With USPS under scrutiny, Rolando testifies before Issa's House committee

Hearing photos by Marty Katz/washingtonphotographer.com

NALC President Fredric Rolando (r) testified on April 17 at a House Oversight and Government Reform Committee hearing. The chairman of the committee, Rep. Darrell Issa (above), used the hearing to press for the Postal Service to eliminate Saturday delivery, despite the law.

On April 17, NALC President Fredric Rolando testified on Capitol Hill before a House Oversight and Government Reform Committee hearing on the Postal Service's financial situation.

The hearing started with several representatives accusing Postal Service Board of Governors Chairman Mickey Barnett of backing away from USPS' announced plan to reduce the number of delivery days each week from six to five beginning in August because of intense pressure, including from postal unions.

But under closer questioning from lawmakers, Barnett and Government Accountability Office Comptroller General Gene Dodaro made it clear that the decision not to unilaterally reduce the delivery schedule resulted from the need to follow the law—specifically, federal appropriations bill language dating back more than 30 years that required the Postal Service to deliver the mail six days a week.

Barnett also provided some instances of levity during his hearing testimony. Several times, after a congressman asked him a question about the Postal Service, Barnett would turn around to ask an aide to give him the answer and then relay it it to the committee.

"It was both funny and sad to watch the chairman of the Postal Board of Governors swivel around and back during his testimony," Rolando observed later. "Not knowing off the top of his head something as basic as the cost of a first-class stamp—it's 46 cents, by the way—makes us wonder what else he doesn't know about the agency he oversees, and it bolsters our contention that the entire governance structure of the Postal Service is in desperate need of overhaul if it has any hope of coming up with a real business plan for the future."

On the hot seat

Serving on the hearing's second panel alongside Postmaster General Patrick Donahoe, President Rolando testified that, on the merits, eliminating Saturday mail delivery would be a costly mistake that not only would make it harder for the Postal Service to grow the business but also would cost it money by driving away many customers.

Rolando also addressed an April 10 Board of Governors' statement that called for reopening and renegotiating postal labor contracts in search of cost savings.

The president told the House committee that renegotiating contracts is unnecessary, because NALC's recently arbitrated agreement with USPS provided several ways for the two parties to find cost reductions, including through health care savings and an improved route adjustment process.

The 2011-2016 National Agreement was settled by Arbitrator Shyam Das on Jan. 10. The pact provided for wage and benefit savings and for several labor-management taskforces to work on ways to cut operational costs and to increase revenues.

Indeed, preserving high-quality health benefits and controlling their costs was a special focus in the recent contract talks, Rolando said, with NALC and USPS both agreeing that restraining health care costs is crucial to the long-term viability of the Postal Service. This is why the arbitration award also contained a memorandum of understanding that called for establishing a joint NALC-USPS taskforce, whose mission is to explore ways to fairly contain health benefit costs.

"Give the Postal Service and its unions the ability to reduce retiree health costs within FEHBP," Rolando said in his longer written testimony submitted to the committee. "NALC and its members are willing to do our part to reduce the cost of future retiree health benefits at the bargaining table if Congress treats the Postal Service, its employees and the mailers fairly on pension costs."

NALC and the other postal unions oppose the Postal Service's request to leave FEHBP, Rolando testified. Most of the savings USPS thinks it can achieve outside of the program could be achieved inside it, provided USPS and its unions were allowed to negotiate an exclusive set of plans to be offered to current and future postal employees.

This "postal FEHBP exchange" could work with the Office of Personnel Management (OPM) to implement health plan innovations to encourage good health and require the use of single-network providers for medical services, as well as to achieve improved integration with Medicare that would ultimately translate into lower pre-funding payments—assuming pre-funding isn't repealed outright.

"The NALC and the other postal unions made similar cost-cutting sacrifices that have generated huge savings," Rolando said. "We have done *our* part to save the USPS. Now we urge Congress to do *its* part. We think the best way to reduce the pre-funding burden on the Postal Service is to reduce the cost of health insurance in general, and retiree health insurance in particular."

