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Misdiagnosis: A Review of the Report of the White House Task Force on the Postal Service

In April 2018, President Trump issued an executive order creating a task force to evaluate the operations and finances of the U.S. Postal Service and to make recommendations for policy changes to ensure a sustainable future for the agency. The White House Task Force, comprised of the Secretary of Treasury and the Directors of the Office of Management and Budget and the Office of Personnel Management, reported its findings to the President on August 10 after just 120 days -- and then issued a public report in December 2018.

Regrettably, that report, United State Postal Service: A Sustainable Path Forward, fundamentally misdiagnoses the operational and financial condition of the Postal Service, and as a result offers recommendations that would seriously weaken if not destroy USPS, a national treasure and vital part of our nation's economic infrastructure.

The principle recommendations would dramatically raise mailing costs for "commercial mailers" and shippers, slash the frequency and quality of delivery, and gut the standard of living of postal employees by outsourcing their jobs, stripping them of collective bargaining rights and reducing their retirement and workers' compensation benefits. These recommendations would weaken, not strengthen the Postal Service – and threaten the most efficient and affordable universal postal system in the world.

The public report, the result of a rushed process conducted behind closed doors without public hearings or a stakeholder comment process, is deeply flawed. Its three major findings about the Postal Service – regarding its current sustainability, its labor costs and its impact on competition in the delivery industry – are fundamentally wrong. They are based on incomplete data, faulty analysis and misleading evidence.

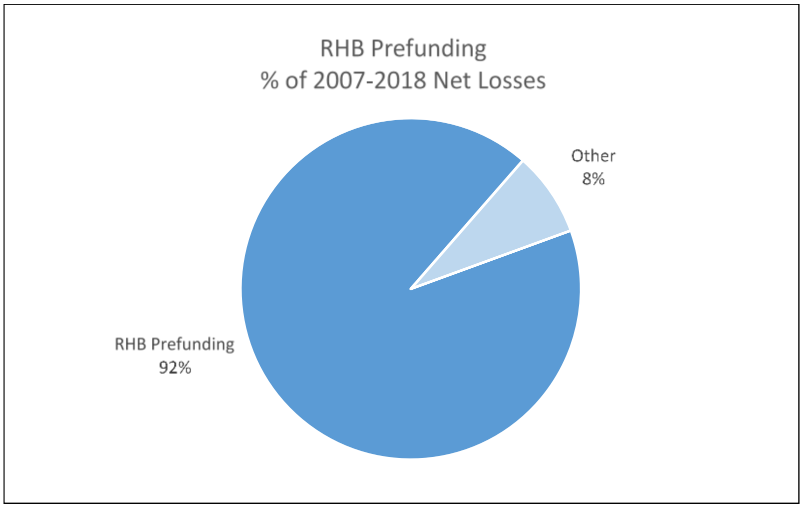
The National Association of Letter Carriers (NALC) can support some of the report's recommendations – such as maintaining the geographic scope of the Universal Service Obligation (USO), reducing the burden of the prefunding mandate and exploring the addition of new services outside the current USO to help fund the agency. But we oppose the bulk of the Task Force's recommendations and hope to advance more productive and effective reform ideas as the legislative debate unfolds. Indeed, we prepared this review of the Task Force report to advance that debate.

In sections below, we analyze the faulty foundations of the Task Force's findings, explain the unexamined consequences of its recommendations and summarize an alternative reform agenda that will position the Postal Service to thrive in the 21st Century.

Misdiagnosing the Crisis

The Postal Service recorded losses of some $69 billion between 2007 and 2018, the years following the enactment of the Postal Accountability and Enhancement Act (PAEA) of 2006. Although the negative impact of the Great Recession of 2008-2010 certainly had a devastating impact on mail volume and postal finances, and while significant electronic substitution of First Class Mail volume due to the internet made things worse, the financial crisis of the past 12 years was largely manufactured by Congressional policy.

The PAEA's mandate requiring the Postal Service – uniquely among all American enterprises -- to prefund decades of future retiree health benefit costs in advance accounts for 92% of the $69 billion in losses:



The PAEA also imposed a strict cap on postage rate increases (tied to the Consumer Price Index), making the prefunding mandate totally unaffordable. Yet, remarkably, the White House Task Force report mentions these key policy drivers only in passing. Indeed, the Task Force chose to largely ignore the elephant in the room – prefunding – in its three most important findings:

1) The Postal Service is on a financially unsustainable path and therefore requires a new business model with a downsized universal service obligation.

2) The Postal Service's labor costs are excessively high and therefore must be dramatically cut by stripping hundreds of thousands of postal employees of their collective bargaining rights and by gutting postal employee pension and workers' compensation benefits.

3) The Postal Service's strong growth in the delivery of packages and other competitive products is improperly distorting the market for such delivery to the detriment of private competitors -- and therefore requires a radical restructuring of the current system of regulating and pricing of postal products.

None of these basic findings hold up to scrutiny, making the policy recommendations that arise from them nonsensical. Let's look at each in turn.

<u>Is the Postal Service on an Unsustainable Path</u>?

The Task Force relies on two primary arguments to make the case that the Postal Service is on an unsustainable path. First, it cites operational and financial trends, focusing on the decline in First Class Mail volume and revenue and the heavy financial losses reported by the Postal Service in recent years. Second, it points to weaknesses in the Postal Service's balance sheet – the excess of liabilities over assets. In both cases, the Task Force has misread the Postal Service's financial condition.

