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POSTAL REGULATORY COMMISSION
WASHINGTON DC 20268-0001

SIX-DAY TO FIVE-DAY CARRIER DELIVERY AND RELATED SERVICE CHANGES, 2010	Docket No. N2010-1

DIRECT TESTIMONY OF
JEFF COLVIN
ON BEHALF OF THE
UNITED STATES POSTAL SERVICE

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Autobiographical Sketch

My name is Jeff Colvin and I am the manager of Cost Attribution in the Finance Department of the United States Postal Service, a position I have held since 1997. I joined the Postal Service in 1988 as an economist in Cost Attribution and served in that capacity until my PCES appointment in 1997. Prior to my postal career, I was an economist with the District of Columbia Public Service Commission. I hold a PhD in Economics from The American University.

I previously testified before the Postal Rate Commission (now Postal Regulatory Commission) in Docket No. R90-1 on the topic of city carrier costs.

I. Purpose of Testimony

As indicated by witnesses Pulcrano, USPS-T-1, and Corbett, USPS-T-2, the Postal Service is proposing to eliminate Saturday street delivery and implement associated operational changes in order to reduce expenses and thereby improve its future financial position. The purpose of this testimony is to calculate the annual ongoing dollars saved by the Postal Service, expressed in terms of FY 2009, as a result of switching from six-day to five-day delivery, net of volume changes caused by the switch. I have relied heavily upon the testimonies of witnesses Bradley, Granholm, Neri, and Whiteman. As indicated in my Attachment 3, the calculated net savings are $3.1 billion. In the testimony, I address:

1. The framework for calculation of the savings, including the use of FY 2009 costs and data from Docket No. ACR2009;
2. Service-wide benefits and other indirect costs savings, providing the means to reflect these savings;
3. Vehicle maintenance and fuel savings for carrier vehicles based on estimates from operations experts;
4. Plant processing savings based on estimates from operations experts;
5. Post office operations savings based on estimates from operations experts; and
6. The overall summary of savings, combining the savings (or cost impacts) reported by Professor Bradley with those found in my testimony and taking

into consideration the loss in contribution from the volume reduction due to the switch to five-day delivery discussed by witness Whiteman, USPS-T-9.

II. Framework for Calculation of the Savings

The estimates in this testimony are of “full-up” cost savings from five-day delivery expressed in terms of FY 2009. The term “full-up savings” refers to the annual savings less associated volume reductions available after the completion of all adjustments needed to reduce staffing and adapt contracts, plants, and equipment to the changed operational environment. Put differently, the estimates in this testimony are expressed as the annual savings that would have occurred in FY 2009 if five-day delivery had been fully implemented for that entire year.

Professor Bradley, USPS-T-6 at 5, has described a general methodology for calculating the five-day savings. To implement this methodology for the activities listed above, I use the FY 2009 Annual Compliance Report (ACR) as a framework, organizing the cost savings by reference to the familiar Cost and Revenue Analysis (CRA) categories found in the FY 2009 Cost Segments and Components Report.

A key factor in Professor Bradley’s methodology is the grounding of cost savings estimates in operational analyses. The savings discussed in this testimony are based upon the analyses of witnesses Granholm, USPS-T-3, and Neri, USPS-T-4. I apply financial factors to the savings estimates in order to express them in dollar terms. Toward that end, I perform this task in different ways for different activities.

In some cases, such as vehicle-related savings, I apply percentage reductions directly to FY 2009 CRA costs. In other cases, such as mail processing savings, I apply FY 2009 productive hourly rates from Docket No. ACR2009 to the work hour savings estimates provided by the operational witness.

In addition, I supply some disaggregated or more detailed data from Docket No. ACR2009 to assist Professor Bradley and myself in using the operational information to obtain FY 2009 savings. Specifically, I use FY 2009 productive hourly rates from Docket No. ACR2009[1] to disaggregate the crafts of city carriers and rural carriers into full-time and other categories as shown in my Attachment 1. This attachment also includes FY 2009 workhours by craft, upon which savings estimates are based in cases where operational information indicates the share of workhours to be saved. Finally, I provide Docket No. ACR2009 city and rural carrier Saturday Express Mail volumes used to adjust cost savings to account for the plan to continue delivery of Express Mail on Saturday. These volumes are provided in my Attachment 2.[2]

[1] Docket No. ACR2009, USPS-FY09-7, part8.xls. See also Response of U.S. Postal Service to Chairman’s Information Request No. 3, Question 20. (Feb 5, 2010)

[2] Docket No. ACR2009, USPS-FY09-NP22, City Carrier Cost System (CCCS) Statistical and Computer Documentation, and USPS-FY09-NP23, Rural Carrier Cost System (RCCS) Statistical and Computer Documentation.

