NALC FACT SHEET

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The 21st Century Postal Reform Act of 2011 (S. 1789) is Deeply Flawed

Bill ties future of Saturday service to profitability, but still-onerous retiree health pre-funding mandate makes profits impossible; loss of Saturday delivery in 24 months undermines future of USPS; 80,000 postal jobs at risk

Pre-funding retiree health is bill's top policy priority—favored over quality service and jobs

Bill mandates the phase-out of door-to-door delivery for 35 million households and businesses, more job cuts

The 21st Century Postal Reform Act of 2011 is a well-meaning, but deeply flawed bill designed to "save" the Postal Service by downsizing it dramatically. Such a policy risks prompting the very death spiral it seeks to avert—with declining service and falling quality, even more mail volume will be chased from the system. Rather than preserving Saturday delivery for just two more years, Congress should ensure its continuation long into the 21st century to serve today's 24/7 business culture. Instead of ending Saturday delivery in two years and phasing out door-to-door delivery, Congress should examine other options for relieving the heavy burden of financing retiree health benefits that has so damaged the Postal Service's finances over the past four years.

Although the legislation as introduced moves in the right direction by reducing the level of retiree health pre-funding, the bipartisan bill offered by Sens. Lieberman, Collins, Carper and Brown will not solve the pre-funding problem. The reduction in pre-funding is just not large enough—the USPS' ability to incorporate the costs into its rates is capped and its authority to borrow is limited. The Postal Service would remain the only enterprise in America faced with a mandate to massively pre-fund its future retiree health benefits during a time of economic crisis. The annual cost of pre-funding under the new law would still drive the USPS into the red and lead to the end of Saturday mail delivery within 24 months. This is the case because the principal precondition for implementing five-day delivery—a lack of profitability—is guaranteed to be triggered by the still-high cost of pre-funding.

Unfortunately, S. 1789 inexplicably dropped the only sensible solution to the Postal Service's financial crisis that its predecessor bills (S. 1010 and S. 353) embraced—using the massive pension surplus in the postal portion of the Civil Service Retirement System, found by two independent audits in 2010, to cover the cost of pre-funding future retiree health costs. Congress should take this route, which is the fairest and most practical way to solve the current crisis. Otherwise, it should require pre-funding only when the USPS is profitable (the best practice in the private sector) or repeal the pre-funding mandate altogether. After all, no other company or agency in America is required to pre-fund, and if it were a private company, the USPS would be allowed to fund its retiree health expenses on a pay-as-you go basis (as is the norm for multi-employer plans).

Prioritizing pre-funding retiree health over service, jobs

The Postal Service has set aside more funds for future retiree health benefits than any company in America. There is $42.5 billion in the Postal Service Retiree Health Benefits Fund (PSRHBF), enough to cover decades of retiree health premiums. It makes no sense to force the Postal Service to pre-fund even more—most Fortune 1000 companies don't pre-fund at all, and those that do have pre-funded at much lower levels (35% of total liabilities vs. 48% for the USPS).

The original version of this bill would lower the ultimate target level of pre-funding from 100% to 80% and allow the USPS to access its PSRHBF in 2012 instead of 2017 (under current law) to pay for current retirees' health benefits. This would lower overall retiree health costs, but it would maintain the unique burden to pre-fund that no other agency or firm bears.

Unfortunately, even with S. 1789's proposed reduction in the level of pre-funding over several years, the Postal Service would be forced to slash services and eliminate jobs to cover its pre-funding costs. This would prioritize pre-funding over preserving decent middle-class jobs. In fact, it would place the dubious need to pre-fund future health liabilities of workers not yet hired over the continued provision of high-quality, six-day mail service to the American people and to the businesses that employ them.

How to weaken the USPS, add to the jobs crisis:
End Saturday delivery and door-to-door service

Although we welcome a two-year delay in the elimination of Saturday delivery, make no mistake—the pre-funding policy will guarantee continued financial losses and will ensure the end of six-day delivery in 2014. This will cost 80,000 good full- and part-time postal jobs. Phasing out door-to-door delivery will cost tens of thousands of other good jobs while risking a very negative public backlash from the 35-40 million households and business that now receive door delivery. Imagine their reaction when they are told they must purchase and install new curb-line mail boxes, or that they must retrieve their mail from remote cluster boxes. The backlash over Netflix's Qwikster service will pale in comparison.