Table 2: USPS Revenue, Expenditures, and Volume Trends

USPS Domestic Mail and Package Revenue and Volume Trends *(in Billions)*									
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Mail Revenue ($)	50.6	49.0	47.0	46.7	47.4	47.5	46.6	43.6	42.7
Mail Volume (pieces)	166.9	164.1	155.4	153.7	150.5	148.7	148.2	142.7	139.9
Package Revenue ($)	10.3	10.7	11.6	12.6	13.8	15.1	17.5	19.5	21.5
Package Volume (pieces)	3.1	3.3	3.5	3.7	4.0	4.5	5.2	5.7	6.2

USPS Revenue and Expenditures *(Dollars in Billions)*									
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Total Revenue	67.1	65.7	65.2	67.3	67.9	69.0	71.5	69.7	70.7
Expenses Excluding RHB	70.1	70.8	70.1	66.7	67.7	68.3	71.3	68.2	70.0
Operating Income (prior to RHB)	(3.0)	(5.1)	(4.8)	0.6	0.2	0.6	0.2	1.5	0.7
RHB (10-Year Prefunding)	5.5	0.0*	11.1*	5.6	5.7	5.7	5.8	-	-
RHB (40-Year Amortized Prefunding)	-	-	-	-	-	-	-	1.0	0.8
Annual Accrual of RHB	-	-	-	-	-	-	-	3.3	3.7
Net Income (Including RHB)	(8.5)	(5.1)	(15.9)	(5.0)	(5.5)	(5.1)	(5.6)	(2.8)	(3.9)

** The USPS failed to prefund its retiree health benefit (RHB) payments after 2010. Congress shifted the USPS's 2011 prefunding payment to 2012, resulting in an $11.1 billion liability in 2012. Source: USPS 10-K Filings, 2007-2018*

Financial and operational trends. On the previous page, we've recreated Table 2 from the Task Force report (page 19 in the published document). Although it is true that mail volume (meaning letters- only in the chart) and revenue declined in the years after the Great Recession, there has been strong growth in package revenue and volume. As the top half of Table 2 shows, the loss in revenue from letter mail between 2010 and 2018 ($7.9 billion) has been more than offset by the increase in package revenue ($11.2 billion). Yes, First Class Mail volume has declined sharply, but Marketing Mail volume has been relatively stable and the overall rate of decline in total mail volume (letters and packages) has been fairly moderate. Total mail volume (including packages) declined from 170 billion in 2010 to 146 billion pieces in 2018, an average decline of 1.8% annually over that eight-year period.

What Table 2 does not fully convey, however, is that over that same period, the Postal Service restructured itself in response to lower mail volume, reducing its workforce by hundreds of thousands and its costs by billions annually (which will be discussed further in the next section).

Thanks to the hard work of postal employees, the Postal Service recovered from the Great Recession. Indeed, as the lower half of the chart shows in the "Operating Income" line, USPS turned massive losses into solid surpluses. Of course, as the label in that line indicates, that was the result of operations before factoring in the cost of prefunding retiree health benefits (RHB). Indeed, for the past six years running, the Postal Service's "Operating Income (prior to RHB)" has been positive – totaling $3.8 billion. As the table shows, Operating Income (before RHB) was $1.5 billion in 2017 and $700 million in 2018. If not for the PRC's mistaken decision to repeal the 4.3% "exigent increase" in postage rates in 2016 (implemented during the Great Recession), those surpluses in 2017 and 2018 would have been approximately $1.5 billion per year higher. That was the first roll-back in rates since 1919.

In short, the Congressional mandate to make the Postal Service do what no other business in America is required to do – massively prefund future retiree health benefits – accounts for 100% of the Postal Service's losses since 2013. Instead of suggesting the Postal Service is on an unsustainable financial path, Table 2 proves the opposite. If not for the misguided prefunding policy, the Postal Service, under its current business model, would be adapting quite well to technological and economic change.

A simple repeal of the prefunding mandate (which NALC supports) may not solve all challenges facing the Postal Service – the mix of mail will continue to evolve as some forms of traditional letter mail decline. However, without the mandate, the Postal Service would be positioned to thrive in the future with much more sensible and moderate reforms than the ones being pushed by the Task Force.

Balance sheet issues. The Task Force's second major argument to support its conclusion that the Postal Service is on an unsustainable path is weaknesses on its balance sheet. It reports: ". . . as of FY 2018, the USPS balance sheet reflects $89 billion in liabilities against $27 billion in assets – a net deficiency of $62 billion." (See page 2 of the published report.) And it highlights the Postal Service's long- term liabilities for retirement benefits and other programs in Table 3 of the report (found on page 26), which is recreated below.

As with its finances, the source of the Postal Service's balance sheet weakness is the misguided Congressional policy, not a problem with its business model. In addition, the report's discussion of liabilities lacks important context.

First, with respect to the balance sheet, here is the data cited by the Task Force, which is presented on page 16 of the Postal Service's 10-K report for 2018:

Selected Financial Data for 2018 (in $millions)

Assets:	
Cash and cash equivalents	$10,061
Property and equipment, net	14,616
All other assets	2,011
Total assets	**$26,688**
Liabilities:	
Retiree health benefits	$42,641
Workers compensation costs	16,409
Debt	13,200
All other liabilities	17,075
Total liabilities	**$89,325**
Total net deficiency	**$(62,637)**

This 10-K breakout of assets and liabilities provides important context that the Task Report does not, which undermines the report's dire conclusions about the balance sheet.

On the asset side, the Postal Service has a strong cash position -- $10.1 billion is double the nearly $5 billion in cash recorded at the end of FY 2014. In addition, it is important to note that the Postal Service's property and equipment is carried at book value, not market value. The USPS Office of Inspector General has estimated that the Postal Service's huge real estate holdings may be worth up to $85 billion at market value. (See: https://www.uspsoig.gov/sites/default/files/document-library-files/2015/ft-wp-15-003_0.pdf.)

