Postal Service is an institution on which all Americans rely.

And finally, I want to thank Mr. Connelly and Mr. Lynch for their hard work on this effort. We have met many times trying to get through this, and we will.

And so, ladies and gentlemen, we simply cannot fail. We simply cannot kick the can down the road. The time to act is now, and I do believe that we are well on the road to accomplishing that.

And with that, I yield back.

Chairman CHAFFETZ. I thank the gentleman.

I think it is important to note the good work that Mr. Meadows of North Carolina, Mr. Lynch, and Mr. Connelly have put into this, and I concur with my colleague Mr. Cummings that if we are going to do this and actually pass it all the way to the President's desk, it does need to be a bipartisan bill. And that is the goal and that is the intention.

I will hold the record open for 5 legislative days for any members who would like to submit a written statement.

But we would like to recognize our witnesses here today. We are honored to have the postmaster general of the United States Postal

Service, Ms. Megan Brennan. We have the Honorable Robert Taub, acting chairman of the United States Postal Regulatory Commission. We have Ms. Lori Rectanus, who is the director of physical infrastructure issues at the United States Government Accountability Office; Ms. Jessica Lowrance, executive vice president of the Association for Postal Commerce; and Mr. Fredric Rolando, president of the National Association of Letter Carriers.

We welcome you all, and thank you for being here.

Pursuant to committee rules, all witnesses are to be sworn before they testify. If you will please rise and raise your right hands.

[Witnesses sworn.]

Chairman CHAFFETZ. Thank you. Let the record reflect that all witnesses answered in the affirmative.

In order to allow time for discussion, we would appreciate it if you would limit your oral comments to no more than 5 minutes. Your entire written statement will be made part of the record.

We thank you for your participation. We will now recognize the postmaster general for 5 minutes.

WITNESS STATEMENTS

STATEMENT OF MEGAN BRENNAN

Ms. BRENNAN. Thank you. Good morning, Mr. Chairman, Ranking Member Cummings, and members of the committee. Thank you, Chairman Chaffetz, for calling this hearing. I'm proud to be here today on behalf of the dedicated men and women of the United States Postal Service, who work hard every day to serve the American public.

The Postal Service currently operates with a business model that is unsustainable. In the past decade, total mail volume declined by 28 percent, and first-class mail, our most profitable product, has declined by 35 percent. To put this in perspective, the annual value of the revenue lost as a result of this volume decline is $21 billion per year. Nevertheless, the Postal Service is required to maintain an extensive network necessary to process and deliver the mail to every address 6 days a week.

The cost of that network is largely fixed or growing, regardless of volume. However, less volume and limited pricing flexibility means that there is less revenue to pay for that network and fund other costs imposed upon us by law.

We continue to make difficult but necessary decisions within the constraints of our business model to adapt to our rapidly changing marketplace. We have streamlined our operations, restructured our networks, and improved productivity for 6 consecutive years. As a result of these efforts, we've achieved annual cost savings of nearly $15 billion. We have also been successful in stabilizing marketing mail revenues and growing our package delivery business, which together enable America's e-commerce.

However, all of these actions cannot offset the negative impacts caused by the continued decline in the use of first-class mail. Since 2012, the Postal Service has been forced to default on more than $28 billion in mandated payments to the Treasury for retiree health benefits. Without these defaults, the deferral of capital investments and aggressive management actions, we would not be able to pay our employees, our suppliers, or to deliver the mail.

Without legislative and regulatory reform, our net losses will continue to grow regardless of our ongoing efforts to grow revenue and improve operational efficiencies. If allowed to continue, this will have a devastating impact on the future of the organization and the customers we serve.

Mr. Chairman, we need legislation now. Over the past year, we have been working with postal stakeholders to identify key reforms capable of achieving broad support and which would return the Postal Service to financial stability. The legislation we are seeking reflects the results of these discussions and includes the following four provisions: require full Medicare integration for postal retiree health plans, restore our exigent price increase for market-dominant products, calculate all retirement benefit liabilities using postal-specific salary growth and demographic assumptions, and provide additional product flexibility.

By enacting legislation that includes these provisions, the Postal Service can achieve an estimated $32 billion in combined cost reductions and new revenue over the next 5 years. Enactment of these provisions, favorable changes to our rate-setting system by the Postal Regulatory Commission, and our aggressive efficiency and revenue initiatives will return the Postal Service to financial stability.

Medicare integration is the most important of the legislative provisions we recommend. As the second-largest contributor to Medicare, our proposal allows the Postal Service and our employees to fully utilize the benefits for which we have already paid. By requiring full Medicare integration for Postal Service retirees, we will essentially eliminate the current unfunded liability for retiree health benefits.

We are also seeking to restore the exigent rate increase as a permanent part of our rate base. In April, the Postal Service was required by the PRC to eliminate the exigent surcharge and to reduce our prices. This will reduce our revenues this year by $1 billion and by approximately $2 billion annually, further worsening our financial condition. Reinstating the exigent surcharge is critical to the Postal Service's financial stability.

Mr. Chairman, our financial challenges are serious but solvable. The proposals we are advancing today are fiscally responsible. They enable the Postal Service to invest in the future and to continue to provide affordable and reliable delivery service. Mr. Chairman, I look forward to working with this committee and our stakeholders to restore the financial health of the United States Postal Service.

This concludes my remarks. I welcome any questions that you and the committee may have. Thank you, Mr. Chairman.

[Prepared statement of Ms. Brennan follows:]

UNITED STATES
POSTAL SERVICE

House Oversight and Government Reform Committee Hearing
"Reforming the Postal Service: Finding a Viable Solution"
Wednesday, May 11, 2016

Written Testimony

Good Morning Mr. Chairman, Ranking Member Cummings and Members of the Committee. Thank you, Chairman Chaffetz, for calling this hearing, to discuss the need for timely and comprehensive postal reform legislation.

The United States Postal Service provides the nation with a vital delivery platform that sustains and propels American commerce, serves every American business and residential address, and binds the nation together, as it has for more than 240 years.

We currently deliver to more than 155 million delivery points. The 154 billion pieces of mail we deliver annually account for 47 percent of the world's mail, which we deliver at levels of efficiency and affordability equal to or exceeding any comparable post. And we do so without the financial support of the American taxpayer; the Postal Service is a self-funding entity that derives its revenues entirely through the sale of postal products and services.

Even in an increasingly digital world, the Postal Service remains an essential part of the bedrock infrastructure of the economy. The physical delivery of mail and packages to America's homes and businesses is the core function of the Postal Service, and this fundamental need of the American people will exist for the foreseeable future.

Our customers place great faith in the ability of the Postal Service to deliver for them, both in the literal delivery of mail and packages, and in the larger sense as an organization that is adapting and changing to better meet America's evolving delivery needs.

The Postal Service is speeding the pace of innovation, improving our competitive posture by offering new products, and pursuing large-scale efforts to lower our cost base and stabilize our systemic financial imbalances. And we're doing so against a backdrop of great change in technology use and consumer habits, and of rapidly rising expectations for delivery services.

However, our ability to continually change and improve to meet the evolving needs of the American economy and society depends upon our ability to operate with a financially sustainable business model. My testimony today describes our current financial situation and argues for legislation that would provide the Postal Service with the financial stability to invest in our future and continue to be an engine of growth, to be a strong business partner, to compete for customers with compelling new services and offerings, and to meet the expectations of the American public.

The timing of this hearing is notable. We are now entering the 10th year since the enactment of the *Postal Accountability and Enhancement Act of 2006* (PAEA). At the time the PAEA was enacted, we had just finished fiscal year 2006, in which we delivered 213 billion pieces of mail; last year, we delivered 154 billion pieces, a 28 percent decline. Unfortunately, the PAEA did not establish a business model with sufficient flexibility to enable us to effectively respond to this unanticipated precipitous volume decline.

Rather, as a result of this law, the Postal Service is subject to statutory and regulatory constraints that make it impossible to maintain financial stability while achieving our primary mission of providing prompt, reliable and efficient postal services and meeting our other legal obligations. The PAEA imposed an inflexible price cap that has proven to be completely unsuitable in an environment characterized by declining mail volumes — particularly in First-Class Mail, which provides the greatest contribution to covering our institutional costs, including the costs associated with the ever-expanding number of U.S. delivery addresses.

In addition to having limited ability to generate revenues under the price cap, we have limited ability under the PAEA and other laws that place obligations on us to control our major cost drivers, such as our network costs and our pension and retiree health care benefits. The Postal Service is required to maintain an extensive network necessary to process and deliver the mail to every address six days a week. The cost of that network is largely fixed or growing, regardless of volume. However, less volume and limited pricing flexibility means that there is less revenue to pay for that network. In addition, the PAEA imposed a major burden on us through its accelerated schedule for prefunding our retiree health care benefits liability. While this schedule may have been considered manageable at the time the PAEA was enacted, volume trends and revenue impact since that time have upended that belief. Since our available borrowing authority has been exhausted, we have been forced to default on those payments over the past several years in order to meet our universal service obligation.

During the last decade, we have responded aggressively to the challenges that confronted us. For example, we have rationalized our operations in response to the sharp decline in mail volume, increased workforce flexibility, and established a more affordable wage system. These efforts have resulted in costs savings of approximately $15 billion annually. We also are proud of our achievements in significantly growing our package business, and implementing innovations that have enhanced the value of the mail to better serve our customers.

Despite these achievements, our efforts have not been enough — and cannot be enough — to restore the Postal Service to financial health, absent legislative and regulatory reform. Our debt is at an unsustainable level and while we continue to pursue available management actions to reduce our costs even further, there are limited remaining initiatives within our control that will result in substantial cost savings without threatening our ability to continue to provide prompt, reliable, and efficient postal services. The $5.1 billion net loss for 2015 represents the ninth consecutive annual net loss the Postal Service has incurred. We have reached our borrowing limit and have a cash reserve that is wholly inadequate for an organization of our size.

In fact, we have maintained adequate liquidity to continue achieving our primary mission of providing universal postal services only by defaulting on our legally mandated retiree health benefits (RHB) payments and by deferring needed capital investments. While the fixed RHB payment schedule ends this year, we are then obligated to make RHB normal cost payments averaging approximately $3.3 billion per year and to begin amortizing our unfunded RHB liability at an annual cost of approximately $3 billion per year, for a total cost of $6.3 billion per year.

Furthermore, beginning next fiscal year we are also obligated to begin amortizing our unfunded liability in the Civil Service Retirement System (CSRS), which will require an annual payment of $1.5 billion. These obligations are in addition to another sizable existing prefunding payment — normal cost payments under the Federal Employees' Retirement System (FERS) — of approximately $3.4 billion per year (average through 2020), and amortization payments on an unfunded FERS liability of more than $200 million per year (though we do not believe that FERS is truly underfunded if our liability was more appropriately calculated, and have therefore requested that the Office of Personnel Management [OPM] reconsider this amortization amount). This yields total average annual payments of $11.4 billion per year through 2020. Therefore, while we benefit from the fact that the obligation to pay for the premiums for current annuitants will shift to the Postal Service Retiree Health Benefits Fund (PSRHBF) next year, we will still be subject to very sizable prefunding payments going forward, on top of our other operating expenses and a need to begin increasing capital expenditures on items such as our information technology infrastructure, our processing and delivery infrastructure and, most importantly, new delivery vehicles.

Absent fundamental legislative and regulatory reform, we face the prospect of having to continue to default on certain of these prefunding payments in order to continue paying our employees and suppliers and to provide postal services to the American public. This increases the risk that taxpayers may ultimately be called on to fund these benefits. For instance, a failure to make the actuarially-based RHB payments moving forward would reduce and eventually exhaust the balance in the PSRHBF, because that Fund will be used to pay premiums for current annuitants beginning next year. Once the Fund is exhausted, which could occur in as short as a decade, the obligation to pay those premiums would return to the Postal Service, at a time when we will have less volume and therefore less ability to cover any such obligation.

Therefore, it is clear that simply defaulting on our prefunding obligations is not a feasible strategy for success. Rather, we need a statutory and regulatory structure that allows us to take steps to raise revenue and cut costs in a rational, business-like manner, so that we can fulfill our responsibility of providing universal service in a self-sufficient manner while also covering our post-retirement benefits obligations. This requires two steps: the enactment by Congress of appropriate postal reform legislation, and a favorable resolution by the Postal Regulatory Commission (PRC) of the upcoming review of the ratemaking system.

We recognize that meaningful postal reform legislation will impact our many constituents in different ways. For that reason, we have been working over the last year with key stakeholders, including our labor unions and a cross-section of the mailing industry, to discuss the business model issues that confront us, and to identify potential key statutory reforms capable of achieving broad support that would make the Postal Service more sustainable. In formulating our legislative proposal, we had numerous discussions with stakeholders to understand their interests and concerns and to explain ours. Based upon these discussions, we propose a set of focused provisions, which, if enacted into law by Congress, would make substantial progress towards restoring the Postal Service to financial health.

The provisions we are recommending, and which are described below, reflect the adoption of many private sector best practices while maintaining our public responsibilities. Our proposal would:

- Require full Medicare integration for parts A, B and D, for postal retiree health plans;
- Restore our exigent price increase for market-dominant products;
- Calculate all retirement benefit liabilities using postal-specific salary growth and demographic assumptions; and
- Provide some additional product flexibility.

This proposal, along with other management initiatives, will achieve approximately $32 billion in savings through 2020. (See the chart on page 16 for a detailed explanation.)

While enactment of our proposal is a critical step towards restoring the Postal Service to financial health, it is not a sufficient step by itself. We expect total mail volumes to continue to decline, particularly in First-Class Mail, due to the existence of electronic alternatives. The Postal Service will maintain a sharp focus on achieving operational savings where possible, consistent with our service obligations and the other constraints of law. Also of critical importance is the review of the current ratemaking system, and its replacement with a regulatory structure that enables us to effectively respond to the challenges and opportunities presented by a dynamic marketplace. The current cap has failed because it limits price increases simply on the basis of household inflation, without regard to the Postal Service's unique circumstances. The PRC has an opportunity beginning in December to review and replace that system with a suitable regulatory structure.

Considering its importance, the PRC must conduct the review in a timely manner, and for that reason we were disappointed that the PRC recently rejected our request to simply clarify whether the price cap, along with other aspects of the current pricing system, will be a part of the review. Addressing preliminary issues now would have ensured that the substantive aspects of the review — whether the current system is achieving the statutory objectives, and if not, how it should be replaced — could have proceeded efficiently. It also would have allowed all stakeholders, including the Postal Service and Congress, to have a clear understanding about the scope of the review. Resolving this issue now is clearly within the PRC's statutory authority, and would in no way require it to make preliminary conclusions about, or otherwise prejudge, the substantive outcome of the review.

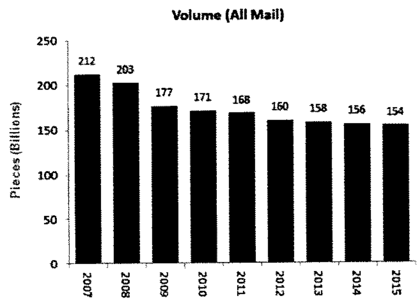
While replacement of the current price cap with an appropriate regulatory structure is ultimately going to be necessary in any event, Congressional action on our proposal would minimize the size of the price increases needed to cover our costs.

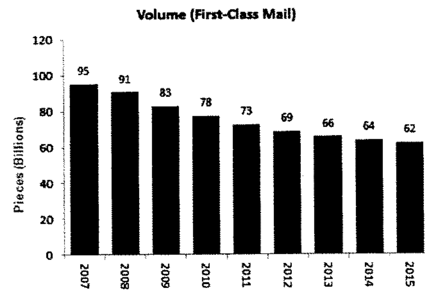
Overall, our financial situation is very serious but solvable; we can return to financial stability through the enactment of prudent legislative reform and a favorable resolution of the 10-year regulatory review. We will at the same time continue to pursue cost savings in all aspects of our operations, and revenue growth where it is available, particularly in packages. These steps will allow appropriate investment in the future of the organization, so that we can continue to provide prompt, reliable and efficient delivery service to the American public.

The mailing industry continues to help power our nation's economy. The Postal Service plays an indispensable role as a driver of commerce and a provider of delivery services to all communities. The need to adopt these legislative reforms is simply too important to delay any further.

POSTAL SERVICE FINANCIAL CONDITION

In the fiscal years 2007 through 2015, due to digital diversion and the proliferation of Internet and mobile-based communications and exacerbated by the Great Recession, total mail volume has declined by approximately 27 percent and First-Class Mail, our most profitable product, has declined by 35 percent. The annual value of the revenue lost as a result of the total volume decline is $21 billion per year. The decline in total mail volume, as well as the shift in the mail mix to a greater percentage of lower-margin products, has a pernicious impact on our financial stability. It reduces the amount of contribution available to pay for the significant percentage of costs that do not vary with volume, but are a result of the nationwide retail, processing, transportation, and delivery network that we are required to maintain in order to provide universal service.

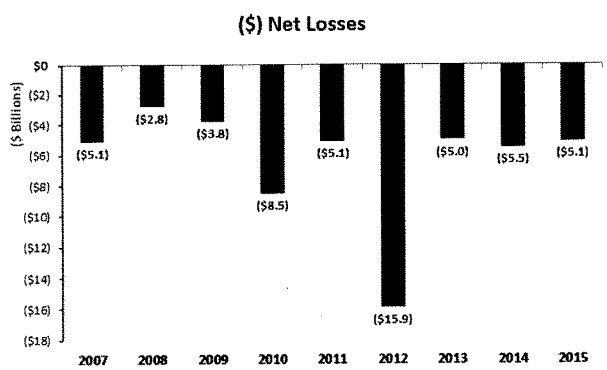




The declines in revenue are driven primarily by the lower First-Class Mail volume noted above. Although the significant growth in our package business has been encouraging, the reality is that we would need package volume to increase by 249 percent in order to make up for the loss of contribution resulting from historical volume losses of First-Class Mail.

For fiscal year 2015, the Postal Service incurred a net loss of $5.1 billion, and has incurred cumulative net losses of $56.8 billion from 2007 to 2015. These financial losses are at unsustainable levels.

Nine Years of Net Losses Despite Innovation and Improved Efficiency



As a result of these losses, we do not have sufficient cash balances to meet all of our existing legal obligations, pay down our debt, and maintain a responsible level of liquidity. We have been forced to default on our RHB prefunding retirement obligation since 2012 and we reached our $15 billion borrowing capacity under our statutory debt ceiling that same year. We would not have been able to pay our employees and suppliers, or to deliver the mail, without these defaults, our deferred capital investments, and our aggressive management actions. Our cash balance remains insufficient to support an organization with approximately $74 billion in annual operating expenses, and with liabilities that exceed assets by $90 billion, under the actuarial funding method.

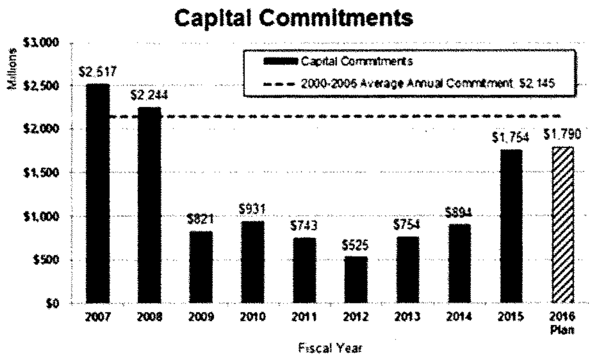
Total Liabilities, Including Retirement Obligations Exceed Assets by $90 Billion

As of September 30, 2015

CSRS Fund Assets	$179.2B	CSRS Actuarial Liability	$199.6B
FERS Fund Assets	$107.6B	FERS Actuarial Liability	$111.3B
RHB Fund Assets	$50.3B	Retiree Health Benefits Obligation	$93.8B
Total Retirement-Fund Assets	$337.1B	Total Retirement-Related Liabilities	$404.7B
		Workers' Compensation	$18.8B
		Debt	$15.0B
Unrestricted Cash	$6.6B	Accrued Compensation, benefits, and leave	$3.9B
Land, Buildings & Equipment, net	$15.7B	Deferred Revenue	$3.3B
Other Assets	$1.7B	Other	$5.3B
Total Assets	**$361.1B**	**Total Liabilities**	**$451.0B**

- This chart includes all assets and liabilities of pension and post-retirement health benefits obligations.
- Items highlighted in yellow are not shown on our balance sheet and the RHB obligations are valued under actuarial funding basis as of Sept. 30, 2015.

Furthermore, in order to continue meeting our statutory obligation to provide prompt, reliable and efficient postal services to the nation, our operations will require significant capital investment over the next few years. Investments are needed to sustain, modernize and improve our information technology infrastructure, and our processing and delivery infrastructure, including our aging fleet of vehicles. Over the past several years, we have deferred all but essential capital investments in order to maintain our liquidity. The cumulative amount of deferred or reduced investment from 2009 through 2016 amounts to over $8.5 billion. While this was a necessary short-term response to our financial situation, the continued deferral of investment can no longer be maintained.



Investments in our infrastructure are needed to meet our universal service obligation and to fully and efficiently capitalize on business opportunities in the growing package delivery market. Our delivery fleet includes approximately 140,000 vehicles that are at least 20 years old and are at or near the end of their useful lives. Repair and maintenance costs for these vehicles have risen significantly in recent years and this situation is unsustainable.

OPERATIONAL ACTIVITIES

We have responded aggressively to the loss of 58 billion pieces of mail (27 percent of total volume) from 2007 to 2015 by rationalizing our business to fit the current and projected mail and package volume. At the same time, our delivery points continued to increase by more than 900,000 each year, necessitating adjustments and flexibility in operations. Since the beginning of 2007, we have made tough, fiscally responsible decisions and managed operational costs within our control. These actions have included:

- Reducing our career employee complement by more than 200,000, without resorting to layoffs;
- Negotiating with our unions on wages, benefits and workforce flexibility;
- Reducing work hours by 331 million;
- Consolidating more than 20,000 delivery routes and operations at 360 facilities;

- Modifying retail operation hours in approximately 13,000 Post Offices to better align with customer demand;
- Reducing the number of administrative areas from nine to seven and districts from 80 to 67, and;
- Significantly decreasing headquarters spending.

These actions have allowed us to reduce our annual cost base by almost $15 billion. At the same time, we have improved efficiency for six consecutive years. However, these and other actions have not been enough to restore us to financial health.

PRODUCT ENHANCEMENTS

As a part of our efforts to adjust to the dynamic marketplace, we are changing and improving to better serve our customers through continued innovation and improved efficiency. We have also focused our efforts on developing new products and enhancing existing product offerings to meet the needs of an ever-evolving marketplace. We have concentrated on providing new services to enhance the value of mail to our customers, growing e-commerce and implementing marketing campaigns to grow our package business.

Our package volume has grown by more than 1 billion packages in the last three years. In FY 2015, we delivered one-third of all domestic packages in the United States. To spur additional growth in our package business, we are partnering with a number of major U.S. retailers to develop customized delivery solutions to meet their particular business needs. Examples of the solutions we have developed include our Sunday, grocery, and same-day delivery initiatives, as well as our "ship-from-store" agreements that expedite the delivery of goods from businesses to consumers and improve convenience. These efforts have significantly enhanced the continued double-digit growth in package volume.

Continued innovation and growth in our package business is essential to our ability to provide universal postal service to the American people as First-Class Mail continues to decline. These products provide an essential — and growing — level of contribution to help us pay for our institutional costs, and thus help to sustain the network that benefits all mailers. However, the expected growth in package volumes and revenues is not enough to make up for the massive loss of mail volume and revenue that used to be available to pay for our network costs.

PROPOSAL

Stabilizing the Postal Service's financial condition will require continued management initiatives and a comprehensive approach to improve both innovation and efficiency. Moving forward, we will continue to contain costs, and speed the pace of product and service innovation. All of these actions will unfortunately not be enough to stave off future losses and stabilize our finances. Legislative reform is required now, and the proposal set forth below, along with other changes, such as a favorable outcome in the 10-year regulatory review, makes our financial situation eminently solvable.

Over the past year we have been working with key stakeholders, including our labor unions and a cross-section of the mailing industry, to try to identify key reforms that would return the Postal Service to financial health and also be acceptable to as many of those stakeholders as possible. The legislation the Postal Service is seeking should include the following provisions:

- Requiring full Medicare integration for parts A, B, and D for postal retiree health plans;
- Restoring our exigent price increase for market-dominant products;
- Calculating all retirement benefit liabilities using postal-specific salary growth and demographic assumptions; and
- Providing some additional product flexibility.

With legislation enacted that includes these provisions, the Postal Service can achieve an estimated $32 billion in combined cost reductions and new revenue over the next five years. Together with other important initiatives, this would make us financially stable.

PENSIONS

Our proposal requires the OPM to calculate FERS and CSRS liabilities using postal-specific salary growth and demographic assumptions, rather than government-wide assumptions. It establishes a process by which any FERS surplus would be returned to the Postal Service. The surplus would be returned immediately for use in paying down debt. Future surplus amounts returned would be used to first address any possible pension and RHB liabilities, and then to pay down existing debt.

It should be noted that the Postal Service's pension and retirement liabilities funding compares favorably to other entities in both the public and private sectors. In fact, the Postal Service's percentage for CSRS pension funding is more than four times the level of other civilian federal government entities and is higher than the average funding level for those few Fortune 1000 companies still offering traditional pension plans. In addition, the Postal Service's FERS pension funding is at nearly 97 percent, even when calculated using government-wide assumptions (which overstate our liability).

USPS Pension Funding Compares Favorably to Other Entities

% Funded as of September 30, 2015	**Pension**	
	CSRS	**FERS**
Percentage of USPS Actuarial Liability Funded	**89.8%**	**96.7%**
Percentage of Civilian Federal Government Funded	**19.4%** [1]	**92.0%** [1]
	Pension	
Other Entities:		
Percentage of U.S. Department of Defense Funded [2]	**34.0%**	
Percentage of State Government Funded [3]	**66.0%**	
Percentage of Fortune 1000 Companies Funded [3]	**80.0%** [4]	

(1) Source: Civil Service Retirement & Disability Fund Annual Report, FY 2014
(2) Source: Financial Report of the United States Government, FY 2015. Note, Dept. of Defense pension funding percentage represents combination of CSRS and FERS plans.
(3) Source: USPS Office of Inspector General Report Number FT-MA-12-002
(4) Only 11% of Fortune 1000 companies offer a traditional pension plan to newly hired salaried workers

RETIREE HEALTH BENEFITS

Our significant financial losses are due in large part to the legally mandated RHB prefunding requirement. Such a requirement to prefund retiree health care obligations is not imposed on most other federal entities or private-sector businesses that offer retiree health benefits, let alone on an accelerated basis. The Postal Service's funded level for RHB far exceeds that of civilian federal government entities, state governments, and private sector companies that even offer retiree health benefits.

USPS Retirement Liabilities Funding Compares Favorably to Other Entities

% Funded as of September 30, 2015	Retiree Health Benefits
Percentage of USPS Actuarial Liability Funded	53.6%
Percentage of Civilian Federal Government Funded	0%[(1)]
	Retiree Health Benefits
Other Entities:	
Percentage of U.S. Department of Defense Funded[(1)]	28.1%
Percentage of State Government Funded[(2)]	30.0%
Percentage of Fortune 1000 Companies Funded[(2)]	0% - 37.0%[(3)]

(1) Source: Financial Report of the United States Government, FY 2015.
(2) Source: USPS Office of Inspector General Report Number FT-MA-12-002
(3) Eighty-seven percent of Fortune 1000 companies provide retiree health care benefits; however, only 38 percent prefund the expense. The median funding level ranged from 23 to 37 percent as reported in 2012 OIG Report FT-MA-12-002

More importantly, even after the fixed RHB payments end and are replaced with actuarial payments, our RHB obligations under the FEHBP are simply unaffordable because we cannot require full integration with Medicare for all postal retirees. Our proposal requires OPM to create separately rated postal plans within the FEHBP, beginning with the 2017 contract year, which would be fully integrated with Medicare Parts A, B, and D. These plans would be offered by any existing FEHBP carrier that currently covers at least 1,500 postal employees and annuitants, and other carriers that desire to participate.

The proposal requires OPM to calculate the RHB actuarial liability on the basis of annuitant net claims costs, rather than premiums, in accordance with standard actuarial practice. It cancels the fixed prefunding schedule established in PAEA, and instead requires the Postal Service to make actuarially-based RHB prefunding payments. Each year, the Postal Service would make a normal cost payment, except to the extent that such a payment would cause the RHB actuarial liability to be more than 100 percent funded. In addition, the Postal Service would be required to amortize any unfunded RHB liability, predicated on an 80 percent funding target. The proposal further requires that a portion of the existing assets in the PSRHBF be invested in a manner designed to replicate the performance of the longest-term L Fund in the Thrift Savings Plan.

Opponents of this provision have argued that it would simply shift cost from the Postal Service to Medicare. While it is true that Medicare costs will increase by approximately $821 million per year, this provision is actually reversing the cost shifting that currently exists from Medicare to the FEHBP plans, ultimately imposing additional costs on the Postal Service, on our ratepayers, and on our employees. Since 1983, the Postal Service and its employees have been the second largest contributor to Medicare, contributing over $29 billion during this period. At present, however, 9 percent of eligible annuitants and dependents do not participate in Medicare Part A and 27 percent do not participate in Part B. More appropriately assigning claims costs to Medicare, instead of FEHBP, creates savings for the Postal Service and participants, and effectively resolves the RHB funding issue. Requiring full participation in Medicare by eligible annuitants is a universal practice among nearly all private sector and state and local government employers who provide health benefits to retirees. The Postal Service is simply asking to be treated like any other entity that is required to self-fund the benefits they offer to their retirees.

In addition, the overall impact to Medicare is relatively modest. To illustrate this point, total Medicare benefit payments to all recipients in FY 2016 are projected to be $684 billion, or $1.88 billion per day. The increased cost to the Medicare Trust Funds from the Medicare integration we are proposing represents less than half a day's claims under the Medicare program. The integration cost of $821 million in FY 2016 is just one-tenth of 1 percent (0.1%) of the total annual Medicare payments.

The requirement for all retirees and survivors over age 65 to participate in Medicare Parts A and B — plus the additional Part D savings resulting from establishing an Employer Group Waiver Plan (EGWP) to take advantage of subsidies available for prescription drug benefits within each FEHB plan — would essentially eliminate 94 percent (or $54 billion) of the Postal Service's unfunded retiree health benefit liability and reduce expenses by $38 billion over the next 10 years (2016-2025).

MARKET-DOMINANT RATES

The restoration of the exigent price surcharge is critical to the Postal Service's financial health. The PRC-ordered rollback of the surcharge occurred on April 10, 2016, and will reduce our revenue and net income by approximately $1 billion this year and $2 billion per year going forward, which is an irrational outcome considering the Postal Service's financial condition.

The price cap that is currently imposed on market-dominant products and services is clearly not enabling the Postal Service to achieve financial stability despite the best efforts of the Postal Service to reduce costs. In fact, the current price cap simply will not work since mail volumes have rapidly declined, while the costs necessary to maintain our network are largely fixed or are growing. Even the rapid growth experienced in the past few years in package volume is not enough to offset the decline in revenues from market-dominant products. The exigent surcharge softened the financial blow that the Postal Service suffered as a result of the massive loss of mail volume, and is the principal reason we achieved controllable income over the last two fiscal years (although we still suffered net losses in each of those years in excess of $5 billion).

The Postal Service proposal reinstates the 4.3 percent exigent increase and makes it a part of the rate base. The Postal Service would be prohibited from raising market-dominant rates until January 1, 2018, following the PRC's review of the market-dominant regulatory system, as required by PAEA. This review should begin upon enactment of legislation and be completed by March 31, 2017, to allow both the Postal Service and the industry time to prepare for a January 1, 2018, price change.

PRODUCT FLEXIBILITY

Our proposal authorizes the Postal Service to provide non-postal services to state, local and tribal governments, as well as new, commercial non-postal services, so long as the PRC concludes that the provision of such services is consistent with a number of requirements. Specifically, any such non-postal service must be consistent with the public interest, must not create unfair competition with the private sector, must not unreasonably interfere with the value of postal services, must be undertaken in accordance with all federal laws and regulations applicable to the provision of such services, and must be reasonably expected to improve the net financial position of the Postal Service.

Our proposal also authorizes the mailing of beer, wine, and distilled spirits under specific conditions. The mailing must comply with all laws that govern the private shipments of alcoholic beverages at both the place of mailing and place of delivery, and delivery can only be made to an adult at least 21 years of age who provides a signature and valid identification. The proposal clarifies that it does not preempt any state, local, or tribal law that prohibits or regulates the delivery, shipment, or sale of beer, wine, and distilled spirits, so long as that law does not discriminate against shipment by the Postal Service relative to private carriers.

FINANCIAL IMPACT

As we've said, there is a way forward. The chart below shows the value of each of the parts making up our proposal, with total savings of $32 billion over the next five years. Enacting these key concepts into law will put the Postal Service on a more stable financial footing, allowing for further innovation, investments, and growth for the Postal Service, and the mailing industry as a whole.

USPS LEGISLATIVE PROPOSAL
With Medicare Integration Parts A, B and D

$ in billions

	Provisions	2016	2017	2018	2019	2020	Total FY16 - FY20
A	Medicare integration (parts A, B and D) and L-Fund investment for postal retiree health plans	0.0	4.5	4.4	4.3	4.2	**17.5**
B	Exigent price increase for market dominant products	1.0	1.7	2.0	2.0	1.9	**8.6**
C	Retirement liability calculation using postal-specific assumptions (1)	0.5	0.7	0.7	0.7	0.7	**3.2**
D	Limited additional product flexibility	0.0	0.0	0.1	0.1	0.2	**0.4**
E	**Total Savings from Bill Provisions**	**$1.5**	**$6.9**	**$7.2**	**$7.0**	**$7.0**	**$29.6**
F	Interest savings from lower borrowing	0.0	0.2	0.5	0.8	1.1	**2.6**
G	**Total Savings from Bill Provisions**	**$1.5**	**$7.1**	**$7.7**	**$7.9**	**$8.1**	**$32.3**

(1) *"Postal-specific assumptions" include the reduction in the annual CSRS and FERS amortization payments resulting from lengthening the amortization period to 40 years and the refunding of the FERS surplus*

Note: Totals may not add up due to rounding

CONCLUSION

Mr. Chairman, the United States Postal Service delivers for the American public — both literally and figuratively. We serve every American business and residence. We do so reliably and affordably, and we strive continually to earn the trust of the American public by maintaining the privacy and security of the items we deliver. We enable America's commerce by meeting its marketing and communications needs, by delivering the physical content that powers e-commerce, and by serving as an indispensable business partner to America's entrepreneurs and business owners.

America deserves a financially stable Postal Service that can continue to play this vital role in our economy and society. In a dynamic and increasingly digital, mobile and device-driven world, the Postal Service has opportunities to enhance the way we enable commerce. However, we require the financial ability to invest in the Postal Service's future.

We have presented a path forward that depends upon the passage of a set of legislative provisions. Once enacted, and together with our other initiatives, the Postal Service can meet all of our obligations and improve the way we serve the American public.

Thank you, Mr. Chairman, for the opportunity to submit this testimony. I welcome any questions that you and the committee may have.

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Chairman CHAFFETZ. Thank you.

Chairman Taub, you are now recognized for 5 minutes.

STATEMENT OF ROBERT G. TAUB

Mr. TAUB. Mr. Chairman, Ranking Member Cummings, good morning. I'll hit a few key points of the committee's very detailed written testimony.

In 2015, the Postal Service had a total net loss of $5.1 billion, which is an improvement from 2014. However, this is the ninth consecutive net loss since 2007 and has increased the cumulative net deficit since then to $56.8 billion. These continuing losses have negatively impacted liquidity, requiring the Postal Service to use all of its $15 billion statutory borrowing capacity and causing total liabilities to far exceed total assets by $50.4 billion.

In the past 5 years, the Postal Service has not made any of the required prefunding payments to the retiree health benefit fund. This accruing nonpayment into the fund has skewed the Postal Service's current liabilities in relation to its assets. To reduce its debt ratio to historic averages, the Postal Service would have to significantly increase its current cash position or investments in capital assets and reduce its obligations to the retiree health benefit fund.

Low liquidity levels in recent years have impeded the Postal Service's ability to make capital investments in infrastructure. It now operates an aging vehicle fleet, increasing the need and consequently the costs for maintenance and repair. Also unmet is the need to invest in sorting and handling equipment to fully capitalize on business opportunities in the growing package delivery markets.

Total mail volume in 2015 dropped to levels not seen in more than 27 years, and the Postal Service anticipates further reductions in total volumes for 2016. The continuous decline in first-class mail seriously jeopardizes the Postal Service's ability to cover its fixed overhead costs.

Recent increases in revenues and subsequent higher liquidity are largely due to the temporary market-dominant product exigent surcharge. The additional revenue from competitive products, which are mainly parcels, is not sufficient to offset the future revenue loss resulting from the termination of the exigent surcharge, which was removed April 10. In order to maintain the operating net income it is currently achieving, the Postal Service would have to make up the loss of that revenue, which is approximately $2.1 billion annually.

With the growing liability of retiree health benefits, the inability to borrow for needed capital investments and the continued loss of high-margin, first-class mail revenues, the important task of improving the financial condition of the Postal Service is daunting.

Despite the financial news, there is still strength in the system. The Postal Service is the one government agency that touches every American on a daily basis. It is an organization that literally serves 155 million American households and businesses on a typical day. It facilitates trillions of dollars in commerce. The fundamental problem is that the Postal Service cannot currently generate sufficient funds to cover its mandated expenses and also invest in critically deferred capital needs.

Where can we look for answers? I would argue the starting point is to look at ourselves. What do we as a nation need from postal and delivery system and what is its cost? What exactly is universal mail service in the United States?

The Commission has determined that, unlike other countries, the universal service obligation, or USO, in the United States is largely undefined and instead is comprised of a broad set of policy statements with only a few legislative prescriptions. The Commission estimates the cost of providing universal service to be more than $4 billion annually. When assessing the current state of the Postal Service, policymakers should look at this fundamental issue and decide exactly what we as a nation need from the Postal Service and, most importantly, how those expectations are to be funded.

Mr. Chairman, Ranking Member Cummings, thank you for holding this hearing today and shining a spotlight on this critical part of our nation's infrastructure. I know you deeply appreciate the importance of these issues. There are no easy answers, but answer we must, and the Commission stands ready to help you in the search for solutions.

On behalf of all for commissioners and the entire hardworking agency staff, thank you for the opportunity to testify today.

[Prepared statement of Mr. Taub follows:]

Introduction

Chairman Chaffetz, Ranking Member Cummings, and members of the Committee on Oversight and Government Reform, good morning. My name is Robert G. Taub. I am the Acting Chairman of the Postal Regulatory Commission (Commission). I am pleased to testify before you today.

Background

The Commission is an independent federal agency that is responsible for ensuring transparency and accountability of the U.S. Postal Service's operations and finances. Today, the Postal Service is a $69 billion operation with more than 600,000 employees. It is not quasi government, quasi private, or quasi anything – it is 100 percent part of the Federal Government, operating as an independent establishment in the Executive Branch. Yet the Postal Service receives no tax dollars for operating expenses and relies completely on the sale of postage, products, and services to fund its operations.

As a separate and independent federal regulatory agency, the Postal Regulatory Commission determines the legality of the Postal Service's prices and products, adjudicates complaints and fair competition issues, and oversees the Postal Service's delivery performance consistent with statutory requirements. Its mission is to ensure transparency and accountability of the Postal Service and foster a vital and efficient universal mail system. The Commission is the regulator, not the operator of our nation's Postal Service – we do not manage the Postal Service, we regulate it. The Commission is composed of five Commissioners, each appointed by the President and confirmed by the Senate. The Commission receives an annual appropriation from Congress out of the Postal Service Fund.

Why a regulator for another government agency? Unlike almost any other federal agency, the Postal Service operates in a commercial marketplace while also having a large contingent of captive customers given the Postal Service's market dominance for certain products and services. The Postal Service is provided a statutory monopoly over mailboxes and the delivery of letters. The public interest role of a regulator in this case is clear: a need to protect the captive customers and ensure fair competition.