However, the impact on our own jobs is not the NALC's only concern. These policies will severely damage the quality of service provided by USPS and therefore damage the entire $1.3 trillion mailing industry, whose 7.5 million private-sector jobs depend on a healthy Postal Service. Mail delivered to the door is more valuable to mailers than mail delivered to remote receptacles. Slower mail service arising from the elimination of six-day service represents an effective rate increase for mailers. Together, these changes will cause serious harm to thousands of firms in our industry and threaten the long-term viability of the Postal Service. In other words, the jobs lost in the USPS could be the tip of the iceberg. At a time of mass unemployment in the United States, this hardly makes sense.

We should not sacrifice the long-term viability of the USPS on the altar of an ill-advised pre-funding policy adopted in 2006 when the economic condition of the USPS and the country was much different. And Congress should be focused on preserving and creating good jobs in the current environment, not needlessly eliminating them. Given that the Postal Service is the nation's largest employer of veterans, downsizing the Postal Service also means adding to an already alarming jobs crisis for the nation's veterans who are coming home from Afghanistan and Iraq.

Promising health care possibilities and other positives

The legislation proposed a number of interesting ideas to help the Postal Service control its health care costs, including a mandate for postal annuitants to enroll in Medicare Parts A and B when they reach age 65 and the development by Office of Personnel Management (OPM) of Medigap policies tailored for such annuitants. This proposal is worth serious consideration, as is a provision that gives the Postal Service and its unions the option to negotiate a USPS Health Benefit Plan.

S. 1789 was marked up on November 9, 2011, and as a result, the provision pertaining to Medicare Parts A and B for annuitants was struck from the bill. It is important to note that by having annuitants take advantage of Medicare first, the long-term unfunded liability of the PSRHBF was significantly reduced, thus allowing for the lower payments to the fund in this legislation. Without this provision, the savings to the USPS for future payments to the PSRHBF have been lost, rendering moot any potential savings for the Postal Service as they pertain to the PSRHBF.

Among the most positive provisions in the bill is the one that authorizes the OPM to return any surplus in the Postal Service's account in the Federal Employees Retirement System (FERS) to the USPS. These recovered funds could be used to pay for early-out incentive programs (payments of up to $25,000 or additional service credit for retirement eligibility and benefits), to cover the cost of workers' compensation expenses or pre-funding payments for retiree health benefits, or to pay down the Postal Service's debt. NALC supports this provision and urges Congress to apply the same principle to the CSRS postal surplus identified by the independent audits commissioned by the Postal Regulatory Commission (PRC) and USPS Office of the Inspector General (OIG) in 2010.

The legislation would also help the Postal Service increase its revenues by legalizing the shipment of beer and wine through the mail and permit the USPS to offer non-postal products if the services can be delivered through the agency's existing delivery, retail and processing networks and if the PRC certifies that such services meet public needs and do not unfairly compete with other providers. NALC strongly supports this approach to strengthening the Postal Service for the 21st century.

Glaring negatives: Unfair FECA reform, anti-labor arbitration changes

Regrettably, S. 1789 suffers from grossly unfair provisions that have circulated in previous postal reform bills, most notably the inclusion of a reform of the Federal Employees' Compensation Act that will cut the compensation benefits of injured workers. Injured workers who reach retirement age would see their benefits cut to 50% of their salary *at the time of their injuries*, plunging into poverty those with long-term disabilities, especially given their inability to save through the Thrift Savings Plan (TSP) and their inability to earn Social Security credits.

Also included in the bill is a provision that is designed to tilt the interest arbitration process in favor of postal management by instructing arbitration boards to consider management's top bargaining objectives (comparability and profitability) when issuing decisions—while not mentioning the factors most important to postal employee unions. Given that arbitrators are already required by law and standards of professional practice to consider all the factors and evidence presented by the parties, the provision is unnecessary. Unfortunately, it would no doubt have the effect of biasing the dispute resolution system against the unions.

Conclusion: A deeply flawed bill that will not Save America's Postal Service

As drafted, the "21st Century Postal Reform Act of 2011" will not save America's Postal Service. On the contrary, it will hasten its decline and threaten the long-term viability of the USPS. This poses a danger to the entire $1.3 trillion mailing industry. NALC is working on alternative plans for preserving the USPS with its external financial advisers and our collective-bargaining partners. We will do our part to stabilize the Postal Service's finances and to help put it on track to grow again in the future. But Congress must do its part and avoid destructive policies driven by short-term Congressional Budget Office (CBO) "scoring concerns." Such concerns led to the pre-funding mandate adopted in 2006 that has nearly destroyed the Postal Service. We look forward to working with members of the Senate to truly reinvent the Postal Service for the 21st Century by improving S. 1789 in ways that will make it worthy of its name.