Finding a brighter future

The mail in 2010 and beyond

YOU'VE HEARD THE QUESTIONS. MAYBE FROM a patron, maybe from your annoying brother-in-law. Maybe, even, from a worried son or daughter. Are they going to get rid of mail on Saturday? Isn't the Internet taking away all the mail? Is the Post Office going to make it?

As much as we all would like to know the future, it's always hazy. That is certainly true for the future of the U.S. Postal Service—business projections are grim, the economy is only slowly reviving from the recession, diversion of revenue-rich mail continues.

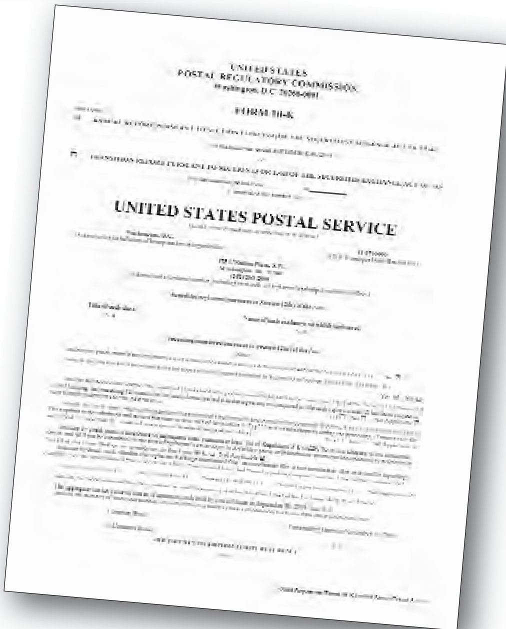
But the future has not been written. History shows that we can influence the way institutions change and grow, just as NALC members have for 120 years. Who, for instance, could have envisioned the strong middle class lifestyle of letter carrier families today before the 1970 wildcat strike?

If we are going to exercise some control over our future, we need to be informed, open-minded, ready and willing to act. On the following pages are articles designed to create a foundation for our thoughts and actions as we reach out into the years to come: the current state of the Postal Service; a vision from NALC President Fred Rolando of a different, full-service Postal Service; a review of the experiences of postal service abroad.

Finding a brighter future will not be easy.

Together, we can.

USPS report reveals outlook remains grim



Every letter carrier knows that mail volume is down. We see it every day. But that reduced satchel-load describes not just a worrisome present, but foretells an ominous future as well.

Mail volume has long been considered a "leading indicator" of economic activity—movements up or down serve to predict the direction of the economy. The numbers show that it began to decline in late 2006, even before the recession hit in 2007. Unfortunately, mail volume is also considered a "lagging indicator." So don't expect it to begin growing again for some time, despite signs of a modest economic recovery taking hold.

The Postal Service does not expect mail volume to bottom out until next year—following the record loss of 25 billion pieces (down 12.7 percent) in 2009, the Postal Service is predicting a loss of an additional 10 to 15 billion pieces in fiscal year 2010. That means another very difficult year for the Postal Service.

That's the key message of its "10-K" filing—a report the Postal Accountability and Enhancement Act of 2006 made an annual requirement. The report, released in late November, makes it clear that the Postal Service's condition remains fragile. *Déjà vu*—we're facing the same problem we faced a year ago this fiscal year with a required \$5.6 billion payment due to pre-fund future retiree health benefits (as dictated by the PAEA). With this payment in mind, the USPS is again projecting a \$7 billion loss and the need to max out its \$3 billion authority to borrow. Such a loss was also projected for 2009, but NALC's successful effort to pass a one-year version of H.R. 22 sliced that amount by \$4 billion last year.

"It's absurd," President Fred Rolando said. "The law is forcing the Postal Service to borrow \$3 billion from the Federal Finance Bank to send back to another part of the government, the Office of Personnel Management. And they just park the money in a fund for expenses to be incurred decades from now—even though the USPS is struggling to survive this crisis and has already put away more money than any major company in America for future retiree costs."