III. Service-wide Benefits and Other Indirect Cost Savings

As discussed by Professor Bradley, previous work on five-day cost savings relied upon the CRA's "piggyback" methodology to estimate indirect cost savings (see USPS-T-6 at 3 and 47). This approach is used in the ACR in determining costs avoided due to worksharing and in other analyses to reflect indirect costs or their savings. As shown below, and as discussed by Professor Bradley, the traditional piggyback approach is not the best available approach for estimating the cost savings associated with the anticipated operations under five-day delivery.

A piggyback factor reflects the overall ratio of indirect costs to direct labor costs as determined in the development of attributable costs by product.[3] The FY 2009 piggyback factor for city carriers of 1.327 indicates that for each dollar of city carrier labor costs incurred by the Postal Service, 32.7 cents of costs related to city carriers are incurred in the areas of supervision, administrative work, facility-related costs, vehicle-related costs, and service-wide benefits.[4] This ratio represents the relative direct and indirect costs for city carriers that the Postal Service has experienced, reflecting that as city carriers have been added due to volume growth, there is a need to add supervision, facility space, and vehicles as well as administrative and service-wide benefits. The same is

[3] See Docket No. R2006-1, Testimony of Marc A. Smith, USPS-T-13, pp. 21-24.
[4] See Docket No. ACR2009, USPS-FY09-24. This is the piggyback factor for total attributable costs.

true in response to volume declines over the long term,[5] hence the usefulness of this methodology in CRA attibutable cost estimation.

Despite the validity of the use of piggyback factors for those purposes, Professor Bradley explains that the best approach to determining savings for the purposes of this case is founded on a detailed operational analysis of the service change.[6] Witness Granholm's determination that the number of city carrier routes will remain the same under five-day delivery operations tells us that the amount of facility space and carrier vehicles needed for five-day delivery will be the same as under six days of delivery.[7] So there would be no reduction in facility rent, facility depreciation, or vehicle depreciation—in clear contrast with the piggyback factor approach. Although there are savings in maintenance and fuel for carrier vehicles, such savings would not necessarily be proportional to labor savings, as a traditional piggyback analysis would assume. An analysis by Engineering's vehicle maintenance group provided an estimate of savings that is discussed in part IV of my testimony. Although savings in other facility-related costs such as custodial services or utilities are possible since carriers will not be in facilities on Saturdays, there

[5] A piggyback factor will likely not reliably reflect the immediate savings for indirect costs, even if there are significant staffing adjustments being made. For instance, if in response to significant volume decline a substantial amount of carrier labor is saved by cutting overtime hours, there would not be comparable savings in facilities or vehicles. Over the long term, however, as the number of routes is reduced and facility space and vehicle fleet are adjusted, a piggyback factor will be indicative of the relative amount of indirect savings to be captured with reductions in city carrier labor costs.

[6] Direct Testimony of Michael D. Bradley, Docket No. N2010-1, USPS-T-6 at 47-50.

[7] Granholm, USPS-T-3 at 6.

would be no reduction in these costs if space used by carriers is collocated with retail or other operations to be provided on Saturdays. In the case of supervisors, instead of using piggyback factors, the approach taken for this filing was to specifically determine the savings in carrier supervision (see USPS-LR-N2010-1/3, page 7). Likewise, in the case of carriers, piggybacks were not used to develop costs for administrative clerks and other miscellaneous supplies and services. Although it is possible that some savings could be obtained, this is less likely in the context of operational changes from the switch to five-day delivery than when considering the long-term adjustments to changes in volume which are captured by piggyback factors. Administrative clerk savings have been identified in the operational analyses, without the use of piggyback factors, for plant processing and vehicle service drivers. It is important to note that eschewing piggyback factors may be conservative in the sense that some savings may have been missed in administrative clerks (for personnel, time and attendance, and other administrative purposes), higher-level supervision, and other supplies costs covered by piggybacks.

In the case of service-wide benefits, however, I have relied upon traditional CRA or piggyback factor methods. While certain types of indirect costs, as indicated above, will not decline with the reductions in direct labor costs stemming from five-day delivery, the relationship between service-wide benefits and direct labor costs is much more certain–since service-wide costs are in essence a part of direct labor costs. Hence, the traditional piggyback methodology is reflective of the savings to be obtained as labor costs are reduced in converting to five-day delivery. Service-wide benefits consist of retiree health benefits, workers' compensation, earned Civil Service Retirement System (CSRS) benefits, unemployment compensation, repriced annual leave, holiday leave adjustment, and annuitant life insurance. These are shown in Table 1, below, and each is described in Appendix A to my testimony.

These corporate-wide or service-wide benefits reflect additional compensation (or costs related to employment) received by postal employees during FY 2009 over and above the salaries and benefits included in the cost segments and components of 1-13, 16, 18.1, and 19. As described in Appendix A, they are contained in cost segment 18.3 because the Postal Service accounting system does not split these costs by employee category as is done for the salaries and benefits contained in cost segments 1-13, 16, 18.1, and 19. While not included in these labor cost segments, the service-wide benefits shown in Table 1 are treated exactly the same as the total costs of all these labor cost segments–same attribution, same distribution–in the development of attributable costs, because these service-wide benefits are indeed part of labor costs. Thus service-wide costs savings under five-day delivery would be realized in the same way as labor cost savings.

