




President Fred Rolando discusses the right course for repairing Postal Service finances during the New Jersey State Association rap session held in Washington in March.

THE RIGHT ROAD TO A SOLID FUTURE



The Postal Service laid out a wide-ranging—some would say radical—plan last month for coping with its current economic problems and future business challenges. It featured headline-grabbing initiatives, such as eliminating Saturday mail delivery, and more mundane, nuts-and-bolts proposals, like streamlining the regulatory process.

The NALC supports many of the plan's recommendations and goals, especially relief from the burden of accelerated pre-funding of retiree health care and recovery of CSRS pension fund overcharges. But other aspects—particularly cutting service—are foolhardy and the union will fight them with all our might.

As with all things in life, there is a right road and a wrong road for the Postal Service. It is crucial that we choose the path that leads to a solid future for letter carriers and their families, for the U.S. Postal Service and for the American people we serve. This issue of *The Postal Record* offers a series of articles designed to help members understand the choices the Postal Service is facing and the options it is considering.

Shock and Awe

THE POSTAL SERVICE DROPS ITS 10-YEAR ACTION PLAN

Postmaster General Jack Potter seemed to pull a page from the playbook of former Defense Secretary Donald Rumsfeld when he rolled out the Postal Service's "action plan" for the next 10 years on March 2. Like the initial assault on Baghdad in 2003, the PMG's seminar/news conference was an exercise intended to "shock and awe" the audience with its jaw-dropping projections of mail volume down by 27 billion pieces and deficits totaling \$238 billion over the next decade.

He certainly rolled out the big guns—hired guns, in fact, from McKinsey and Co. and the Boston Consulting Group—to lend gravitas to the proceeding, and then went on a media tour to hammer home his message. For the next couple of weeks, the airwaves and newspapers were full of stories (and opinions) about the crisis facing the Postal Service. That's not necessarily a bad thing—we do need to focus the public on the challenges facing the Postal Service—but there's little doubt about the immediate goal of the presentation: To scare the Congress (and perhaps postal employees) into sheepish acceptance of the misguided plan to eliminate Saturday delivery and collection services.

NALC reacts

NALC's reply has been simple and direct: Not so fast, Mr. PMG. Let's not make things worse with panicked decisions based on long-term projections that are almost by definition unreliable.

It's true that many types of letter mail will continue to be replaced by electronic alternatives, but the ability of economists and business consultants to predict future economic growth or mailers' business activity is extremely limited (see "Can you believe a \$238 billion loss?," page 12). Even the best

"experts" can't predict what will happen three or six months from now, much less five or 10 years from now. McKinsey and BCG's work needs to be examined, but even if their predictions miraculously turn out to be true, eliminating Saturday delivery is a terrible idea (see "Five reasons to oppose five-day delivery," page 11).

As NALC President Fred Rolando made clear to reporters who called for the union's reaction to the USPS plan and in letters to the editors of both *The Washington Post* and *The New York Times* (see page 15), the NALC agrees with and can support much of the USPS plan. Many of the actions, described below, make sense—so long as the NALC and the Postal Service work together through the collective bargaining process. But cutting service is penny-wise and pound-foolish and likely to do more harm than good. That was the message of the letter Rolando sent to every letter carrier in America on March 17, just before the PMG sent every postal employee a postcard advocating the move to five-day delivery. (The president's letter is on NALC's website, nalc.org.)

Not a 'done deal'

Far from being a "done deal," the decision on six-day service will actually be made by Congress, starting in the appropriations committees and in our oversight committees. The appropriation committees matter because the requirement to maintain delivery frequency "at



1983 levels” cannot be found in the Postal Reorganization Act of 1970 or the Postal Accountability and Enhancement Act of 2006. Rather it is renewed on an annual basis in a small appropriations bill that makes reimbursements to USPS for free mail for the blind and postage for overseas voting contingent on continuation of six-day delivery. (President Obama’s endorsed the continuation of six-day delivery by including the language in his proposed 2011 budget.)

