



NALC FACT SHEET

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Congressional Mandates and the Great Recession Have Caused the Postal Service's Recent Financial Challenges

The U.S. Postal Service (USPS) is facing long-term financial challenges due to the increased use of the Internet as a substitute for first-class mail. In order to survive the Postal Service will need to transform its business model to succeed in the 21st century.

But use of the Internet is not the principal cause of the Postal Service's losses of nearly \$12 billion over the last three years. Those losses are due to the Great Recession, which is temporary, and to a requirement mandated by Congress that the Postal Service aggressively pre-fund its future retiree health benefits. No other government agency or company has such a requirement.

The USPS needs to change, but it should not be forced to make short-sighted decisions under duress. Near-term, fiscally responsible reforms are needed to give the Postal Service breathing room to devise a more successful long-term business plan.

1. The requirement to massively pre-fund retiree health benefits over 10 years combined with the Great Recession has caused the recent financial challenges.

- The Postal Service averaged about \$2.3 billion a year in profits from 2003 to 2006. It did not have to pre-fund retiree health benefits in those years.
- The Postal Service ran surpluses in 2007 (\$3.3 billion) and 2008 (\$2.8 billion), which were erased because it had to set aside \$5.5 billion each year to pre-fund retiree health benefits.
- In 2009 the Postal Service lost \$2.4 billion after a \$1.4 billion payment to pre-fund retiree health benefits. This loss was largely due to its revenue plummeting more than 9% from the year before during the worst recession in 80 years.
- From 2011 to 2017 the congressional mandate to pre-fund retiree

health benefits will consume 9% of the Postal Service's annual budget. Yet these benefits will be spent out over 75 years. No business could survive long with such a burden even in good times.

2. This congressional mandate is exceptional and unfair to the Postal Service.

- The Postal Service's retiree health benefits are 41% pre-funded. No other federal agency has pre-funded its employees' health benefits, and companies are not required to pre-fund retiree health benefits.
- Nearly two-thirds of Fortune 1000 companies do not pre-fund retiree health benefits. Of those companies that do pre-fund, the funding level is just 28%.

3. The Postal Service has overpaid \$75 billion to the federal government's pension system. The money should be refunded.

- The Postal Service's Inspector General has found that \$75 billion has been overpaid to the federal government's pension system because of errors in the way the Office of Personnel Management (OPM) calculates the Postal Service's obligations.
- Congress should direct OPM to fairly calculate the USPS obligations and transfer the resulting pension surplus to the postal Retiree Health Benefits Fund. This would allow the Postal Service to fully pre-fund retiree health benefits as mandated by Congress.
- This transfer of pension assets would not alter the government's fiscal condition, as it represents a shift from one government retiree trust fund to another.
- The transfer of pension assets also would not affect the Postal Service's pension plans, which are already 99.5% funded. By comparison, the rest of the government's plans are funded at 41.5% and the average funding level at large companies is about 80%.

4. Congress should put the pre-funding of retiree health benefits on a pay-as-you-go basis if it does not fix the \$75 billion pension overpayment. Other federal agencies and two-thirds of America's biggest companies pay for retiree health benefits as the bill comes due, without pre-funding the benefits. The Postal Service should be treated the same way if Congress does not return the pension overpayments.

5. Adopting the measures outlined above (points 3 and 4) is the best way to stabilize the Postal Service's finances and would not threaten 80,000 good-paying middle-class jobs.

- The Postal Service projects that 80,000 full- and part-time jobs will be eliminated if Saturday delivery ends. The country cannot afford these job losses, especially during a recession.
- Many people depend on Saturday delivery—seniors who need their mail-order prescription drugs, small businesses on Main Street trying to meet payroll, and major businesses like e-Bay whose business model depends on Saturday delivery. The Postal Service estimates that eliminating Saturday delivery will cut its costs by just 4%—but it will cut mail delivery by 17%. That is not a good tradeoff.
- Eliminating Saturday delivery should be a last resort, not a first resort. More time should be spent determining if mail volume will stabilize—if not increase—as the recession ends.
- The loss of Saturday delivery would adversely affect the “postal brand” thereby reducing demand for mail services and reducing revenue. This could potentially create an even stronger downward spiral in the use of mail.
- Fixing the \$75 billion pension overpayment and using the money to pre-fund retiree health benefits will stabilize the Postal Service's budget.