On the liability side, the most important thing to remember is that the $42.6 billion in retiree health liabilities listed here is, once again, the negative results of the misguided prefunding policy adopted by Congress in 2006. This is the amount of the prefunding payments that the Postal Service has not been able to make since 2011 – the driving force behind the reported net losses discussed above. In other words, more than two-thirds of the "net deficiency" between assets and liabilities is directly due to the prefunding mandate. And when you note that the Postal Service had to use its borrowing authority to cover the cost of prefunding payments it made between 2007 and 2009, an even greater percentage of the net deficiency is due to Congressional policy.

Second, the Task Force's discussion of long-term liabilities again shows the negative impact of the prefunding policy – it accounts for almost half (47.6%) of the $139 billion in liabilities. (See Table 3 on the next page.) But even including the retiree health liability, this number is not particularly alarming when you consider the size of the Postal Service (635,000 employees and $70 billion in annual sales) and the fact that it is a projection covering a very long period into the future – 75 years for the pensions and even more for retiree health benefits.

Of course, liabilities measured over such long periods of time are very sensitive to interest rate movements. Indeed, the increases in these liabilities over the past 12 years were artificially inflated by declining interest rates resulting from the recession. As interest rates rise in the future, these liabilities (for pensions, retiree health and workers' compensation) will fall significantly.

Table 3 from the Task Force report is misleading since it fails to provide data on retirement assets as well as retirement liabilities:

Table 3: Postal Service Long-Term Liabilities, FY 2018 ($ Billions)

Long-Term Liability	Amount
Unfunded Pension Liabilities	
Civil Service Retirement System (CSRS)	$25.1
Federal Employees Retirement System (FERS)	$18.4
Total Unfunded Pension Liabilities	**$43.5**
Other Long-Term Liabilities	
Retiree Health Benefits (RHB)	$66.5
Workers' Compensation	$16.4
Debt to Federal Financing Bank	$13.2
Total Long-Term Liabilities	**$139.6**

Source: USPS 10-K Filing 2018

In fact, contrary to the implications of Table 3, the funding of retirement benefits is an area of strength for the Postal Service. The chart above indicates a $43.5 billion unfunded liability for CSRS and FERS pensions. But according to the Postal Service's 2018 10-K report (p.31), that reflects the difference between $322.7 billion in liabilities and the $281.6 billion in assets. That means that the Postal Service has funded 87% of its pension liabilities – which would place it well into the "green zone" under pension funding rules for the private sector. This is especially remarkable when you consider that the Postal Service is required to invest its CSRS and FERS pension assets in low-yielding Treasury bonds instead of a well-diversified portfolio of stocks and bonds that would provide greater returns.

Similarly, the task report does not report on the $47.5 billion in assets (again invested in low-yielding treasury securities) held by the Postal Retiree Health Benefit Fund, only the unfunded liability.

In the absence of the Congressional prefunding mandate, the Postal Service's balance sheet would be much stronger and the long-term outlook on liabilities would be significantly better than portrayed by the Task Force report. As with dire claims about the Postal Service's financial performance in recent years, the White House Task Force findings in this area are deeply flawed. They cannot and should not be used to radically transform the Postal Service's business model or the public interest system of regulation that governs it.

Are the Postal Service's Labor Costs Excessive?

The conclusions of the Task Force on Postal Service labor costs are based on little or no evidence. This is surprising given the radical reforms it proposes – stripping postal employees of their collective bargaining rights and ending their defined benefit pensions (which are extremely well-funded, as we just showed above). Indeed, the topic of labor costs is handled with a series of non-sequitur statements and dubious assertions scattered throughout the report. A good example of this comes in the section on the *Role of the Postal Service in the Economy*:

> The typical postal service worker earns a higher wage than the average U.S. worker. However, postal workers note that their salaries must be compared to those of their major competitors, UPS and FedEx, rather than the typical U.S. worker. This calculation is difficult given the need to adjust for similar experience, duties, and location as well as the lack of detailed data on wages and benefits within these companies. Based on Treasury staff analysis of 10-K filings, in 2017, total per-employee cost at the USPS was $85,800, compared to $76,200 and $53,900 at UPS and FedEx, respectively. (See pp. 13-14.)

It is not at all surprising that the typical postal worker earns more than the average American worker given that they work for one of the largest employers in America in an industry that pays above-average wages. Meanwhile, the "Treasury staff analysis" is ludicrous. The method used -- dividing the three companies' total labor costs by the number of employees (as reported in the 10-K reports) -- is downright silly. It does not control for even the most basic relevant factors – hours worked, tenure, executive status, etc. For example, virtually all postal employees work full-time schedules (even the non-career staff according to their 10-K reports) while the private companies have huge part-time workforces (47% at UPS and 41% at FedEx) due to major differences in work flow among the three delivery firms. (Many of their workers work 2-4 hours a day.) Part-time workers earn substantially lower wages than full-time workers in virtually every industry -- and they usually do not receive non-wage benefits. Nor did the Treasury staff consider the fact that FedEx uses independent contractors for most of their delivery work, labor costs that are reported as "purchased transportation."