The Postal Retiree Health Benefits Fund at the OPM stands at nearly \$35 billion, at a time when no other American firm is required to pre-fund at all, and when very few, if any, are making contributions due to the severe recession.

The 10-K's bottom line is bleak. Even with the economy starting to grow again, volume will continue to decline and the USPS will continue its freeze on new facility construction and cut another 80 to 90 million work hours in the coming year. Figures for October confirmed this outlook: Mail volume was down 17.3 percent compared to a year before, work hours were down 10 percent and the USPS lost \$209 million. The only good news was that stronger-than-expected revenues cut the projected loss by \$170 million.

The bottom line for NALC is also clear: We must convince Congress to find a permanent fix to the pre-funding problem. Devising a more reasonable schedule for USPS payments is essential, as is revising the calculations of the true cost of the future unfunded liability for retiree health benefits—which have been grossly overinflated.

"Our union faces another difficult year," Rolando added. "We are going to have to raise our game once again to meet extraordinary challenges and to protect the long-term interests of America's letter carriers." ✉

USPS weighs options on future business model

"The future need for universal service is not clear." That startling thought underlies postal management's analysis of the future of the Postal Service. It is buried in a new report that reveals the USPS's bias toward cost-cutting and downsizing rather than revenue growth and expansion. The report, the "Assessment of U.S. Postal Service Future Business Model," was issued by the U.S. Postal Service at the end of November 2009, as USPS considers its current health *(see story, page 5)* and the years ahead.

While noting the growth in the number of delivery points, which has continued to rise by 1 to 2 percent annually, the report shows that the average number of pieces per delivery has fallen from 6 to 4.5 pieces between 1999 and 2009. It outlines the many cuts USPS has responded with—most notably, career employment has been slashed from 803,000 to 623,000 since 1999.

For delivery services, the report highlights the impact of DPS, FSS and the alternative route adjustment process negotiated with NALC, measures that have boosted city carrier efficiency dramatically—raising the number of delivery points per city route by 21 percent since 1999 and by 8 percent since 2007 alone. Yet, the report notes that the average volume per route has declined from 1,600 to 1,180 pieces over the past decade.

In full agreement with NALC's long-standing assessment, the Postal Service paper criticizes the requirement, unique to the USPS, to pre-fund future retiree health benefits, explaining that "without this requirement, the USPS would have earned an overall profit of $4 billion between 2007 and 2009." Nevertheless, it maintains that even with a fix for the prefunding problem, mail volume trends and the political hurdles it would have to face to reduce delivery days and close postal facilities mean a future of unsustainable deficits.

Included among this is the speculation that there might not be a future need for universal service.

"As technology continues to drive more customers to alternative access and electronic alternatives, and mail becomes more heavily weighted toward advertising mail, the public's view of what is needed in terms of universal postal service will continue to change," the report states. "There may be a time when a government agency is no longer needed to provide universal service."

Postal management proposals for improving USPS finances

- **Abolish or restructure required payments for future retiree health benefits***
- Eliminate six-day delivery requirement
- **Consistent off-budget treatment of USPS**
- Permit facilities to be closed for solely economic reasons
- Reduce retail outlets, rely more on alternative access channels
- **Diversify/expand product and service offerings**
- Implement demand-based pricing
- **Expand ability to partner with private sector**
- **Provide more non-postal government services**
- Increase workforce flexibility
- Enhance ability to outsource
- Change worker's compensation process

* Bold text indicates NALC support

You can read the full report at:
usps.com/postallaw/futurebusinessmodel.htm

Though quick to note that the country still depends on the Postal Service as a major payments channel and as a vehicle for commerce and communications as well as a provider of many socially valuable services, the report confronts the reality that the traditional uses of the Postal Service are no longer growing. As the report declares: "The underlying presumption of the Postal Act of 2006 was that mail volume would continue to grow. That premise has proven false."

