September 21, 2011

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If the U.S. Postal Service were forced to default and start to shut down, the consequences would be dire. Americans would lose a service that is essential to many people and which has bound our nation together. A shut down would also cause great damage to our economy. Senator Carper has said that such an unspeakable event could "effectively shut down the U.S. mailing industry that depends on the Postal Service...A shutdown of an industry of its magnitude, with some 7 million employees and more than $1 trillion in revenue, would be catastrophic to our fragile economy."[1] For these reasons, as Congress considers ready solutions to the financial woes of the U.S. Postal Service, I hope you will examine the viable options with a full understanding of how the U.S. Postal Service (USPS) came to be in such a deep fiscal hole and how they might start to climb out of it.

In 2006, the United States Congress passed the Postal Accountability and Enhancement Act of 2006 (PAEA). This bill required that the USPS prefund its future health care benefit payments to retirees for the next 75 years in an astonishing ten year time span.

Under the PAEA, USPS is required to make $103.7 billion in payments by 2016 to a fund that will pay for *future* health benefits of retirees of the next 75 years. This health benefit prefunding mandate covers not only current employees that will retire in the future, but employees yet to be hired who will eventually retire. On top of this, none of the money that the USPS contributes to this fund can be used to pay for *current* retiree health benefits. So the USPS must make payments for current retirees' health benefits *in addition* to its required health benefit prepayments for future retirees. This is something that *no other government or private corporation is required to do and is an incredibly unreasonable burden.*

Furthermore, a July 2009 report[2] from the U.S. Postal Service's Office of Inspector General reveals not only that the prepayments for future retiree health care benefits required by PAEA bear no relationship to the USPS's future liabilities but also that they aren't actuarially calculated. The Office of Inspector General's report even questions the basic assumptions the Office of Personnel Management (OPM) uses to calculate the USPS's retiree health care obligations and suggests that

[1] McElhatton, Jim. "Post Office Seeks a Federal Review of Pension Fund." *Washington Times*. June 22, 2011. Accessed September 16, 2011. <http://www.washingtontimes.com/news/2011/jun/22/justice-department-review-postal-pension-dispute/>

[2] Corbett, Joseph. "Final Management Advisory Report – Estimates of Postal Service Liability for Retiree Health Care Benefits (Report Number ESS-MA-09-001(R))" *U.S. Postal Service Office of Inspector General*. July 22, 2009.

they are likely unreasonable. OPM assumes health care cost inflation significantly higher than industry accepted standards. OPM assumes health care cost inflation of 7 percent, while the standard used across government and private corporations is around 5 percent. All of this means that the unreasonable requirements under PAEA are even more perverse in that they may result in an overpayment of nearly $13.2 billion by 2016 – funding the future retiree health care obligations by 115 percent.

The deep hole of debt that is currently facing the U.S. Postal Service (USPS) is entirely due to the burdensome prepayments for future retiree health care benefits imposed by Congress in the PAEA. By June 2011, the USPS saw a total net deficit of $19.5 billion, $12.7 billion of which was borrowed money from Treasury (leaving just $2.3 billion left until the USPS hits its statutory borrowing limit of $15 billion).[3] This $19.5 billion deficit almost exactly matches the $20.95 billion the USPS made in prepayments to the fund for future retiree health care benefits by June 2011. If the prepayments required under PAEA were never enacted into law, the USPS would not have a net deficiency of nearly $20 billion, but instead be in the black by at least $1.5 billion. Should the Postmaster General's predictions[4] of a nearly $10 billion loss by the end of the year prove accurate, the USPS would have a net deficit of almost $24 billion. However, it would also have been required to make a total of nearly $26.5 billion in prepayments in accordance with PAEA by that point. Eliminating these prepayments, in this scenario, would allow the USPS to be in the black by $2.5 billion – instead of seeing a net deficit of $24 billion.

It is clear that these prepayments for future retiree health care benefits are – at this point – the primary reason for the U.S. Postal Service's financial crisis. In fact, simply looking at the numbers reveals that the Postal Service's "financial crisis" is in fact an entirely manufactured "crisis" precipitated by the ill-advised schedule of prepayments for future retiree health care benefits mandated by the 2006 PAEA passed by Congress and signed by President Bush.