The Commission carries out this work with a very small budget and staff. Its current year appropriation is $15.2 million to regulate the $69 billion Postal Service. The David and Goliath analogy is sometimes apt. Despite a steadily increasing workload, until this year, the Commission's annual appropriation had always been less than what it received in Fiscal Year (FY) 2008. FY 2008 was the last year that the Commission received its funds directly from the Postal Service rather than through the appropriations process. The Commission's budget in FY 2008 was $14.985 million for an authorized complement of 70 employees; 7 years later, the Commission's appropriation in FY 2015 was $14.7 million for an employee complement of 77. The majority of the Commission's FY 2015 budget was allocated to pay and benefits ($11.175 million) with the remainder allocated for operating expenses ($3.525 million). In order to accommodate the increasing cost of personnel benefits and operating expenses, the Commission has had to defer hiring and delay many critical Information Technology-related projects. This path is no longer sustainable for the Commission given existing government-wide information security requirements as well as an increasing regulatory workload.

PRC Focus on USPS Financing

Commission rules require the Postal Service to file several reports with the Commission regarding financial results on a monthly, quarterly, and annual basis. The Commission staff internally analyzes these reports. Prior to 2014, the Commission's *Annual Compliance Determination* (ACD) included a chapter on the overall financial health of the Postal Service. However, because the ACD is focused on rates and service performance, it did not include a detailed analysis of other financial data provided in the Postal Service's *Annual Compliance Report* as well as its Securities and Exchange Commission equivalent Form 10-K filing. In 2014, the Commission developed a separate *Financial Analysis* report to provide greater clarity and transparency of the Postal Service's financial data and trends.

This year, the Commission published its third annual *Financial Analysis* report which not only reviews the overall financial position of the Postal Service, but also analyzes volumes, revenues, and costs of both Market Dominant and Competitive products. The report includes a chapter that analyzes the Postal Service's financial status in terms of profitability, solvency, activity, and financial stability using accounting ratios. I would like to highlight our observations and conclusions from the Commission's FY 2015 *Financial Analysis* report.

Overview of USPS Finances: Liabilities Outstrip Assets Resulting in Low Liquidity

In FY 2015, the Postal Service had a total net loss of $5.1 billion, which is a $447 million improvement from FY 2014. However, this is the ninth consecutive net loss posted since FY 2007 and has increased the cumulative net deficit since FY 2007 to

$56.8 billion. As noted in the FY 2015 *Financial Analysis* report, these continuing losses have significantly affected the financial position of the Postal Service by negatively impacting liquidity, requiring the Postal Service to use all of its $15 billion statutory borrowing capacity, and causing total net liabilities to far exceed total net assets.

Total revenue increased $1.1 billion in FY 2015 primarily due to an increase in Competitive product volumes and the Market Dominant exigent surcharge.[1] Total volume declined by almost 1 percent, or 1.4 billion pieces, with Market Dominant products accounting for all of the volume loss. Despite the loss of Market Dominant volume, total revenue for Market Dominant products was slightly higher than last year. The exigent surcharge added $2.1 billion in revenue, which was enough to offset the loss of revenue due to declining volumes. Competitive product volumes continued to increase significantly in FY 2015, growing 16.3 percent over last year. This increased volume added approximately $1.3 billion in revenue. Other non-mail related revenues, which include gains/losses on disposal of property and equipment, philately, and other non-mail related revenues, declined $0.4 billion.

Total expenses increased $0.6 billion in FY 2015. This overall increase reflected an increase of $1.5 billion in compensation and benefits costs and a decrease in workers' compensation liability of $0.9 billion. An increase in workhours (the first since FY 2005) and the number of career employees (the first since FY 1999) increased compensation expenses by $0.8 billion. Retirement expenses also increased due to an increase in the Federal Employee Retirement System (FERS) annuity rate from 11.9

[1] This surcharge was permitted by the Commission after it found that the Postal Service had justified the recovery of additional contribution by showing a causal link between the extraordinary or exceptional circumstances of the Great Recession and mail volume losses.

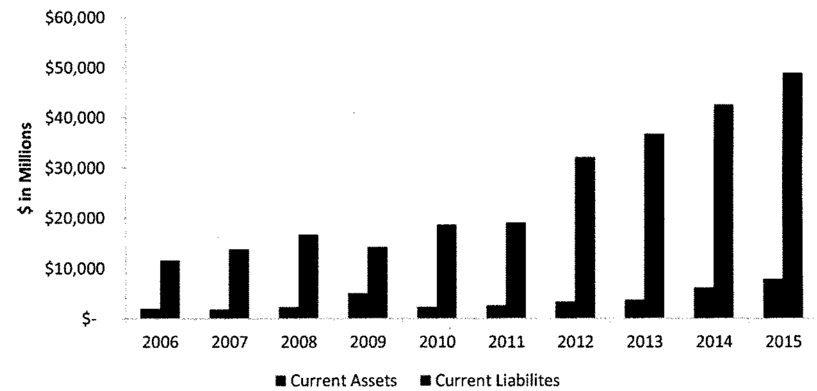
percent of base pay to 13.2 percent of base pay and a supplemental payment to the FERS fund. Other benefits costs such as the current year premiums for retiree health benefits and the payment to the Department of Labor for workers' compensation costs also contributed to the increase in compensation and benefits. Further data on personnel related costs are detailed later in this testimony.

The $0.9 billion decrease in workers' compensation liability was due to actuarial changes in the development of the estimate and changes in the discount rate. Non-personnel expenses, including transportation, also declined in FY 2015.

In the face of financial losses, over the past 8 years, the Postal Service has reduced the size of its workforce by about 200,000 career employees, cut labor related costs, and increased its productivity. Today the Postal Service delivers roughly the same volume of mail that it delivered in 1987, but with almost 168,000 fewer total employees. Yet even with these sizeable reductions, the Postal Service does not have the cash to pay down its debt or fully invest much needed capital in its operations.

The significant gap between the Postal Service's net current assets and net current liabilities is of particular concern. As noted in the FY 2015 *Financial Analysis* report, the Commission found that despite a slight improvement in liquidity, current assets, consisting mostly of cash and cash equivalents, continued to be insufficient to meet the payment of current liabilities.

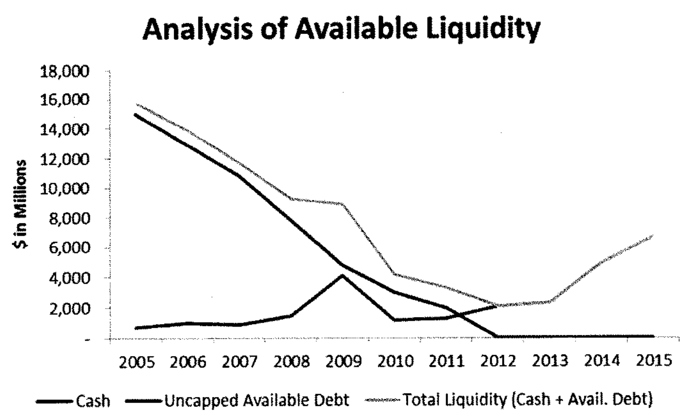
Postal Service Current Assets and Current Liabilities



In FY 2015, total current liquid assets increased by $1.7 billion from FY 2014; however, the amount of current liabilities rose by $6.3 billion, worsening the overall financial situation. Most of the increase in the current liabilities is due to the fact that the Postal Service did not make the $5.7 billion statutorily required FY 2015 payment to the Postal Service Retiree Health Benefits Fund (PSRHBF). The total net current assets were $7.9 billion at the end of FY 2015, of which $6.9 billion was cash and cash equivalents. Net current liabilities at the end of this fiscal year were $48.9 billion, which included $28.1 billion in missed payments to the PSRHBF (the payments scheduled for FY 2011 through FY 2015). Also included in net current liabilities is $10.1 billion of the total $15 billion owed to the Federal Financing Bank. Further data on the PSRHBF are detailed later in this testimony in the additional information on personnel related costs.

These low liquidity levels in recent years have impeded the Postal Service's ability to make capital investments in infrastructure and hindered the growth and productivity enhancements in key assets required for primary postal operations. As the Postal Service noted in the FY 2015 Form 10-K statement, it now operates an aging vehicle fleet, increasing the need, and consequently the cost, for maintenance and repair. Also unmet is the need to invest in sorting and handling equipment to fully capitalize on business opportunities in the growing package delivery markets.

According to the Postal Service's FY 2015 Form 10-K statement, "If our operations do not generate the liquidity we require, we may be forced to reduce, delay or cancel investments in technology, facilities, and/or transportation equipment, as we have done in the recent past.... Additionally, our aging facilities, equipment and transportation fleet could inhibit our ability to be competitive in the marketplace, deliver a high-quality service and meet the needs of the American public.... An aging or potentially obsolete infrastructure could result in loss of business and increased costs."



On an *operational* basis the Postal Service's net income (i.e., before including the statutory prefunding accruals to the PSRHBF and any non-cash adjustments to workers' compensation liability) is $1.2 billion. Most of this operational net income can be attributed to an increase in revenues from the exigent price surcharge on Market Dominant products and the continuing growth in Competitive products parcels. The exigent surcharge, effective for the full fiscal year, increased revenue by an estimated $2.1 billion, offsetting all of the revenue loss from the declining Market Dominant volume. The temporary surcharge was removed on April 10, 2016.

The increase in operating net income enabled the Postal Service to improve its liquidity position. Compared to FY 2014, the Postal Service increased its cash position by $1.7 billion. This increase in cash enables the Postal Service to begin planning for replacement of its capital assets, primarily delivery vehicles and package sorting equipment. Yet, as noted, this increase is overshadowed by the increase in current liabilities, primarily due to the inability of the Postal Service to make the statutorily required pre-funding payments into the PSRHBF. Overall, according to the Postal Service, it has approximately 24 days of cash available to pay basic operating expenses. This consists only of available cash as the Postal Service has reached the statutory borrowing limit. The current level of Postal Service reported liquidity has improved since its low point in FY 2012, but total cash on hand plus total debt is only a third of what was available 10 years ago.

If a downturn in the economy or other circumstance should further stress the Postal Service's cash flow, it risks not being able to pay some of its bills and could, in a worst case scenario, run out of cash.

Analyzing Postal Service Financial Status: Profitability, Solvency, Activity, and Financial Stability

The Commission's *Financial Analysis* report uses "ratio analysis" to measure the profitability, solvency, and financial stability of the Postal Service. As detailed in the Commission's *Financial Analysis* reports, ratio analysis is used to conduct a quantitative analysis of information in a financial statement. Ratios are calculated from current fiscal year numbers and are then compared with previous years and historic averages to determine the Postal Service's financial performance.

The ratios explain the Postal Service's financial health and provide valuable insight into its past performance. The financial data used in the ratio analysis is derived from accounting information not adjusted for inflation, changing demographics, industry dynamics, or government regulations. Financial analysis used in the private sector may not be directly relevant to government agencies because revenue streams, equity structures, and management incentives differ. It is also difficult to determine a single measurement that signifies financial health for a government agency. Financial performance, although not a primary indicator of success, influences the fulfillment of missions and objectives for government agencies with a service-related mission, such as the Postal Service.

Some of the ratios calculated by the Commission for FY 2015 show a slight improvement compared to the previous year with the majority deviating greatly from the average of the last 10 years. The Commission's *Financial Analysis* report calculates "liquidity-related ratios" as well as "key ratios" related to sustainability.

Liquidity-related ratios are one of the most widespread indicators of an agency's solvency. Calculated using the Postal Service's financial results for FY 2015, they show an improvement over the prior year with values close to the historic 10-year average. The following table details the three liquidity-related ratios:

Ratio Analysis of Postal Service Financial Statements

Ratios	9/30/2015 Value	9/30/2014 Value	Change	Description of ratio	Postal Service Historic 10 Year Average Value
Current ratio	0.16	0.15	0.02	This ratio is calculated by dividing current assets by current liabilities. It shows how much of an entity's short term assets are available to cover its short term debt obligations.	0.16
Quick ratio	0.16	0.14	0.02	This ratio is calculated by dividing liquid assets (cash, cash equivalents, short term investments, current receivables) by current liabilities. It shows how much of an entity's current assets which can be immediately converted to cash are available to cover its short term obligations.	0.15
Cash ratio	0.14	0.12	0.02	This ratio is calculated by dividing cash and cash related assets current liabilities. It shows how much of an entity's cash or cash related assets are available to cover its short term liabilities.	0.10

The improved liquidity-related ratios are largely a result of the increased cash on hand held by the Postal Service after exhausting its borrowing capacity. The Postal Service's working capital remains a negative value of $40.9 billion, deteriorating by $4.6 billion from the prior year. This means that the increase in current liabilities largely due to the missed retiree health benefit statutory prefunding payment of $5.7 billion significantly exceeded the growth in current assets, 87 percent of which is cash on hand.

The Commission's *Financial Analysis* report assesses three key ratios for Postal Service sustainability as detailed in the following table. Ratios for the current fiscal year as seen in the debt ratio and the current liability ratio have deteriorated compared to the prior year and the historic average for the past 10 years.

Ratio Analysis of Postal Service Financial Statements

Ratios	9/30/2015 Value	9/30/2014 Value	Change	Description of ratio	Postal Service Historic 10 Year Average Value
Debt ratio (debt to assets ratio)	3.10	2.97	0.12	This ratio is calculated by dividing total liabilities (*i.e.* long-term and short-term liabilities) by total assets. It shows how much the company relies on debt to finance assets.	1.78
Fixed assets to Net worth ratio	(0.31)	(0.36)	0.05	This ratio is calculated by dividing fixed assets by net worth. It shows how much of the entity's cash is frozen in the form of fixed assets, such as property, plant, and equipment.	0.58
Current liability ratio	0.66	0.62	0.03	This ratio is calculated by dividing current liabilities by total (*i.e.* current and noncurrent) liabilities. It shows the percentage of the entity's liabilities due within 1 year.	0.54

The accruing nonpayment into the statutory retiree health benefit fund has skewed the Postal Service's current liabilities in relation to its assets. To reduce its debt ratio to historic averages, the Postal Service would have to significantly increase its current cash position or investments in capital assets and reduce its obligations to the PSRHBF.

The Postal Service's fixed assets to net worth ratio shows an insignificant improvement reflecting the slight increase in capital spending and the comparative $447 million decrease in net loss over the prior year. However, the value still remains at negative 0.31, a result of recurring net losses accumulated over the last 9 years. A negative fixed assets to net worth ratio indicates the erosion through depreciation of the entity's long term tangible business assets, a critical investment for a viable entity.

The current liability ratio reflects the Postal Service's share of short term liabilities to total liabilities at 66 percent, an increase of 3 percent from the start of FY 2014. The accrual of the unpaid statutory PSRHBF prefunding payments is included in current obligations, accounting for the increase in current liabilities. An increasing current liability ratio indicates increasing obligations due to be paid within the current year. Understanding the Postal Service's liabilities is critical, especially as the cash flows generated from operations render the Postal Service unable to meet its current obligations.

Evaluating Financial Strength: Altman Z-Score

The Commission's *Financial Analysis* report also uses a financial analysis evaluating an agency's financial strength, defined as the Altman Z-Score, to calculate the possibility of bankruptcy. The users, stakeholders, and the business environment vary between the Federal Government and the private sector. Stakeholders of private sector entities use financial analysis to make investment and credit decisions, and success is often measured by the company's stock valuation. In contrast, Federal agencies are mission-oriented and measure success through the provision of service. Furthermore, unlike private sector firms, Federal agencies do not have direct shareholders whose income and wealth is affected by management decisions.

Financial analysis can be useful in both the Federal Government and the private sector. It can be used as a strategic management tool that provides the public with a concise and systematic way to organize the data in financial statements (e.g., balance sheets, income statements, and statements of cash flows) into meaningful information. The information derived from these indicators would provide the data needed to evaluate an agency's financial condition.

Financial viability is affected by a combination of environmental, economic, and organizational factors, including the decisions and actions of management and the governing board. For example, the decline in volume of First-Class Mail, which has a high-contribution margin (the decline being a negative environmental trend), can lead to the erosion of a healthy cost coverage base. However, Postal Service management's response to this decline and constraints on management flexibility also affect financial condition.

As detailed in the Commission's *Financial Analysis* report, the Commission calculated the Altman Z-Score to predict the probability of the Postal Service running out of cash to pay its creditors. Financial analysis evaluates the financial strength of an agency through the use of a variety of metrics. In conjunction with financial ratios, these metrics are used to gauge an entity's long-term viability. However, sometimes the agency's ratios reflect conflicting views. To help eliminate confusion, New York University Professor Edward Altman developed the Z-Score in 1968 as a tool to explicitly address the likelihood that a company could go bankrupt.

A quantitative model designed to predict the financial distress of a business, the Altman Z-Score uses a blend of the traditional financial ratios and a statistical method known as multiple discriminant analysis. The formula has achieved general acceptance by management accountants and auditors.

The Commission calculates the Altman Z-Score in its *Financial Analysis* report to predict the probability of bankruptcy of an entity with the attributes of the Postal Service. The Commission uses a factor model for a private non-manufacturer to evaluate the Postal Service's financial stability as follows:

Altman Z-Score = T1+T2+T3+T4 as denoted in the tables below.

The four performance ratios in the calculations are combined into a single score by weighting. The coefficients are estimated from a set of entities that have previously declared bankruptcy. A matched sample of entities is collected and matched by industry and estimated assets.

The Commission calculates that the Postal Service's Altman Z-Score was negative 6.1 on September 30, 2015. That means that there is a high probability that the Postal Service will go into financial distress. More commonly, a lower Altman Z-Score reflects higher odds of bankruptcy. This 2015 Altman Z-Score of negative 6.1 for the Postal Service is a setback from the FY 2014 score of negative 5.7 (and from the FY 2013 score of negative 5.5), and it is a significant deterioration from the positive score 10 years ago for FY 2005 of 0.3. Despite the results obtained, it should be mentioned that the Altman Z-Score as a predictor of the entity's bankruptcy probability is only relative, the structure of the Postal Service's ratios may be atypical, and interpreting the significance of the Z-Score would require deeper analysis by Postal Service management.

Altman Z-score, FY 2005

Ratio	Calculation	Ratio value on 9/30/2005	Weighting factor	Product (col. 3 * col. 4)
1	2	3	4	5
T1	Working Capital/Total Assets	(0.3)	1.2	(0.3)
T2	Retained Earnings/Total Assets	0.2	1.4	0.3
T3	Earnings/Total Assets	0.1	3.3	0.2
T4	Capital/Total Liabilities	0.3	0.6	0.2
Altman Z-score				0.3

Altman Z-score, FY 2015

Ratio	Calculation	Ratio value on 9/30/2015	Weighting factor	Product (col. 3 * col. 4)
1	2	3	4	5
T1	Working Capital/Total Assets	(1.7)	1.2	(2.0)
T2	Retained Earnings/Total Assets	(2.1)	1.4	(2.9)
T3	Earnings/Total Assets	(0.2)	3.3	(0.7)
T4	Capital/Total Liabilities	(0.7)	0.6	(0.4)
Altman Z-score				(6.1)

As the Commission concluded in its most recent *Financial Analysis* report, the deterioration in the Postal Service's viability relates to the erosion of retained earnings caused by consecutive net losses, the statutory obligation to prefund PSRHBF benefits, and decreasing Retained Earnings/Total Asset ratio. A comparatively lower Working Capital/Total Assets ratio results from the continued lag in replacement of its almost fully depreciated existing assets. The significant drop in these two measures causes the negative fluctuation to the Postal Service Altman Z-Score when comparing FY 2015 with FY 2005.

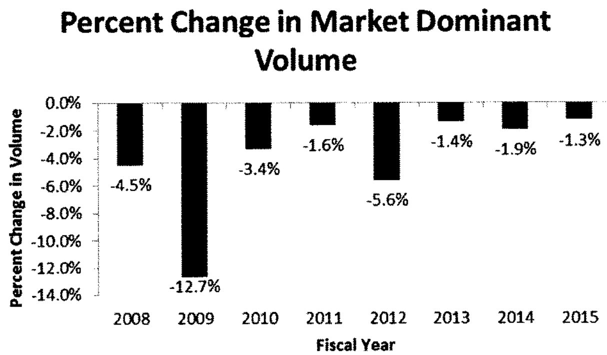
Total Mail Volume: Continuing Decline

Total mail volume in 2015 dropped to levels not seen in more than 27 years, and the Postal Service anticipates further reductions in total volumes for 2016. The decline in mail volume is the result of the economic recession that began in December 2007 along with the acceleration of a long-term trend of mail migrating to electronic media. According to the Postal Service, the volume lost to electronic alternatives is not expected to return because the movement constitutes a fundamental and permanent change in mail use by households and businesses.

Market Dominant Products: continuing decline, particularly in First-Class Mail

Total Market Dominant products volume declined by approximately 2 billion pieces, or 1.3 percent, in FY 2015. Over the last 8 years, Market Dominant products volume declined by approximately 60 billion pieces. Approximately 42 percent of the volume decline occurred in FY 2009 when Market Dominant volume declined 12.7 percent.

For specific products within the Market Dominant category, volume declines at different rates. In FY 2015, First-Class Mail volume declined by approximately 1.4 billion pieces, or 2.1 percent of total First-Class Mail, and Standard Mail volume declined by 284 million pieces, or 0.4 percent of total Standard Mail. These classes constitute the bulk of the volume of Market Dominant products overall. In FY 2015, First-Class Mail and Standard Mail accounted for 93 percent of the total mail volume. The decline in First-Class Mail is the most troubling as First-Class Mail contributes the most to the overhead costs of the Postal Service.



Competitive Products: continuing increases but lower margin

Volumes and revenues for Competitive products, which are mainly parcels, increased 16.3 percent and 8.9 percent, respectively, in FY 2015. While Competitive products volume and revenue has grown consistently in recent years, its volume only makes up 2.6 percent of the total mail volume of the Postal Service. In addition, the margin (i.e., the overall cost coverage) on Competitive products is lower than the margin for First-Class Mail. In other words, the Postal Service earns more money from First-Class Mail than it does from Standard Mail or Competitive Product parcels. Generally, it takes three pieces of Standard Mail to generate the equivalent profit as one First-Class Mail piece.

The continuous decline in First-Class Mail volume and revenue seriously jeopardizes the Postal Service's ability to cover its fixed overhead costs. As stated in the Postal Service's FY 2015 Form 10-K statement, "Although increased Shipping and Packages volume has offset some of these declines, [the Postal Service] must earn approximately $2.50 in Shipping and Package revenue to replace the contribution lost from each $1 of First-Class Mail revenue because the costs of transporting and delivering packages are significantly higher than letters. [The Postal Service's] challenge to contain costs is compounded by the continuing increase in the number of delivery points, which, when combined with the impact of the reduction in hard copy mail volume, has resulted in a drop in the average number of pieces delivered per delivery point per day from approximately 5.5 pieces in 2007 to 3.8 pieces in 2015, a reduction of approximately 31 percent."

Personnel Related Costs

In FY 2015, total personnel related expenses, including the payment to the PSRHBF and the non-cash adjustments to the workers' compensation, increased by $844 million or 1.5 percent from the prior year. The Postal Service continues to expense the amount payable to the PSRHBF, although it remains unable to make the actual payment into the fund. The last Postal Service payment to the PSRHBF occurred in 2010.

Beginning in 1989, the law requires the Postal Service to pay the government's share of the premium for its own annuitants, which, in FY 2015, amounted to $3.1 billion. In 2006, the Office of Personnel Management (OPM) estimated that the Postal Service needed to generate $75 billion to cover benefits for all its current and future retirees. The 2006 Postal Accountability and Enhancement Act (PAEA) established the PSRHBF to collect these payments from the Postal Service. Until 2006, the Postal Service had $0 (i.e., zero, nothing) set aside to pay for its future retiree health benefits.

In addition to the initial amount transferred from the Civil Service Retirement and Disability Fund of $17 billion into the PSRHBF upon enactment, the Postal Service paid $20.9 billion during the first 5 years after enactment of the 2006 law to meet this overly ambitious statutory requirement to prefund much of its future retiree health benefits. Presently, even though the Postal Service has not made any of the required prefunding payments in the past 5 years, there is $50.3 billion in the PSRHBF and a current unfunded amount of $54.8 billion (this is the portion that remains unpaid by the Postal Service).

Under current law, in addition to the Postal Service paying the normal cost amounts for retiree health benefits each year, the unfunded amount of $54.8 billion will be amortized over 40 years beginning in FY 2017. Also, in FY 2017, the PSRHBF starts paying the current year health benefits premiums.

From an operations standpoint, personnel costs increased by $1.5 billion in FY 2015 – a majority of which comprises compensation and retirement benefits. Compensation increased by $818 million while retirement benefits increased by $715 million. Compensation expenses grew over the previous year mainly due to the growth in Shipping and Package volumes, where, because of the size and shape of pieces, handling requires more workhours. An increase in wage rates also contributed to the growth in compensation expense, albeit to a lesser extent than the growth in workhours. As noted previously, retirement benefits expenses grew due to an OPM mandated increase in the agency annuity contribution rate for the FERS. Additionally, OPM notified the Postal Service that the FERS annuity account is underfunded by $3.6 billion as of the end of FY 2014. Under current law, the unfunded liability is to be amortized over 30 years, and this annual payment is estimated by OPM to be $241 million. The Postal Service has expensed this supplemental pension charge, but noted in its annual Form 10-K statement that it is reviewing OPM's underlying calculation regarding the unfunded pension estimate and has not yet paid this expense pending its review.

<u>Summary: Significant Financial Obstacles for the Future</u>

In summary, the Postal Service still faces significant financial obstacles for the future. Increases in revenues and subsequent higher liquidity are almost entirely due to the temporary Market Dominant product exigent surcharge. The additional revenue from Competitive products is not sufficient to offset the future revenue loss resulting from the termination of the exigent surcharge. The Postal Service collected all of the allowable additional revenue, $4.6 billion, from the temporary exigent surcharge. The surcharge was removed on April 10, 2016. In order to maintain the operating net income it is currently achieving, the Postal Service will have to make up the loss of that revenue, which is approximately $2.1 billion annually. With the growing liability of retiree health benefits, the inability to borrow for needed capital investments, and the continued loss of high margin First-Class Mail revenues, the important task of improving the financial condition of the Postal Service is daunting. As noted, its liabilities exceed its assets by $50.4 billion.

<u>Universal Service Obligation (USO)</u>

The cost of providing universal service in the U.S. is estimated by the Commission to be more than $4 billion annually. Title 39 U.S.C. § 3651(b)(1) requires the Commission to estimate in its *Annual Report to the President and Congress* the costs incurred by the Postal Service in providing three types of public services or activities: postal services to areas of the Nation the Postal Service would not otherwise serve; free or reduced rates for postal services as required by Title 39; and other public services or activities the Postal Service would not otherwise provide but for legal requirements. In the *Annual Report* issued in January 2016, the Commission estimated that the total of these three categories is $4.13 billion.

Aside from the financial pressure of generating sufficient funds to remain solvent, the Postal Service must also be concerned about how to fund this $4 billion in universal service obligations. This obligation is in addition to those monies required to keep the mail moving, undertake capital investments, and pay other multibillion dollar obligations such as retiree costs.

How does the United States define universal mail service? In 2008, the Commission, pursuant to law, determined that the USO has seven attributes: geography, range of products, access to facilities, delivery frequency, prices/affordability, quality of service, and users' rights (or enforcement).

Other nations have imposed universal service requirements directly on their postal operator by statute, regulation, licensing, or contract. Countries like Australia, Canada, and Germany – just to name a few – have a detailed definition of universal postal service, with specific standards for delivery and retail access. Unlike other countries, the Commission concluded that the USO in the United States is largely undefined and instead is comprised of a broad set of policy statements with only a few legislative proscriptions. Aside from the annual appropriations mandate for the past 33 years to provide 6 days of delivery, Congress has rarely established rigid, numerical standards of minimally acceptable service for any of the attributes identified by the Commission. Rather, through its history, the Postal Service has been expected to use its flexibility to meet the needs and expectations of the Nation while balancing the delivery of service against budgetary constraints.

In the absence of a clear definition, particularly given the Postal Service's current financial challenges, each of us may have a differing view of what the Postal Service must provide in its services and operations to fulfill the USO, and since there is no specific agreed upon definition, all of our views will have different price tags. The Commission recommended in its 2008 report "that Congress consider and balance all the features of universal service as part of any review of changes necessary to preserve a financially viable Postal Service."

In 2007, the Federal Trade Commission (FTC) issued a report titled, *Accounting for Laws That Apply Differently to the United States Postal Service and Its Private Competitors, Federal Trade Commission, December 2007.* The report identified and quantified the economic burdens and advantages that exist by virtue of the Postal Service's status as a federal government entity and its postal and mailbox monopolies. The FTC determined, based on 2006 financial results, that the Postal Service's unique legal status ultimately put the Postal Service at an overall disadvantage in the Competitive product market. According to the FTC, the Postal Service's competitive products benefited from an implicit subsidy of between $39-$117 million per year associated with avoided Federal, state, and local legal requirements. However, the legal restraints imposed on it by Federal regulations cost the Postal Service an estimated

$330-$782 million a year in reduced efficiency in providing competitive products, according to the FTC.

Concluding Observations

Despite the bad financial news, there is good news, even if it is hard to see or seems overwhelmed by the financial position of the Postal Service. There is still strength in the system.

The Postal Service is the one government agency that touches every American on a daily basis; it is an organization that literally serves 155 million American households and businesses on a typical day. It facilitates trillions of dollars in commerce. According to the Envelope Manufacturing Association Foundation's Institute of Postal Studies, its 2015 Mailing Industry Job Study found that the Postal Service supports a $1.4 trillion mailing industry that employs 7.5 million people. The Postal Service is the key cog of a marketing and distribution system through which small and large businesses, nonprofit organizations, and consumers can transact business, advertise services, and distribute products. It is a significant driver of the Nation's economic engine and an essential piece of its infrastructure.

Throughout its 240-year history, the Postal Service has endured multiple economic recessions and a Great Depression. It has dealt with numerous disasters, which have interfered with mail delivery and strained the infrastructure. It has responded to these immense challenges by adapting, often despite predictions of failure or even its demise in the face of competition from new technologies.

With the inherent and underlying strength of the system, today's Postal Service can survive these challenges too. The fundamental problem as outlined in the Commission's testimony today is that the Postal Service cannot currently generate sufficient funds to cover its mandated expenses and also invest in critically deferred capital needs, such as new delivery vehicles and package sortation equipment. Despite the very serious and real financial problems, let's also keep in mind the good news – the strength in the system – and take some degree of hope knowing that this is the foundation that Congress and the Administration can build upon to find solutions. The strength in the system will be the engine that ensures the Postal Service will continue to meet its basic mission to "deliver."

Where Do We Go From Here?

The pressing question is "What needs to be done to improve the financial condition of the Postal Service?" The Commission has made recommendations on modifying the retiree health benefits funding and the computation of the liabilities for both retiree health benefits and pensions through separate studies on those topics and also in its first "*Section 701*" report issued in 2011. Section 701 of Title 39 mandates that the Commission, at least every 5 years, submit a report to the President and Congress evaluating the operation of the changes made by the PAEA and to make recommendations for any legislation or other measures necessary to improve the effectiveness and efficiency of our Nation's postal laws. Appendix A to this testimony is the Executive Summary from that 2011 report and outlines the Commission's previous recommendations on retiree health benefits funding as well as other concerns.

We are working on a new assessment to be issued later this year. On April 14, 2016, the Commission established a docket to receive public input and comment as the Commission prepares its second "*Section 701*" report. The requirements of section 701 allow the Commission significant discretion when providing recommendations to the President and Congress. The Commission is thus empowered to consider the PAEA amendment generally, as well as provide any appropriate recommendations related to the operations of the Nation's postal laws. However, to assist the public in focusing its comments and in furtherance of the Commission's mission of enhancing transparency and accountability of the Postal Service, the Commission identified several topics that were either highlighted in the 2011 Report and are not yet resolved, or other areas of interest. All interested parties must submit comments to the Commission under this docket no later than June 14, 2016.

The Committee's invitation letter also stated the Committee's interest in "the significance and potential implications of the Postal Regulatory Commission's December 2016 rate review." By law, after December 20, 2016, the Commission will review the price cap system for regulating Market Dominant products to determine if the system is achieving its statutory objectives and if it is not, to "make such modification or adopt such alternative system" to achieve the objectives. There are 9 objectives listed in the law that the modern rate regulation system must be designed to achieve, as well as 14 factors that the Commission must take into account. While each of the nine objectives must be applied in conjunction with the others, I would observe that relevant to the focus of today's hearing on Postal Service finances, objective number five is "[t]o assure adequate revenues, including retained earnings, to maintain financial stability."

In that regard, the PAEA requires that in its *Annual Report to the President and Congress*, the Commission must address “the extent to which regulations are achieving the objectives” for the setting of Market Dominant and Competitive product rates. In the *Annual Report* issued in January 2016, the Commission stated that in regard to the Market Dominant objectives, “[The law] establishes a tension between the restrictions of an inflation-based price cap on Market Dominant price increases and the objective that the Postal Service must be self-sufficient and maintain financial stability. Furthermore, though the PAEA provides incentives via the price cap to reduce costs and increase efficiency, it also imposes personnel-related expenses requiring the pre-funding of future healthcare costs for Postal Service retirees.”

While there are still more than 7 months until the Commission can legally commence its 10-year review, that does not mean we have not started seriously planning for it. The Commission has begun marshalling its limited resources to start identifying approaches to structure the review and schedule a process that allows full and open opportunities for those interested to participate. The Commission is sensitive to the high interest in the review and its potential outcomes. The Commission intends to inform the public about its plans for the 10-year review (including proposed schedules and opportunities for public comment) in advance of December 20, 2016, after which the review will, by law, begin.

There are no easy answers. But answer we must. I've outlined above some work that the Commission has completed and will be undertaking in this regard. The Commission stands ready to assist in your search for answers on behalf of our Nation's postal system and the more than 320 million Americans who depend on it.

On behalf of all four Commissioners and the entire hard working agency staff, hank you for the opportunity to testify today. I am happy to answer any questions.

Appendix A: Excerpt from the Commission's 2011 "section 701" report (September 22, 2011)

CHAPTER I: EXECUTIVE SUMMARY

This marks the Postal Regulatory Commission's (Commission) first report under section 701 of the Postal Accountability and Enhancement Act (PAEA) of 2006. That section directs the Commission to submit a report to the President and Congress, at least every five years, regarding how well the PAEA is operating and to recommend measures to improve the effectiveness and efficiency of postal laws.

The Commission recognizes the difficult environment that the Postal Service faces in 2011 and how it is starkly different from the environment that existed in 2006. At the time of the passage of the PAEA, the Postal Service's volume was growing and it was earning revenues that exceeded costs. However, the postal sector and the financial condition of the Postal Service have dramatically changed since the passage of the PAEA.

This report does not propose sweeping structural changes to the Postal Service or its universal service obligation. Instead, in fulfillment of its responsibilities under PAEA section 701, the Commission makes recommendations for improvements to postal laws within the framework of the PAEA (701 Report). These recommendations will enhance the Postal Service's flexibility, and help it to meet the challenges of today's difficult financial environment.

The report focuses on three main areas that the Commission has been closely involved with in the implementation of the PAEA.

1) The report addresses the financial situation of the Postal Service with recommendations on retirement funding and discusses transparency issues with regard to Postal Service annual reporting, including Sarbanes-Oxley Act compliance.
2) The report discusses rate and service matters, including the price cap, market dominant classes of mail, nonpostal services, negotiated service agreements and special classifications, service performance measurement, and market tests.

3) The report addresses enhancements to improve the Commission's processes, including post office closing procedures and the advisory opinion process.

With respect to financial and transparency issues, the Commission makes the following key recommendation:

- The Commission recommends that Congress adjust the current Postal Service Retiree Health Benefit Fund (PSRHBF) payment schedule. To assist in determining how to make an appropriate adjustment, the Commission provides actuarially sound alternative payment options for Congress to consider in keeping with the spirit of the law while adjusting the scheduled annual prefunding payments in recognition of the current liquidity challenges facing the Postal Service. The Commission also recommends that Congress consider the PAEA section 802(c) report on the Postal Service's Civil Service Retirement System liability as a potential remedy for the PSRHBF issues.

With respect to rate and service matters, the Commission makes the following key recommendations:

- The Commission recommends that the PAEA be enhanced by explicitly allowing the Postal Service to add new market dominant classes of mail. This legislative enhancement will allow the Postal Service to adapt to the rapidly changing needs of mail users and the postal system.
- If Congress decides to allow the Postal Service to offer new nonpostal services, those services should have appropriate regulatory oversight and review. Proper regulatory review and oversight will ensure that the Postal Service offers profitable, new nonpostal services and does not disrupt the competitive marketplace.
- The Commission recommends that Congress consider amending the statute by raising the maximum revenue limitation on market tests of experimental products to encourage innovation on a larger scale.
- Congress should consider clarifying the law to ensure that consultations with the Commission are required for changes to service standards.
- While the Commission has not vetted this concept, Congress should consider providing an opportunity for the Postal Service to achieve increased pricing authority by increasing quality of service. This will provide the Postal Service with a financial incentive to improve service and increase revenues.

With respect to enhancements to improve the Commission's processes, the Commission makes the following key recommendations:

- The Commission recommends that Congress consider requiring the Postal Service to provide regular reports to the Commission on its retail network plans and activities. In recognition of the Postal Service's current plans to realign its retail network, regular reporting on the Postal Service's retail network's closure and consolidation efforts to Congress, the public, and the Commission will further the PAEA goals of transparency and accountability.
- The Commission recommends that the scope of appellate review from Postal Service determinations to close Postal Service operated retail facilities be clarified and adopt the plain meaning of post office to include all retail offices operated by the Postal Service.
- The Commission recommends that Congress consider adding statutory language that would allow the Postal Service to obtain expedited consideration for time sensitive requests for advisory opinions on proposals to change service on a nationwide or substantially nationwide basis. Additionally, Congress should consider adding language to 39 U.S.C. 3661 requiring the Postal Service to provide a written response to Commission advisory opinions and submit its response to Congress prior to implementing such changes in service.

Chairman CHAFFETZ. Thank you, Mr. Taub.

I would now recognize Ms. Rectanus of the GAO. Did I pronounce your name properly?

Ms. RECTANUS. Yes ——

Chairman CHAFFETZ. Okay.

Ms. RECTANUS.—you did. Thank you.

Chairman CHAFFETZ. Thank you.

STATEMENT OF LORI RECTANUS

Ms. RECTANUS. Good morning. Chairman Chaffetz, Ranking Member Cummings, and members of the committee, I'm pleased to be here today to discuss the Postal Service's financial challenges.

The Postal Service is a critical part of the Nation's communications system, but its financial situation is dire. We placed the Postal Service on our high-risk list in 2009 where it remains today.

Today, I will discuss the factors affecting the Postal Service's deteriorating financial condition, the status of unfunded liabilities, and choices Congress faces to address these financial challenges.

The Postal Service's financial struggles are well-documented. Beginning in 2007, expenses began consistently outgrowing revenues, and it has lost over $56 billion since then. This situation is primarily caused by decline in mail volume, particularly in profitable first-class mail commensurate with an increase in expenses, largely because of salary increases. Increases in compensation and benefits alone will add over $1 billion in additional cost in fiscal year 2016. The gap between revenue and costs continues despite the significant efficiency initiatives undertaken by the Postal Service.

Regarding unfunded liabilities and costs, they are a large and growing burden on the Postal Service. At the end of fiscal year 2015, the Postal Service had about $125 billion in unfunded liabilities and outstanding debt, which accounted for 182 percent of its revenues. Retiree health benefits account for $55 billion of the unfunded liability due in part because the Postal Service stopped making required payments in 2011 and is not expected to make the required 2016 payment.

Given this history and future events, it is not likely that the Postal Service will be able to make its required retiree health and pension payments in the near future. Beginning in fiscal year 2017, the Postal Service will be required to start making annual payments for health benefits on top of annual pension payments. Using available data, we determined these payments could total about $11 billion. Although this is less than what was required in fiscal year 2015, it is about $4.6 billion more than what the Postal Service paid that year. And the expiration of the temporary rate surcharge and the lack of major cost-savings initiatives will further stress the Postal Service's ability to make these payments.