As shown in the table below, service-wide benefits in FY 2009 are $5.4 billion, or $106.70 for every $1,000 of salaries and benefits in cost segments 1-13, 16, 18.1, and 19. As such, for every $1,000 of labor savings enabled by the elimination of Saturday delivery, there is an additional $106.70 of savings in service-wide benefits, consistent with the way the costs are developed in the cost segments and components. These are savings that would be realized along with savings in salaries and benefits.[8]

Table 1: FY 2009 Service-Wide Benefits (000s)	
Repriced Annual Leave	**$166,387**
Holiday Leave Adjustment	**$(29,040)**
Workers Compensation Current Year	**$878,816**
Unemployment Compensation	**$162,817**
Annuitant Health Benefits–Earned (Current)	**$2,902,000**
Civil Service Retirement System (CSRS)–Earned	**$1,288,487**
Annuitant Life Insurance	**$14,905**
Total Service-Wide Benefits	**$5,384,372**
Total Salary and Benefits	**$50,463,031**
Service-Wide Benefits per $1,000 of Salary & Benefits	**$106.70**

It should be noted that if service-wide benefits were split out by Postal Service accounting systems into the labor cost segments of 1-13, 16, 18.1, and 19, not all cost segments would receive a proportional share. This is because service-wide benefits do differ by types of labor

[8] See Docket No. ACR2009, USPS-FY09-31, FY09.ARpt.xls and FY09.KRpt.xls

and therefore by cost segment. The $106.70 service-wide savings for every $1,000 of labor savings enabled by the elimination of Saturday delivery is an average for all postal labor. This figure will overstate the savings for types of labor that receive less of these benefits than average, and it will understate the savings for types of labor that receive more of these benefits than average. An example would be rural carrier associate (RCA) positions, from the elimination of which much of the savings in rural carrier hours is to come. Only workers' compensation and unemployment compensation are related to the RCA cost-per-workhour calculation, since RCAs do not receive retiree health benefits, CSRS pensions, annual leave, or annuitant life Insurance. Therefore, the use of $106.70 of service-wide savings per $1,000 of salary benefits savings would overstate the service-wide savings related to RCAs. On the other hand, the $106.70 amount is too low for reflecting service-wide savings for city carriers, clerks, mail handlers, vehicle service drivers, and maintenance personnel, since a higher share of these employees receives all of these benefits, as compared to all postal employees. In addition, most workers' compensation costs relate to bargaining unit employees, so the average workers' compensation cost for all postal labor is an understatement for bargaining unit employees. One could correctly argue that one should perform an analysis that parses service-wide benefits to each labor cost segment to more accurately obtain service-wide benefit savings. But here again, one could just as correctly argue that one should more closely examine the other indirect costs, such as time and attendance costs or miscellaneous supplies and services, for which the approach on indirect costs described above assumes there would be no savings.

IV. Maintenance and Fuel Savings for Carrier Vehicles

As described below, I obtained specific estimates of savings in maintenance labor and in parts and supplies for city and rural carrier vehicles related to the elimination of Saturday delivery.[9] Engineering vehicle maintenance staff provided estimates of savings related to reduced mileage and hours of operation for carrier vehicles based on Vehicle Management Accounting System (VMAS) data as shown in USPS-LR-N2010-1/10. This analysis showed the percentage reduction in maintenance labor and in parts and supplies that would result from the elimination of Saturday delivery.

As indicated in USPS-LR-N2010-1/10, the Engineering vehicle maintenance staff reviewed FY 2009 maintenance labor and supplies and materials costs by type of expense for city and rural carrier vehicles to determine the impact of a one-sixth reduction in mileage and hours of operation. Fuel and oil were found to decline proportionately with mileage decline. However, a review of maintenance schedules (e.g., replacement of wiper blades every X months) by type of expense determined savings

[9] This refers to postal-owned vehicles. Professor Bradley provides the savings related to rural carrier payments for use of their own vehicles. See USPS-T-6 at 51-52.

ranging from approximately 0 to 5 percent on maintenance labor and other supplies and materials. The result reported in USPS-LR-N2010-1/10 is that the annual city carrier and rural carrier maintenance labor costs will decline by 3.2 percent and 3.55 percent, respectively. The result reported for parts and supplies costs (including fuel and contractor services) is that annual costs for city carrier and rural carrier vehicles will decline by 9.69 percent and 9.38 percent, respectively.

Table 2 applies these percentage reductions to the FY 2009 CRA maintenance labor and supplies and materials costs for city carrier and rural carrier vehicles to obtain the savings from eliminating Saturday carrier delivery. Please note that these savings do not account for costs related to the Saturday delivery of Express Mail.

