**NATIONAL ASSOCIATION OF POSTAL SUPERVISORS**

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# Solving the Postal Service Financial Crisis: Reforming Without Dismantling

By late this year, the fiscal and liquidity crisis afflicting the U.S. Postal Service will likely reach a breaking point. Continued operating losses are driving the Postal Service into insolvency. Unless Congress acts, the Postal Service may be unable to deliver the nation's mail.

Congress cannot permit this to happen. It must act to pass legislation that modernizes the Postal Service and puts it on a firm, financial footing.

Congress should complete the sound legislative efforts that began in the last Congress, when it passed solid, bipartisan and comprehensive legislation (S. 1789, the *21st Century Postal Service Act*). S. 1789 addressed the immediate and longer-term challenges facing the Postal Service, and NAPS supported it.

The House did not act on the Senate measure, nor took up H.R. 2309, a markedly different postal bill that cleared the House Oversight and Government Reform Committee. During the lame duck session, Senate and House postal committee leaders attempted to forge agreement on a compromise approach, but ran out of time.

Now it remains for the 113th Congress to take decisive action in approving reform legislation that modernizes and sustains the Postal Service, without dismantling it.

Over the past several years, the Postal Service has undertaken a number of initiatives to reduce the costs of its infrastructure and workforce, and even its services. Cuts in operations alone, however, will not save the Postal Service. Reductions in service, in fact, can be counter-productive and lead to erosion of the postal customer base.

NAPS believes that comprehensive postal reform should embrace short-term and long-term solutions. The immediate crisis facing the Postal Service is largely due to past actions taken by Congress. Short-term solutions should correct those errors and aim at restoring financial solvency. Longer-term solutions, meanwhile, should aim to fortify revenue and provide wider authority to the Postal Service to sell innovative products and services. While no single action will solve the Postal Service's problems, NAPS believes that four key solutions lie at the heart of comprehensive postal reform:

## 1. Repeal or Modify the Retiree Health Prefunding Requirement

Congress should repeal or modify the massive mandate that requires the Postal Service to prefund its future retiree health benefits. This obligation, installed by Congress with good intentions in 2006, has largely driven the Postal Service into the red. It costs the Postal Service between $5.4 and $5.8 billion every year. The Postal Service's loss of $15.9 billion in 2012 included a payment default on two scheduled prefunding payments due in 2011 and another due in 2012.

These prefunding payments have consumed all of the Postal Service's borrowing authority and pushed the Service to the edge of insolvency. Nearly 80% of the Postal Service's losses since 2007 were due to the prefunding obligation. In fact, during the most recent financial quarter, the Postal Service would have been in the black but for the prefunding requirement.

Not surprisingly, no other government agency or business is saddled with the requirement to prefund its future retiree health benefit obligations.

Though popular media portray the internet and technological change as the sources of the post office's ills, the prefunding obligation is the foremost culprit. Congress should reverse the problems it has created and eliminate the retiree health prefunding requirement.

Terminating prefunding payments makes sense because adequate postal retiree health benefit reserves already exist. The Retiree Health Benefit Fund has continued to grow as a result of prefunding payments, and now has reached $45 billion in assets, or two-thirds of fully-funded status. The Office of Inspector General of the Postal Service has projected, in fact, that the level of assets is so sufficient that, without further Postal Service payments, the Fund's reserves could grow through investment in Treasury securities and reach fully funded status in eleven years. This alternative is far preferable to continuing to drive the Postal Service into insolvency and requiring taxpayers ultimately to pick up the tab.

## 2. Return Pension Overfunding to the Postal Service

According to studies by the Office of Inspector General of the Postal Service and the Postal Regulatory Commission, the Postal Service has overpaid between $50 billion and $75 billion into the Civil Service Retirement System. In addition, the Office of Personnel Management has reported that the Postal Service is entitled to a reimbursement of $3 billion in overpayments into the Federal Employees Retirement System. (Due to falling discount rates, the FERS surplus declined from $11.4 billion in 2011 to $3.0 billion in 2012.)