Concluding that "the Postal Service is no longer able to generate enough revenue to cover its costs," the report calls on Congress to develop a new business model for the USPS.

Alternatives outlined

The remainder of the report outlines the options Congress should consider for both improving the Postal Service's finances along with five alternative business models. Among the fiscal options outlined in the table at left are many the NALC can support (such as abolishing or restructuring the retiree health pre-funding requirement and diversifying the USPS's product and service offerings) and many we would strongly oppose (such as cutting delivery days or enhancing the ability to outsource postal work).

These and other options comprise a menu from which Congress might choose to help redefine the business model of the Postal Service.

The five alternative business models include:

- the current model, with greater flexibility over labor costs and operations;
- a return to the pre-1970 Post Office Department model, with significant taxpayer support;
- a delivery-only model that would focus on the USPS's natural monopolies in "first mile" services (collections, retail networks) and "last mile" delivery;
- a liberalized Postal Service that would open the USPS to competition and free it to expand into other services;
- a fully privatized Postal Service.

While the report briefly summarizes the pros and cons of each model (from the Postal Service's point of view), USPS has not explicitly endorsed any of them. Rather, it is calling on Congress to clarify what the Postal Service's future mission should be and to choose the model that will best facilitate its achievement.

To protect the interests of carriers, NALC will have to be a major player in the coming debate. President Fred Rolando leaped into that debate immediately with a major speech on the future of the Postal Service *(see page 7)*, with a vision of growing the business rather than whittling it away. In the months and years ahead, NALC's entire membership will need to get involved in the debate, to take control of our shared future.

"We have a lot to offer Congress and the American people," Rolando said. "Nobody cares more about building a strong and vibrant Postal Service for the 21st century than America's city letter carriers." ✉

Tough challenges,
but USPS has strengths, too

Excerpts from the remarks of NALC President Fredric Rolando in Washington on November 20, 2009, to a Rutgers University Center for Research in Regulated Industries workshop on "The Future of the Postal Sector."

Let me say at the outset, NALC knows the score.

We are facing the worst crisis in the Postal Service since the 1930s. We know that while most of the decline in mail volume in the past two years has been a result of the near-depression in our economy, we also know there is no guarantee that the volume we have lost will come back....

We face two other tectonic forces in the postal sector the relentless drag of electronic diversion of financial mail and the rising concerns about the environmental impact of bulk mail.

Our children will not use the mail the same way we have used it, or the way our parents used it. While this does not preclude the development of new uses of First Class Mail to replace billing and transactions, it does pose an ongoing threat to the Postal Service's fiscal viability. And while the negative impact of advertising mail on the environment has been grossly exaggerated, it would be folly to ignore the powerful forces gathering to build a greener economy. We would have to come to grips with both these forces, even if the economy were not on life support.

NALC strongly opposes the elimination of Saturday delivery. Of course, for us, it is a matter of jobs. No surprise there. But more than that, we are deeply skeptical about the accuracy of the projected $3.8 billion in cost savings the Postal Service has promised with a move to five-day delivery—a skepticism shared by the Postal Regulatory Commission in its universal service cost study.

The USPS has not adequately considered the inevitable loss of business and revenue that would occur as a result of reducing service and the impact of diminishing the value of the postal network on companies like eBay, Netflix and Medco and others that will develop in the future when the economy recovers.

Other alternative savings should be explored first. Most notably, the Congress should move quickly to provide long-term relief from the onerous cost of pre-funding future retiree health benefits required by the Postal Accountability and Enhancement Act....

...[T]he Postal Service has been placed on a death march to excessively pre-fund retiree health benefits over the next seven years in the middle of the worst economic crisis in 80 years. That's madness.

Before Congress even considers giving the Postal Service the authority to eliminate Saturday delivery, it should fix the pre-funding problem.