In addition to providing its retirees with health care benefits, the U.S. Postal Service takes part in the federal government's retirement system in order to provide retirees with pensions. The system for current employees is the Federal Employees Retirement System (FERS), which replaced the Civil Service Retirement System (CSRS) in 1987. To understand just how much this crisis has been manufactured, we only need to look at two reports by the U.S. Postal Service's Office of the Inspector General that examine the payments the USPS has made to these funds.

A January 2010 report[5] reveals that from 1972 to 2009, the U.S. Postal Service overpaid the Civil Service Retirement System (CSRS) by about $75 billion and proposes that this be paid back to the Postal Service immediately. On top of this, an August 2010 report[6] projected that the USPS had overpaid the Federal Employees Retirement System (FERS) by about $6.8 billion by the end of FY 2009. Combined, these overpayments amount to about $82 billion.

It has been suggested in these reports that these overpayments to the federal pension systems be refunded and credited toward the U.S. Postal Service's retiree health benefit prepayment requirements under PAEA. Having funded about $38 billion of their $103.7 billion obligation under PAEA, an $82 billion refund would allow the USPS to fully fund these retiree health benefit

[3] United States Postal Service. Form 10-Q for the Period ended June 30, 2011. Filed August 5, 2011.

[4] Postmaster General Patrick Donahoe. "Statement of Postmaster General/CEO Patrick R. Donahoe Before the Committee on Homeland Security and Governmental Affairs United States Senate." September 6, 2011. Accessed on September 16, 2011. <http://about.usps.com/news/speeches/2011/pr11_pmg0906.pdf>

[5] U.S. Postal Service Office of Inspector General. "The Postal Service's Share of CSRS Pension Responsibility (Report Number RARC-WP-10-001)." January 20, 2010.

[6] Corbett, Joseph and Marie Therese Dominguez. "Management Advisory – Federal Employees Retirement System Overfunding (Report Number FT-MA-10-001)" U.S. Postal Service Office of Inspector General. August 16, 2010.

prepayments and end future payments. It would even allow them to pay down a significant portion of their debt: leaving about $16.3 billion left over to pay any remaining obligations.

Critics of the U.S. Postal Service will say that declining mail volume has been a result of the internet age and a move toward digital communications. One cannot deny that the USPS has lost mail volume or that costs have grown over the years due to increases in energy prices and the total number of delivery points that must be met as the U.S. population increases. These factors combined with declining revenues have certainly impacted the USPS's net income, but they aren't the chief drain on the USPS's financial resources. Those that would claim otherwise simply distract from the true culprits already mentioned. The most significant problems impacting the USPS's net income are the unreasonable burdens placed on it by PAEA and by its overpayments to the CSRS and FERS funds. And most of the loss of volume has happened from 2007 to today, due to the financial crisis and the subsequent recession. In fact, the largest declines in mail volume and revenue came between 2008 and 2009 – at the peak of the most recent financial crisis and recession.

From 2007 to 2010, USPS's annual revenue fell by nearly $8 billion, representing about a 10.5 percent drop from its 2007 peak revenue of about $75 billion. A ten percent drop is certainly significant – but not to be unexpected in the midst of a straining financial environment that forces consumers to cut back spending. To provide some perspective: even Fortune 500 companies in the top 10 in 2011, like General Electric, Ford Motor Company, and Exxon Mobil have all seen annual revenue drop by even greater margins. Ford saw its annual revenue fall from its 2007 peak of $169 billion to about $129 billion in 2010 – almost a 24 percent drop.[7] Exxon, similarly, saw its annual revenue fall from a 2008 peak of $460 billion to $370 billion in 2010 – an almost 20 percent drop.[8] And General Electric saw a 17 percent drop in annual revenue from 2008 to 2010.[9]

The U.S. Postal Service has already responded to these declining revenues by cutting nearly 110,000 jobs in four years[10] through attrition and closing hundreds of post offices. Since much of this lost volume and revenue may be a result of the financial crisis and recession, many of these permanent closures may be unwarranted. Mail volume usually recovers once the economy begins to recover, relatively speaking. Despite the fact that the U.S. Postal Service has already taken action to account for the effects of the current economic conditions, it is still looking at ways to cut service and jobs – considering cutting service from 6 to 5 days per week, closing more post offices, and cutting more jobs.

