Postal Regulatory Commission
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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON DC 20268-0001

SECTION 701 REPORT	))	Docket No. PI2016-3

COMMENTS OF
MPA-ASSOCIATION OF MAGAZINE MEDIA
AND ALLIANCE OF NONPROFIT MAILERS

Last month, MPA—the Association of Magazine Media, the Alliance of Nonprofit Mailers, and numerous other organizations representing all types and classes of mail and the vast majority of postal mail volume in the United States, sent a letter (reproduced as Attachment A below) to the United States House of Representatives Committee on Oversight and Government Reform summarizing our joint positions on measures Congress should take to improve the Postal Service's finances, stating:

> These [measures] include Medicare integration and the restructuring of the Postal Service's retiree health and pension benefit obligations, for which there is indeed consensus among the Postal Service, employee groups, and the full mailing community.

Integration of the Postal Service's retiree health programs with Medicare is long overdue. Although the Postal Service contributes to Medicare for all of its employees, a significant fraction of retirees do not use Medicare. The unused contributions to Medicare are an unjustified subsidy of the Treasury by the Postal Service and its customers. Requiring all Postal Service retirees and survivors over age 65 to participate in Medicare Parts A and B—and establishing an Employer

Group Waiver Plan ("EGWP") to take advantage of subsidies available under Medicare Part D for prescription drug benefits within each Federal Employee Health Benefit plan—would eliminate about "94 percent (or $54 billion) of the Postal Service's unfunded retiree health benefit liability and reduce expenses by $38 billion over the next 10 years (2016-2025)."[1] As the Postal Service noted in 2013, the resulting savings would be a "lifeline to the Postal Service" that would not "come at the expense of a single job or require the closing of any post office or postal facility."[2] Moreover, "the great majority of participants' in the retiree health benefit plan would "benefit economically" from Medicare integration, "and substantially."[3]

The other consensus legislative recommendation is restructuring of the Postal Service's retiree health benefit and pension obligations. As the Postal Service's Office of Inspector General ("OIG") noted two months ago, the USPS would have broken even between 2006 and 2015, despite the recession, with additional cost savings or revenue of 3.1 cents per piece; of this 3.1 cent gap, 2.8 cents were due to the RHB prefunding requirement. OIG Report No. RARC-WP-16-009, *Peeling the Onion: The Real Cost of Mail* (April 18, 2016) at 1; *accord*, Brennan Testimony at 3-4; Rolando Testimony at 2, 5 (The "principal cause of the

[1] Brennan Testimony at 5, 11, 14-16; *see also* Rolando Testimony at 6-7; Rectanus Testimony at 8 n. 12.

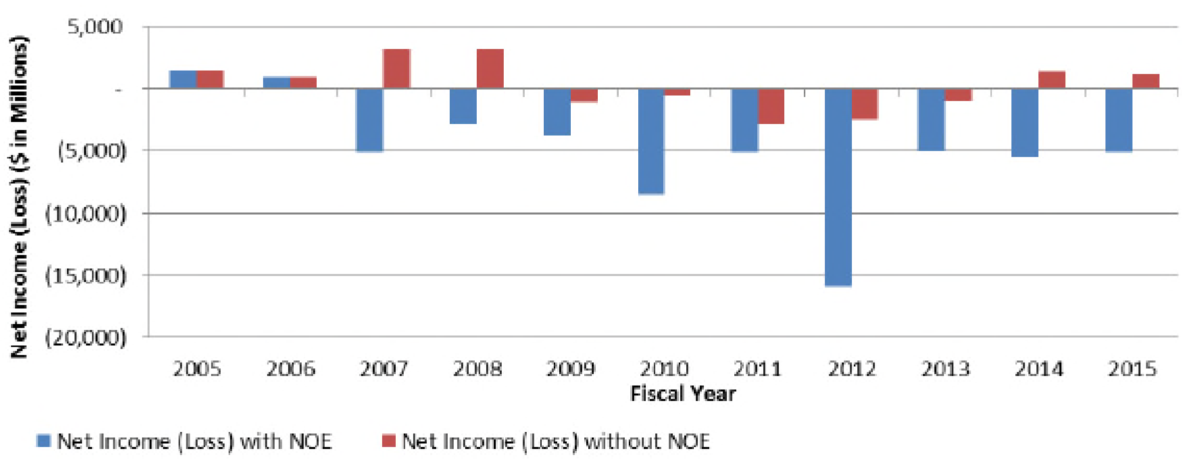
[2] Letter from Jeffrey C. Williamson, Chief Human Resources Officer and EVP, USPS, to Lorelei St. James, Director, Physical Infrastructure, GAO (reproduced in GAO Report No. GAO-13-658, *U.S. Postal Service: Proposed Health Plan Could Improve Financial Condition, But impact on Medicare and Other Issues Should Be Weighed Before Approval* (July 2013) at App. III).

