News from Washington

OPM proposes retirement cuts, a roundup of postal legislation, more

On May 4, Office of Personnel Management (OPM) Director Jeff Pon sent a letter to Speaker of the House Paul Ryan (R-WI) making four legislative recommendations that, if enacted, would require current and future federal employees to make larger pension contributions, and also would scale back retirement benefits for current retirees. The proposals would mainly affect Federal Employees' Retirement System (FERS) participants; Civil Service Retirement System (CSRS) employees would be affected to a lesser extent.

OPM's proposals reflect the White House's last two budget requests, which called for:

NALC President Fredric Rolando led a rap session for letter carriers who traveled from New York to meet with their congressional representatives.

- **Increasing FERS federal employee pension contributions to 7.25 percent.** Currently, there are three tiers of FERS pensions, with newly hired postal and federal workers in 2013 and 2014 paying more of the contributions (3.1 percent and 4.4 percent, respectively) into the FERS retirement system with no corresponding benefit increase. This proposal would call for all current and future FERS participants to contribute 1 percent more toward their annuities each year until they are contributing 7.25 percent of their basic pay into the pension. This increase comes without any corresponding pension increase, representing a significant pay cut for postal and federal employees.
- **Replacing the high-3 with the high-5.** This would significantly cut the retirement annuity of postal and federal employees.
- **Eliminating and reducing the federal retiree cost-of-living adjustment (COLA).** This would eliminate the COLA for FERS participants and cut the COLA for CSRS participants, preventing postal and federal retiree pensions from keeping pace with inflation.
- **Eliminating the FERS annuity supplement.** This proposal would take away the possibility for many postal and federal workers to retire before the age of 62. It also needlessly harms firefighters, law enforcement officers and others who must retire before age 62.

The White House has called on Congress to adopt these changes and while it has yet to do so, these proposals can come up throughout the remainder of the 115th Congress, so letter carriers should be prepared.

"These proposals are nothing but a blatant attack on postal and federal workers," NALC President Fredric Rolando said. "We will do everything in our power to prevent Congress from putting the burden of paying for federal spending on the backs of letter carriers, other federal employees and retirees."

NALC statement on USPS Q2 financial report for FY 2018

NALC President Fredric Rolando's statement on the May 11 release of the U.S. Postal Service's financial statement for the second quarter of Fiscal Year 2018, covering the months of January, February and March of 2018:

"Today's USPS quarterly financial report shows the Postal Service's underlying business strength while also indicating the need to address external matters beyond USPS control.

"For the first six months of FY 2018, the Postal Service is close to breaking even—showing a year-to-date operating loss of $302 million. Without the exigent stamp price rollback, the half-year would have an impressive operating profit of about $700 million. These figures, of course, involve only earned revenue; by law, USPS gets no taxpayer money for its operations.

"This reflects USPS's vitality and its importance to the public and our economy—as well as the need to resolve key public policy issues. In April 2016, the price of a stamp was rolled back by two cents, reducing postal revenue by about $2 billion a year. That was the first rollback of stamp prices since 1919 and it makes little financial sense because the Postal Service already has the industrial world's lowest rates.

"Fortunately, the Postal Regulatory Commission is in the midst of a legally mandated review of the postage rate-setting system. At present, USPS is constricted in its ability to adjust rates by no more than the Consumer Price Index, but the CPI is an economy-wide measurement of consumer goods and services that doesn't fit a transportation and delivery provider. The PRC has the ability to correct this mismatch and relieve the resulting financial pressure.

"Meanwhile, Congress should address the pre-funding burden it imposed in 2006, which requires USPS—alone among all public and private entities—to pre-fund future retiree health care benefits decades into the future. Without that $1.9 billion cost for the first six months of FY 2018 and the $1 billion cost of the price rollback, USPS would have a net profit of more than $1 billion.

"Fixing the external financial burdens posed by the price rollback and pre-funding will allow USPS—which is based in the Constitution and which enjoys broad public and political support—to continue providing Americans and their businesses with the industrial world's most-affordable delivery network."