Having large unfunded liabilities for postal retiree health and pension benefits places taxpayers, employees, retirees, and the Postal Service itself at risk. If the Postal Service does not adequately fund these benefits and Congress wanted these benefits to continue, the Treasury, and hence the taxpayer, may need to step in. Alternatively, unfunded benefits could lead to pressure for reductions in benefits or pay. For the Postal Service, unfunded benefits endanger its future viability by saddling it with bills later after employees have already retired.

Postal Service actions alone under its existing authority are insufficient to achieve financial solvency. Comprehensive legislation is needed. In doing this, Congress faces several difficult decisions and tradeoffs in key areas. First, what is the level of postal services needed in the 21st century, and what are we willing to pay for those services? Given how communication is changing, Congress could consider what postal services should be provided on a universal basis and the best way to provide those services.

Second, what is the appropriate level of compensation and benefits that should be paid in an environment of revenue pressures? Congress could consider revising the statutory framework for collective bargaining to ensure that the Postal Service's financial condition is considered in binding arbitration.

And third, what is the continued viability of the Postal Service's dual role of providing affordable universal service while remaining self-sufficient? In assessing any alternatives to the current structure, Congress should consider costs that might be transferred from the Postal Service, which is financed by ratepayers, to the Federal Government, which is funded by taxpayers.

In conclusion, we must take a hard look at what level of postal services we need in the future and what we can afford. The status quo is not sustainable.

This concludes my prepared statement. Chairman Chaffetz, Ranking Member Cummings, and members of the committee, I would be pleased to answer any questions you have.

[Prepared statement of Ms. Rectanus follows:]

United States Government Accountability Office

GAO

Testimony
Before the Committee on Oversight and Government Reform, House of Representatives

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U.S. POSTAL SERVICE

Continuing Financial Challenges and the Need for Postal Reform

Statement of Lori Rectanus, Director, Physical Infrastructure Issues

GAO-16-651T

GAO Highlights

Highlights of GAO-16-651T, a testimony before the Committee on Oversight and Government Reform, House of Representatives

Why GAO Did This Study

USPS is a critical part of the nation's communication and commerce, delivering 154 billion pieces of mail in fiscal year 2015 to 155 million delivery points. However, USPS's mission of providing prompt, reliable and efficient universal services to the public at risk due to its poor financial condition. USPS's net loss was $5.1 billion in fiscal year 2015, its ninth consecutive year of net losses. At the end of fiscal year 2015, USPS had $125 billion in unfunded liabilities, mostly for retiree health and pensions, and debt—an amount equal to 182 percent of USPS's revenues.

In July 2009, GAO added USPS's financial condition to its list of high-risk areas needing attention by Congress and the executive branch. USPS's financial condition remains on GAO's high-risk list. In previous reports, GAO has included strategies and options for USPS to generate revenue, reduce costs, increase the efficiency of its delivery operations, and restructure the funding of USPS pension and retiree health benefits. GAO has also previously reported that Congress and USPS need to reach agreement on a comprehensive package of actions to improve USPS's financial viability.

This testimony discusses (1) factors affecting USPS's deteriorating financial condition, (2) USPS's ability to make required retiree health and pension payments, and (3) choices Congress faces to address USPS's financial challenges. This testimony is based primarily on GAO's work over the past 5 years that examined USPS's financial condition—including its liabilities—and updated USPS financial information for fiscal year 2015 and 2016.

View GAO-16-651T. For more information, contact Lori Rectanus at (202) 512-2834 or rectanusl@gao.gov.

May 11, 2016

U.S. POSTAL SERVICE

Continuing Financial Challenges and the Need for Postal Reform

What GAO Found

The U.S. Postal Service's (USPS) financial condition continues to deteriorate as a result of trends including:

- *Declining mail volume:* First-Class Mail—USPS's most profitable product—continues to decline in volume as communications and payments migrate to electronic alternatives. USPS expects this decline to continue for the foreseeable future.

- *Growing expenses:* Key USPS expenses continue to grow, such as salary increases and work hours due in part to growth in shipping and packages, which are more labor-intensive. Compensation and benefits comprise close to 80 percent of USPS's expenses.

USPS's financial condition makes it unlikely it will be able to fully make its required retiree health and pension payments in the near future. In fiscal year 2015, while USPS was required to make $12.6 billion in retiree health and pension payments, it made $6.7 billion in payments mainly due to not making a required retiree health payment of $5.7 billion. USPS's required payments will be restructured in fiscal year 2017, with estimated payments totaling $11.3 billion—$4.6 billion more than what USPS paid in fiscal year 2015. USPS's ability to make these required payments will be further challenged due to:

- *Expiration of a temporary rate surcharge:* This surcharge on most postal rates effective January 2014, which had generated $4.6 billion in additional revenues, expired April 2016.

- *No new major cost savings initiatives planned.*

Large unfunded liabilities for postal retiree health and pension benefits—which were $78.9 billion at the end of fiscal year 2015—may ultimately place taxpayers, USPS employees, retirees, and their beneficiaries, and USPS itself at risk. As we have previously reported, funded benefits protect the future viability of an enterprise such as USPS by not saddling it with bills after employees have retired. Further, since USPS retirees participate in the same health and pension benefit programs as other federal retirees, if USPS ultimately does not adequately fund these benefits, and if Congress wants these benefits to be maintained at current levels, funding from the U.S. Treasury, and hence the taxpayer, would be needed to continue the benefit levels. Alternatively, unfunded benefits could lead to pressure for reductions in benefits or in pay.

Congress faces difficult choices and tradeoffs to address USPS's financial challenges. The status quo is not sustainable. Considerations for Congress include the (1) level of postal services provided to the public and the affordability of those services, (2) compensation and benefits for USPS employees and retirees in an environment of revenue pressures, and (3) tension between USPS's dual roles as an independent establishment of the executive branch required to provide universal delivery service and as a self-financing entity operating in a business like manner.

Chairman Chaffetz, Ranking Member Cummings, and Members of the Committee:

I appreciate the opportunity to be here today to discuss the varied challenges facing the U.S. Postal Service (USPS) and options for the Congress to address USPS's financial challenges. USPS is a critical part of the nation's communication and commerce, delivering 154 billion pieces of mail in fiscal year 2015 to about 155 million delivery points, and with more than 620,000 employees. USPS, however, faces a serious financial situation and does not have sufficient revenues to cover its expenses, putting its mission of providing prompt, reliable, and efficient universal services to the public at risk.[1] USPS continues to incur deficits that are unsustainable. Moreover, at the end of fiscal year 2015, USPS had about $125 billion in unfunded liabilities and debt, most of which were for retiree health and pension benefits. USPS continued to have $15 billion in outstanding debt—the statutory limit. These unfunded liabilities and debt are a large and growing financial burden, increasing from 99 percent of USPS revenues in fiscal year 2007 to 182 percent of revenues in fiscal year 2015. Unfunded benefit liabilities are the estimated amount USPS has not sufficiently set aside to cover the benefits earned by its current and retired employees that are attributable to service already rendered. USPS also recorded a net loss of $5.1 billion in fiscal year 2015—its ninth consecutive year of net losses. In July 2009, we added USPS's financial condition to our list of high-risk areas needing attention by Congress and the executive branch; USPS's financial condition continues to deteriorate and remains on our high-risk list.[2] As our high-risk report stated, we have previously included strategies and options for USPS to generate revenue, reduce costs, increase the efficiency of its delivery operations, and restructure the funding of USPS pension and retiree health benefits. We maintain that Congress and USPS need to reach agreement on a comprehensive package of actions to improve USPS's financial viability.

This testimony discusses (1) factors affecting USPS's continuing deteriorating financial condition, (2) USPS's ability to make required retiree health and pension payments, and (3) choices Congress faces to address USPS's financial challenges. This testimony is based primarily

[1]39 U.S.C. § 101(a).

[2]GAO, *High-Risk Services: An Update*, GAO-15-290 (Washington, D.C.: Feb. 2015).

on reports and testimonies we issued in the past 5 years and that examined USPS's financial condition, including its liabilities.[3] The reports and testimonies cited in this statement contain detailed information on the methods used to conduct our work. For this testimony, we updated USPS financial information with results from fiscal year 2015, which ended September 30, 2015. In addition, we used testimony and reports prepared by USPS[4] and the Postal Regulatory Commission in 2016.[5] We also used estimates, prepared by USPS and the Congressional Budget Office, of retiree health and pension payments that USPS would be legally required to make in fiscal year 2017. We found these estimates to be sufficiently reliable for providing a general description and estimate for the large, pending payments USPS faces. The work upon which this testimony is based was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[3]GAO, *U.S. Postal Service: Financial Challenges Continue,* GAO-16-268T (Washington, D.C.: Jan. 21, 2016); *U.S. Postal Service: Action Needed to Address Unfunded Benefit Liabilities,* GAO-14-398T (Washington, D.C.: Mar. 13, 2014); *U.S. Postal Service: Health and Pension Benefits Proposals Involve Trade-offs,* GAO-13-872T (Washington, D.C.: Sept. 26, 2013); *U.S. Postal Service: Proposed Health Plan Could Improve Financial Condition, but Impact on Medicare and Other Issues Should be Weighed before Approval,* GAO-13-658 (Washington, D.C.: July 18, 2013); *U.S. Postal Service: Status, Financial Outlook, and Alternative Approaches to Fund Retiree Health Benefits,* GAO-13-112 (Washington, D.C.: Dec. 4, 2012); *Federal Employees' Compensation Act: Analysis of Proposed Program Changes,* GAO-13-108 (Washington, D.C.: Oct. 26, 2012); *U.S. Postal Service: Allocation of Responsibility for Pension Benefits between the Postal Service and the Federal Government,* GAO-12-146 (Washington, D.C.: Oct. 13, 2011); and *U.S. Postal Service: Strategies and Options to Facilitate Progress toward Financial Viability,* GAO-10-455 (Washington, D.C.: Apr. 12, 2010).

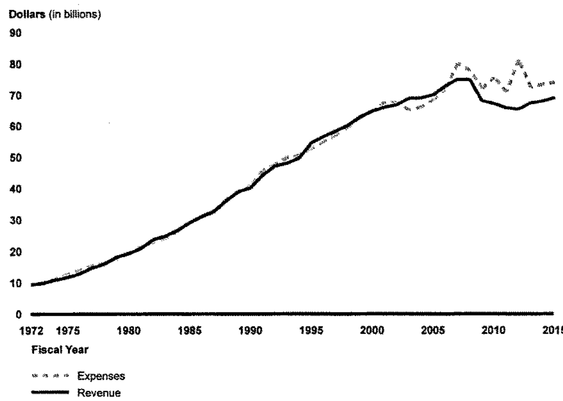
[4]USPS, *Statement of Megan J. Brennan, Postmaster General and Chief Executive Officer, United States Postal Service, Before the Senate Homeland Security and Governmental Affairs Committee* (Washington, D.C., Jan. 21, 2016).

[5]PRC, *Annual Compliance Determination Report: Fiscal Year 2015* (Washington, D.C.: Mar. 28, 2016).

Declining Mail Volume and Growing Expenses Contribute to USPS's Deteriorating Financial Condition

After about 30 years of relatively steady growth, USPS's expenses began consistently exceeding revenues in fiscal year 2007 (see fig. 1). As a result, USPS has lost a total of $56.8 billion since fiscal year 2007.

Figure 1: USPS Revenue and Expenses, Fiscal Years 1972-2015



Source: GAO-16-268T. | GAO-16-651T

The continued deterioration in USPS's financial condition is due primarily to two factors.

1. *Declining mail volumes:* USPS continues to face decreases in mail volume, its primary revenue source, as online communication and e-commerce expand. While remaining USPS's most profitable product, First-Class Mail volume in particular has significantly declined in recent years. For example, while total mail volume declined 27 percent from its peak in fiscal year 2006 (including a 1 percent decline in fiscal year 2015), First-Class Mail volume has declined to a greater extent—40 percent since its peak in fiscal year 2001 (with a 2 percent decline in fiscal year 2015).

USPS reported that the most significant factor contributing to the decline in First-Class Mail volume is the continued migration toward electronic communication and transaction alternatives—a migration USPS expects to continue for the foreseeable future. USPS added that the decline in First-Class Mail was exacerbated by the Great Recession that the National Bureau of Economic Research reported as lasting from December 2007 to June 2009. In the long run, USPS faces the risk of increasing diversion of mail to electronic alternatives and the possibility of future economic downturns that could negatively affect mail volumes. USPS has reported that although increased shipping and package volume has offset some of the declines in mail volume, this volume has a smaller profit margin than First-Class Mail.[6] USPS will need to be efficient in its processing and delivery of packages to capitalize on growth in that market.

2. *Growing Expenses:* While mail volume has declined, USPS's operating expenses have been rising. USPS reported that its key operating expenses grew in fiscal year 2015—notably salary increases for unionized employees, as well as additional work hours, in part due to a 14.1 percent growth in shipping and packages, which are more labor intensive to process. Despite efficiency initiatives such as consolidation of 36 mail-processing facilities in 2015,[7] total employee work hours increased, and the size of USPS's career workforce increased slightly in fiscal year 2015—the first increase in the size of the career workforce since fiscal year 1999. Compensation and benefits comprise close to 80 percent of total USPS expenses. Thus, expenses will further grow if increases in salaries and work hours continue. According to USPS, increases in compensation and benefits costs (primarily from increased wages) will add $1.1 billion in costs in fiscal year 2016.

[6]USPS said it must earn about $2.50 in Shipping and Packages revenue to replace the profitability lost from each $1 of First-Class Mail revenue because the costs of transporting and delivering packages are significantly higher than letters.

[7]Of the 36 mail-processing facilities consolidated in fiscal year 2015, USPS fully consolidated 15 of these facilities and partially consolidated 21 facilities.

As previously discussed, USPS's unfunded liabilities and debt have become a large and growing financial burden, increasing from 99 percent of USPS revenues at the end of fiscal year 2007 to 182 percent of revenues at the end of fiscal year 2015 (see table 2 in app. I for more detail). At the end of fiscal year 2015, USPS's $125 billion in unfunded liabilities and outstanding debt represented a $7.4 billion increase from the previous year.

In addition, reduced mail volumes and growing expenses have contributed to USPS's inability to fully meet its requirement to prefund retiree health benefits. The Postal Accountability and Enhancement Act (PAEA) established the Postal Service Retiree Health Benefits Fund and required USPS to begin prefunding health benefits for its current and future postal retirees, with annual payments of $5.4 billion to $5.8 billion from fiscal years 2007 through 2016, followed by actuarially determined prefunding payments beginning in 2017 and every year thereafter.[8] As of the end of fiscal year 2015, USPS's liability for retiree health benefits was about $105.2 billion and the Postal Service Retiree Health Benefits Fund balance was $50.3 billion, with a resulting unfunded liability of $54.8 billion. USPS has missed a total of $28.1 billion in required prefunding payments, which represent about half of USPS's total losses since fiscal year 2007.[9] Even without the annual prefunding requirement, however, USPS would have still lost $10.8 billion during this time period. USPS has stated that it expects to miss its required prefunding payment of $5.8 billion due at the end of fiscal year 2016.

[8]Pub. L. 109-435, § 803, 120 Stat. 3198 (Dec. 20, 2006), codified at 5 U.S.C. § 8909a. Under the prefunding mechanism established by PAEA, as implemented by the Office of Personnel Management (OPM), USPS payments to OPM would be projected to fund the liability over a period in excess of 50 years, from fiscal years 2007 through 2056 and beyond (with rolling 15-year amortization periods after 2041). PAEA established "fixed" prepayment amounts—meaning that the amounts were set by statute and did not vary with actuarial measurements of the cost of the benefits—in the first 10 years, from fiscal years 2007 through 2016, with actuarially determined payments thereafter. However, the payments required by PAEA were significantly "frontloaded," with the fixed payment amounts in the first 10 years exceeding what actuarially determined amounts would have been using a 50-year amortization schedule. For more detail, see GAO-13-112.

[9]For financial reporting purposes, missed prefunding payments are treated as USPS expenses and reported as a liability on its balance sheet.

USPS Will Remain Unlikely to Fully Make Required Retiree Health and Pension Payments

USPS will remain unlikely to fully make its required retiree health and pension payments in the near future. Beginning in fiscal year 2017, USPS's payments will be restructured as it will no longer be required to make fixed prefunding payments, but will be required to start making annual payments based on actuarial determinations of the following component costs:

- a 40-year amortization schedule to address the unfunded liabilities for postal retiree health benefits,
- the "normal costs" of retiree health benefits for current employees,[10] and
- a 27-year amortization schedule to address the unfunded liabilities for postal pension benefits under the Civil Service Retirement System (CSRS) (see table 2 in app. I for more detail).

These payments are in addition to annual payments USPS is already required to make to finance its pension benefits under the Federal Employees Retirement System (FERS), which consists of a 30-year amortization schedule to address any unfunded liabilities, and the normal costs of FERS benefits for current employees. USPS will find it very difficult to make all of these required payments given its financial condition and outlook. As table 1 below shows, in fiscal year 2017, USPS will be required to make an estimated total of $11.3 billion in payments for retiree health and pension benefits under CSRS and FERS—about $4.6 billion more than what USPS paid in fiscal year 2015 for these benefit programs.

[10]The "normal cost" is the annual expected growth in liability attributable to an additional year of employees' service.

Table 1: U.S. Postal Service (USPS) Payments for Retiree Health and Pensions, Fiscal Years 2015 and 2017 (Dollars in Billions)

USPS payment	Fiscal year 2015 - Required	Fiscal year 2015 - paid	Fiscal year 2017 - required (estimate)
Retiree health benefits			
Health premiums	$3.1	$3.1	Not applicable
Fixed prefunding	$5.7	$0	Not applicable
Normal cost	Not applicable	Not applicable	$2.5
Amortization	Not applicable	Not applicable	$3.5
Pension benefits			
Civil Service Retirement System (CSRS)			
Amortization	Not applicable	Not applicable	$1.6
Federal Employees Retirement System (FERS)			
Normal cost	$3.6	$3.6	$3.5
Amortization	$0.2	$0	$0.2
Total	**$12.6**	**$6.7**	**$11.3**

Source: The U.S. Postal Service (USPS) and the Congressional Budget Office (CBO). | GAO-16-268T | GAO-16-651T

Note: USPS's required payments in fiscal year 2016 include a statutory required payment of $5.8 billion to prefund retiree health benefits. Other USPS required payments for fiscal year 2016 are expected to be similar to those required in fiscal year 2015 and are therefore not shown above. Fiscal year 2015 required and paid data are from USPS. To develop USPS's required estimated payments that begin in fiscal year 2017, we used publicly reported data to the extent possible, which were drawn from a July 2014 CBO report that estimated USPS's required retiree health and CSRS payments under current law. The July 2014 report, however, did not include an estimate for USPS's fiscal year 2017 FERS payment. We subsequently requested and obtained this estimate from USPS. In addition, USPS has not made its fiscal year 2015 FERS amortization payment of $241 million and has a pending request that OPM reconsider this amount.

In addition to declining mail volumes and increased expenses, USPS's ability to make its required payments for these retirement programs will be further challenged due to:

- *Expiration of a temporary rate surcharge:* USPS has reported that additional revenue generated by a 4.3 percent "exigent" surcharge[11]

[11] In December 2013, the Postal Regulatory Commission (PRC) approved USPS's request for an "exigent surcharge" which allowed USPS to raise postal rates for most mail above the statutory price cap that is generally limited to the rate of inflation, except under extraordinary or exceptional circumstances that necessitate a larger rate increase. In July 2015, PRC ruled that USPS could continue the surcharge until it collects $4.6 billion in incremental revenue, which represents USPS's approximate loss due to the suppression of mail experienced during the Great Recession.

that began in January 2014 generated $4.6 billion in additional revenue, including $1.1 billion in fiscal year 2016, $2.1 billion in fiscal year 2015, and $1.4 billion in fiscal year 2014. However, this surcharge was discontinued April 10, 2016, resulting in the reduction of many postal rates, including the rate for a First-Class Mail stamp that was reduced from 49 to 47 cents. USPS has reported that the expiration of the exigent surcharge will have an adverse impact on its future operating revenue and liquidity, and that its actions to increase efficiency, reduce costs, and generate additional revenue may be insufficient to meet all of its financial obligations or to carry out its strategy.

- *No new major cost-savings initiatives planned.* USPS has no current plans to initiate new major initiatives to achieve cost savings in its operations. USPS has reported that it will continue to implement operational initiatives to contain costs, but such actions will not be enough to stave off future losses and stabilize its finances.

USPS has reported that without structural and other changes to its business model, absent legislative change,[12] it expects continuing losses and liquidity challenges for the foreseeable future. According to USPS, it has maintained adequate liquidity in order to continue achieving its primary mission of providing universal postal services only by not making required payments to prefund retiree health benefits, and by deferring needed capital investments.

Large unfunded liabilities for postal retiree health and pension benefits—which were $78.9 billion at the end of fiscal year 2015—may ultimately place taxpayers, USPS employees, retirees and their beneficiaries, and USPS itself at risk. As we have previously reported, funded benefits protect the future viability of an enterprise such as USPS by not saddling it with bills after employees have retired.[13] Further, since USPS retirees participate in the same health and pension benefit programs as other federal retirees, if USPS ultimately does not adequately fund these benefits and if Congress wants these benefits to be maintained at current

[12]For example, USPS has proposed requiring postal retirees to participate in Medicare when they become eligible. This proposal would reduce USPS's expenses—and unfunded liability—for retiree health benefits because Medicare would become the primary insurer for all postal retirees.

[13]GAO-13-112.

levels, funding from the U.S. Treasury, and hence the taxpayer, would be needed to continue the benefit levels. According to USPS, "Absent fundamental legislative reform, we face the prospect of having to continue to default on these prefunding payments [for retiree health benefits] in order to continue paying our employees and suppliers and to provide postal services to the American public. This increases the risk that taxpayers may ultimately be called on to fund these benefits."[14] Alternatively, unfunded benefits could lead to pressure for reductions in benefits or in pay. Thus, the timely funding of benefits protects USPS employees, retirees, beneficiaries, taxpayers, and the USPS enterprise.

Congress Faces Difficult Choices to Address USPS's Financial Condition

USPS's financial situation leaves Congress with difficult choices and trade-offs to achieve the broad-based restructuring that will be necessary for USPS to become financially sustainable. USPS's ability to make its required retiree health and pension payments requires a decrease in expenses or increase in revenues, or both. As we have previously reported, USPS's actions alone under its existing authority will be insufficient to achieve sustainable financial viability; comprehensive legislation will be needed.[15] Congressional decisions about how to address the following issues will shape USPS's future role, services, operations, networks, and ability to adapt to changes in mail volume. In making these decisions, Congress could consider, among other things, the following factors.

- *The level of postal services and the affordability of those services:* USPS's growing financial difficulties combined with vast changes in how people communicate provide Congress with an opportunity to consider what postal services will be needed in the 21st century. Specifically, Congress could consider what postal services should be provided on a universal basis to meet customer needs and how these services should be provided. Congress also could consider trade-offs in reducing the level of postal services, such as providing USPS with the authority to reduce the frequency of letter mail delivery, to enable

[14]USPS, *Statement of Megan J. Brennan, Postmaster General and Chief Executive Officer, United States Postal Service, Before the Senate Homeland Security and Governmental Affairs Committee* (Washington, D.C., Jan. 21, 2016).

[15]GAO-15-290.

USPS to reduce its expenses. A key factor in any consideration to reduce postal services would include potential effects on postal customers, mail volumes, and employees. In particular, Congress could consider the quality of postal service—such as the frequency and speed of mail delivery and the accessibility and scope of retail postal services—in considering any service reduction. In January 2015, for example, USPS revised its standards for on-time mail delivery by increasing the number of days for some mail to be delivered and still be considered on time. However, under the revised delivery standards, the percentage of mail delivered on time declined for many types of mail, such as First-Class Mail and Periodicals. USPS attributed declines in delivery performance to operational changes it implemented in January 2015 coupled with adverse winter weather. In its March 2016 Annual Compliance Determination report, PRC expressed strong concern with declines in delivery performance, particularly for single-piece First-Class Mail letters and postcards with a 3-5 day delivery standard, and directed USPS to improve delivery performance for First-Class Mail letters and postcards in fiscal year 2016.[16]

- *Compensation and benefits in an environment of revenue pressures:* Key compensation and benefits costs have increased and continue to increase for USPS employees, while demand for USPS's main revenue source, mail and First-Class Mail in particular, has declined and continues to decline. Further, the exigent rate increase mentioned above expired on April 10, 2016. To put USPS's situation into context, many private sector companies (such as automobile companies, airlines, mail preparation and printing companies, and major newspapers) took far-reaching measures to cut costs (such as reducing or stabilizing workforce, salaries, and benefits) when the demand of their central product and services declined. However, although USPS also has taken a range of cost-cutting measures, USPS has stated that its strategies to increase efficiency and reduce costs by adjusting its network, infrastructure, and workforce and to retain and grow revenue are currently constrained by statutory, contractual, regulatory, and political restrictions. For example, USPS does not administer its employees' pension, health, and workers' compensation benefits programs, and postal rates are regulated by

[16]PRC, *Annual Compliance Determination Report: Fiscal Year 2015* (Washington, D.C.: Mar. 28, 2016).

the Postal Regulatory Commission, with rate increases for most mail limited by an inflation-based price cap. Most USPS employees are covered by collective bargaining agreements with four major labor unions which have established salary increases, cost-of-living adjustments, and the share of health insurance premiums paid by employees and USPS. When USPS and its unions are unable to agree, the parties are required to enter into binding arbitration by a third-party panel. There is no statutory requirement for USPS's financial condition to be considered in arbitration. Considering USPS's poor and deteriorating financial condition and the competitive environment, we continue to believe—as we reported in 2010[17]—that Congress should consider revising the statutory framework for collective bargaining to ensure that USPS's financial condition be considered in binding arbitration.

- *USPS's dual role of providing affordable universal service while remaining self-financing:* As an independent establishment of the executive branch, USPS has long been expected to provide affordable, quality, and universal delivery service to all parts of the country while remaining self-financing. USPS and other stakeholders have considered a range of different business models to address USPS's financial difficulties. For example, USPS's 2002 Transformation Plan included a range of alternatives from a publicly-supported model to a business model with a corporate structure supported by shareholders. An alternative business model, if any, would need to address the level of any costs that would be transferred from USPS, which is financed by postal ratepayers, to the federal government, which is funded by taxpayers. In addition, if Congress requires eligible postal retirees to participate in Medicare, as USPS has previously proposed, it should consider the tradeoffs for the federal budget deficit and Medicare's financial condition, as well as the implications for affected employees.[18]

Finally, a fully functioning USPS Board of Governors is needed to support USPS's ability to carry out its critical responsibilities. USPS's 11-seat Board of Governors is required by law to have a quorum of six members in order to take certain actions. Because two Governors left the Board in December 2015 due to term limits, the Board currently consists of only

[17]GAO-10-455.

[18]GAO-13-658.

one Governor (who will not be able to serve past December 2016), the Postmaster General, and the Deputy Postmaster General. Certain powers are reserved to the Governors. USPS has reported that although the inability of the Board to constitute a quorum does not inhibit or affect the authority of the Governors in office from exercising those powers, it is not apparent how those powers could be exercised if there were no Governors. According to USPS, the critical responsibilities reserved to the Governors are setting postal prices, approving new products, and appointing or removing the Postmaster General and the Deputy Postmaster General. USPS has stated that in the event no Governors are in place, these critical duties may not be able to be executed, potentially leaving USPS without the ability to adjust its prices as needed, introduce new products, or appoint or replace its two most senior executive officers.

In conclusion, USPS management, unions, the public, community leaders, and Members of Congress need to take a hard look at what level of postal services residents and businesses need and can afford. The status quo is not sustainable.

Chairman Chaffetz, Ranking Member Cummings, and Members of the Committee, this concludes my prepared statement. I would be pleased to answer any questions that you may have at this time.

GAO Contact and Key Acknowledgments

For further information about this statement, please contact Lori Rectanus, Director, Physical Infrastructure Issues, at (202) 512-2834 or rectanusl@gao.gov. Contact points for our Congressional Relations and Public Affairs offices may be found on the last page of this statement. In addition to the contact named above, Frank Todisco, Chief Actuary, FSA, MAAA, EA, Applied Research and Methods; Samer Abbas; Kenneth John; Malika Rice; and Crystal Wesco made important contributions to this statement. Mr. Todisco meets the qualification standards of the American Academy of Actuaries to render the actuarial opinions contained in this testimony.

Appendix I: U.S. Postal Service (USPS) Financial Obligations and Related Information

Table 2: Selected USPS Liabilities and Outstanding Debt (Dollars in Billions)

	Selected USPS liabilities (Included on USPS balance sheet)			Funded Status of Retiree Health and Pension Funds (Not fully included in USPS Balance Sheet)			Totals			
Fiscal year	Outstanding debt	Workers' compensation liabilities	Other liabilities	Funded status for retiree health benefits (unfunded)	Funded status for CSRS (unfunded)	Funded status for FERS (unfunded)	**Total USPS balance sheet assets**	**Total USPS liabilities, debt, and unfunded obligations**	**Total USPS revenue**	Unfunded obligations, liabilities, and debt as percentage of revenue
2007	(4.2)	(7.8)	(12.7)	(55.0)	(3.1)	8.4	**25.8**	**(74.3)**	**75.0**	99%
2008	(7.2)	(8.0)	(12.5)	(53.5)	(9.0)	6.5	**26.0**	**(83.7)**	**75.0**	112%
2009	(10.2)	(10.1)	(13.2)	(52.0)	(7.3)	6.9	**28.1**	**(85.9)**	**68.1**	126%
2010	(12.0)	(12.6)	(13.6)	(48.6)	1.6	10.9	**24.3**	**(74.3)**	**67.1**	111%
2011	(13.0)	(15.1)	(14.2)	(46.2)	(17.8)	2.6	**23.4**	**(103.7)**	**65.7**	158%
2012	(15.0)	(17.6)	(13.7)	(47.8)	(18.8)	0.9	**22.6**	**(112.1)**	**65.2**	172%
2013	(15.0)	(17.2)	(12.5)	(48.3)	(17.8)	(0.1)	**21.6**	**(110.9)**	**67.3**	165%
2014	(15.0)	(18.4)	(12.5)	(48.9)	(19.4)	(3.6)	**23.0**	**(117.8)**	**67.9**	174%
2015	(15.0)	(18.8)	(12.5)	(54.8)	(20.4)	(3.7)	**24.0**	**(125.2)**	**69.0**	182%

Source: U.S. Postal Service (USPS) Form 10-K Statements. | GAO-16-268T | GAO-16-651T

Note: This table provides data on selected USPS liabilities and outstanding debt at the end of each fiscal year as reported by USPS and the Office of Personnel Management (OPM). Key terms include the following:

Selected USPS liabilities include outstanding debt and workers' compensation liabilities, and other miscellaneous liabilities on USPS's balance sheet such as deferred revenue-prepaid postage, payables and accrued expenses, compensation and benefits liabilities (e.g., wages that have been earned but not yet paid as of the end of the fiscal year), and the value of employees' accumulated leave. Not included is the current liability for the statutory Postal Service Retiree Health Benefits Fund (PSRHBF) payments not yet paid by USPS, which is a component of the unfunded liability for retiree health benefits, and is also highlighted in Table 4 in the "Subtotal" line for the column labeled "Missed/future USPS prefunding payments."

Outstanding debt is total USPS short-term and long-term debt.

USPS liabilities for workers' compensation are the actuarial present value of future workers' compensation payments that USPS is estimated to have to make for injuries that have already occurred.

Unfunded actuarial liabilities for retiree health benefits are OPM estimates as of the end of each fiscal year. The unfunded liabilities are the excess of liabilities over funded assets. The liabilities represent the actuarial present value of the cost of the portion of future retiree health premiums for which USPS is responsible and that are attributable to past service; these liabilities reflect all such projected future costs for current retirees and beneficiaries and a portion of such projected future costs for current workers. The portion ($28.1 billion) of the 2015 $54.8 billion unfunded liability that is attributable to the missed prefunding payments is reflected as such on USPS's balance sheet; the remainder ($26.7 billion) of the $54.8 billion unfunded liability is not on USPS's balance sheet.

Unfunded Civil Service Retirement System (CSRS) and Federal Employee Retirement System (FERS) actuarial liabilities are OPM estimates as of the end of each fiscal year. The unfunded liabilities are the excess of liabilities over funded assets. The liabilities represent the actuarial present value of the cost of future retiree pension benefits for which USPS is responsible and that are attributed to past service; these liabilities reflect all such projected future costs for current retirees and beneficiaries and a portion of such projected future costs (in excess of worker contributions) for current workers.

Unfunded obligations, liabilities, and debt are the sum of the unfunded actuarial liabilities (obligations), USPS liabilities, and debt shown in this table.

Total USPS revenue consists of total USPS operating revenue plus interest and investment income for each fiscal year.

Total assets consist of current assets including cash and noncurrent assets largely comprising property and equipment measured at historic purchase value after depreciation. This does not include assets funding the retiree health and pension benefits.

Table 3: Funded Status of USPS Pension Obligations (Dollars in Billions)

	CSRS Funded Status			FERS Funded Status			Total USPS Pension Funded Status		
Fiscal year	CSRS assets	CSRS actuarial liabilities	Net CSRS funded Status (unfunded)	FERS assets	FERS actuarial liabilities	Net FERS funded status (unfunded)	Pension assets	Pension actuarial liabilities	**Total pension funded status (unfunded)**
2007	193.8	196.9	(3.1)	63.5	55.1	8.4	257.3	252.0	**5.3**
2008	195.1	204.1	(9.0)	69.3	62.8	6.5	264.4	266.9	**(2.5)**
2009	195.3	202.6	(7.3)	75.2	68.3	6.9	270.5	270.9	**(0.4)**
2010	194.6	193.0	1.6	80.8	69.9	10.9	275.4	262.9	**12.5**
2011	193.0	210.8	(17.8)	86.6	84.0	2.6	279.6	294.8	**(15.2)**
2012	190.7	209.5	(18.8)	91.7	90.8	0.9	282.4	300.3	**(17.9)**
2013	186.6	204.4	(17.8)	96.5	96.6	(0.1)	283.1	301.0	**(17.9)**
2014	182.1	201.5	(19.4)	100.9	104.5	(3.6)	283.0	306.0	**(23.0)**
Projected 2015	179.2	199.6	(20.4)	107.6	111.3	(3.7)	286.8	310.9	**(24.1)**

Source: U.S. Postal Service (USPS) Form 10-K Statements. | GAO-16-268T | GAO-16-651T

Note: This table provides the Office of Personnel Management's (OPM) estimation of the funded status of the Civil Service Retirement System (CSRS) and Federal Employee Retirement System (FERS) programs for USPS, as of the end of each fiscal year. Data are actual amounts for fiscal years 2007-2014 and projected amounts for fiscal year 2015. Key terms include the following:

Assets include securities of the Civil Service Retirement and Disability Fund (CSRDF). Although CSRDF is a single fund and does not maintain separate accounts for individual agencies, Pub. L. 109-435 requires the asset disclosures shown in this table as if the funds were separate.

Actuarial Liabilities are actual amounts for fiscal years 2007-2014 and projected amounts for fiscal year 2015, as of the end of each fiscal year. These data are prepared by OPM and represent the actuarial present value of the cost of future retiree pension benefits for which USPS is responsible and that are attributed to past service; these liabilities reflect all such projected future costs for current retirees and beneficiaries and a portion of such projected future costs for current workers.

Net funded status equals assets minus liabilities.

Table 4: USPS Retiree Health Benefits Funded Status (Dollars in Billions)

Fiscal year	Beginning of year assets	One-time transfer from CSRS pension fund	One-time transfer from USPS escrow	USPS prefunding payment	Interest earned	End of year assets	End of year actuarial liabilities	End of year net funded status (unfunded)	Missed/future USPS prefunding payments
2007	0.0	17.1	3.0	5.4	0.3	25.7			0.0
2008	25.7			5.6	1.3	32.6	86.1	(53.5)	0.0
2009	32.6			1.4	1.5	35.5	87.5	(52.0)	0.0
2010	35.5			5.5	1.5	42.5	91.1	(48.6)	0.0
2011	42.5			0.0	1.6	44.1	90.3	(46.2)	0.0
2012	44.1			0.0	1.6	45.7	93.6	(47.9)	11.1
2013	45.7			0.0	1.6	47.3	95.6	(48.3)	5.6
2014	47.3			0.0	1.5	48.9	97.7	(48.9)	5.7
2015	48.9			0.0	1.5	50.3	105.2	(54.8)	5.7
Subtotal				17.9	12.4				28.1
2016	NA			N/A	N/A	N/A	N/A	N/A	5.8
Total	**N/A**			**17.9**	**12.4**	**N/A**	**N/A**	**N/A**	**33.9**

Source: U.S. Postal Service (USPS) Form 10-K Statements. | GAO-16-268T | GAO-16-651T

Note: This table provides the Office of Personnel Management's (OPM) estimation of the funded status of USPS obligations for retiree health benefits. Data for assets, liabilities, and net funded status are actual amounts for fiscal years 2007-2014 and projected amounts for fiscal year 2015. Key terms include the following:

Assets include securities of the PSRHBF, which is managed by OPM.

Actuarial Liabilities represent the actuarial present value of the cost of the portion of future retiree health premiums for which USPS is responsible and that are attributable to past service; these liabilities reflect all such projected future costs for current retirees and beneficiaries and a portion of such projected future costs for current workers.

Net funded status equals assets minus liabilities.

One-Time Transfer from the Civil Service Retirement System (CSRS) Pension Fund: The Postal Accountability and Enhancement Act (PAEA - Pub. L. 109-435, enacted Dec. 20, 2006) established the PSRHBF and directed OPM to determine any USPS surplus for CSRS obligations as of Sept. 30, 2006, and to transfer this amount from the Civil Service Retirement and Disability Fund (CSRDF) into the PSRHBF by June 30, 2007.

One-Time Transfer from USPS Escrow Fund: PAEA required USPS to transfer the escrow funds resulting from the Postal Civil Service Retirement System Funding Reform Act of 2003 (Pub. L. 108-18), which reduced USPS's CSRS payments and required these reductions to be placed into escrow.

USPS prefunding payments are statutory payments established by PAEA that are due from USPS to the PSRHBF. Subsequent congressional action reduced the 2009 prefunding payment from $5.4 billion to $1.4 billion and delayed $5.5 billion from fiscal year 2011 to fiscal year 2012, resulting in a requirement to pay $11.1 billion in fiscal year 2012. See 5 U.S.C § 8909a(d)(3)(A).

Missed Prefunding Payments have not been made by USPS and remain as current liabilities on USPS's balance sheet. These amounts are reflected in this table through a lower asset total and higher net unfunded liability than would have occurred if the prefunding payments were made.

Future Prefunding Payments are statutory payments due by the end of each fiscal year. USPS has reported that it expects not to make these payments.

Table 5: Summary of USPS Pension and Retiree Health Benefit Funds (Dollars in Billions)

	Total USPS Pension Funded Status			USPS Retiree Health Benefits Fund Status			Total Pension & RHB Summary		
Fiscal year	**Total pension assets**	**Total pension actuarial liabilities**	**Total pension funded status (unfunded)**	End of year assets	End of year actuarial liabilities	End of year net funded status (unfunded)	**Total assets**	**Total actuarial liabilities**	**Pension and retiree health benefit funded status**
2007	**257.3**	**252.0**	**5.3**	25.7	80.8	(55.0)	**283.0**	**332.8**	**(49.7)**
2008	**264.4**	**266.9**	**(2.5)**	32.6	86.1	(53.5)	**297.0**	**353.0**	**(56.0)**
2009	**270.5**	**270.9**	**(0.4)**	35.5	87.5	(52.0)	**306.0**	**358.4**	**(52.4)**
2010	**275.4**	**262.9**	**12.5**	42.5	91.1	(48.6)	**317.9**	**354.0**	**(36.1)**
2011	**279.6**	**294.8**	**(15.2)**	44.1	90.3	(46.2)	**323.7**	**385.1**	**(61.4)**
2012	**282.4**	**300.3**	**(17.9)**	45.7	93.6	(47.9)	**328.1**	**393.9**	**(65.8)**
2013	**283.1**	**301.0**	**(17.9)**	47.3	95.6	(48.3)	**330.4**	**396.6**	**(66.2)**
2014	**283.0**	**306.0**	**(23.0)**	48.9	97.7	(48.9)	**331.9**	**403.7**	**(71.9)**
2015	**286.8**	**310.9**	**(24.1)**	50.3	105.2	(54.8)	**337.1**	**416.1**	**(78.9)**

Source: U.S. Postal Service (USPS) Form 10-K Statements. | GAO-16-268T | GAO-16-651T

Note: This table provides the Office of Personnel Management's (OPM) estimation of the funded status of USPS obligations for pensions and retiree health benefits. Data for assets, liabilities, and net funded status are actual amounts for fiscal years 2007-2014 and projected amounts for fiscal year 2015. Key terms include the following:

Assets include securities of the Civil Service Retirement and Disability Fund (CSRDF) and the Postal Service Retiree Health Benefits Fund (PSRHBF). Although CSRDF is a single fund and does not maintain separate accounts for individual agencies, Pub. L. 109-435 requires the asset disclosures shown in this table as if the funds were separate.

