Statement of

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My name is Jim Sauber and I serve as the chief of staff to the President of the National Association of Letter Carriers (NALC), Fred Rolando. NALC represents nearly 200,000 active Letter Carriers who work for the Postal Service across the United States. With more than 90% voluntary membership, we are among the best organized open-shops in America. We also represent 90,000 retired letter carriers who maintain their membership in NALC.

Thank you Chairman Johnson and Ranking Member Carper for the opportunity to participate in today's roundtable discussion. It is an honor to be here today with the President and CEO of Hallmark Cards, Donald Hall. The NALC and the other postal unions have worked closely with Hallmark and other major mailers over the past few years to forge a stakeholder consensus on postal reform legislation. The goal of our entire industry is to build bipartisan support for such legislation in both Houses of Congress this year.

As the title of today's roundtable discussion makes clear, the digital age offers both challenges and opportunities for the Postal Service. But in our view, the biggest challenge facing the Postal Service has very little to do with the digital age. As this first slide makes clear, the most immediate challenge facing the Postal Service is the unique mandate to massively prefund future retiree health premiums -- decades in advance. Congress imposed this mandate in 2006 and it – not the internet, not the Great Recession – has been the main cause of the recent financial crisis.

The cost of prefunding retiree health benefits accounts for 86% of our reported losses since 2007. Last week, we learned that the pre-funding expense once again accounted for more than 100% of the loss reported in the second quarter of fiscal 2015. That has been true since the third quarter of 2012. In fact, the Postal Service has reported operational profits – what the Postal Service calls controllable net income – for the past two and a half years.

In the absence of the uniquely onerous prefunding burden, we would have still faced the challenges posed by declining first class mail and a weak economy. But without it the USPS would not have exhausted its borrowing authority. And we would have been in much better shape to take advantage of the current economic recovery -- as well as the recent boom in e-commerce deliveries.

Addressing the biggest challenge

Fortunately, this Committee reached bipartisan consensus on a way to address the prefunding burden last year in S. 1486. Reforms to the FEHBP program as it relates to postal employees and Medicare coverage would all but eliminate the unfunded liability for future retiree health. These reforms require sacrifices by our members, but we can support them in the context of targeted postal legislation that does not weaken our networks or diminish services to the public. In this spirit, we urge this Committee to embrace those solutions again this year.

Today, I'd like to discuss another innovative way to address the cost of prefunding. Congress should direct the Office of Personnel Management to invest the Postal Service Retiree Health Benefits Fund the way a private sector company would invest such a fund -- in a well-diversified portfolio of private sector stocks and bonds as well as government bonds.

The retiree health fund is a unique trust fund in the U.S. government's accounts. Its assets are funded by postage rate-payers to cover the cost of future retiree health insurance premiums payable by the Postal Service. The cost of these premiums, like medical services in general, is expected to rise by 5.0-7.0% annually over the next several decades. Yet the Fund's assets are, by law, invested exclusively in Treasury securities that are yielding far less than that. The current yield on 10-year Treasuries, for example, is just 2.16%. See slide two. No rational business enterprise would invest such a fund so poorly and so inappropriately. The investment policy in current law – which effectively mandates a low-cost loan from business mailers to the Federal government -- unnecessarily raises the cost of pre-funding and puts pressure on the Postal Service to raise postage rates or to cut services. There is a better way.

Congress could raise the long-term rate of return on the retiree health fund's assets, improve the overall finances of the federal government (OPM's balance sheet), reduce the burden of prefunding, relieve upward pressure on postage rates, and lessen the Postal Service's self-destructive drive for service and job cuts by making one change: It could direct the OPM to invest PSRHBF assets in safe, low-cost index funds of the kind offered by the federal Thrift Savings Plan (TSP). As the table below indicates, had the fund's assets been invested in the Lifecycle 2040 Fund of the TSP since 2007, its value would be nearly $60 billion today –nearly $11 billion more than its actual balance. This table is reproduced in slide 3.

Postal Service Retiree Health Benefits Fund: Assets and Earnings ($mil.)

Year	Annual Prefunding Payment ($mil.)	Investment Income ($mil.)	PSRHBF Year-End Balance (1) ($mil.)	Rate of Growth	L Fund 2040 returns	Projected PSRHBF year-End Balance if invested in L2040 Fund ($mil.)
2007	$5,400	$287	$25,745	--		
2008	$5,600	$1,265	$32,610	4.9%	-31.53%	$23,235
2009	$1,400	$1,472	$35,482	4.5%	25.19%	$30,488
2010	$5,500	$1,510	$42,492	4.3%	13.89%	$40,223
2011	$0	$1,626	$44,118	3.8%	-0.96%	$39,837
2012	$0	$1,626	$45,744	3.7%	14.27%	$45,693
2013	$0	$1,548	$47,292	3.4%	23.23%	$56,308
2014	$0	$	$48,850	3.3%	6.22%	$59,810

Notes:

(1) Explanation (from pg. 26, 2007 Annual Report): The initial balance in the PSRFB resulted from two transfers: a) the postal surplus in the CSRS Fund as of September 30, 2006 ($17.1 billion transferred on June 29, 2007); and b) the funds held in the escrow account established by P.L. 108-18 ($2.958 billion). The first pre-funding payment of $5.4 billion was also made in 2007.