The quality of the analysis does not improve in later sections of the report. A section entitled *Current State of the USPS (p 24.)* offers this skimpy take on labor costs:

> *Labor Costs*
>
> Employee compensation and benefits accounts for around 76 percent of the USPS's total expenses. These costs represent a much higher share of the USPS's overall costs when compared against other private courier companies. Between 2014 and 2017, the USPS's total workforce increased by 26,247 employees (14,803 career and 11,444 non-career) – in sharp contrast to the decrease of over 53,973 employees between 2010 and 2013. The increase was due in large part to the increase in work hours associated with the increases in package deliveries. This resulted in an increase of $3.1 billion in personnel costs (not counting required Postal Service Retiree Health Benefits Fund contributions). Contractual wage and Cost of Living Allowance (COLA) raises also contributed to the increase. In addition to and independent of COLA, postal workers receive a 1 to 1.5 percent increase in wages each year, increasing hourly

wages at a faster rate than other federal government employees and at a faster rate than the pricing rate caps on many of their products.

This paragraph is filled with nonsense:

- The fact that the Postal Service's compensation and benefits comprise a larger share of total costs compared to its private competitors is not at all surprising or problematic. The Postal Service delivers mail and small parcels to 159 million homes and businesses each day, six days a week. Meanwhile, the private companies serve a much smaller number of delivery points (an estimated 20-30 million), often just five days a week. The work of processing and delivering mostly letters is far more labor-intensive than delivering primarily packages – as the private companies do. As mentioned earlier, FedEx and UPS employ many more part-timers (who typically earn much less than full-timers). And the private firms operate huge shipping divisions, complete with fleets of airplanes and long-haul trucks (capital costs) that the Postal Service does not. Of course, the USPS spends more on labor as a percentage of total costs, but that does not mean its compensation costs are excessive.

- The modest growth in employment associated with the Postal Service's growing package delivery business is a good thing, not a bad thing – and does not change the fact that overall USPS employment is down by 33% from its peak level of 906,000 (as noted on page 57 of the Task Force report).

- The discussion of wage increases received by postal employees between 2010 and 2013 tells us nothing about whether labor costs are excessive. Comparing postal wage increases to federal employee wage increases is irrelevant – though it is not a surprising result given that Congress froze the pay of federal employees for much of this period. The key issue is overall labor costs, which is also impacted by productivity growth and the structure of the workforce -- not the size of any individual wage increase. Indeed, productivity growth has been strong in recent years (see page 30 of the USPS Annual Report to Congress for 2018 (https://about.usps.com/who-we-are/financials/annual-reports/fy2018.pdf).

- And the report is simply wrong to suggest that USPS labor costs rose faster than the rate of inflation. In view of major changes made in the Postal Service's labor contracts (allowing more non-career workers as well as restructured wage schedules), the opposite is true. Indeed, although the labor contracts we've negotiated have provided the COLAs and wage hikes cited by the Task Force report, the average straight-time wage of all city letter carriers is less in 2019 ($25.59) than it was in 2010 ($26.64) because of these and other contractual changes. In inflation-adjusted terms, wage costs have declined significantly.

- Postal employees earn living wages, not excessive wages, for difficult and useful public service jobs. This should be a point of pride for the U.S. government, not a problem.

The only other references to labor costs in the report come in the final section, *Operational Structure, Governance, and Long-term Liabilities.* In this section, the Task Force seems to object to postal employees having the same collective bargaining rights as private sector workers: "They can bargain for wages and benefits as private sector unions do, without the same level of risk that their company will go out of business." (p. 57)

The Task Force seems to think collective bargaining rights should be contingent on the risk of permanent job loss. Instead of treating collective bargaining as the basic human right it is under U.S. and international law, the report suggests that it is an undeserved privilege for postal employees – bizarrely calling it a "dual-labor model."

On the same page, again citing no evidence, the report asserts that 'no lay-off' clauses in the USPS's collective bargaining agreements "limit[ing] management's ability to adapt the USPS's business model." This is simply not true. The USPS has been able to adjust the size of its workforce and has never had to resort to established procedures for Reductions in Force over its 50-year history. Major downsizing has been achieved through attrition and the limited use of early-out incentives.

The final evidence-free assertion on labor costs comes in the Task Force's outrageous recommendation to strip postal employees of the right to collectively bargain their wages on page 61. It states that "USPS employees enjoy a pay and benefits premium over their private sector counterparts, although the size of this premium is likely falling." It is a ludicrous claim offered without any supporting facts or analysis. In fact, the evidence shows that postal employees earn pay and benefits comparable to other large, national employers in the delivery industry.

Congress should reject the mean-spirited and insulting recommendation to repeal collective bargaining rights for America's postal employees. Even if the report proved that postal employee pay and benefits are objectively excessive – which it clearly has not – nothing can justify stripping basic workplace rights from American workers.

<u>Does the USPS Distort the Package Delivery Industry</u>?

The final major conclusion by the Task Force report is that the Postal Service is somehow disrupting the package delivery market and that the increasing role of the Postal Service in competitive services calls for a radical restructuring of the way the agency is regulated.

The report offers virtually no evidence in support of this conclusion. It simply asserts that: "Although the USPS does have pricing flexibility within its package delivery segment, packages have not been priced with profitably in mind" (see p. 5). In fact, according to the Postal Regulatory Commission (PRC), competitive products generate $7.6 billion annually in "profits" – i.e., revenues above and beyond the costs of package delivery. This helps fund the institutional costs of affordable universal service. Yet based on the unsupported claim that packages are underpriced, the Task Force argues for radical reform of all postal products.

Under current law, the PRC regulates products in which the Postal Service is the dominant provider (letter mail, magazines, catalogues, etc.) differently than the way it regulates competitive products. Under this system, market-dominant product prices are subject to regulation (a price cap based on the Consumer Price Index) while USPS is free to price competitive products as it wishes, subject to market forces and fair competition rules. (One such rule requires USPS competitive products to contribute an "appropriate share" to USPS overhead costs.)