Actuarial Liabilities are actual amounts for fiscal years 2007-2014 and projected amounts for fiscal year 2015, as of the end of each fiscal year. These data are prepared by OPM and represent the actuarial present value of the cost of future retiree pension and health benefits costs for which USPS is responsible and that are attributed to past service; these liabilities reflect all such projected future costs for current retirees and beneficiaries and a portion of such projected future costs for current workers.

Net funded status equals assets minus liabilities.

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Chairman CHAFFETZ. Thank you.

Ms. Lowrance, I will now recognize you for 5 minutes.

STATEMENT OF JESSICA LOWRANCE

Ms. LOWRANCE. Mr. Chairman, Ranking Member Cummings, and the members of the committee, thank you for the opportunity to speak with you today about postal-related issues facing the mailing industry.

The mailing industry provides over 7.5 million jobs and accounts for $1.4 trillion in economic activity. While the mailing industry is a vital part of the Nation's economy and surpasses in size both the airline industry and the oil and natural gas industry, it is one that faces significant challenges. Not only are there policies, issues that must be considered, but also economic issues that balance the infrastructural needs of the American economy and the public welfare.

Mail is and will remain a vital part of the American economy and the manner in which the Nation communicates and does business. Despite all that has transpired over the last several years, market-dominant mail still consists of over 154 billion pieces or 97 percent of the Postal Service's business.

The American mail system is a sender-paid service. As volume continues to decline, however, the Postal Service is pressed to find new ways to help lessen its financial burden. From our perspective, there are several fundamental matters that need immediate attention, including the need for predictable, affordable mail services; complete, accurate, and transparent costing of products and services; and reliable, consistent mail service.

At the end of this calendar year, the Postal Regulatory Commission, as directed by the PAEA, will be reviewing the current system of rate regulation. Although the Postal Service has expressed displeasure with the price cap, the CPI-based cap has operated substantially as intended to the benefit of all postal customers, Postal Service, and the general public.

For business customers, the cap provides customers with an assurance of postal rate stability and predictability, which is key to the decision as to whether to continue to invest in mail as a business communication and commercial vehicle. For the years it has been in effect, this inflation-based price cap has served as an effective restraint against abuse of the Postal Service's monopoly power. The Postal Service has been required to focus more closely on the elimination of postal waste and inefficiencies in a manner that would not have happened in the absence of the cap.

Unfortunately, there are obligations such as the prefunding mandate and the nonparticipation of postal retirees and Medicare that has made operating under such a cap a challenge. The need for costing transparency has never been so apparent as it is today. The mailing industry has consistently called for greater clarity and transparency in the reporting of postal costs. This lack of transparency has resulted in other Postal Service decisions that have imposed additional cost on mailers without creating corresponding efficiencies in the postal network.

The Postal Service, its customers, and the Postal Regulatory Commission would benefit greatly by an upgrading of postal costs and modeling systems. The Postal Service should move without dispatch to an informed visibility-based system. This would enable costs to be tracked in an automated fashion similar to how it tracks service performance throughout the Nation.

For business customers, the quality of mail delivery is a key component of the value of mail. Timeliness, consistency, and reliability are extremely important to these users and recipients of the mail. The Postal Service's inability to provide consistent and reliable service is causing many enterprises to look to other means as their preferred method for communicating and doing business.

Legislative reform is just one of the many tools that would need to be leveraged in order for the Postal Service to be, and remain, fiscally viable. At the very least, mailers urge Congress to address those issues that are solely within its power to do so. One, fix the mandated prefunding requirements; and two, allow for fuller postal employee participation in Medicare.

With the upcoming 10-year review of the current rate regulation system, mailers need an accurate accounting and understanding of the cost of the products and services they receive from the Postal Service. The Commission should not be required to judge the performance of the existing system on the basis of data that are inadequate for sound decision-making. It is imperative that the Postal Service be directed to use the many data-driven tools such as the intelligent mail barcode and informed visibility to supply the data the Commission so sorely needs to make the informed decisions about the current system of rate regulation and how to move forward in its review.

At the end of the day, the mailers need reliable, consistent mail service and affordable, predictable prices in order to continue to invest in mail for business communication and commerce.

Chairman Chaffetz, Ranking Member Cummings, and the members of the committee, this concludes my prepared statement. I can answer any questions.

[Prepared statement of Ms. Lowrance follows:]

TESTIMONY OF

JESSICA LOWRANCE, CAE

PRESIDENT-ELECT

ASSOCIATION FOR POSTAL COMMERCE

BEFORE THE

HOUSE COMMITTEE ON OVERSIGHT AND

GOVERNMENT REFORM

WASHINGTON, DC

MAY 11, 2016

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INTRODUCTION

Mr. Chairman and members of the committee, thank you for the opportunity to speak with you today about postal-related issues facing the mailing industry. The postal industry consists of a vast array of stakeholders, ranging from privately held companies to publicly traded ones, government agencies, unions, individual households and even Congress itself.

MAILING INDUSTRY[1]

The mailing industry[2] provides over 7.5 million jobs[3] within the nation according to the 2015 EMA job study.[4] This equates to some six percent of the nation's jobs and approximately $1.4 trillion in sales revenue, which makes the mailing industry one of the largest in the United States.

While the mailing industry is a vital part of the nation's economy (and surpasses in size both the airline industry and the oil and natural gas industry), it is one that faces significant challenges. There are many factors that will need to be examined as the United States continues to contemplate the future of its postal system. Not only are there policy issues that must be considered, but also economic issues that balance the infrastructural needs of the American economy and the public welfare.

Mail is and will remain a vital part of the American economy and the manner in which the nation communicates and does business. Despite all that has transpired over the past

[1] Appendix A lays out the number of postal-related jobs and postal revenues by congressional district for the full House Committee on Oversight and Government Affairs.
[2] Mailing industry is defined as mail owners, mail service providers, software providers, logistic and delivery companies, and any other companies within the supply chain.
[3] USPS has 491,863 career employees. USPS. "2015 Annual Report to Congress." Pg. 2.
[4] Envelope Manufacturers Association (EMA) Foundation's Institute of Postal Studies. "2015 U.S. EMA Mailing Industry Job Study." http://www.envelope.org/emaf

several years, market-dominant mail still consists of over 154 billions pieces[5], and the Postal Service continues to deliver to every address six days a week. While a great deal has been said about the Postal Service's recent growth in package volume, market-dominant mail still accounts for 97 percent of the Postal Service's business.

The American mail system is a *sender-paid service*[6] unlike any other in the world. As volumes continue to decline, however, the Postal Service is pressed to search for ways to help lessen its financial burden. Unfortunately for the customers of the Postal Service, the service has been shifting many of the costs associated with mail preparation and entry to businesses as part of various operational initiatives. More unfortunately, in addition to shifting costs, these initiatives have had adverse effects of their own on the quality of the service the Postal Service has been rendering to its customers. The result for mailers has been higher costs and poorer service, which has degraded for many businesses the value and utility of using mail as a key transactional medium.

In order for mail to fulfill its statutory role as an integral part of the nation's economic infrastructure, it is important that it be an affordable and reliable means for communicating and transacting business. From our perspective, there are several fundamental matters that need immediate attention. They concern matters regarding (1) non-disruptive, predictable, affordably-priced, and competitively attractive mail services, (2) complete, accurate, and transparent costing of products and services, and (3) the quality of mail service.

PRICING PREDICTABILITY

A decade has passed since the enactment of the Postal Accountability and Enhancement Act of 2006 (PAEA). As the PRC noted in its 2010 decision initially denying the Postal Service's request to break the cap with an exigent rate increase, "The centerpiece of

[5] USPS. "2015 Annual Report to Congress." Pg.2 .https://about.usps.com/who-we-are/financials/annual-reports/fy2015.pdf

[6] The revenue that funds this nation's postal system comes from the postage and fees paid by postal customers not from tax-payer dollars.

[PAEA's] reform is a price cap limiting increases to the rate of inflation which ensures rate stability and predictability for the nation's mail users, and provides incentives for the Postal Service to reduce costs and operate efficiently."

At the end of this calendar year, the Postal Regulatory Commission, as directed by PAEA, will be reviewing the current system of rate regulation. Although the Postal Service has expressed displeasure with the price cap, the CPI-based cap, in fact, has operated substantially as intended to the benefit of all postal customers, the Postal Service, and the general public.

Despite the imposition of a cap, the Postal Service has retained flexibility and discretion in setting prices for the services it offers. While a cap may restrain the average increase in rates provided to mail classes as a whole, the current cap still permits the Postal Service the freedom to set individual product prices within a class and to exceed the CPI limitation for certain products as long as such increases were offset by other lower product prices within the class. Congress designed this flexibility to allow the Postal Service to align costs with prices and adjust to market demand.

A price cap also has had the beneficial effect of encouraging the Postal Service to improve its cost efficiencies. Over the last several years, the USPS has implemented several cost reduction initiatives designed to realign its physical and human resources to better match actual workplace and service needs. Without such a price cap, these vital changes (such as Network Rationalization) most likely would never have been pursued under the previous cost-of-service rate regime.

For business customers, the cap provides postal customers the very considerable benefit associated with an assurance of postal rate stability and predictability -- an assurance that's key to a customer's decision as to whether to continue to invest in mail as a business communication and commercial vehicle.

Indeed, before enacting such a cap, Congress was well aware, on the basis of testimony presented by the Postal Service and others, that during the entire period between the Postal Reorganization Act of 1971 and the Postal Accountability and Enhancement Act of 2006 overall postal price increases were within the nation's general economic inflationary bounds.

For the years it has been in effect, this inflation-based price cap provided not only benefits associated with the stability and predictability of postal rates but also served as an effective restraint against any abuse of the Postal Service's monopoly power. The Postal Service was required to focus more closely on the elimination of postal waste and inefficiencies in a manner that would not have happened in the absence of a cap. It should be noted that it achieved these goals while still being permitted under the law to retain those revenues that exceeded costs.

Unfortunately, the current law also imposed obligations that have proven to be a challenge while operating under an inflation-based, market-dominant pricing regulatory regime, e.g., (1) the imposition of the congressionally mandated annual $5.5 billion prefunding payment for retiree health benefits, and (2) the non-participation of postal retirees in Medicare even though postal employees consistently have made Medicare contributions. It is vital to the Postal Service and the nation's overall economic well-being that Congress remove these barriers through effective and well-designed postal legislation. It would be unfair to direct the Postal Service to operate with private sector-like efficiencies while at the same time imposing on it the kind of obligations which no private sector business has to contend.

Even with these obligations, however, the Postal Service could have done more over the past 10 years to improve its efficiency, operate profitably under the price cap, and provide service that meets the needs of its customers. But it has been hampered by its inability or unwillingness to use all available informational tools that could enable postal managers to better understand how underlying postal costs can be affected by management decisions. Improved and more transparent costing and modeling is necessary for the Postal Service to provide adequate service in a cost-effective manner.

COSTING TRANSPARENCY

The need for costing transparency has never been so apparent as it is today. A thorough reading the of the Postal Service's Annual Compliance Report along with the many subsequent questions posed by the Postal Regulatory Commission Chairman and customer representatives are illustrative of the lack of transparency that has plagued current postal cost reporting systems.

The mailing industry has highlighted the need for greater clarity and transparency in the gathering and reporting of postal costs for several years. This lack of postal costing transparency has resulted in other Postal Service decisions that have imposed additional costs on mailers without creating corresponding efficiencies in the postal network.

The Postal Service either has not collected or has not been able to provide return-on-investment (ROI) figures to the Commission or the industry on the 24-hour clock and Load Leveling initiatives. The mailing industry questions whether the Postal Service even has the tools to make such a decision. The cost of employee moves, retraining, and impacts on service make it difficult for anyone, including and most particularly the Postal Regulatory Commission, to calculate a positive ROI.

Accurate and transparent cost data also would provide the Postal Service with an even greater understanding of those matters that drive costs across its product offerings. Given the 48 different categories of letter and flat mail, the multiplicity of mail entry points, and the complexities of staffing and equipment availability within an actual operating facility, it is difficult to develop appropriate postal managerial models in the absence the kind of information that can be provided by a comprehensive, data-driven mailpiece tracking system.

A better understanding of its aggregate costs would enable USPS management to calculate reliable estimates of ROI for future investments and cost reduction initiatives. It would help provide a clearer understanding of the actual cost reductions forecasted, as well as provide a better method to track cost changes throughout the postal network to ensure that all projected savings are realized.

The Postal Service, the Postal Regulatory Commission, and the customers of the Postal Service would benefit greatly by an upgrading of postal cost and modeling systems. The Postal Service should move without dispatch to an Informed Visibility-based system. This would enable costs to be tracked in an automated fashion, moving away from random sampling methods and the human error that has affected them.

Modeling accuracy would improve from a more complete use of the scan data derived as mail pieces are processed across automated postal equipment. Such a system would make more apparent more quickly the kind of postal operational inefficiencies and "pain points" within the postal network that needlessly increase postal costs, and would help reduce subsequent manual mail handling and service-related issues. Corrective actions could be taken at a machine-, plant-, or even customer-level based on the data provided from these scans.

The Postal Service would benefit from having a much clearer understanding of which of its postal products are profitable and would enable it to send clearer, more efficient price signals to drive subsequent mailer behavior. The mailing industry depends on these sorts of postal pricing signals when determining whether, when, and where to mail. If prices are set incorrectly or in an inefficient manner, resources are wasted by both the Postal Service and those that it serves.

Maximizing productivities and reducing costs to the fullest extent possible, coupled with price signals that drive more efficient mailer behaviors would amplify further the benefits of operating under an inflation-based cap.

SERVICE

While the Postal Service describes its offerings as "products," what it really provides are services that are directed toward the transportation and delivery of items to every address in the United States. Its profitability, therefore, depends in large part on how well it provides this service and whether the service it provides meets the needs of its customers. The evidence of recent years suggests that the Postal Service increasingly is failing to achieve these goals.

For instance, in the 2015 Annual Compliance Determination (ACD) Report[7], the Postal Regulatory Commission said:

> "In the FY 2014 ACD, the Commission issued directives to the Postal Service for products composed of flats to improve service performance results during FY 2015 or otherwise provide an explanation as to why efforts to improve performance were ineffective and identify further planned changes to improve those results. The Commission finds that during FY 2015 service performance results for these products remain substantially below their targets, and in all but one case, the performance results declined."

The Commission's finding has been validated by postal customers throughout the nation, whether they are members of Congress, their constituents, or business mailers.

For business customers, the quality and reliability of mail delivery is a key component of the value of mail. Companies throughout the mail system create marketing campaigns predicated on when a sale will occur and when an advertisement regarding the sale will appear in the mailbox.

Quality of service is even more critical for those who use First-Class Mail to supply their customers with messages and information such as the official notifications that are required by various state and federal programs and regulations. Timeliness, consistency,

[7] Postal Regulatory Commission. "Annual Compliance Determination Report, Fiscal Year 2015." Pg. 3. http://www.prc.gov/docs/95/95462/Final_2015_ACD.pdf

and reliability are extremely important to these users and recipients of the mail, and the Postal Service's inability to provide consistent and reliable service is causing many enterprises to look to other means as their preferred method for communicating and doing business.

Many of the service issues that have adversely affected the quality and value of mail have stemmed from the Postal Service's decision in January 2015 to change to a "24 hour clock" mail processing regimen. The Postal Service also has changed over the past two years service delivery standards that affect some 14 billion pieces of mail (i.e., nine percent of total mail volume) and up to 16 percent of First-Class Mail.[8] Unfortunately, the Postal Service did less than a sterling job communicating the need and objectives of these changes to its own employees and its customers before moving forward. The result was to render mail service more unpredictable. The members of our industry have reported quite consistently that the quality of First-Class Mail and Periodical mail service has suffered the most from these decisions.

Although these initiatives were intended to achieve significant cost savings, the Postal Service has failed to demonstrate that there has been any commensurate decrease in total operating expenses. Indeed, these initiatives appear to have significantly increased postal costs in light of other initiatives that ostensibly were designed to improve overall efficiency, such as the Postal Service's Network Rationalization plan.[9] According to the USPS[10], "[t]he first phase of [Network Rationalization] implementation has been

[8] The affected volume presents primarily single-piece First-Class Mail. The majority of this mail is being delivered in two days instead of one. "USPS Delivery Standards and Statistics Fact Sheet." https://about.usps.com/news/electronic-press-kits/our-future-network/assets/pdf/ofn-usps-dss-fact-sheet.pdf

[9] Network Rationalization is USPS initiative. It is a two-phase approach of rationalizing the postal network. Phase I was completed in the summer of 2014. Phase II was to being in January 2015 and be completed by the fall mailing season. It is currently on hold. There were service standards changes that occurred in January 2015 to enable Phase II consolidations. https://about.usps.com/news/electronic-press-kits/our-future-network/ofn-customer-letter-063014.htm#p=1

[10] "Response of the United States Postal Service to Question 16 of Chairman's Information Request No. 7." http://www.prc.gov/docs/94/94968/CHIR_No_7.Second.Response.Set.Q16.pdf

completed with the Postal Service realizing annualized savings of $865M." Yet despite these "savings," total USPS expenses from FY13 to FY14 were noted to have grown by over $1 billion.[11] Either the 24-hour clock and other initiatives designed to improve efficiency did not actually result in cost savings, or their savings were offset by increases in other operationally-related costs. In any event, it is impossible to discern any positive impact these ostensibly cost-saving initiatives were supposed to have on overall postal costs.

"Load leveling" is another example of the Postal Service introducing an initiative meant to reduce costs by leveling out Standard Mail volumes throughout the week. Mailers typically insert their advertising mail late Thursday or early morning Friday to get Monday delivery. The Postal Service said it intended to discourage this practice and to induce the entry of mail volumes more evenly throughout the week. Unfortunately, the net result was to add an additional day to the time it took for Standard Mail to be delivered without any documented cost savings or increase in efficiency.[12] Fundamentally, the Postal Service did not understand and did not adapt to the actual marketplace needs of its business mailing customers. Their concern simply was to balance internal postal workloads and flows despite the effects such changes might have on business' intended purposes for using the mail. No rule change could change the economic realities faced by the mailers.

A careful reading of the Postal Regulatory Commission's FY2015 Annual Compliance Determination Report reveals that these changes also resulted in making mail service more inconsistent and unreliable. Here are just a few examples excerpted from the PRC's report:

[11] USPS. "2015 Annual Report to Congress." https://about.usps.com/who-we-are/financials/annual-reports/fy2015.pdf
[12] USPS. "Balancing the load." https://about.usps.com/news/electronic-press-kits/usps-sets-the-record-straight/load-leveling.htm

- First-Class Mail Flats, Standard Mail Carrier Route, Standard Mail Flats, Periodicals, and Bound Printed Matter Flats have not met their service delivery targets and have failed to show any significant improvements over the years.

- Service performance for Market Dominant flats products across all mail classes (First-Class Mail, Standard Mail, Periodicals, and Package Services) have been substantially below targets since FY12.

- Standard Mail Carrier Route (which typically requires the least processing before delivery) was below service targets by 9.0 percentage points.

- The impacts of the USPS's Load Leveling Initiative has affected all classes of mail that are entered at a Destination Sectional Center Facility (DSCF) on Fridays and Saturdays. For the most part, the time-to-deliver this mail was extended by an additional day.

- For FY 2015, Standard Mail Flats was below service performance targets by 17.2 percentage points. According to the Postal Service, this degradation in performance was due to "disruption caused by realigning of staffing and educating employees in new jobs resulted in slippage of performance."

- The USPS failed to leverage its diagnostic tools to resolve issues at the district level. (Even though the USPS pointed to the development of these tools as a means to improve service in past Annual Compliance Reports.)

- Service performance for Periodicals was 13.4 percent below FY2015 targets. The list of actions the USPS detailed in its FY2014 Annual Compliance Report failed to achieve improved results in FY2015.

- Critical Entry Times (CETs) for some Periodicals were extended during the second quarter of FY2015 to give the USPS more time to process and deliver mail.

Despite this, overall service performance results for Periodicals remained below FY2014 levels.

- The USPS has not achieved on-time service performance for Periodicals since before the passage of the Postal Accountability and Enhancement Act.

- Service performance for Bound Printed Matter Flats was 44.8 percentage points below the target it had set for FY2015, a full 15 percentage points below the 2014 target.

As long as the Postal Service fails to meet the actual business needs of its customers, it will struggle to operate profitably. Any legislative solution to the Postal Service's woes must take this reality into account.

CONCLUSION

The matters we have laid out in our testimony illustrate the concerns of the mailing industry. Legislative reform is just one of many tools that will need to be leveraged in order for the Postal Service to become and remain fiscally viable. At the very least, mailers urge Congress to address those issues that are solely within its power to: (1) fix the mandated prefunding requirement; and (2) allow for fuller postal employee participation in Medicare.

With the pendency of the legislatively-mandated 10-year review of the current rate regulation system, mailers need an accurate accounting and understanding of the costs of the products and services they receive from the Postal Service. The Postal Regulatory Commission should not be required to judge the performance of the existing system on the basis of data that are inadequate for sound decision-making. It is imperative that the Postal Service be directed to use the many data-driven tools it has been able to create, such as the Intelligent Mail Barcode (IMb) and Informed Visibility, to supply the data the

Postal Regulatory Commission so sorely needs to make informed decisions about the current system of rate regulation and how to move forward in its review.

The Postal Service itself needs these very same data to understand underlying cost drivers and to make more informed decisions on rules, prices, operational changes, and service performance improvements. If America's postal system is to survive, let alone thrive, mailers need to have the confidence that the Postal Regulatory Commission has the ability to oversee and report accurately information and recommendations in a way that will be informative and transparent to all stakeholders.

At the end of the day, mailers need reliable, consistent mail service, and affordable, predictable prices in order to continue to investment in mail for business communication and commerce.

APPENDIX A: 2015 EMA Mailing Industry Job Study Facts – Member of House Committee

Member	State	District	# of Jobs	Revenue $ Millions
Blake Farenthold	TX	27	12,251	$1,158.00
Bonnie Watson Coleman	NJ	12	18,408	$763.00
Brenda Lawrence	MI	14	16,038	$2,728.00
Brendan F. Boyle	PA	13	23,869	$767.00
Buddy Carter	GA	1	13,759	$400.00
Carolyn Maloney	NY	12	97,215	$16,491.00
Cynthia Lummis	WY	0	13,013	$1,132.00
Eleanor Holmes Norton	DC	0	32,319	$965.00
Elijah Cummings	MD	7	13,558	$560.00
Gary Palmer	AL	6	14,583	$1,176.00
Gerald Connolly	VA	11	21,564	$66,904.00
Glenn Grothman	WI	6	21,249	$2,186.00
Jason Chaffetz	UT	3	13,801	$1,408.00
Jim Cooper	TN	5	23,112	$595.00
Jim Jordan	OH	4	13,287	$8,584.00
Jody Hice	GA	10	8,936	$807.00
John Duncan	TN	2	17,226	$14,691.00
John Mica	FL	7	16,536	$1,095.00
Justin Amash	MI	3	14,498	$1,489.00
Ken Buck	CO	4	15,169	$1,912.00
Mark Desaulnier	CA	11	16,585	$1,456.00
Mark Meadows	NC	11	13,400	$1,126.00
Mark Walker	NC	6	17,421	$2,616.00
Matt Cartwright	PA	17	17,026	$441.00
Michael Turner	OH	10	23,513	$1,289.00
Michelle Lujan Grisham	NM	1	15,309	$1,712.00
Mick Mulvaney	SC	5	9,663	$23,092.00
Paul Gosar	AZ	4	10,159	$409.00
Peter Welch	VT	0	17,617	$72,204.00
Robin Kelly	IL	2	10,327	$3,006.00
Rod Blum	IA	1	19,438	$458.00
Ron Desantis	FL	6	14,011	$1,287.00
Scott Desjarlais	TN	4	12,777	$11,275.00
Stacey E. Plaskett	VI	0	not provided	not provided
Stephen Lynch	MA	8	25,751	$1,384.00
Steve Russell	OK	5	20,254	$1,403.00
Tammy Duckworth	IL	8	29,407	$1,643.00
Ted Lieu	CA	33	27,134	$863.00

Thomas Massie	KY	4	15,211	$1,432.00
Tim Walberg	MI	7	12,704	$896.00
Trey Gowdy	SC	4	19,306	$1,244.00
William Hurd	TX	23	8,182	$4,363.00
William Lacy Clay	MO	1	25,862	$1,391.00
Total			**801,448**	**$260,801.00**

APPENDIX B: Misaligned USPS Network

The mailing industry had been reporting service performance concerns for years that were constantly occurring between Pittsburg and Detroit for Standard Mail letters. After working closely with the industry, the problem was identified to be outgoing Mixed Standard Mail Trays.

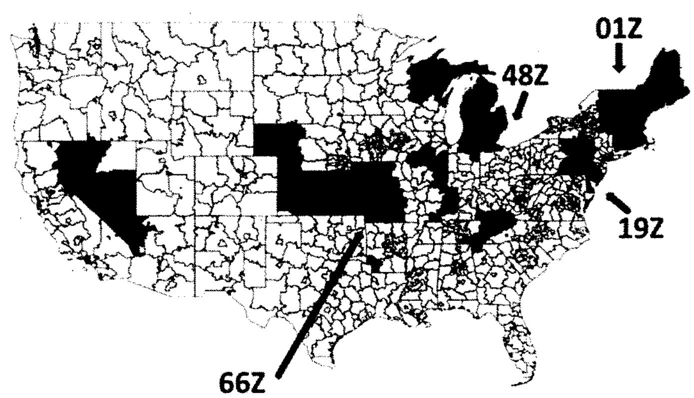
According to USPS requirements, remaining pieces to: 130-168, 260, 265, 434-436, 439-449, 465-468, 480-497 get placed into a Mixed Tray that is labeled: MXD PITTSBURGH PA 150

According to USPS requirements, when building pallets of these trays:

- Trays to 130-168, 260, 265, 439-449 go to NDC PITTSBURGH PA 15195
- Trays to 434-436, 465-468, 480-497 go to NDC DETROIT MI 48399

This misalignment between pieces going into trays and the trays going onto pallets resulted in mail that needs to go to NDC Detroit for processing would first be routed to NDC Pittsburgh causing significant service failures for years.

Once the USPS identified the mismatch between Processing and Distribution Centers (P&DC network) and their NDC network, they identified 211 different 3-digit mismatches between these two networks. This issue was fixed in the January 2016 label list update. The USPS shared with the industry the size and scope of the problem with this map.



- Add new MXD facilities to align with NDC/ASF network (01Z, 19Z, 48Z, 66Z)
- Align ZIPs with existing MXD processing facilities in NDC service areas
- Remove Las Vegas – does not align with NDC network

Chairman CHAFFETZ. Thank you.

Mr. Rolando, you are now recognized for 5 minutes.

STATEMENT OF FREDERIC ROLANDO

Mr. ROLANDO. Thank you, Chairman Chaffetz and Ranking Member Cummings and members of the committee, for inviting me to testify today.

You've asked me to focus on the urgent need for postal reform legislation and the provisions that we believe are necessary. I'm pleased to do that today, but before I do, it's important that we take a moment to recognize the current reality of the Postal Service. It is no longer 2009 when the Great Recession sent mail volume plummeting and the prefunding mandate crushed the Postal Service's finances, raising doubts in some quarters about the viability of the agency. Postal employees never doubted the viability of the Postal Service, but we worked hard to help the Service to adapt and survive as it shed more than 200,000 jobs and we boosted productivity dramatically.

The Postal Service has returned to operational profitability, now earning $4.4 billion over the past 2–1/2 years, our pension funds are healthy and better funded at 92 percent than most private sector pensions, and we have set aside some $50 billion for retiree health when most large private companies have not set aside a dime.

Thanks to the growth of direct mail and booming e-commerce, total mail volume recovered and stabilized in 2015, increasing the Postal Service's revenue to $69 billion.

There's no question that the Postal Service remains a vital part of the Nation's economic infrastructure. In 2015, we delivered more than 150 billion letters, magazines, and packages, 6 and even 7 days a week. The Postal Service's revenue is just a small part of the $1.4 trillion of the GDP accounted for by the U.S. mailing industry, which now employs 7–1/2 million Americans.

With an 84 percent approval rating for the American people, we believe the Postal Service can thrive in the 21st century with the right public policies. Now is not the time to weaken this treasured agency through service and delivery reductions, especially those that have failed to attract congressional support in the past. Instead, this committee should offer sensible and targeted reforms that would provide financial stability and allow the Postal Service to innovate.

Specifically, it should address three specific legislative and regulatory burdens that severely hinder the Postal Service. First, the Postal Service is required to massively fund future retiree health premiums decades in advance, regardless of financial conditions facing the agency or the country. No other public or private enterprise in America faces such a mandate, and most firms don't prefund at all. This mandate by itself accounts for nearly 90 percent of all reported losses since 2007.

NALC has suggested numerous ways to address the prefunding mandate over the years. As part of an overall reform effort that does not weaken our networks or diminish services to the public, we support reforms to the FEHBP program to maximize participation in Medicare among eligible postal retirees. This would almost eliminate the $50 billion unfunded liability for future retiree health while raising Medicare spending by less than 2/10 of 1 percent annually. Given that the Postal Service and its employees have contributed $29 billion to Medicare, this approach is fair and appropriate.

Second, Congress should consider the policy that requires 100 percent of postal retirement funds be invested in low-yielding treasury bonds. Together, the Civil Service and FERS postal pension accounts, along with the postal retiree health fund, hold nearly $350 billion in treasury securities. That makes the Postal Service and its employees the third-largest creditors of the U.S. Federal Government just behind China and Japan. No other company in America would invest its retirement assets in such an unsophisticated way, especially during a period when treasuries are yielding 2 to 4 percent annually.

Starting with the retiree health fund, we should apply private sector best practice by investing in well-diversified portfolios of private stocks, bonds, and real estate, as well as government bonds. Current policy forces the mailing industry to give Uncle Sam a low-cost loan instead of sensibly investing to cover future health-care liabilities. It makes no financial sense to invest in assets that yield less than the rising cost of care.

My submitted testimony makes the case for prudent investment change, addresses common objections to it, and explains how several independent agencies invest successfully in private securities.

By changing the investment policy, Congress could raise the long-term rate of return on the assets, reduce the burden of prefunding, offset the cost of postal Medicare integration, relieve upward pressure on postal rates, and reduce the misguided impulse to slash service.

Third, in my full testimony I address the postage rate-making process, which the PRC will formally review in 2017. There's a remarkable degree of stakeholder consensus about the principles of successful postal reform. All four postal unions, the Postal Service, and a wide range of companies and postal trade associations have agreed on reform principles for your consideration. And these principles were outlined in a letter sent to the chairman yesterday, and it urged legislation that would mandate postal-specific assumptions, satisfy—not eliminate—satisfy the prefunding burden by reforming FEHBP to maximize Medicare participation, invest the retiree health fund sensibly, permit the Postal Service to provide non-postal products in limited circumstances, and adjust the market-dominant rate base to ensure adequate revenue through the PRC review if necessary.

Our coalition's recommendations are grounded in common sense and best practice. They represent the measures on which we could agree while remaining confident that they would stabilize the Postal Service while allowing it to innovate to meet the evolving needs of our country. NALC and our sister postal unions remain committed to helping this committee find a fair and equitable path forward that does not damage our network of universal and affordable service or the employees that make that network special.

Thank you very much again for this opportunity to testify, and am happy to answer any questions.

[Prepared statement of Mr. Rolando follows:]

Testimony of

Fredric V. Rolando

President, National Association of Letter Carriers

to a Hearing on "Reforming the Postal Service: Finding a Viable Solution"

by the House Committee on Oversight and Government Reform

May 11, 2016

I. Introduction

My name is Fred Rolando, I am a letter carrier from Sarasota, Florida and I serve as the President of the National Association of Letter Carriers (NALC). NALC represents in collective bargaining nearly 200,000 active Letter Carriers who work for the Postal Service across the United States. More than 90 percent of active city letter carriers voluntarily belong to our organization, making it among the best organized open-shop unions in America. We also represent nearly 90,000 retired letter carriers who maintain their membership in NALC as federal annuitants.

Thank you, Chairman Chaffetz and Ranking Member Cummings, for the opportunity to participate in today's hearing as a representative of the NALC as well as the other three postal unions, which include the American Postal Workers Union, the National Rural Letter Carriers Association and the National Postal Mail Handlers Union. At the outset, we want to acknowledge and express our appreciation for the interest and engagement on postal issues shown by Government Operations Sub-Committee Chairman Mark Meadows and his ranking member, Rep. Gerry Connolly – as well as by Rep. Steven Lynch, a long-time member on this committee with special expertise on the Postal Service.

Mr. Chairman, you have asked me to discuss the urgent need for postal reform legislation and to identify the provisions we believe are necessary in any postal reform legislation. I am happy to do that today.

There is broad agreement among all the major stakeholders – including many members of this Committee – that legislation is urgently required to strengthen the Postal Service. The huge reported financial losses incurred since 2007, and the 25 percent decline of First Class letter mail resulting from internet diversion, have driven this consensus. However, although many observers have wrongly ascribed the Postal Service's financial crisis entirely to technological factors, the principal cause of the Postal Service's financial woes is a policy mandate imposed on the Postal Service by Congress in 2006. This mandate requires the Service to prefund future retiree health benefit premiums decades in advance. As I will explain below, this mandate, and this mandate alone, accounts for nearly 90 percent of the Postal Service's losses since 2007. This mandate – along with other damaging legislative and regulatory burdens – was imposed by the Postal Accountability and Enhancement Act (PAEA) of 2006.

Confusion about the relative contributions of technology, recession and public policy to the Postal Service's financial health has obscured the reality of today's Postal Service. That reality has changed dramatically – for the better – in recent years. It is not 2008-2009 anymore when the Great Recession sent mail volume plummeting, and the mandate to pre-fund retiree health crushed the Postal Service's finances, raising doubts in the minds of some about the long-term viability of the Postal Service. It led some of these doubters to propose radical service cuts and a general dismantling of one of America's oldest and most beloved institutions.

Although America's letter carriers and other postal employees never shared those doubts, and urged Congress to resist counter-productive service cuts, we worked with the Postal Service to reorganize and adapt to changing postal needs of the country, both the decline in letter mail due to technological change and the boom in e-commerce that reflects the other side of the internet coin. Over the past nine years, postal employees have made huge sacrifices to help the Postal Service to become more efficient and to "right-size" in response to the fall in mail volume. Postal employment has been slashed by more than 200,000 jobs since 2006, postal productivity has increased dramatically and postal labor costs have been sharply reduced through very difficult rounds of collective bargaining. A white paper report issued on April 18, 2016 by the Postal Service's Office of Inspector General summarizes these cost cutting efforts. (See https://www.uspsoig.gov/document/peeling-onion-real-cost-mail.)

Thanks to these efforts and to the recovery from the Great Recession, the Postal Service has been returned to operational profitability over the past three years – earning $2.9 billion in controllable income (to use the Postal Service's term for operating profits) during Fiscal Years 2013, 2014 and 2015. Of course, these operating profits were totally wiped out by the $5.5 billion annual prefunding charges in the Postal Service's official results. But that should not obscure the underlying strengths of the Postal Service. As the economy has recovered, it has seen its package business grow by more than 10 percent annually and both its direct mail and catalogue products grow solidly even as the rate of decline in First Class Mail volume steadily moderated (from -8.8% in 2009 to -2.2% in 2015). Overall mail volume declined by less than one percent in 2015 as total revenue increased to $66.8 billion.

Indeed, the Postal Service remains a vital component of this country's economic and communications infrastructure. In 2015, the Service delivered more than 150 billion pieces of mail and became an even bigger player in the booming e-commerce sector, now offering 7-day delivery. Almost one half of all bills are still paid by mail. The majority of bills and statements received by households are still delivered by mail. Trillions of dollars move through the postal system every year. The Postal Service's $67 billion in revenue is only a small part of the $1.4 trillion of GDP accounted for by the U.S. mailing industry, which now employs 7.5 million Americans. The health of that huge industry depends on a healthy Postal Service.

Although the Postal Service's finances remain fragile and technological challenges will persist long into the future, it should be clear that the Postal Service remains a vital part of the nation's infrastructure. We believe it can thrive in the 21st Century with the right public policies. We have done our part to preserve the Postal Service, which enjoys an 84% approval rating with the American people according to a November 2015 Pew Research survey. Now we need Congress to do its part to strengthen it for the future.

II. Three Essential Reforms

There are three significant legislative/regulatory burdens placed on the Postal Service under current law that should be removed or reformed by this Congress.

The prefunding mandate

The most significant burden is the legislative mandate included in the Postal Accountability and Enhancement Act of 2006 (PAEA) that requires the Postal Service to massively prefund future retiree health premiums -- decades in advance. Congress adopted this mandate during the administration of George W. Bush in the most inflexible manner possible. It required the Postal Service to make 10 fixed payments of between $5.4 billion and $5.8 billion annually between 2007 and 2016 – and then to begin making actuarial-based pre-funding payments over 40 years, beginning in 2017. The actuarial-based payments are comprised of two parts: a normal cost payment to cover the future cost of retiree health accrued each fiscal year, and a payment calculated to amortize any remaining unfunded liability over the next 40 years. Unfortunately, in the absence of legislative change, the cost of pre-funding is actually expected to increase after 2016 as a result of these actuarial-based payments – beyond the unaffordable levels of recent years.

No other enterprise in America (public or private) faces a legal mandate to prefund future retiree health insurance benefits – though Congress does appropriate money to the Department of Defense to partially pre-fund such benefits for certain Pentagon retirees. According to an annual survey of Fortune 1000 companies by Towers Watson, only 38 percent of such firms pre-fund retiree health at all, and 62 percent don't prefund at all. (See Perspectives: Accounting for Pensions and Other Post-Retirement Benefits, 2015.) Those companies that voluntarily pre-fund typically make contributions only when the companies are profitable.

The Postal Service pre-funding payments, which could not be suspended when the Great Recession hit, were so onerous that the Postal Service exhausted its $15 billion borrowing authority in order to make the payments. Since 2012, it has not been able to make the payments at all – though the expenses associated with the missed payments have continued to be recognized, driving the Postal Service deep into the red. All told, $50.4 billion of the Postal Service's reported losses of $56.5 billion since 2007 – 89.2 percent -- are due to the pre-funding mandate. See Attachment 1.

The damage this policy has inflicted goes way beyond the adverse financial effects. This policy has starved the Postal Service of needed investments, most notably the urgent need to replace its obsolete fleet of vehicles. (As the OIG report in Attachment 1 makes clear, Postal

Service annual investment in its own networks and infrastructure has declined by 16 percent in real terms between 2008 and 2015.) It has also caused the Postal Service to excessively downsize in ways that are short-sighted and counter-productive. For example, the Postal Service made it more difficult for Americans to access its services by: removing tens of thousands of mail collection boxes; slashing the operating hours of thousands of post offices; and reducing its service standards in order to dramatically downsize its network of mail processing plants. The quality of service has suffered – and we fear the Postal Service has driven significant business away as a result.