Media coverage of the May 11 USPS quarterly financial report focused on the numbers but also on the rise in packages and the need for postal reform. The postmaster general and NALC president Fredric Rolando were widely-quoted.

A roundup of recent postal legislation

March and April proved to be busy months on Capitol Hill, as numerous pieces of legislation were introduced on issues that NALC closely monitors. Between the ongoing need for postal reform and the president's attention to the U.S. Postal Service and its Negotiated Service Agreement with Amazon, USPS has been in the news and on the minds of many in Washington, DC, and beyond, resulting in quite a few new bills.

Meanwhile, the ongoing opioid epidemic has sparked a series of proposals aimed at solving the crisis, some of which include provisions regarding the Postal Service.

"Letter carriers, who work in every neighborhood in the country, have seen firsthand the devastating effect of opioid addiction," NALC President Fredric Rolando said. "NALC is fully committed to working with Congress to fight the epidemic in any way we can, while keeping a close eye on all opioid-related postal proposals."

Finally, new bipartisan legislation on federal employees and retirement rounds out this review of recent bills to keep an eye on. Be sure to download the NALC Member App and check NALC's Government Affairs webpage for all the latest news.

Postal-specific bills

1) In late March, Sens. Tom Carper (D-DE), Jerry Moran (R-KS), Heidi Heitkamp (D-ND) and Claire McCaskill (D-MO) introduced S. 2629, "The Postal Reform Act of 2018." This bill incorporates elements of previous attempts, including both the House Oversight and Government Reform Committee's Postal Reform Act of 2017 (H.R. 756) and Sen. Carper's "Improving Postal Operations, Service and Transparency Act (iPOST)," which was introduced during the last Congress.

Among the improvements:

- securing our country's only universal delivery system by protecting six-day mail delivery;

Hellman to retire; Rolando to appoint RAA Stewart

Brian Hellman

Brian Hellman, director of the NALC Health Benefit Plan, announced that he will retire after the 71st Biennial Convention in Detroit next month.

Hellman, a member of New York City Branch 36, was first elected health benefits director in 2010 during the 67th Biennial Convention in Anaheim. He also served as NALC director of safety and health, director of life insurance and national business agent (NBA) for Region 15 (New York, northern New Jersey, western Connecticut, Puerto Rico and the Virgin Islands).

"Brian has served our union in so many ways, and his contributions have been invaluable," NALC President Fredric Rolando said. "We wish him all the best in his retirement."

Stephanie Stewart

Rolando will appoint Stephanie Stewart to fill the remainder of Hellman's term. Stewart is currently a regional administrative assistant (RAA) for Region 5 (Missouri, Iowa, Nebraska and Kansas).

A member of Central Iowa Merged Branch 352, Stewart began her letter carrier career in Des Moines, IA, in 1995. She served in many roles for the union, including Branch 352 president and Iowa State Association vice president, before Rolando appointed her as RAA in 2015. Stewart graduated from Leadership Academy Class 9 in May 2010.

"Join me in welcoming Stephanie to the NALC Health Benefit Plan," Rolando said. "Stephanie will continue the health plan's tradition of offering excellent benefits at reasonable costs." PR

News

The New Jersey State Association of Letter Carriers traveled to Washington, DC, and set up a special meeting with their two senators on April 26. They met with Democratic Sens. Bob Menendez (above) and Cory Booker, who told the activists that they would defend letter carrier jobs and benefits. At a reception that evening, Rep. Donald Norcross (D-1) also addressed the letter carriers.

Sen. Cory Booker

Rep. Donald Norcross

In April, letter carrier activists from the Ohio State Association of Letter Carriers followed suit on their annual trip to lobby members of Congress on issues important to their fellow NALC members. Pictured below, from l, Reps. Marcia Fudge (D-11) and Bill Johnson (R-6) addressed the carriers during the congressional reception on April 25.

In late April, activists from Virginia gathered in Washington, DC, to meet with their representatives as well.