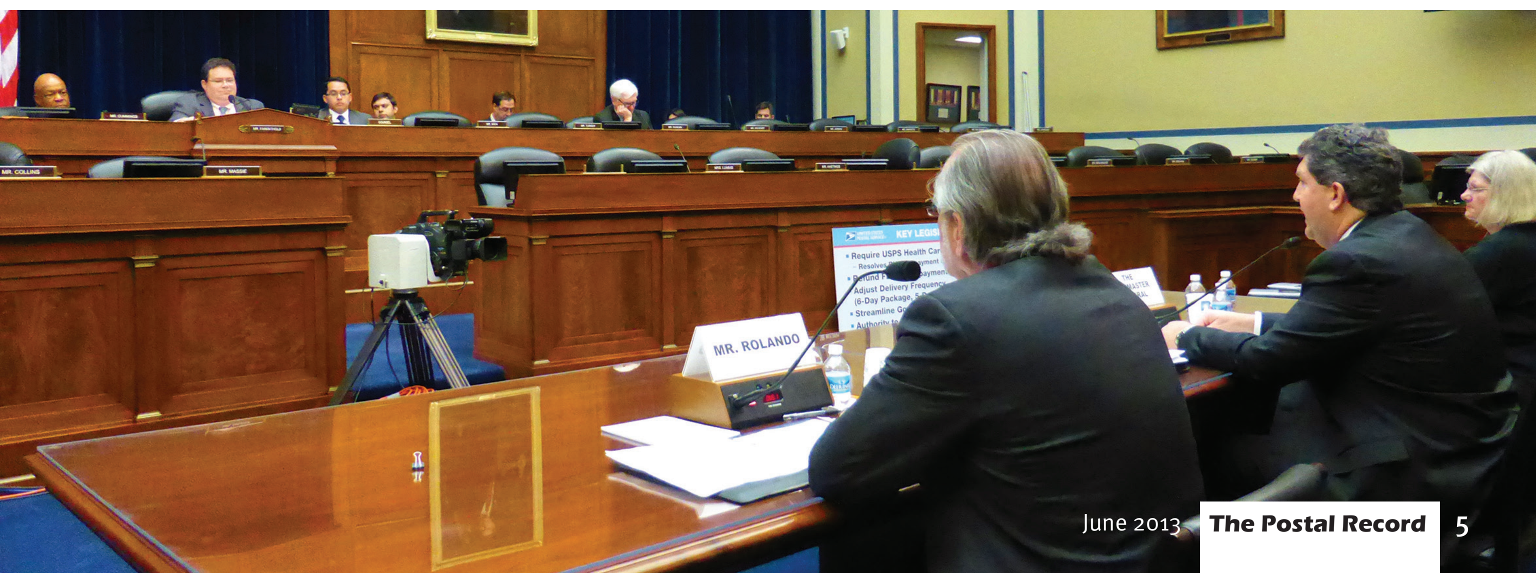
It is still urgent that Congress take action to repeal or reform the pre-funding mandate, he said. "The negative impact it has on the Postal Service is hurting the entire postal industry. Of the eight million workers in our industry, just over a half-million work for the USPS. The vast majority of the workers in our industry work in private companies across the country. The pre-funding mandate is not just dragging the USPS down; it's weakening an entire industry that employs workers in every community in the country."

Finding savings elsewhere

In Rolando's submitted written testimony, he described some other

Postal Service Board of Governors Chairman Mickey Barnett

Postmaster General Patrick Donahoe (c) testified with Rolando.



Rolando took the opportunity to meet with Rep. Gerry Connolly (D-VA), who has supported letter carrier issues.

solutions for finding further savings without having to resort to service cuts, in addition to the repeal or reform of the pre-funding mandate.

In one example, he pointed to a proposal proffered by the USPS Office of Inspector General (OIG) to repeal pre-funding and allow the cash already in the pre-funding account to accrue interest over time to bring the account to full-funding status. At last report, there was nearly $50 billion in the account already—more than enough to take care of future retiree health benefits for decades.

