National Association of Letter Carriers
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June 29, 2016

The Honorable Jason Chaffetz
Chairman

The Honorable Mark Meadows
Subcommittee Chairman

The Honorable Elijah Cummings
Ranking Member

The Honorable Gerald Connolly
Subcommittee Ranking Member

The Honorable Stephen Lynch
Committee Member

Committee on Oversight & Government Reform
U.S. House of Representatives
2157 Rayburn House Office Building
Washington, D.C. 20515

Dear Representatives,

On behalf of the 277,000 active and retired members of the National Association of Letter Carriers (NALC), I write to express our deep appreciation for your leadership on the important issue of postal reform. Your commitment to work together in a bipartisan manner and to approach the challenges facing the Postal Service with intelligence and creativity is most welcomed by the men and women who deliver the nation's mail, newspapers, magazines and packages.

Thank you for giving us a chance to share our views on the discussion draft of the Postal Reform Act of 2016 that was issued by your committee on June 15, 2016.

The legislation you have proposed is a huge step in the right direction. Its core focus on addressing the proximate cause of nearly 90 percent of the Postal Service's reported losses since 2007 – the 2006 mandate to pre-fund future retiree health benefits – with sensible reforms based on private sector best practice is most appropriate.

Here I will first summarize our views on the discussion draft, and then go into greater detail in below:

- NALC strongly supports the approach taken by Title I of your draft bill, though we believe there were two significant omissions from that title and that certain other improvements are necessary. We also appreciate your embrace of reforms to the way the OPM values the Postal Service's pension accounts.

- However, we cannot support Section 202, which proposes significant cuts in door-to-door delivery, a major reduction in the quality of service that would undermine the Postal Service's health in the future.

- We have serious concerns about a number of other provisions within certain sections of Title II, including: Section 201 on USPS governance; Section 205(c) PRC service standard reviews; Section 208 on the PRC's pending rate regulation review; and Section 209 on a proposed study of cost allocation guidelines. These provisions may be so controversial within our industry that they could undermine the bill's chances of success.

- We support Titles III and IV as drafted.

Discussion

Title I: Postal Service Benefits Reform

The proposed reforms to reduce the burden of prefunding – changing the way FEHBP covers postal enrollees and maximizing the participation in Medicare by senior postal annuitants – follow standard practice in the private sector. They also ensure the USPS and its employees get the most from the $29 billion in contributions we have made to the Medicare program, while raising spending on the program by less than one-tenth of one percent annually.

I mentioned above that there are important provisions missing from Title I, at least from our point of view. First, there does not seem to be language requiring the plans participating in the Postal Health Benefits Program to employ an Employer Group Waiver Plan to provide low-cost drugs to retirees, as authorized by the Medicare Part D law. The postal reform bill proposed in the Senate (S. 2051) includes the following language, which should be added to your bill:

> "(f) MEDICARE PART D PRESCRIPTION DRUG BENEFITS.—The Office shall require each PSHBP plan to provide prescription drug benefits for Postal Service annuitants and family members who are eligible for Medicare part D through a prescription drug plan offered under a waiver under section 1860D–22 of the Social Security Act (42 U.S.C. 1395w–132).

NALC also urges you to include a provision that would allow the OPM or the USPS to better invest the assets of the Postal Service Retiree Health Benefits Fund. At present, the assets must be invested in Treasury bonds that earn far less than the rate of growth in health premiums. Over time, that means the unfunded liability in the Fund will only get bigger, raising the burden of prefunding unnecessarily. Investing in a safe portfolio of stocks, investment grade corporate bonds and marketable government securities – through apolitical and low-cost index funds – makes much more sense. We would welcome the chance to discuss this proposal.

I also mentioned above that Title I should be strengthened with other improvements. These include:

- Section 101 (on the PSHBP) or Section 104 (on transition funding for current non-enrollees required to enroll in Medicare Part B) should be strengthened with the addition of a "hardship exemption" process to allow the Postal Service to grant waivers to the requirement to enroll in Part B to current non-enrollees in special circumstances.

- To further reduce the burden of prefunding costs, which only the USPS faces, Section 102 should be strengthened by adopting an 80% funding target for the PSRHBF instead of a 100% funding target – and the period for amortizing any unfunded liability should be set at 40 years instead of gradually reducing it to 15 years.

  An 80% target would be more than twice the median funding level of the minority of Fortune 1000 companies that prefund retiree health benefits (according to the Willis Towers Watson annual survey of post-retirement plans). Most companies, of course, don't prefund at all.

  Given that the OPM estimates the future liabilities of the PSRHBF over nine decades into the future, a 40-year amortization period (consistent with private sector practice) is more reasonable than a 15-year amortization period. A shorter period would potentially subject the Postal Service to wild swings in its prefunding payments as interest rates gyrate.

- In Section 103, the legislation indicates that OPM "shall" use postal-specific demographic assumptions in its valuations of the Postal Service's CSRS and FERS pension account valuations. But it indicates that OPM "may" use postal-specific economic assumptions in these valuations. We believe the OPM should be directed to use postal-specific economic assumptions – changing the "may" to "shall" – because accurate valuations are essential.

  The most important economic assumption in pension valuations concerns career salary earnings. The trajectory of career salaries for most postal workers, who are blue collar workers who receive few promotions or grade changes, differs dramatically from most other federal workers, who are generally white collar and professional workers who move up several pay grades over their work lives. This difference must be captured in the valuations, if they are to be fair and accurate.

These changes would make it possible for NALC to support Title I, assuming whatever language added to Section 105 (Reserve Fund) is acceptable.

