

BEFORE THE  
POSTAL REGULATORY COMMISSION

---

REPORT ON USPS FIVE DAY PROPOSAL  
Docket No. N2010-1

---

COMMENTS OF TOM UNDERKOFFLER  
DIRECTOR OF LOGISTICS  
MEDCO HEALTH SOLUTIONS

(May 7, 2010)

Good afternoon, Madam Chairman, Commissioners. I thank you for the opportunity to discuss the proposed USPS delivery frequency reduction.

My name is Tom Underkoffler, and I am the Director of Logistics for Medco Health Solutions. My responsibilities involve extensive involvement in postal issues, and I represent Medco in multiple industry associations, namely the Parcel Shippers Association (PSA), and Association of Postal Commerce (PostCom) where I serve on their Executive Committees. I am also a member of the Mailers Technical Advisory Committee, representing the Pharmaceutical Care Management Association (PCMA), and co-chaired the MTAC subgroup on service standards for packages. To be clear, I am here to represent the best interests of Medco, our clients, and our patients.

Medco Health Solutions is a leading Pharmacy Benefit Manager (PBM), and operates the nation's largest and most advanced mail-order pharmacy operation. We are presently ranked at number 35 in the Fortune 500 list for the U.S., and we dispensed over 100 million prescriptions at our mail-order pharmacies last year. Our highly automated, proprietary pharmacy systems here in Las Vegas and in Willingboro, NJ are significantly more accurate than hospitals or retail operations, exceeding a 99.997 percent error-free rate, unmatched by the retail pharmacy network. In addition, we are opening our next-generation mail-order facility in Whitestown, IN this year.

Medco utilizes many classes of mail for our normal course of business. We use First-Class Mail and Standard Mail Flats and Letters for correspondence with our patients and clients. We also receive First-Class Mail letters containing

new prescription orders from our patients; largely received on Mondays. Our mail-order pharmacies dispense almost 1.5 million parcels per week, which are largely delivered via Priority Mail Open and Distribute sacks containing Standard Mail parcels. We also utilize First-Class Mail parcels, Priority Mail, and Express Mail. In total, the USPS delivers about 90% of our mail order medication packages to our patients.

Medco patients reside in all 50 states and U.S. Protectorates, and from that aspect, the continued ability of the USPS to offer cost-effective service to all locations is important to Medco. In fact, ordering medication from PBM's like Medco for delivery by the Postal Service is the most convenient, cost-effective way for many Americans to access their medications because pharmacies are few and far between in many rural areas.

Our clients and patients have come to depend upon the ability of the USPS to cost-effectively deliver our mail and medication orders six (6) days per week today. The existing Saturday delivery capability further complements our 24 hour dispensing operations during the week.

I testified two years ago in Portsmouth, NH regarding universal service and the concept of delivery frequency, and the points made then still hold true today. Any reduction in Postal delivery days to zip codes with existing volumes without a corresponding improvement in service would ultimately lead to delays in Medco receiving new orders and our patients in receiving their dispensed medications. The fact that Saturday is the now the targeted day to be eliminated

would ensure there would be a period of two consecutive days without delivery. This would negatively impact about 50% of our patients on a given week.

We are concerned that reducing the number of delivery days per week would result in degraded service not only during normal weeks, based on the compressed work schedule, but also during the inevitable peak volume periods in the November and December timeframe.

The actual service levels to the recipients would further deteriorate on the 8 to 9 Federal Holidays per year that fall on a Friday or Monday, which equates to 15% to 17% of the total weeks per year. The already compressed work schedules (proposed six to five) would then be reduced again, and allow only four days of operations available to handle the volume that is typically produced by large shippers six days a week. Our concern is that the volumes would “roll” over to the following day or days in the facilities, leading to massive delivery delays. These delays translate directly into uncertainty of delivery expectations, which would restrict mail growth overall for the USPS.

The USPS says the proposal, if implemented, would not impact service standards. I would counter with the argument that as someone who was intimately involved in the recommendations for those parcel service standards, the concept of eliminating a day or more of service was never considered. It is safe to say that the spirit of those recommendations was predicated on the operating schedules that existed at that point in time. The proposal would most definitely impact the true service of the mail to recipients. We would look to the

PRC to take into account the spirit of the service standards versus the predicted service implications while evaluating the USPS proposals.

Additionally, we should be very concerned about those who are less mobile and who therefore have limited access to goods and services, as they are especially dependent on the mail. Under the proposal, that would mean people needing their packages during the proposed 2 or 3 day USPS non-delivery weekends would invariably spend more for expedited, expensive delivery that would be the only means available. This would disproportionately and unfairly impact the elderly and rural dwelling patients.

That being said, however, we also understand the state of the current economy, and the likely impact it will have on the existing volume trends for the USPS. We certainly want to see a financially healthy USPS in the future, but any changes made need to protect the existing value proposition, which are affordable service as well as frequent, dependable service. Degrading service to control costs will not likely enhance either customer satisfaction or future volume growth.

We believe that there are other areas that should be explored before considering this “universal” and likely irreversible change. The Retiree Health Benefit Fund issue has largely contributed to the near term financial issues, as it has placed an almost impossible financial requirement on the USPS.

Additionally, the findings of the OIG in their Civil Service Retirement System pension responsibility overpayment report are concerning. As Postmaster General Potter has stated, if these funds were able to be re-applied to the USPS,

the six to five day proposal would not be needed at this point in time. In short, the RHBF and the CSRS issues need to be rectified in the short term, and need to be the top priority to save the USPS.

Medco has worked hard over the past years to optimize our business model to take full advantage of the final mile delivery capabilities of the USPS. This intertwined business model would be impacted if this proposal was to move forward, and it would not help our patients.

In summary, we appreciate the devotion of the USPS to constantly look for ways to reduce costs, but would not expect delivery service to be reduced as a result for the inbound prescriptions or the outbound life-saving or sustaining medication. Our clients and patients count on mail Monday through Saturday today, and for many, it is the only way to receive the goods and services they need in an affordable, timely manner. The other financial solutions need to be explored first, namely the retiree Healthcare and Pension issues. These need to be fully resolved before any reduction of delivery days is proposed. Saturday delivery is one of the greatest competitive advantages the USPS has. Giving up this advantage while disproportionately and negatively impacting the elderly and rural dwelling Americans cannot be the best solution. Surely we can do better.

Thank you for this opportunity and your attention. I will be pleased to answer any questions you may have.