Since the new session of Congress got underway in January, NALC’s Legislative and Political Affairs Department has focused both our professional and grassroots lobbying on these key committees. President Rolando has filled his calendar with personal visits to dozens of lawmakers. “But it will take more than the NALC’s first class legislative staff to convince Congress to reject the elimination of Saturday delivery in favor of better solutions, like fixing the grossly unfair and onerous retiree health pre-funding provisions of the law,” Rolando said.

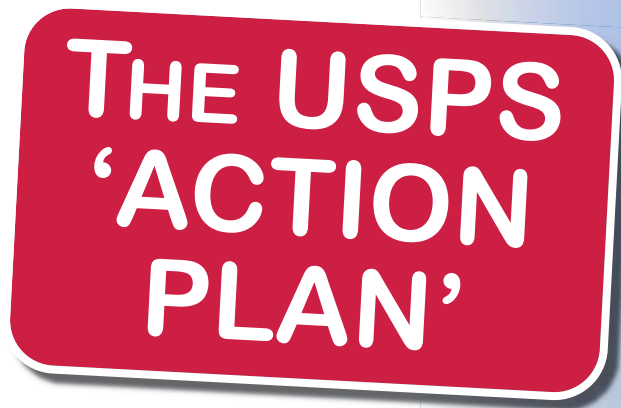
“At the very least,” he added, “Congress should expose the Postal Service’s

plan to close scrutiny, wait until the PRC (Postal Regulatory Commission) has completed its mandatory review of the USPS proposal to end Saturday services and let the next round of collective bargaining address the issues before taking any radical action to slash services and postal jobs.”

On March 18, NALC submitted a statement to Illinois Sen. Dick Durbin’s subcommittee on Financial Services and General Government, which has jurisdiction over postal appropriations bills. The statement is posted on the legislative and news pages of the website. Later this month, President Rolando expects to testify before the House Government Oversight and Reform Committee on the issues facing the USPS. The Government Accountability Office, an investigative arm of Congress, is working on its own study of the Postal Service’s future business model. NALC will vigorously defend the interests of letter carriers and the future viability of the Postal Service at that hearing and every other opportunity in the weeks and months ahead. ☒

The NALC Executive Council, led by President Fred Rolando, discussed President Obama’s health care reform plan and other topics important to letter carriers during its meeting in Washington the third week of March. On Friday, March 19, the Council voted unanimously to endorse the proposal, which won final approval in the House on Sunday, March 21, on a vote of 219-212. The president signed it into law two days later. “Every American will benefit from this legislation, not only the 32 million who will now be able to get health insurance, but all of us, by controlling the escalation of health care costs,” President Rolando said. “That will help the Postal Service’s bottom line and help letter carriers at the bargaining table.” While the final version of the legislation is not perfect, it represents a major advance for letter carriers and all working Americans, Rolando said. See the May *Postal Record* for more on the reform measure and its impact on NALC members.





THE USPS 'ACTION PLAN'

The Postal Service action plan, “Ensuring a Viable Postal Service for America,” is based on a 15-34 percent decline in mail volume between now and 2020. The plan aims to forestall massive losses that would occur if the Postal Service, Congress and the postal community *did nothing* in response to the crisis. As unlikely a scenario as that is, carriers should know what the Postal Service has proposed—some of which it can implement on its own (new efficiency measures), and some of which Congress must authorize (five-day delivery).

Here is a summary of the plan, which can be found in full on the NALC website, nalc.org.

Reforming retiree health benefits pre-funding. The Postal Service calls on Congress to reinstate pay-as-you-go financing for future retiree health benefits and to correct errors made by the Office of Personnel Management when it calculated the postal surplus in the CSRS fund. That surplus was transferred to the postal retiree health fund in 2007, but OPM shortchanged the USPS by \$75 billion. These steps would save the USPS at least \$8 billion per year and provide breathing room to develop new services and, if need be, a new business model. NALC supports this proposal, but believes OPM must also correct its estimates of future retiree health costs, taking into account the reduction in postal employment and using lower, more reasonable assumptions on health inflation trends.