If Congress does its part to help us overcome this crisis, we will do our part. Over the past two years, NALC has stepped up to the plate to help the Postal Service adjust routes and cut costs in reaction to declining volume.... In the months ahead, we will continue to be a responsible and reliable partner at the bargaining table. NALC is absolutely committed to the long-term viability of the Postal Service.

[W]e can't downsize ourselves to health; we must have a strategy on the revenue side of the equation as well. Finding new uses of the mail and new uses of our network is crucial to a viable future. As we begin to think about new services, we should recognize that the Postal Service has tremendous strengths it can build on....

NALC President Fred Rolando (r) during his presentation to the Rutgers University Center for Research in Regulated Industries. Michael Crews (l), director of the center, invited Rolando to the workshop.

One, we maintain unmatchable networks. First and foremost, of course, is the last mile delivery network that connects 150 million households and businesses six days a week. But we also have an excellent retail branch network as well as a comprehensive logistics network. Right now, these networks are dedicated to postal products only. They are underutilized and could become much more useful...if the Postal Service had the freedom to expand services in ways that would help keep postage rates low and serve unmet needs. The economies of scope and scale that could be exploited are enormous.

Two, our last mile delivery network has been significantly upgraded in recent years with the deployment of sophisticated scanners and the arrival of the Intelligent Bar Code. It makes no sense to downgrade this network before giving technology companies the chance to help exploit it in ways that will generate new business and achieve greater environmental sustainability.

Third, the Postal Service has the trust of the American people and of American businesses.... This is not just because we provide high quality service with the most affordable rates in the world.... It is also because we already do so much more than deliver the mail. Anyone familiar with the Carrier Alert program or the NALC Heroes program or the annual NALC-Postal Service Food Drive knows this. We could build on this tradition by focusing on the delivery of new civically and environmentally useful services—services that state and local governments would strongly support.

Fourth, despite the difficult economic times, the Postal Service has hidden and unappreciated financial strengths. Unlike the pension plans of the vast majority of major American companies, the Postal Service's two main pension systems are fully funded. And even if we accept the flawed accounting of the OPM with respect to future retiree health liabilities, the USPS has set aside funds to cover 40-50 percent of these costs....

Finally, setting humility aside for the moment, the Postal Service has the National Association of Letter Carriers as a partner.... Going forward, NALC will seek to negotiate agreements that will both protect the interests of our members and build a prosperous and growing postal industry. Letter carriers want to help American businesses grow while serving the needs of citizens across the country.

Let's imagine what the Postal Service might look like in November 2020.

It's the 10th anniversary of PAEA II, the postal reform law that amended the Postal Accountability and Enhancement Act of 2006.

Thanks to the new law's Vote by Mail provisions, letter carriers all over America are delivering voter information packets on the hundreds of ballot initiatives before the voters, along with Vote by Mail ballots that have boosted voter participation rates to above 75 percent.

The Postal Service's Last Mile Express subsidiary, a joint venture between the USPS, Costco and Google, has expanded beyond its Saturday guaranteed delivery product to offer a Wednesday night service for mid-week residential delivery. It has broken into the Fortune 500 while the Postal Service's expanded Parcel Select service has generated billions of dollars in carbon credits for FedEx and UPS under the landmark climate change legislation also passed in 2010.

The USPS's National Green Bank, or NGB, authorized by PAEA II to give life to the national infrastructure bank proposed by President Obama, has grown to more than 20 million accounts with $100 billion invested in green bonds issued by the National Infrastructure Board to finance home and office energy retrofitting programs, high-speed rail and other clean energy projects, including a project to replace the entire postal vehicle fleet with electric and natural gas-powered vehicles. The NGB is also providing low-cost remittance services to tens of thousands of American residents each day.

Letter carriers are fulfilling orders for shipping materials and office supplies from the more than 18 million small home-based businesses on their routes, working in partnerships with companies like Office Depot and Staples.

More than 10 million Americans have signed up for a USPS Twitter monitoring service, receiving messages from carriers who briefly check in on their elderly relatives once a week.