- rejecting unnecessary changes to door delivery service for business and residential customers;
- calling for a two-year moratorium on changes to service standards, giving the legislation time to work in a way that will relieve the pressure for misguided service cuts;
- granting the Postal Service the ability to innovate, including the use of its networks to ship beer, wine and liquor to boost revenue; and
- exempting annuitants and their eligible spouses from the proposed mandate to enroll in Medicare Part B at age 65 if they would derive no benefit from enrolling (veterans with full VA care, native Alaskans, etc.) or if enrollment would cause extreme financial hardship.

2) Following extensive efforts by Sens. Bernie Sanders (I-VT) and Elizabeth Warren (D-MA) and Rep. Cedric Richmond (D-LA) over the years, legislation introduced in April by Sen. Kirsten Gillibrand (D-NY) would allow the Postal Service to provide basic financial services to the public. The yet-to-be-named bill (S. 2755) would establish a postal bank in each of USPS's 30,000 locations and, if enacted into law, would allow the Postal Service to offer small-dollar checking accounts, small-dollar savings accounts, small-dollar loans, transactional services and remittance services, such as wire transfers using existing Postal Service infrastructure.

3) Two bills regarding inbound international mail were introduced in April. The first, H.R. 5524, introduced by Rep. Kenny Marchant (R-TX), would raise the rates for inbound international mail and packages as the bill's authors assert that inbound rates are

Election officials explained how the vote-at-home process would work for the Anchorage election.

subsidized by USPS to the detriment of consumers and small businesses, who allegedly pick up the cost through outbound and domestic shipping. If passed, the bill would require the Postal Service to set a preferential classification rate/fee for documents and goods received from other countries. The bill would require the Postal Regulatory Commission (PRC) to review and allow for public comment in the rulemaking process. The PRC would then determine whether or not a change has been approved before periodically evaluating.

The second bill, the Ending Needless Delivery Subsidies Act of 2018 (S. 2638), introduced by Sen. Bill Cassidy (R-LA) would compel the secretary of state to negotiate the end to all foreign subsidies of international postal shipments by Jan. 1, 2021. The fees this measure refers to are set by the United Nations' Universal Postal Union (UPU), which governs the fees paid by each member country for international mail. Its system is generally designed to have wealthier countries pay more than poorer nations.

4) In late April, Sens. Cassidy and Tammy Baldwin (D-WI) introduced the SNIFF Act (S. 2741), which would authorize the Postal Service to inspect contents of suspicious packages for illicit materials without a warrant.

How likely any of those are to advance, though, remains unclear at best.

Opioid-related bills

1) Two identical bills were introduced to the House and Senate in early April to address opioid distribution. The Ending the Fentanyl Crisis Act of 2018 (H.R. 5459 and S. 2635), introduced by Rep. French Hill (R-AK) and Sens. John Kennedy (R-LA) and Tom Cotton (R-AR), would toughen the penalties for fentanyl distribution and trafficking by reducing the necessary amount of fentanyl required for mandatory sentencing minimums, and also would provide screening resources for the Postal Service. In addition, in late April, the House Energy and Commerce Subcommittee on Health advanced dozens of opioid-related bills that don't directly affect letter carriers, the U.S. Postal Service or federal employees.

2) Perhaps the most significant legislation on opioids is the Opioid Crisis Response Act of 2018 (S. 2680). This bipartisan bill sailed out of committee in a unanimous vote. It would upgrade facilities to increase and improve inspection and detection capabilities at the Food and Drug Administration (FDA), the Department of Homeland Security (DOH) and the Postal Service, in an effort to improve detection and seizure of illegal drugs, such as fentanyl.

Regarding the Postal Service, import and international mail facilities would be outfitted with controlled substance detection and testing equipment and other applicable technology. Of particular importance, no mention is made in this bill of the use of advanced electronic data (AED), which is prevalent in other pieces of legislation, notably the Synthetics Trafficking and Overdose Prevention (STOP) Act of 2017 (H.R. 1057 and S. 372). As letter carriers know, USPS has a universal service obligation in the United States that includes the delivery of mail, printed matter, parcels and other items from every country in the world. Many operators in poorer countries lack the technological and financial resources to comply with the AED mandate and other customs requirements.