To show you how beneficial this change in investment policy could be, we asked our consultants at the Lazard Co. in New York to investigate the potential impact of investing the PSRHBF the way pension funds are invested in the private sector. Slide four shows how the 100 largest private sector pension funds were invested among asset classes at the end of 2013, as determined by the 2014 annual pension survey by the Milliman Co. You can see the split among equities, corporate bonds and other asset classes such as real estate and private equity investments. The expected long-term rate of return of those plans stood at 7.4% annually, according to the survey.

Lazard found that if Congress were to adopt the postal FEHBP reforms and Medicare integration called for by S. 1486, the percentage of liabilities funded would rise from 50% to 94% right away. More importantly, it found that if the USPS subsequently made regular normal cost contributions and the retiree health fund were invested according to the average 2014 "private sector allocation" in last year's Milliman survey, the Postal Service's retiree health liabilities could be more than fully funded – rising to 118% funded by 2024.

While no pension fund achieves its long-term target rate of return every year, this slide shows that the PSRHBF would be fully funded over the long run. Over time, such an investment policy would eliminate the need for any amortization payments and could justify the suspension of normal cost payments as well. Indeed, we do not believe the Postal Service should be required to maintain a funding balance of more than 100% over time and, if this investment proposal were adopted, we would urge the Senate to draft the law accordingly.

If we adopt the FEHBP/Medicare reforms of S. 1486 without improving the investment policy of the retiree health fund, we know that the funding balance in the fund will gradually decline from 94% to a much lower percentage – since health care inflation far exceeds the yields on treasury bonds. If Congress is to continue the prefunding mandate, this would mean an ever-rising unfunded liability and ever- growing amortization payments. This not a sustainable policy – again, it would unnecessarily lead to higher postage rates and pressure to cut services.

There are two common objections to this investment proposal: (1) is the risk of loss associated with investments in private stocks and bonds; and (2) is the long-standing policy of the Treasury department against investing government trust funds (such as the Social Security

Trust Fund) in private securities. Neither of these objections should hold in the case of the PSRHBF. I will address both.

First, given the long investment horizon of the PSRHBF and the relatively modest annual outlays from the fund ($3.0-$4.0 billion for the foreseeable future), the risk of a short-fall in a prudently invested PSRHBF is extremely small. In fact, the OPM projects future retiree health liabilities over a period of 90 years. So the Fund would have decades to make up for any sharp losses. Indeed, the experience of the L 2040 Fund since the 2008 financial crisis provides a real life test of this resiliency. The L 2040 Fund has more than bounced back from the 2008 stock market crash.

Second, although the Treasury has traditionally invested government trust funds only in government bonds, the PSRHBF is a different kind of trust fund and there are several government entities that regularly invest in private securities.

The PSRHF is different from most trust funds because it does not involve federal taxpayer dollars. The funds in the PSRHBF come from postage rate-payers. They are collected to cover the cost of services rendered. As with the assets of the TSP's index funds, the PSRHBF is dedicated to providing post-retirement benefits for federal employees – in this case, the employees of the U.S. Postal Service. Although it is the only trust fund dedicated to cover the retiree health benefits of a single agency's employees, there are other retirement funds controlled by primarily self-funded federal agencies that are allowed to invest in private sector securities. Let me give you four examples:

- **The National Railroad Retirement Investment Trust (NRRIT).** In 2001, Congress passed with huge bipartisan majorities, and President Bush signed into law, the Railroad

Retirement and Survivors Improvement Act of 2001. That law (P.L. 107-90), which had the broad support of business and labor in the railroad industry, created the NRRIT to invest a portion of the railroad retirement trust fund in a diversified mix of private sector securities. A total of $21.3 billion in Treasury bonds was transferred and reinvested by professional managers supervised by an oversight board of fiduciaries. That is precisely what we should do with the Retiree Health Fund. The railroad retirement legislation is widely considered to be a success.

- **The Pension Benefit Guarantee Corporation (PBGC).** The PBGC is not funded by general tax revenues. PBGC collects insurance premiums from employers that sponsor insured pension plans, earns money from investments and receives funds from pension plans it takes over. It is responsible for paying insured pension benefits to 1.5 million current and future retirees. The insurance premiums and plan assets it controls ($85 billion) are invested in a broadly diversified mix of asset classes, including real estate, equities and fixed income securities.

- **The Tennessee Valley Authority (TVA).** The TVA finances energy and infrastructure investments for the citizens it serves. Its pension plan, which covers 35,000 participants, invests in a portfolio of private securities and expects to earn a long-term rate of return of 7.25 percent annually.