The report calls for a new system that would distinguish between vaguely defined "essential services" and "commercial services." Personal letters, invoices, government mail and prescription drugs are examples of "essential services" while marketing mail, catalogues and packages are examples of "commercial mail." Essential service prices would be strictly regulated while commercial services should be offered at "market rates."

The Task Force believes the universal service obligation should be limited to "essential services" and focus on last mile delivery. And it calls on the USPS and the PRC to pursue a strategy of raising prices on commercial services (the vast majority of current mail volume) to pay for universal service for "essential services." The Task Force specifically calls for "commercial services" to subsidize "essential services," replacing the historical conception of universal service by which high-density urban areas subsidize low-density rural areas. This shift poses a dire threat to Rural America.

In addition, the USPS would be freed to decide on the frequency and mode of delivery – not Congress -- and the PRC would be allowed to downsize the definition of universal service (to the minimum level necessary) with respect to retail access and other services.

Most controversially, given serious trust, privacy and accountability concerns, the report supports giving the Postal Service the right to sell access to Americans' mail boxes to competitors as a revenue source. This proposal to let the USPS "monetize" its own customers' mailboxes, would apparently give such access to any company, trustworthy or not, willing to pay for it.

NALC has no special expertise on the issues of costing methodologies and competitive pricing. But we do offer two observations.

First, the Task Force's views on regulation and business model reforms appear to be based on two false assumptions.

- It believes that the Postal Service should no longer be thought of as a public good or as a public utility (see p. 33). With the decline of First Class Mail, which has provided universal communications and played a crucial role in our system of financial payments, a growing share of the Postal Service's business comes from package delivery. Since there are private companies that provide such services, the Task Force suggests the need for a public utility in mail and package delivery is no longer necessary.

  This is wrong. In an age of e-commerce, and with the loss of retail options in rural areas and economically distressed urban areas, affordable universal delivery is more important than ever. Private companies would either not serve these areas at all, or they would charge exorbitant prices for the service.

  But more importantly, contrary to what the Task Force suggests, the letter mail business remains vital – 96% of the Postal Service's volume and 70% of its revenue come from letter mail. To this day, the Postal Service still provides the only truly universal communications system in America – tens of millions of Americans don't have access to the internet. Millions of small businesses rely on the USPS for invoicing and bill payments. An institution dedicated to the public interest – not simply the interests of shareholders – remains essential.

- The Task Force also appears to believe that the growth in the Postal Service's package delivery business has unfairly hurt private competitors – and therefore calls for the adoption of cost allocation policies (fully distributed costs) that will force USPS to raise its package prices.

But, in fact, the Postal Service's competitors are among the greatest beneficiaries of the Postal Service's low-cost delivery services – FedEx and UPS are two of the Postal Service's biggest customers with the Parcel Select last-mile delivery service. (The companies drop ship to USPS delivery units for final delivery.) The presence of economies of scope (delivering multiple products through USPS networks) in USPS delivery is a positive economic good, not an unfair subsidy. The American economy and, especially, businesses that ship products, are the beneficiaries of having a public utility that helps keep costs down.

Second, the Task Force appears to have ignored the evidence and expertise that is readily available from the Postal Regulatory Commission on the market for competitive services. That evidence and expertise disproves the conclusion that the Postal Service is disrupting the market for package delivery. And the federal courts have repeatedly affirmed the conclusions of the PRC.

Indeed, within weeks of the publication of the Task Force's report, the PRC issued a decision on competitive pricing that rejected the approach recommended by the Task Force – basing its decision on hard evidence and expertise. In fact, it significantly raised the minimum "appropriate share" of institutional costs to be paid for by competitive services. Had the Task Force respected this expertise, it would not have proposed the radical, risky and ill-defined business model it is recommending.

Unexamined Consequences

The Task Force makes 25 administrative and legislative recommendations in its final report. NALC can support some of these recommendations, such as defining the geographical scope of the Universal Service Obligation (USO) as broadly as under current law and allowing the Postal Service to offer new services. But given the serious flaws in the work of the Task Force highlighted in this review, we cannot support most of the recommendations in the final report.

The Appendix of this review provides the NALC's views on each of the specific recommendations. But in general, we oppose the overall approach, which aims to downsize the current USO to cover only vaguely defined "essential services" while empowering the Postal Service to reduce the quality and frequency of service and urging Congress to launch an all-out assault on the rights, jobs and living standards of America's 630,000 postal employees.

This is not a plan to save the Postal Service, but a plan to dismantle it.

Oddly, for a "pro-business" administration that allegedly favors deregulation and market competition, the Task Force calls for giving the PRC even more power to regulate the Postal Service while rewriting the regulatory rules in ways that will dramatically increase the cost of shipping and "commercial" mail service (most mail volume) for millions of businesses. If enacted, these recommendations might even force the Postal Service out of the package delivery business, the fastest-growing part of the industry. This would leave a virtual duopoly of FedEx and UPS to raise prices and maximize profits and seriously damage the U.S. economy.

Perhaps the biggest failure of the Task Force is the lack of analysis of the potential impacts of the recommendations it has made for administrative and legislative changes in postal policy. It offers no data on the likely effects of these recommendations on the Postal Service's finances and operations or on the quality and affordability of postal services in America. It also fails to consider what impact these changes would have on the $1.4 trillion mailing industry and the 7.5 million American workers who rely on it for jobs and incomes.

