Testimony of

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Thank you, Chairman Chaffetz and Ranking Member Cummings, for the opportunity to testify today on behalf of NALC and its 295,000 members, active and retired letter carriers who live and work in every community in the country. I am pleased to represent the other three postal unions in today's hearing -- the American Postal Workers Union, the National Rural Letter Carriers Association and the National Postal Mail Handlers Union. We commend both of you along with Chairman Meadows, Ranking Member Connolly and Reps. Lynch and Ross for your dedication to our constitutionally-mandated Postal Service and your commitment to achieving postal reform through the introduction of H.R. 756, the Postal Reform Act of 2017. I also wish to add a special thank you to Congressman Lynch for re-introducing his bill, H.R. 760, the Postal Service Financial Improvement Act of 2017. That bill would dramatically improve the way the assets of the Postal Service Retiree Health Benefits Fund are invested.

Mr. Chairman, you have asked me to discuss the urgent need for postal reform legislation and how the pending review of the postage rate-making system by the Postal Regulatory should influence the debate over postal reform. I am happy to do that today.

There is broad agreement among all the major stakeholders – and increasingly in Congress

– that legislation is urgently required to strengthen the Postal Service. NALC and the other postal unions believe that H.R. 756 and H.R. 760 have all the elements needed to stabilize and fortify the Postal Service for years to come. Before discussing these elements, it is important to acknowledge all that we have done to strengthen the Postal Service on our own. Indeed, the Postal Service and its employees have worked diligently since the last major postal reform bill was passed ten years ago to restructure operations, cut costs and markedly increase productivity in response to technological changes and the effects of the Great Recession. In fact, even as the number of delivery points continued to grow by about one million addresses per year, the postal workforce has been reduced by more than 200,000 positions. In so doing, we've successfully managed to preserve our networks and to maintain our capacity to serve the nation.

Although we will continue to adapt and evolve to meet the changing needs of America's businesses and households in the years ahead, only Congress can address our biggest financial challenge: the unique and unsustainable burden to massively prefund future retiree health benefit premiums decades in advance. No other enterprise in the country faces such a burden, which was imposed by the Postal Accountability and Enhancement Act (PAEA) of 2006. The expense of this mandate has accounted for nearly 90 percent of the Postal Service's reported financial losses since 2007. Without a change in the law, that mandate will cost nearly $6 billion in FY 2017 alone.

These reported losses have obscured a tremendous operational comeback in recent years, as the combination of a boom in e-commerce delivery, record productivity and stabilizing letter mail volumes have helped the Postal Service record operating surpluses over the past three years.

In fact, the Postal Service, which requires no taxpayer appropriations, remains a vital component of this country's economic and communications infrastructure. In 2016, the Service delivered more than 150 billion pieces of mail and became an even bigger player in the booming e-commerce sector, now offering 7-day delivery. Almost one half of all bills are still paid by mail. The majority of bills and statements received by households are still delivered by mail. Trillions of dollars move through the postal system every year. The Postal Service's $72 billion in revenue is only a small part of the $1.4 trillion of GDP accounted for by the U.S. mailing industry, which now employs 7.5 million Americans, mostly in the private sector. The health of this huge industry depends on a healthy Postal Service.

Although the Postal Service's finances remain fragile and technological challenges will persist long into the future, it should be clear that the Postal Service remains a vital part of the nation's infrastructure. We have done our part to preserve the Postal Service, which enjoys an 84 percent approval rating with the American people according to the most recent Pew Research survey on federal agencies. By advancing H.R. 756 and H.R. 760, Congress can now do its part to extend the Postal Service's 240-year history of serving America deep into the 21st Century.

H.R. 756 – The Postal Reform Act of 2017

There are two major legislative/regulatory burdens placed on the Postal Service under current law. The prefunding mandate and an overly restrictive and inflexible cap on postage rates. Relief from these burdens would go a long way toward strengthening the Postal Service over the long run. Fortunately, the Postal Reform Act of 2017, introduced last week by the leaders of this committee, effectively addresses these burdens in a way that the meets the budget scoring rules established by the Congressional Budget Office.

