



POSTAL NEWS

FOR IMMEDIATE RELEASE
Feb. 13, 2013

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Release No. 13-023



Postmaster General Urges Prompt Action by Congress

WASHINGTON — Postmaster General Patrick R. Donahoe told a Senate committee today that the Postal Service's financial problems are more urgent than ever and will continue to get worse until Congress takes action to reform its business model. Testifying before the Senate Homeland Security and Governmental Affairs Committee, Donahoe said the Postal Service will continue to take aggressive steps to increase revenue and reduce operating expenses but needs legislative changes from Congress to help return the Postal Service to long-term financial stability.

"To preserve our mission to provide secure, reliable, and affordable universal delivery service, the Postal Service needs urgent reform to its business model," stated Donahoe. "The American people deserve a financially healthy Postal Service. We will continue to work together with Congress to achieve that goal."

Specifically, the Postal Service is seeking legislative provisions that would:

- Require the Postal Service to sponsor its own health care plan
- Reform the USPS business model to remove restrictions that prevent the Postal Service from responding to the demands of the marketplace, and to enable it to compete much more effectively in a dynamic business environment
- Transition the Postal Service to a new workforce based on a redefined "employee of the future." This would include a personal retirement contribution plan for employees joining the Postal Service after 2015 – versus a defined benefit plan
- Provide a proper calculation of its Federal Employees' Retirement System (FERS) surplus based upon data specific to the postal workforce, and then allow those funds to reduce the debt of the Postal Service
- Avoid restrictions on the announced move to a six-day package, five-day mail delivery schedule.

The Postal Service needs the help of Congress to close a \$20 billion budget gap.

Below is the Postmaster General's oral testimony before the committee. Please note that the remarks as delivered may vary from the prepared text. The full written testimony is available at: <http://about.usps.com/news/testimony-speeches/welcome.htm>.

"Thank you, Mr. Chairman, for calling this hearing to discuss the dire financial condition of our nation's Postal Service, and for the opportunity to provide details of the Postal Service's proposals to return to long-term financial stability. I am glad to be here to discuss these important issues, which are now more urgent than ever.

The Postal Service faces tremendous financial challenges. Last year, the Postal Service recorded a loss of \$15.9 billion dollars. It defaulted on payments to the United States Treasury of \$11.1 billion dollars. The Postal Service exhausted its borrowing authority, and, it continues to contend with a serious liquidity crisis.

At one point last October, the Postal Service had less than four days' worth of cash on hand to fund

operations. For an organization the size of the Postal Service – which has revenues of \$65 billion dollars and a workforce of 495,000 career employees – that is a razor thin margin. By way of comparison, most private sector companies usually have two months of cash on hand to fund operations.

The Postal Service cannot continue along its current path. We are losing \$25 million dollars every day. We are weighed down financially by the increasing burden of our healthcare obligations. We are projecting ever increasing financial losses unless significant changes are made to our business model. We have a responsibility to provide and finance universal service for our nation, but we do not have sufficient authority to carry out this responsibility.

Fortunately, there is an alternative path. If Congress enacts legislative reform, the Postal Service can return to profitability. The Postal Service can return to long-term financial stability and the Postal Service can avoid becoming a burden to the American taxpayer. It merely requires that Congress provide the Postal Service with greater flexibility to adapt to a changing marketplace.

Within our current business model, we have been very aggressive in our efforts to reduce costs. Since 2006 we have reduced the size of our workforce by 193,000 employees. We have reduced our cost base by \$15 billion dollars. We have consolidated more than 200 mail-processing facilities. We are modifying operations at 13,000 Post Offices and we have reduced 21,000 delivery routes.

At the same time, we are striving to retain and generate new revenues. We have seen strong growth in our package business. This has been fueled by effective product innovation and marketing, and the continued rise in e-commerce.

Marketing mail continues to serve as a valuable marketing channel, and we expect this part of our business to remain stable for a long time. First-Class Mail that businesses send continues to prove its value and has also been relatively stable.

Fortunately, people want to receive hard copy statements and other business correspondence through the mail, but unfortunately for us, they elect to pay bills on-line. The result is that we have seen sharp declines in the First-Class Mail sent by residential customers. This is a trend that will continue to erode postal revenues.

