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

March 11, 2014

The National Association of Letter Carriers represents 275,000 active and retired letter carriers who live or work in virtually every community in America. It serves as the exclusive collective bargaining representative of 190,000 city letter carriers currently employed by the U.S. Postal Service. More than 90 percent of city carriers voluntarily belong to the NALC, which is dedicated to defending its members and preserving affordable, high-quality universal service for all of America's businesses and households. For more information on NALC or about this fact sheet, please contact Kori Blalock Keller, NALC Director of Legislative and Political Affairs at (202) 662-2801 or kbkeller@nalc.org.

NALC Urges Opposition to the S. 1486, the Postal Reform Act of 2014

Bill Would Stop Postal Service Recovery in Its Tracks

Overview of S. 1486

The NALC strongly opposes the Postal Reform Act of 2014 (S. 1486) because it would lead to the elimination of up to 100,000 good postal jobs, reduce the quality of service and stall the Postal Service's recent economic recovery. The bill would also facilitate the creation of an unfair two-tier workforce with respect to retirement benefits and unfairly slash the benefits of injured federal workers, both in the USPS and in all other federal agencies. The bill, co-sponsored by Senators Tom Carper (D-Del.) and Tom Coburn (R-Okla.), was reported out by the Homeland Security and Governmental Affairs Committee to the full Senate for consideration on February 6, 2014.

The Postal Reform Act of 2014 would slowly dismantle the Postal Service's invaluable retail, mail processing and last-mile delivery networks, which are crucial for the trillion dollar mailing industry and the booming e-commerce sector. In addition, while the bill would mitigate the disastrous Retiree Health Benefits prefunding mandate enacted in 2006 (the driver of more than 80 percent of the Postal Service's losses since 2007), it fails to do what Congress should do: Allocate the CSRS surplus to fund it or simply repeal it. Bizarrely, it also imposes a new pre-funding requirement for decades of future workers compensation costs.

Although the bill would delay the elimination of Saturday delivery (and 80,000 full- and part-time jobs) for a few years by applying an arbitrary mail volume trigger of 140 billion pieces annually (which would be "go off" even if USPS were profitable), and although the bill would delay more plant closings and post office cuts with a less-than-two-year moratorium on further reductions in service standards, it would formalize and make permanent a failed business strategy just when the Postal Service shows signs of recovery. Indeed, the bill would mandate the immediate elimination the door delivery to millions of American businesses, and promote the end of door delivery to 35 million American households as well.

SERVICE CUTS THAT DEGRADE OUR NETWORKS

Bill Section	Section Title	Impact
201	Maintenance of Delivery Standards	Service standards, which have been slashed repeatedly in recent years, may be cut again starting October 2015.
202	Preserving Mail Processing Capacity	Mail Processing Plant closures/consolidations may start again in October 2015.
204	Changes to Mail Delivery Schedule	Saturday Mail Delivery to end after 4 consecutive quarters under 140 billion pieces – without review and even if USPS is profitable; No Saturday package delivery required for any addresses added after October 1, 2013; Saturday package delivery may be ended in 2019.
205	Delivery Point "Modernization"	All door delivery for businesses ends immediately. Encourages USPS to move existing residential delivery to cluster box, curb box.

This “shrink to survive” strategy, devised by postal management during the Great Recession, has never made sense. But it is especially misguided now that the Postal Service and the U.S. economy are recovering. Slower, lower-quality service will lead to lost business from mailers and therefore push the Postal Service to make even deeper cuts, leading to an even greater crisis. In short, it would lead USPS into a death spiral.

Adopting a bill that degrades the Postal Service’s networks and saddles it with a brand new pre-funding mandate is the last thing Congress should do.

Many of the flawed measures contained in S. 1486 are based on the false premise that the Postal Service faces technological obsolescence and that there is no way to really maintain high quality universal service. However, the idea that the Postal Service is a failing business is simply not borne out by the facts. During the Great Recession, the Postal Service, like many other businesses, lost money. And there has been a loss of traditional letter mail volume due to the internet in recent years. But the 2006 Congressional mandate to massively prefund decades of future retiree health benefits is the primary cause of the Postal Service’s financial woes, accounting for 80% of all losses since 2007 and 100% of the losses recorded in 2013 and 2014.

