NALC FACT SHEET

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H.R. 22 and the Need for Financial Relief for the U.S. Postal Service

The U.S. Postal Service faces a crisis that threatens severe damage to the 9 million Americans employed by the U.S. mailing industry. Mail volume has plunged in the wake of the financial crisis and the recession it unleashed. Making matters worse is a legal requirement that the Postal Service prefund 80 percent of its future retiree health benefit costs by the year 2016 at a cost of at least $5.5 billion annually on top of the $2-3 billion per year it pays for current retiree health benefits. No other enterprise in the country – public or private – is required to prefund such costs at all, much less on such an onerous payment schedule.

H.R. 22, a bipartisan bill introduced by Reps. McHugh (R-NY) and Davis (D-IL), would allow the USPS to prefund its future health care obligations on a more realistic schedule. It would preserve the prefunding requirement but allow USPS to **immediately** pay its share of current retirees' health insurance premiums out of the existing Postal Service Retiree Health Benefits Fund, which now holds $32 billion. Under current law, the Fund is closed to use for current retiree premiums until 2016.

H.R. 22 would save the Postal Service an average of $3.5 billion per year over the next eight years while building up its retiree health fund on a more reasonable and affordable schedule. Under H.R. 22, as under current law, any remaining unfunded liability in 2016 would be amortized over a 40 years.

Background

Like most other companies, the USPS is in trouble. In FY 2008, it had a deficit of $2.8 billion as mail volume fell by 9 billion pieces (4.5 percent), the worst decline since the 1930s. However, it would have broken even had H.R. 22 been law.

As the recession has worsened, the Postal Service has aggressively pursued cost-cutting measures. Hiring freezes, voluntary early retirement programs, expedited route adjustments done in cooperation with NALC and massive work-hour reductions have slashed costs significantly. Still, as economic activity and mail volume continue to decline, the USPS faces a financial crisis unlike any since the Great Depression.

Risks: Lay-offs, Service Reductions, Extraordinary Rate Increases

As the economic crisis deepens, the Postal Service may be forced to actively consider more extraordinary cost-saving measures – such as facility closings and the elimination of one day of delivery each week. Lay-offs of any size would be the first since the Great Depression and service cuts or an “exigency” rate increase would decrease the value of the mail and lead to further reductions in volume.

The Postal Service, with $75 billion annual revenues, is at the center of a $900 billion mailing industry (including mail order merchants, printers, book and magazine publishers, paper producers, etc.) which account for 9 million jobs. Its financial health is vital to the recovery of the entire economy.

H.R. 22 is Essential for a Viable Postal Service

Even before the recession, the Postal Service faced the difficult challenge of adapting to an Internet-based economy and the requirements of a new postal law adopted in 2006, the Postal Accountability and Enhancement Act (PAEA). Although the prefunding requirement included in the PAEA appeared to be affordable then, that is no longer the case now, given the financial condition of the economy and the Postal Service. As the Federal Reserve recently acknowledged, it is likely to be at least five or six years before the economy recovers from this crisis. That makes the eight years of financial relief provided by H.R. 22 essential to the long-term viability of the Postal Service.

H.R. 22 cannot solve all the Postal Service's problems – postal management and the postal unions will have to do their part. But without it, the continued viability of the Postal Service is in serious jeopardy – a danger that threatens a key infrastructure industry that is central to the economic recovery.

H.R. 22 is not a bailout. The bill does not require the allocation of any taxpayer funds -- rather, the bill simply allows USPS to tap into the existing postal retiree health fund, while increasing the balance in the fund each and every year by an average of $2 billion. Nor would H.R. 22 in any way reduce benefits or relieve the Postal Service of its future retiree health obligations. Indeed, if H.R. 22 were enacted, USPS would still pre-fund its future retiree health costs at a greater rate than any company in America and would still amortize any remaining unfunded liability over 40 years, beginning in 2016.