Delivery frequency. The USPS proposes eliminating Saturday collection and delivery services to save \$3 billion per

year. The Postal Regulatory Commission disputed the potential savings in its universal service study in December 2008, concluding that \$1.9 billion is a more realistic figure. Neither study, however, adequately assessed the loss of business that would occur over time as slower, reduced service diminished the value of mail. NALC strongly opposes this proposal (*see “Five reasons to oppose five-day delivery,” page 11*).

Expand access. The Postal Service wants to modernize the way people interact with its retail networks, shifting away from 9 a.m.–5 p.m. post offices in favor of Internet sales and kiosks located in high-traffic department stores, malls and business districts. While NALC supports making it easier for customers to transact business with the Postal Service, it should also seek ways to expand the range of products and services available at our nation’s post offices, which often serve as vital community centers.

Workforce flexibility. The Postal Service anticipates 300,000 retirements over the next 10 years and proposes to replace departing workers with a more flexible, part-time workforce by working with its unions and management associations. NALC is prepared to negotiate in good faith at the bargaining table over all workforce issues. We will seek win-win solutions that will reconcile our interest in good jobs with the Postal Service’s mission to serve the American people. But we will resist mightily any attempt to



legislate terms and conditions or otherwise evade normal collective bargaining.

Pricing reform. The PMG is asking Congress to reform the price indexing system that governs non-competitive products. Rather than apply the Consumer Price Index-based cap to each class of mail, the USPS wants the cap to apply to market-dominant products as a whole. This would give it the flexibility to adjust rates according to supply and demand and ensure that the USPS could maximize revenue. NALC is open to discussions about this proposal.

Expand products and services. The Postal Service will seek to expand the narrow definition of acceptable “postal” products in the current law. This would allow the USPS to generate revenue to

replace letter mail volume lost to electronic diversion while meeting the evolving needs of American citizens and businesses. NALC will aggressively support this proposal and is committed to engaging with the Postal Service’s top management to develop and expand new services, including financial services, services for state and local governments, and products for small and home office-based businesses.

Oversight reform. The USPS will seek greater freedom to develop new products and price them appropriately with fewer restrictions than currently exist in the law. The conflicting roles of the Congress, the PRC and the USPS Board of Governors would be streamlined. NALC is open to discussions about this proposal. ☒

No need to cut service

Postmaster General Jack Potter told Congress last month that recovering the \$75 billion USPS has been overcharged for the Civil Service pension fund could essentially solve the Postal Service’s financial crisis, eliminating the need for draconian measures like cutting delivery days.

Here is Potter’s exchange with Sen. Richard Durbin (D-IL) during a Senate Appropriations subcommittee hearing March 18 (find the video on nalc.org):



Sen. Durbin: The Inspector General says you have overpaid \$75 billion into the Civil Service Retirement System. If this is accurate, could you use this as a source for retiree health benefits and some of the other economic issues you’re facing?

PMG Potter: Yes, sir.

Sen. Durbin: ...Are you trying to recover the \$75 billion?

PMG Potter: ...We are working and have appealed to OPM and OMB to re-open this very matter. If it were to happen, it would literally, I think, we would be

almost fully funded on our retiree health benefits trust fund.... It would take a lot of pressure off. If that were to happen we wouldn’t have to go to six-, to five-day delivery.

Sen. Durbin: ...You’re saying that if the \$75 billion is found you wouldn’t have to cut the frequency of service?

PMG Potter: Right.