Table 2: FY 2009 CRA-Based Carrier Vehicle-Related Savings

(Without Consideration of Saturday Delivery of Express Mail)

Vehicle Type	Expense Type	CRA CS12 Inputs[10] 6 days of operation	Engineering Savings Percentage[11]	Savings Due to 5-Day Delivery
City Carriers	Maintenance Labor	$315,089,000	3.20%	$10,073,147
	Parts & Supplies	$504,384,000	9.69%	$48,890,340
Rural Carriers	Maintenance Labor	$73,662,000	3.55%	$2,613,233
	Parts & Supplies	$124,149,000	9.38%	$11,640,379

[10] See Docket No. ACR2009, USPS-FY09-32, CS12.xls, sheet "Outputs to CRA."
[11] USPS-LR-N2010-1/10.

In Table 3, below, I provide an adjustment to reduce the savings to reflect Saturday delivery of Express Mail by city and rural carriers. The additional Saturday driving mileage by city and rural carriers due to delivery of Express Mail was computed based on an assumption of two miles per delivery and using the CCCS and RCCS volumes for FY 2009 Express Mail deliveries on Saturday.[12] The additional mileage for city carriers was 3.82 percent of their FY 2009 Saturday mileage. For rural carriers, it was 4.05 percent of their FY 2009 mileage. The savings from Table 2 are reduced by these percentages in Table 3 to account for the reduction in savings due to Saturday delivery of Express Mail.

Table 3: FY 2009 CRA-Based Carrier Vehicle-Related Savings Adjusted for Saturday Delivery of Express Mail

Vehicle Type	Expense Type	Unadjusted Savings Due to 5-Day Delivery	Reduction Due to Saturday Express Mail Delivery	Adjusted Savings
City Carriers	Maintenance Labor	$10,073,147	3.82%	$9,687,933
	Parts & Supplies	$48,890,340	3.82%	$47,020,694
Rural Carriers	Maintenance Labor	$2,613,233	4.05%	$2,507,373
	Parts & Supplies	$11,640,379	4.05%	$11,168,834

[12] USPS-LR-N2010-1/3 and USPS-LR-N2010-1/4 indicate 2 miles per delivery and Attachment 2 to this testimony contains the Saturday Express Mail volumes. Using that information we can compute the additional Saturday mileage for city and rural carriers of 4,523,931 and 1,366,000. The one-sixth mileage reduction for city and rural carriers is 118,298,555 and 33,720,563, as per USPS-LR-N2010-1/10. The savings for city carriers is reduced 4,523,931/118,298,555, or 3.82 percent. The savings for rural carriers is reduced 1,366,000/33,720,563, or 4.05 percent.

V. Savings at Plants for Processing, Maintenance, and Custodial

Witness Neri, USPS-T-4, notes that as part of the plan to eliminate Saturday delivery (as well as collections), there will be no outgoing sorting or plant cancellation of mail on Saturday.[13] In addition, as witness Neri describes, elimination of Saturday delivery has impacts on processing at plants on Fridays (or Saturday mornings) and other days as well. As witness Neri indicates, these changes, which lead to workload declines on some days and increases on others, result in overall savings in plant mail processing labor, supervision, equipment maintenance, and custodial costs. Witness Neri has provided the workhour savings estimates for plants as if this plan had been in place for FY 2009. I quantify the FY 2009 savings, based on his work, as follows.

The workhour savings provided by witness Neri are summarized below in Table 4. The savings for clerks and mailhandlers and for supervisors come from the elimination of outgoing sorting on Saturday (tour 3). The savings reflect the reduction in Saturday workhours less the additional workhours added to process (formerly) Saturday mail on the weekdays. In addition, witness Neri has included workhour increases for clerks, mail handlers, and supervisors associated with the additional sorting needed to prepare letter mail for delivery on Saturday to post office boxes (and to sort the rest for Monday delivery), as well as additional

[13] An exception, of course, is the Saturday delivery and outgoing sorting and cancellation of Express Mail, as well as collection at Express Mail collection boxes marked for Saturday collection.

workhours to sort mail on the day after holidays to prevent delays. Finally, witness Neri has provided the workhour savings for equipment maintenance and custodial personnel due to the reduced Saturday sorting. These workhour savings are shown in Table 4, where the FY 2009 productive hourly rates are applied to derive the labor cost savings. In addition, service-wide benefit savings are included.

Table 4: Processing Saving at Plants for FY 2009					
	Workhour Savings[14]	FY 2009 Hourly Rate[15]	Labor Cost Savings	Service-Wide Benefits	Total Savings
Clerks and Mail Handlers	2,042,337	$39.87	$81,426,692	$8,688,174	$90,114,866
Supervisors	375,062	$46.97	$17,614,913	$1,879,500	$19,494,412
Equipment Maintenance	258,030	$46.69	$12,047,625	$1,285,474	$13,333,098
Custodial	3,005	$39.40	$118,411	$12,634	$131,045
Total	2,678,434		$111,207,639	$11,865,782	$123,073,421

It is worth asking whether the analysis undertaken here is consistent with the near-100-percent volume variability of mail processing distribution operations assumed by the Commission. In this context, it is important to distinguish the analysis of cost savings resulting from a change in operations at the same volume from the traditional CRA volume variability analysis. In the analysis of mail processing cost savings, certain costs

