
**Hearing before the Committee on Oversight and Government
Reform and the Subcommittee on the Federal Workforce,
Postal Service, and the District of Columbia
House of Representatives**



**Oral Statement
On
Continuing to Deliver: An Examination of the Postal Service's
Current Financial Crisis and its Future Viability**

April 15, 2010

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Mr. Chairman and members of the committee, thank you for asking for our testimony today. The Postal Service's financial condition is serious. The situation is the product of the economic downturn and the chaos of the digital age that has sent shock waves through the communications sector of the economy. Further the Postal Service entered this storm with some chronic problems that had been masked by its success in earlier years.

Two pathways lie before the Postal Service. The most obvious is a serious financial crisis with temporary patches that will consume the energy for change and will leave mounting debts with little chance of repayment.

The other pathway is much more hopeful. The current crisis is an opportunity to migrate toward a lean and successful enterprise that is well positioned for a highly adaptive future and thrives in the model envisioned by the Postal Accountability and Enhancement Act of 2006 (PAEA). This pathway will require long-term solutions, effectively executed, to address a few critically important issues.

- First, the optimization of the Postal Service's costly network of plants, post offices, and administrative apparatus must be accomplished as rapidly as possible, while balancing commitment to service. Since 2003, the Postal Service has streamlined its network by reducing over 130,000 employees

and, in 2009 alone, cutting \$6 billion in costs. These are credible actions, but more is needed to match the declining mail volume projected through 2020.

- Next, rigid workforce rules do not match the ebb and flow of mail and customer demand in plants and post offices. As the mail continues to decline the need for more flexible staff to perform a wider range of duties becomes more evident. Also the greater use of evaluated letter carrier routes would provide better incentives to allow for more effective management.

- Thirdly, we and the Postal Service, have recognized the need for a simplified, pricing structure, to replace the over 10,000 prices contained in their 1,700 page customer manual. A simpler pricing structure would be easier to use, encourage new customers, and improve revenue accountability.

- Finally, this year Congress directed the Postal Service, OPM, and OMB to develop “a fiscally responsible legislative proposal” for Postal Service benefit payments. Our office found three areas where overpayments are occurring:
 - An exaggerated 7 percent health care inflation forecast instead of the 5 percent industry standard, resulting in an overpayment of \$13.2 billion by 2016;
 - An excessive 100 percent benefit plan prefunding requirement compared to OPM’s own prefunding level of 41 percent and the S&P

500's, 80 percent rate. Even using the higher 80 percent funding goal would result in a \$52 billion surplus.

- Lastly, the Postal Service Pension Fund was overcharged \$75 billion, so that employees could retire at promised levels. When the Post Office Department became the Postal Service, employees that belonged to the Federal Pension Fund now contributed to the Postal Service. Retirement costs were divided according to the number of years employees had belonged to each fund. However, the Federal Pension Fund paid for retirements based on 1971 salaries, not final salaries. The Federal Pension Fund collected full contributions, but paid only partial benefits.

OPM has explained that these mischarges were in response to what they believed to be the will of Congress expressed in 1974 legislation. However, the 1974 language was repealed by Congress in 2003, when large overpayments were discovered. At that time OPM inexplicably had not detected a 41 percent overfunding error in this \$190 billion pension fund. Congress directed OPM to use its authority to oversee the reforms using accepted “dynamic assumptions” that include pay increases and inflation.

Fixing the last issue alone would fully fund the pension and health retiree plans. The Postal Service's \$7 billion annual payments would no longer be needed,

since the plans would be fully funded and interest income could pay annual premiums. The Postal Service is being bled white with erroneous payments before they open their doors. The \$7 billion mischarge accounts for 66 percent of the Postal Service's projected \$11 billion loss for this year.

This is also serious because the Postal Service Pension Fund is not made up of tax dollars. The two funding streams are employees' own money and money collected from postage sales inflated as a result of this mischarge.

The mischarges should be backed out and fund balances reset to proper levels to achieve the retirement reforms Congress enacted in 2003. This would give the Postal Service a good chance of adapting to efficient market forces envisioned in PAEA.