Over the years, we have suggested a number of legislative measures to address the crisis caused by the pre-funding mandate – for example, repealing the mandate, reducing the pre-funding target percentage to match private sector best practice (33%-50% prefunding) or adopting private sector pension valuation standards so that USPS pension surpluses could be transferred into the Retiree Health Fund. Those proposals failed to advance. Fortunately, the Senate Homeland Security and Governmental Affairs Committee reached bipartisan consensus on a concept for addressing the prefunding burden during the last Congress, which was included in a bill adopted by the Committee but not by the full Senate (S.1486). It included reforms to the FEHBP program as it relates to postal employees and Medicare coverage that would all but eliminate the Postal Service's unfunded liability for future retiree health benefits.

Under this approach, FEHBP plans would segregate postal employees and postal annuitants into a separate risk pool and all postal annuitants would enroll in Medicare Parts A&B when they reach age 65, with an opt-out option for hardship cases. (At present, 80-90% of postal annuitants already voluntarily enroll in the two main parts of Medicare.) The proposal would also give FEHBP plans access to low-cost prescription drugs made possible by the Medicare Modernization Act. That is the 2006 law that created Medicare Part D plans. However, postal retirees would not have to enroll in Part D plans to gain access to these cheaper drugs. Instead, FEHBP plans would arrange to get the inexpensive drugs and the savings would help reduce FEHBP premium costs. About half the reduction in the Postal Service's unfunded liability would come from lower cost drugs; the rest from maximizing the participation in Medicare Parts A and B.

This approach ensures that the Postal Service and its employees fully benefit from the $29 billion they have contributed in Medicare taxes since 1983 and adopts the standard practice of large private companies that provide retiree health insurance. Although it would raise Medicare spending by less than one-half of one percent over the next 10 years (again financed by Medicare taxes already paid), it would effectively resolve the prefunding burden that threatens the financial health of the Postal Service.

We can support this approach in the context of targeted postal legislation that does not weaken our networks or diminish services to the public. In this spirit, we urge this Committee to embrace it in any legislation you consider this year. I will return to this idea in the final section of my testimony.

Restrictive investment policies for postal retirement funds

In general, the Postal Service has incredibly well funded retirement plans, although declining interest rates in recent years have temporarily inflated liabilities and created relatively small unfunded liabilities. At the end of 2014, the Postal Service's CSRS and FERS pension funds were 92.4 percent funded – well into the healthy "green zone" under the private sector Pension Protection Act and much better than the 81.7 percent funded percentage for the 100 largest pension plans according to the 2015 Pension Funding Survey conducted by the Milliman Company. (The USPS funded percentage at the end of FY 2015 was 92.2 percent.) At the same time, while the median level of funding for retiree health benefits among Fortune 1000 companies is zero percent (0%), the Postal Retiree Health Benefit Fund is nearly 50 percent funded.

These strong funding positions are all the more remarkable given the restrictions placed on the investment of the Civil Service Retirement and Disability Fund (which holds the federal and postal accounts for both CSRS and FERS) and the Postal Service Retiree Health Benefits Fund (PSRHBF). By law, the pension funds and the PSRHBF must be invested in low-yielding Treasury bonds. Together, the CSRS and FERS postal accounts and the PSRHBF hold nearly $340 billion in Treasury securities – making us, the Postal Service and its employees, the third largest creditor of the U.S. federal government just behind the governments of China and Japan. No private company in America would invest 100 percent of their pension and post-retirement health funds in such a conservative way, especially during a period when Treasuries are yielding 2-4 percent returns. When your investment time horizon stretches out over decades, best practice in the private sector is to invest in a well-diversified portfolio of private sector stocks, bonds and real estate as well as government bonds. Such a portfolio is provided by the Thrift Savings Plan's Lifecylce 2040 Fund. If the Postal Service's FERS and CSRS accounts could have been invested the 2040 Fund between 2007 and 2014, their combined balance would be $32 billion greater today – enough to cover the total combined unfunded liability of $23 billion in 2014.

Given that the postal accounts in CSRS and FERS are commingled pensions, covering both federal and postal employees, it might be difficult to invest the postal accounts more sensibly. However, Congress should direct the Office of Personnel Management to invest the Postal Service Retiree Health Benefits Fund the way a private sector company would invest such a fund – again, in a well-diversified portfolio of private sector stocks and bonds as well as government securities.

Although, such a mandate would represent a break with past policy, the retiree health fund is a stand-alone, one-agency trust fund in the U.S. government's accounts. Its assets are funded by postage rate-payers to cover the cost of future retiree health insurance premiums payable by the Postal Service. The cost of these premiums, like medical services in general, is expected to rise by 5.0-7.0 percent annually over the next several decades. It makes no financial sense to invest in assets that yield less than the trend rate of medical inflation. The PSRHBF investment policy in current law – which effectively mandates a low-cost loan from business mailers to the Federal government -- unnecessarily raises the cost of pre-funding and puts pressure on the Postal Service to raise postage rates or to adopt misguided service cuts. There is a better way.

Congress could raise the long-term rate of return on the retiree health fund's assets, improve the overall finances of the federal government (OPM's balance sheet), reduce the burden of prefunding, relieve upward pressure on postage rates, and lessen the threat of self-defeating service cuts by making one change: It could direct the OPM to invest PSRHBF assets in safe, low-cost index funds of the kind offered by the federal Thrift Savings Plan (TSP). As the table below indicates, had the fund's assets been invested in the Lifecycle 2040 Fund of the TSP since 2007, its value would exceed $60 billion today –nearly $10 billion more than its actual balance.

Postal Service Retiree Health Benefits Fund: Assets and Earnings ($mil.)

Year	Annual Prefunding Payment ($mil.)	Investment Income ($mil.)	PSRHBF Year-End Balance (1) ($mil.)	Rate of Growth	L Fund 2040 returns	Projected PSRHBF year-End Balance if invested in L2040 Fund ($mil.)
2007	$5,400	$287	$25,745	--		
2008	$5,600	$1,265	$32,610	4.9%	-31.53%	$23,235
2009	$1,400	$1,472	$35,482	4.5%	25.19%	$30,488
2010	$5,500	$1,510	$42,492	4.3%	13.89%	$40,223
2011	$0	$1,626	$44,118	3.8%	-0.96%	$39,837
2012	$0	$1,626	$45,744	3.7%	14.27%	$45,693
2013	$0	$1,548	$47,292	3.4%	23.23%	$56,308
2014	$0	$1.538	$48,850	3.4%	6.22%	$59,810
2015	$0	$1.495	$50.345	3.3%	0.73%	$60,247

Notes:
(1) Explanation (from pg. 26, 2007 Annual Report): The initial balance in the PSRFB resulted from two transfers: a) the postal surplus in the CSRS Fund as of September 30, 2006 ($17.1 billion transferred on June 29, 2007); and b) the funds held in the escrow account established by P.L. 108-18 ($2.958 billion). The first pre-funding payment of $5.4 billion was also made in 2007.

To show you how beneficial this change in investment policy could be, we asked our consultants at the Lazard Co. in New York to investigate the potential impact of investing the PSRHBF the way pension funds are invested in the private sector. Lazard found that if Congress were to adopt the postal FEHBP reforms and Medicare integration we suggest, the percentage of liabilities funded would rise from 50 percent to 94 percent right away. More importantly, it found that if the USPS subsequently made regular normal cost contributions and the retiree health fund were invested according to the average 2014 "private sector allocation" in last year's Milliman pension survey, the Postal Service's retiree health liabilities could be more than fully funded within a few years. That private sector allocation was expected to earn more than 7.0 percent annually. (See Attachment 2 for additional information.)

While no pension fund achieves its long-term target rate of return every year and sometimes even loses money in market downturns, the Lazard analysis shows that the PSRHBF could be fully funded over the long run. Over time, such an investment policy might eliminate the need for any amortization payments and could justify the suspension of normal cost payments as well. We urge this Committee to adopt this investment proposal, while making it clear that no amortization payments would be required should the PSRHBF funding ratio exceeds 80 percent (the funding target in S. 1486) and no normal cost payments would be required if the funding ratio topped 100 percent.

There are two common objections to this investment proposal: (1) is the risk of loss associated with investments in private stocks and bonds; and (2) is the long-standing policy of the Treasury department against investing government trust funds (such as the Social Security Trust Fund) in private securities. Neither of these objections should hold in the case of the PSRHBF. I will address both.

First, given the long investment horizon of the PSRHBF and the relatively modest annual outlays from the fund ($3.0-$4.0 billion for the foreseeable future), the risk of a short-fall in a prudently invested PSRHBF is extremely small. In fact, the OPM projects future retiree health liabilities over a period of 90 years. So the Fund would have decades to make up for any sharp losses. Indeed, the experience of the L 2040 Fund since the 2008 financial crisis provides a real life test of this resiliency. The L 2040 Fund has more than bounced back from the 2008 stock market crash.

Second, although the Treasury has traditionally invested government trust funds only in government bonds, the PSRHBF is a different kind of trust fund and there are several government entities that regularly invest in private securities.

The PSRHF is different from most trust funds because it does not involve federal taxpayer dollars. The funds in the PSRHBF come from postage rate-payers. They are collected to cover the cost of services rendered. As with the assets of the TSP's index funds, the PSRHBF is dedicated to providing post-retirement benefits for federal employees – in this case, the employees of the U.S. Postal Service. Although it is the only trust fund dedicated to cover the retiree health benefits of a single agency's employees, there are other retirement funds controlled by primarily self-funded federal agencies that are allowed to invest in private sector securities. These include: the National Railroad Retirement Investment Trust (NRRIT), the Pension Benefit Guarantee Corporation (PBGC), Amtrak and the Tennessee Valley Authority (TVA).

The ratepayer funds held by the postal retiree health fund should be invested the way these other agencies invest their funds. The OPM should hire well-qualified asset managers, chosen by trustees with fiduciary responsibilities to invest the fund wisely – maximizing returns while minimizing risk and investment fees.

Properly investing the PSRHBF's assets will, over the long run, improve the balance sheet of the OPM and reduce the cost of pre-funding for the Postal Service. This will allow for affordable postage rates and better service to the America's mailers and citizens. If the purpose of the Fund is to protect taxpayers against the need to cover future health care costs for retired postal employees, the best way to reduce that need is invest the PSRHBF prudently and intelligently. In our view, investing the PSRHBF in low-yielding Treasury securities actually increases the risk that the PSRHBF would run out of money. Investing it in private sector securities would reduce that risk.

Pricing restrictions

The final legislative/regulatory burden we would like to address is the overly restrictive Consumer Price Index-based price cap introduced by the PAEA to regulate postage rates charged for Market Dominant products (most letters, magazines and catalogues). One of the main goals of the PAEA was to simplify the rate-setting process, making it faster and less costly. A Senate bill passed in 2006 proposed to index all postage rates to inflation (CPI-All Items) and to allow for emergency rate increases in so-called "exigent" circumstances -- such as gas price spikes or severe recessions. The bill advanced in the House of Representatives called on experts at the PRC to create a new system of rate regulation based on best practice among regulators of other regulated industries, after conducting hearings to gather input from all the interested parties. As often happens in Congress, a little bit of both approaches was adopted in the PAEA – which called for the CPI index for 10 years and then authorizing the PRC to decide how to structure the rate-setting process after that. That is exactly what the PRC will do, beginning in December 2016.

The PAEA might have all worked out well but for two factors. First, the Postal Service decided not to exercise its option to hold one last old-fashioned rate case in 2007 to ensure rates covered all the relevant costs (including the massive cost of prefunding retiree health) before the new CPI price index was initiated. Facing a possible recession in 2007, the USPS did not want to raise postage rates by the extra 5 percent needed to build the cost of prefunding into the baseline rates before the index kicked in. It feared a rate shock would be especially damaging in the middle of a recession. That turned out to be a huge mistake--it should have done the rate case, and asked the PRC to delay implementing the results until after the recession.

Then the second factor kicked in: the economic slowdown of 2007 turned into a global financial crisis. The operating profits of 2007 and 2008 turned into deep losses of 2009-2012 as the Great Recession took hold, mail volume plummeted and the $5.5 billion annual prefunding payments kicked in. In response to the recession, the Postal Service sought and received a 4.3 percent exigent rate increase from the PRC. But USPS failed to convince regulators to make the increase permanent -- even though it was apparent to all that the Great Recession had permanently reduced the volume of First Class Mail as companies shifted to electronic billing to cut costs during the downturn.

As this committee thinks about the issue of pricing, it should remember that the overall Consumer Price Index (All items) has no real meaning as it relates to the costs of the postal industry. It is simply the average change in prices for thousands of different goods and services bought by American consumers – it is a statistical artifact.

In 2006, we argued that a more appropriate index was the Consumer Price Index for Delivery Services (CPI-DS) – a sub-index within the CPI-All Items index that measures price trends for services provided by private delivery companies. That is, the prices charged consumers by companies like FedEx and UPS. As an indexing benchmark, the CPI-DS makes sense as it would hold the Postal Service to a rational private sector standard. And it captures the kinds of costs that affect delivery and postage prices – the cost of labor, the price of fuel, and inflation trends in a transportation/utility company. Another reasonable option would be the Producer Price Index for Delivery and Warehouse Industries. As you will note by reviewing

Attachment 3, these more comparable indices have increased significantly more than the CPI since the PAEA was passed.

We believe that the PRC is the appropriate venue for deciding the future regulation of postage rates. Indeed, it is the proper venue for sorting out any matters of cost accounting and rate structures. Fortunately, the rate setting review authorized by the PAEA will begin in a few months and will be able to address the shortcomings I have raised here. However, this Committee may need to address one rate issue that was not contemplated by the 2006 law – the recent expiration of the 4.3 percent exigent rate increase authorized by the PRC to help the Postal Service recover from the permanent decline in mail volume caused by the Great Recession of 2008-2010. Given this permanent decline, we believe that the PRC erred when it made the increase temporary. The PRC prevailed after years of litigation, and the exigent increase expired on April 10, 2016.

This complicates the task of stabilizing the Postal Service's finances. The loss of $2 billion in annual revenue resulting from the expiration means that the Postal Service's modest, yet healthy operating profits in recent years (approximately $1 billion annually) will turn into operating deficits of approximately $1 billion annually. In January, before the April 10th expiration of the exigent increase, the four postal unions, the Postal Service and a significant number of major mailers, argued that Congress should freeze Market Dominant postage rates in place until the PRC review is completed (waiving the final two CPI-based increases) as part of a narrowly focused set of reforms to strengthen and stabilize the Postal Service. This would have effectively made the exigent increase permanent.

Now that the exigent increase has expired, our coalition is committed to working toward agreement on alternative revenue approaches. We look forward to working with this committee to reach consensus. In our view, if Congress does not pass postal reform legislation, the 2016-17 PRC review of the rate-setting process will have to address both the burden of prefunding and the need to make up for the lost exigent increase revenues. That could lead to terrible rate shock that neither Congress nor the Postal Service's diverse group of stakeholders would welcome.

III. Key components to consensus legislation

On behalf of more than 450,000 employees represented by all four postal unions – the NALC, APWU, NPMHU and the NRLCA – I wish to conclude by summarizing the key provisions we urge this committee to adopt in postal reform legislation to strengthen and stabilize the Postal Service. There is a remarkable degree of consensus across a broad range of stakeholders – including the unions, postal management and a cross-section of mailing industry associations – about the most important reform elements, which are outlined in a letter sent to this committee yesterday. In short, we support:

- Using postal-specific assumptions in valuations of the Postal Service's pension plans with any surpluses returned to the Postal Service over time;
- Reforming the Federal Employees Health Benefits Program as it relates to coverage of postal employees and postal annuitants to dramatically reduce the cost of retiree health benefits by fully integrating with Medicare;
- Directing the PSRHBF to be invested in index funds comprised of private sector stocks and bonds as well as government bonds with appropriate governance procedures;
- Permitting the Postal Service to provide non-postal products in limited circumstances; and

- If necessary, making an adjustment to the market-dominant base rates in order to ensure adequate revenue for the Postal Service through the period of the PRC review.

The common characteristic of the first two principles for reform is that they adopt standard practices used by large companies in the private sector. All the other principles were included in the Senate bill from the last Congress (S. 1486) or included in the bipartisan i-Post bill introduced in the Senate during this Congress. Although neither of those bills won the support of the members of our coalition for a variety of reasons, we can support these core principles.

Of course, our coalition could not agree on every issue – many of us support provisions about which there is not total consensus, and we know individual Members of Congress and groups of Representatives will want to address other issues. As a group we have agreed to work diligently to engage with this Committee on these other issues and to work in good faith to reach a fair resolution. The four unions pledge to work as long as it takes to make this happen.

Thank you, Chairman Chaffetz, Ranking Member Cummings and all the Members of the Committee for inviting me to testify on this crucially important matter.

Attachment 1.

The Legacy of the PAEA: USPS Finances Since 2006 ($BILLIONS)

Year	USPS Reported Net Income/(Loss)	PSRHB Pre-Funding	Actuarial Adjustments for Workers' Comp and Other Liabilities	Operating Income/(Loss)
2006 (pre-PAEA)	$0.9	$0.0	-$0.4	$1.3
2007	-$5.1	-$8.4	$0.1	$3.2
2008	-$2.8	-$5.6	-$0.2	$3.0
2009	-$3.8	-$1.4	-$1.1	-$1.3
2010	-$8.5	-$5.5	-$2.4	-$0.6
2011	-$5.1	$0.0	-$2.4	-$2.7
2012	-$15.9	-$11.1	-$2.4	-$2.4
2013	-$5.0	-$5.6	$0.3	$0.3
2014	-$5.5	-$5.7	-$1.2	$1.4
2015	-$5.1	-$5.7	-$0.5	$1.2
2016 (1Q)	$0.3	-$1.5	$0.5	$1.3
TOTAL Since PAEA	-$56.5	-$50.4	-$9.4	$3.3
	PSRHBF Percent of Total Losses	**89%**		

ATTACHMENT #2

AUGUST 2015

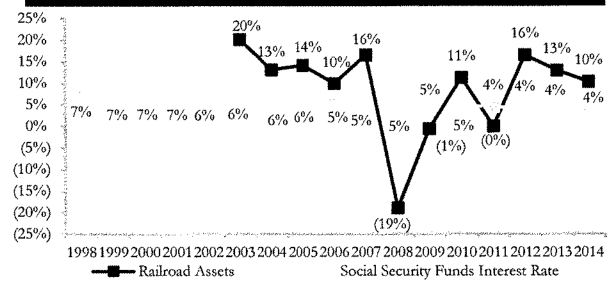
SELECTED FEDERAL AND STATE FUND ALLOCATIONS AND RETURNS

LAZARD

Case Study: 2001 Reform of the Railroad Retirement Program

The Railroad Retirement and Survivor's Improvement Act of 2001 created the National Railroad Retirement Investment Trust ("NRRIT") to invest railroad retirement assets in equities and other private sector securities; previously assets invested only in government securities

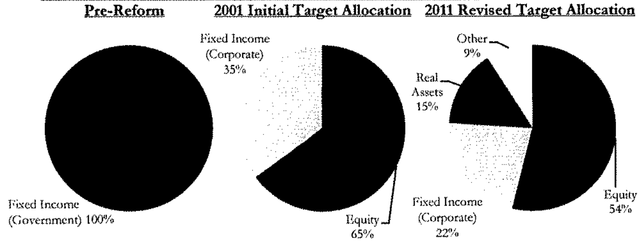
Rate of Return on Railroad Retirement Assets



Considerations in Changing Investment Allocation

- ✓ Plan funded by private-sector employees therefore investments should be expanded to private-sector securities
- ✓ Equity investments have higher expected returns over long term
- ✓ Any conflicts of interests can be eliminated through governance and policy
- — Government assets should not be invested in private sector securities
- — Potential for political influence on investment decisions
- — Formation of NRRIT could set a precedent for the reform of the Social Security program

RRB Target Asset Allocation



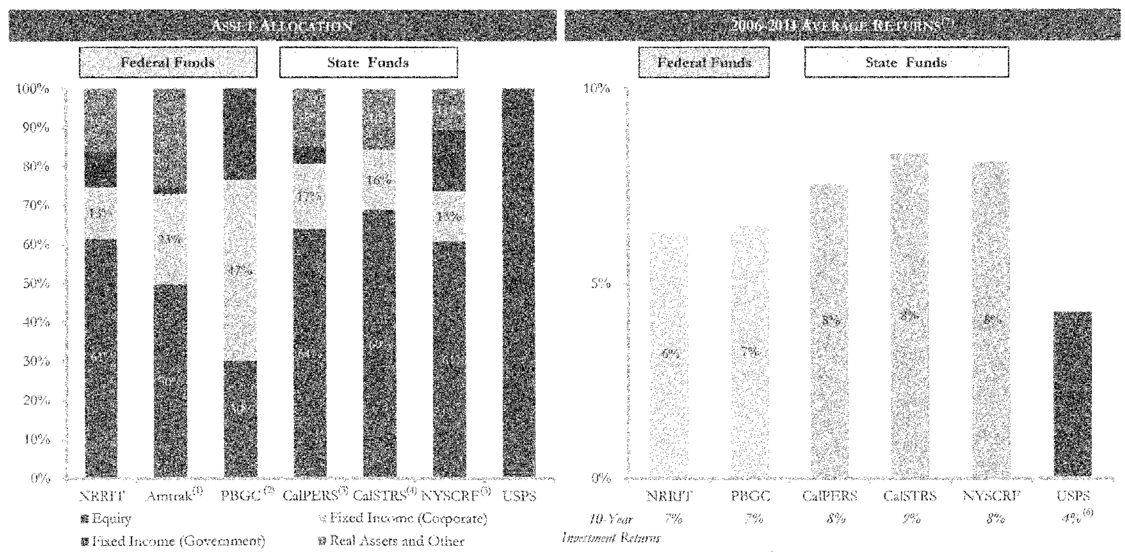
Railroad Retirement Investment Trust

- Trust is explicitly not a government entity
- Board of Trustees consists of six private-sector trustees selected by labor and management, and one independent trustee
- Trustees must retain independent advisors to help formulate investment guidelines, and independent investment managers to invest the assets accordingly
- Investments must be diversified to minimize risk of large losses and to avoid disproportionate influence over a particular industry or firm; investment in securities issued by railroads

Source: NRRT *Annual Reports*; *"An Assessment of the 2001 Reform of the Railroad Retirement Program," 2013 Center for Retirement Research Study (Boston College).*

Most Recent Asset Allocation and Historical Returns of Various Funds

Major quasi-governmental pensions and other assets funds invest in diversified portfolios including corporate securities; average returns have exceeded that of the Postal Service Retiree Health Benefits Fund ("PSRHBF") since its inception in 2006



Source: Annual reports and press releases, US News Global Asset Fund Allocation Guidelines.

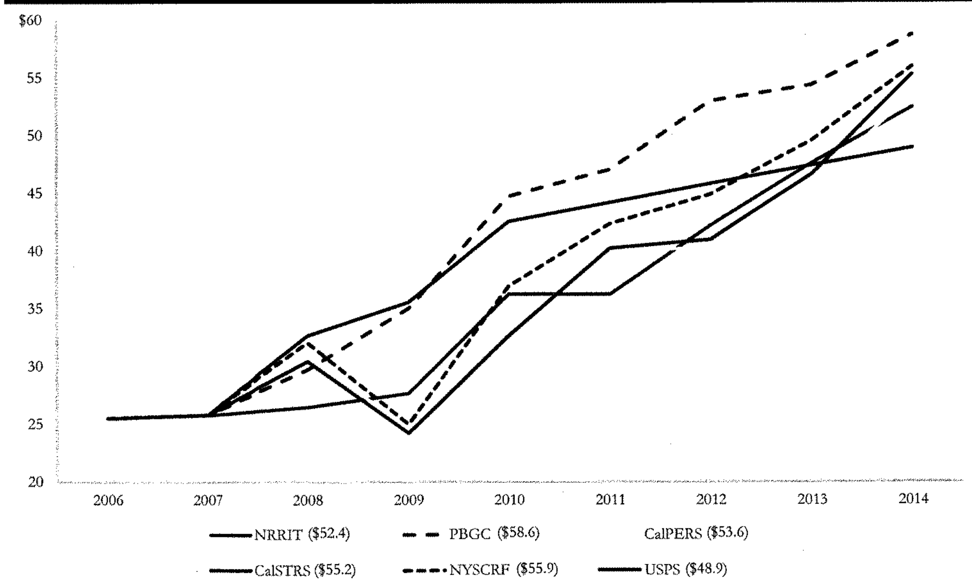
(1) Amtrak trust funds provide post-retirement benefits for non-unionized employees; total assets under management: $394m.
(2) PBGC (Pension Benefit Guaranty Corporation) guarantees pension benefits for American employees and retirees in ~24,000 plans; total assets under management: $81.5b.
(3) CalPERS (California Public Employees' Retirement System) is compromised of multiple employer plans based in CA, total assets under management: $313.7b.
(4) CalSTRS (California State Teachers' Retirement System) provides pension benefits to California full-time and part-time public school teachers; total assets under management: $189.1b.
(5) NYSCRF (New York State Common Retirement Fund) provides benefits to 3,000 state and local government-participating employers; total assets under management: $181.3b.
(6) Figures for 2005-2006 reflect US Treasury returns.
(7) USPS transferred $3.0 billion into the PSRHBF on April 6, 2007, $17.1 billion on June 29, 2007, and $5.4 billion on September 30, 2007.

PSRHBF Assets over Time

($ in billions)

PSRHBF asset balance was $48.9 billion as of September 2014. If the PSRHBF had been invested similarly to selected other quasi-governmental funds since its inception, the balance would be between $52 and $59 billion

ILLUSTRATIVE PSRHBF BALANCES ASSUMING DIVERSIFIED INVESTMENT MIX
(HYPOTHETICAL PSRHBF 2014 BALANCE IN PARENTHESES)



 Note: Assumes diversification in asset allocation begin September 30, 2007.

Appendix

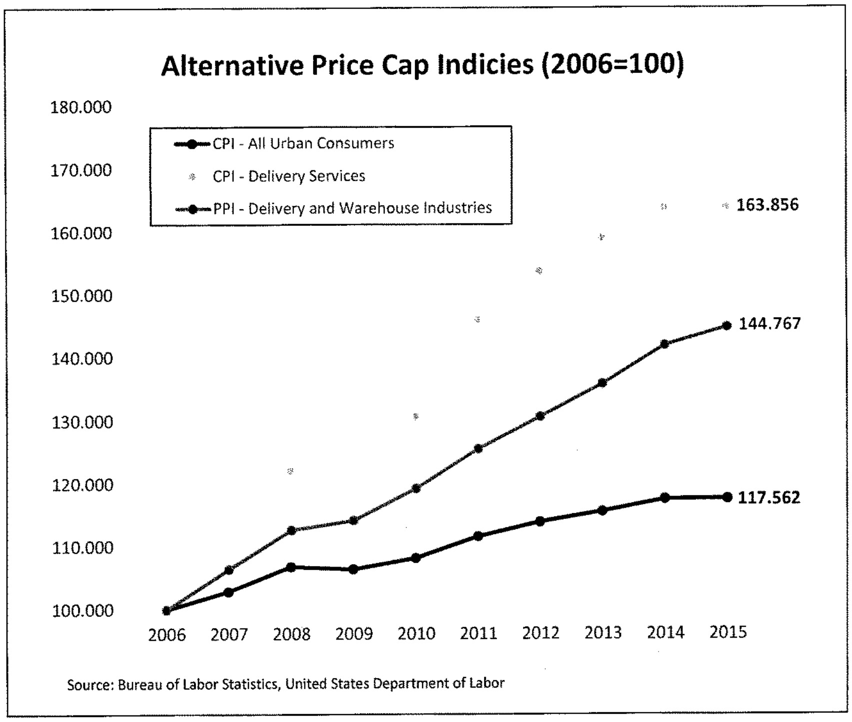
Appendix: Summary Metrics

($ in billions)

		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	*8-Year Average*	*10-Year Average*
Illustrative PSRHBF Ending Balances Assuming Diversified Investment Mix (1)	**NRRIT**	-	-	$25.7	$26.4	$27.7	$36.2	$36.2	$42.1	$47.5	$52.4	-	-
	PBGC	-	-	25.7	29.7	35.0	44.7	47.0	52.9	54.3	58.6	-	-
	CalPERS	-	-	25.7	30.6	24.8	33.0	39.9	40.3	45.3	53.6	-	-
	CalSTRS	-	-	25.7	30.4	24.2	32.6	40.2	40.9	46.6	55.2	-	-
	NYSCRF	-	-	25.7	32.0	25.0	36.9	42.3	44.8	49.5	55.9	-	-
	USPS	-	25.5(2)	25.7	32.6	35.5	42.5	44.1	45.7	47.3	48.9	-	-
	USPS PSRHBF Contributions and Transfers	-	-	-	5.6	1.4	5.5	-	-	-	-	-	-
Actual Fund Returns	**NRRIT**	14%	10%	16%	(19%)	(1%)	11%	(0%)	16%	13%	10%	*6%*	*7%*
	PBGC	9%	4%	7%	(7%)	13%	12%	5%	13%	3%	8%	*7%*	*7%*
	CalPERS	12%	12%	19%	(3%)	(24%)	11%	21%	1%	13%	18%	*8%*	*8%*
	CalSTRS	11%	13%	21%	(4%)	(25%)	12%	23%	2%	14%	19%	*8%*	*9%*
	NYSCRF	9%	15%	13%	3%	(26%)	26%	15%	6%	10%	13%	*8%*	*8%*
	USPS(3)	6%	5%	5%	5%	5%	4%	4%	4%	4%	3%	*4%*	*4%*

Notes:
Assumes diversification in PSRHBF asset allocation began September 30, 2007.
All pension funds have varying fiscal year ends: March (NYSCRF), June (CalPERS, CalSTRS), and September (NRRIT, PBGC, USPS).
(1) Ending Balances are calculated by applying selected fund return % to PSRHBF Beginning Balance and adding PSRHBF Contributions & Transfers for said year.
(2) Illustrative 2006 Beginning Balance is actual 2007 PSRHBF Contributions & Transfers figure. USPS transferred $3.0 billion into the PSRHBF on April 6, 2007, $17.1 billion on June 29, 2007, and $5.4 billion on September 30, 2007.
(3) 2005-2006 figures reflect US Treasury Returns.

ATTACHMENT #3



Chairman CHAFFETZ. Thank you. Thank you all. We will now start by recognizing the gentleman from Tennessee, Mr. Duncan, for 5 minutes.

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

General Brennan, I have an article here from the Los Angeles Times that says, "after peaking in 2006, total mail handled by the Postal Service has declined 27 percent." Is that fairly accurate, and is mail volume still slowly declining?

Ms. BRENNAN. That's correct.

Mr. DUNCAN. All right. And do you feel like you have taken every step you can do thus far to adjust to that decline?

Ms. BRENNAN. Congressman Duncan, you're correct in terms of the decline in total mail volume. The challenge for us is the continued decline particularly in first-class mail, which pays the bills, defines our network requirements, hence, our actions to right-size the infrastructure and take cost out of the system. There are still opportunities, but I think as noted, we've reduced our annual cost base by $15 billion.

Mr. DUNCAN. I will tell you a little story. About 4 years ago they had an article about me and my dad in the Knoxville News Sentinel, and I got the nicest handwritten letter from Peyton Manning about that article. He said he could tell from that article I had the same kind of relationship with my dad that he has with his dad. Well, 2 or 3 months later my chief of staff saw Peyton Manning one night and told him how much I appreciated that, and he said Peyton Manning told him that his mother told him once that if you wanted to really make an impression on people nowadays, send them a handwritten note or letter. Maybe you should try to get more people to follow the Peyton Manning method of impressing people because it made a big impression on me, I can tell you.

Ms. BRENNAN. I would agree with that, Congressman.

Mr. DUNCAN. Maybe you should get him to do an ad for you or something.

[Laughter.]

Mr. DUNCAN. Let me ask you this. Would it make any difference, or how much of a difference would it make if you went to 5-day-a-week service?

Ms. BRENNAN. We've spent the better part of the past year, Congressman, on trying to build consensus with key stakeholders, a narrower group of provisions, high value, that would generate more than $32 billion in cost reductions and savings over the next 5 years. The reality is in my discussions with public officials, members of this committee, there's no congressional consensus for moving to 5-day delivery.

Mr. DUNCAN. Right.

Ms. BRENNAN. The Postal Service is looking at, how do we leverage our infrastructure, which is an asset? How do we grow profitable revenue? How do we look to fill the mailbox and fill the truck? That's what we're focused on.

Mr. DUNCAN. Many companies in the private sector that had pension plans that they saw they couldn't afford anymore, they stopped giving those pensions to their new hires. Have you considered doing something like that, reducing the pension benefits for new hires, and would that make any difference?

Ms. BRENNAN. Congressman Duncan, I would say that we have a plan forward. There is a way to resolve these legacy costs and these liabilities, and that's by permitting the Postal Service to integrate with Medicare. It's universal practice. Our employees, as noted by the chairman and the ranking member, have paid more than $29 billion in Medicare taxes, and we should benefit from that opportunity. There is a way forward without looking at diminishing benefits to either current or future employees.

Mr. DUNCAN. Ms. Rectanus, when you looked at this, these figures are so staggering. I saw some figure that $56 billion in total losses over the last several years or something. What did you find or what do you consider to be the most troubling aspect of the entire financial condition of the Postal Service? What is the worst problem or the biggest problem?

Ms. RECTANUS. Fundamentally, what we have found is the Postal Service's business model that relies on revenue to cover its costs is no longer working. Certainly, the unfunded liabilities, particularly the RHB, have contributed to that, but there is a broader problem, and that is the fundamental business model of mail volume that the Postal Service has been using isn't working anymore. And to their credit, they have been trying to right-size their network and make changes.

But what we would argue is it's even beyond the unfunded liabilities. Even if you take those out, the ability of the Postal Service to raise its—to reduce its costs to align with the revenue, they just don't have the ability to do that right now without comprehensive reform. As one example, their controllable income, which is what they talk about the income before they account for their unfunded liabilities in fiscal year 2015 was less than it was in fiscal year 2014 even though in fiscal year 2015 they had the exigent for the full year. And that's just an example of even when there is an influx of money, the operating costs are still growing such that their—it's harder and harder for them to get ahead of their costs.

Mr. DUNCAN. Well, the unfunded liability problem is a problem for the entire Federal Government. It is more than just the Postal Service. It is staggering.

Thank you, Mr. Chairman.

Chairman CHAFFETZ. Thank you. I will now recognize Mr. Cummings for 5 minutes.

Mr. CUMMINGS. Thank you very much.

You know, the Postal Service has come up with methods to save some $15 billion per year, is that right, Ms. Brennan?

Ms. BRENNAN. That's correct, Congressman Cummings.

Mr. CUMMINGS. And I have always been concerned about making sure that we save as much money as possible. At the same time, I was hoping that we could find ways to bring in more money. So, Ms. Rectanus and Mr. Taub, do you agree that in order to be financially viable long-term it is important for the Postal Service to develop innovative products and services?

Ms. RECTANUS. We do support the Postal Service's continued ability to be innovative and develop products and resources that people need. The challenge that you run is trying to find that sweet spot between areas in which the Postal Service will be profitable since they can't afford to lose money, but you don't want them to be able to compete unfairly because of their unique status, or conversely, lose money because of their unique status.

Mr. CUMMINGS. And so you end up in a no-spot?

Ms. RECTANUS. We believe ——

Mr. CUMMINGS. You know, it is kind of hard. On the one hand we want them to be able to bring in more money, but then we tie their hands and shackle their feet and say we don't want you to do this and don't want you to do that. So what do you recommend that they do? I mean, what would you—and, Mr. Taub, you certainly are—you look like you are anxious to join in on this, so I would like to hear what you all have to say because it becomes very frustrating ——

Mr. TAUB. Yes.

Mr. CUMMINGS.—for the Postal Service and for us. So I am just wondering what you see there.

Mr. TAUB. Yes. From the—again, this is a cost-and-revenue issue. I would say the first ——

Mr. CUMMINGS. I am talking about things that are going to be profitable. I don't want anything that is not profitable, and I think Ms. Brennan would—that doesn't even make sense. Let's take that off the table.

Mr. TAUB. Right.

Mr. CUMMINGS. We are talking about profitable things. Let's go from there.

Mr. TAUB. Yes. The 2006 law took a very hard line in saying the Postal Service could only offer what are defined as postal products, what you can think of as traditionally hard-copy delivery letters, packages. So clearly, the law would need to open that aperture if you're going to move beyond that.

The Postal Regulatory Commission in 2011 in a report to Congress and the President laid out a variety of recommendations. One of them was to suggest that if that aperture were to be open, the Commission now has this experience as the regulator to call balls and strikes and ensure fair competition issues, ensure that cost coverage is there.

I would note, though, as I indicated in my opening statement that this also is part of that larger question of what is it that the United States Postal Service should do as a government institution, and I think that's an important understanding. What are the boundaries, as opposed to simply looking for revenue opportunities that may not be in their core competency. But if the financial issue of that fire in the house can be put out and the—we can start rebuilding it and look in that holistic way.

Mr. CUMMINGS. Now, Postmaster General, you have been in this position for a little while now, and I am just wondering, you know, talk about what you all have been trying to do and how that has worked out and with a more perfect situation what you would like to be able to do.

Ms. BRENNAN. Yes ——

Mr. CUMMINGS. In that regard.

Ms. BRENNAN. Yes. If I may just say, sir, we are innovating at the core in the mail by giving mail a digital reflection to stabilize it and look to grow advertising mail. In the package arena we've partnered with large e-commerce retailers to customize delivery solutions, same-day, next-day, Sunday delivery, delivery of other products, groceries as an example.

And I think as Commissioner Taub mentioned, it's innovating for us at the core. Our core competency is delivery. How do we leverage that delivery network? We've partnered with other government agencies to do in-person proofing. We did a pilot test in Arizona to on-board census workers. We think there's some opportunity for us in the future with other government agencies to do ID verification whether it's at a local retail or on the doorstep with the enhanced technology we have embedded in our mobile delivery devices.

Mr. CUMMINGS. You know, I visited the Amazon plant—as a matter of fact, the chairman and I went—in Maryland, and it was amazing to hear them talk about the last mile and how much they couldn't do their job unless the Postal Service was a part of it. How much is that helping you ——

Ms. BRENNAN. Very much ——

Mr. CUMMINGS.—financially?

Ms. BRENNAN. I would say this. The growth in package volume, Congressman Cummings, over the past year or past 5 years I'll cite, 49 percent growth in package volume, more than 1.5 billion more packages in the system. The Postal Service now delivers roughly 30 percent of all packages in the country.

Credit to President Rolando and President Dwyer of the National Rural Letter Carriers Association who worked with us to enable us to have greater flexibility with the workforce to be responsive to the customer requirements of an Amazon and others that we're working with.

Mr. CUMMINGS. I mean, what do you see—what do you project in the future with regard to that? Do you see an expansion of that? It seems like this online shopping—and I literally go, you know, to the mall myself, but apparently that is old-fashioned now. So do you see that expanding more?

Ms. BRENNAN. Yes, Congressman Cummings ——

Mr. CUMMINGS. Not my thing, I am talking about the ——

Ms. BRENNAN. Absolutely.

Mr. CUMMINGS.—online.

Ms. BRENNAN. No, I—hyper growth, hyper growth. But the challenge it's a very competitive delivery space. We compete for customers every day. It's the value proposition, competitive pricing, the transit time, performance, and certainly visibility. And the Postal Service has made investments in all of those components to ensure we improve our competitive standing.

We need to recognize that while our strength is last-mile deliver, we're challenged there. The so-called Uberization of package delivery, it's a very competitive space, so we recognize we've got to compete for that business.

The challenge, though, ultimately for us, the package growth alone won't offset the losses in first-class volume, hence the need to address the legacy costs, specifically looking at Medicare integration as the cornerstone of our legislative ask.

Mr. CUMMINGS. Thank you, Mr. Chairman.

Chairman CHAFFETZ. Thank you. I now recognize the gentleman from Texas, Mr. Farenthold, for 5 minutes.

Mr. FARENTHOLD. Thank you, Mr. Chairman.

And I want to follow up on a couple of things that the ranking member talked about, Ms. Brennan. You used the phrase "give mail a digital reflection." What does that mean?

Ms. BRENNAN. Yes. Yes, Congressman. We created a catalog called Irresistible Mail that imbeds in the catalog new technologies well beyond QR codes to include augmented reality near-field communications, so you open that catalog, it comes to life, so making it more creative and making it more relevant to the end consumer.