[14] See USPS-LR-N2010-1/5.
[15] See my Attachment 1.

that are volume variable in the CRA are nevertheless “fixed” with respect to the distribution of volume across days. Such activities have fixed set-up times per day and are incurred to the extent any volume is worked, but do not increase (decrease) with longer (shorter) runs. Hence, savings of volume variable costs can be obtained by eliminating one day of operations in that the daily set-up time is saved. This is the case when the number of operations set up Monday through Friday remains the same. In this case, the additional Saturday volumes pushed to Monday through Friday mean “longer runs,” or more volumes sorted for a given operation during the week. If, alternatively, the Postal Service were to add operations (e.g., more bullpens, more dispatch units), then set-up time savings from Saturday might well be offset. These savings from longer runs are obtainable for each sort plan run, since each sort scheme requires certain set-up and close-out activities that are mostly unaffected by the length of the run. This applies to automated, mechanized, and manual piece distribution as well as to allied operations. As a result, deriving savings from eliminating a day of operations is not inconsistent with the assumption of near-100-percent volume variability of processing, due to fixed set-up time associated with an operation for a given day.

VI. Post Office Operations Savings

Elimination of Saturday delivery will enable savings in costs for clerks and mail handlers at post offices, as witness Granholm, USPS-T-3, discusses. While much of the Saturday workload and workhours associated with preparing mail for the carriers will shift to Monday through Friday, there are some savings tied to activities directly related to supporting carriers, including handling signature-required mailings, firm holdouts, and distribution setup, as described in detail in USPS-LR-N2010-1/2. These savings are reduced by the need to add retail or window hours to allow for additional package pickups and customer inquiries. The net workhour savings from USPS-LR-N2010-1/2 are provided in Table 5. As was done in Table 4, the FY 2009 productive hourly rates are applied to derive the labor savings, and service-wide benefit savings are also included.

Table 5: Post Office Savings for FY 2009

	Workhour Savings	FY 2009 Hourly Rate	Labor Cost Savings	Service-Wide Benefits	Total Savings
Clerks and Mail Handlers	1,193,283	$39.87	$ 47,575,434	$5,076,267	$52,651,701

VII. Overall Gross and Net Savings from Moving to Five-Day Delivery

In Table 6 below and in more detail in my Attachment 3, I summarize the gross savings and net savings associated with the five-day delivery plan set out by witnesses Pulcrano, Granholm, Neri, and Grossmann. Gross savings are the savings without consideration of volume loss impacts. Net savings are the gross savings reduced by the loss in contribution associated with the volume reductions or impacts. Again, as discussed above, these savings are "full-up" savings—annual ongoing savings once a full transition is made. Also, these are the savings in terms of FY 2009, as if the five-day delivery plan had been in place and "full up" during FY 2009. Future years will have higher hourly labor costs and input unit costs, a greater number of delivery points to serve, and most likely lower mail volumes. Actual savings obtainable in the coming years will be affected by these somewhat offsetting factors.

The gross savings are summarized in the top part of Table 6 for city carriers, rural carriers, air transport, highway contract, vehicle service drivers, contract delivery, and plant and post office operations. Professor Bradley has provided the savings associated with moving from six-day delivery to five-day delivery for city carriers, rural carriers and transportation, including those provided for vehicle maintenance and service-wide benefits by my testimony. I have supplied the savings associated with plant and post office operations from moving to five-day delivery. The gross savings are $3.3 billion. Witness Whiteman, USPS-T-9, has testified that going from six-day delivery to five-day delivery will lead to a 0.7 percent volume reduction, reducing revenues by $428 million and costs by $231 million, leading to a net loss in contribution of $197 million. Adding the $197 million contribution loss and the gross savings of $3.3 billion, results in net savings of $3.1 billion. Additional detail is shown in my Attachment 3 and, of course, in the testimony of Professor Bradley and myself.

Table 6: Gross and Net Savings for Five-Day Delivery
In Terms of FY 2009

(in millions of dollars)

Delivery:	
City Carrier	**$2,263**
Rural Carrier	**$ 484**
Transportation:	
HCR (w/o Boxes)	**$ 220**
Air	**$ 62**
Box Routes	**$ 35**
MVS	**$ 59**
Plant Processing	**$ 123**
Post Office Operations	**$ 53**
Total Gross Savings	**$ 3,300**
Loss in Contribution from Volume Impact	**$ (197)**
Total Net Savings	**$3,103**

Appendix A

DESCRIPTION OF SERVICE-WIDE BENEFITS

Service-wide personnel benefits costs are not reported by employee category and therefore are not included in Cost Segments 1-13, 16, 18.1 and 19. Instead these costs are included in cost segment 18.3. This Appendix contains a description of those service-wide benefits from cost segment 18.3 which are pertinent to five-day delivery savings, including an explanation of how they are pertinent. A complete description of service-wide benefits and their treatment in developing attributable costs by class is contained in “Summary Description of USPS Development of Costs by Segments and Components, Fiscal Year 2008” filed with the Postal Regulatory Commission, July 1, 2009 in connection with the Commission’s rules pertaining to periodic reports, 39 C.F.R. § 3050 (2009).

