UNITED STATES POSTAL SERVICE

STATEMENT OF
POSTMASTER GENERAL AND CHIEF EXECUTIVE OFFICER
PATRICK R. DONAHOE
BEFORE THE
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
UNITED STATES HOUSE OF REPRESENTATIVES

APRIL 17, 2013

Good morning, Mr. Chairman, and members of the Committee. Thank you, Chairman Issa, for calling this hearing to discuss options for returning the Postal Service to sound financial footing. The dire financial condition of the Postal Service persists. We experienced $15.9 billion in losses last year alone. Even more troubling is that, over the last six fiscal years, net losses have amounted to $41 billion. During that same time, mail volume has declined by 25 percent and revenue is down 13 percent ($10 billion). In addition, the Postal Service, in FY 2012, reached its statutory debt limit of $15 billion and defaulted on $11.1 billion in prepayments for Retiree Health Benefits (RHB). As I sit here testifying today, the Postal Service has approximately nine days of cash on-hand, a liquidity situation in which no healthy and thriving company would find itself. The situation is plain and is there for all to see. There is no way to sugarcoat our financial condition. But, it does not have to be this way.

The title of this hearing calls for “options” to return the Postal Service to solvency. I can assure you that the Postal Service has a robust Five-Year Business Plan to turn our serious financial condition around. Although we continually explore ways to adapt our business model, we have, in some instances, been forced to delay or eliminate initiatives altogether, often due to Congressional involvement. The most obvious example is the recent decision made by our Board of Governors, indicating we will not proceed with the proposed move to six-day package/five-day mail delivery, pending Congressional action. This proposal has a potential savings of $2 billion annually, when fully implemented. It is truly a lost opportunity.

As indicated in the Board’s statement, however, we will not simply stand idly by and hope someone else will act. In this testimony, I will describe other strategic plans we are moving ahead with, in order to continue what has been a long-standing practice of taking action on all issues over which we have direct control. The Postal Service is losing $25 million per day. Each day that passes without enactment of meaningful postal reform legislation worsens our already dire financial condition. Until such reform is enacted, we will continue to develop and implement initiatives to preserve the future of the Postal Service.

The Postal Service is facing a serious budget gap between revenue and expenses, absent comprehensive reform. This gap must be closed and, as you know, we identified a series of steps needed to close that gap. We are relentlessly continuing to attack every aspect of our operations over which we have control. But this gap cannot be fully closed without enactment of meaningful and comprehensive postal reform legislation. The type of change needed to ensure the survival of the Postal Service requires difficult decisions. The Postal Service, by taking out $15 billion in annualized costs over the last six fiscal years, has shown the will to make tough decisions. Our employees, unions, management organizations, and customers have shared in the sacrifices needed to keep the Postal Service solvent. Every entity with a stake in the future of the Postal Service has taken some kind of action, with one notable exception – Congress. It is time for Congress to act decisively, to make these difficult decisions and to enact long-lasting change that will ensure the viability and health of our nation's postal service. The Postal Service is the core of an $800 billion mailing industry in the U.S.; one that employs over eight million people. The time to act is now.

This action requires a comprehensive approach, one which combines the best efforts of the Postal Service and its stakeholders, especially Congress. No single action or solution will be sufficient. For example, some believe that simply resolving the RHB prefunding requirement alone will adequately address our financial condition. The reality is that only through a combination of actions, including legislative reforms, will the Postal Service be able to achieve moderate net incomes and pay off debt by Fiscal Year 2017. The chart below illustrates how such a comprehensive approach would positively impact our financial condition. *[Figure 1]*

Closing the Gap

($ billions)	2013	2014	2015	2016	2017
Revenues	$ 65	65	65	65	65
Operating Costs	(70)	(72)	(74)	(76)	(81)
Retiree Health Bfts. Prefunding	(6)	(6)	(6)	(6)	-
Net Loss - No Changes	(11)	(13)	(15)	(17)	(16)
Legislative Reforms:	12	7	10	11	6
Postal Service Health Plan					
FERS Refund					
Delivery: 6-Day Packages & 5-Day Mail					
Authorize Expanded Product Line					
Operational:	3	5	6	6	7
Network					
Delivery					
Retail					
Compensation & Other	-	1	2	3	4
Total Savings	15	13	18	20	17
Net Income	$ 4	-	3	3	1
Net (Debt) / Cash	$ (7)	(7)	(4)	(1)	-