[3] GAO Report No. GAO-13-658 at 59-64 (Williamson letter at 2-7).

Postal Service's financial woes is a policy mandate imposed on the Postal Service by Congress in 2006. … [T]his mandate, and this mandate alone, accounts for nearly 90 percent of the Postal Service's losses since 2007.").

The following figure, published by the Commission at the end of March, dramatically illustrates the extent to which the Postal Service's reported losses in recent years have been driven by the prefunding requirement and other non-operating expenses:[4]

Figure I-1
Postal Service Net Income (Loss) ($ in Millions)



Source: Postal Service Form 10-K and USPS Annual Report, FY 2005-2015.
Note: NOEs include all non-cash workers' compensation costs, the accrued payment to the Postal Service's RHBF, the FERS supplemental payment, and any one-time expense or revenue adjustments.

The PRC should also recommend two additional non-controversial proposals:

[4] PRC Financial Analysis of the USPS Financial Results and 10-K Statement: Fiscal Year 2015 (March 29, 2016) at 1.

(1)

The Postal Service should be allowed to prudently invest its hundreds of billions of dollars of retirement assets and other cash in a diversified investment portfolio, rather than only in low-yielding Treasury bonds. As others (including the investment firm Lazard) have noted, current law requires that funds invested in the Civil Service Retirement and Disability Fund (which holds the postal funds for both the CSRS and FERS) and the Postal Service Retiree Health Benefits Fund, as well as other cash held by the Postal Service, be invested in low-yielding Treasury bonds. Coupled with the statutory requirement that the Postal Service prefund its retiree obligations to a greater extent than virtually any other public or private enterprise must do, the requirement that these funds must be invested in at low-yielding Treasury bonds is an extraordinary double whammy. Allowing the Postal Service to invest its cash in a well-diversified portfolio of private sector equities, bonds and real estate could massively improve the Postal Service's finances with incurring undue risk.[5]

Attachment B to these comments illustrates the dramatic effect that a higher return on invested funds would have on the Postal Service's balance sheets. The average return currently anticipated by a sample of 126 public retiree plans recently surveyed by the National Association of State Retirement Administrators is approximately 7.64 percent.[6] Substituting this value for the discount rates of 4.1 percent and 5.25 percent discount rates currently used to determine the present

[5] *See*, *e.g.*, Rolando Testimony at 8-13; *id*. at Attachment 2 (Lazard analysis).

[6] See http://www.nasra.org/investment.

value of the Postal Service's postretirement obligations reduces that present value by more than $100 billion. This change alone transforms the Postal Service's pension and retiree health benefit fund from an overall deficit of $79 billion to a substantial overall *surplus*.

The calculations in Attachment B rely on the simplifying assumption that the Postal Service's projected future outflows will remain constant (in real dollars) in perpetuity. A more precise calculation of the effect of using a different discount rate would require time-series data on the Postal Service's projected future pension and retiree health benefit payments. These data are not publicly available, but should be in the possession of the Postal Service or the Office of Personnel Management. Accordingly, MPA and ANM specifically request that the Commission obtain and make this information public and analyze the effect of different discount rates on the present value of USPS post-retirement obligations and the Postal Service's balance sheet.