Another idea is one that was initially included in in the 2011 Senate bill, S. 1789—to cover projected future retiree health benefit costs using the refunded overpayments that would become evident following a recalculation of the Postal Service's pension account funds within the Civil Service Retirement and Disability Fund. Such a recalculation would use fair allocation methods and postal-specific factors, rather than generic federal employee factors.

There is an estimated surplus of between $50 billion and $75 billion in the Postal Service's Civil Service Retirement System (CSRS) account, according to independent audits. The problem is that under so-called "scoring" and pay-as-you-go rules, fixing the overfunding would effectively increase the budget deficit—the main reason the CSRS refund was eventually struck from S. 1789 last year. For Congress to allow this surplus to be refunded, it would be forced to choose between suspending the pay-as-you-go rules (unlikely), make further cuts in federal programs equaling $50 billion to $75 billion to offset the refund (also unlikely), or raise taxes to bring in an additional $50 billion to $75 billion (extremely unlikely).

There also is a surplus in the Postal Service's Federal Employees Retirement System (FERS) pension account to consider—a surplus hardly anyone seems to dispute. A report for the OIG by the Hay Group found an estimated FERS surplus of $12.5 billion using USPS-specific assumptions rather than broader federal workforce assumptions. And it's crucial for the sake of fairness to determine which assumptions are used, since the Postal Service's workforce is quite different from the rest of the federal workforce.

H.R. 961, introduced in March by Rep. Stephen Lynch, calls for directing OPM to use postal-specific assumptions and to use the resulting $12.5 surplus to help shore up the Postal Service's finances. As this *Postal Record* was being prepared, the bill had 101 co-sponsors.

A third idea is to altogether withdraw the existing retiree health benefit account funds from low-yield Treasury securities, which have been paying out returns between 2 and 3 percent, and invest them in the index funds offered by the Thrift Savings Plan. Since 2006, these funds have shown returns of 5 percent, and when you're talking billions of dollars, a change of just a few percentage points can produce big returns.

Strengthen without slashing

In his testimony, Rolando added that Congress should focus on finding ways to strengthen the Postal Service for the future, not on slashing services and dismantling the universal network.

The president said that USPS must be allowed to balance the normal cost-cutting it will continue to pursue by generating greater revenues—growing existing and expanding mailing business, such as in package delivery; better aligning prices to reflect costs; and finding new uses of the postal network

Q2 Financial Report

On May 10, the Postal Service released its financial report for the second quarter of Fiscal Year 2013, which covers the first three months of 2013. The headlines reported a net loss of $1.9 billion, due largely to pre-funding. However, the report also included signs of hidden strength.

For example, it showed the first revenue increase in five years, reflecting an improving financial picture as the economy gradually recovers. It also showed that operating revenue in the second quarter was $121 million higher than the same period a year ago, while expenses fell by $1.2 billion.

"This positive trend undermines the doom-and-gloom scenarios postal critics cite—and it shows the folly of reducing services to Americans, as the postmaster general seeks to do," NALC President Fredric Rolando said.

USPS Chief Financial Officer Jim Corbett stated that increases of 2.4 percent in advertising revenue from mail and a striking 9.3 percent jump in revenue from package deliveries—an increase of $267 million—largely offset a 2.7 percent decline in first-class mail revenue.

The report also showed the urgency of fixing the pre-funding mandate, which accounts for 90 percent of this year's red ink.

And Corbett reported that the sharp rise in Postal Service package deliveries, which reflects the opportunities offered by the Internet, outpaced the two major private competitors.

The report showed further that the USPS is moving toward breaking even operationally, despite a still struggling economy. The Postal Service reported a $200 million operating loss in the first half of fiscal 2013; in the full fiscal year of 2011, it had a $5.1 billion operating loss, and $4.8 billion in fiscal 2012.

"Instead of the postmaster general's 'shrink to survive' strategy—which will only begin a death spiral for the USPS—what is needed is a business plan for the future to take advantage of the many opportunities for growth, including in the exploding package delivery market," Rolando said.

to help finance and preserve its unique last-mile delivery network.

"The USPS will continue to succeed so long as it does not destroy its own comparative advantage by degrading its last-mile network," he testified. "But Congress must enact reforms to help USPS increase revenues."