- **Amtrak.** Amtrak has a retirement investment committee that invests funds to provide pension benefits from a defined benefit plan. The plan's $394 million in assets are "strategically allocated among equity, fixed income securities, real estate and global asset allocation managers" with the goal of earning a return of 7.5 percent annually.

The ratepayer funds held by the postal retiree health fund should be invested the way these other agencies invest their funds. The OPM should hire well-qualified asset managers, chosen by trustees with fiduciary responsibilities to invest the fund wisely – maximizing returns while minimizing risk and investment fees.

Properly investing the PSRHBF's assets will, over the long run, improve the balance sheet of the OPM and reduce the cost of pre-funding for the Postal Service. This will allow for affordable postage rates and better service to the America's mailers and citizens. If the purpose of the Fund is to protect taxpayers against the need to cover future health care costs for retired postal employees, the best way to reduce that need is invest the PSRHBF prudently and intelligently. In our view, investing the PSRHBF in low-yielding Treasury securities actually increases the risk of a taxpayer bailout in the future. Investing it in private sector securities would reduce that risk.

In addition to addressing the prefunding challenge, I've also been asked to briefly address the issue of postal innovation today. Let me now turn to that important topic.

Promoting innovation in the Postal Service

Over the past several years, postal employees have made huge sacrifices to help the Postal Service to become more efficient and to "right-size" in response to the fall in mail volume. Postal employment has been slashed by 200,000 jobs since 2006 – and postal labor costs have been sharply reduced through very difficult rounds of collective bargaining. Nevertheless, NALC has consistently argued that the Postal Service cannot succeed with a downsizing-only or "shrink to survive" strategy. That is why we have consistently opposed the elimination of Saturday and door delivery and support and urged the USPS to maintain high service standards. Slashing the quality of service and charging the same price is just another way to raise prices on your customers. It is also a misguided way to drive business to our competitors or electronic alternatives. We believe the Postal Service must innovate and offer new services to preserve affordable universal service – that is, we need a revenue strategy as well.

Indeed, we have worked with the Postal Service to boost revenues. Over the last decade thousands of letter carriers have participated in the Customer Connect program to generate new business for the Postal Service's shipping services – sales leads initiated by city carriers have led to more than two billion dollars annually in new revenues. We'd like to expand that program in the next round of bargaining to focus on training letter carriers to market the effectiveness of direct mail marketing to small- and medium-sized businesses on our routes.

In recent years, the NALC has also worked with the Postal Service to build innovative services like Parcel Select, which provides last mile delivery services in residential areas for companies like FedEx and UPS, and Sunday delivery services for Amazon. Our goal is to offer the same services to all American retailers, large and small.

Our members are actively participating in new service tests such as MetroPost and other innovative services – including the delivery of groceries, office products and water. We have also worked with postal management in testing and designing the new hand-held scanners carriers use today to offer real-time tracking services. We expect to be intimately involved in the design of the Postal Service's new, e-commerce-friendly, vehicle fleet. In all these cases, we know that the best job security for letter carriers is a growing Postal Service that meets the needs of America's business mailers and citizens.

Congress can do its part to promote innovation through postal reform legislation.

First, it can adopt the bipartisan compromise language on non-postal products included in S. 1486 last year. It would allow the USPS to use its existing facilities and networks to serve unmet public and commercial needs, so long as the Postal Service does not unfairly compete with private sector entities.

Second, it could authorize the delivery of beer and wine through the mail, and encourage the Postal Service to work with state and local governments to provide services through our networks.

Third, it could authorize the creation of the postal innovation commission supported by more than two dozen senators in the 113th Congress. Such a commission could investigate hat other national needs might the Postal Service meet with its unmatched universal networks? That is, how else can we use post offices and letter carriers to satisfy civic and commercial needs?

The postal unions have suggested promoting democracy by expanding voting by mail across the country and using letter carriers to conduct the Census. Utilities should use carriers to read utility meters instead of asking households to pay for the installation of expensive, privacy reducing smart-meters. We support serving the tens of millions of Americans the FDIC says are “unbanked or under-banked,” perhaps by partnering with community banks and other institutions. Indeed, we could offer low-cost savings accounts at post offices in rural and urban communities that lack banks. Such postal savings accounts might even be used to voluntarily fund a National Infrastructure Bank that has broad bipartisan support. These are just our views, but there are many other ideas worth exploring too.

Finally, Congress could reform the selection criteria and nominations process for filling seats on the Postal Board of Governors to promote innovation. Sadly, the current process has totally broken down. The board now has six vacancies, and while the individuals nominated are all accomplished and honorable people, most do not meet the requirements of the law. High quality leaders with significant business experience and proven track records are desperately needed at the highest levels of the Postal Service. We need board members who are dedicated to growth and innovation and who want to use the Postal Service's unmatchable first- and last-mile networks to serve the evolving needs of the American people and their businesses.

Although the Postal Service's financial situation remains fragile and although we face significant technological challenges, our members believe that we can a build a vibrant Postal Service for the digital age. The NALC pledges its commitment to work with Congress to make that happen. Thanks again for the opportunity to participate in this important discussion.