FIVE REASONS TO OPPOSE FIVE-DAY DELIVERY

The Edsel. Xerox's give-away of mouse technology to Apple. New Coke. The AOL-Time Warner merger. These are some of the biggest business blunders in American history. Is the Postal Service on the verge of joining this list with its proposal to eliminate Saturday collections and delivery? Let's hope not. Here are five reasons to oppose five-day delivery:

1. It's penny-wise and pound-foolish.

Saturday delivery is the Postal Service's key strategic advantage over its private competitors, UPS and FedEx. Giving away our most important comparative advantage in the one area of the postal market that is likely to grow when the economy recovers—e-commerce package delivery—would be very risky. Over time, the loss of revenues would outweigh the short-term savings.

2. It will drive customers away.

Slower service—letters mailed on Friday nights would not be picked up until Monday morning or Monday afternoon—and less frequent delivery is likely to accelerate the shift to electronic invoicing and electronic bill paying. Booming businesses like mail order prescriptions would be threatened. Reduced service would also threaten one of the fastest growing segments of the mail—Parcel Select—as UPS, FedEx and other consolidators would reconsider their use of last-mile delivery services by USPS letter carriers.

3. It would prompt the emergence of new competitors.

If the Postal Service doesn't deliver on Saturdays, other companies will step in to fill the void. Within days of the Postal Service's March 2 announcement, multiple press accounts quoted executives from niche delivery firms welcoming the news. Many companies would view the Postal Service's exit

from Saturday delivery as a business opportunity. Once established, competitors will demand a "level playing field" and ask Congress to open the nation's mailboxes to their services, making it impossible to enforce the monopoly and maintain affordable universal service.

4. It would set a bad precedent. Once the language requiring six-day delivery is repealed, there would be no legal barrier to prevent the Postal Service from reducing delivery days further, from 5-day to 4- or 3-day delivery. Indeed, *Business Week* magazine called on the Postal Service to shift immediately to 3-day delivery within days of the Postal Service's announcement of its action plan. That would not only destroy half our jobs, but also likely lead to a death spiral for the Postal Service—less service leading to less mail volume leading to less service, and so on.

5. It's not necessary. The Postal Service has hidden financial strengths, with fully funded pension plans and, if the accounting is done properly, fully funded retiree health benefits. If we can convince Congress and the administration to fairly allocate pension costs and correct the \$75 billion error made by the OPM when it established our retiree health fund, eliminating Saturday delivery would not be necessary. Postmaster General Jack Potter acknowledged as much at a March 18 hearing before a Senate Appropriations subcommittee. "If that [recovering the \$75 billion and applying it to future retiree health care] were to happen," he said, "we wouldn't have to go to six-, to five-day delivery." ✉

CAN YOU BELIEVE A \$238 BILLION LOSS?

Over its 235-year history, the Postal Service has been at death's door countless times. With each new generation has come a new technology (telegraph, telephone, fax, EFT, e-mail) that inspired predictions of doom for the mail. But, as Yogi Berra supposedly said, "Making predictions is hard, especially about the future."

Keep that in mind when considering the mind-boggling 10-year financial loss bandied about in the Postal Service's action plan: \$238 billion! Even in Washington, that is a huge sum of money. And that's the amount that the USPS says it will lose if we do nothing to alleviate the current crisis. *If we do nothing.* Of course, *we are not going to do nothing.* But there are other reasons to take this prediction with a huge grain of salt.

First, underlying the financial forecast are two predictions that by definition are deeply speculative. One concerns the future level of economic growth and the other concerns mail volume current mailers expect to generate in the future. Economists are notorious for being unable to predict inflation, unemployment, growth or any other indicator beyond the next quarter, much less over a decade—we simply cannot know. The McKinsey and BCG consultants used by

the Postal Service for its report can't know either. And even the most savvy corporate mail managers are bound to be influenced by the worst recession in 80 years when quizzed about the future of mail today.

There is no doubt that the Internet is the real deal. It really is replacing traditional letter mail. But that need not spell the end of the Postal Service. New types of mail and new uses of our unmatched last mile delivery network are being developed every day. Big customers like eBay, Netflix, CVS/Caremark and others rise and fall with varying demands for delivery. The USPS may be shrinking for the foreseeable future, but we can begin to grow again as new uses of the mail are invented. In short, the future does not have to be bleak.