The product of seven bipartisan hearings, S. 2680 enjoys wide bipartisan support and marks a positive congressional step at addressing a public health crisis plaguing the United States.

Federal employees and retirement

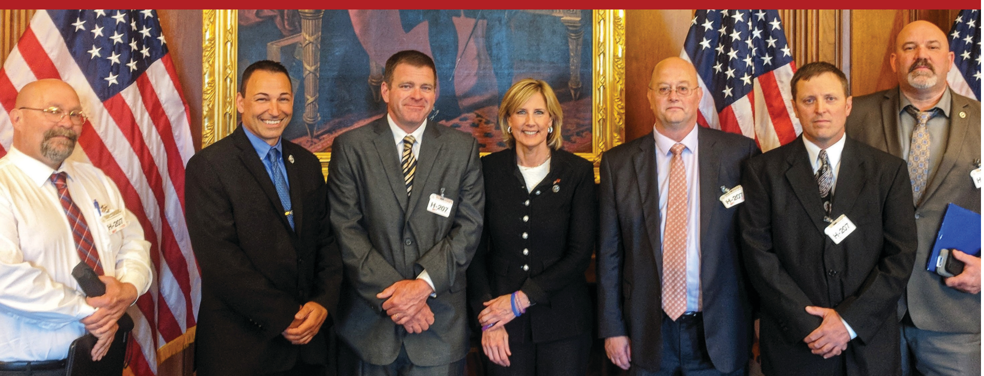
In late March, Reps. Derek Kilmer (D-WA) and Walter Jones (R-NC) introduced the Federal Retirement Fairness Act (H.R. 5389). This bill would provide certain federal employees the option to make a deposit for time spent as temporary employees after Dec. 31, 1988, thus making such time creditable service under the Federal Employees Retirement System (FERS), and for other purposes. The legislation appears to cover postal employees and, if so, should apply to letter carriers who spent time as casuals, transitional employees (TEs) and city carrier assistants (CCAs).

As this issue was going to press, NALC was seeking clarification on exactly which employees would be included. As drafted, it appears not to cover future non-career staff, but only those on the rolls on the date of enactment. The potential budget impact this bill would have remains unclear, and so the prospects of this legislation advancing are not good.

Vote-by-mail updates

Vote-by-mail continues to expand in states across the country, taking big strides forward in Alaska and Hawaii.

On April 3, Anchorage held a citywide election by mail with stunning results. Even though the election occurred in a non-presidential elec-



In May, activists from New York also traveled to Washington to meet with their representatives. The carriers met with their legislators and congressional staff during the visit, including (from top-bottom) Sens. Chuck Schumer (D) and Kirsten Gillibrand (D), and Rep. Claudia Tenney (R-22). Pictured below from l: At a congressional reception on May 17, Reps. Eliot Engel (D-16), Tom Suozzi (D-3) and Peter King (R-2) addressed the letter carriers.

tion year, it set a record for most votes cast in the city's history. Anchorage is the state's most populated city, with 300,000 residents—40 percent of the state's population. The results have led the state government to consider vote-by-mail for statewide elections.

"If half of our population is voting by mail and it's a good experience, why wouldn't the rest of the state want to do that?" asked state Sen. Gary Stevens, a Republican and a member of Alaska's elections policy task force. With the state having outdated election equipment and being under a court order to increase its ballot accessibility, vote-by-mail might be the solution to a number of problems it's facing.

The task force is expected to make recommendations on election reforms to the lieutenant governor this summer, and they could include a hybrid election model that uses voting by mail in most portions of Alaska while allowing traditional polling places in some locations. Whatever option is chosen could be in place by either the 2020 or 2022 elections.

Supporters of vote-by-mail had hoped that Hawaii would adopt its own statewide system by 2020, but had to settle for a modest step forward with a test run. The state legislature recently passed a bill that creates a pilot program to use vote-by-mail across Kauai County in 2020. The county is home to 71,000 people.