Sound far-fetched? Certainly, the timing of PAEA II is doubtful...but the rest of it need not be.

The Postal Service has continuously evolved over the last 200-plus years to meet the emerging needs of the country. Its growth has always depended on adding new functions while fulfilling the old functions as long as they are needed. In this way, our past can be an inspiration for what comes next.

In the next few years, the postal industry will have to imagine and fight for a viable future. For our part, NALC will seek to work with industry stakeholders on Capitol Hill and with the Postal Service at the bargaining table to make it all possible. If we can convince the Postal Service and the Congress to work with us, I am absolutely confident we can succeed. ✉

Around the globe, postal changes deliver less than promised

As long-time NALC members can attest, for decades there has been a drumbeat—sometimes distant, sometimes nearly deafening—from political conservatives and free-enterprise fanatics to deregulate the U.S. Postal Service and to let private competitors deliver mail. In the midst of the recession, the USPS is struggling and proponents of dismembering the Service are expected to step up the attacks. Precisely because of its financial troubles, they say, the Postal Service should be broken up, with the juicy parts going to the private sector and the universal service burden dumped on the withering shell left behind.

Of course, the NALC and its many allies in Congress strongly disagree. And while there's no way of guessing the twists and turns ahead in this debate, it's certain that the privatizers will argue that other governments have abandoned their postal monopolies and the United States should, too.

Now, there is new evidence of the flaws in that argument.

Late last year, UNI Global Union, the international federation of postal and communications unions of which NALC is an active member, published a global study on the impact of "liberalization" in the postal industry. The UNI report could not have come at a better time, with the future of the USPS a hot topic not only in Congress but also in kitchens across the country.

Despite the calls for drastic change in our postal systems from right-leaning "experts," the UNI report shows that postal liberalization—throwing open the postal sector to private competition—has failed to live up to its promises.

In the past two decades, a number of countries have shifted away from the traditional model of a single national postal operator and opened their postal markets to varying degrees to private, for-profit companies. The European Union is infatuated with the idea and all 27 member states are required to fully liberalize their postal markets by 2013.

Some countries, including Sweden and the Netherlands, completely privatized their postal services. While neo-conservatives herald these developments as victories for free-market economics, the results of the changes have been disastrous—both for postal workers and for users of the mail.

Impact on postal workers

Postal employees are undoubtedly the first to feel the effects of liberalization. In an industry that has traditionally provided solid, middle class work opportunities the world over, liberalization has caused massive job loss, driven down wages and worsened working conditions.

UNI's report contains many first-hand accounts of the effects postal liberalization has had on postal workers. This is a Dutch letter carrier's story:

"I am a single mother with two school-going children. I am entitled to welfare but I became a mail deliverer for Selekt Mail and Sandd [two of the largest private mail companies in the Netherlands].

"If I calculate correctly, I earn approximately three euros (about $4.50) per hour. I do not believe that I am insured through the companies. And now, I am hoping that nothing will happen when I am working. I would be in real trouble if that were the case."

Unfortunately, her experience is not rare where postal services have been liberalized. In Germany, employees at Deutsche Post, the successor to its

Flying colors

USPS earns A+ in efficiency, integrity

An informal test of the efficiency and integrity of the Postal Service conducted by an Indiana newspaper resulted in a grade of A+ for the post office.

Over a three-month period last fall, *The Northwest Indiana Times* mailed 200 letters both to and from a number of points throughout its tri-state coverage area, which covers a sort of U-shape around the southern portion of Lake Michigan between Racine, Wisconsin, and Kalamazoo, Michigan, with Gary and South Bend, Indiana, as well as Chicago, along the way.

The goal of this admittedly unscientific survey was to find out if the USPS is still reliable and trustworthy despite falling mail volumes, declining postage revenue and a shrinking workforce. And to make the experiment a bit more interesting, the paper placed cash in half the letters—a practice generally frowned upon—and gift cards in the other half.