Figure 1

A Record of Accomplishments:

In Fiscal Year 2012, even with continuing volume declines, the Postal Service delivered approximately 160 billion pieces of mail, around 40 percent of the world's mail volume. In an Oxford Strategic Consulting report issued in 2011, the Postal Service ranked as the most efficient postal service among the world's Top 20 largest economies. Our employees do an outstanding job and our nation's postal system is the best in the world. In order to maintain this excellence, the Postal Service has continually sought ways to modernize its operations to match how customers use the mail today. The continued downward trend of total mail volume, particularly First-Class single-piece (stamped) mail, which has declined by a staggering 15 billion pieces, or 38 percent, over the past five years, has required the Postal Service to adjust its operations accordingly. The Postal Service continues to aggressively pursue strategies in areas over which it has direct control, in order to increase efficiency, heighten productivity, and manage costs. We have a proven track record, highlighted by the $15 billion in annualized savings captured over the last six fiscal years. We have done this through a variety of operational initiatives.

COST SAVING INITIATIVES:

Network rationalization:

- 309 mail processing facilities consolidated since 2006.
- Adoption of a two-phase approach to consolidate approximately 200 mail processing facilities.
- Recent acceleration of some Phase 2 sites to June-Sept. 2013, without changing service standards.
- Implementation of modified First-Class Mail overnight service standards.
- Network consolidations will bring $3.4 billion in savings by 2017, including workload effects.
- $1.1 billion of proceeds and savings, since 2006, from facility and land sales, lease terminations and subleases associated with over 1,500 excess facilities.

Delivery:

- Reduction of approximately 21,000 delivery routes, resulting in a more efficient delivery network, as shown by a 36 percent increase in deliveries per hours, since 2006.
- Delivery Unit Optimization (DUO) will consolidate 1,500 delivery (non-retail) offices by 2015.
- Implementing centralized delivery for both business and residential deliveries.

Retail:

- Implementation of POSt Plan to modify operating hours at over 13,000 Post Offices, while preserving postal services, especially in small and rural communities.
- Self-service expansions, plus Retail Partners.

- ➢ Continuing to increase alternate access points, including Contract Postal Units, Approved Shippers, and Village Post Offices; postal products and services now available at over 100,000 locations, plus the Internet.

<u>Productivity Improvements:</u>

- ➢ Reduced career employee workforce, without layoffs, by 198,000 (28 percent) over the last six and one-half fiscal years, through March 31, 2013.
- ➢ Workhour savings have removed over $50 billion of cumulative and projected costs over the last six fiscal years.
- ➢ Continued reductions will bring the Postal Service closer to its goal to reduce career workforce to 400,000 employees through attrition by 2017.
- ➢ Total Factor Productivity (TFP) increased 6.3 percent since 2006, despite the massive volume and revenue reductions during this same period.

The Postal Service has taken unprecedented steps in the area of cost savings. We have reduced costs by amounts that most private sector businesses would envy. But financial solvency cannot be reached by cost cutting alone. Finding new sources of revenue plays an equally integral role in the future of the Postal Service. And it is a future that can be bright, if Congress allows the necessary flexibility and legislative reform. One key to success, especially in the area of revenue generation, is gaining enhanced flexibility to adapt to a rapidly changing marketplace. The chart below shows how drastically revenue trends have shifted over the last six years *[Figure 2].* Having the flexibility to react more quickly to these marketplace changes will enable us to become profitable, by giving us the tools to operate more efficiently, create new products and innovations and control costs. Absent this flexibility, the Postal Service will continue to experience sustained losses, in spite of our long-term efforts to reduce costs.