Despite our best efforts to increase revenue and reduce operating expenses, we lack the flexibility in our business model to close a widening budget gap. This is the core cause of our financial challenges. The Postal Service must generate roughly \$20 billion in cost reductions and revenue generation by 2016 to return to financial stability.

We are taking every reasonable and responsible step in our power to strengthen our finances immediately. Indeed, we have been directed by our Board of Governors to do so.

Last week, the Postal Service announced a new six-day package delivery and five-day mail delivery schedule, effective the week of August 5, 2013. The anticipated savings from this schedule, when fully implemented, is approximately \$2 billion dollars annually.

This approach to our delivery schedule ensures continued growth in our package business and enables e-commerce throughout the U.S. economy. It also reflects the realities of America's changing mailing habits.

We would urge Congress to eliminate any impediments to our new delivery schedule.

Market research conducted over the last few years has shown consistently high levels of support from the public for a new delivery schedule. Just this morning, CBS News published a poll showing that 71 percent of the public supports our new delivery schedule. The Postal Service also conducted a poll last weekend that showed 80 percent support.

Although discussion about our delivery schedule gets a lot of attention it is just one important part of a larger strategy to close our budgetary gap. It accounts for \$2 billion dollars in cost reductions while we are seeking to fill a \$20 billion dollar budget gap.

During the 112th Congress, the Senate passed S. 1789, which included many reforms sought by the Postal Service. Although this legislation was not enacted, we believe it could provide a framework for swift action in the current Congress.

There are several key provisions needed in legislation to reform our business model. These include:

- Requiring the Postal Service to sponsor its own healthcare plan, since a huge portion of our costs go toward health care for employees and retirees. This would go a very long way toward resolving our Retiree Health Benefits (RHB) pre-funding obligation
- Reforming our business model to remove restrictive governance issues. This would enable us to adapt much more effectively to the competitive marketplace and to changes in our finances
- Transitioning to a new workforce based on a redefined “employee of the future.” This would include a defined contribution retirement plan for employees joining the Postal Service after 2015 – versus a defined benefit plan.
- We also would like to see a proper calculation of our Federal Employees’ Retirement System (FERS) surplus, and to use those funds to reduce the debt of the Postal Service

Allow me to briefly discuss one of the most important opportunities we have to steady our financial ship. This relates to the way we provide healthcare to our employees and retirees.

There is a substantial opportunity for savings – up to \$7 billion dollars worth by 2016 – from moving to a much more modern, responsive and customer-focused system. This would involve having the Postal Service manage its own healthcare. We would competitively select a large national provider.

By moving away from the federal system, nearly all of our employees and retirees would get equivalent or better healthcare coverage and pay less for it. The reduced costs to the Postal Service would enable a major recalculation of our retiree health benefit obligations. Under some scenarios, it might eliminate the need for future RHB payments entirely.

The most important point about our healthcare proposal is that it gets to the root issue of cost control. It bends the cost curve permanently downward. There’s little value to simply to remortgaging unsustainable and growing obligations – we must reduce these long-term obligations.

As we look at the challenges facing the Postal Service, I believe we need to put every option on the table. We need to make decisions and we need to act.

This is fundamentally an issue of adding up the items that get us to \$20 billion dollars by 2016. Resolving our Retiree Health Benefit obligations will not by itself get us to solvency. Neither will our delivery schedule change by itself get us to solvency. We need to do every item on the list.

The financial problems of the Postal Service are getting bigger every year. If we had reformed our business model several years ago, we would be in great shape today. But if we delay reform for another year or more, we may never get back to a sustainable model and we will put tremendous pressure on our liquidity.

We need your help to pass legislation that allows for more revenue generation and effective cost control, and makes fundamental changes to our business model. Without your help, the Postal Service could soon be running deficits in the range of \$10 to \$15 billion dollars annually.

Congress can avoid a future scenario in which the Postal Service requires a taxpayer bailout – which could be in excess of \$45 billion dollars by 2017 if we don’t change our business model.

Time is not on our side; it works against us every day. To preserve our mission to provide secure, reliable, and affordable universal delivery service – and do so without burdening the American taxpayer – the Postal Service needs urgent reform to its business model.

Mr. Chairman, let me conclude by thanking you and the members of this committee for recognizing the difficult challenges we face, and for your willingness to take them on this year. The Postal Service is a tremendous organization, and it needs your help.

The American people deserve a financially healthy and vital Postal Service. The Postal Service stands ready to work with this committee to achieve that goal.”

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