Rather than fixating on a number, even one as big as \$238 billion, the postal community should focus its short-term attention on reforming the pre-funding provisions for retiree health care—the step that would do the most to help stabilize the Postal Service. Making a rash and risky decision to radically reduce service based on a speculative long-term forecast is the worst thing we could do. ☒

President Rolando thanked the attendees for coming to Washington to lobby their congressional representatives on letter carrier issues. Pictured (from l) are Director of Safety and Health Brian Hellman, Assistant Secretary-Treasurer Nicole Rhine, Vice President George Mignosi, Executive Vice President Gary Mullins and Rolando. Opposite page: Director of Health Benefits Tim O'Malley, Region 12 National Business Agent Bill Lucini, Region 15 NBA Larry Cirelli and Director of Life Insurance Myra Warren.



NEW JERSEY CONGRESSIONAL BREAKFAST



New Jersey letter carriers came to Washington March 9-11 to lobby their representatives on, among other things, the importance of preserving both the Postal Service and universal six-day service. To help wrap up a day of meetings on Capitol Hill, Garden State Sen. Robert Menendez addressed the NALC activists during Wednesday evening's rap session (above). A number of labor-friendly House members were on hand for Thursday morning's congressional breakfast: (l-r, from top) Donald Payne (D-10), Bill Pascrell Jr. (D-8), Rush Holt (D-12), Rodney Frelinghuysen (R-11).



Rep. John Adler (D-3) addresses the audience, as New Jersey State Association President Tony Massa listens.

BELIEVE IT OR NOT

STUMBLING DOWN THE SLIPPERY SLOPE OF DECREASING DELIVERY DAYS

Believe it or not, some letter carriers actually support the proposal to eliminate Saturday collections and delivery. For some, it's the legitimate desire to have weekends off like so many other American workers do. For others, it is the misconception that reducing service will improve the Postal Service's bottom line—which it might modestly do in the

short run by cutting costs, but which it will not do in the long run as more mailers are turned away by slower delivery times and less service. But the implications of ending six-day delivery go far beyond narrow financial matters. Let's imagine what could happen if the Postal Service recklessly starts down a slippery slope...

DELIVERY DAYS

ACTION

REACTION

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Congress repeals the requirement that six-day delivery and rural delivery of mail shall continue "at not less than the 1983 level" from the annual appropriations bill that pays for overseas voting and free mail for the blind.

With no minimum legal requirement for the frequency of mail delivery, USPS announces the end of Saturday collection and delivery. It eliminates 25,573 carrier-technician positions, 6,320 TE positions, and makes plans to cut another 20,000 jobs held by carriers and other postal employees.

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As predicted by a Morgan Stanley industry advisory that "elimination of [USPS] Saturday delivery could offer market share and pricing opportunities for private carriers," FedEx and UPS begin offering flat-rate shipping modeled after Priority Mail with a Saturday delivery option.¹ With USPS on the sidelines, the big private shippers set prices at profit-maximizing levels; other niche, same-day delivery firms, such as Naparex and Pak Mail, enter the Saturday delivery market.

USPS' Priority Mail business suffers dramatic volume losses and begins to lose customers entirely. Niche delivery companies begin to offer new services on Saturday. Pak Mail Manager Dinesh Rajani notes that the Postal Service's move offers "great benefits because most of [our] customers are available on Saturdays," adding that "we would probably just advertise more and put on our web site that we're open Saturdays." Scott Gallagher, a partner at the national same-day delivery company Naparex, promises to "capitalize on the opportunity to provide same day delivery services to both businesses and consumers once the USPS pulls out with their Saturday delivery service."²

4

The Postmaster General announces elimination of Thursday delivery, reporting that moving to five-day delivery has failed to generate the expected \$3 billion in annual savings. He acknowledges the loss of Priority Mail revenue and an accelerated shift to online bill paying, since the absence of Saturday collections has slowed service and caused a spike in late fees charged by credit card companies and other businesses, especially during weeks with Monday federal holidays.

