



National Association of Letter Carriers

100 Indiana Ave. NW
Washington, DC 20001-2144
202.393.4695
www.nalc.org

Fredric V. Rolando, President

Testimony of
Fredric V. Rolando
President, National Association of Letter Carriers, AFL-CIO
to a joint hearing of the
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Information and International Security and the
House Sub-Committee on the Federal Workforce, Postal Service
and the District of Columbia
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Good afternoon Chairman Carper, Chairman Lynch, Ranking Members McCain and Chaffetz, and other members of the sub-committees. On behalf of the 290,000 members of the National Association of Letter Carriers, I am pleased to be here today. Thank you for inviting me to testify.

Although the economy has begun to recover from the 2007-2009 economic meltdown and the Postal Service has recorded a profit of nearly a billion dollars so far this year (through the month of April) before accounting for the massive retiree health pre-funding payment that no other company or agency in the country is required to make, we are not out of the woods yet. As we learned during the 18th annual NALC National Food Drive last month, tens of millions of American families are still suffering. For the Postal Service, a full recovery won't come until the housing sector stabilizes and the 25 million Americans who are unemployed or underemployed find jobs. Until that happens, mail volume is likely to remain depressed.

To help the Postal Service survive and adapt to an uncertain post-crash economy, postal employees and their unions will have to embrace innovation and seek win-win solutions with the Postal Service at the bargaining table. NALC has demonstrated repeatedly over the past three years that it is prepared to do its part. Recently we completed the third of three agreements negotiated over the course of the crisis to expedite route adjustments in reaction to the steep decline in mail volume as a result of the recession – a process that has improved the fairness of the adjustment process and saved the Postal Service hundreds of millions of dollars. The new Joint Alternate Route

Adjustment Process or JARAP is a major breakthrough and will allow us to adjust most routes in the country for the fourth time in two years. (It used to take 5 years to adjust all routes just once.) Going forward, we are committed to doing what is necessary to promote new, innovative uses of the Postal Service's networks even as we lose some traditional mail to electronic alternatives. Our goals are to provide decent middle class jobs to our members while serving the American people and helping grow the businesses that rely on the Postal Service.

But for us to be successful, we need Congress to act as well. Although we have never objected to the principle of pre-funding of future retiree health benefits – even though, I repeat, no other agency or company in America is required to pre-fund such health benefits – it is now clear that the policy adopted in 2006 was deeply flawed. Even if the economy had not crashed, hard-wiring a 10-year schedule to pre-fund 80% of a 75-year liability was, in hindsight, a mistake. While I understand that the aggressive timing was dictated by arcane budget scoring rules, the fact remains: this decision by Congress, not the recession and not the impact of the Internet, is primarily responsible for the financial crisis faced by the Postal Service in recent years.

The inescapable fact is that if not for these payments, the USPS would have been profitable in three of the past four years – despite the deepest downturn since the Great Depression. No private company would have done what the Postal Service has done over the past several years, which was to borrow billions to pre-fund future retiree health benefits in the middle of a recession. The USPS has been forced to use most of

its borrowing authority to make \$12.4 billion in payments to pre-fund retiree health benefits, rather than to invest for the long term or to restructure its operations. There is no way to sugar coat this, Congress must undo the unintentional error of 2006.

Fortunately, there is a way to do this without retreating from the laudable goal of pre-funding retiree health benefits. As you learned from the hearing you held earlier this year, the USPS Office of Inspector General has found that the USPS was overcharged by the OPM for \$75 billion in pension costs associated to service performed for the taxpayer-funded Post Office Department before the Postal Service was reorganized in 1971. The IG's January report, now being reviewed by the PRC, provides a roadmap for Congress for reform. Indeed, the Postal Service has recently prepared a legislative proposal based on that report that the NALC fully endorses.

It calls for Congress to direct the Office of Personnel Management to recalculate the allocation of pre-1971 pension costs on a "years of service" basis and to transfer the resulting surplus in the postal sub-account of the CSRS to the Postal Service Retiree Health Benefit Fund. This would correct a grossly unfair allocation of costs made by OPM in 2007 and allow the Congress to repeal the hard-wired and crushing pre-funding schedule in the PAEA. And it would also grant the Postal Service the financial space to restructure itself for the Internet age.

Of course, we understand, that the budget rules make this a lot easier said than done, and we acknowledge that there are compromise positions being discussed between the

current OPM approach and the approach supported by the IG and the Postal Service. I want to address both these points.