The prefunding mandate

As I indicated in the introduction to this testimony, the most significant burden is the legislative mandate included in the Postal Accountability and Enhancement Act of 2006 (PAEA) that requires the Postal Service to massively prefund future retiree health premiums. Congress adopted this mandate in a most inflexible manner. It required the Postal Service to make 10 fixed payments of between $5.4 billion and $5.8 billion annually between 2007 and 2016 – and then to begin making actuarial-based pre-funding payments over 40 years, beginning in 2017. The actuarial-based payments are comprised of two parts: a normal cost payment to cover the future cost of retiree health accrued each fiscal year, and a payment calculated to amortize any remaining unfunded liability over the next 40 years. Unfortunately, in the absence of legislative change, the pre-funding expense is actually expected to increase in 2017 – and every year thereafter -- as a result of these actuarial-based payments. They will be even more unaffordable than ever.

According to an annual survey of Fortune 1000 companies by Towers Watson, only 38 percent of such firms pre-fund retiree health at all – that is, 62 percent don't prefund at all. (See *Perspectives: Accounting for Pensions and Other Post-Retirement Benefits, 2015*.) Those companies that voluntarily pre-fund typically make contributions only when the companies are profitable.

The Postal Service pre-funding payments, which could not be suspended when the Great Recession hit, were so onerous that the Postal Service exhausted its $15 billion borrowing authority in order to make the payments. Since 2012, it has not been able to make the payments at all – though the expenses associated with the missed payments have continued to be recognized, driving the misleading impression that the Postal Service is failing operationally.

The damage the prefunding mandate has inflicted is not just financial. It has starved the Postal Service of needed investments, most notably the urgent need to replace its obsolete fleet of vehicles. It has also adversely affected the quality of service received by the American people, especially in the immediate aftermath of the Great Recession. Between 2008 and 2013, the Postal Service removed tens of thousands of mail collection boxes; slashed the operating hours of thousands of post offices; and reduced its service standards in order to dramatically downsize its network of mail processing plants. When we diminish services we risk unnecessarily driving mail volume out of our system.

The leadership of this committee reached bipartisan consensus on a concept for addressing the prefunding burden during the last Congress, which was included in a bill (H.R. 5714) adopted by the Committee but never presented to the full House of Representatives for a vote. It included reforms to the Federal Employees Health Benefit Program (FEHBP) as it relates to postal employees and Medicare coverage. These reforms, which are modeled on best practice in the private sector, would all but eliminate the Postal Service's unfunded liability for future retiree health benefits. We are very pleased your new bill retains these reforms.

Under H.R. 756, FEHBP plans would segregate postal employees and postal annuitants into a separate risk pool and all postal annuitants would enroll in Medicare Parts A&B when they reach 65 years old. (At present, 80-90 percent of postal annuitants already voluntarily enroll in the two main parts of Medicare.) The proposal would also give FEHBP plans access to low-cost prescription drugs and other benefits made possible by the Medicare Modernization Act. The savings would help reduce FEHBP premium costs -- and prefunding costs. Indeed, about half the reduction in the Postal Service's unfunded liability would come from prescription drug savings; the rest from maximizing the participation in Medicare Parts A and B.

This approach ensures that the Postal Service and its employees fully benefit from the $30 billion they have contributed in Medicare taxes since 1983 and adopts the standard practice of large private companies that provide retiree health insurance. This reform would effectively resolve the prefunding burden that undermines the health of the Postal Service while raising Medicare spending by just one-tenth of one percent over the next 10 years.

