NALC FACT SHEET
Department of Legislative and Political Affairs — National Association of Letter Carriers, AFL-CIO
100 Indiana Ave. NW — Washington, DC 20001-2144 — 202-393-4695 — www.nalc.org
February 28, 2013

Congressional Mandates and the Great Recession Have Caused the Postal Service's Recent Financial Challenges

The U.S Postal Service (USPS) is facing long-term financial challenges due in part to the increased use of the Internet as a substitute for first-class mail. In order to survive the Postal Service will need to transform its business model to succeed in the 21st century.

But use of the Internet is not the principal cause of the Postal Service's significant losses over the last six years. Those losses are due to the continuing effects of the Great Recession and to a requirement mandated by Congress that the Postal Service aggressively pre-fund its future retiree health benefits. No other government agency or company has such a requirement.

The USPS needs to change, but it should not be forced to make short-sighted decisions under duress. Near-term, fiscally responsible reforms are needed to give the Postal Service and Congress breathing room to devise a more successful long-term business plan.

1. The requirement to massively pre-fund retiree health benefits over 10 years, combined with the Great Recession, has caused the recent financial challenges.

- The Postal Service averaged about $2.3 billion a year in profits from 2003 to 2006. It did not have to pre-fund retiree health benefits in those years.
- Over the past six years, the Postal Service has reported what appear to be jaw-dropping losses amounting to $41 billion. There are three main causes for these losses: the $32 billion cost, since 2007, of pre-funding future retiree health benefits; the large drop in mail volume and related revenue caused by the Great Recession; and the ongoing impact of mail volume lost to Internet diversion. In the first quarter of the current fiscal year, the USPS earned a profit of $100 million, but reported a loss of $1.3 billion after recognizing a $1.4 billion expense for pre-funding.
- Meanwhile, as other delivery companies were able to raise rates to handle rising gasoline prices and other overhead costs, the Postal Service was prohibited from raising rates above the very low levels of inflation experienced during the Great Recession. The price caps are yet another example of congressionally mandated restrictions put on the Postal Service.
- From 2011 to 2017 the congressional mandate to pre-fund retiree health benefits will consume 9 percent of the Postal Service's annual budget. Yet these benefits will be spent over 75 years. No business could survive long with such a burden, even in good times.

2. This congressional mandate is exceptional and unfair to the Postal Service.

- The Postal Service's retiree health benefits are 49 percent pre-funded. No other federal agency has pre-funded its employees' health benefits, and companies are not required to pre-fund retiree health benefits.
- Nearly two-thirds of Fortune 1000 companies do not pre-fund retiree health benefits. Of those companies that do pre-fund, the median funding level is just 38 percent.
- In the private sector, pre-funding is voluntary. Responsible companies pre-fund when they are profitable or use their surpluses in their pension funds to cover such costs, as encouraged by the tax code.

3. The Postal Service has overpaid tens of billions to the federal government's pension system. The money should be refunded.

- Two different independent reviews by highly reputable private-sector actuarial service firms have concluded that the Office of Personnel Management (OPM) has effectively overcharged the Postal Service for some $50 billion to $75 billion in pension costs associated with service performed for the taxpayer-funded Post Office Department (POD) before the U.S. Postal Service was created in 1971.

- Both the Hay Group's study for the USPS Office of the Inspector General and the Segal Company's report for the Postal Regulatory Commission concluded that the methods used by the OPM unfairly shifted tens of billions in costs from the taxpayer-backed POD to the ratepayer-supported USPS.
- Congress should direct OPM to fairly calculate the USPS obligations and either transfer the resulting pension surplus to the Postal Service or to simply leave the surplus funds in the pension fund and make them available in the future (20-30 years from now) to cover USPS retiree health benefit costs if the Postal Service Retiree Health Benefit Fund ever runs out of money. Either option would allow the Postal Service to fully pre-fund retiree health benefits as mandated by Congress. The latter option would not alter the government's fiscal condition, since no transfer would be made for decades to come.
- The transfer of pension assets now or later also would not affect the Postal Service's pension plans, which are already 120-125 percent funded. By comparison, the rest of the government's plans are funded at 41.5 percent and the average funding level at large companies is about 80 percent.

4. Congress should put the pre-funding of retiree health benefits on a pay-as-you-go basis if it does not fix the $75 billion pension overpayment.

- Other federal agencies and two-thirds of America's biggest companies pay for retiree health benefits as the bill comes due, without pre-funding the benefits. The Postal Service should be treated the same way if Congress does not return the pension overpayments.

5. Adopting the measures outlined above (points 3 and 4) is the best way to stabilize the Postal Service's finances and would not threaten 80,000 good-paying middle-class jobs.

- The Postal Service projects that 80,000 full- and part-time jobs would be eliminated if Saturday delivery ends. The country cannot afford these job losses, especially during a jobs crisis.
- Many still depend on Saturday delivery—small businesses on Main Street trying to meet payroll, magazine and newspaper delivery, coupons and circulars targeted for weekend delivery would all be out of luck with the elimination of Saturday mail delivery. Even if you accept the Postal Service's questionable numbers, it estimates that eliminating Saturday delivery will cut its costs by just 3 percent—but it will cut mail delivery by 17 percent. That is not a good tradeoff.
- Eliminating Saturday delivery should be a last resort. More time should be spent determining if mail volume will stabilize as growing package volumes replace declining letter mail.
- The loss of Saturday delivery would adversely affect the "postal brand," thereby reducing demand for mail services and reducing revenue. This could potentially create an even stronger downward spiral in the use of mail.
- Fixing the $75 billion pension overpayment and using the money to pre-fund retiree health benefits will stabilize the Postal Service's budget.

Questions: Contact the National Association of Letter Carriers' Department of Legislation and Political Action at (202) 662-2833.