But it is not difficult to predict what would happen if the Task Force's recommendations were enacted. The effects would mostly be negative:

- With outsourcing and the loss of collective bargaining, the quality of the Postal Service's workforce would rapidly decline, driving turnover up and productivity down.
- Postage rates in the U.S., now among the lowest in the world for industrialized countries, would rise dramatically.
- Mail volume would therefore fall even faster, especially for commercial mailers, the heart of the mailing industry; this would cause the whole industry to shrink, including the paper, printing, publishing, advertising, and e-commerce sectors.
- The quality of service would decline – door delivery would be curtailed, weakening the Postal Service's last-mile advantage – and USPS would likely eliminate days of delivery in low-density delivery areas, in rural America and in economically-disadvantaged urban communities.
- The American public, which currently gives the Postal Service an 83% approval rating, would lose trust in the Postal Service.
- Postal Service financial losses would likely mount, leading to even higher prices and deeper service cuts – all of which could tip the Postal Service into a death spiral.

Finally, the Task Force failed to consider the likely impact of the PRC's 10-Year Review of the rate-setting system, which will strengthen the Postal Service's financial stability in the months to come, another reason to forgo radical reforms.

In fact, the draconian reforms proposed by the Task Force are reckless and risky. To promote the common good and to preserve the Postal Service, a valuable part of our nation's economic infrastructure, Congress should explore more sensible and moderate reforms.

An Alternative Reform Agenda

Appendix II of this document presents the submission the NALC and the other three postal unions (APWU, NPMHU and NRLCA) made to the White House Task Force on the Postal System last year. It provides details on sensible reforms that can strengthen the Postal Service to meet the evolving needs of the country in the decades to come. Here we will briefly summarize this alternative agenda.

Elements for sensible reform

1) **Address the retiree health benefits prefunding burden.** Congress should either repeal or reform the prefunding mandate to reduce its burden on the Postal Service. It can do the latter by adopting the private sector best practices:

- **Prefund only the vested liability.** Private sector companies are not required to prefund retiree health benefits at all, but they are required to report the future cost of vested benefits for employees eligible for retiree coverage. About 40 percent of Fortune 1000 companies choose to partially prefund such benefits – at an average level of 60 percent. Congress should adopt this "best practice" and reduce USPS' prefunding target from 100 percent of the "total projected liability" to 60 percent of the "vested liability" for retiree health benefits – that is, only for employees who are retiree-eligible and who qualify for such benefits. This would reduce the retiree health funding burden for future retiree health by at least $35 billion.

- **Medicare Part D integration.** Congress should reform the way the Federal Employee Health Benefits Program (FEHBP) covers postal employees and postal annuitants by authorizing postal-only plans within FEHBP to take advantage of the prescription drug savings offered private sector health plans by the Medicare Part D law. This reform would reduce the Postal Service's liability for retiree health by at least $25 billion.

- **Prospective integration with Medicare Parts A and B.** Congress should apply a requirement to enroll in Parts A and B of Medicare at age 65 -- which is standard practice among private company health plans with retiree coverage -- to the postal-only FEHBP plans, with appropriate exceptions for VA-covered retirees and others who cannot benefit from Medicare Part B. To avoid the need for offsets to reimburse the Medicare Trust Funds over the CBO's 10-year budget scoring window, this requirement should be applied on a prospective basis – for active employees under the age of 55 on the date of enactment. This reform would reduce future retiree health costs by tens of billions of dollars.

- **Properly invest the PSRHBF.** To further reduce the prefunding burden, Congress should authorize the Postal Service to safely invest future retiree health contributions in low-cost index funds like those offered by the federal Thrift Savings Plan. Despite the 2008 crash, the TSP's common stock fund (C Fund) returned an average of 8.8 percent since the Postal Retiree Health Benefits Fund (PSRHBF) was created in 2007. Nonsensically, current law requires the PSRHBF to be invested in low-yielding Treasury securities instead of diversified portfolio of stocks and bonds, the best practice of private sector companies. Since annual medical inflation is much higher than Treasury returns (2-3 percent in recent years), this investment policy guarantees that the unfunded liability for retiree health will increase without end. Investing the PSRHBF properly would avoid this while generating billions of dollars in additional returns for the PSRHBF, lowering the unfunded liability.

- **Adopt fair pension responsibility methods**. A final option could be achieved via legislation or an executive order – requiring the OPM to adopt private sector best practice in the valuation of the Postal Service's CSRS pension account. Such a valuation is done annually and requires OPM to allocate responsibility for pension costs for postal employees between two accounts, the federal (taxpayer) account for service before 1971 (when the USPS was created) and a postal (USPS) account for benefits associated with service in 1971 or later, after postal reorganization.

  A 2010 PRC report prepared by the Segal Company called for the OPM to adopt private sector best practice in its annual valuation of the Postal Service's CSRS pension account – a step that would have created a $50-$55 billion surplus in the account. Since any surplus in that account, by law, is to be transferred at designated intervals to the PSRHBF and could largely eliminate the prefunding burden, this idea was included in a bill (H.R. 1351) that attracted majority bipartisan support in Congress in 2011-2012. Unfortunately, the bill did not advance.

Adding to the attraction of this idea is a more recent report (issued May 7, 2018) from the USPS Office of Inspector General. It updates the analysis of the 2010 PRC/Segal report and found that the postal surplus, fairly calculated, now stands at least $80 billion.

If the actuarial methods used in the private sector were adopted by law or executive order, the Postal Service's liabilities under CSRS would be fully funded; those of the PSRHBF would be nearly or fully funded. This would save the Postal Service billions annually in normal cost and amortization payments.