Any reform that Congress passes must maintain the U.S. Postal Service's universal mandate. The USPS is required by law to provide a maximum level of service to all citizens of the United States. The U.S. Postal Service also must fulfill an, at times, competing mandate of remaining self sufficient and fiscally sound. Unfortunately, in order to balance these sometimes competing objectives, the Postal Service has resorted to closing thousands of Post Offices throughout the United States, reducing its workforce, and cutting back on the quality of service provided to its patrons. Together, raising rates and reducing services are a suicidal prescription for further decline.

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[7] Ford Motor Company. Form 10-k for the fiscal year ended December 31, 2010. Filed on 2/28/2011. Accessed on September 16, 2011. <http://www.sec.gov/Archives/edgar/data/37996/000115752311001210/a6622311.htm>

[8] Exxon Mobil Corporation. Form 10-k for the fiscal year ended December 31, 2010. Filed on 2/25/2011. Accessed on September 16, 2011. <http://www.sec.gov/Archives/edgar/data/34088/000119312511047394/d10k.htm#toc94192_9>

[9] General Electric Company. Form 10-k for the fiscal year ended December 31, 2010. Filed on 2/25/2011. Accessed on September 16, 2011. <http://www.sec.gov/Archives/edgar/data/40545/000119312511047479/d10k.htm>

[10] Mintz, Jessica. "Postal Service Mulls Closing 3,700 Post Offices". MSNBC.com. July 26, 2011. Accessed September 20, 2011. <http://www.msnbc.msn.com/id/43887908/ns/business-us_business/t/postal-service-mulls-closing-post-offices/#.Tnn-l-yqhd4>

The Postal Service recently began studying 3,652 more post offices for closure. Originally it claimed that this initiative could save nearly $1 billion. However, more recently the U.S. Postal Service has provided estimates of cost savings from this effort – without noting the substantial community benefits that are wiped out by the loss of a Post Office – that only amount to $200 million. And it would only save that much if *all* of the 3,652 post offices are ultimately closed – something they have stated they do not intend to do. Either way, $200 million only represents *two percent* of the $10 billion deficit projected by the Postmaster General for this year, assuming no refund of the USPS's overpayments to federal pension systems. What is the sense in closing such a large number of post offices and cutting back on the service and the sense of community to millions of U.S. citizens in exchange for such a pittance of cost savings – especially when there are other much larger ways, noted earlier, that can be adopted to put the Postal Service back on financially sound footing? *Not to mention the Postmaster General's declaration last year about starting aggressive sales promotion under his watch.*

Remember, too, that especially during times of natural disasters and national security concerns, there are people who rely on the USPS for critical emergency supplies and medicine. Cutting services further could impair these citizens' ability to gain access to these necessary provisions at times of peril.

In light of the challenges and burdens facing the Postal Service, Congress should do its best to pass reforms that will eliminate the manufactured financial crisis that the USPS faces in a way that minimally impacts patrons of the USPS. To reiterate, the prepayment of retiree health benefits for the next 75 years (in a period of 10 years, by 2016) required by PAEA is overly burdensome and something that no other government agency or private corporation is required to do.

Congress should not only ensure that the $82 billion in overpayments the USPS made to federal pension systems, identified by the U.S. Postal Service's Office of Inspector General, be refunded, but that the provisions of PAEA that require the USPS to prefund its retiree health benefits at such an accelerated schedule be repealed.

This would ensure that the USPS returns to solid financial footing and do so in a way that prevents more post offices from being closed, more jobs from being cut, and the quality of service from deteriorating further. Such an outcome would be favorable to the people in this country that rely on the post office to bind their community together, to do their business, to receive precious communication from a distant friend or relative, to pay their bills, or to receive their medicine, among many other things. Otherwise, those who are most vulnerable in our society will feel the harshest effects of further post office closings and service cuts.

Remember Ben Franklin's vision.

Sincerely,

Ralph Nader

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