Pricing regulation

The second major burden placed on the Postal Service is the stringent and inflexible system adopted by the PAEA for regulating postage rates. In the testimony we presented to this committee in May 2016, we outlined the many shortcomings of inflexibly tying the rise in postage rates to increases in the Consumer Price Index. There is no need to rehash those shortcomings here in this testimony because the Postal Regulatory Commission has initiated a comprehensive review of the price-setting process for so-called Market Dominant services. This review was mandated by the PAEA, which also empowers the Commission to make changes if the objectives of the current system are not being met. We believe that the PRC is the most appropriate venue for deciding the future regulation of postage rates and other issues related to cost accounting and rate structures.

However, we believe this Committee should address one rate issue that was not contemplated by the 2006 law – the expiration of the 4.3 percent exigent rate increase authorized by the PRC to help the Postal Service recover from the permanent decline in mail volume caused by the Great Recession of 2008-2010. Given this permanent decline in volume, we believe that the PRC should have made the exigent increase permanent. Nevertheless, after years of litigation between the PRC and the USPS and other parties, the exigent increase expired on April 10, 2016.

This has complicated the task of stabilizing the Postal Service's finances. The loss of $2 billion in annual revenue resulting from the expiration means that the Postal Service's modest, yet healthy operating profits in recent years (approximately $1 billion annually) will turn into operating deficits of approximately $1 billion annually. In January 2016, before the April 10th expiration of the exigent increase, the four postal unions, the Postal Service and a significant number of major mailers, argued that Congress should freeze Market Dominant postage rates in place until the PRC review is completed (waiving the final two CPI-based increases) as part of a narrowly focused set of reforms to strengthen and stabilize the Postal Service. This would have effectively made the exigent increase permanent.

Even after the exigent increase expired, our industry coalition worked to forge a consensus approach to the exigent rate increase issue. The compromise adopted by your leadership bill – effectively restoring half of the exigent increase – is a reasonable one. We are very pleased that this compromise is included in H.R. 756.

We believe that there is an urgent need to enact legislation along the lines of H.R. 756 because if we do not, the current PRC review of the rate-setting process will have no choice but to address both the burden of prefunding and the need to make up for the lost exigent increase revenues. That could lead to an untimely rate shock that neither the American people nor the Postal Service's diverse group of stakeholders would welcome.

As the Committee prepares to mark up H.R. 756, we will suggest minor improvements to the language in two sections of the bill. With respect to integration with Medicare Part B, I am sure that is nobody's intent to require any current Medicare-eligible annuitant to enroll in the program if neither the annuitant nor the Postal Service can benefit from doing so. A modest tweak in the language would address this rare circumstance. With regard to the proposed policy of providing all new addresses with curb-line or centralized delivery, we'd suggest giving the Postal Service the flexibility to make sensible exceptions to the policy if it is more efficient or financially beneficial to do so. Again a modest tweak in the language in Section 202 could accomplish this.

We urge the Committee to quickly schedule a mark up of H.R. 756, and then to vote for its approval.

H.R. 760 – The Postal Financial Improvement Act of 2017

Let me now turn to another legal burden that undermines the financial stability of the Postal Service: the overly restrictive investment policies applied to the Postal Service's retirement funds. We are pleased that this committee will review these policies by considering Mr. Lynch's bill, H.R. 760, the Postal Financial Improvement Act.

In general, the Postal Service has incredibly well funded retirement plans, although declining interest rates in recent years have temporarily inflated liabilities and created relatively small unfunded liabilities. At the end of 2015, the Postal Service's CSRS and FERS pension funds were 93.2 percent funded – well into the healthy "green zone" under the private sector Pension Protection Act and much better than the 80.3 percent funded percentage for the 100 largest pension plans according to the November 2016 Pension Funding Index produced by the Milliman Company. At the same time, while the median level of funding for retiree health benefits among Fortune 1000 companies is zero percent (0 percent), the Postal Retiree Health Benefit Fund is nearly 50 percent funded.