Mr. FARENTHOLD. Okay. Super. And I think you also touched on the amount of work that you guys do for Amazon, and I think that is a great revenue opportunity, but I am afraid it is a short-term problem. I imagine there are a lot of people who spend their day at Amazon looking for ways to deliver packages faster and more efficiently. For instance, here in Washington, D.C., I have got about an hour and 5 minutes to order something that will be waiting for me when I get home tonight, and that isn't you all that are doing the last-mile delivery on that.

I work on the Transportation Committee. Amazon is talking about developing drones to deliver packages. One day in the not-too-distant future they are going to say bye-bye to you guys, and how are you all preparing for that? I mean, you are saying they are 41 percent of your package volume.

Ms. BRENNAN. Congressman, I would say this: As I noted, it is a very competitive delivery space, so we've got to compete for that business. The term "coopetition" exists whether it's with Amazon, who's a valuable customer as well as business partner, or UPS and FedEx who are traditional competitors, also business partners for us. So, again, it comes down to delivering the best value, and that includes service and price.

Mr. FARENTHOLD. And let's talk about service and price for a second. I live in Corpus Christie, Texas, and we were the unfortunate victims of a consolidation of a mail processing center. So now, instead of mailing something to my neighbor across the street and having it processed in Corpus Christie and delivered the next day, it is trucked to San Antonio, processed, and maybe delivered in 3 days at the same price. At some point, you know, companies like Amazon want it there quicker. As you cut the quality of your service, especially on your lead program or your lead product, first-class mail, it starts to become less valuable and makes email look like a better alternative.

Ms. BRENNAN. Congressman, the consolidation was in response to that decline in single-piece first-class mail, which is down more than 35 percent over the last decade. The service standard change and consolidation did not impact the delivery of packages, which is the growth product. We did the responsible thing, which was right-size the infrastructure, address the latent capacity, and look at how to better utilize our assets. Now, service is foundational and it is key to growth. We recognize that.

Mr. FARENTHOLD. And so we also spent a little bit of time talking about some of the—and I think almost everybody on the panel had a wish list of postal reforms that would make things better. Obviously, you know, shifting people to Medicare where it is a taxpayer responsibility instead of a postal responsibility makes sense, and it is probably fair, even though I hate to see even, you know, what is it a 2/10 of a percent increase in the Medicare cost? It is so big anyway, we are talking a lot of dollars.

Postal reform that has been talked about in past Congresses included other things, things like cluster boxes, curbside mail instead of delivery to the door and, you know, no junk mail on Saturdays but maybe the higher revenue packages and the like. Why are we still talking about those?

Ms. BRENNAN. Why are we still or not talking about ——

Mr. FARENTHOLD. Or why are we not talking about those?

Ms. BRENNAN. Yes.

Mr. FARENTHOLD. Why did they make sense a year ago ——

Ms. BRENNAN. Yes.

Mr. FARENTHOLD.—yet nobody is bringing them up today?

Ms. BRENNAN. Again, Congressman, my approach in the past year was to try to build consensus around provisions, high value likely to generate broad support.

Mr. FARENTHOLD. So there is something about—you know, it would be difficult for—we will take my family, for example. If we don't have the money to do anything, it is hard to generate consensus about not taking a vacation, but we are not taking a vacation because we don't have the money. I mean, that is just an example. So at some point you are going to have to make, I think, some hard choices, and you are not going to walk away with everyone happy. And I think that is what we were elected to do here in Congress not just with the Postal Service but on a government-wide basis and say, okay, we can't afford that, so let's pick the stuff that is important and to pick the stuff that will work and make those hard decisions.

Ms. BRENNAN. Congressman, we have made the hard decisions. You just noted one, the consolidations. The accelerated pace with which we ran was because of our dire financial situation.

Mr. FARENTHOLD. But you all have stopped the consolidations now and are looking at other things. A report says they are going to be no more consolidations this year. Is that ——

Ms. BRENNAN. Congressman, we deferred the consolidations until we stabilized the network because service is our mission, and service was not where it needed to be. It has since improved and we're showing positive trends in that regard.

I would offer—your comment about mode conversation, cluster boxes, for all new delivery, based on the delivery characteristics of that environment, we either effect delivery through box-on-post or centralized delivery. And of the more than 900,000 new possible deliveries that we added last year, over 70 percent were centralized or box-on-post. So we're making the right business decisions.

Mr. FARENTHOLD. All right. I see I am out of time. Thank you.

Chairman CHAFFETZ. I thank the gentleman.

I will now recognize the gentleman from Massachusetts, Mr. Lynch. Microphone? Thank you.

Mr. LYNCH. Is it working? Oh, I am sorry. Okay. There we go. Thank you, Mr. Chairman. I also want to thank Mr. Cummings and Mr. Connolly and Mr. Meadows for all their work. We have done a lot of work on the side here to try to coordinate our efforts up here. And I am very pleased to see that the same thing is happening down there. I mean, we have a new postmaster general, along with the National Association of Letter Carrier, rural letter carriers, mail handlers, the clerks, supervisors, and then the PRC, as well as the mailing community and the GAO, inspectors general, everybody on the same page. And so it troubles me that we can't move this ball forward.

I do want to focus on one key aspect of this, and that is the coordination of benefits between the FEHBP—I hate these acronyms—but the Federal Employee Health Benefit Plan and Medicare. So, Postmaster General Brennan, the situation we have right now, as has been noted by the chairman—and the chairman deserves a lot of credit because he has really been the one that has brought us all together with the ranking member and has us all working together, and it has been completely bipartisan and really—we do a lot of work up here, and this effort has been really bipartisan.

But the way this works right now, the Postal Service is the second-largest contributor to Medicare, and the largest—and as the chairman and the ranking member noted, your people, the postal employees paid in $29 billion so far to Medicare. And the largest group is DOD, I believe, and they have a TRICARE wraparound with Medicare. And they are the largest. But when folks come out of the military and go on benefits, they are required to use Medicare as their primary insurer, so that is a good way to reduce their costs.

And we don't do that at the Postal Service. We have about 25 percent of our employees that are relying solely on FEHBP and are not using, as they could, as they could because they have paid in—they are not using Medicare as their primary insurer. This in fact would—and I think President Rolando mentioned this in his testimony. It would basically eliminate—out of that $50 billion in unfunded liability, it would just about eliminate all of it, is that right?

Ms. BRENNAN. That's correct.

Mr. LYNCH. Okay. And I have been listening closely, you know, because you have different groups out there. The only criticism that I have heard so far is that postal employees who pay into Medicare might actually use it. That is the only criticism I have heard, that people who pay into Medicare will use it, and some people see that as a negative. But I think it is entirely fair and reasonable to expect that people who paid in $29 billion might actually use some of those benefits, so I really don't see that as a realistic criticism.

The second opportunity in this—and you have done a great job with this proposal, and I think it ought to be adopted, and we ought to move this as quickly as possible in the form of legislation, more this forward. I really do think—and I realize we can't fix everything, but just because you can't fix everything doesn't mean you shouldn't fix something. And we can help. We can help up here. With a major piece of legislation here, we can help the post office immediately. We got other problems we will have to deal with, but that is for another day.

The other thing I think that might be done quickly is, President Rolando, you mentioned the corpus of our health benefit trust fund. And right now, we are required, I believe, to hold that in treasuries, which for the past few years has been dismal in terms of what it returns, you know, to the fund. And I know part of the proposal suggests that maybe 50 percent of that fund might be managed by a commission. Could you talk about that a little bit?

Mr. ROLANDO. Yes. What we were talking about doing is having, you know, a board that would govern this that could invest 50 percent, up to 75 percent in something like the thrift savings plan lifecycle funds.

Mr. LYNCH. Okay.

Mr. ROLANDO. We looked at the period going back to 2007 where we were earning, I don't know, somewhere about 4 percent with Treasury securities. Had it been invested in a lifecycle fund—and again, keep in mind this would have been through the worst recession in 80 years—we would have earned somewhere about 7 percent, which would have raised the fund another $10 billion just as an example.

Mr. LYNCH. Okay. All right. I think we have to be careful with that, but I think that is a reasonable compromise.

Okay. I think my time has expired, and I will yield back. Thank you, Mr. Chairman.

Chairman CHAFFETZ. I thank the gentleman, and I appreciate Mr. Lynch's work and passion on this issue and look forward to continuing to work with him on it.

I now recognize the gentleman from North Carolina, Mr. Meadows, for 5 minutes.

Mr. MEADOWS. Thank you, Mr. Chairman. Thank each of you.

As we enter into this, I want to start out, Mr. Taub, by saying thank you for your work. It was good to visit with the PRC and all the dedicated employees that work there.

Mr. Rolando, I want to just say I know I was not on your Christmas card list. I do appreciate the fact that you have been willing to work with me in an open-minded way. That was your commitment to me, my commitment to you, and I want to thank you.

Ms. Brennan, thank you so much for being here. Obviously, as we look at this, this is an interesting time and so for all the postal workers, you know, I just want to say thank you.

I have been a secret shopper because, you know, I am not shy about my criticism either. And so in Spruce Pine just the other day, I went into a place—actually, I sent my wife in because now I start to get recognized in some of these places. And the service that Debbie Calloway gave my wife was nothing less than spectacular. And she didn't know who she was, and we went in. And so I went back in to thank her for her service. And that is what we need to do in terms of service standards.

As a fiscal conservative, one of the things that you are asking me to do is get rid of a prefunding requirement that was, you know, part of a previous deal, and so why should I do that? Make a very short, compelling case on why I should do that.

Ms. BRENNAN. First, I would say, Congressman Meadows, it's the right thing to do to ensure that our pensions and the retiree health benefits is funded. It was the accelerated pace of that funding that created a large part of the challenge, but now we're beyond that come this fall. The issue now is it's a system that's unaffordable for us. And, again, going back to we've paid more than $29 billion into the fund. Our employees should benefit ——

Mr. MEADOWS. All right. So you are saying that you paid $29 billion, we ought to do that. So I am willing to take the leap. Now, we have heard all kinds of different testimony. That doesn't get us where we need to go, does it?

Ms. BRENNAN. In and of itself, it's not enough ——

Mr. MEADOWS. Yes, it is about 2.8, $3 billion of a $5 billion deficit, so we need some other areas. We can't make it up in volume because part of what is concerning me is that it indicates that we are just going to raise rates, that this is a revenue problem. And at $69 billion, it is not just a revenue problem, it is a management problem, so how do we take this without raising rates as being the ultimate answer and really fundamentally reform it and make it work? Are you in support of safe and secure delivery, you know, through cluster box? Is that something that you would support wholeheartedly?

Ms. BRENNAN. Depending on the characteristics of the delivery environment, yes. We currently do affect delivery to cluster boxes ——

Mr. MEADOWS. Would you support expanding that in a meaningful way, understanding that we may have to grandfather a lot, but we have been discussing is really looking at safe and secure delivery, which you may get some pushback from Mr. Rolando and some of those on that side, let's recognize that, but we have all got to come together to figure this out. Are you supportive of that? Yes or no?

Ms. BRENNAN. Yes. And, sir, what I—if I may, the comment I made earlier about new delivery and based on the delivery characteristics, what we would not recommend is mandatory conversion of existing door delivery, of which we have over 37.5 million businesses and residents that get door delivery ——

Mr. MEADOWS. Well, so let's say if we grandfather some of those in and we start to work—because I have been working with Mr. Lynch in an area that is different than mine. If we work through that, you are asking me to go ahead with the prefunding and jump off a cliff, I am asking you, are you willing to work with us to make sure that we implement safe and secure delivery in a meaningful way?

Ms. BRENNAN. Yes. And if I may also comment, management has demonstrated a willingness to address operational efficiencies and to reduce costs, and we'll continue to do that ——

Mr. MEADOWS. Okay. So ——

Ms. BRENNAN.—in our ——

Mr. MEADOWS. Go ahead.

Ms. BRENNAN. I apologize.

Mr. MEADOWS. I ——

Ms. BRENNAN. If I may, Ms. Rectanus mentioned that we don't have any major cost reductions initiatives planned. We do. We have more than $5 billion in cost reductions embedded into our 5-year plan, and we continue to look at opportunity to drive operating efficiencies. That's our responsibility.

Mr. MEADOWS. But most of the opportunities we have talked about actually have been with increasing service, you know, or trying to increase a portfolio, whether it is banking or anything else, and that just doesn't—I have only got a few seconds left, so here is my concern. We are talking about all of this, and we are missing out on service standards. It is the number one thing that I get calls about, you know, why is my meal not being delivered, why are we having a problem?

And even me, you said, you know, that first-class mail that is your bread and butter, and this first-class mail actually is all postmarked in December. I got it in April. Now, that is not a funding problem. That is a management problem. And it is not just here. It is not just in my district because in Peachtree City we have the same thing where we mailed actually wedding invitations for my son that took 8 weeks to get to another Member of Congress.

And so what we have to do is put this together and make sure that we have a service standard that doesn't just increase costs, and I am willing to work in a bipartisan way to do that, but we have to make sure that we do it in a way that serves the best interest of the public. And are you committed to do that?

Ms. BRENNAN. I am committed. And if you would, if you'd give me those envelopes, I will look at that.

Mr. MEADOWS. I don't want to get somebody fired but ——

Ms. BRENNAN. No. No, you won't ——

Mr. MEADOWS.—we just need to ——

Ms. BRENNAN.—because—Congressman ——

Mr. MEADOWS. But I will give them to you. Actually, I had about 40 different pieces of mail that came to me that had the same problem.

I will yield back.

Ms. BRENNAN. Thank you.

Chairman CHAFFETZ. I thank the gentleman,

Mr. CONNOLLY. Mr. Chairman, I just want to note, now I know why my wedding invitation wasn't ——

Mr. MEADOWS. You are always invited there, Mr. Connolly.

Chairman CHAFFETZ. I now recognize the gentlewoman from Illinois, Ms. Kelly, for 5 minutes.

Ms. KELLY. Thank you, Mr. Chair. I just wanted to say every time we have a postal hearing I text my brother because he works for the post office, so I ask him did he have any questions that he wanted me to ask you. But one thing I wanted to say as far as the consolidations, I am glad that you thought enough, even though they might be necessary to slow it down because service does come first, and that is some of the things that he has spoken about because of all the closed stations, the long lines, and not enough clerks in the window. So I am glad that you are still putting service first and taking that into consideration because people will go other places if they don't feel like they are getting good service. And we definitely want the post office to thrive.

Ms. Brennan, one of the elements of the joint postal reform proposal put forward by the Postal Service, the postal unions, and certain elements of the mailing industry is the use of postal-specific demographic assumptions when calculating pension liabilities. The proposal would also require any surplus resulting from those calculations to be used to pay down the Postal Service's debt to the U.S. Treasury.

Intuitively, it makes sense to use the demographic and salary growth statistics of the postal workforce when calculating the Postal Service's pension liabilities. What is it about the demographics of the postal workforce compared to those of the government's entire workforce that you believe will result in lower cost?

Ms. BRENNAN. Specifically, Congresswoman, the salary wage growth. And we estimate over a 5-year period that to be valued at roughly $3.2 billion.

Ms. KELLY. Okay. Has the Postal Service calculated how much in savings would result from the use of postal-specific demographic assumptions?

Ms. BRENNAN. Roughly $3.2 billion over a 5-year period.

Ms. KELLY. Okay. Ms. Rectanus, GAO has done a significant amount of work on postal pension funding issues in recent years. In 2014, the GAO supported the use of the most accurate actuarial assumptions for postal pension liability calculations. Do you agree with Ms. Brennan that the Postal Service should use postal-specific demographics when calculating pension liabilities?

Ms. RECTANUS. Yes, we support it because if it is the most accurate data, then that should be used to get a better number of what the liability is.

Ms. KELLY. And do you have any views on the amount of the potential savings that may be available if that is used? Do you agree or do you have different ——

Ms. RECTANUS. We have not done the calculation so I can't—and we haven't looked at the Postal Service's data so I can't comment on that.

Ms. KELLY. Okay. Thank you. And I yield back my time.

Chairman CHAFFETZ. Thank you.

Mr. CONNELLY. Would the gentlelady ——

Ms. KELLY. Yes, I will yield. Yes.

Mr. CONNELLY.—yield? I thank my friend. And I want to thank you all for being here. And I have got to say, Postmaster General Brennan, you represent a breath of enormous fresh air. I mean, I want to say publicly how much I appreciate working with you. We have been able to forge a bipartisan coalition. Mr. Chairman, thank you for your leadership and bringing us together to do that.

And I share the sentiments of my friend Mr. Lynch from Massachusetts and am very hopeful we are going to get postal reform, not everything but a big chunk of what we need to be addressing so thank you.

Ms. Brennan, what does it mean for the Postal Service to lose the exigent rate, which expired, I think, in April, right?

Ms. BRENNAN. Yes, Congressman Connelly. This year, we estimate that impact to be up to a billion dollars this fiscal year and roughly $2.1 billion going forward, worsening our financial situation.

Mr. CONNELLY. And, Ms. Rectanus, in your testimony you state, "The Postal Service's financial condition continues to deteriorate" and you attribute that to "declining mail volume and growing expenses at the same time," is that correct?

Ms. RECTANUS. Yes, that is.

Mr. CONNELLY. And yet do you believe that some of the elements of the reform we have been talking about, freeing up the Postal Service to, you know, engage in some other lines of business that may be profitable like other postal services around the world do, so lifting some of those restrictions, lifting the burden of a unique prepayment requirement, as Mr. Rolando pointed out, unique to the Postal Service. No other Federal agency, no other private corporation in America is held to that standard in terms of that prepayment. And it is, you know, whatever it is, $5 billion plus, plus the Medicare reform I think we have been talking about, which I wish Mr. Farenthold were still here. That is not a taxpayer giveaway. Postal workers have paid $29 billion for a service they don't participate in, benefit from yet. Those things, could they turn around that financial description you have offered in your report?

Ms. RECTANUS. GAO has not taken a position on specific elements in that proposal. However, we have supported appropriate restructuring of the ——

Mr. CONNELLY. Well ——

Ms. RECTANUS.—retiree health benefits ——

Mr. CONNELLY.—if I may because I am running out of time, I am not asking you for your position; I am asking you for your analysis. If those things were adopted, would your numbers and your prognosis change?

Ms. RECTANUS. Certainly they would benefit the Postal Service. What we would not want to see, however is not an equal focus on cost reduction and right-sizing and trying to get the house in order so that whatever revenue is generated is appropriate and people understand that solutions are trying to be gotten in both areas.

Mr. CONNELLY. If the chairman will allow the postmaster general to comment on that as well, and then I will be done. I thank the chair.

Ms. BRENNAN. Thank you, Congressman Connelly. And it relates to the questions from Congressman Meadows. We need the legislative reform, a favorable resolve of the rate-setting process, and management actions need to continue to drive operational efficiencies and grow profitable revenue. All the above would put us on firmer financial footing, have manageable debt, and have the ability to invest.

Mr. CONNELLY. Thank you. And thank you, Mr. Chairman.

Chairman CHAFFETZ. Thank you.

Mr. CONNELLY. Thank you, Ms. Kelly.

Chairman CHAFFETZ. I will now recognize the gentleman from Georgia, Mr. Hice, for 5 minutes.

Mr. HICE. Thank you, Mr. Chairman.

Ms. Brennan, I think I heard this; I just want to clarify. How many employees at the Postal Service total?

Ms. BRENNAN. We have about 498,000 career and 136,000 flexible or non-career employees.

Mr. HICE. Okay. What was the 7.5 million referred to twice, Ms. Lowrance, you and Mr. Rolando both.

Ms. LOWRANCE. That is the entire mailing industry, so it includes private sector, as well as the Postal Service.

Mr. HICE. Okay. So more or less, what, 550,000, 600,000? I didn't tally that.

Ms. BRENNAN. Yes, roughly 634,000.

Mr. HICE. Six thirty-four, okay. And yet we all understand we have got a declining industry as a whole because of a variety of factors, digital and so forth. Does the Postal Service have too many employees?

Ms. BRENNAN. We have a requirement, our universal service obligation, to deliver to all 155 million delivery points, 135 million of which are physical delivery points. The other 20 are post office boxes. So that requires an extensive network, and that network includes employees, facilities, vehicles and equipment ——

Mr. HICE. I understand that, but is it top-heavy? Do we have too many employees?

Ms. BRENNAN. No. I would say that we consistently look at how to rebalance and where there are opportunities. And if you look at the reduction in overall complement, we've reduced more than 168,000 employees over the last decade.

Mr. HICE. Okay. So we have 634,000 employees, we have a declining business, but you don't think we have too many employees still?

Ms. BRENNAN. The challenge, sir, is the workload content associated with package delivery, as an example ——

Mr. HICE. No ——

Ms. BRENNAN.—is ——

Mr. HICE.—I understand that.

Ms. BRENNAN. There's ——

Mr. HICE. But that problem is why we have a declining business. The result of a declining business—what would a private company do? If a private company is losing money month after month, year after year, quarter after quarter, what would they do?

Ms. BRENNAN. What we did, sir, in terms of rationalizing the network, consolidating facilities, adjusting retail hours at post offices to match customer demand, some of the same management actions that I've been recently criticized for.

Mr. HICE. But we are still losing money. And I will go on. You said a few moments ago that your goal is to fill mailboxes and trucks. Is that your strategy to turn this thing around?

Ms. BRENNAN. Our strategy is far more complex than that, Congressman.

Mr. HICE. I would hope so.

Ms. BRENNAN. I was trying to simplify.

Mr. HICE. Well, but that is what you said was your goal.

Ms. BRENNAN. It's—you don't want to—you can't cost-cut your way to prosperity. There are opportunities for us, certainly, to drive efficiencies. There are opportunities for us to look at overall operating expense, and we do that every day, but we also need to look at opportunity to grow. There are opportunities to grow. Mail still works. We delivered 154 billion pieces of mail last year and 150 billion was mail, 4 billion packages ——

Mr. HICE. But you continue to lose money. That is the issue, and it seems rather unrealistic when you have a declining industry to think that somehow the goal of simply filling mailboxes and trucks is going to be successful in the long run.

Ms. Rectanus, you mentioned earlier that the Postal Service has been on high risk since 2009. And you summarized the reason—two basic reasons: less mail and higher salaries. Do you see an opportunity without cutting, be it the workforce or whatever, for the Postal Service to turn this around?

Ms. RECTANUS. We have proposed that it's really got to be a balancing act between generating revenue and aligning costs. We do believe that there's more right-sizing that the Postal Service can do, and that's addressing where they have excess capacity but then putting that where they do need capacity, certainly exploring some of the workforce issues that they have, and they—Ms. Brennan is right. They've done a great job over the past several years to manage their workforce, but we're starting to see it creep up again in fiscal year 2015, and looking at the delivery mechanisms.

Again—and you need to do that by also looking at the revenue, but you have to look at both of them. And, yes, part of it is what does the mail picture look like today and in the future and what type of services are going to be required, and how do we want to provide those services, which is what we would like to see through comprehensive postal reform.

Mr. HICE. Okay. Well, let me springboard off of that and come back to you for my final question, Ms. Brennan. What is the Postal Service's long-term plan for addressing the declining industry?

Ms. BRENNAN. Let me first, if I may, Congressman, address your comment earlier about the losses. The majority of the losses are tied to the prefunding mandate.

In terms of our long-term plan, it is addressing infrastructure, how to leverage that, repurpose that to support the growth, address the latent capacity ——

Mr. HICE. Support what growth?

Ms. BRENNAN. Package growth, sir. We've grown our packages 49 percent over the past 5 years. We will right-size the infrastructure, as we've been doing with where we need to consolidate with the decline in letter volume. We'll continue to look at every opportunity to improve operating efficiencies. We have a number, as I mentioned, of over $5 billion of cost reductions identified in our 5-year plan.

Mr. HICE. Thank you. I think it is time for the Postal Service to act as private business has to act in similar situations of constantly losing money without relying upon the taxpayer. At some point we have got to change.

Mr. Chairman, I thank you for your indulgence.

Chairman CHAFFETZ. I thank the gentleman.

I will now recognize the gentleman from California, Mr. Lieu, for 5 minutes.

Mr. LIEU. Thank you, Mr. Chairman.

Postmaster General Brennan, last October the U.S. Postal Inspection Service issued a release about mail theft. And it says that these crimes are increasing and that mail theft from collection boxes and customers' mailboxes is a big problem. It also said in most cases of mail theft from centralized mailbox units involved counterfeit master keys.

So two questions for you. One is when you talk about right-sizing, are you reducing U.S. Postal Inspection Service members at all, and does that have an effect on mail theft? And second, as you move to more and more cluster boxes, doesn't that also increase mail theft because you just need one master key and then you have access to a whole lot of mailboxes?

Ms. BRENNAN. To your first question, no, we are not reducing. In fact, we have two classes currently and in training to increase the postal inspection staffing.

And in terms of the theft, particularly as you're aware in your district, Congressman, we've got a postal inspection task force that's working with local authorities and the community and taking some proactive measures to address that. I'd be more than happy to brief you in detail given the sensitivity of those corrective measures.

Mr. LIEU. Thank you. I would appreciate that.

Ms. BRENNAN. Certainly.

Mr. LIEU. Second, in terms of trying to raise revenue, what is your view of postal banking as a way to generate revenue and also serve communities that may not be served as well by banks or may not have a trust of private banks but may trust the post office?

Ms. BRENNAN. Fundamentally, we're open to any new product and service that would generate profitable revenue. That said, we do provide some banking services now. We provide money orders, electronic money transfers, and cash treasury checks. We would need to look at that through a business prism. Can we execute effectively? Can we grow profitable revenue? And is this a service that is not offered in the public sector?

Mr. LIEU. Okay. We have had a number of difficulties with service in my district, so the first point I want to make is when we contact your office, they have been enormously responsive and they are able to help cases. About 97 percent of cases get resolved. The problem is we continue to get more and more cases, and now it looks like it is a systemic issue in western L.A. County. A councilmember in west L.A., his office had not gotten any mail for an entire week. We just checked again, and even when they get mail, it is sort of spotty, so this past Monday and Tuesday they are not getting any mail. We get complaints from Santa Monica and Redondo Beach.

In the city of Beverly Hills it got so bad that the local newspaper did an entire series on it. So last August, for example, they printed a story saying, "residents agree, Beverly Hills post office fails to deliver." Last September, "post office acknowledges crisis and meeting at Congressman Lieu's office." Last December, "Beverly Hills post office issues continue." And then this January from Beverly Hills Courier, "Beverly Hills post office ends year with more customer woes."

And with the indulgence of the chair, if I could submit these for the record.

Chairman CHAFFETZ. Without objection, so ordered.

Mr. LIEU. Thank you.

I would just like your commitment that you will work with our office to look into these issues. I am elevating it because you happen to be here, but also, we have tried with the local folks on numerous occasions. And what will solve individual cases, systemically, they just keep on coming in. I think there needs to be a systemic fix.

Ms. BRENNAN. Congressman, absolutely. And if I may just address Beverly Hills, which I am familiar with specifically, we did make some adjustments in transportation and staffing to improve the performance out of that particular facility, and I'll be glad to talk to you and follow upon the other issues.

Mr. LIEU. All right. Thank you. And then my last point, one of my colleagues said that the Postal Service should be run more like a business. You don't actually set the rates for your products, correct?

Ms. BRENNAN. Products that generate roughly 76 percent of our revenue are capped at household inflation.

Mr. LIEU. Right. And in fact, if you actually set your products at market rates, you would be getting a lot more revenue. Isn't that correct? Potentially?

Ms. BRENNAN. We have an opportunity in 2017 with the review by the PRC of the rate-making process to look at the present price cap, is it meeting its objective as outlined in PAEA, which was to ensure that revenues cover our expenses and to ensure the financial stability of the Postal Service. We think there's opportunity there. We think a rigid price cap is fundamentally unsuited in an environment where you have declining workload and fixed or growing infrastructure costs.

Mr. LIEU. My view is if people want the Postal Service to run like a business, they need to give it tools to make it run like a business. Otherwise, they should stop saying that. I yield back.

Chairman CHAFFETZ. I thank the gentleman.

I will now recognize the gentleman from North Carolina, Mr. Walker, for 5 minutes.

Mr. WALKER. Thank you, Mr. Chairman. Thank you, panel, for being here today.

A lot of this to me is about the perception's trust in the post office as a whole. And just going back and looking at the numbers over the last few years, 2015, $5.1 billion lost; 2014, $5.5 billion; '13, $5 billion; 2012, $15.9 billion; 2011, $5.1 billion; 2010, $8.5 billion. At some point the people are saying what is going on here? So this is just a perception. This is the reality of a major trust issue. I have 5 minutes to speak. In those 5 minutes, the approximate amount that the post office will lose is $47,564. That is a huge issue.

And I have heard today from some of the witnesses that we are working hard or some of the members, the colleagues, that they are working hard to try to do things better, but I have a couple specific questions in regards to this rate increase that we are beseeching Congress on. If you did receive this rate increase, can you tell me about where this extra money would be reinvested, General Brennan?

Ms. BRENNAN. In terms of if we were granted ——

Mr. WALKER. If you were granted a rate increase, where would that money go? Where would ——

Ms. BRENNAN. Well, one ——

Mr. WALKER.—you invest it?

Ms. BRENNAN. First of all, we would look to pay down debt if we were to—able to address these long-term liabilities. And the net losses that you cited, Congressman, are in large part due to the prefunding requirement. The past 3 years we have had controllable income, which is revenue less expense, that which was—is within our control.

Mr. WALKER. Would you agree with this statement that the Postal Service could run out of money between 6 months and a year at the most?

Ms. BRENNAN. What we will do, our fiduciary responsibility would be to make decisions and prioritize which payments to make to ensure that we would be able to continue to deliver the mail and pay our employees and our suppliers.

Mr. WALKER. My concern with that statement is that wasn't a recent statement. That statement was from over 3 years ago, and we have seen continuing beseech of Congress as far as more and more funding, this isn't working out.

I want to hone in today on something, though, specifically about packages versus the mail. And I want to make sure that I am clear on this, as we have done some research on this lately. The increases that you are requesting, would they be used to subsidize the package area of the post office business or would it be to increase the mail delivery? Can you expound on that a little bit today?

Ms. BRENNAN. Yes. In terms of the cross subsidization issue, the PRC annually reviews to ensure that there is no cross subsidization, that our competitive products cover their cost, and also that they contribute a minimum of 5.5 percent to institutional costs. The PRC has found annually since the inception of PAEA that that is in fact happening.

Mr. WALKER. Well, you have stated that Postal Service has made consolidations to respond to the decline in the mail, but you have also stated that you are investing in package delivery. I believe you just said that just a few minutes earlier. And that as a result of those investments, package delivery was not slowed by the consolidations. But Title 39, section 101, subsection (e) states that "in determining all policies for postal services, the Postal Service shall give the highest consideration to the requirement for the most expeditious collection, transportation, and delivery of important letter mail." Do you think that the Postal Service is following both the spirit and the letter of this law given your current actions?

Ms. BRENNAN. I do believe we're following the spirit of that law.

Mr. WALKER. Well, if that is the case, then, the annual compliance report suggests that the post office, the Postal Service is routinely prioritizing competitive products over market-dominant products. Do you disagree with that?

Ms. BRENNAN. I'd have to see that, sir, in terms of what you're actually referring to.

Mr. WALKER. Well, I believe it is your annual compliance report that once again ——

Ms. BRENNAN. That says ——

Mr. WALKER.—suggests that the Postal Service is routinely prioritizing competitive products over market-dominant products. Can you expound on that?

Ms. BRENNAN. No, I believe that may be the PRC's comment that it suggests—I'm not sure what you're referencing there. If I can talk about the annual compliance ——

Mr. WALKER. Sure.

Ms. BRENNAN.—report and annual compliance determination, we're very transparent about performance in terms of transit time performance, in terms of volume growth, and in terms of investments within the organization.

Mr. WALKER. Thank you, Mr. Chairman. I appreciate the time. Thank you, General Brennan, and I will yield back.

Chairman CHAFFETZ. Thank you. I now recognize the gentleman from Pennsylvania, Mr. Boyle, for 5 minutes.

Mr. BOYLE. Yes, thank you, Mr. Chairman.

I was struck by the fact that—I don't know when this was; I know it was recent—that Pew Research did a poll of favorability ratings of different, various government agencies, and the post office came out the highest at 84 percent, which I can't remember where Congress was, but I think Postal Service was slightly higher than where Congress ended up, significantly lower than that. That is made all the more remarkable by the fact that you have had a decade where there are 200,000 fewer employees than there were just a decade ago.

My question, though, is regarding the rather unique requirement the Postal Service lives under where essentially you have to prepay 75 years of obligations within a 10-year window. Can you talk about the effect that that has had on the balance sheet? And do you know of any other government agency or for that matter private sector company that has to live under such a unique requirement? I will leave that to anyone who wants to grab in. If you would like to go ahead.

Ms. BRENNAN. I'll be happy to, Congressman. In terms of the prefunding requirement, my understanding is it's—would be unique to the Postal Service. There is some responsibility with the Department of Defense in terms of prefunding. My understanding is that their amortization payments are over a longer period of time, plus they are appropriated and integrated with Medicare.

Mr. BOYLE. If anyone else would like to add something?

Mr. TAUB. Yes, Congressman, this was enacted as part of the 2006 law in a bipartisan way with the best of intentions. Of course, the next year, our economy went into the deepest recession since the Great Depression, and with that the mail volume accelerated and caused these challenges. The postmaster general is correct.

I would point out when the 2006 law was enacted, there was zero dollars prefunded for future retiree health benefits. Today, as we speak, there's more than $50 billion that has been prefunded. There's still an outstanding obligation of roughly half that amount, but we have gone from nothing prefunded to $50 billion today.

Mr. BOYLE. If you would like to add something.

Mr. ROLANDO. Yes, I would. Thanks. Yes, this is unique to the Postal Service, but I'd like to point out that the proposals that the consensus group has put together, we would not only fully fund the retiree health fund, we would be overfunded if you took all the components that something else—something that nobody else is able to do.

Mr. BOYLE. Thank you. I would just add that my great concern is, particularly as we have this conversation of going from 6-day to 5-day mail, that we continue to be in this negative cycle of cutbacks and closures that is really a self-fulfilling prophecy. That can be very destructive to communities and neighborhoods. I represent a largely suburban and urban residential district. When we went through even just a rumored closing of our post office in the 19116 zip code, that set off a firestorm. And maybe not for people my age but for those who are of an older age, having that local post office there is an important part of the community.

So as we look at these decisions, and certainly dollars and cents plays a major role, I think we also have to put a value on what the local post office means to the community. And if that is the case in a neighborhood and in a suburban area, I think it is only more so the case in a rural area, which tends to be more remote.

Thank you. I yield back.

Mr. MEADOWS. If the gentleman would yield for just a second?

Mr. BOYLE. Sure.

Mr. MEADOWS. I want to make sure it is clear. We are not talking about 5-day delivery. I mean, I don't want that to be the headline that comes out of this hearing because your point is well-taken. So whether it is in a suburban area or a very rural area, I don't want the phone calls to start coming in.

Mr. BOYLE. Thank you, Mr. Meadows.

Mr. MEADOWS. I agree with Mr. Lynch ——

Mr. BOYLE. Yes. Okay. Thank you ——

Mr. MEADOWS.—and so I thank ——

Mr. BOYLE. And if I could ——

Mr. LYNCH. Would the gentleman ——

Mr. BOYLE. Actually, if I could reclaim my time ——

Mr. LYNCH. Sure.

Mr. BOYLE.—and then will yield briefly to Mr. Lynch, I would say that while that might not be the point of today, there have been numerous proposals about going to 5 days, and it has me very concerned and a number of our constituents for the reasons you described.

I will yield now to Mr. Lynch.

Mr. LYNCH. Thank you. Yes. Very briefly, Mr. Chairman, and I thank the gentleman for yielding.

I know there was some implications here that the postal workers were not doing their part or that, you know, costs are creeping up and things like that. I just want to read you something. In 2011, the American Postal Workers Union, which is the largest union, and the Postal Service reached a voluntary agreement that resulted in a sea change of significant and far-reaching concessions. The 2002–2015 agreement contained wage freezes for year 1, wage freeze for year 2, and that is within a 5-year contract, followed by a 1 percent raise, a 1.5 percent raise, and a 1 percent raise cost of living, and it was deferred to the third and fourth year.

So extremely, extremely, extremely modest increase on the part of the employees, including 2 years of a wage freeze in a 5-year contract. So, you know, just people should bear that in mind. I yield back. Thank you.

Chairman CHAFFETZ. Thank you. I thank the gentleman.

I will now recognize the gentleman from Alabama, Mr. Palmer.

Mr. PALMER. Thank you, Mr. Chairman. And for the record I want to say that my wife and I love our postman. He does a great job.

Ms. Lowrance, it was mentioned earlier about some of the things that are being done in the private sector. I would like to ask you what cost-cutting initiatives has industry had to implement in the wake of the evolving postal world as we know it?

Ms. LOWRANCE. So we've seen a great consolidation in our industry. We have seen some of the larger print houses kind of eat up all the little ones to get rid of access capacity. We've seen plant closures and layoffs and those sorts of things in order to kind of compensate for the decline in mail volume that's seen across the industry.

Mr. PALMER. If you had to guess, what cost-cutting efforts would the Postal Service have to take or be taking if it were a private company?

Ms. LOWRANCE. Well, I think that the Postal Service has shown an ability to cut costs in the extreme conditions that they've been functioning under. I mean, I'm not really at liberty to say that layoffs should happen or anything should happen to the common employee of the Postal Service. I think that there are great lengths of additional price signals and cost efficiencies that they could gain through working with the industry. I think the industry has done more and more in the form of work share to take work hours out of, you know, the postal facilities and continue to rely on the industry to do things that they do very well.

Mr. PALMER. I want to bring up a couple of things that have come to my attention that I think might be helpful. For instance, there is an economic analysis from a group called Keybridge you might be familiar with Ms. Brennan that says the Postal Service could save over $2 billion on the delivery vehicle procurement that you are planning, which is expected to cost over $6 billion. How do you respond to that?

Ms. BRENNAN. Congressman, I'd have to read that report. In terms of the actual cost, we have some estimates about the cost, but a number of factors will determine the cost of the vehicle fleet replacement.

Mr. PALMER. You are correct in that. There are a number of factors, and that is one of the reasons why your costs are so high because you are buying vehicles that you plan to keep in place for a number of years and your fuel costs, your maintenance costs are exorbitant compared to what other private companies would be doing. And I highly recommend that you take a look at that Keybridge analysis. And if you have trouble finding it, I think if you will let the committee know, we can find that for you, get that for you.

There is also an issue, Ms. Brennan, that in November the inspector general put out their semiannual report and found that there was $1.8 billion in funds that could be put to better use and $455 million in questionable costs from April to September of 2015 alone. I would like to know how you responded to the IG's report.

Ms. BRENNAN. Well, Congressman, that's a compilation of literally probably hundreds of audits and/or studies, so I would need to look at them in separation or in isolation to address that. Currently, the OIG does valuable work for us and identifies opportunity. Oftentimes, it is work that we are currently undertaking and working through, so I would certainly acknowledge that there is opportunity for process improvement and additional efficiencies that will help drive down costs.

Mr. PALMER. Well, considering the environment that you are in right now and, you know, these two combined would be somewhere in the range of $2.3 billion and that you could save another $2 billion in your vehicle procurement, you know, it gets you a little over $4 billion, I think that ought to be a couple of things at the top of your list for consideration.

And then I am not for layoffs either, but I also am concerned about the public perception of the post office and, again, for the record, we think the world of our postmen. But there was a survey done by Accenture, evaluated 24 government-operated postal organizations and two private companies that together deliver 75 percent of the world's mail and found that the post office ranked last as the lowest-performing postal agency or commercial operator in the world. And my concern is it is not just with the cost-cutting but the public perception of what the post office does and yet you add the poor performance, and I think because of the labor contract you are under, the inability to remove poor-performing workers and then these losses, the post office has got to really address these issues to improve its image and to make it a viable industry.

Thank you, Mr. Chairman. I yield back.

Chairman CHAFFETZ. I thank the gentleman.

I will now recognize the gentlewoman from Michigan, Mrs. Lawrence, for 5 minutes.