These payments were intended to satisfy the Postal Service's obligation as an employer to fund the pension benefits of its employees. If these amounts were returned to the Postal Service, they could be added to operating assets or added to the reserves in the Postal Service Retiree Health Benefits Fund (especially if prefunding were eliminated).

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Congress should direct a fair valuation of the Postal Service surplus in payments. The actual surplus in the postal FERS account would be much larger if measured properly, because the Postal Service's work force is markedly different than the rest of the federal workforce in its demographics. If OPM were to use USPS-specific economic, demographic and mortality assumptions in its annual valuation of the postal FERS account, the Postal Service surplus would have been $12.5 billion, according to the Postal Service Office of Inspector General.

## 3. Preserve Saturday Delivery and Other Delivery Standards

The Postal Service announced on February 6 its plans to drop Saturday delivery of first-class mail, advertising mail, newspapers and magazines, beginning August 5. It also announced it would continue to deliver packages and pharmaceutical drugs on Saturday. The Postal Service claims that the move will save $2 billion annually, but has not substantiated those cost savings.

Elimination of a delivery day alone will not solve USPS's budget troubles. In fact, it may only lead to further problems, including reduced customer support, job losses at USPS, and harm to underserved communities that rely on mail delivery. It also could lead to the erosion of the "mailbox monopoly," which gives the Postal Service an exclusive right to *deposit* mail in private mailboxes.

Congress for thirty years has insisted on the preservation of six-day delivery, and recently reaffirmed that mandate in the Continuing Resolution to continue government funding through the remainder of FY 2013.

The Postal Service cannot afford to fail its customers by allowing service to appreciably slip. Current First-Class mail standards, including overnight local delivery, need to be preserved. The Postal Service does not exist in a vacuum; it competes for market share with private services that have the capacity to offer convenient and expedient delivery. If the Postal Service becomes inconvenient and slow, many of its most loyal customers – from home delivery medication companies to newspaper publishers – will turn to private mailing options. Once these customers leave, they are most likely not returning, and the Postal Service's financial woes will continue to spiral downward.

## 4. Authorize the Postal Service to Sell Additional Products and Services

NAPS supports focused, intensive effort to assist the Postal Service in reinventing its business model. The Postal Service needs to generate new revenue as aggressively as it is pursuing efficiencies in mail processing and delivery. This involves the pursuit of business opportunities within existing authority, as well as the offering of non-postal products, subject to Congressional approval.

These include tapping a $300 million market within the Postal Service's own backyard. This involves selling shipping services to federal agencies through the GSA Schedule. Last year the Postal Service's share of the GSA schedule market for shipping services registered 1.4%, compared to FedEx (56%) and UPS (41.2%).

The Postal Service should be permitted to offer non-postal products or services if the Postal Regulatory Commission has determined that the products and services make use of USPS's processing, transportation, delivery, retail network, or technology and are consistent with the public interest. In many respects, this can be best accomplished through public-private and inter-governmental partnerships.

It also should be permitted offer services on behalf of state and local governments as it does today on behalf of federal agencies and to ship wine and beer like its private-sector competitors do.

Numerous ways exist for leveraging the Postal Service's presence in every community to generate new sales. The Postal Service should be permitted to: provide notary and internet services; issue state licenses (drivers licenses, hunting licenses, fishing licenses); distribute and reload government-issued "cash cards" for federal benefit programs, such as Social Security, and emergency assistance programs through FEMA; and follow the practices of foreign postal services in responding to the shift toward electronic mail by offering a variety of hybrid communication services, including banking.

Post offices in France offer banking and insurance services; in Sweden, post offices physically deliver e-mail messages to people who are not online; and post offices in Switzerland allow users to have their physical mail received, scanned and delivered to their email inboxes.