<u>Repriced Annual Leave and Holiday Leave Adjustment</u> - Repricing of annual leave represents the increased liability associated with the difference between the value of annual leave when it is earned and when it is taken. Postal employees earn a specific number of annual leave hours per pay period. Pay increases that occur after leave is earned but before it is used result in an increase in the liability and cost.

The cost of repriced annual leave is determined by relating the number of unused leave hours for each employee at year end to the current wage rates, summing for all employees, and then comparing this figure with the recorded liability for annual leave. The difference yields the cost of repricing annual leave.

Holiday Leave Adjustment is holiday leave variance and holiday leave on terminal leave. Like repriced annual leave, holiday leave adjustment costs are driven by wage increases and the actual cost of holiday leave versus the amount accrued. These costs relate to the services of current employees. Holiday leave variance represents the difference between actual year-end holiday leave costs and the amount of holiday leave costs estimated at the start of the fiscal year. At the beginning of the fiscal year, the amount for holiday leave is estimated in order to expense a uniform amount chargeable to each accounting period. At year-end, the actual holiday leave amount is compared with the estimated amount, the difference being the cost of holiday leave variance. Holiday leave on terminal leave represents the cost of holiday leave that is earned for the period represented by annual leave paid out as terminal leave.

Repriced annual leave and holiday leave adjustment costs could be identified by craft or function and reflected with the personnel costs of this and other segments. These costs are part of salaries and benefits and would be saved due to staffing and workhour reductions under five-day delivery in the same manner as all other personnel-related costs.

<u>Workers' Compensation</u> - Workers' compensation costs are considered in terms of current-year costs, prior-year costs and health benefit payments for current or former Postal Service employees who are on Office of Workers' Compensation Programs (OWCP) rolls full-time.

Current-year workers' compensation costs represent the discounted present value of current and projected payments for employee claims against the Postal Service arising out of current-year workplace injuries. The number of employees directly influences changes in the amount of current-year workers' compensation expense for which the Postal Service is liable. If the number of workers' compensation claims were held constant per 1,000 employees, then any change in the total Postal Service labor force would cause a proportionate change in the number of claims. Current-year workers' compensation costs would be saved due to staffing and workhour reductions under five-day delivery in the same manner as all other personnel-related costs.

Prior-year workers' compensation costs, Post Office Department workers' compensation costs and OWCP health benefits relate to worker compensation expenses of prior years and are not affected by current year staffing or work hours, so could not be saved in relation to five-day delivery. It is for this reason that these prior-year workers' compensation costs are not included in attributable costs, but instead are classified as institutional.

Unemployment Compensation - Unemployment compensation costs reflect payments by the Postal Service to the Department of Labor to reimburse states for payments to unemployed former Postal Service employees. Holding labor force attrition and postal hiring and termination practices constant, the number of potentially unemployed postal workers is a function of total postal employment. Thus Unemployment Compensation would be saved through staffing and workhour reductions under five-day delivery in the same manner as all other personnel-related costs.

Annuitant Health Benefits & Earned CSRS Pensions - The benefits earned during FY 2009 by current employees—benefits not contained in the labor Cost Segments of 1-13, 16, 18.1, and 19--nor in any of the FY 2009 expenses of the Postal Service —include both the retiree health benefits of $2.902 billion and Civil Service Retirement System (CSRS) pensions of $1,288,486,871. These benefits, to be paid to current employees during their retirement years, are part of FY 2009 “pay” or salary and benefits for the postal employees receiving these benefits. The future payment of these benefits represents an obligation for the Postal Service, which will ultimately have to be paid by the Postal Service. As will be explained further below, the amount of this obligation depends on the number of employees and/or the earnings of the employees receiving these benefits. Thus, costs for retiree health benefits and CSRS pension would be saved through staffing and workhour reductions under five-day delivery in the same manner as all other personnel-related costs.

Under the Postal Accountability and Enhancement Act (PAEA), OPM determines the amount of the new obligations incurred each year pertaining to retiree health benefits (39 U.S.C. § 8908a[d][1]). The yearly increase in obligations is the change in the net present value of the future retiree health benefits payments during the year. It is the value of the retiree health benefits earned by current employees during the year. While it will not be paid to current employees until they retire, it is part of the compensation to employees, just like salaries and currently paid benefits. OPM's estimate of the present value of the additional obligation taken on during FY 2009 for future payment of retiree health benefit is $2.902 billion, reported in the Postal Service FY 2009 10-K Annual Report, page 20, shown as Normal Cost. In addition, OPM will tally these obligations each year and it will determine if additional payments after 2016 are needed to fully fund past obligations on retiree health benefits.[16] The larger the obligations taken on by the Postal Service in any year, the larger the amounts of additional funding will be required. The calculation of the Normal Cost is based on the number of employees potentially able to receive such benefits.