Private companies expand their operations with low-wage, no-benefit part-time workers to offer delivery services on days the Service does not deliver. Cream-skimming competition in high-income urban and suburban zones begins to take more volume from USPS and advertising mail is siphoned away. The new competitors begin lobbying Congress for access to Americans' mailboxes, calling for the repeal of the statute that gives USPS exclusive access to residential mail receptacles. The Service lays off more workers and, in contract talks, demands more part-time and contingent workers.

The New York Times

To the Editor:
Re "Saving the Post Office" (editorial, March 10):

No business ever bounced back to health by rushing to offer slower service and turning customers away. Yet that's the advice you give to Congress for saving the United States Postal Service.

Eliminating Saturday delivery would send the wrong message to both citizens and businesses, that this public service is about to get a lot worse. That alone could push away many mailers, including movie and video game distributors, prescription drug companies and magazines.

We agree that the Postal Service needs more flexibility to provide new services and win new revenues. But the single most important step Congress could take immediately is to reform the mandate to pre-fund future retiree health care obligations. An inspector general's report in January showed that the Postal Service could fully fund those obligations for the long term if it could tap its \$75 billion surplus in the Civil Service retirement fund.

The Postal Service has adapted remarkably well during this economic crisis. If not for the advance payments for retiree health insurance, mandated by Congress just before the recession hit, the Postal Service would have made money over the last three years.

The worst thing Congress could do is allow it to drop Saturday delivery instead of fixing the pre-funding problem. That course would damage the long-term prospects for the Postal Service and destroy another 50,000 good jobs, just when officials are scrambling to create more.

Fredric V. Rolando
President, National Association
of Letter Carriers
Washington, March 11, 2010

DELIVERY DAYS

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REACTION

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With volume falling further, the Service is forced to dramatically raise rates and eliminate Tuesday delivery. In the wake of demands to let "free enterprise work," Congress repeals the mailbox statute as the National Federation of Independent Businesses and the U.S. Chamber of Commerce convince the pro-business majority to repeal the law.

A flood of new competitors emerges, further eroding postal revenue, while traditional mailers cut back even more in response to slower service and higher rates. Postal losses mount and Congress holds hearings on collective bargaining amid attacks on the cost of postal employee health benefits and pensions. UPS and FedEx, citing lack of daily coverage on half the delivery routes in the country, discontinue their Parcel Select products involving last-mile delivery by USPS.

2

Congress enacts a new postal law that repeals the private express statutes, discarding the monopoly that helped finance universal service for more than a century. In the new deregulated market, the Service abandons uniform national pricing and announces elimination of Friday delivery in anticipation of many local competitors in the newly deregulated postal market.

The postal workforce, now mainly part-time, contract workers, deteriorates in quality as the inability to earn a living with so few hours leads to massive turnover and heavy recruitment and training costs. Postage rates skyrocket in rural areas and lower-income urban areas as more and more mailers abandon the postal system altogether. FedEx and UPS demand that USPS exit the package delivery market, citing its inability to compete with private delivery firms. Calls for privatization mount as further employment cuts cripple the quality of service.

1

Congress orders USPS to discontinue parcel delivery and opts to mandate the delivery of mail on Saturdays only in the face of falling mail volume. Privatization is rejected on the grounds that Wall Street cannot find any buyers for a failing company.

The Postal Service sheds even more employees and calls on Congress to allow it to void its existing labor contracts in favor of part-time, one-day-a-week contract delivery workers. Parcel and package delivery becomes exorbitantly expensive in most of the country outside of densely populated urban areas. The USPS ceases to exist. ✉

Notes:

1. *Morgan Stanley Freight Transportation Industry Review* newsletter, August 14, 2009.
2. "Some Competitors Hope to Capitalize on Proposed Cessation of Saturday Mail Delivery," *Medill Reports*, March 12, 2010.