Mrs. LAWRENCE. Thank you.

It is an honor to be here today, and thank you, Chairman and the ranking member, for calling this hearing.

I wanted to be clear for the record that I had a 30-year career with the Postal Service starting as a letter carrier, so I have a lot of respect for Mr. Rolando.

I also want to say no other organization in America is compelled to prefund future retirement benefits at the level that is done by the Postal Service. It is clear that pushing a public agenda which operates with no taxpayer funds—so there was some allusion earlier that we are using taxpayer dollars. The revenue that we generate from the sale of our products is what we fund and operate our business with. And so often it seems to get confusing in debate when we start talking about the Postal Service as if we are using taxpayer dollars. So it operates with no taxpayer funds to the brink of financial crisis by forcing it to assume the financial burden assumed by no other agency or company is the height of the financial irresponsibility of Congress, and Congress should fix this problem that we created.

Today, as we are having this debate about the future of the Postal Service—and yes, there are some issues that we need to work with. And, Ms. Brennan, I have been very clear with you in private conversations, and, you know, trusting you to continue to keep delivery standards as one of the primary objectives, and as I look here with our postal customers and mailers who depend on us.

But one of the things I wanted to talk about is the downsizing commitment that has been made by the Postal Service, reducing your workforce by 200,000 careers since 2006, reducing your work hours by 331 million, changing operation hours. Can you, Ms. Brennan—and I would like Mr. Rolando to weigh in on this as well, and my mailers if you have time—how has this consolidation and reduction of workforce aligned with the phase 1 and phase 2 of the Network Rationalization plan or initiative?

Ms. BRENNAN. Yes, if I may start, Congresswoman, we completed phase 1. Phase 2 we completed 17 of the projected 82 consolidations. So we have additional consolidations that we'll revisit. We'll redo the economic analysis, given that that is now 5 years old, and would make the appropriate notifications before we resume those consolidations.

Mrs. LAWRENCE. Mr. Rolando, how is it affecting the day-to-day ——

Mr. ROLANDO. Well, first, I'd just like to say keep in mind a lot of this is in reaction to the prefunding itself. I keep hearing over and over, what would you do if you were a private company, and if we were a private company, we wouldn't have $50 billion of resources tied up in a fund for 75 years into the future. It would certainly affect the standards, it would affect service, it would affect rates, it would affect vehicles, it would affect infrastructure, it would affect all kinds of things.

So I think the takeaway from all of this is we're not allowed in that way to act like a private company. We do have to prefund. There's no appetite in Congress for us not to prefund, so that's why we've put together this coalition to find a way to satisfy that mandate. We've come up with a way to do it. And moving on from then, then we can act as a private company or as a Postal Service in a rational and efficient manner moving forward.

Mrs. LAWRENCE. And I just want to add, it is about being competitive. We are in a very competitive market, the Postal Service, and if you truly want this company to be efficient and competitive, then we as Congress must recognize how we are tying the hands of the Postal Service.

And so I say to my colleagues very passionately that we absolutely want to the Postal Service, which is covered—you know, when I was employed, I had to take an oath that I would protect the mail and make sure that it is protected from foreign agencies and how important and special it was to be an agent of the Postal Service. But then we tie their hands and then we criticize them.

And one of the things that I want to talk about is the future of these packages. We know that drones in other industries are coming, but we consistently tie our hands and we see the other industries moving forward to embrace the ability to be competitive, to reduce costs, but we in the Postal Service—we, I am saying we because I am a retiree—those in the Postal Service continuously fight against these restrictions, so we as Congress must step up and take ownership of what we have created. And we have amazing opportunity now to remove some of those barriers as we hold the Postal Service accountable for filling their role of delivery.

And I am over, so thank you.

Mr. MEADOWS. [Presiding] I thank the gentlewoman.

The chair recognizes the gentleman from Missouri, Mr. Clay, for 5 minutes.

Mr. CLAY. Thank you, Mr. Chairman.

And let me start with Ms. Rectanus. Do you know of any other government agency or private sector company that has to fully prefund the health care costs of its retirees?

Ms. RECTANUS. The issue you're asking about is whether anybody's quite like the Postal Service, and the issue is they are a unique organization that were designed to be a Federal entity, an independent agency within the Federal Government. And so they are designed to be self-sustaining. So that's why they are in a different situation than other organizations.

Mr. CLAY. But the 2006 Postal Accountability Act imposed that requirement on the Postal Service, correct?

Ms. RECTANUS. That's correct.

Mr. CLAY. How much money has the Postal Service been required to pay in, and has it been able to make all of these payments?

Ms. RECTANUS. To date, the Postal Service has paid about $18 billion on top of the original money that was put in originally. They have missed $28 billion in payments as far as the retiree health benefits program ——

Mr. CLAY. And so $28 billion is the value of the unfunded liability?

Ms. RECTANUS. No, sir. That's the amount of money the Postal Service has not put in. The amount of money that is unfunded is about $54 billion.

Mr. CLAY. I see. Ms. Brennan, I understand that 86 percent of the losses that the Postal Service accumulated between the years '07 and '11 are attributable to this prefunding requirement. Is that right?

Ms. BRENNAN. That's correct, Congressman Clay.

Mr. CLAY. Do you believe that the prefunding mandate is unfair to the Postal Service, and do you agree with Mr. Rolando?

Ms. BRENNAN. I agree with Mr.—President Rolando's comments. I would say that it's responsible to prefund. The challenge for us in the recent past was the accelerated payment schedule. Going forward, though, the challenge for us is to ensure Medicare integration.

Mr. CLAY. Is modifying this prefunding requirement an essential part of the joint reform proposal to which the Postal Service, postal unions, and certain mailers have agreed?

Ms. BRENNAN. Yes, Congressman. Given that the prefunding requirement ends this fall, the challenge now is to address the larger issue of an unaffordable system for the Postal Service and our retirees.

Mr. CLAY. And how much money do you think this would save the Postal Service?

Ms. BRENNAN. Fully integrating with Medicare for all of our retirees 65 and older would save us over $17.5 billion over the next 5 years.

Mr. CLAY. I see. Is it true that the Postal Service's retiree health care fund is already 50 percent funded?

Ms. BRENNAN. That's correct, Congressman. We're better situated than most.

Mr. CLAY. And do you know what the current balance in that fund is?

Ms. BRENNAN. The current assets are over $50 billion in the RHB fund.

Mr. CLAY. Wow. The prefunding requirement may have made sense back in '06, but it no longer makes sense to have the Postal Service comply with a requirement that would force it into insolvency.

And just one question for Mr. Rolando. Give me your overall sense of how the morale is among Postal Service workers today.

Mr. ROLANDO. The overall morale, we deal really in four different avenues if you will with the Postal Service depending on the level of engagement of each of the probably employees, organizations. We deal in a collective bargaining arena whereby obviously we're addressing things that are going to affect morale in terms of pay and benefits and working conditions.

We work together in an arena of growing the business and making sure that service is what it needs to be so that we can face our customers every day. Obviously, that can be rewarding and frustrating at the same time.

We deal together in a legislative arena, as we're doing today, to make sure that the Postal Service is here to serve the American people for many years to come.

And then we deal in another arena that I will call the culture of the Postal Service. And I think that's an important thing that's been embedded for a long time in the way it exists that we certainly have the commitment from leadership in the Postal Service and the unions to address that. And all those things contribute to the morale of postal workers all over the country in different ways.

Mr. CLAY. Thank you for that response.

May I yield of the rest of my time to the gentleman from Massachusetts?

Mr. LYNCH. Just quickly, Mr. Chairman. Thank you.

I just want to push back a little bit on a suggestion that was made earlier by one of my brothers across the aisle about the comparative value or the comparative performance of the United states postal system versus some of the international competition. There is a great report out by Oxford University. It is Oxford Strategic Consulting, and they measured the efficiency of the postal services in the top 20 countries, in the G–20, and the United States Postal Service came out the best, and remarkably, it is the only system in that top group that does not receive taxpayer funding. So ours is doing better than all the rest, contrary to the statement made earlier.

And remarkably, the United States Postal Service scores the highest for efficiency even as it delivers far more letters per employee, 268,894 in the last study period, than any other service in the G–20. Japan came in second, and it is less than one-third of that.

And also we have universal service, which a lot of these other countries don't have, so we deliver to every single location. And the only criticisms that the British study had was that, unlike in Siberia where their post offices actually sell groceries, ours do not. But we have grocery stores that do that.

But I just want to push on—we came out the best in the study. It was a very credible study, and ——

Chairman CHAFFETZ. I thank the ——

Mr. LYNCH.—it was reported by CNN. I would like to enter this as part of the record.

Chairman CHAFFETZ. Without objection, so ordered.

Mr. LYNCH. Thank you.

Chairman CHAFFETZ. I thank the gentleman. His time is expired.

I will now recognize the gentleman from Wisconsin, Mr. Grothman, for 5 minutes.

Mr. GROTHMAN. Thank you much.

Chairman Taub, one of the objectives of the current system and any new system that comes out of the rate review is to make sure we have high-quality service standards. And right now, there is some indication that we are struggling in that regard. If the Postal Service continues to have problems in that area, what action do you think the Commission will take?

Mr. TAUB. Congressman, the Commission by law has what's called the annual compliance determination where annually we look to ensure that rates and fees that were in effect in the last year were in compliance, as well as service standards were met. We just issued our most recent one just about a month-and-a-half ago, and we did find that service standards indeed weren't met. All the first-class mail did not meet their targets, both parts of periodicals mail, most of standard mail.

We directed the Postal Service to come back in 120 days with a comprehensive plan particularly on the—what's called flats, the periodicals and the standard and the first-class flats, a 90-day report on first-class letters and cards. So once we get that back, we'll assess next steps. But it was a very directed study, did bring attention, which has been a trend that unfortunately hasn't been trending in the right direction.

So that's why this year we took, shall we say, a little bit more of an aggressive stance to ask the Postal Service to come in with a more comprehensive focus as to what are the pain points, what are the pinch points, how do we get past this because service, as the postmaster general said, is the basic standard that has to be met.

Mr. GROTHMAN. Okay. I have a question for Ms. Brennan here. You know, we talked a lot about how the volume of mail has dropped over the last 10 years from 213 billion to 154 billion. And we use 2006 as the base year. But do you know what it was like 10 years before or 20 years before that?

Ms. BRENNAN. Off the top of my head, I don't, Congressman. I'll get that information for you.

Mr. GROTHMAN. Was it going up? I mean, the point I am trying to make is it ——

Ms. BRENNAN. It was growing, sir, yes.

Mr. GROTHMAN. So it might have been 154 billion in 1986 or 1990? Two thousand and six was the high point in terms of total volume in the system.

Mr. GROTHMAN. So what I am getting at here is I wonder if you are creating kind of an artificial cause for a problem by grabbing the higher at 213 and say we are at 154 so of course we are going to have a crisis? Maybe we were at 154 in 1980 and you weren't having a problem. You know what I am saying?

Ms. BRENNAN. I understand your point. I ——

Mr. GROTHMAN. But you don't know the answer?

Ms. BRENNAN. I would tell you that it's not artificial, the challenges that we face.

Mr. GROTHMAN. Okay. One of the biggest capital investments you have—and we had a hearing on this before—is replacing the aging vehicles. What is the current status of that situation?

Ms. BRENNAN. Congressman, we're currently in the technical review phase for the prototype vehicles. The plan is that we will determine one or more suppliers with multiple vehicle types that will test over roughly an 18-month period different topographies, different climates, and that will help inform our decisions as we move to the production timeline.

Mr. GROTHMAN. Okay. Last time you guys were in here on this topic you said you were going to buy 120,000 vehicles. Is that still the plan?

Ms. BRENNAN. That would be the upper bound in terms of replacement, and clearly, given our financial situation and certainly the suppliers' capability, we would be looking to purchase and deploy roughly 20 to 25,000 year.

Mr. GROTHMAN. Okay. So you are going to try to spread it out maybe ——

Ms. BRENNAN. Correct, multiple years ——

Mr. GROTHMAN.—over 6 years ——

Ms. BRENNAN.—Congressman, yes.

Mr. GROTHMAN.—5 or 6 years. Okay. Next question. What is the pay if I go to work for the post office, start out either deliveryman, one of the guys and/or gals in the office? What is the starting pay for that?

Ms. BRENNAN. I would tell you the average work hour rate that I have off the top of my head is $41.

Mr. GROTHMAN. Pardon?

Ms. BRENNAN. Average work hour rate, fully loaded, $41. If it was a non-career employee, roughly $15 an hour.

Mr. GROTHMAN. Okay. So if I get a job—and I know you have got to work part-time in the first place. If I get a job as—I don't know that you start out as a mailman or not, but what do I expect starting as far as my pay?

Ms. BRENNAN. It would depend on the craft. If you were a letter carrier, roughly $15 an hour for a supplemental non-career employee.

Mr. GROTHMAN. How about a career employee?

Ms. BRENNAN. It would depend again on if you were new, roughly probably 20, $25 an hour. I'll get you the exact, Congressman.

Mr. GROTHMAN. Twenty-five dollars an hour, plus—do those people get overtime? Do you have overtime?

Ms. BRENNAN. Yes, absolutely. More than 8 hours in a day or 40 hours in a week, consistent with the FLSA rules.

Mr. GROTHMAN. Okay. And is that common?

Ms. BRENNAN. Overtime can be in certain locales. It's seasonal. It depends on employee availability, mail volume, and the like.

Mr. GROTHMAN. What's your average mailman make right now?

Ms. BRENNAN. Average salary?

Mr. GROTHMAN. Yes.

Ms. BRENNAN. Again, let me—I'll provide that for the record.

Mr. GROTHMAN. Okay. My time is up. I will yield the remainder of my time.

Chairman CHAFFETZ. Wow, thank you, impressive. Let that be a lesson to all of us that are still sitting here.

We will give 6 minutes to the gentlewoman from New Mexico, Ms. Lujan Grisham.

Ms. LUJAN GRISHAM. Thank you, Mr. Chairman. I really appreciate that.

I am going to change up what I was going to do a little bit because I really appreciate the comments that my colleague Mr. Lynch made, although I don't need that report. If you want to see the efficiencies of the post office, go visit and do a ride-along with a letter carrier, and you will have no doubt that it is one of the most efficient systems in the world. And so thank you very much for that honor. And I plan to do more of that, particularly in the area that another one of my colleagues as already mentioned, Mrs. Lawrence.

But in this effort, because of budgetary issues, that we were consolidating, and, Ms. Brennan, I heard that that is on hold. But given the fact that that has really hurt rural and frontier areas, disabled and senior population who are traveling distances to get prescription drugs, I am very happy to hear that that is on hold.

But in addition to that and the numbers that have already been talked about, 200,000 employees, more than 360 facilities consolidated, there is now a 2011—so it is a little bit dated—but that GAO report says that, look, when you reduce the level of your services, you are actually hurting your revenue stream. So it is counterproductive.

And as you look at these issues, I would love it if you would give us further information in writing to this committee about your efforts in modernizing services and addressing these issues given your, I think, unfair mandates, that there is a healthy balance and we want to make sure in fact that we are building a revenue stream and at the same time continue to take appropriate actions to protect the populations who need the Postal Service in a way that I think is different than the average person receiving mail. So if you would do that, I would appreciate it.

Ms. BRENNAN. Yes.

Ms. LUJAN GRISHAM. And thanks for that update.

The second thing that I want to talk about that is, I think, a bit may be different than what my colleagues have addressed, but in my community, unfortunately, in my district, in my State we are seeing a high number of vandalism and mail theft. I want to thank you for your work, particularly in Albuquerque, but I am concerned that with lack of personnel we have a backlog in those investigations. You don't get those investigations, we don't deal with the perpetrators. If we don't deal with the perpetrators, soon we have this—we are on a merry-go-round in this situation as well so that it continues to occur at much higher rates than around the country.

And I will tell you that given, you know, our poverty issues and our other public health issues, which I will address later today in terms of substance abuse, it is a significant problem. And so it also creates safety issues for folks who are not dealing with this appropriately. Because of those backlogs and investigatory issues, we are not replacing those damaged mailboxes.

And I would love for you to give me a sense about what you can do differently or if you have had any thoughts or what do you need from Congress to make sure that you can address these what I am going to call hotspots if you will so that we can do something about it.

Ms. BRENNAN. Yes, thank you, Congresswoman. In terms of in Albuquerque and the effort we have again with the Postal Inspection Service partnering with local law enforcement and community members, we've got an antitheft prevention type campaign. I'll be happy to come up and brief you in more detail because it is important to us.

And as we deploy centralized boxes, we need to ensure that they are secure and that we can minimize any potential theft there. But I'll be happy to come up and give you more specifics. Given the sensitivity ——

Ms. LUJAN GRISHAM. And I would like you to really—and I am happy to do that, but I really want you to think about and talk about if I have got more time—although I am happy to give it back to the chairman because he is so good to me, and I meant that genuinely—that I think it is important to think about it in a policy mechanism because the truth is—and again, in my community, I love my community and I love my State and I love my district, but we have real challenges.

You know, I have got a police force that is under consent decree that also has one of the lowest staffing in the country and is in real trouble in terms of recruitment and staffing. So leveraging there is not leveraging.

And the reality is is that we are not keeping up and we have a real public safety issue, and we have got a confidence issue. And it needs to be addressed, so what else can we be doing? And you ought to take into account all those kinds of circumstances. So the reality is, because those boxes are still damaged and we still have a problem, people don't have access to their mail.

Ms. BRENNAN. We need to correct that, whether it's holding mail at the post office or looking at other ways to affect delivery. We don't want disruption in service.

Ms. LUJAN GRISHAM. And it is recognizable when you see all these damaged boxes in my community. It is a huge problem.

Mr. Chairman, I yield back the rest of my time.

Chairman CHAFFETZ. Thank you. I thank the gentlewoman and I appreciate it.

I have some comments and questions, and then Mr. Lynch, and then we will wrap up.

Mr. Taub, give me your perspective on the PRC. We are looking at a reform package. How would you reform or adjust what the PRC does or doesn't do? What reforms are you looking for?

Mr. TAUB. Mr. Chairman, I think the most important thing, of course, is the financial balance sheet. That's the house that's on fire that has to be dealt with.

In terms of the Postal Regulatory Commission, attached to my testimony is a study that mandated by law at least every 5 years the Commission looks at the entire Postal Accountability Act of

2006, as well as the whole law, and offers recommendations for changes to the President and Congress. We did that in 2011. We're in the midst of doing that report right now. The 2011 report did suggest a variety of possible opportunities where the Commission ——

Chairman CHAFFETZ. Pardon me, but when do you anticipate that will be complete?

Mr. TAUB. We should have that complete by the end of the year. My hope is that this would be delivered to Congress ——

Chairman CHAFFETZ. Can you have it by the end of May?

Mr. TAUB. I wish we could. We just issued a few weeks ago a call for public input and comment on that, a baker's dozen of issues. We asked the public to input by June 14. So when the public gives us the input, then we have to put that together. So we will strive to ——

Chairman CHAFFETZ. Any preliminary suggestions?

Ms. BRENNAN. Yes ——

Chairman CHAFFETZ. As the chairman of this committee, let me give you an outline of where we are headed with this. We do anticipate introducing a discussion draft of a bill soon. I anticipate that that will be available for perhaps 2 weeks unless there is some major hiccup, and then the intention is to introduce a bill, mark it up.

We are actively trying to address the prefunding issue. We are obviously, as we have heard from across the whole spectrum of the board, trying to deal with the Medicare portion of that. It is amazing that, you know, $29 billion has been paid in since 1983, and that has to be adjusted.

If there are structural adjustments or suggestions or ideas that any of you have, we need to have those now. We have been meeting and hearing and listening and now we are having a formal hearing, but we need those as soon as possible.

From the GAO's perspective, I want to go to the Board of Governors. And it is a little unfair to put any of you on the spot but the GAO, you know, we can put you on the spot. How many Board of Governors are there?

Ms. RECTANUS. At this point there is—well, there's one Board of ——

Chairman CHAFFETZ. Out of?

Ms. RECTANUS. Nine.

Chairman CHAFFETZ. That is the right answer. There is one out of nine. Quite frankly, I can't figure out what in the world the Board of Governors does. It is almost never fully staffed. One of the things that we are looking at doing is fusing the Board of Governors and the PRC into one entity. If somebody has a problem or a challenge with that or has a different suggestion than that, let us know, but to have two separate groups, one of which is never fully staffed and literally has one person, they don't have a quorum, they can't operate. And yet nobody seems to mind. I don't get any complaints.

So that is one thing that I am looking at that I am just saying to the world if you have a suggestion on that, let us ——

Mr. TAUB. Mr. Chairman?

Chairman CHAFFETZ. Yes?

Mr. TAUB. Just to make a personal observation from having been involved in this for so long, the current structure of the statute sets the Commission up as a regulator, not the operator, the Postal Service. Nineteen seventy when the old Post Office Department was abolished, the current governors and board was created to exercise the power of the Postal Service and represent the public interest generally.

I would simply observe that, to the extent they are together, making sure thinking through these issues of regulator versus operator, but beyond that observation ——

Chairman CHAFFETZ. I still see a role of Congress, I still see the role of the postmaster, and I still see the role of the PRC, but this extra layer does not make a lot of sense to me. Postmaster General, do you have a comment?

Ms. BRENNAN. If I may ——

Chairman CHAFFETZ. Yes.

Ms. BRENNAN.—Mr. Chairman, I appreciate your offer for insight on this, and we'll be happy to share it. I think Chairman Taub outlined it well in terms of the differentiation of responsibility.

My only caution is that it would be problematic for the regulator to become the operator, so that would just be the caution. But we're happy to provide some additional insight.

Chairman CHAFFETZ. And you want to triangulate the issue, but at the same time, it is problematic when there is not a functional group, and there hasn't been for a while, and there doesn't seem to be any desire to get one. And so I am just looking at structurally changing that. But duly noted. You don't want your regulator to also be your operator, and there does need to be an arm's length distance. But there is also a role of Congress, and we have to serve in some of those functions as well.

Mr. Rolando, kind of walk us through—I don't know what time frame—but the unions have—I mean, the enrollment is way down because in large part the reductions in staff. If somebody is watching this for the first time, give them a perspective of how the unions have stepped up and have helped to address this problem. And there have been quite a number of staff reductions along the way.

Mr. ROLANDO. Well, Mr. Chairman, as far as reductions, yes, there's been a loss of 200,000 jobs in the last 10 years. I think for the majority of the collective bargaining agreements now, no new employees come in as career employees. They come in as non-career employees ——

Chairman CHAFFETZ. Right.

Mr. ROLANDO.—without any benefits, much lower pay, and have to wait for a career position to become available for them to be eligible for that.

As far as—and then the collective bargaining itself, it's a process that's worked well for a long time in terms of negotiating agreements, whether by settlement or through interest arbitration.

And as I mentioned before, there's other arenas that we deal with with the Postal Service, for example, in the legislative arena. That's an extremely, I think, important thing that we do, along with the mailing industry, to be able to get a consensus together to move something through Congress that's going to preserve the Postal Service in the future.

So we have—and again, I talked briefly before about being involved in the growth of the business and service and the networks and the value working together to do that, you know, to the point of bringing in business to the Postal Service. And again, the fourth arena is just the whole culture of the Postal Service.

Chairman CHAFFETZ. Thank you. Ms. Lowrance, let's talk about what you would like to see first and foremost out of Congress. And we have your testimony and you have answered some questions, but give me the best synopsis you have on what you need people in Congress to do.

Ms. LOWRANCE. We need predictable and reliable mail service, so if you're going to say it's going to take 3 days, take 3 days to get there, right? We have planning purposes from business mailer perspectives that we do to interact with the Postal Service and have the most efficient manner possible.

We need predictable, stable Postal Service prices, right? If we see rate shock or extreme conditions to raise revenues in order to cover the existing cost, mail will leave faster and faster and faster and they'll find other means to communicate.

And then lastly, transparent costs. And I know both pricing and costing can be done currently at the regulator, and we're looking at the 10-year review to see if that—if the current pricing mechanism is the right fit under the conditions.

So, I mean, if Congress were to do anything, I would say releasing some of the liabilities on the balance sheet is really what would help mailers going into the rate review, as well as help the Postal Service alleviate some of the pressures on the cap and be able to really concentrate on service since that seems to be a large message that came across today.

Chairman CHAFFETZ. Thank you, and I appreciate it.

The Postal Service, as I said at the beginning, serves a vital element of our commerce here in the United States. They have a monopoly, and they have high fixed costs. When you have high fixed costs, you don't reduce services and raise rates and expect to solve your problems. What you need to do is move volume. You have got to make the post office more relevant in people's lives so that there is more volume that can move through the system. So again, raising rates and cutting services is not the way we are going to necessarily get there.

Now, I can tell you personally I have migrated a long way the more I have studied this where initially my inclination was the outlet is, you know, 5-day service, that sounds good, let's increase the number of postal holidays, that sounds good, but the more you dive into it, the more you realize that is not the way the economy is moving. What is happening is there is more e-commerce out there and people want to have their packages and goods delivered right to them right now. And so you see the Amazons of the world and others that consumers are starting to expect Saturday and even Sunday delivery, and the post office is in a unique position but they are not monopoly to produce that.

Personally, I feel very strongly that the post office should not be participating in business that is also found on Main Street. Selling coffee and T-shirts, with all due respect, other services that you can find it down the street, I don't think that is necessarily the role of somebody who has a tax advantage, has a monopoly, and I have very deep concerns about that.

The one thing that I haven't heard in the last couple hours of this hearing that I continue to harp on and it is incumbent upon us but also I think the post office itself is the government-to-government business. When I think of where do I go to get my passport, I think of the post office. That type of business arrangement needs to expand. It does at the State level and it should at the Federal level. It drives me crazy to no end that we go out and spend all this money FEMA to try to remap the United States and have all these drug distribution facilities.

We already have got post offices and letter carriers and others that already know their community. They could walk the streets without the street signs. They don't need their own special map. We have already done that with the Postal Service, and yet we spend hundreds of millions of dollars, if not billions of dollars, doing that. We have disaster with FEMA and others that happen, but we have to be prepared for that, but it is your post office and your postmaster that probably understands the area and the community better than anybody.

I visited Montezuma Creek, Utah, a small place down on a Navajo Indian Reservation, a dilapidated building, but that local postmaster had been there for more than 20 years. She knows her community. She knows all the people. She knows people who speak English, who don't speak English. She knows who rides in on a horse to come get their mail. She knows the community. That is the type of effort that the rest of the Federal Government should be engaged in.

Also, I want to continue to look—and this committee has jurisdiction on the census. We are going to go out and spend billions of dollars on the census to try to recreate what the post office already has in place. And I can tell the postmaster is itching to speak here, so please.

Ms. BRENNAN. I'm sorry, Mr. Chairman, I did just want to—a proof point to your comments, too, if I may. One was working recently with a Midwestern city to provide information on vacant buildings through our address management system.

Another you mentioned, the census, we did a pilot I mentioned earlier in the hearing out in Arizona on-boarding census workers, but we think there's an opportunity for us with the actual conducting of the census given in-person proofing at the facility or on the doorstep with the technology we now have.

Chairman CHAFFETZ. Your local letter carrier is going to far more understand that there aren't 15 people living in this house. I have been walking the street going to their door for the last 7 years and there aren't 15 people in this building. That type of thing and insight, they are going to spend the billions of dollars. Let's spend it smartly. And I hope this committee will further look at this.

I have gone way over my time here, but I am excited to move this forward and again appreciate the work that Mr. Meadows, Mr. Lynch, Mr. Connelly, and certainly Mr. Cummings.

And as we wrap up, I think, Mr. Lynch, did you have—let me yield to Mr. Lynch and ——

Mr. LYNCH. Very briefly. And I think there is a wonderful opportunity there with the Postal Service and the census. We are walking those streets already, so there is a way to, I think, maximize the skills and the expertise that the Postal Service has.

I do want to push back a little bit again. You know, I cited the Oxford report that said the United States Postal Service was the best in the world, and one of my colleagues indicated his belief that—I haven't seen the study—but that we were the worst in the world. I think that the best judge of this is actually the customer, is the American citizens.

And, you know, the Pew Research Center polled Americans about their government. And I think Mr. Boyle brought this up, but the people of the United States in that poll said that the most trusted government employees in the United States today is the United States postal worker. And that is a tribute to you, Postmaster General, and also to the unions and the people who do that work every single day.

So, you know, I just want to say that they rank you, I think, 84, 84 percent. You are the highest of any government employees. Congress was also in that study, and we were around 6 percent between swine flu and the Taliban. That is where Congress came in. So ——

Chairman CHAFFETZ. Well, this committee competes with the Zika, so we are way down there.

Mr. LYNCH. Amen to that. But, you know, it is indeed ironic that we have a member of a body that has 6 percent approval criticizing the employees who have 84 percent approval rating in the eyes of our constituents.

So I will yield back. I will leave it at that. Thank you.

Chairman CHAFFETZ. Thank you. I recognize Mr. Cummings.

Mr. CUMMINGS. I want to thank you all for your testimony.

I just think that we have got to get this done. I mean, we can go around this circle forever and ever and be in the same place 10 years from now. Again, I want to thank all of you all for coming to the table.

But I am interested in what the chairman said about government-to-government. Do you see that, I mean, growing or going, Postmaster General?

Ms. BRENNAN. Sir, I do see opportunity there. I think another example that ——

Mr. CUMMINGS. And how will we get there? I mean, how would you ——

Ms. BRENNAN. We may need some support from you and the chairman on that, but I think some of the outreach effort we have had with some of the other agencies is a starting point, leveraging our infrastructure.

I think another example is the TSA pre-verification for frequent fliers. There is an opportunity, I think, for us to handle some of that work as well.

Mr. TAUB. Mr. Chairman, if I may, Mr. Ranking Member Cummings, I just—I think one of the key pieces if the Postal Service is going to go down this road is also the funding associated with that, and that goes to that larger issue of what is it that we want this government institution to do. And I know with a house on fire financially we need to put that out and the legislative process doesn't always lend itself to the ability to get to first principles. But if there is some way, whether in this round or the next, to think about what it is that this government institution must do and what are the costs associated with that and where does the revenue come in.

My only concern would be the extent they take on more responsibility in this area, there's costs there, and if the associated funding doesn't go to it, then we're adding more of a burden to the Postal Service.

Ms. BRENNAN. Yes, hence my comment, Robert, about needing need some assistance from the chair and the ranking member.

Mr. TAUB. I was just trying to get a little more ——

Ms. BRENNAN. Thank you.

Mr. CUMMINGS. Certainly, we would not want you to go into something that is going to not yield a sufficient profit. That doesn't make any sense. And we certainly don't want to burden you with more obligations when the yield is simply to cost more. That is ridiculous. But I am hoping that we will be able to resolve some of these things and, as I said, resolve them soon.

Again, thank you very much.

Chairman CHAFFETZ. The final point I would make on the government-to-government is that, yes, these other agencies are funded with resources to execute on these things, and if they are going to spend money on them, they should be spending them and looking at the option of doing it to the Postal Service.

I think the unions would appreciate that. They have got the physical infrastructure unlike any other entity. They would be able to do that whether, again, passports, census. You are going to get a request from us to look at the financials of how the whole passport business has worked, but I look within my own district, the Department of Motor Vehicles, you know, there are other State opportunities, not just the Federal Government opportunities, where they need a physical location that is safe and secure and that people know where it is.

So we have had a good, healthy hearing. We appreciate your participation. I hope the men and women of the Postal Service know that we care about them and that we are trying to do the best thing, but I agree with Mr. Cummings. It is time to do it sooner rather than later.

With that, the committee stands adjourned. Thank you.

Ms. BRENNAN. Thank you.

[Whereupon, at 12:28 p.m., the committee was adjourned.]

APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD

Table 1: Overall Ranking

Rank	USP	Country	Provision of Access to Vital Services	Operational Resource Efficiency	Performance and Public Trust
1(1)	US Postal Service	United States	12(12)	1(1)	9(5)
2(4)	Australia Post	Australia	7(7)	2(4)	4(7)
3(3)	Korea Post	Korea, Rep.	14(5)	3(3)	2(4)
4(2)	Japan Post	Japan	6(6)	5(2)	1(1)
5(5)	Canada Post	Canada	1(1)	7(5)	7(3)
6(8)	La Poste	France	4(3)	8(9)	5(2)
7(7)	Royal Mail	United Kingdom	8(9)	10(6)	3(11)
8(6)	Deutsche Post	Germany	2(8)	14(7)	6(6)
9(15)	Pos Indonesia	Indonesia	11(14)	6(16)	11(17)
10(14)	India Post	India	10(11)	9(18)	14(12)
11(9)	Correios Brazil	Brazil	15(10)	12(8)	8(8)
12(19)	China Post	China	19(18)	4(19)	12(9)
13(18)	Saudi Post	Saudi Arabia	17(19)	11(17)	10(13)
14(16)	SP Mexico	Mexico	9(15)	15(14)	18(18)
15(11)	Poste Italiane	Italy	5(4)	19(11)	15(15)
16(10)	Russia Post	Russian Federation	3(2)	17(15)	19(14)
17(13)	Correo Argentina	Argentina	13(13)	16(12)	16(16)
18(17)	South African PO	South Africa	18(16)	13(10)	17(19)
19(12)	PTT	Turkey	16(17)	18(13)	13(10)

Table 2: Selected Indicators

Rank	USP	Country	Citizens per PO	Letters per employee	Parcels per delivery employee	2013 WEF Operational Resource Efficiency
1	US Postal Service	United States	8941	243846	12592	5.67
2	Australia Post	Australia	5205	143213	10350	6.12
3	Korea Post	Korea, Rep.	13831	94806	11419	6.16
4	Japan Post	Japan	5155	54979	10188	6.75
5	Canada Post	Canada	1586	82547	1184	5.77
6	La Poste	France	3746	60733	3523	6.08
7	Royal Mail	United Kingdom	5382	126600	845	6.06
8	Deutsche Post	Germany	3274	46189	2328	6.00
9	Pos Indonesia	Indonesia	7306	5408	374	4.86
10	India Post	India	8215	15956	438	4.61
11	Correios Brazil	Brazil	16549	67174	1074	5.68
12	China Post	China	26903	6429	200	4.83
13	Saudi Post	Saudi Arabia	18184	38196	46	5.10
14	SP Mexico	Mexico	4853	37522	74	3.73
15	Poste Italiane	Italy	4622	25854	3	4.43

House Oversight and Government Reform Committee
Post-Hearing Questions for the Record
Submitted to Megan Brennan

"Reforming the Postal Service: Finding a Viable Solution"
May 11, 2016

From Chairman Jason Chaffetz

1. In your perfect scenario, if you were to get everything the United States Postal Service wants out of postal reform legislation, what cost-cutting initiatives would you implement from there?

   Answer:

   The Postal Service has a demonstrated track record of achieving significant cost reductions. This has contributed to increased productivity and efficiency for the past six years.

   Some of the cost reduction initiatives that we are pursuing that will be implemented and accrue savings between 2017 and 2020 include the following:

   - **The deployment of additional package sortation equipment to enhance the processing of this growing product.**
   - **Better use of predictive workload technology through informed visibility which will lead to enhanced staffing efficiency.**
   - **Plans for increased transportation efficiency through advanced optimization techniques to better align usage with need.**
   - **GPS deployment throughout the Postal Service's transportation fleet is underway and is designed to provide increased visibility to improve efficiency.**
   - **Alignment of staffing through standardization.**
   - **Scaling of operational footprint (up or down) to match market demand for products and services.**
   - **Use of geospatial technology to better inform route construction and improve management visibility.**
   - **New delivery and other vehicles that will increase efficiency and reduce maintenance and fuel costs.**

   Our plans are dynamic, and this list will grow as the Postal Service continues to use Lean Six Sigma processes to identify and evaluate future opportunities for cost reduction.

2. With some financial breathing room in hand, what specific changes can you guarantee will be implemented to change the long-term trajectory of the Postal Service?

   Answer:

   The Postal Service is constantly monitoring its external environment, evaluating trends in mail volume, the expected future demand for our services, and customer performance expectations, and developing strategies and tactics (including cost-reduction and efficiency-improvement measures) to match our service performance and costs to meet customer expectations in the most cost-effective manner possible and will continue to do so in the future.

Given additional financial breathing room, the Postal Service will continue to evolve into a much more technologically-driven organization. In addition to investing more aggressively in the replacement of aging and obsolete equipment, facilities and vehicles, we would invest heavily in information technology systems, cybersecurity and applications to drive greater efficiencies and maintain pace with the marketplace. These investments would include letter and package sorting and information technology to keep pace with the continuing expansion of eCommerce and increase operational efficiency by providing real-time service performance measurement and data analytics with end-to-end tracking and reporting.

We will continue to explore opportunities to innovate and grow our business within the constraints of the law. Recent examples of this include: Sunday and same day package delivery, Ship-from-Store for retailers and customized delivery options for items such as groceries (in certain test markets). In addition to efforts to grow the package business, we will continue to actively invest in keeping mail relevant in the 21st Century. Recent examples of these efforts include promotional pricing incentives to encourage mailers to try innovative ideas and to bridge mail with the digital marketplace. A new initiative, Informed Delivery, integrates traditional mail and email, providing customers with a digital snapshot of mailbox content, along with a click-to-shop options.

We will continue to adjust the size of the network (either upwards or down) as the market dictates. The ongoing restructuring of our operating network is geared towards maximizing efficiency in light not only of current volumes, but also of anticipated future trends.

Further, the Postal Service will continue to pursue cost restraint and maximum labor flexibility through the collective bargaining process.

3. Looking 20 years down the line, what major changes do you anticipate are necessary in how the Postal Service will operate? What efforts are underway now to ensure the Postal Service is able to make those changes? What additional efforts are planned to ensure the Postal Service is able to make those changes?

Answer:

Please see the response to Question 2, above.

4. The Postal Service, with the support of its unions, is proposing to require Medicare eligible postal retirees enroll in Medicare Parts A, B, and D in order to maintain their continued eligibility for a federal health plan. As a result, postal retirees would have two full health insurance plans: one through Medicare and one through the Federal Employees Health Benefit Program. Since Medicare pays before the federal plan, the advantage to the Postal Service is obvious. What is the advantage to the postal retiree?

Answer:

There are several significant advantages of the Postal Services Medicare Integration proposal to Postal retirees.

1. **All retirees (those already participating in Medicare A&B, the retirees age 65 & older who are eligible and not enrolled in both Medicare A&B, and retirees under age 65 who are not yet eligible for Medicare) will experience lower premiums for their FEHB plan coverage. As a result of claims being paid by Medicare, the FEHB plans will experience reduced claims costs which will translate into lower premiums. These savings will be passed through to all USPS participants as a result of the blended rate**

structure that will continue to apply to USPS FEHB benefits premiums under the USPS proposal.

2. For the postal retirees currently eligible for Medicare – but not currently enrolled, this change will eliminate most, if not all, of the deductibles and copays that the postal retiree currently pays out of pocket. Currently, these out-of-pocket costs can be substantial.

   Today, the Blue Cross Blue Shield Standard Plan (which has by far the largest enrollment of any FEHB plan) has an actuarial value of 83.4%, as calculated using the actuarial value tool published by the Center for Consumer Information and Insurance Oversight. This means that a participant on average will incur out of pocket costs of 16.6% of their health care claims costs in an average year.

   Under the USPS proposal to fully integrate with Medicare
   - When Medicare Part A is the primary coverage the Blue Cross Blue Shield Standard Option Plan will waive:
     - Inpatient hospital per-admission copayments ($350 for Preferred or $450 for Member Hospitals); and
     - In-patient Member and Non-member hospital coinsurance of 35%.
   - When Medicare Part B is primary Blue Cross Blue Shield Standard Option Plan will waive:
     - the calendar year deductible of $350 per person (i.e. $700 for Self plus One or Self plus Family enrollment)
     - as well as coinsurance and copayments for inpatient and outpatient services and supplies provided by physicians and other covered health care professionals; and
     - coinsurance for outpatient facility services.

   Covering those costs in full (in almost all cases) through the more comprehensive coverage provided by participating in both an FEHB plan and Medicare, coupled with the lower premium structure for their FEHB plan benefits will cover the costs of Medicare B premiums for a great majority of participants, and will more than cover that premium costs for those participants who have higher than average claims during their retirement years.

