The other legacy of the PAEA: postage rates

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There has been no more damaging legacy of the 2006 Postal Accountability and Enhancement Act (PAEA) than the onerous and inflexible legislative mandate to pre-fund future retiree health benefits decades in advance. That $49-billion-and-counting mandate has caused the vast majority (86 percent) of the Postal Service's reported losses over the past nine years. It also has obscured from view the $2.9 billion in USPS operating profits recorded over the past three years (2013-2015) as the economy and the Postal Service bounced back from the Great Recession.

But the PAEA's legacy on postage rates also is very important to understand as we work to reform the law in Congress and get ready for a major proceeding at the Postal Regulatory Commission (PRC) to establish the postal rate-setting process of the future. That proceeding is mandated by law to begin next year.

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Before the 2006 law, postage rates were set by the PRC in so-called "omnibus rate cases" initiated by postal management. Postage rates were based on USPS estimates of the direct cost of delivering different classes and subclasses of mail plus a proposed allocation of overhead (or institutional) costs to those various classes and sub-classes. Overhead costs are fixed costs that cannot be tied to any specific type of mail. Think of all the vehicles needed to cover 200,000 delivery routes—the cost to acquire them, fuel them and maintain them does not normally vary by the volume of mail.

Once a rate case was initiated, then all the various industry representatives, corporate mailers and USPS competitors would hire an army of lawyers and economists to contest the Postal Service's estimates and allocations. The goal of most of the parties that intervened in rate cases was to convince the PRC to shift overhead costs to other mailers, thereby keeping their clients' rates low at the expense of higher rates for others. (Not all the interveners were so motivated: Competitors usually just tried to raise rates on competitive classes, while NALC and APWU often intervened to protect the financial viability of the Postal Service.) This zero-sum rate litigation would go on for months and usually ended up costing everybody involved a lot of money. Nobody was happy with the system, except maybe the lawyers and economists.

One of the main goals of the PAEA was to simplify the rate-setting process, making it faster and less costly. A Senate bill passed in 2006 proposed to index all postage rates to inflation and to allow for emergency rate increases in so-called "exigent" circumstances—such as gas price spikes or severe recessions. The bill that advanced in the House of Representatives called on experts at the PRC to create a new system of rate regulation based on best practices among regulators of other regulated industries, after conducting hearings to gather input from all interested parties. As often happens in Congress, lawmakers compromised and used a little bit of both approaches—calling for the inflation index for 10 years and then authorizing the PRC to decide how to structure the rate-setting process after that. So that is exactly what the PRC will do, beginning in December 2016.

The PAEA might have all worked out were it not for two factors. First, the Postal Service decided not to exercise its option to hold one last old-fashioned rate case in 2007 to ensure rates covered all the relevant costs (including the massive cost of pre-funding retiree health benefits) before the new price index was initiated. Facing a possible recession in 2007, the USPS did not want to raise postage rates by the extra 5 percent needed to build the cost of pre-funding into the baseline rates before the index kicked in. It feared a rate shock would be especially damaging in the middle of a recession. That turned out to be a huge mistake—it should have gone forward with the rate case and asked the PRC to delay implementing the results until after the recession.

Then the second factor kicked in: the economic slowdown of 2007 turned into a global financial crisis. USPS' operating profits of 2007 and 2008 turned into the deep losses of 2009-2012 as the Great Recession took hold, mail volume plummeted and the $5.5 billion annual pre-funding payments kicked in. In response to the recession, the Postal Service sought and received a 4.3 percent exigent rate increase from the PRC. But USPS failed to convince regulators to make the increase permanent—even though it was apparent to all that the Great Recession had permanently reduced the volume of First Class Mail as companies shifted to electronic billing to cut costs during the downturn. As it now stands, the 4.3 percent exigent increase will expire in March or April of next year (unless the agency's case before a federal appeals court succeeds).

These factors add urgency to our efforts to achieve postal reform in Congress. We hope Congress will pass a bill that will make the exigent increase permanent and virtually eliminate the cost of pre-funding in the coming months. But if it doesn't, we will do all that we can to use the 2016-17 PRC review of the rate-setting process to address both the burden of pre-funding and the need to make the exigent increase permanent.

We will urge the PRC to build the cost of pre-funding into the baseline rates—that is, to hold that one last traditional rate case in 2017 that the USPS mistakenly declined to hold in 2007. We will also seek to restore the exigent increase if it expires in 2016. And we will urge the PRC to adopt a more appropriate price indexing system for the future.

Indeed, NALC will point out that countries are moving away from using inflation in general consumer prices to index postage rates. For one thing, the Consumer Price Index (CPI) has no real meaning as it relates to the costs of the postal industry. It is simply the average change in prices for thousands of different goods and services bought by American consumers—it is a statistical artifact.

In 2006, we argued that a more appropriate index was the Consumer Price Index for Delivery Services (CPI-DS)—a sub-index within the "CPI-All Items" index that measures price trends for services provided by private delivery companies—that is, the prices charged consumers by companies such as FedEx and UPS. As an indexing benchmark, the CPI-DS makes sense as it would hold the Postal Service to a rational private-sector standard. And it captures the kinds of costs that affect delivery and postage prices—the cost of labor, the price of fuel, and inflation trends in a transportation/utility company.

Another idea is to eliminate the price index for most postal products altogether—given the fact that most postal products face stiff electronic competition that serves to restrain postal inflation. That is what was done in the United Kingdom a few years ago. Or we could do what Canada used to do—apply the CPI only to household-generated single-piece letters, which has been affectionately termed "Aunt Minnie mail" in the United States.

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No matter what we propose, our goal will be the same: To establish a regulatory system that is fair to all Americans and all mailers while ensuring the long-term financial viability of the Postal Service to provide affordable universal service with fairly compensated employees.

We know that the only way to preserve and extend the remarkable postal recovery and e-commerce boom of recent years, and the only way to ensure the long-term vitality of the Postal Service, is to strengthen our first-mile and last-mile networks. Those networks, which depend on a stable, high-quality and productive workforce, make affordable, universal service possible. We have spent the past several years fighting to preserve our networks against those in Congress who want to dismantle the Postal Service to comply with the dictates of the PAEA. We will continue that fight in the Postal Regulatory Commission next year.

NALC will not accept allowing the ill-begotten legacies of the PAEA to destroy the Postal Service. We will fight to the end for a better future for letter carriers and the Postal Service. That will be our legacy, not the PAEA.