The Hawaii Office of Elections has estimated that the state could save $750,000 per election cycle if vote-by-mail is implemented statewide, which makes supporters hopeful that if the test goes smoothly in 2020, there will be momentum to push for statewide vote-by-mail soon thereafter.

Meanwhile, the Maryland city of

NALC Chief of Staff Jim Sauber (c) was re-elected as chairman of the UNI Post & Logistics Committee for the Americas.

Rockville (population 40,000) became the first in the state to adopt vote-by-mail, starting with the November 2019 city elections. Lois Neuman, chairman of the Rockville City Board of Supervisors of Elections, said the city opted for the change in the hope that it would increase voter turnout in city elections that have seen participation as low as 15 percent of registered voters.

Rockville plans to continue to give voters the option to go to city hall on Election Day to cast provisional ballots. For statewide and federal elections, Rockville voters still will have to show up at a polling place and vote in the usual way.

"Vote-by-mail is a common-sense reform that is energizing people across the political spectrum," NALC President Fredric Rolando said. "It's something all NALC members can get involved with."

The Future of Post is Now: UNI Americas Post & Logistics regional conference

NALC President Fredric Rolando welcomed delegates from postal unions across the Americas to New Orleans for the fifth UNI Americas Post & Logistics Regional Conference on April 18-19. Delivering the keynote address, Rolando set the agenda: "Over the next two days, we will compare notes and make plans on a wide variety of topics, including postal banking, e-commerce, relations with the Universal Postal Union, organizing and more. I look forward to learning from all of you.

"Let us make the most of our time together and build the bonds of solidarity that postal workers and all workers need," he added.

UNI Americas Post & Logistics is a sector of UNI Global Union, NALC's international trade union federation. The conference, held every four years, enables postal unions throughout the hemisphere to discuss issues they are facing both individually and collectively. Despite hailing from different countries with vastly different political climates, many of the challenges we face are the same.

This year's conference focused on the theme "Making it happen: the future of post is now!" Delegates discussed how technological advances and rising market competition are changing postal systems and postal workers' jobs. A panel on the impact of e-commerce and subsequent increased competition for parcel volumes revealed that many countries are experiencing fast changes and that postal unions must work together to navigate these changes. A panel on postal banking explored different countries' experiences with implementing postal banks and the ways that postal unions can be a part of this process. A panel on the postal pension crisis in Brazil resulted in UNI Americas Post & Logistics adopting a resolution supporting Brazilian postal workers and calling upon unions to halt any business dealings with BNY Mellon, the pension manager that mishandled the Brazilian postal workers' pension fund.

The conference also included educational sessions about successful strategies in organizing workers in postal systems and logistics companies around the world, best practices for regulatory frameworks for public posts, and the Universal Postal Union, a U.N. agency that regulates international mail.

Jim Sauber, NALC Chief of Staff, led the conference in his role as chairman of the UNI Post & Logistics Committee for the Americas—and was re-elected to the position for a second term.

More than 40 delegates represented 13 unions from Argentina, Brazil, Spain, Uruguay, Trinidad and Tobago, Canada, the United States, Mexico, Chile, Colombia and Peru. Also attending the conference as NALC delegates were Secretary-Treasurer Nicole Rhine and research assistant Holly Feldman-Wiencek.

In the media

NALC President Rolando was quoted on April 13 in Federal News Radio and Bloomberg stories on the administration's proposed task force charged with evaluating the finances of the U.S. Postal Service including pricing, policies and workforce costs.

Rolando submitted a letter to the editor for the April 27 edition of *The Washington Post* to rebut an editorial and explain postal finances as well as needed public policy fixes. He also submitted an op-ed to The Daily Caller on May 9 to rebut a commentary piece over issues of postal finances, retiree health benefits, Medicare and taxpayer money.

Several media outlets in New York ran stories on New City CCA **Robert Korba,** who noticed a man in distress while delivering a package and performed CPR. Additionally, the (Peoria) *Journal Star,* Illinois' fourth-largest paper and second biggest outside Chicago, ran a story about **Ralph Presbrey** and **Chris Swenson,** two Pekin letter carriers who rescued customers while on their routes. PR

$1.50 package subsidy and the flawed Citigroup analysis

You may have heard the claim that the Postal Service loses $1.50 for each parcel it delivers for Amazon. This assertion received much media attention after a series of presidential tweets in April (see last month's *Postal Record*). But is it fake news?