(2)

To understand better the Postal Service's financial situation, the Commission should recommend to Congress a study of the market value of the Postal Service's real estate assets. The Postal Service currently accounts for its real estate assets at their net book value, not their fair market value. The book cost approach, although compliant with Generally Accepted Accounting Principles ("GAAP"), does not reflect the true financial resources of the Postal Service. If the Postal Service needed extra cash to satisfy its liabilities, the real estate could be sold (*e.g.*, through a sale/leaseback transaction) at its fair market value, not its net book value. The net book value of the real estate is approximately $13.2 billion. The fair market value of the same assets has been estimated as high as $85 billion—approximately the same amount as the total unfunded liabilities of the Postal Service. OIG Report FT-WP-15-003, *Consideration in Structuring Estimated Liabilities* (Jan. 23, 2015) at 4, Figure 3.

* * *

By contrast, as the joint letter further stated, "we cannot support non-consensus and unbalanced proposals – such as the first Congressionally-mandated general increase in postage rates since 1968." MPA and ANM respectfully request that the Commission, in its Section 701 report, support enactment of the consensus measures described above and defer taking actions or making recommendations regarding rates or the ratemaking system until the ten-year review.

Congress has made clear that the ten-year review is the appropriate proceeding for a thorough study, including notice and opportunity for comment, of the market-dominant ratemaking system. Furthermore, there is no need for a rush to judgment on controversial issues in the current, abbreviated docket. The Postal Service's FY 2016 operating surplus is now over $2 billion, and the Postal Service's cash on hand in excess of $9 billion.[7]

[7] USPS Report to the Commission for FY 2016 through April (filed May 24, 2016); *See* Monthly Statement of the Public Debt, Postal Service Fund: https://www.treasurydirect.gov/govt/reports/pd/mspd/2016/opdm052016.pdf.

Any change to the current ratemaking system would be extremely controversial and MPA and ANM plan to file extensive comments in the ten-year review in support of the price cap. The Postal Service, for all of its competitive challenges, still has a great deal of market power. The price cap is the only leverage that the Commission has under current law to hold down Postal Service costs and induce it to become more efficient, and the only protection captive mailers and the public have from abuse of the Postal Service's monopoly.

Indeed, in its previous Section 701 report, the Commission found, "in furtherance of the PAEA's goals, the use of the price cap promotes pricing flexibility for the Postal Service; predictability and stability in prices for mail users; and encourages cost reductions for the Postal Service. The Commission recommends no legislative changes in this area." Postal Regulatory Commission, *Section 701 Report: Analysis of the Postal Accountability and Enhancement Act of 2006* (September 22, 2011) at 39.

Respectfully submitted,

/s/

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June 14, 2016

ATTACHMENT A

May 24, 2016

The Honorable Jason Chaffetz
Chairman, Committee on Oversight and Government Reform

The Honorable Elijah Cummings
Ranking Member, Committee on Oversight and Government Reform

The Honorable Mark Meadows
Chairman, Subcommittee on Government Operations

The Honorable Gerald Connolly
Ranking Member, Subcommittee on Government Operations

Committee on Oversight and Government Reform
United States House of Representatives
2157 Rayburn House Office Building
Washington, D.C. 20515
Fax: (202) 225-3974

Re: For the Record of the Hearing, "Reforming the Postal Service: Finding a Viable Solution", May 11, 2016

Dear Representatives Chaffetz, Cummings, Meadows, and Connolly:

As representatives of a large portion of the Postal Service's postage-paying mailing industry, using all types and classes of mail and representing tens of billions of mail pieces and tens of billions of dollars in postal revenue, we write to express our strong opposition to a legislative proposal to increase the rates of postage paid by individuals, businesses, and nonprofit organizations that use the mail – a proposal advocated by two of the witnesses at the Committee's May 11, 2016 hearing.

The undersigned businesses and nonprofits and members of the undersigned associations are the mail owners and/or service providers for the vast majority of the 93 percent of postal mail volume – 144 billion pieces – sent by commercial and nonprofit organizations, and are the recipients of another 4.5 percent of mail – 7 billion pieces – sent by households to these organizations.

Contrary to any misimpression that "a broad swath" of the postage-paying mailing industry is supportive of a legislated rate increase (whether in the guise of "restoring" by law the "exigent" rates of postage that expired on April 10, 2016, or in some other descriptive form), the undersigned organizations stand firmly <u>opposed</u> to any such proposal.