Thanks to the men and women who do the work of collecting and delivering the mail, the USPS aced the test. According to the *Times,* every one of the 200 letters arrived at its destination quickly, with contents intact and in "pristine condition."

"I don't think that's any surprise," said NALC President Fred Rolando. "Throughout our history, we've provided top-notch service to our customers, in good and bad times."

"Carriers really help hold communities together. People know we're dependable," Rolando added. He pointed out, for example, that letter carriers were back on the street immediately following the terrorist attacks on September 11, 2001, and were delivering mail along the hard-hit Gulf Coast just days after the devastating hurricanes of 2005.

The Indiana paper's results underline the findings of the Ponemon Institute's most recent security survey, which ranked the Postal Service among the top three most trusted companies for protecting people's privacy—and the only government agency to rank in the survey's top 10 *(see the October 2009* Postal Record*).* ✉

national operator, saw their wages cut by about 30 percent after privatization in 1995. Among its competitors, 58 percent of employees earn less than an average of $580 per month. With such downward pressure on wages, the middle class jobs once enjoyed by German postal workers are being squeezed out of existence.

In the Netherlands, thousands of workers at Selekt Mail and Sannd go without sick leave or disability insurance and work as part-time contractors, not full-fledged employees. These mini-jobs are becoming more common as the number of full-time positions plummets in liberalized postal markets. For instance, Japan Post now employs more casual workers than full-time employees.

Effects on service

It will be no surprise to NALC members to learn that a poorly paid, casual workforce has had major effects on service quality. One former Dutch carrier, who was paid a mere pittance per piece delivered, remarked, "If I had to bike 20 minutes there and 20 minutes back to deliver my last letter and this for less than a nickel, I just looked to see if the letter was important. Usually, it wasn't, so I dumped the letter in the ditch."

Another risk of postal liberalization is that new competitors in the postal market will focus their efforts only on the most profitable sections of the industry. This is cream-skimming or cherry-picking—delivering only high-profit mail in volume-dense areas where it is relatively inexpensive to do so.

In the United Kingdom, competitors have driven Royal Mail into turmoil by capturing the most profitable mail by undercutting pay and benefits. It is estimated that their cream-skimming pulls as much as $150 million from Royal Mail each year. And as for the British customers? An independent study concluded last year that there have been no significant benefits from liberalization for small businesses and domestic consumers.

Reversing course

Although the European Union is still on the path to full liberalization in 2013, two other countries have reversed course on their decisions to liberalize and privatize their posts. While the market remains liberalized, in 2003 the Argentinean government reclaimed ownership of the post it had privatized seven years prior. Total employment and wages have each increased since returning to government ownership.

Last December, the Japanese parliament voted to halt the full privatization of Japan Post. The government said the post will again be a guaranteed government service and will scale back the practice of hiring of only part-time workers.

It is no secret that the U.S. Postal Service is facing a crisis unlike any in its history. While the Postal Accountability and Enhancement Act of 2006 addressed a number of the Postal Service's challenges, it is clear that more needs to be done, from the issue of pre-funding retiree health benefits to giving the USPS more commercial elbow room. The arguments in other countries when their postal markets were liberalized will be an important part of the context as Congress considers the next round of postal reform.

Lawmakers also will receive guidance from a number of sources. A Postal Regulatory Commission study offered support for the monopoly and a strong universal service obligation but acknowledged that changes may be necessary. A report from the Government Accountability Office on possible future business models for the Postal Service is expected in the spring.

NALC participated in both studies and has been actively communicating with congressional leaders. At every occasion, the union has cautioned decision-makers against the disastrous mistakes made abroad. Instead of service cuts or other measures that would weaken the Service, the focus must be on growing and strengthening the business. While the going may be tough right now, there is no question the U.S. Postal Service is the best in the world. Embracing "liberalization" would only jeopardize that standing. ✉

For more on the international perspective, visit UNI's website, uniglobalunion.org.