NALC vows to continue the fight to maintain six-day delivery and "Save America's Postal Service"

Union encouraged and outraged by Obama plan

Overview

On Sept. 19, President Obama sent a $3 trillion deficit reduction package to the special joint committee of Congress established by the debt limit law to find ways to reduce the federal budget deficit. The package included a number of reforms to address the financial crisis at USPS.

Although we are somewhat encouraged by the proposed short-term cash relief provided to the Postal Service in the president's package, NALC is bitterly disappointed that that the Obama administration has given in to postal management's relentless two-year campaign in favor of five-day delivery. The administration has proposed giving the USPS the authority to eliminate Saturday mail delivery service, although it called for a delay in its implementation until January 2013. In doing so, the administration has embraced the downsizing strategy demanded by the majority on the USPS Board of Governors who were appointed by President George W. Bush. We will fight this proposal in Congress and renew our demands that the administration fill the two vacancies on the Board with people who believe in the mission of the Postal Service and who will seek to balance a sensible cost-cutting agenda with a revenue-growth strategy.

NALC President Fred Rolando applauded the administration's new approach to the economic crisis—attacking the jobs crisis with near-term tax relief and infrastructure investments that will put the unemployed back to work and revive the economy (and therefore boost postal demand) while outlining a plan to close the country's long-term budget deficit with a balanced combination of spending cuts and progressive tax reform. But Rolando noted that the "administration has missed the boat on many of its postal proposals." The five-day proposal and the failure to permanently resolve the pre-funding burden are the most notable.

Of course, the administration's proposals are just a starting point—they cannot become law unless Congress approves them. The special joint committee on deficit reduction has until Thanksgiving to develop legislation to reduce the deficit by $1.5 trillion. If the committee cannot reach agreement, defense and domestic discretionary spending (but not our health and pension benefits) will be cut by $1.2 trillion.

This report will provide a review of President Obama's proposals affecting the Postal Service and federal employees. It then will outline the NALC's reform agenda and how we plan to pursue it in the legislative process.

Postal reforms

The administration's plan features five postal proposals:

- **Obama Postal Proposal 1:** Restructure the Retiree Health Benefits pre-funding schedule to reduce near-term USPS payments: Three changes would be made. First, the USPS would be granted access to the Postal Service Retiree Health Benefit Fund (PSRHBF) to pay the cost of current retiree health benefits (saving the USPS $2.7 billion per year) in 2012 instead of 2017 (as under current law). Second, the $34 billion in pre-funding payments due between 2011 and 2016 would be reduced to $19 billion, with most of the savings in the first three years. The $15 billion in reduced payments would not be waived, but instead deferred to be amortized over 40 years after 2016. And third, a new formula for pre-funding would be implemented in 2012. The new formula would require the Postal Service to contribute the "normal cost" of future retiree health benefits associated with each year's service by the Postal Service's employees (each and every year) to the PSRHBF—at a cost of about $3 billion per year. The net effect of the three changes would be to reduce the Postal Service's cash expenses by $20 billion over the next several years. But the USPS would still be required to amortize (pay down like a mortgage) any unfunded liability in the PSRHBF over 40 years starting in 2017 as provided by current law. (This unfunded liability would be increased by the reduced pre-funding payments from 2011 to 2016 and by the early access to the PSRHBF for current retiree health premiums.) The administration has indicated that the purpose of these changes was to provide near-term cash relief and acknowledged that the Postal Service would be pre-funding about the same amount in 2014 as it is paying today—about $5.5 billion per year.

  NALC reaction to Postal Proposal 1: Although it offers necessary short-term cash relief, this proposal still unfairly requires the USPS to be the only enterprise in America that must pre-fund its future retiree health benefits. It saves money over the next three years, but it will burden the Postal Service with the same unaffordable payments four years from now. If the Postal Service were a private company and participating in a multi-employer plan like FEHBP, it would be allowed to expense its retiree health benefits on a pay-as-you-go basis. There is no justification for treating the Postal Service differently from other federal agencies or large private companies. Neither the Congress and its agencies (GAO and CBO) nor the White House and its agencies (OMB and OPM) are forced to pre-fund their future retiree health benefits.

  NALC supports continued retiree health pre-funding only if the Office of Personnel Management were required to fairly allocate the cost of CSRS pensions for postal employees as proposed by either of the two external audits released in 2010: the USPS Inspector General (Hay Group) report or the Postal Regulatory Commission (Segal Company) report. H.R. 1351 would require this—and would dramatically reduce or eliminate the unfunded liability of the PSRHBF. In the absence of a reform provided by H.R. 1351, we should halt the destructive USPS pre-funding policy until the nation's economy recovers and the Postal Service's finances are stabilized. No rational private company would bankrupt itself in the middle of a prolonged economic slump and sacrifice all other priorities to pre-fund retiree health benefits for workers not even hired yet.