Indeed, in 2013, the Postal Service turned a corner, generating $623 million in profits before the Congressionally-mandated $5.6 billion Retiree Health Benefits prefunding expense (‘RHB’). The Postal Service’s recovery continued in the first quarter of 2014, when the Postal Service reported a 14% increase in package revenue, and had a $1.1 billion profit before the Congressionally-mandated RHB prefunding expense. These dramatically improved results were made possible by a slowly improving economy, stabilizing mail revenue, and growth in the Postal Service’s package delivery business.

The Postal Service is now in a far better position than it was a few years ago. It still needs reform legislation, but a series of targeted, intelligent measures can help generate new revenue as the Postal Service adapts to the evolving needs of the country. Sustainable Postal Service reform cannot be accomplished by slashing services and cutting as many as 100,000 quality postal jobs, as proposed by S. 1486. Many of the measures set forth in the bill miss the target because they are based on an outdated understanding of the Postal Service business - several are simply updates to the panicky reforms proposed following the sharp downturn in the Postal Service’s business during the worst of the Great Recession. They were bad ideas then, and they are bad ideas now. The Senate reform debate needs to evolve to reflect current conditions and focus on future opportunities for growth.

NALC believes a mu better starting for this debate would be the Postal Service Protection Act (S. 316), a bill drafted by Sen. Bernie Sanders that now has 30 co-sponsors. The Sanders bill would strengthen the Postal Service, not dismantle it.

The remainder of this fact sheet provides greater detail on the most flawed provisions of the Postal Reform Act of 2014, which we believe the Senate should reject out of hand.

Title II, Section 204: Arbitrarily Allows the USPS to go to 5-day Delivery When Annual Mail Volume Falls Below 140 Billion Pieces

Trigger For Ending Saturday Mail Delivery

The Postal Reform Act of 2014 allows the Postal Service to unilaterally end Saturday mail delivery following any four consecutive quarters during which total mail volume falls below 140 billion pieces – though an amendment adopted in committee will prevent it anytime before the fourth quarter of 2017. This arbitrarily chosen mail volume “trigger,” with no consideration or financial review by Congress or the Postal Regulatory Commission, makes no business sense.

- At a time when an e-commerce boom is leading the Postal Service to offer seven-day delivery, adopting a bill that would automatically cut Saturday service even if the Postal Service is profitable and growing would be misguided.

- A third of all mailers say they need Saturday service – including e-Bay merchants, prescription drug managers like Medco and thousands of weekly newspapers. What enterprise could survive by ignoring a third of its customers?

Congress must take into account the needs of all postal customers, as well as the service it provides to the American people. Saturday service is crucial to the booming e-commerce market. Without it, success for USPS in the fastest growing segment of the postal industry will be jeopardized. Many traditional customers, such as direct mailers that wish to target advertising over the weekends, prescription drug benefit managers and weekly newspapers, also strongly value Saturday delivery.

Moreover, at a time when good jobs are scarce, the economic outlook is uncertain, and the Postal Service's finances are improving, adopting a measure that would automatically eliminate 80,000 jobs (25,000 city carrier jobs, 45,000 rural carrier jobs and 10,000 other positions) would be unwise and unwarranted.

NALC believes that eliminating days of delivery would hurt the business, not improve it. The Postal Service's customers want better service, more options and seven-day delivery, not slower service. Failing to meet these demands will drive business away.

Title II, Section 205: Immediately Ends Door Delivery for All Businesses, Promotes Curb and Cluster Box Delivery for Residential Addresses

Undermining the Value of Mail to Mailers, Inconveniencing Businesses and the Elderly

The Postal Reform Act of 2014 would eliminate door delivery for all American businesses immediately, in effect mandating an irrational business decision that would sever the growth-promoting tie between letter carriers and business customers. The successful lead generation program known as Customer Connect is responsible for more than $1.9 billion in new annual revenue for the Postal Service since it was started a decade ago. This program relies on the connections letter carriers have built with their business customers.

Business owners rely on the delivery of important documents and packages every day; they expect deliveries to come directly to their places of business. Moving these deliveries to a centralized cluster box will ensure that USPS competitors will take the business away from the USPS. Additionally, many business customers are accustomed to letter carriers picking up their outgoing mail from inside their businesses daily. Conversion of delivery to a centralized cluster box will take away this convenience and likely result in an even further loss of volume for the Postal Service.