<u>Title II: Postal Service Operations Reform</u>

Section 202 (Transition to more efficient and secure mail delivery): NALC strongly urges you to remove Section 202 from your draft legislation.

First, we believe it would make mail delivery less secure, not more secure. Cluster boxes in particular are more vulnerable to vandalism and theft. Door delivery offers by far the most secure delivery.

Second, we believe shifting away from door delivery would be deeply unpopular with affected businesses and would undermine the value of the Postal Service's core products in the decades to come – direct mail advertising and e-commerce.

It would also devalue one of USPS's greatest assets – the relationships letter carriers have with the millions of owners of small businesses and home-based companies. This relationship helps carriers develop new business through lead-generation programs such as Customer Connect and encourages businesses to use out-going mail given the convenience of daily pick-ups that occur when carriers deliver the mail.

As such, this proposed shift from door delivery makes no strategic business sense and would be counterproductive. Any cost savings could be more than offset with the loss of standard mail volume and package delivery revenue.

We have urged the Postal Service to reconsider its long-standing policy of promoting centralized delivery for all new addresses. The evidence is overwhelming that it reduces the value of mail and makes the Postal Service less attractive as an e-commerce delivery vendor:

- Door delivery makes direct mail more valuable – the "read and response" rates for direct mail delivered to the door are FOUR times greater than it is for cluster boxes and TWO times greater for curb-line delivery. (Source: InfoTrends Survey for USPS OIG)

- According to the Mail Moment survey done by the Household Diary Study:

    - Cluster box recipients pick up their mail less often – only 62% go daily. Ad mail that is not opened in time for sales is worthless.

    - Cluster box recipients much more likely to toss out direct mail without reading it.

Adopting centralized delivery will clearly reduce the volume of Standard Mail since it would diminish its effectiveness. Meanwhile, e-commerce sellers strongly prefer door delivery. Packages often don't fit in curb-line boxes and full parcel lockers in cluster boxes, which leads to missed delivery deadlines and inconvenience for customers who must retrieve their packages at the post office or wait another day for delivery. It we reduce door delivery, e-commerce business will go elsewhere. On both counts, for direct mail and packages, this policy would result in lost revenues.

Business deliveries are not just cost centers, they are revenue centers – carriers pick up outgoing mail when they make their stops. And we know by experience that less than one percent of households choose to give up door delivery when given the choice. Conducting surveys of residential neighbors would be costly and wasteful when we know very few if any would agree to a conversion.

For all these reasons, we ask that Section 202 be dropped from your legislation

Other sections of Title II: As noted above, we wish to comment on a number of other provisions in Title II:

- With respect to Section 201 on governance, we believe it would be a serious mistake to politicize the offices of Postmaster General and Deputy Postmaster General by making them Senate-confirmed positions with four-year terms. One of the most notable achievements of the 1970 Postal Reorganization Act was to take partisan politics out of the Post Office. We should preserve this progress.

- We supported leaving in place the full 4.3% exigent increase before it expired in April (in return for waiving scheduled CPI-based increases in 2016 and 2017). The Committee's proposal in Section 207 to restore half the increase (2.15%) while allowing the scheduled CPI increases to take place could be a workable approach to stabilizing the Postal Service's finances if the legislation also authorized the OPM or the USPS to better invest the assets in the PSRHBF and adopted other appropriate measures. (For example, setting the target funding ratio of the PSRHBF at 80 percent.)

- Finally, we urge the committee to reconsider some of the proposed adjustments in highly developed and well established procedures within the Postal Regulatory Commission. For example, the provision in Section 205 that would require the PRC to review proposed changes in national service standards within 90 days is both inflexible and unnecessary. The PRC's own rules currently provide for a 90-day timeframe, but the commission has the flexibility to extend the period for good cause if necessary. Similarly, altering the rules governing the upcoming market-dominant rate review proceeding (Section 208) or indirectly intervening in an existing PRC proceeding on the allocation of costs with respect to competitive products (Section 209) pose significant problems for many mailers. These provisions threaten to hopelessly divide the mailing community and impede the legislation from advancing.

However, we do see the merit of expediting the PRC review, starting it early and concluding it by March 31, 2017 (as provided by Section 207). Indeed, given the current vacancies on the PRC and the possibility that new appointees will not be confirmed before two current members must leave the Commission in October 2017, we believe Section 208 should be amended to ensure that any final rule or rules regarding a revised or reapproved system for regulating rates and classes for market-dominant products is issued no later than September 30, 2017.

Conclusion

As you know, the NALC and the other employee organizations have spent the past 10 years working hard to adapt to America's evolving postal needs. We've been doing real reform within the Postal Service since 2006 – restructuring operations to adjust to the loss of First Class Mail, boosting productivity to record highs, doing the hard work of collective bargaining, and helping to facilitate an explosion in e-commerce delivery.

We have restored the USPS to operational profitability. We have dramatically improved efficiency (covering more than 10 million more delivery points with 200,000 fewer workers) and helped build consensus within the industry on ways to resolve the prefunding burden.

As a result of these reform efforts, the Postal Service remains the most trusted agency in government (according to the Ponemon Institute) and has an 84% approval rating with the American people (according to Pew Research). We are extremely gratified that Congress is stepping up to the plate to help us finish the reform job.

Thank you once again for your bipartisan leadership and for working together to strengthen the Postal Service. Letter carriers, along with a growing coalition of unions, companies and trade associations, are committed to working together with the OGR Committee to achieve successful postal reform this year.

Sincerely,

Fredric V. Rolando
President