Retirement pension benefits were earned by CSRS employees in FY 2009 equal to $1,288,486,871.[17] Under PAEA, the Postal Service no longer has to make contributions to CSRS, despite the continued employment of CSRS covered employees, because its past contributions to CSRS had over funded this obligation. Again, as with the PRHBF, CSRS obligations taken on in FY 2009 and future years will affect how much the Postal Service ultimately pays to CSRS (either due to additional payments or monies returned to the Postal Service).[18]

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[16] The PAEA stipulated that a $5.4 billion payment for Postal Retirees Health Benefit Fund (PRHBF) should be made in FY 2007, with additional payments specified for each year up until 2016, with a 10 year total of payments of $51.8 billion, as per the 2010 Continuing Appropriations Resolution, Legislative Branch Appropriations Act, 2010, Public Law 111-068. These payments were to make up for past under funding of these retiree benefits and will be used in the payment of retiree health benefits starting in 2017.

[17] See Docket No. ACR2009, USPS-FY09-2.

[18] 39 U.S.C. § 8348.

The CSRS fiscal year cost, previously called “employer contribution,” is based on the fiscal year earnings of CSRS employees.[19]

For the above reasons these benefits earned during the fiscal year by current employees, retiree health benefits of $2.902 billion and CSRS pensions of $1,288,486,871 are treated the same as salaries and benefits costs in Cost Segments 1-13, 16, 18, and 19 for the determination of attributable costs in the CRA.[20]

Annuitant Life Insurance and Annuity Protection Program - Annuitant life insurance costs represent the employer's share of the Federal Employee Group Life Insurance (FEGLI) for Postal Service annuitants. The OBRA of 1990 required the Postal Service to pay the employer's share of FEGLI premiums for all employees retiring on or after July 1, 1971, and their survivors, with the exclusion of Federal civilian service prior to that date. The annuitant life insurance costs are part of the benefits earned by the covered employees. Such costs would be saved through staffing and workhour reductions under five-day delivery in the same manner as all other personnel-related costs.

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[19] PL 108-18 provided, starting in March, 2003, that the Postal Service “employer” contribution be 17.4 percent of CSRS employee salaries and that, together with the employee contribution of 7 percent, provides 24.4 percent of total salary per year toward retirement. This was designed to be the appropriate and actuarially sound annual contribution for CSRS retirement. It is the “current” year cost for CSRS pensions. Also see Docket No. ACR2007, Postal Service Response to Question 11 of CIR No. 1 (February 11, 2008).

[20] See Docket No. ACR2009, USPS-FY09-2. For a more detailed discussion of this topic, see the FY 2007 ACR, USPS-FY07-2, Supplement.

Annuity protection program costs are for benefits paid to specific disability and discontinued service annuitants and their beneficiaries under the Annuity Protection Supplemental Retirement Plan. Because these costs are unrelated to to current employees, they are not affected by current year staffing or work hours, so could not be saved in relation to five-day delivery. It is for this reason that these costs are not included in attributable costs, but instead are classified as institutional.

LIST OF ATTACHMENTS

1. Productive Hourly Rates for FY 2009 by Cost Segment and Additional Detail for City and Rural Carriers

2. Express Mail Saturday Volumes Delivered by City and Rural Carriers in FY 2009

3. Gross and Net Savings for Five-Day Delivery –In Terms of FY 2009: Additional Detail

Attachment 1,
Page 1

Productive Hourly Rates for FY 2009 by Cost Segment and Additional Detail for City and Rural Carriers

FY 2009

SEGMENT/SUBSEGMENT	COMP.	TOTAL PERS. EXP. ($ 000)	WORK YEARS	AVERAGE ANN. RATE	CONVERSION FACTOR	PROD. HRLY. RATE	Total FY Work hours
SUPERVISORS & TECHNICIANS	284	3,862,748	45,465	$ 84,960	1,809	$ 46.97	82,246,782
CLERKS A-J	478	12,996,995	187,101	$ 69,465	1,732	$ 40.11	324,059,417
MAIL HANDLERS	478	3,767,392	55,252	$ 68,186	1,744	$ 39.10	96,359,436
CLERKS & MAIL HAND. A-J	478	16,764,387	242,353	$ 69,173	1,735	$ 39.87	420,482,889
CITY DEL. CARR'S.	256 & 257	15,788,289	224,909	$ 70,199	1,756	$ 39.98	394,939,572
VEHICLE DRIVERS	258	647,749	8,772	$ 73,842	1,754	$ 42.10	15,386,263
RURAL CARRIERS	72	5,949,621	98,421	$ 60,450	1,841	$ 32.84	181,193,945
BLDG. SERVICES	74	1,192,467	17,515	$ 68,083	1,728	$ 39.40	30,265,944
OPERATING EQUIPMENT	75	1,553,928	19,116	$ 81,289	1,741	$ 46.69	33,281,211
BLDG EQUIPMENT	79	532,005	7,131	$ 74,609	1,722	$ 43.33	12,278,858
MOTOR VEH. SVC.	90	443,750	5,965	$ 74,396	1,737	$ 42.83	10,360,701
CITY & RURAL CARRIERS		21,737,910	323,330	$ 67,231	1,782	$ 37.73	576,174,274
HEADQUARTERS	191	708,152	6,838	$ 103,556	1,746	$ 59.31	11,939,777