The bill also encourages the Postal Service to try to convert tens of millions of home deliveries to neighborhood cluster boxes and curb delivery. Making mail less convenient will lead mailers to send less mail, driving the Postal Service into a deeper crisis. Modernizing the Postal Service requires making the products and services offered by the USPS more convenient for customers, not less so.

NALC believes that USPS has an obligation to provide high-quality and affordable universal service to all Americans. Section 205 of the Postal Reform Act of 2014 would undermine the Postal Service's ability to meet this obligation and threaten another 20,000 city and rural carrier jobs.

Title II, Sections 201 and 202: Paves Way for More Cuts to Delivery Service Standards and Mail Processing Capacity

Sending Terrible Signal to Customers

The Postal Reform Act of 2014 damages the Postal Service business by signaling to mailing customers that more cuts to service standards (the time it takes to complete deliveries) and mail processing capacity are on their way in less than two years.

NALC believes the Postal Service has already cut too much capacity out of its system, causing delays in mail processing and delivery. If customers see that the Postal Service is planning another round of closures and consolidations in less than two years (the moratorium is two years from October 2013), they may look elsewhere for a more capable delivery partner.

Title I, Section 101: Fails to Adequately Address Postal Pensions
CSRS Surplus Ignored, FERS Surplus Returned With Limitations

The NALC has long fought for pension fairness in both the CSRS (Civil Service Retirement System) and FERS (Federal Employees Retirement System) pension funds. S. 1486 does call for OPM to use demographic factors that are unique to postal employees in its valuation of the Postal Service's FERS and CSRS pension funds. However, the bill fails to require the accurate calculation of the total postal surplus in the CSRS fund. The Sanders bill (S. 316) does so by implementing the recommendations of a 2010 audit of the postal CSRS fund conducted for the Postal Regulatory Commission by the Segal Company, an independent, private sector actuarial services firm. (http://www.prc.gov/prc-docs/home/whatsnew/Report on CSRS Cost and Benefit Allocation Principles_1122.pdf)

The PRC/Segal audit found that the postal portion of the CSRS fund has been charged some $50 billion for benefits that should have been charged to the federal account in CSRS. S. 316 would allow the USPS to use the accurately calculated CSRS postal surplus to cover the unfunded liability for retiree health and to reduce its outstanding debt, among other options.

UNFAIR PENSION PROVISIONS AND NEW PREFUNDING REQUIREMENT

Bill Section	Section Title	Impact
101	Annual FERS and CSRS Assessments	Caps FERS refund at $6 billion in first year, even if it is much greater. Denies USPS access to billion CSRS surplus ($50-$75 billion according to PRC and USPS OIG audits).
106	Prefunding and Financial Reporting with Respect to Workers' Compensation Liability	Mandates a new prefunding of projected workers' compensation liability when USPS net income is more than $1 billion. No private company or government agency is required to prefund such benefits.

Any legislation that is truly aimed at giving the Postal Service the tools it needs to modernize and innovate cannot ignore these surplus funds. S. 1486 would address the FERS surplus, but it caps the amount the Postal Service may be refunded. It would limit the refund to $6 billion in the first year following enactment and to two-thirds the amount calculated in the second year following enactment. Thereafter, it would adopt a 40-year amortization schedule to return surpluses found in any subsequent years. The Postal Service would be restricted on its use of the FERS refund(s) to certain items.

NALC believes the Postal Service should be refunded the entire surplus right away so that it can make the investments it needs to serve the needs of the nation in the 21st Century.

Title I, Section 106: Requires the Postal Service to Start Pre-Funding Long-Term Workers' Compensation Liability
A New, Completely Unnecessary and Unprecedented Pre-Funding Mandate

A bizarre section of the Postal Reform Act of 2014 establishes a new prefunding requirement for the Postal Service. It would mandate the prefunding of future workers' compensation benefits payable under the Federal Employees Compensation Act (FECA). It would be truly unsettling if Congress were to repeat its 2006 prefunding mistake. No company or government agency in America is mandated by law to pre-fund either future retiree health or workers' compensation benefits.