- **Obama Postal Proposal 2:** Provide the USPS a refund over two years of the $6.9 billion surplus it has contributed to the Federal Employees Retirement System (FERS). Two payments of $3.45 billion would be paybale in June 2012 and June 2013. The second payment could be made earlier if the Postal Service's cash reserves declined too much.

  NALC reaction to Postal Proposal 2: NALC strongly supports this proposal to allow the USPS to use its own surplus pension funds as it sees fit.

- **Obama Postal Proposal 3:** Give the Postal Service the authority to reduce mail delivery from six days to five days. The proposal would let the USPS implement its plan to eliminate Saturday delivery in January 2013.

  NALC reaction to Postal Proposal 3: NALC strongly opposes this provision. Reducing the scope and quality of service is no way to save the Postal Service. Eliminating Saturday delivery, which the Postal Regulatory Commission says would save little money while disproportionately hurting rural communities, the elderly and small businesses, would be counter-productive. It will simply drive the millions of mailers who value six-day delivery from the system and open the door to competitors who will step in to provide Saturday service—and demand access to Americans' mailboxes. As we have been since the 2006 contract negotiations, NALC is prepared to find ways to make Saturday delivery more cost-effective through the collective-bargaining process.

- **Obama Postal Proposal 4:** Allow the USPS to offer non-postal products and increase collaboration with state and local governments. The proposal would allow the USPS to exploit its extensive retail and last-mile delivery networks to offer new services that will generate revenue and help underwrite affordable universal mail delivery.

  NALC reaction to Postal Proposal 4: NALC strongly supports finding new uses of the Postal Service to meet the public's needs. The expansion of vote-by-mail and other state and local services makes great sense. Explicit authority to enter into commercial joint ventures of the kind common among foreign postal operators would also be welcome.

- **Obama Postal Proposal 5:** Give the Postal Service the ability to better align the costs of postage with the costs of mail delivery. A 3.9 percent exigent postage rate increase would be authorized by law and the CPI-based price index applied to market-dominant products (mostly First Class and Standard Mail) would be liberalized. Rather than limit postage increases to the increase in the CPI for each and every class of mail, the USPS would be given the right to vary the increases for different types of mail so long as the its overall prices did not exceed inflation.

  NALC reaction to Postal Proposal 5: This reform appears to be reasonable—as the volume of mail has declined, the fixed cost of universal service must be spread across fewer pieces of mail. So far, the burden of adjustment has been borne by employees only. This modest proposal would have mailers share in this burden. NALC has always contended that the average CPI is but a statistical artifact with no real meaning. In 2006, we advocated the use of the CPI for Delivery Services instead of the overall CPI since it better captured cost trends in the delivery industry.

Overall, the administration has indicated that its postal proposals will provide the USPS $20 billion in near-term cash savings and would reduce the federal budget deficit on the unified budget by some $18 billion by improving the Postal Service's finances. NALC is both encouraged and disappointed by this package of reforms. We are encouraged that President Obama is attempting to creatively address the USPS cash crisis through the deficit reduction process, and we welcome his proposal to return the $6.9 billion postal pension surplus in FERS to the Postal Service as proposed in Rep. Stephen Lynch's H.R. 1351. But we are outraged that the president reversed his previous support for six-day delivery. And we are disappointed that the administration opted for a deferral of the pre-funding payments ($5.5 billion annually).instead of embracing a permanent reform based on the Lynch bill's recovery of the even larger CSRS surplus.

Federal workforce proposals: Shared sacrifice

The administration's plan features three proposals that affect the federal workforce, including letter carriers and other postal employees:

- **Obama Federal Workforce Proposal 1:** Raise payroll contributions by federal and postal employees for FERS and CSRS pensions by 1.2 percent over three years, beginning in 2013. The 0.4 percent per year increase in contributions in 2013, 2014 and 2015 apply to postal employees, even though the postal pension account in FERS is overfunded. This would effectively reduce the Postal Service's contribution by a total of 1.2 percent by 2015.

  NALC reaction to Federal Workforce Proposal 1: NALC would generally oppose this proposal if it were not made in the context of a balanced deficit reduction plan. However, given that the president has proposed to balance spending cuts with reasonable provisions to close tax loopholes and restore some semblance of progressivity to the tax code after a decade of tax cuts tilted toward the wealthiest of Americans, the proposed increase in pension contributions by federal and postal employees can be considered a reasonable contribution by the federal workforce to help balance the federal budget. However, if the special joint committee rejects reasonable tax provisions or adopts unreasonable postal reforms, the NALC will strongly oppose increasing federal employee pension contributions.

- **Obama Federal Workforce Proposal 2:** Eliminate the FERS supplemental annuity for newly hired federal and postal employees. Under current law, a supplemental annuity is payable to those who qualify to retire under FERS before the age of 62—up to the time they reach age 62, at which time they qualify for Social Security benefits. The supplemental annuity was designed to replicate the Social Security benefit earned by federal and postal annuitants from their federal service and pay it to them until they qualify for Social Security benefits.