Rolando pointed out that many of the NALC's proposals are part of H.R. 630, the postal reform bill introduced by Rep. Peter DeFazio (D-OR), which had 140 co-sponsors when this magazine went to press. (H.R. 630's companion bill in the Senate, Sen. Bernie Sanders' (I-VT) S. 316, had 24 co-sponsors at press time.)

"NALC is committed to working together with both parties to fashion a bipartisan reform bill that will preserve a strong and vibrant Postal Service for decades to come," he said. "I don't see where this is a partisan issue. This is America's Postal Service."

PMG speaks at the Press Club

In a wide-ranging speech at the National Press Club in Washington, DC, on April 19, Postmaster General Patrick Donahoe again presented his shrink-to-survive vision for the Postal Service.

While Donahoe's talk was short on specifics, it was dominated by proposed changes in how the USPS handles health care for active and retired employees, how it handles employee pensions and how small the workforce should become in the face of declining mail volume.

The postmaster general also said that without congressional legislation, the USPS would look to either "shrink the infrastructure or shrink wages."

"Every time I turn around, the postmaster general is talking about more cuts to more parts of the service," President Rolando said later. "And it sounds as if he's doing anything but backing away from his doom-and-gloom stance.

"If his talk at the Press Club was meant to show us what he's cooking up next, it seems as if he's resigned to the death of the Postal Service by a thousand cuts as he continues to plan on driving more and more business away."

During his hour-long luncheon talk, Donahoe also addressed his belief that Congress needs to allow the Postal Service to eliminate Saturday mail delivery—which he still claims would save USPS $2 billion. But when the postmaster general was asked for his rationale behind those projected savings, he merely offered vague calculations rather than any study results.

In attempting to justify ending Saturday mail delivery, Donahoe said something quite interesting. The alleged $2 billion in savings would, he said, take care of the anticipated losses for Fiscal Year 2013, losses he put at $1.7 billion.

"What's notable about that $1.7 billion figure is that it shows a marked reduction in losses from the previous two years," Rolando noted: a $5.1 billion loss in 2011 and a $4.8 billion loss in 2012. "Indeed, in the first quarter of fiscal 2013, the Postal Service had an operating profit of $100 million with red ink from operations down by about two-thirds—all while we continued to deliver the mail to every address in America, six days a week.

Postmaster General Donahoe appeared at the National Press Club on April 19.

"This positive trend demonstrates that as the economy improves, so does the Postal Service's financial picture—a far cry from the death-and-destruction scenarios so often cited by ill-informed postal critics."

(On May 10, the Postal Service released its financial statement for the second quarter of Fiscal Year 2013, which covers the first three months of 2013. Despite a still struggling economy, the report showed the first USPS revenue increase in five years, reflecting an improving financial picture as it moves toward breaking even. See page 7.)

Donahoe also addressed a proposal from Rep. Darrell Issa (R-CA) that, to save money, the Postal Service should move toward centralized mail delivery using cluster boxes. The postmaster general said he has heard from some postal patrons who want that option now, and he claimed that such a move could save USPS an additional $3 billion a year.

"Donahoe's stale shrink-to-survive strategy is simply not an effective one, and it's long past time for the Postal Service to come up with a business plan for growth," Rolando said. "What's needed is a dynamic business plan for the future to take advantage of the many opportunities for growth, including our one-of-a-kind delivery network and the exploding package delivery market.

"His own figures show the folly of taking such a radical step as reversing decades of congressionally approved six-day delivery and eliminating Saturday delivery," the president said. "Such a move would cost the USPS its competitive advantage, drive customers away, reduce revenue and make the Postal Service less able to adapt to an evolving society.

"We need a postmaster general—and a postal governance structure—that doesn't seem so hell-bent on setting us up for fights," Rolando said. "We need leaders interested in working together with the employees to grow the network and to brainstorm real solutions, not admit defeat."

In the news

NALC President Fredric Rolando's letter to the editor of *The Washington Post* was printed on Wednesday, April 17—the day he appeared before a House committee hearing. Rolando's letter was in response to an inflammatory April 15 editorial in *The Post* titled, "Interest groups win out over Postal Service reform."