The figure stems from an equities analysis by Citigroup ("The Free Shipping Tax," from April 18, 2017) and was then included in a July 13 op-ed piece in the *Wall Street Journal*. Citigroup was recommending to investors that they should buy FedEx and UPS stocks because "a day of reckoning" was coming for the Postal Service, which would eventually have to increase its parcel prices.

The reason? The analysis suggested two; both, however, are based on flawed logic.

The first is that USPS should include the "true cost" of delivering parcels in formulating prices, including the liability under a 2006 law that it pre-fund retiree health benefits. Even though USPS already has $52 billion in its pre-funding account, it's on the hook for an outstanding liability totaling $104 billion. So, Citigroup says that USPS should add in costs to its parcel deliveries to pay for that liability now, to the tune of an extra $5.8 billion per year. Those estimates would drive up USPS costs by 50 percent, or $1.75 per parcel.

There are several problems with this scenario, including the notion that only parcel costs are implicated in the pre-funding liability, as opposed to an across-the-board increase on all products, which would be a more logical solution. Citigroup seems to be taking the ridiculous position that the entire burden of pre-funding should be borne by the Postal Service's parcel volume, which represents just 3.8 percent of total mail volume.

Another problem involves Citigroup's reasoning that this is a payment the Postal Service will have to make soon. The analysis refers to the House of Representatives' Postal Service Reform Act of 2017, which has stalled in Congress, as a sign that legislative changes could be imminent. But it ignores the fact that the bill would dramatically reduce the pre-funding burden as a result of the proposed full integration with Medicare.

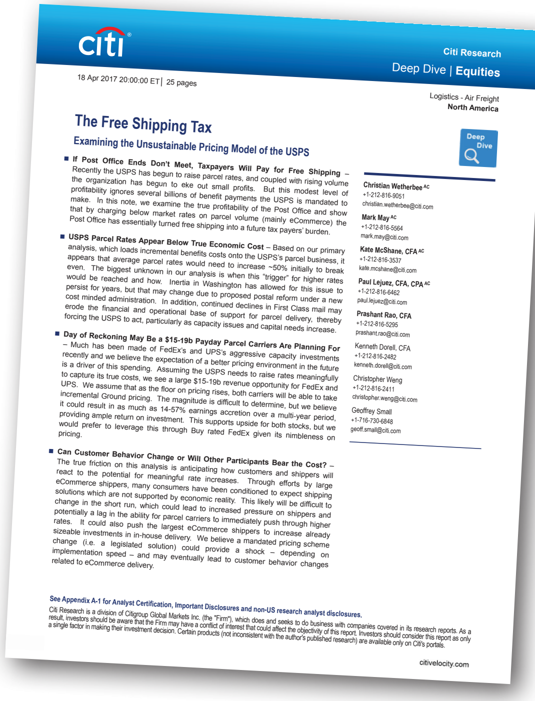
Whether it is this piece of legislation or another, most of the legislative proposals decrease that liability either by expanding the time frame for which it must be met (say, by 40 years, which would decrease the annual contribution to about $1 billion) or by paying much of it off (such as by Medicare integration). Either solution would eliminate Citigroup's supposed day of reckoning; in the meantime, the Postal Service is unlikely to make pre-funding payments in the near future.

All in all, not very good advice.

But wait, there's more. Even if investors see through this first flawed scenario, they get a second for the same cost—one recycled from failed arguments that UPS has been filing with the Postal Regulatory Commission (PRC) for years.

In 2006, the PRC determined that competitive products (the grouping of products that includes parcels) should cover their "appropriate share" of the Postal Service's costs. At the time, it was 5.5 percent of USPS's fixed costs because parcels constituted 5.5 percent of the mail mix. Since then, their share has grown—to 24.6 percent in 2016. So, if parcels had to pay for 24.6 percent of costs, they would need to bring in $7 billion more per year, or $1.46 extra per parcel.