   The more comprehensive coverage provided through the combination of participating in an FEHB plan using standard Coordination of Benefits (commonly used by the fee-for-service plans in FEHB) where both the FEHB plan and Medicare provide coverage is no doubt the reason why a substantial majority (76%) of USPS retirees eligible for Medicare already participate in the program.

3. For postal retirees currently participating in Medicare part B and enrolled in an HMO, the legislation would require the HMOs to administer the claims coordination in the same manner as fee-for-service plans. The advantage to these retirees is that they would now benefit from the same coordination of claims and most if not all of their copays, coinsurance, deductibles and other out-of-pocket costs would be eliminated without having to change health plans.

4. Participating in Medicare Part D through an Employer Group Waiver Plan (EGWP) would provide additional benefits to retirees from the financial protections provided under the Medicare Modernization Act, including the lower copays and premium subsidies. The EGWP coverage will also contribute substantially to the premium reduction for USPS FEHB plans noted earlier.

5. **Postal retirees (current and future) will be assured that the Postal Service Retiree Health Benefits Fund has sufficient assets to fund their retiree healthcare costs for the rest of their lifetimes.**

6. **Postal retirees deserve to participate in the benefits of the Medicare program because the Postal Service, along with its employees, is the second largest payer into Medicare in the country.**

7. **Our current employees and most of our annuitants understand that properly integrating our healthcare with Medicare is the only way to reduce our liability and make retiree healthcare an affordable proposition not only for current annuitants, but also for our existing employees when they retire.**

5. In your testimony before the Committee, you said the following:

> If I may, Ms. Rectanus mentioned that we don't have any major cost reductions initiatives planned. We do. We have more than $5 billion in cost reductions embedded into our 5-year plan, and we continue to look at opportunity to drive operating efficiencies. That's our responsibility.

Please identify the $5 billion in cost reductions the Postal Service has planned. When are these initiatives scheduled to begin, and what is the timeline for implementation and achieved savings?

Answer:

Please see the response to Question 1, above.

From Representative Tim Walberg

1. My understanding is private carriers submit electronic security data through the Air Cargo Advance Screening system. Is USPS required to submit similar information?

   Answer:

   At the present time private carriers voluntarily submit electronic security data for inbound international shipments through the Air Cargo Advance Screening (ACAS). The ACAS program is currently in a pilot phase for private carriers. However, the Postal Service has been advised that the Department of Homeland Security will most likely mandate the use of ACAS for specific private carrier international shipments in the future.

   The Postal Service is not required to submit electronic security data through ACAS. Unlike our private competitors that transport branded packages on behalf of their customers which they accept and manifest, we accept mail and packages from foreign posts that originate within their domestic systems, and we must therefore rely on the capacity of foreign postal operators to dispatch electronic customs data about foreign-origin, postal package shipments. Some foreign postal operators, particularly in developing countries, lack the infrastructure to capture and transmit electronic customs data. Further, foreign privacy laws and operator security and privacy policies, as well as concerns about data breaches and routine uses, can in some instances be barriers for foreign postal operators to exchange data.

   Nevertheless, the Department of Homeland Security and the Postal Service have established an advance data sharing pilot program that follows similar security and operational principles as ACAS, but that also reflects the differences necessary to process international postal exchanges. The international mail specific program is known as the Air Mail Advanced Screening (AMAS) and is currently in a pilot phase at JFK, the largest U.S. gateway for international mail.

2. Is USPS required to submit electronic security data through the Air Cargo Advance Screening System, similar to private carriers? If, not, do you think it should be the same? Does USPS submit this data for non-Universal Postal Union (UPU) treaty mail?

   Answer:

   Please see our response to question 1 regarding the current requirements for ACAS as it relates to the private carriers and the Postal Service. The Postal Service shares the goal of securing the exchange of electronic customs data for all customs-documented postal shipments utilizing the current AMAS model or another model that is relevant for the exchange of international mail.

   As for non-UPU treaty mail, the Postal Service interprets this question to refer to mail tendered by a foreign postal operator that has executed a bilateral agreement for different remuneration or service terms than would otherwise apply under default UPU provisions. Generally, the Postal Service enters into bilateral agreements to avail itself of more favorable economic terms, namely increasing the remuneration received from a foreign postal operator or reducing operational costs. These "non-UPU treaty mail" items would still be considered to be subject to the provisions of the Universal Postal Union Acts with regard to security requirements and prohibitions. As a matter of principle and business practice, the Postal Service seeks to promote the provision of advance electronic data within bilateral agreements, although like any agreement the Postal Service ultimately needs the assent of foreign postal counterparties in order to engage in data exchanges. As an example, the Postal Service does have a bilateral agreement with China Post, and

certain mail tendered by China Post is now being accompanied by electronic customs data as part of the AMAS pilot described above.

3. USPS has expressed concerns about standards issued by the UPU. What specific standards do you think are affecting national security in regards to the international trafficking of drugs?

Answer:

The Postal Service does not have concerns about standards issued by the Universal Postal Union (UPU) regarding international drug trafficking. The UPU has long standing provisions within the Acts to reduce the risk of illegal items including drugs and other dangerous substances within international mail. The Postal Service proactively seeks to strengthen these provisions to ensure the UPU member countries can respond to emerging threats. As an example, in 2012 the United States successfully helped lead the effort to persuade the UPU Congress to adopt amendments to a Convention provision (Article 9) requiring that postal operators observe security standards. More recently, the UPU Postal Operations Council has adopted detailed UPU standards S58 and S59 related to postal security.

However, the Postal Service is aware that the exchange of advance electronic customs data enables more efficient screening of illicit contraband in both inbound international mail and items entering our borders from private carriers, and therefore more effective enforcement of the current standards. As the provision of advance data matures, the Postal Service anticipates the efficiency of international mail screening will increase. As stated in the previous responses above, the Postal Service is committed to increasing the provision of electronic advance data to customs authorities as a mechanism to improve the efficiency of screening international mail.

4. What structural changes need to occur at USPS so you and other responsible entities, like Customs and Border Protection and Drug Enforcement Agency, are better able to identify hazardous or illegal substances?

Answer:

The Postal Service does not believe that structural changes need to occur within the Postal Service to identify hazardous or illegal substances more effectively. The Postal Service through its law enforcement arm, the Postal Inspection Service has a long history of working with the domestic law enforcement agencies that have primary responsibility to identify illegal or hazardous items transported through international mail. Ensuring that agencies such as Customs and Border Protection, the U.S. Transportation Security Administration, the U.S. Food & Drug Administration, the U.S. Fish & Wildlife Service, and the U.S. Drug Enforcement Administration maintain adequate funding and resources to perform their primary role to screen, inspect, and enforce U.S. laws will be essential to effectively identify hazardous and illegal substances entering our borders.

From Representative Mark Walker

1. Is it the United States Postal Service's ("USPS") position that it is against the law for the USPS to prioritize parcel transportation and delivery over letter mail transportation and delivery? If not, please explain why the Postal Service does not hold this position.

   Answer:

   The Postal Service makes decisions concerning the appropriate type of transportation to utilize based upon the class of mail involved regardless of shape. The transportation mode is selected after considering the applicable delivery service standards, the distance the particular piece needs to travel in our network, and cost. In this regard, it is important to note that we offer some letter products on the competitive side of our business (like Priority Mail Express and Priority Mail letters) that are subject to the delivery service standards for those classes of mail, and some packages on the market-dominate side of our business (like First-Class Parcels) that are subject to the corresponding delivery service standards.

   The approach taken by the Postal Service for making operational decisions concerning the transportation and delivery of our products is appropriate, based upon sound business principals, and fully consistent with the law.

2. In her testimony, Postmaster General Brennan noted that the Postal Regulatory Commission ("PRC") confirmed that the USPS is not cross-subsidizing parcel deliveries through monopoly mail. However, based on its own financial statements, the USPS fails to attribute nearly 50 percent of its total costs. Can you please confirm: (1) whether the USPS cross-subsidizes parcel deliveries through monopoly mail and (2) that the USPS attributes approximately 50 percent of its total costs?

3. How can the PRC confirm that USPS is not cross-subsidizing parcel deliveries through monopoly mail when USPS does not account for 50 percent of its costs?

4. If the USPS accurately measured and attributed all costs associated with package delivery, including sortation, transportation, delivery, and other costs, would package delivery still be profitable?

5. In 2015, the USPS' financial statements show that: (1) letter mail is more profitable than parcel delivery and (2) parcel delivery is profitable. However, reports indicate that the USPS is still losing money. This seems to suggest that letter mail is losing money, while parcel delivery is making money. How does the USPS reconcile this?

   Answer (Questions 2 - 5, combined):

   We confirm that the Postal Service does not cross-subsidize competitive products (parcel delivery) through market dominant products ("monopoly mail") and that 54 percent of the Postal Service's costs were attributable to products in FY2015. This is sometimes incorrectly interpreted to mean that the Postal Service does not account for all of our costs. Through our accounting system (which tracks all expenses by type) and through our costing system (which attributes to products the costs they caused directly or indirectly), the Postal Service accurately accounts for 100 percent of our costs. However, we do not assign all of those costs to products because that would be inappropriate from a regulatory, statutory, and economic standpoint.

An important factor in determining attributable costs is that, given the nature of the network required to provide postal services, significant amounts of costs are not directly or indirectly caused by specific products. In FY 2015, 46 percent of total costs were defined under Postal Regulatory Commission rules as "institutional" costs. The bulk of the Postal Service's costs that are not attributed to specific products are common costs associated with the Postal Service's networks that we must maintain in order to provide universal service. Payments for the Postal Retiree Health Benefits Fund also add to institutional costs. The accounting and costing rules that are currently in place make good sense given the goals of the Postal Accountability and Enhancement Act ("PAEA").

Congress's goal in the PAEA was to allow the Postal Service to compete fully and fairly within the competitive market place (and to help us self-fund our universal service obligation) by creating a structure that ensures a "level playing field" between the Postal Service and our private sector competitors. The PAEA implements the "level playing field" by requiring that competitive products cannot be cross-subsidized by the market-dominant products, and that they must cover an "appropriate share" of institutional costs. The Postal Regulatory Commission ("PRC") reviews these requirements on a yearly basis as part of the Annual Compliance Determination. The PRC has found, every year since the PAEA was enacted, including this year, that the Postal Service has been in full compliance with these "cross-subsidization" and "appropriate share" requirements.

To protect against "cross-subsidization" the PRC employs a modified incremental cost test, which compares the additional cost of providing competitive products over and above the cost of providing market-dominant products, to the revenue generated by those competitive products. In FY2015, the aggregate incremental costs to provide competitive products were $12.2 billion, but the aggregate revenues from competitive products were $16.4 billion. Thus, far from being subsidized by market-dominant products, competitive products in fact contributed $4.2 billion to help fund our obligation to provide prompt, reliable, and efficient postal services to the nation "as a basic and fundamental service provided to the people by the Government of the United States."

To meet the "appropriate share" requirement, the PRC requires that competitive products as a group generate sufficient revenue to cover not only their attributable costs, but also at least 5.5 % of the institutional costs which need to be maintained in order to provide universal service, and to process, transport and deliver the mail to 155 million delivery addresses six days per week. In FY2015 the PRC determined that competitive products covered 13.3% of institutional costs, far in excess of the current regulatory requirement. When you consider that competitive products are only 2.5% of the volume going through the network, competitive products are contributing substantially more than their fair share of the institutional costs.

The rules utilized to make these determinations are the PRC's rules, developed over 40 years with the participation of all interested stakeholders. If anyone wants to revisit the rules, there are processes in place to do that before the PRC, and in fact there are current rulemaking dockets open before the PRC to consider both the "appropriate share" and the current costing methodologies.

However, in considering these issues, there is a very good reason for the PRC or anyone else who considers the question to protect our ability to compete fully and fairly in the competitive package marketplace pursuant to the framework created by the PAEA. That is because revenues generated by the package business are critical to paying for our network and ensuring that we can continue to fulfill our universal service obligation in a self-sufficient manner. While they cannot replace the revenues lost as a result of the declining First-Class Mail business, they certainly help.

By way of further response, the Postal Service also agrees that both letter mail (and, indeed, all Market Dominant products collectively) as well as parcel delivery are profitable. These products are profitable in the sense that the revenue for the products cover their attributable costs and make a contribution toward covering the Postal Service's institutional costs, which are the costs that are not causally attributable to any postal product.

The Postal Service's overall losses reflect the fact that the contributions of letter mail and parcel products are not sufficient to cover the *entirety* of the Postal Service's institutional costs. Since institutional costs were 46 percent of the Postal Service's costs in FY 2015 (and all products' attributable costs, consequently, were 54 percent of costs), using the PRC's approved methodology, Postal Service products as a whole must collectively contribute enough to cover institutional costs in order for the Postal Service to be profitable.

As discussed by Postmaster General Brennan in her recent testimony, the postal business model is broken because under current law the Postal Service can't generate enough revenues to cover our mandated costs, including the costs associated with our fundamental obligation to deliver mail to 155 million addresses six days per week. Our universal service obligation requires us to maintain a certain-sized network and a required number of people, regardless of mail volumes, in order for us to accept, process, transport, and deliver mail to all of those addresses six days per week. Those network costs are fixed or growing as we add over 900,000 delivery points each year, and as healthcare and related employee costs continue to climb. In addition the PAEA imposed an additional obligation on the Postal Service to prefund our retiree health care benefits costs. However, there is less revenue to fund our mandated costs as mail volumes continue to decline, as those declining mail volumes also shift to less profitable types of mail, and because prices on 76% of our business are capped at the rate of inflation.

That being said, the business model problem is serious but solvable, and it should be dealt with now. The finances of the Postal Service can be stabilized with the enactment of the prudent legislation for which we have advocated, and such legislation should address both costs and revenue. The legislation we have proposed does both-by lowering the costs of our pension systems and retiree health benefits program, and by reinstating the exigent surcharge and giving us additional product flexibility to generate new revenue. These measures would result in an estimated total positive impact of approximately $32 billion through 2020, and together with a favorable resolution of the Postal Regulatory Commission review of our ratemaking system that begins later this year, would restore the Postal Service to financial health.

6. In her testimony, Postmaster General Brennan noted that the USPS is complying with the spirit of the Postal Accountability and Enhancement Act of 2006 and not prioritizing parcels over letter mail. However, the USPS recently stated to the PRC that "the ongoing growth in packages" has caused the USPS to place letter mail on slower surface transportation, while packages use air transportation.[1] Further, the USPS stated that it slowed letter mail standards and eliminated First Class overnight delivery in order to "make needed investment in package processing" and "help grow package business[.]"[2] Please provide this Committee the side-by-side service standard performance for Market Dominant Products, by class, as well as Competitive Products, by class, for the last three years.

[1] USPS Reply Comments Regarding FY 2015 Service Performance Report and FY 2015 Performance Plan. March 8, 2016. Page 1.
[2] USPS Network Rationalization Phase II Press Kit.

Answer:

Please see the response to Question 1, above. By way of further response, the Postal Service is providing the requested data for the benefit of the Committee in a separate transmittal in view of the commercial sensitivity of the information and the need for it to be maintained under protective conditions. Further, we look forward to future opportunities to shed light on postal matters. However, the Postal Service is concerned that the data request appears to be founded on a misreading of the above-referenced Reply Comments (filed with the Postal Regulatory Commission ("Commission") and the Press Kit.

In that regard, contrary to the conclusion imbedded in the question, the First-Class Mail service standard changes implemented in 2012 and 2015 have not altered the priority of dispatch among our various mail products. The operational changes associated with network rationalization were not motivated by our investment in package processing, the modes of transportation utilized for packages, or our goal of growing the package business.[1]

The First-Class Mail service standard changes were implemented for the sole purpose of eliminating infrastructure and operations originally deployed to process letter mail volume that has since diverted to the Internet or otherwise disappeared in response to changes in the economy that began in the latter half of the past decade. As First-Class Mail volumes increased rapidly during the last half of the 20th century, the Postal Service responded as it should have, by building and expanding numerous processing plants, procuring successive generations of mechanical and automated sortation equipment, and increasing its workforce to staff the operations at these locations.

When First-Class Mail volume trends reversed course, it was incumbent upon postal management to respond accordingly. Consistent with the directive to expeditiously streamline its processing network,[2] and to eliminate unnecessary mail processing capacity, the Postal Service has been able to consolidate portions of its processing and transportation network by limiting the application of the long-standing overnight First-Class Mail service standard. This change allowed for the elimination of equipment and other infrastructure that existed for the purpose of achieving overnight delivery when First-Class Mail volumes were at peak levels. *See* Docket No. N2012-1, Direct Testimony of David Williams On Behalf of United States Postal Service, USPS-T-1.[3] See also the following Federal Register notices explaining the proposed and final service standard

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[1] Committee question identifies a "USPS Network Rationalization Phase II Press Kit" as a source for the belief that there is a nexus between network rationalization and changes related to package volume growth. We assume that the question refers to the electronic press kit available at the following link: https://about.usps.com/news/electronic-press-kits/our-future-network/ofn-phase-2-faqs.htm.

In response to that document's Question 18, the Postal Service observes that the savings from network rationalization and other initiatives should better position us to make needed investment in package processing, other automation equipment, and its aging delivery fleet. Network rationalization was not undertaken to fund these initiatives. The answer in Question 18 makes the observation that, at a time of great financial strain, cost savings from any source -- including network rationalization -- improve postal finances and make it easier to pursue other necessary expenditures in mail processing and delivery operations. In addition, we did in some instances use space that was made available by our consolidation efforts to increase our package processing capacity, but that benefit was not a motivating factor of the network rationalization initiative.

[2] *See* Pub. L. 109-435, Title III, § 302(c)(1)(D), 120 Stat. 3219 (December 20, 2006).

[3] A copy is available at the following link: http://www.prc.gov/docs/78/78333/USPS-T-1_Willliams_Testimony_Final.pdf

changes: 76 Fed. Reg. 58433 (September 21, 2011); 76 Fed. Reg. 77942 (December 15, 2011); 77 Fed. Reg. 31190 (May 25, 2012).

At the same time that it has implemented drastic operational changes largely affecting First-Class Mail, the Postal Service has experienced robust growth in package volumes across its various product lines. While the Postal Service continues to take action to preserve letter and flat mail volumes, it is also prudently adjusting network facilities and resources to accommodate parcel volume growth, and to provide quality service for all products, consistent with applicable service standards.

The Committee's question appears to reflect a misreading of several postal documents to erroneously infer a direct link between network rationalization and Postal Service management's response to the growth in package volumes. The question appears to infer that letter mail is being diverted from air to surface transportation in order to accommodate air transportation for packages. This misreading of the Reply Comments filed with the Commission, and the Press Kit, appears to be rooted in differences in the use and interpretation of common postal terminology.

In common non-postal parlance, the term "letters" is often used as a shorthand reference for First-Class Mail, and the term "packages" is often used as a shorthand reference for products such as Priority Mail or Parcel Post. As indicated above and in our response to question 1, use of such shorthand overlooks the fact that the various classes of mail contain products of all shapes. In that regard, Priority Mail Express, Priority Mail, First-Class Mail, and Standard Mail contain both letters and packages. The Postal Service makes decisions concerning the appropriate type of transportation to utilize based upon the class of mail involved regardless of shape. The mode of transportation is selected after considering the applicable delivery service standards, the distance the particular piece needs to travel in our network, and cost. The approach taken by the Postal Service for making operational decisions concerning the transportation and delivery of our products is appropriate, based upon sound business principals, and fully consistent with the law.

The question focuses on a passage on page 4 of the USPS Reply Comments Regarding FY 2015 Performance Report and FY 2016 Performance Plan filed in PRC Docket No. ACR2015 (March 8, 2016). There, the Postal Service references page 15 of its Annual Report and Comprehensive Statement of Postal Operations[4] and summarizes several factors that contributed to lower-than-anticipated service performance scores. The question appears to interpret Postal Service references to "packages" and "letters" as relating to separate mail products, contrary to the manner intended by the Postal Service. The question also appears to mistakenly infer a connection between network rationalization and the rebalancing of air and surface transportation undertaken in response to package volume growth. As acknowledged above, there has been transportation changes affecting First-Class Mail associated with network rationalization. Those changes have coincided with, but should not be confused with, the rebalancing of air and surface transportation in response to the growth in Priority Mail Express, Priority Mail, and First-Class Mail packages.

Via separate correspondence, we are providing results for market dominant products for FY13 to FY16 year to date (YTD). We ask that the Committee refrain from publishing the FY16 YTD figures externally as they are preliminary in nature. The data for competitive

[4] A copy of the Reply Comments is accessible at the following link: http://www.prc.gov/docs/95/95250/Postal%20Svc.%20ACR2015.pdf. A copy of the Annual Report is accessible at the following link: http://about.usps.com/who-we-are/financials/annual-reports/fy2015.pdf.

products will also be provided under separate correspondence with a request that the Committee treat the results as information filed under seal, in view of the commercial sensitivity of this information. This is consistent with the manner in which nonpublic data are reported to the Postal Regulatory Commission, which authorizes the Postal Service to file commercially-sensitive product data under seal if the public disclosure of such data would not be in keeping with good business practice within the meaning of 39 U.S.C. § 410(c)(2) and would result in commercial injury to the Postal Service within the meaning of 39 U.S.C. § 504(g)(3)(A).

From Representative Cynthia Lummis

1. How many postal unions are there? How many unions does the Postal Service enter into separate collective bargaining negotiations with?

   Answer:

   The Postal Service has six unions—American Postal Workers Union (APWU); National Association of Letter Carriers (NALC); National Rural Letter Carriers' Association (NRLCA); National Postal Mail Handlers Union (NPMHU); Postal Police Officers Association (PPOA); and National Postal Professional Nurses (NPPN).

   The Postal Service has seven separate collective bargaining agreements with these six unions.

2. How many of the aforementioned unions support the Postal Service retiree health-Medicare integration proposal?

   Answer:

   The Postal Service worked extensively with our four largest unions—American Postal Workers Union (APWU); National Association of Letter Carriers (NALC); National Rural Letter Carriers' Association (NRLCA); National Postal Mail Handlers Union (NPMHU), and reached full agreement with them on the specific aspects of how to integrate our health care plans with Medicare.

3. For the unions that the Postal Service negotiates contracts with, how has the retiree health-Medicare integration proposal, or even the determination to put forth the proposal, affected ongoing negotiations?

   Answer:

   The Postal Service believes that the retiree health-Medicare integration proposal has had a positive impact on bargaining. Our unions understand, as does the Postal Service, that the existence of this actuarial liability is an existential threat to the long term viability of the institution. They also understand that properly integrating Postal healthcare with Medicare is the only way to reduce our liability and make retiree healthcare an affordable proposition.

From Representative Mark DeSaulnier

1. One of the top complaints in my Congressional District comes from constituents who attempt to contact their local post office and are often directed to a telephone number that is most often not answered and does not have a functioning voicemail system. I am aware that the U.S. Postal Service (USPS) operates a regional 1-800 number for similar customer interactions, and it is my hope that you can instruct our regional and local post offices to direct customers exclusively to the functioning 1-800 number.

   Answer:

   In order to best serve our customers, the United States Postal Service encourages our customers who wish to contact us with a question or concern to do so on line at USPS.COM, by sending us an email, by calling 1-800-ASK-USPS, or in person at their local post office.

   On USPS.COM, customers searching for contact information related to customer service are directed to an "email us" function on the website, where they can complete a form which is then forwarded to the appropriate office to respond to the customer; as an alternative, they are also directed to 1-800-ASK-USPS, where an agent will either address the customer question or concern while they are on the phone, or create a customer service case, which is then forwarded to the appropriate office to respond to the customer.

   In our local post offices, we provide lobby cards customers may pick up off the counters. Notice 4314-C, "We Want to Know" provides customers interested in contacting us with three options: speaking to the Postmaster or manager of the office which services them, calling 1-800 ASK-USPS, or contacting us via USPS.COM.

   Our Management Instructions related to complaint handling instruct our employees to follow the same protocol for assisting customers regardless of the channel by which they contact us.

   Regarding the specific concerns related to Post Offices in our Pacific Area (which includes the state of California) that were not answering the phones in their office, we escalated this to Pacific Area management, as well as the District Manager for our Bay Valley District. Management action to address the situation has been taken, and the situation is being monitored for compliance.

2. Another concern that I often hear from constituents in my district is that new postal employees, those still within their probationary period, are not issued USPS uniforms. This is a security issue for my constituents and your customers who are often concerned by unannounced and unfamiliar people approaching their homes. I would also suggest that this is a safety issue for postal employees that should be addressed as quickly as possible. Can you tell me if this practice is common in the USPS, and if there is a policy that limits probationary employees' access to official uniforms? I hope you will work with me to address this troubling, and potentially dangerous, issue.

   Answer:

   Newly hired city letter carriers receive uniform allowance funds after completing a 90-day probationary period. During the probationary period, new carriers are required to wear the uniform baseball cap with the postal emblem. Local management may also provide a uniform polo shirt as a means of identification with the Postal Service. In addition, all

postal employees receive a photo identification badge which must be visibly displayed while officially employed and on duty.

3. How does USPS manage congressional information and meeting requests at the local post office level? Local post offices did everything they could to prevent me from meeting with them to discuss issues raised by my constituents. While I am sensitive to federal requirements barring postal employees from participating in political activities, it seems that USPS considers most interactions with congressional offices in the context of political activity thereby limiting my effectiveness in addressing constituent concerns. What can be done to improve local post office transparency and accountability?

Answer:

It is Postal Service policy that congressional inquiries, including requests for meetings, related to services provided by local Post Offices are handled by District management officials who have administrative jurisdiction over local Post Offices in assigned geographic areas. Headquarters Government Relations officials provide guidance on handling congressional inquiries to District management officials when deemed appropriate, and are responsible for handling congressional inquiries regarding postal policy matters.

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Questions from Chairman Jason Chaffetz

1. Is there a long-term risk to postage rate increases? If so, please explain any risk and how it differs across the variety of business sector that make up the postal industry.

The rate structure as it is designed today under PAEA offers no extreme long-term risk of postage rate increases. Over the last ten years, postage rates have been predictable as they were intended when the 2006 law was passed. If this rate structure is changed, and prices become more volatile or increase significantly, significant long-term risk to the mailing industry and the Postal Service would arise.

Risk arises from volatile or irregular price changes such as those experienced under the previous cost-of-service rate regime and more recently under the unexpected exigent price increase. Although the exigent increase was a 4.3 percent across the board increase, the risk or uncertainty came from the multiple appeal cases, the remand, and the additional amount the PRC allowed the USPS to collect, which extended over five years.

As I stated in my testimony, "[f]or business customers, the cap provides postal customers the very considerable benefit associated with an assurance of postal rate stability and predictability -- an assurance that's key to a customer's decision as to whether to continue to invest in mail as a business communication and commercial vehicle."[1]

Any price increases outside of the current structure could produce impacts across the mailing industry. It is important to note that most mailers do not use one specific class of mail, but rather use several products offered by the Postal Service to communicate and transact business with their own customers.

Within the mailing industry, we call this a multiplier effect. For example, a catalog company sends a catalog to a household that results in a purchase either online or through the mail. This generates a package to be delivered, which is more than likely handled by the Postal Service at some point in its journey to the end customer. Once the package is received a bill or statement could be issued, or additional marketing material could be sent. In many cases, a postcard is sent as part of a follow up "we miss you" marketing campaign with the offer of a purchasing discount off the next order.

This multiplier effect is seen with many of the industries that use mail to communicate with the end customer. So if one piece of marketing mail is cut back, the actual effect is felt in the reduction of mail across multiple USPS products. As postage prices increase and/or destabilize, marketers scrutinize their campaigns more closely, looking for the greatest return on investment by mailing only to those customers who are most likely to purchase products. Not only are the initial marketing/catalog mailings reduced, but fewer total purchases are made as a result of the mailing, leading to fewer fulfillment and invoice pieces.

The same holds true for mailers that use First-Class Mail for transactional communications (i.e.: bills, statements, terms, etc.). These financial services, insurance, telecommunication, and utility companies have multiplier effects of their own. When these companies face extreme, irregular, or unpredictable price increases, they face the pressure from top-level executives to push more customers to conduct their transactions online. In many instances, this is done by charging a monthly fee for hard copy (print on paper) transactions. The conversion of hardcopy bills and statements to online transactions often results in the elimination of additional marketing pieces that could have been sent through the mail.

It is hard to predict what will happen across the industry, but it is certain that companies will pursue and test every avenue available to them should postal price increases become too unpredictable or too erratic for businesses to control the added costs associated with extraordinary postal rate increases. If the price cap were to be removed or if Congress were to decide to reimpose the recently eliminated exigency price increases, we fear the flight from mail to other more cost-acceptable communication and transactional alternatives would be hastened.

It needs to be kept in mind that the Postal Service's revenue comes from those who send the mail and pay postage. The less mail that's sent, the less postage that's paid, ultimately will endanger further the fiscal viability of the nation's mail network and the employment of those who work to accept, process, and deliver the mail.

[1] Lowrance testimony before the House Committee on Oversight and Government Reform. Page 5.

According to the Postal Service, "*First-Class Mail* and *Standard Mail* continued to provide the majority of our revenue for the three months ended March 31, 2016, despite long-term trends away from hard copy communication to electronic media. *First-Class Mail* generated 41% of our revenue and 42% of our volume, while *Standard Mail* generated 24% of revenue and 51% of volume.[2]" Jeopardizing mail volume and the potential for growth would only hasten the need to consider alternatives to the design, structure, and functioning of the nation's current mail system.

2. Is there a tipping point where you expect mail volume will drop again as it did in 2008? Have you estimated or seen credible information that would indicate where that tipping point might be?

Not to the extent that the nation already has experienced by way of the recent recession or the explosion of new electronic communication alternatives. As the PRC and the D.C. Circuit have explained, the 2008 drop in volume was the result of two largely independent factors. First, the recession and its associated reduction in business activity caused a drop in transactional mail (marketing, invoices, fulfillment, etc.). At the same time, long-term trends of diversion of communications to the Internet accelerated as the use of smartphones became widespread and consumers began to use these devices to conduct of a number of communications and transactions that previously had occurred via the mail. It is therefore important to understand that while the recent recession had a dampening effect on the robustness of the economy across all sectors, the decline the Postal Service has experienced in its Market-Dominant mail volume and revenue really has its roots in the past decade's electronic communications revolution (the iPhone, for instance, was introduced in June 2007).

Absent another recession or an unforeseen technological change akin to the rise of the Internet and smartphones, it is unlikely that mail volume will drop as precipitously as it did in 2008 in the near future, *assuming postage prices remain stable and predictable*. That is, while the divergence of mail to digital forms has shown some evidence of stabilizing, this stabilization could easily be upset by less than wise decision-making when it comes to managing the costs and prices of mail services. At some price level—or if prices become too unpredictable to allow mailers to accurately budget their marketing spend—the ROI will not justify continued use of the mail. It is important to keep in mind that mailers are rarely, if ever, confined to a single channel of communications, and when the ROI available from mail declines, because of price of mail increases or becomes unstable, marketers will shift portions of their budgets to other

[2] "Quarter II, 2016 Report on Form 10-Q." United States Postal Service. Page 17.

channels of communications which have a higher unit ROI even though less efficient in terms of total audience reach.

Even with assurances of future postal rate changes being predictable and affordable, it is important to note that the nature of mail-based transactions has been forever transformed. The recent growth in e-commerce has been one of the side effects of the nation's electronic communications revolution. For the Postal Service, the result has been some growth in its package delivery business, but it also has resulted in an increase in the costs of its overall operations as USPS adjusts to handling these larger volumes across its network.

3. How do we, as Members of the Committee on Oversight and Government Reform, best construct postal legislation so that the lasting impact is mutually beneficial for both the ratepayers and the Postal Service?

In my testimony, I set out the steps we within the business mailing industry genuinely believe are needed from any prospective postal legislative reform. These include the changes we have recommended concerning pre-funding, postal employee and retiree Medicare participation, predictable prices, the modernization of postal costing systems using those mechanisms the Postal Service has already developed, and consistent, reliable delivery of mail.

The mailing industry would like to see Medicare and prefunding reform occur immediately. It is something that upon which all mailers, postal employee-organizations, and the Postal Service agree. These two reforms alone would place the Postal Service on sounder financial footing and allow a more rational and thorough review of the rate system that needs to be conducted by the Postal Regulatory Commission as a prelude to any more significant postal legislative or regulatory change. The pressures of unfunded liabilities and retirement-related health costs would put the Commission under extraordinary pressure to fashion recommendations for change that may further endanger the viability of a postage-paid universal mail system.

Predictable pricing, costing transparency, and consistent, reliable delivery are three needs of the mailing industry that must be met for mail to continue to remain a viable communication channel. Ideally, all three of these objectives could be achieved through the current regulatory avenues under the existing statute so long as the unnecessary obligations regarding health benefits and prefunding are reformed. A need for further legislation, however, may arise if the Postal Service continues to demonstrate an unwillingness to subscribe to these three objectives in a public, transparent, and accountable manner. If the Postal Service were directed to proceed with these matters, the need for Congress to revisit other more drastic postal reforms could be lessened considerably.

Questions from Representative Mark Walker

1. ***In her testimony, President-Elect Lowrance stated that letter mailers required additional transparency and cost accounting from the USPS. Has President-Elect Lowrance asked the USPS for additional information regarding cost accounting from the USPS? If so, did the USPS provide the necessary information? If USPS failed to respond, what was the USPS' justification for not responding?***

The mailing industry, through its association representatives and the many mail-related companies themselves, has asked for additional information from the Postal Service on various cost initiatives. Although the Postal Service meets with its business mailers in multiple fora, both public and private, the mailing industry has found the USPS is uncooperative in providing any information outside of basic monthly, quarterly, or annual reporting statistics.

The Postal Service has undergone several large initiatives that have greatly impacted those who use mail for communication and commerce and those who support others with their use of mail for these purposes. The rollout of the Flats Sequencing System, Network Rationalization, Load Leveling, 24-hour clock, and Intelligent Mail barcode/Informed Visibility are among the key examples. Multiple attempts to obtain basic information, such as savings projections, volume estimates, operational impacts, ROI, etc., have gone largely unanswered, or the answers that were provided were woefully unacceptable. Two such classic examples are "we do not collect that information," or "the Postal Regulatory Commission has not required us to collect that information," on basic business decisions that impact billions of mail pieces across the country.

An example exists in the initial filing of Load Leveling. The Commission, in its Advisory Opinion[3] said:

[3] "Advisory Opinion on Service Changes Associated with Standard Mail Load Leveling." Postal Regulatory Commission. Docket No. N2014-1, DSCF Standard Mail Load Leveling. Page 26. http://www.prc.gov/Docs/89/89493/Docket%20No.%20N2014-1_Advisory%20Opinion.pdf

"The Postal Service also states that it did not conduct a formal cost savings and network impact analysis because this information is not required by section 3661, and the ability to gather such information is constrained by several factors, "including the complexity and feasibility of the undertaking, the time required, and the cost incurred to conduct such studies." *Id. at 18.* It asserts that the Commission's advisory opinion rules allow for flexibility as to what information the Postal Service is required to submit in support of a request. Unlike the requests filed in Docket Nos. N2010-1 and N2012-1, which were service changes driven by the potential for significant cost savings, the Load Leveling Plan is being sought "primarily for the purpose of organizing operational changes that will alleviate challenges resulting from a collision between current mail entry patterns and service standards that generate a disproportional Monday workload." *Id. at 20.* Therefore, the Postal Service contends that "highly detailed cost analyses" such as those filed in Docket Nos. N2010-1 and N2012-1 are not required here. *Id.*"

The mailing industry has found that the only reasonably effective method of obtaining answers is to request the Presiding Officer through an open PRC docket to pose our many questions to the Postal Service. As you can tell from the above, however, even that pathway has been less than successful. Attempts by many to use questions posed in an open PRC regulatory docket to get information on costing, specifically those around cost savings initiatives that the Postal Service has implemented but never updated the industry on achievements or shortfalls. Such examples exist in the recent Annual Compliance Determination.

Frustrations rise among business mail customers when they continue to see operating expenses increase, even though the Postal Service has claimed subsequent cost savings from these various initiatives. Where are the savings? Has the Postal Service achieved their intended ROI?

The mailing industry has seen Commission questions either go unanswered due to the ostensibleunavailability of information or were answered with minimal information *because the Postal Service does not collect the information being asked of them.* For these reasons, the Commission has now begun to require the Postal Service to collect data to answer basic business questions on their initiatives. Although this is a start, it is nowhere near the level of transparency that should exist from a government monopoly.

2. If the USPS provided additional information regarding cost accounting, please explain any

findings or inconsistencies within the provided information and the implications to letter mailers.

Inconsistencies abound throughout the limited information that has been provided. In initial filings and proceedings, the Postal Service either does not provide a cost estimate of savings, such as in the case of the Load Leveling example cited above, or it changes those estimates throughout the proceeding. For instance, in the Postal Service's Mail Processing Network Rationalization (MPNR) Initiative[4], it filed a $2.1 billion net cost savings, which was later revised to $1.6 billion. Then in the 2015 Annual Compliance Determination, the Postal Service in response to a question posed by the Chairman said:

> The Network Rationalization Initiative is being implemented using a multi-phase approach in order to ease the impact of the changes to the Postal network and to allow time to respond to changing conditions. The first phase of implementation has been completed with the Postal Service realizing annualized savings of **$865M**. The second phase, which began in January 2015, is still being implemented. During FY 2015, the Postal Service tracked 3 quarters of savings for this initiative. As part of this tracking, workload adjustments were applied to account for the increases experienced from the unplanned package growth and workload shift. In FY 2015, the initiative posted additional net savings in labor and parts of **$64.3M**. As an offset, there was a planned increase in transportation due to Network Rationalization expected to cost the Postal Service **$124.9M** annually. The actual increase in transportation costs associated with this initiative during FY 2015 was **$130.2M**. [5]

Additional inconsistencies exist within other initiatives such as its five-day delivery proposal[6], and the national roll-out of the Flats Sequencing System (FSS). FSS machines have been used through the network for many years, but only last year did the Postal Service seek to impose mandatory FSS requirements and pricing. For years, the industry asked the Postal Service for its cost savings and where the Postal Service was able to capture savings from the automation program, since FSS was promised to help reduce the cost of processing flat-shaped mail.

[4] Press Release: PRC Issues Advisory Opinion Analyzing USPS Plan to Change Service Standards. http://www.prc.gov/sites/default/files/pr/N2012-1%20Press%20Release%20-%20Final_2910.pdf
[5] "Response of the United States Postal Service to Question 16 of Chairman's Information Request No. 7." United States Postal Service. Docket No. ACR2015, Annual Compliance Review, 2015. Page. 2. http://www.prc.gov/docs/94/94968/CHIR_No_7.Second.Response.Set.Q16.pdf
[6] USPS claimed $3.1 billion in net cost savings, while PRC forecasts $1.7 billion. http://www.prc.gov/sites/default/files/pr/PRC%20issues%20Advisory%20Opinion%20on%205-day%20Delivery%20Proposal_1691.pdf

Yet, year after year in the Annual Compliance Determination, the mailing industry has seen costs rise for flat-shaped mail (both Periodicals and Standard Mail flats). Savings were supposed to be realized in the delivery unit, since carriers no longer would be required to case flats. Yet in both 2014 and 2015, the delivery unit costs for flat-shaped mail continued to increase. There is absolutely no proof that the investment that has been made in the flat-mail processing system has provided any demonstrable cost saving benefit either to itself or to the customers it is intended to serve.

For national change of service filings, the Postal Service must provide a detailed estimate of cost savings that should be achieved by the implementation of such initiatives. Annually, or even quarterly tracking of initiatives should occur and be reported to the Commission. For capital expenditures, an active, qualified Board of Governors is supposed to oversee if objectives are met and maintained. Neither of which is happening today.

It is important to realize that every single initiative the Postal Service decides to pursue directly affects postal business customers, as we have to use the technology or equipment they decide to purchase. Transparency in costing is needed to understand where postal revenues are being spent, to determine whether or not any new initiatives have attained their projected cost and operational benefits, and whether these new methods have proven superior to alternative approaches that could have attained even better cost and operational outcomes. For instance, accurate cost information ensures that the lowest-cost provider performs mail processing and preparation activities, whether that is the Postal Service or private sector mail service providers.