In a post about the hearing, *The Hill's* "On The Money" blog on April 17 quoted President Rolando. The story correctly noted that more than three-quarters of ▶

Defined *what* plan?

During Postmaster General Patrick Donahoe's talk on April 19 at the National Press Club, one idea he floated for saving the Postal Service money was to move all employees' retirement benefits over to what's known as a defined contribution plan. What does that term mean, and how would such a move affect letter carriers, if implemented?

Let's start by going back to 1920, when the defined benefit plan known as the Civil Service Retirement System (CSRS) was created for federal employees. For active employees who are still covered by this traditional pension plan, the Postal Service deposits an amount equal to 7 percent of pay into a retirement trust fund for employees, with a promise, on retirement, a worker will receive a guaranteed level of benefits, usually based on length of employment and salary.

Defined benefit plans have been in decline over the past 30 years, replaced largely by defined contribution plans.

Under a defined contribution plan, such as a 401(k) plan, the employee takes on more of the burden and risk, making pre-tax contributions to an investment account that was set up on the individual employee's behalf. The employer may match some or all of employees' contributions using pre-tax dollars. The main problem with a defined contribution plan is that it's not an actual pension plan—there is no guarantee what an employee can expect upon retirement.

Thanks to the CSRS-replacing Federal Employees Retirement System, letter carriers who were hired from 1985 onward got a taste of what it's like to have a defined contribution plan through the Thrift Savings Plan (TSP).

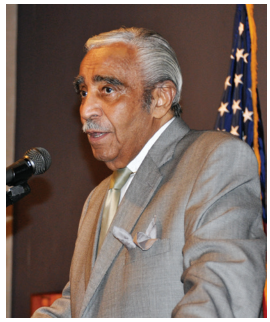
The TSP is a tax-deferred retirement savings program similar to private-sector 401(k) plans, featuring different investment options. Federal agencies automatically contribute 1 percent of pay into individual TSP accounts, then match employees' pre-tax contributions dollar for dollar on the first 3 percent of pay, and 50 cents on the dollar on the next 2 percent contributed. Employees also may put more into a TSP account up to a certain level. (TSP is open to CSRS employees, but for them there is no employer match.)

FERS, then, is one part defined contribution plan (TSP), one part Social Security (both employer and employee send 6.2 percent of pay to the Social Security trust fund, just like in the private sector), and one part defined benefit (with 0.8 percent of pay from the employer going into a basic defined benefit account). It is not a pure defined contribution plan.

"The postmaster general's proposal to shift letter carriers from FERS to a totally defined contribution plan could spell disaster for our retirement security," President Rolando said. "A pure defined contribution plan shifts all of the financial risks from the employer to the workers—us.

"Think about it: How many Americans' 401(k) retirement savings went down the drain during the Great Recession?" Rolando asked. "We cannot and must not allow all of that risk to be placed with letter carriers."

Letter carriers from New York came to Washington, DC, to lobby their representatives on the need for positive postal reform. They attended a reception on April 17 at NALC Headquarters, where (pictured r-l, top-bottom) Reps. Timothy Bishop (D), Carolyn Maloney (D), Sean Maloney (D), Paul Tonko (D), Peter King (R), Charles Rangel (D) and Eliot Engel (D) appeared.



Several state delegations held a joint congressional breakfast on April 24. Members from Alaska, Montana, Oregon, Utah, Washington, Arkansas, Colorado, Oklahoma, Indiana, Minnesota, Alabama, Louisiana, Mississippi and Tennessee heard from (pictured r-l, top-bottom) Reps. Terri Sewell (D-AL), Ed Perlmutter (D-CO), Betty McCollum (D-MN), Keith Ellison (D-MN), Tim Walz (D-MN), Steve Cohen (D-TN), Peter DeFazio (D-OR), Jack McDermott (D-WA), Derek Kilmer (D-WA), Denny Heck (D-WA), Rick Larsen (D-WA) and Suzan DelBene (D-WA).

