

BEFORE THE
UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Annual Compliance Report, 2009

Docket No. ACR2009

SUBMISSION BY THE
NATIONAL POSTAL MAIL HANDLERS UNION

(February 5, 2010)

The National Postal Mail Handlers Union (NPMHU) respectfully submits this statement in response to the Commission's January 20, 2010 "Notice of Public Forum and Opportunity to Comment" in Docket No. ACR2009. In particular, the Commission has asked interested parties to comment on issues "related to the Postal Service's continuing financial stability."

1. From the perspective of the NPMHU, the most significant financial challenge facing the Postal Service is the need to correct the calculation and scheduling of mandated payments that are currently required of the Postal Service, both to the USPS Retiree Health Benefit Fund (PSRHBF) and to the Civil Service Retirement System (CSRS).

The impact of the mandatory payments to the PSRHBF is well-documented. The desire to pre-fund retiree health benefits may be laudable under robust economic conditions, but not at the currently mandated level and not in these difficult economic times. It has been

known for several years that the level of payments now required to the PSRHBF is unsustainable, but Congress so far has only provided a one-time, \$4 billion fix enacted on the last day of September 2009.

Indeed, without its required payments to the PSRHBF, the Postal Service actually had net income from postal operations during the past three years which exceeded \$3.5 billion. And, at this point it is impossible to find any economist or other expert who believes that it makes sense to fund retiree health benefits at this unsustainable level during an ongoing economic crisis. It also is difficult to find an actuary who believes that the numbers used in the initial calculations to determine the payments required by the PSRHBF are still correct. For example, the number of retirees was calculated before the Postal Service began its program of downsizing via attrition, and that downsizing has reduced the number of postal employees (and eventual postal retirees) by more than ten percent. How can a retiree health program continue at a predetermined rate if a key assumption on the number of retirees to be covered is plainly incorrect? Another example of faulty data is the use of a health care trend rate (or inflation rate) that has been incorrectly pegged at 7%. That assumption uses higher rates than are currently accepted by the federal government, either in the President's budget, in other programs from executive branch agencies (including Medicare), or in recent health care legislation that is being scored by the Congressional Budget Office. Most economists have decreased their projections for

health care inflation, whereas the PSRHBF uses a high level of inflation that was fixed in law.

If one combines the over-stated number of retirees with an over-inflated rise in health care costs, the inescapable conclusion is that the Postal Service is being required to make excessive contributions to the PSRHBF. An overly aggressive funding mechanism, requiring much of the money to be front-loaded in the next seven years at the rate of more than \$5 billion each year, exacerbates the situation.

Nor are the Postal Service's unjustified payments to the federal government limited to the PSRHBF. As the Office on Inspector General of the Postal Service recently concluded in its January 20, 2010 report, the Postal Service is "overpaying \$75 billion to the pension fund." If this amount were returned to the Postal Service, the OIG concluded, "it would create a pension surplus" that actually could fully fund retiree health and eliminate the PSRHBF payments.

Taken together, the errors, miscalculations, and political machinations that have led to these mandated payment schedules all demonstrate that much of the Postal Service's budgetary crisis has been manufactured by faulty data and congressional overreaching that must be corrected. If the PRC were to take any affirmative positions or actions on issues related to the Postal Service's financial stability, it should strongly and repeatedly urge Congress to fix these mandated payment

schedules so that they better conform to the actual facts and do not continue to cause financial distress for the Postal Service.

2. At the same time, the NPMHU is not suggesting that there are not other factors contributing to the financial crisis now facing the Postal Service. The NPMHU also recognizes that this crisis may deepen before it improves over the next few years. Mail volume certainly is down, and it is not clear whether it will recover to pre-2008 levels or for the foreseeable future remain at or below its current level.

It also is clear that the dramatic advance in computer technology and electronic communications continues to affect the Postal Service in a negative way. First-class mail, and the vital contribution it makes to overhead costs, has been in decline for several years. Some mass mailers have experimented with e-mail and the internet to find less expensive ways of communicating with their customers (albeit the evidence suggests that they get what they pay for). And, of course, the price of fuel remains high, and could go higher.

The economic crisis has been both broad and deep. Some economists believe that any short-term improvement may not be lasting, and that the future may include continuing economic dips. Indeed, private-sector competitors, such as UPS and FedEx, have experienced even deeper declines than the Postal Service. The entire sector reflects the economic woes of the United States and the entire global economy.

Throughout this financial crisis, mail handlers represented by the NPMHU have done their share to help the Postal Service to survive, if not thrive. More than 10% of our membership has been lost through attrition, including voluntary early retirement programs. There also have been large, downward adjustments in paid work hours, including cuts in both overtime for full-time employees and reductions in straight-time hours for part-time employees. In addition, we have experienced a tremendous increase in the involuntary movement and relocation of mail handlers across the country.

The NPMHU takes seriously our task to work with the Postal Service to keep the postal system healthy despite the economic crisis, provided that the Postal Service continues to comply with our negotiated contract. We understand that the processing of mail by mail handlers needs to remain at its peak level of efficiency. We also understand that some consolidations or closings of postal facilities may have to be implemented, when they are justified based on the facts and circumstances presented. But we will insist that each and every proposal to close or consolidate mail processing facilities must be examined, to ensure compliance with the governing rules and to guarantee that universal and timely service will be maintained.

Given the timing of these proceedings, the NPMHU necessarily returns to the initial point made in these comments. There is an impending deadline of September 30, 2010, when the Postal Service may

face a cash-flow crisis because of the requirement that it contribute more than \$5 billion to the PSRHBF. The NPMHU therefore urges the Commission to pay prompt attention to the PSRHBF issue (and to the CSRS-retirement overpayment issue) discussed above. These matters should be of the highest priority, and the Commission may have only a limited window in which to be a constructive voice on these topics. From the perspective of the NPMHU – and we hope also from the perspective of the PRC – legislation that will fix these problems must be of the highest priority.

Thank you for this opportunity to submit these comments.

Respectfully submitted,

JOHN F. HEGARTY
NATIONAL PRESIDENT
NATIONAL POSTAL MAIL
HANDLERS UNION
1101 Connecticut Avenue, NW
Suite 500
Washington, DC 20036
(202) 833-9095

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