Yet S. 1486 would require the Postal Service to begin pre-funding its long-term, projected FECA liability every year in which net income is more than $1 billion. For example, if the Postal Service reported $3 billion of net income in one year, it would be able to retain $1 billion, but would be required to put $2 billion into a new Workers' Compensation pre-funding fund. As with contributions to the PSRHBF, funds contributed to the new workers' comp fund would have to be invested in low-yielding, special issue U.S. Treasury securities – requiring postal rate-payers to provide low-interest loans to the federal government.

In our view, the Workers' Compensation liability is not a debt, it is a projection about how much the Postal Service might owe given certain actuarial and interest rate assumptions. As a result, when these assumptions change, the amount of the projection also changes. For example, on September 30, 2013, the projected amount of the workers' compensation liability was $17.24 billion. Three months later this amount had dropped to $15.9 billion. The idea that an organization should put cash into an account to try to match-fund this moving target is absurd.

Title I, Section 102: Unfairly Discriminates Against New Postal Employees a

Unfairly Interfering with Collective Bargaining

The Postal Reform Act of 2014 would make eligibility for the Federal Employees Retirement System (FERS) and matching Thrift Savings Plan (TSP) contributions – now set by law for all federal and postal employees -- subject to collective bargaining for all new USPS employees.

Singling out new postal employees and denying them the same retirement benefits as all other federal employees is grossly unfair. Postal employees are federal employees, regardless of when they are hired, and they should be offered the same retirement benefits as all other federal employees.

Blatant interference with the collective bargaining process to advance the position of one side of that process (in this case, management which wants to force postal employees out of FERS/TSP) is totally unwarranted. The Postal Service and its unions have successfully negotiated and/or arbitrated labor contracts for more than 40 years without such interference -- a process that has kept postage rates low, phased out any taxpayer subsidies and eliminated any costly strikes or lock-outs. Having Congress tilt the scales in favor of management and against the employees on this or any other contractual area is inappropriate.

Title V: Unfairly is Unfair to Injured Federal Employees

Slashes FECA Wage Loss Compensation

S. 1486 imposes cruel and discriminatory reforms to the Federal Employee Compensation Act (FECA) that would leave injured federal workers with the worst long-term injuries vulnerable to impoverishment when they reach their Social Security retirement age. Injured workers who reach retirement age would see their benefits cut to 50 percent of their salary at the time of injury. Injured federal workers cannot be left behind in the midst of a postal reform bill. The NALC welcomes the opportunity to be part of a larger and separate discussion to responsibly reform the FECA program.

THREATENS RETIREMENT BENEFITS OF NEW POSTAL WORKERS AND CUTS FEDERAL-WIDE FECA BENEFITS

Bill Section	Section Title	Impact
102	Postal Service Authority to Negotiate Retirement Benefit Terms for New Employees	Subjects FERS/TSP participation for all new employees to collective bargaining. New employees may be carved completely out of FERS/TSP as a result of collective bargaining or arbitration.
501-516	Federal Employees Compensation Act (various section titles)	Cuts injured worker compensation benefits by 50 percent at retirement.

Conclusion: The Senate Should Reject S. 1486

There is a Better Way

In order for Congress to successfully reform the U.S. Postal Service, it must first understand that the main cause of the Postal Service problems was the pre-funding mandate.

Cutting services, eliminating jobs, shrinking the network, treating new employees unfairly and punishing injured workers all for the sake of continued pre-funding is an unacceptable approach that will destroy the Postal Service. Fixing the pre-funding mandate and liberating the Postal Service to innovate and to utilize its existing networks to provide new services are the crucial components of true postal reform.

NALC would support a package of postal reforms in the budget that would eliminate the crushing burden of pre-funding future retiree health benefits, provide postal pension fairness, preserve service standards and grant product and pricing freedom to the Postal Service. We have shared such a package with Congressional leaders in both parties and on both sides of the Capitol. We believe it is budget-neutral. Such a package would not only restore the long-term viability of the Postal Service but also promote growth and job creation in the near-term. Congress should choose the better way.

NALC is adamantly opposed to S. 1486, but remains ready to work with Congress to pass real reform that will meet these requirements and strengthen the Postal Service, not dismantle it.