STATEMENT OF THE GREETING CARD ASSOCIATION

BEFORE THE HOUSE COMMITTEE ON OVERSIGHT AND REFORM

THE FINANCIAL CONDITION OF THE POSTAL SERVICE

APRIL 30, 2019

The Greeting Card Association comprises about 200 greeting card publishers and related enterprises and has been active in postal affairs for many years. Our customers rely on the Postal Service to deliver more than half of all greeting cards sold to their intended recipient with no other economically viable option available. GCA is the only postal trade association to provide a voice for the individual household mailer. Like our colleagues in the business mailing community, GCA is committed to preserving and promoting a sound, efficient, and responsive Postal Service.

This Committee has a unique opportunity to help achieve that goal, by building on the elements of H.R. 756, introduced in the previous Congress by then-Chairman Chaffetz, Chairman Cummings, and Representatives Connolly, Lynch, Meadows, and Ross and reported out of Committee on a broad bipartisan basis. A wide coalition of the mailing industry – unions, management associations, parcel shippers, greeting card publishers, newspapers, business and marketing mailers, and printers and paper producers – supported the initiatives in that bill, and today we urge the Committee to build on that framework.

Postal Service finances and how we could fix them. Central to the discussion of postal reform is the Postal Service's perilous financial condition; and central to that question is the problem of funding retiree benefits. Most of the Service's accumulated deficits stem from these difficulties – not from its operations. GCA joins with many others supporting legislation to reduce this liability without burdening the taxpayer. We are confident that this can be done.

Three initiatives are necessary:

- Create Postal-only health plans within the Federal Employee Health Benefits program, which are fully integrated with Medicare Part D (prescription medications) and provide the same benefits as private-sector plans. *Doing this would reduce the unfunded retiree health benefit obligation by $25 billion.*
- Set the prefunding target at 60 percent of the vested benefit liability – a standard private sector practice, which in the Postal Service's case would *reduce its unfunded liability by $60 billion more.*
- Mandate the enrollment in Medicare Parts A and B (a private sector best practice) on a prospective basis for Postal employees under the age of 55 who wish to maintain FEHBP coverage in retirement, with exceptions for those who cannot benefit from enrollment due to special circumstances. *This initiative would result in a further multi-billion-dollar reduction to the unfunded liability*.

Permitting the Postal Service Retiree Health Benefits Fund to invest more profitably would also be a useful reform. This means a well-diversified and carefully supervised portfolio of bonds and stocks – along the lines developed by the Thrift Savings Plan Board – in place of low-yielding Treasury securities. It has been estimated that, had this been done from the start, the Fund would now be about $10 billion better off.

As in any such large-scale project, the inquiry into Postal Service reform has generated a number of unhelpful ideas as well as many beneficial ones. The Committee should recognize the harmful suggestions and ensure that they do not find their way into legislation.

Costing of Postal Service products does *not* need legislative tinkering. Prominent among these counterproductive proposals is the suggestion to usurp the independent Postal Regulatory Commission's expertise in measuring and attributing Postal Service costs. In any regulatory setting, there will be players striving to distort costing and pricing to serve parochial ends, without regard to the interests of the vast majority of customers or of the enterprise itself. This is especially true where some services are inherently competitive, and the regulated enterprise's competitors are not subject to the same regulatory regime.

The PRC long ago determined that fully distributed costing ("FDC") – using accounting conventions and artificial rules of thumb to associate every dollar of cost with a product – produces arbitrary and inefficient prices. It ignores the long-standing principle of postal regulation that only costs reliably shown to be caused by a class of mail or product are attributed to that class or product. Costs caused jointly by a range of products or for which no causal relationship can be found are to be distributed using the objectives and factors specified in the Postal Accountability and Enhancement Act (PAEA), including Postal Service pricing flexibility and a just and reasonable rate schedule, which were both important objects of that legislation. Not long ago, the PRC held an elaborate rulemaking on this topic. It rejected proposals to institute a form of fully distributed costing. (These proposals, by the way, would have increased attributable costs for market-dominant products even more than for those subject to competition.) The PRC's order was upheld by the Court of Appeals for the District of Columbia Circuit (a petition for certiorari is pending in the Supreme Court).

In short, this question has been thoroughly and correctly analyzed by the agency best equipped to do so, and its conclusions should not be disturbed legislatively. It is unfortunate that the Presidential Task Force on the Postal System seems to have endorsed the FDC approach.

Universal service. The Presidential Task Force did produce a number of interesting ideas. We would focus first on its discussion of the universal service obligation. The Task Force rightly endorsed universal geographic scope and uniformity of pricing for letter mail, and, interestingly, for what it called "essential" package service as well. Universality and uniformity are the hallmarks of a truly national postal system – one which allows a constituent in Oregon to address a Member of Congress just as readily as a constituent in suburban Maryland. But we must differ from the Task Force's recommendation that days of service per week be determined by the "social and economic needs specified" – it does not say by whom – "for those items." The report recommends that days of service for non-essential services be determined partly on the basis of net income maximization. The risk to the public is that service days will be increased for them – as we are now seeing in the Postal Service's experiments with Sunday package delivery – at the expense of six-day delivery for essential letter mail, newspapers, and time-value advertising.

The Postal Service's statutory protections are necessary. The Task Force devoted considerable attention to the Postal Service's statutory monopolies – the Private Express Statutes and the mailbox monopoly. We believe it overemphasized them and underestimated the effect of the Service's scope and scale of operations. It is those factors, in our view, that account for the Postal Service's *natural* monopoly in delivery. The statutory monopolies should be seen, not as a governmental power-grab, but as safeguards for universal service. Private-sector carriers, unlike the Postal Service, are not required to serve universally or at uniform prices. They can act on perceived differences in the profitability of different market areas. (We would note that private-sector package carriers increasingly use the Postal Service for last-mile delivery of their parcels wherever the Service can provide it more cheaply than they could provide it for themselves.) Without statutory protection, the Postal Service could find itself competing with other carriers in its high-density or high-volume delivery areas, while remote or rural markets were left entirely to it. The evident result would be higher Postal Service costs, leading to higher rates and thus to further erosion of its traffic.

The price cap works for captive customers. The Presidential Task Force wisely accepted as beneficial the protection of what it labeled "essential" services by a price cap. We agree. The price-cap system introduced in PAEA for market-dominant products has kept rates affordable for the American people, while providing an incentive for operating efficiency which was missing from the cost-of-service ratemaking regime set up in 1970. The price cap should be maintained, at least in its essentials, in any legislation that emerges from these hearings.

GCA appreciates the opportunity to present these views. We stand ready to help move this needed legislation forward in any way we can.