2) **Allow new products and innovation.** The services USPS can provide are strictly limited by current law. It therefore cannot maximize the value of its unique retail, processing and delivery networks. To innovate and remain healthy, USPS must be allowed to develop new ways to serve the public and to offer new services. For example, Congress could use the Postal Service to strengthen our democracy by promoting mail-in balloting at all levels of government and improve access to government services by encouraging partnerships between USPS and federal, state and local government agencies. It could also permit USPS to deliver beer, wine and distilled spirits (consistent with state laws).

3) **Adopt measures to track and improve service.** Congress should adopt the reforms aimed at improving service standards and performance, especially in rural America, that were included in the Postal Service Reform Act of 2018 (Senate bill S. 2629).

In combination with an improved system of postage rate regulation – which will emerge in 2019 from on ongoing proceeding at the Postal Regulatory Commission – these three reform approaches would stabilize the Postal Service and create the conditions for it to thrive in the 21st Century.

Conclusion

The report of the White House Task Force is a fatally flawed analysis of the Postal Service and its future. As described in this review, the recommendations are the product of erroneous findings resting on faulty data and reasoning. On page 2 of the report, the Task Force states:

> "The USPS's business model -- including its governance, product pricing, cost allocation, and labor practices – was sustainable in an era where mail revenues and volumes grew along population and economic growth. However, as the Postal Service's financial condition continues to deteriorate, standalone proposals, such as forgiving the prefunding of post-employment benefits or renegotiating labor contacts, will be insufficient."

Yet on Table 2 from page 19, reproduced on page 3 of this document, the Task Force's own data shows this conclusion to be wrong. The Postal Service earned Operating Income (before the RHB prefunding expense) in each of the last six years – for a total of $3.8 billion between 2013 and 2018. Over that period, the four postal unions and the USPS renegotiated their contracts twice and did just fine adapting to the changing mix of mail.

The problem is not the Postal Service's business model; it's the misguided prefunding policy. Senator Ron Johnson (R-WI), the Chairman of the Senate Homeland Security and Governmental Affairs Committee, was right when he observed at a committee hearing in January 2016: "There is just so much confusion on this issue, and yet we . . . passed the 2006 law that reclassified a long-term liability into a short-term liability that created a real pinch on the Postal Service that never should have occurred." (See p. 16, S. Hrg. 114-579).

We don't need to dismantle the Postal Service to save it, and we certainly do not have to weaken its networks or attack its hard-working employees to make it sustainable.

If Congress finally addresses the prefunding policy debacle and the PRC adopts a more sensible rate-setting regime in 2019, the Postal Service and its employees have all the tools we need to adapt to the challenges of the 21st Century. So long as postal reform is based on the facts and so long as we act wisely in response to these facts, the future of the Postal Service will be bright.

Appendix: NALC Positions on Task Recommendations

	Policy Action	NALC Position
Universal Service Obligation (USO)		
Definition		
Clearly define the USO. Provide a targeted definition of minimum, essential postal services that due to specific social and economic needs have a basis for government protection.	Administrative	**NALC opposes.** Redefining the USO would require legislative action. There is no statutory authority for the PRC to define "essential" services. Under current law, all products (Market Dominant or Competitive) are rightly covered by the USO.
Geographic Scope		
Keep current practice, which designates that the USO includes all addresses in the country covering "the United States, its territories and possessions," irrespective of population density.	Administrative	**NALC supports** this recommendation, but notes that the Task Force's recommendation to segment "essential" and "commercial" products would undermine the ability to serve all Americans regardless of geography.
Number and Density of Post Offices and Collection Boxes		
Establish a rule that specifies that access to the postal system must only be sufficient to implement defined USO standards for delivery.	Administrative	**NALC opposes** the recommendation because it would harm Americans living in rural areas as well as residents of economically distressed urban communities. We believe this proposal would require legislation
Deliver Frequency		
Provide greater flexibility to determine mail and package delivery frequency.	Legislative	**NALC opposes.** Reducing delivery days is contrary to the need for seven-day delivery in the age of e-commerce and would reduce the value of mail and the Postal Service to its customers.
Mode of Delivery		
Maintain current discretion to determine mode of delivery consistent with a financially sustainable business model.	Administrative	**NALC notes:** Door delivery is preferred by the American people, especially the surging number who engage in e-commerce. USPS should expand door delivery to retain the value of marketing mail and to cement the agency's status as the lowest cost provider of last mile delivery services.
Processing Standards		
Keep current practices, which allow the USPS to manage processing standards.	Administrative	**NALC opposes.** Postal management cannot be trusted to set its own service standard as demonstrated by its failed network downsizing plan between 2012-2015 which reduced the quality of service and failed to generate 90% of the predicted savings. (See USPS OIG report at

		https://www.uspsoig.gov/comment/56419.) Congress and the PRC should uphold high quality service standards.
USO Funding		
Review and determine if income generated by activities defined to be outside of the USO could be optimized to cover the costs of funding the USO.	Administrative	**NALC notes:** This recommendation would require legislative action. Offering new services to meet unmet needs makes sense. This should include delivering beer and wine, basic banking services partnerships with state and local governments to serve the public interest.