First, it is regrettable that good policy often takes a back seat to the peculiar world of budget scoring and the arcane rules of PAY-GO. In view of the Postal Service's off-budget status, transferring assets from one of its retirement funds to another to satisfy the obligations to pre-fund retiree health may be common sense. But we understand that it will score in this case. In fact, this is a recurring problem. Every time Congress has made changes in this area of the law – allocating pension costs between taxpayers and rate payers – compromises have been made to deal with scoring issues. In 2003, Congress took up a CSRS pension funding bill when an audit revealed that the USPS was on track to massively over-fund its CSRS obligations. But scoring issues led the Bush administration to unfairly reduce the cost of the bill by shifting the totally unrelated expense of military pension benefits earned by postal employees before they were hired by the USPS to the Postal Service and its ratepayers. That unfair decision had to be repealed by the PAEA. Unfortunately, when it took up the PAEA in 2006, Congress again dealt with scoring concerns by adopting an unsustainably accelerated schedule of pre-funding, while declining to address the unfair method of allocating pension costs between the USPS and the Treasury.

Second, we understand that the “years of service” approach adopted by the IG has its critics. They often cite the 1974 law (Public Law 93-349) in which Congress decided to make the Postal Service pay for any increase in the unfunded liability for pension

benefits resulting from pay increases. Although the OPM has mistakenly suggested in its testimony to you that Congress made a conscious decision to shift the cost of pre-1971 service onto the Postal Service, that legislation did effectively shift any increase in pension costs resulting from postal wage increases (for both pre- and post-1971 service) to the Postal Service. The rationale for this decision is outlined in the House of Representatives' report on the legislation. House Report 93-120 notes that after the Postal Reorganization Act was passed "The Congress now has no control – no oversight whatsoever – with respect to the pay machinery in the Postal Service" (see p. 4). Having no control over wage costs, Congress decided to make the Postal Service responsible for any increase in pension costs resulting from USPS pay decisions. But as implemented by the OPM, this policy is grossly unfair to the Postal Service and its ratepayers – the OPM calculated the pension costs of pre-1971 service at frozen 1971 wage rates, even though pension benefits are based on end-of-career salary rates. This effectively shifted the cost of all post-1971 wage inflation as it relates to work performed by employees of the Post Office Department onto the Postal Service and its ratepayers. Some level of wage inflation was expected in the years after 1971 and taxpayers should legitimately bear those costs – as they relate to pre-1971 POD service.

Had the Postal Service given away grossly excessive wage increases after 1971, the critics would have a legitimate dispute with a "years of service" allocation of costs – taxpayers would be punished by these wage decisions. However, that was not the case. The inflation-adjusted wages of letter carriers today, for example, are the same as they

were in 1972. Nevertheless, since postal wages increased somewhat more than the wages of other federal employees covered by CSRS, the Postal Service could be held liable for the additional cost of pensions had the PRA not been passed. If Congress wants to adjust the years of service method, this would be the fairest approach – OPM should index the 1971 postal wage levels to the pay increases received by other federal employees in order to calculate the cost of pre-1971 service payable by the Treasury.

Some have suggested that we index 1971 postal wage levels to the Consumer Price Index (CPI) for the purpose of this cost allocation. Although this is a huge step in the right direction, it would still allow the federal government to pay much less for the pensions of Post Office Department employees for years of service before 1971 than it would for other federal employees service for those same years of service. And it would still shift billions in costs onto postage rate payers.

We raise these complications because we know you must grapple with them. Indeed, both sets of problems might be used to justify inaction. But we hope you will not succumb to that. The Postal Service is too important. It is a vital national utility that is essential to a \$900 billion segment of our national economy – its employees work hard and provide excellent service at some of the lowest postage rates in the world. We deserve a fighting chance to adapt and meet the evolving needs of the country. Reforming the pension and retiree health pre-funding provisions of the law is the essential first step. So we appeal to the leaders of both parties to find a way to overcome the scoring and other policy obstacles in front of us.

Let me finish by briefly addressing a major issue before the House and Senate Appropriations Committees. As you know, the Postal Service has proposed the elimination of the requirement to provide six-day collection and delivery services. We think this would be a blunder of the first order – saving very little money and risking the loss of much more revenue over time. Cutting service is not a way to strengthen the Postal Service. In America, business is conducted 24 hours a day, seven days a week. Many businesses, especially small businesses such as e-Bay retailers, rely on Saturday delivery and reducing the speed and quality of service will simply drive customers away. We have already seen some customers begin to drift away, on the false assumption that 5-day delivery is a done deal. *The Economist* magazine has already opted out, outsourcing its Saturday deliveries to contractors in this area, and we can expect private delivery firms that use the USPS for cost-effective last-mile delivery to reconsider their business plans. Weekly newspapers and direct advertisers who value Saturday delivery will follow suit.

At a time when the nation is suffering an acute jobs crisis, throwing another 80,000 decent jobs away in a moment of panic does not make sense. Both the Obama administration and a bipartisan majority of the House of Representatives who have co-sponsored H. Res 173 oppose the elimination of Saturday delivery. We urge all of you to reject this proposal as well.

Thanks again for inviting me to testify. I am ready for any questions.