The Postal Service certainly faces fundamental problems as it attempts to cope with significant change in the nature and scope of its core business. But those problems will <u>not</u> be solved by imposing a statutory rate increase.

Our organizations remain committed to the Postal Service and its long-term viability. Mail continues to be the lifeblood of many businesses and nonprofits, and each of us stands ready to work with Congress and the Postal Service to help resolve the complex issues facing the organization today. We remain willing to support constructive measures that were touched on during the hearing that, if adopted, would enhance the Postal Service's financial stability going forward. These include Medicare integration and the restructuring of the Postal Service's retiree health and pension benefit obligations, for which there is indeed consensus among the Postal Service, employee groups, and the full mailing community. However, we cannot support non-consensus and unbalanced proposals – such as the first Congressionally-mandated general increase in postal rates since 1968.

We believe that there is time to step back and look in a balanced fashion at the Postal Service of the future. The Postal Service is coming off a record-breaking holiday season, with year-to-date package volume up 14% from last year. 2016 is an election year, and the Postal Service has plans to handle $1 billion in political mail this election cycle. The Postal Service's year-to-date operating surplus is $350 million above initial projections, and the Service had $8.3 billion of cash on hand at the end of March. The end of the exigency surcharge last month will give an additional boost to mail volume in all classes.

There is no need to take so controversial an action as imposing a rate increase by law, certainly not without a clearer picture of potential volume and revenue growth for the Postal Service in the years ahead. Fortunately, existing law already provides for a review of Postal Service finances and the postal pricing system by the independent Postal Regulatory Commission beginning in December of this year. No change in law is necessary to make that happen. We look forward to participating in the review, along with the Postal Service and other interested parties.

While the Postal Service has financial challenges, we respectfully submit that restoring Congress to the business of postal ratemaking is not a solution, in whole or in part. We stand ready to work with the Committee to move forward with the constructive, consensus proposals that are on the table, as we all pursue our common goal of a sustainable path forward for the nation's postal system and all who rely on it.

Respectfully,

Cc: All members, Committee on Oversight & Government Reform

Alliance of Nonprofit Mailers
Association for Postal Commerce
Continuity Shippers Association
Direct Marketing Association
MPA - The Association of Magazine Media
Major Mailers Association
National Postal Policy Council
Red Tag News Publications Association
Software & Information Industry Association
Active Interest Media, Inc.
American Management Association
American Media Inc.
American Quarter Horse Association

Bonnier Corporation
Bloomberg Media Group
Condé Nast
Consumer Reports
Disabled American Veterans
Easterseals
Emmis Communications
ESPN The Magazine
Forbes Media, LLC
GrayHair Advisors
Guideposts
Hearst Magazines
Meredith Corporation
National Catholic Development Conference
National Wildlife Federation
New York Media
Our Sunday Visitor
Outdoor Sportsman Group
Quad/Graphics, Inc.
RR Donnelley
SpringerNature
M. Shanken Communications, Inc.
The Economist Newspaper, NA, Inc.
The Enthusiast Group
Time Inc.
Trusted Media Brands Inc. (fka Readers Digest Association)
XO Group

ATTACHMENT B

ATTACHMENT B

Approximate Effect of Prudent Investing on Present Value of Retirement Benefits (Billions of Dollars)
(Treating Liability as Perpetuity)

Obligation	FY 2015 10-K		PV at 7.63% Discount Rate	Difference in PV	FY 2015 Fund Balance	New Surplus/Liab
	Present Value	Discount Rate				
	[1]	[2]	[3]=[1]*[2]/7.63%	[4]=[3]-[1]	[5]	[6]=[5]-[3]
Retiree Health Benefits	$105.2	4.1%	$56.5	-$48.7	$50.3	-$6.2
Pension Benefits	$310.9	5.25%	$213.9	-$97.0	$286.8	$72.9
Total	**$416.1**		**$270.4**	**-$145.6**	**$337.1**	**$66.7**

[1],[2] USPS FY 2015 10-K at 25, 26
[3] 7.63% from NASRA.org. Multiply by current discount rate to determine annual payment, divide by 7.63% to determine new PV.
[5] USPS FY 2015 10-K at 23, 26