  NALC reaction to Federal Workforce Proposal 2: Although it would only apply to new-hires, NALC will oppose this proposal as unfair. It would repeal a measure that is essential to assure pension equity between federal employees covered by CSRS and FERS and ensures that long-serving federal employees are permitted to retire in dignity. And it would create a second class of federal workers who would be forced to work much longer before retiring.

- **Obama Federal Workforce Proposal 3:** Establish a Commission on Federal Public Service Reform to study and propose reforms to modernize federal personnel policies. It is not clear whether the Postal Service would fall under the jurisdiction of this commission.

  NALC reaction to Federal Workforce Proposal 3: NALC will reserve judgment on this proposal until more is learned about its parameters. However, we will oppose its creation if it is given a mandate to slash federal and postal employee benefit costs outside the normal congressional process. Federal and postal workers should bear the same sacrifices as other citizens in the deficit reduction program—on taxes, public spending, etc.—but they should not be singled out for discriminatory benefit cuts just because they work for the federal government. America's strength as a country depends on our ability to attract and retain excellent public servants.

NALC's reform agenda

The president's proposals will not alter the NALC's reform agenda. We outlined our priorities to the administration and will do the same with the special joint committee of Congress. We are advocating the following measures:

- Immediate access both to the Postal Service Retiree Health Benefits Fund (PSRHBF) to cover the cost of health insurance premiums for existing retirees as well as to the excessive level of funding in the PSRHBF (compared to private-sector standards of funding) for operational purposes.
- An immediate repeal of the retiree health pre-funding schedule included in the 2006 PAEA law, obviating the need to make a $5.5 billion payment on September 30, 2011.

- An immediate transfer of the undisputed $6.9 billion surplus in the Postal Service's FERS account to the Postal Service to allow it to reduce the debt it ran up to make $21 billion in pre-funding payments over the past four fiscal years (which accounted for 100 percent of the Postal Service's losses of $20 billion between 2007-2010).

- If pre-funding is to be preserved, the adoption of Title I of S. 1010, or H.R. 1351 in its entirety—which would secure the postal surplus in the CSRS fund for the purpose of covering the unique and excessive burden of pre-funding retiree health benefits.

NALC wishes to underline the last point. The strength of the policy justification for fairly allocating the CSRS pension costs (for pre- and post-1971 service) is reflected in the broad bipartisan support this solution has on Capitol Hill. More than 200 members of Congress, Democrats and Republicans alike, have co-sponsored H.R. 1351 in the House of Representatives. In the Senate, there is a bipartisan consensus between the key leaders of the Senate Homeland Security and Governmental Affairs Committee. The major reform bills introduced by Senators Tom Carper and Susan Collins (S. 1010 and S. 353, respectively) embrace a fair allocation of CSRS and FERS pension costs as the best way to address the onerous cost of pre-funding retiree health and to stabilize the Postal Service's finances.

Although the Obama administration failed to formally propose the CSRS reforms contained in the Lynch, Carper and Collins bills, it has indicated that it will support these reforms should Congress pass them.

Conclusion

NALC will vigorously oppose the elimination of Saturday delivery and will work with the special joint committee (and at the bargaining table) to find intelligent alternatives. We will also urge the joint committee to adopt a bipartisan solution to the postal crisis—the Lynch bill (H.R. 1351) in the House or similar measures within bills proposed by Senators Carper and Collins in the Senate. The USPS should not be held to a different standard for funding retiree health benefits than that applied to private companies and other agencies. But if we must pre-fund, a fair allocation of pension costs in both FERS and CSRS is absolutely essential.

We encourage Republicans to work with Democrats and the administration to protect the long-term viability of the Postal Service without resorting to ideologically driven attacks on postal employees or false claims that what we or the president support is a taxpayer bailout. We don't need or want a taxpayer bailout; in fact, for 30 years the Postal Service hasn't used a dime of taxpayer money. The solution to the postal crisis is to let the USPS have access to its own "surplus pension and health funds" so that it can adapt to the changing postal needs of America's households and businesses.

We urge the news media to check the conventional wisdom at the door when it comes to the Postal Service. Neither the Internet nor the recession has caused the Postal Service's financial woes. Rather, the congressional mandate of 2006 makes the Postal Service the only agency or business in the country that must pre-fund future retiree health benefits. This mandate has caused 100 percent of the Postal Service's losses in recent years. The USPS has adapted to the recession and Internet diversion well; the $20 billion in losses over the past four years (2007-2010) were caused by $21 billion in pre-funding payments that no other enterprise is required to make.

Despite our deep concerns about some of the president's deficit reduction proposals, NALC commends President Obama's overall approach to deficit reduction—his plan to balance spending cuts with new revenues from the wealthiest Americans who have been spared any sacrifice in recent years—even though nearly all the gains from economic growth over the past decade bypassed the poor and middle class and flowed to the top.