That's where the $1.50 number comes from.



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Deep Dive | Equities

18 Apr 2017 20:00:00 ET | 25 pages

Logistics - Air Freight
North America

The Free Shipping Tax

Examining the Unsustainable Pricing Model of the USPS

Deep Dive

- **If Post Office Ends Don't Meet, Taxpayers Will Pay for Free Shipping** – Recently the USPS has begun to raise parcel rates, and coupled with rising volume the organization has begun to eke out small profits. But this modest level of profitability ignores several billions of benefit payments the USPS is mandated to make. In this note, we examine the true profitability of the Post Office and show that by charging below market rates on parcel volume (mainly eCommerce) the Post Office has essentially turned free shipping into a future tax payers' burden.
- **USPS Parcel Rates Appear Below True Economic Cost** – Based on our primary analysis, which loads incremental benefits costs onto the USPS's parcel business, it appears that average parcel rates would need to increase ~50% initially to break even. The biggest unknown in our analysis is when this "trigger" for higher rates would be reached and how. Inertia in Washington has allowed for this issue to persist for years, but that may change due to proposed postal reform under a new cost minded administration. In addition, continued declines in First Class mail may erode the financial and operational base of support for parcel delivery, thereby forcing the USPS to act, particularly as capacity issues and capital needs increase.
- **Day of Reckoning May Be a $15-19b Payday Parcel Carriers Are Planning For** – Much has been made of FedEx's and UPS's aggressive capacity investments recently and we believe the expectation of a better pricing environment in the future is a driver of this spending. Assuming the USPS needs to raise rates meaningfully to capture its true costs, we see a large $15-19b revenue opportunity for FedEx and UPS. We assume that as the floor on pricing rises, both carriers will be able to take incremental Ground pricing. The magnitude is difficult to determine, but we believe it could result in as much as 14-57% earnings accretion over a multi-year period, providing ample return on investment. This supports upside for both stocks, but we would prefer to leverage this through Buy rated FedEx given its nimbleness on pricing.
- **Can Customer Behavior Change or Will Other Participants Bear the Cost?** – The true friction on this analysis is anticipating how customers and shippers will react to the potential for meaningful rate increases. Through efforts by large eCommerce shippers, many consumers have been conditioned to expect shipping solutions which are not supported by economic reality. This likely will be difficult to change in the short run, which could lead to increased pressure on shippers and potentially a lag in the ability for parcel carriers to immediately push through higher rates. It could also push the largest eCommerce shippers to increase already sizeable investments in in-house delivery. We believe a mandated pricing scheme change (i.e. a legislated solution) could provide a shock – depending on implementation speed – and may eventually lead to customer behavior changes related to eCommerce delivery.

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But there are problems with this scenario as well. One is that the PRC has routinely rejected this line of argument, largely because it eliminates any distinction between fixed and variable costs. So what makes this a likely scenario now, as Citigroup posits?

And there also is a logical flaw in this scenario, as Christian Wetherbee, the Citigroup report's author, later acknowledged. Parcels and other competitive products don't cover only 5.5 percent of the costs anymore. In 2017, they covered about 23 percent of the fixed costs, meaning that they wouldn't need to raise an additional $7 billion per year and, therefore, that there is not a need for that additional $1.46 per parcel. "I'd love to say it isn't a mistake [in the analysis]," he later told *Business Insider*, conceding that it was a mistake.

Despite the many flaws in the report's analysis, the *Wall Street Journal* ran the opinion piece on July 13 by Josh Sandbulte, a co-president of a money-management firm that owns FedEx common stock. Sandbulte wrote, "I know a secret about the federal government's relationship with Amazon: The U.S. Postal Service delivers the company's boxes well below its own costs." He then pointed to the second scenario of the Citigroup analysis, without ever questioning the findings.

From there, the $1.50 "fact" took on a life of its own in the media and onto social media, despite its lack of merit. **PR**