Recommendation	Policy Action	NALC Position
Mail and Package Markets		
Business Model		
Develop a new model that can be used to both set rates and control costs to achieve sustainability.	Administrative	**NALC opposes.** The current business model will work with a new price-setting regime (forthcoming from the PRC) and modest legislative reforms. Only Congress can adopt a new business model.
Require price increases, reduce service costs, or exit the business for any mail products that are not deemed an essential service and do not cover their direct costs.	Administrative	**NALC opposes.** All mail is "essential" to the mailers that send it and most products already cover their direct costs. This recommendation would require legislative authorization.
Product Classes		
Redefine mail classes by creating products defined by the type of sender and the declared purpose of the mail item.	Administrative	**NALC opposes.** Regulating mail by type of sender and the "purpose" of the mail is overly complicated and administratively impractical. This recommendation would require legislative authorization.
Change USPS systems in order to track the purposes and uses of mail, to allow for better cost allocation, targeted pricing, and more business intelligence.	Administrative	**NALC opposes.** This recommendation would be costly and require a massive new bureaucracy.
Strategic Options		
Evaluate areas of USPS operations where the USPS could expand third party relationships in order to provide services in a more cost efficient manner (e.g., mid-stream logistics and processing).	Administrative	**NALC opposes.** The USPS already uses cost-sharing incentives to leverage partnerships with private partners; outsourcing its core functions would reduce quality and lose business while turning decent jobs over to low-wage, high-turnover contingent workers. This recommendation would require changes in the USPS labor contracts.
As a means of generating more income, the mailbox monopoly could be monetized.	Administrative	**NALC opposes.** The USPS must protect the sanctity of the mail and the privacy of American's mail boxes should not be sold by the highest bidder. This recommendation would require legislative authorization.
Price competitive products in a manner that maximizes revenues and generates income that can be used to fund capital expenditures and long-term liabilities.	Administrative	**NALC notes:** The competitive products contribute $7.6 billion to USPS overhead costs. We support this recommendation, but we do not support the adoption of pricing

		models (such as “fully distributed costing”) that have been repeatedly rejected as inefficient or contrary to law by the PRC and the federal courts.
Costing Options		
Develop a new cost allocation model to establish full price transparency and fully distribute costs.	Administrative	**NALC opposes.** This recommendation would require legislative action. We support PRC oversight of competitive pricing as provided by current law, but we do not support “fully distributed costing,” which has been repeatedly rejected as inefficient by the PRC.
Establish a separate balance sheet for packages to help prevent cross-subsidization between the mail and package business units.	Administrative	**NALC opposes**. This recommendation is neither necessary nor practical. The Postal Service provides a unique processing and delivery network that makes affordable universal service possible through economies of scale and scope. As such, the shared network benefits all mailers and the public interest – by providing affordable service to every address in America. Private competitors also benefit from the shared network through Parcel Select – and the ability to leave high-cost deliveries in certain areas (rural and urban) to the Postal Service.

Recommendation	Policy Action	NALC Position
Operating Model		
Operations		
Align USPS employee rights with other federal employee rights by eliminating collective bargaining over compensation for USPS employees.	Legislative	**NALC opposes.** There is no justification for stripping postal employees of their collective bargaining rights under the law. This would politicize postal labor relations and subject the Postal Service and its customers to the same dysfunctional appropriations process that has led to repeated government shutdowns – exposing the country and the $1.4 trillion mailing industry to job-killing suspensions of service.
Pursue reforms to USPS employee wages consistent with those proposed for the broader federal workforce in the President's Management Agenda.	Legislative	**NALC opposes.** Returning postal labor relations back into an untested and bureaucratic, one-size-fits all federal system makes no sense. The current law has provided decent jobs to postal workers, affordable and reliable service for mailers and safe and secure delivery for the American people.
Explore and implement new business lines that generate revenue, and that present no balance sheet risk to the USPS.	Legislative	**NALC notes:** Greater commercial freedom to meet the evolving needs of the country makes sense: delivering beer, wine and spirits; partnering with state and federal agencies to provide public services; and basic banking for unserved populations.
Governance and Oversight		
Strengthen the governance and regulatory oversight of USPS. This could be achieved through reforming, but maintaining, the existing institutional structures or by changing the institutional structures, which would require legislation.	Legislative	**NALC notes:** Improved governance should begin with a fully staffed Board of Governors with the requisite experience directing large-scale enterprises.
Institute a new policy mandate for management that sets organizational direction and financial targets, which align with a sustainable business model and establish an enforcement mechanism if the existing Board is unable to meet these targets.	Legislative	**NALC opposes:** Congress should remain the primary oversight authority for the Postal Service; empowering an unaccountable regulator to oversee the Board and management of the Postal Service does not make sense.

Strengthen the regulatory oversight role of the PRC, providing the PRC with expanded controls, imposing increased accountability on the USPS.	Legislative	**NALC opposes:** Congress should remain the primary oversight authority for the Postal Service; empowering an unaccountable regulator to oversee the Board and management of the Postal Service does not make sense.
Benefits		
Pursue reforms proposed to the Federal Employees Compensation Act that are included in the President's FY 2019 Budget.	Legislative	**NALC opposes:** The proposed FECA reforms are grossly unfair to injured federal workers.
Pursue reform of the Federal Employee Retirement System that would increase employee contributions and move toward a defined contribution system.	Legislative	**NALC opposes**: There is no justification for reducing the retirement security of postal employees by moving to a defined contribution plan. The FERS plan is a model plan that has both defined benefit and defined contribution components (in addition to Social Security). The FERS postal fund is very well funded and there is no justification for cutting postal employee pay by increasing employee contributions.
Maintain but restructure the retiree health benefits liability, including the $43 billion in pre-funding payments that the USPS failed to pay into the Postal Service Retiree Health Benefits Fund and the unfunded actuarial liability, with the total liability re-amortized with a new actuarial calculation based on the population of employees at or near retirement age.	Legislative	**NALC notes:** Reforming the existing prefunding mandate is the most important way to strengthen the Postal Service. Repealing the mandate (which accounts for 92% of USPS losses since 2007 and which no other enterprise in the U.S. faces) is the preferred policy, but adopting a "vested liability" funding target makes sense as an alternative.