News

On April 25, delegations from California, Nevada, Hawaii and Missouri attended a special congressional breakfast at the United States Capitol Visitor Center. They heard from (pictured r-l, top-bottom) Reps. Jerry McNerney (D-CA), Barbara Lee (D-CA), John Garamendi (D-CA), Ami Bera (D-CA), Jackie Speier (D-CA), Judy Chu (D-CA), Zoe Lofgren (D-CA), Julia Brownley (D-CA), Lois Capps (D-CA), Maxine Waters (D-CA), Colleen Hanabusa (D-HI) and Dina Titus (D-NV).












Pennsylvania letter carriers went to the nation's capital to press for meaningful postal legislation. They attended a congressional breakfast on May 8 where (pictured r-l, top-bottom) Reps. Allyson Schwartz (D), Matt Cartwright (D), Chaka Fattah (D), Michael Fitzpatrick (R), Mike Doyle (D) and Tom Marino (R) spoke.





the Postal Service's recent losses are the result of the pre-funding requirement, and that the USPS is the only government agency or private enterprise that is bound by law to pre-fund.

On April 25, Rolando was quoted by the Center for American Progress' "ThinkProgress" blog, saying that supports Rep. Peter DeFazio's (D-OR) H.R. 630 effort to repeal the Postal Service's onerous pre-funding requirement.

Three days later, Rolando had a powerful op-ed in *The Washington Examiner*, rebutting a columnist's earlier claims that unions are peddling some sort of myth about the pre-funding issue.

Coverage of the May 13 release of the Postal Service's quarterly financial report varied in depth and quality among news outlets, but President Rolando was widely quoted, lending perspective to reports by the Associated Press, *The New York Times*, Reuters and others. (See story on page 7.)

On April 20, NALC Assistant Secretary-Treasurer Nicole Rhine and several local NALC members explained to KHGI-TV viewers in Nebraska that the Postal Service's current financial crisis is a direct result of pre-funding.

On April 26, letter carriers from Idaho rallied in Twin Falls to support keeping six-day mail delivery service, a rally covered by KMVT-TV. To preview the event, Idaho State Association President John Paige had a letter to the editor of the Twin Falls *Times-News* on April 23 and an interview in that paper on April 24.

Royal Oak, MI Branch 3126 Food Drive Coordinator Jim Hunter was a guest on WDFN-AM's "First Shift with Tony Trupiano" on April 26 and spoke at length about the NALC Food Drive as well as the USPS financial crisis.

Writing for *The American Reporter*, correspondent Randolph T. Holhut pointed out in an April 26 article that the 2006 postal reform law created "a phony postal crisis."

An April 26 article on The Huffington Post's "Post 50" blog gave a good mention of Carrier Alert and also reported on an interesting service for senior citizens called Lively, where family members can upload pictures and updates to be compiled by a service, printed, and delivered by letter carrier to elderly loved ones.

Des Plaines, IL Branch 2076 President Luis Rivas attended an April meeting of the local Democratic Party and presented information about the various verbal attacks on the Postal Service. Rivas' talk inspired an audience member, Walt Zlotow, to write an April 28 opinion piece for the *Glen Ellyn [IL] Patch* in support of S. 316/H.R. 630.

Burlington, NC Branch 2262 President Mark Bare's letter to the editor of *The Times-News* ran April 29, countering an earlier negative editorial.

On May 10, *The Nation's* John Nichols profiled H.R. 630 sponsor Rep. Peter DeFazio's (D-OR) strong commitment to preserving the Postal Service. The same day, Diana Reese, author of *The Washington Post's* "She the People" blog and the daughter of a letter carrier, also wrote about DeFazio's bill. Her father was a carrier for 30 years in Northwest Missouri. And Idaho State Association President John Paige's latest letter to the editor of the Twin Falls *Times-News* ran on May 14.

You can find links to these media stories and much more at nalc.org under "Postal Facts." **PR**

Letter carriers from Maryland, Delaware, Virginia and the District of Columbia attended a rap session by President Rolando on April 18, before going to the Capitol to lobby their representatives.