These strong funding positions are all the more remarkable given the restrictions placed on the investment of the Civil Service Retirement and Disability Fund (which holds the federal and postal accounts for both CSRS and FERS) and the Postal Service Retiree Health Benefits Fund

(PSRHBF). By law, the pension funds and the PSRHBF must be invested in low-yielding Treasury bonds. Together, the CSRS and FERS postal accounts and the PSRHBF hold $338 billion in Treasury securities – making us, the Postal Service and its employees, the third largest creditor of the U.S. federal government just behind the governments of China and Japan. No private company in America would invest 100 percent of their pension and post-retirement health funds in such a conservative way. Best practice in the private sector is to invest in a well-diversified portfolio of private sector stocks, bonds and real estate as well as government bonds.

The best place to begin improving the way the Postal Service invests its assets for retirement costs is the PSRHBF. It makes the most sense because it is a unique burden of the Postal Service and the assets in the PSRHBF are not commingled with the assets of other agencies, as in the case with the CSRS and FERS plans.

Current PSRHBF investment policy effectively forces the USPS (postage rate payers) to give Uncle Sam a low-cost loan instead of investing strategically to cover future health care liabilities. The retiree health fund has been earning 3-4 percent on its Treasury bonds, but long-term health care costs are rising 5-7 percent annually. It makes no financial sense to invest the PSRHBF in assets that yield less than the rising cost of health care.

Thankfully, H.R. 760 would allow us to move toward private sector best practice by adopting a more sensible investment policy for the Postal Service Retiree Health Benefits Fund, which now holds $52 billion in trust to cover the Postal Service’s share of retiree health care premiums.

H.R. 760 would direct the Secretary of the Treasury to invest up to 30 percent of the PSRHBF’s assets in private sector stock and bond index funds -- the kind of safe, non-political, low-cost funds offered by the federal Thrift Savings Plan. Under the bill, the Secretary would hire one or more investment managers and chair an Investment Committee to manage the investments in private sector index funds. By adopting H.R. 760, Congress could:

- Raise the long-term rate of return on the retiree health fund's assets;
- Reduce the burden of prefunding;
- Offset the cost of postal Medicare integration;
- Relieve upward pressure on postage rates; and
- Reduce the misguided impulse to slash service levels

H.R. 760 is identical to a bill adopted by this Committee in the last Congress – H.R. 5707. One of the much discussed challenges of the bill last year was the complications posed by the need to convert some of the PSRHBF's non-marketable Treasury securities into cash before using it to purchase private sector index funds. We believe this challenge could be overcome if H.R. 760 were amended to provide for the creation of a separate off-budget investment fund on the balance sheet of the Postal Service, instead of taking assets out of the PSRHBF to execute new investments. We could call this new fund the USPS Health Investment Trust (HIT). The same Investment Committee could then be directed to invest some or all of its future normal cost and amortization payments through the HIT. (These payments would, under current law, flow directly into the PSRHBF. But in the future they could be invested by the HIT first.)

The assets in the HIT would be invested as directed by the bill – in index funds of stocks, bonds, and government securities -- and be used to fund the PSRHBF, as needed. The Postal Service could be required to maintain a minimum balance in the PSRHBF – for example, enough to cover three to five years of postal retiree health premiums, held 100 percent in Treasury bonds the way it is now.

With or without these improvements, we urge the Committee to adopt H.R. 760 so that it may be considered along with H.R. 756 by the full House of Representatives.

Conclusion

The introduction of these bills and today's hearing are two vital steps in what will surely be a long-process. Last year the legislation was referred to both the Ways & Means and Energy & Commerce Committees. Meanwhile, the Senate will also have to agree to take it up in the weeks and months to come. On behalf of more than half a million active and retired postal employees, I want to thank the leaders of this committee for beginning this process.

All four postal unions urge the Committee to adopt this legislation as quickly as possible. We pledge to work with all of you and our broad coalition of mailing industry partners to make this legislation a reality. Together, we can not only strengthen a great national institution to better serve the American people and its businesses, we can also show how it is possible to make our democracy work for the common good at a time of great partisan polarization.

Thank you, Chairman Chaffetz, Ranking Member Cummings and all the Members of the Committee for inviting me to testify on this crucially important matter.