Source: Docket No. ACR2009, USPS-FY09-7, part8.xls. See also Response of U.S. Postal Service to Chairman's Information Request No. 3, Question 20. (Feb 5, 2010)

**Attachment 1,
Page 2**

Productive Hourly Rates for FY 2009 by Cost Segment and Additional Detail for City and Rural Carriers

CITY CARRIER

EMPLOYEE TYPE	TOTAL PERS. EXP. ($ 000)	WORK YEARS	AVERAGE ANN. RATE	CONVERSION FACTOR	PROD. HRLY. RATE
City Carrier FTR	13,624,295	188,360	72,331.05	1733	$ 41.74
City Carrier PTR	49,613	710	69,911.85	1757	$ 39.79
City Carrier PTF	1,433,977	21,809	65,750.40	1810	$ 36.33
City Carrier Career Total	15,107,885	210,879	71,642.33		
City Carrier TE	679,862	14,009	48,529.02	1983	$ 24.47
City Carrier Casual	543	20	27,218.05	2080	$ 13.09
Total	15,788,290	224,909	70,198.68	1756	$ 39.98

RURAL CARRIER

EMPLOYEE TYPE	TOTAL PERS. EXP. ($ 000)	WORK YEARS	AVERAGE ANN. RATE	CONVERSION FACTOR	PROD. HRLY. RATE
Rural Carrier Career	4,812,410	70,528	68,233.85	1756	$ 38.86
Rural Carrier Non-career Barg	1,096,904	26,478	41,427.32	2053	$ 20.18
Rural Carrier Casual	40,307	1,416	28,475.45	2079	$ 13.70
Total	5,949,621	98,421	60,450.43	1841	$ 32.84

Source: Same as for Page 1, and additional detail from the National Consolidated Trial Balance and the National Payroll Hours Summary Report.

Attachment 2

Express Mail Saturday Volumes Delivered by City and Rural Carriers in FY 2009

City Carrier	2,261,965
Rural Carrier	683,000

Source: Docket No. ACR2009, USPS-FY09-NP22, City Carrier Cost System (CCCS) Statistical and Computer Documentation, and USPS-FY09-NP23, Rural Carrier Cost System (RCCS) Statistical and Computer Documentation.

Attachment 3,
Page 1

Gross and Net Savings for Five-Day Delivery –In Terms of FY 2009: Additional Detail

Page 1: Gross Savings by Function and Cost Segment

(in millions of dollars)

Function	C/S 2 Supervisors and Technicians	C/S 3 Clerks and Mail-handlers	C/S 6 & 7 City Delivery Carriers	C/S 8 Vehicle Service Drivers	C/S 10 Rural Carriers	C/S 11 Custodial and Maint-enance Services	C/S 12 Motor Vehicle Service	C/S 14 Transport-ation	C/S 18.3 Personnel Benefits	Total Savings
Delivery:										
City Carrier	$ 48		$ 1,944				$ 57		$ 214	$ 2,263
Rural Carrier	$ 8				$ 425		$ 14		$ 37	$ 484
Transportation:										
HCR (w/o Boxes)								$ 220		$ 220
Air								$ 62		$ 62
Box Routes								$ 35		$ 35
MVS	$ 6	$ 7		$ 38			$ 3		$ 5	$ 59
Plant Processing	$ 18	$ 81				$ 12			$ 12	$ 123
Post Office Operations		$ 48							$ 5	$ 53
Total Gross Savings	$ 80	$ 136	$ 1,944	$ 38	$ 425	$ 12	$ 73	$ 318	$ 273	$ 3,300

Note: C/S 10 is $340 million labor costs and $85 million Equipment Maintenance Allowance.

Sources:
Delivery - USPS-LR-N2010-1/6
Air Transportation - USPS-LR-N2010-1/7
Other Transportation - USPS-LR-N2010-1/8
Plant Processing - Witness Colvin, USPS-T-7, Table 4
Post Office Operations - Witness Colvin, USPS-T-7, Table 5

Attachment 3,
Page 2

Gross and Net Savings for Five-Day Delivery –In Terms of FY 2009: Additional Detail

Page 2: Contribution Loss Calculation and Net Savings

(in millions of dollars)

Gross Savings	$	3,300
Revenue Loss	$	(428)
Cost Reduction	$	231
Contribution Loss	$	(197)
Net Savings	$	3,103

Source: Gross Savings from Attachment 3, page 1. Revenue Loss, Cost Reduction From Witness Whiteman, USPS-T-9.