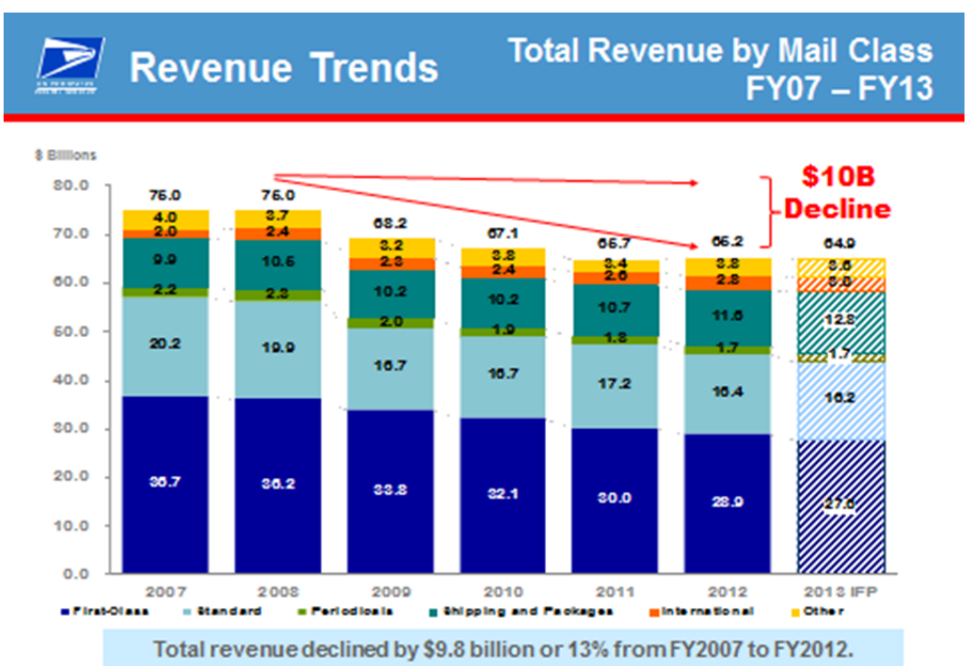


Figure 2

While we continue to seek out all possible efficiencies and cost savings, we also put tremendous effort into retaining existing revenue streams and seeking out new sources of revenue. One of the most exciting growth sectors for the Postal Service has been in our package business, which has seen 14 percent growth over the last two years. Leveraging this growth, and maintaining an innovative approach to growing revenue is a key aspect of the Postal Service's strategic plans.

REVENUE GENERATION INITIATIVES:

Innovation, Core Products and Markets:

- Enhancements to First-Class Commercial Mail.
  - Two ounces for the price of one
  - Picture Permit
  - Intelligent Mail barcode (IMb) provides visibility in mail and packages to control costs and improve service
  - Introduction of Every Door Direct Mail (EDDM)

- Package mail
  - Improvements to Expedited Package services
  - Significant enhancements to package tracking and visibility
  - Simplified product lineup with no additional surcharges
  - Priority Mail will now include $50 of insurance for retail customers and $100 of insurance for commercial customers, with no additional cost
  - Metro Post same-day delivery market test

- New Negotiated Service Agreements (NSAs) with business mailers for competitive products.
  - Allows customer to offer customized pricing options
  - Encourages volume and revenue growth from key customer segments

- Promotions to encourage the integration of digital technology with mail
  - Mobile Coupon and Click-to-Call promotions (over 1 billion mailpieces to date)
  - Earned Value Promotion; first program targeting First-Class Single Piece mail
  - 2012 Mobile Commerce and Personalization Promotion (3.4 billion pieces)
  - 2012 Mobile Shopping Promotion (1 billion mailpieces in two weeks)

➢ Increased price flexibility with transfer of various products from the “market-dominant” to the “competitive” product list.

- First-Class Mail Commercial Parcels (renamed First-Class Package Service)
- Parcel Post (renamed Standard Post)
- Outbound Single-Piece First-Class Mail International Packages (renamed First-Class Package International Service)
- Post Office Boxes in areas where private mailbox providers provide a competitive alternative.

The Critical Need: Enactment of Legislation

The Postal Service, even with its suite of robust and creative initiatives for growing revenue, and its relentless approach to taking costs out of the system, continues to be stymied by the effects of Congressional inaction. Current law requires the Postal Service to prefund Retiree Health Benefits at unrealistic levels. Current law prohibits the Postal Service from moving to five-day mail delivery. Current law forces the Postal Service to overpay into the Federal Employees’ Retirement System (FERS). And, current law limits the Postal Service in its ability to offer new products and services. These are just a few examples among many. This lack of flexibility in our business model continues to hinder efforts to close a widening budget gap. The Postal Service must generate roughly $20 billion in cost reductions and revenue generation by 2017 to return to financial stability and pay down debt. But our efforts will only go so far. Legislative change is needed now. The chart below illustrates that, even with continued efforts by the Postal Service to trim costs, without legislative change, the budget gap remains wide. *[Figure 3]*

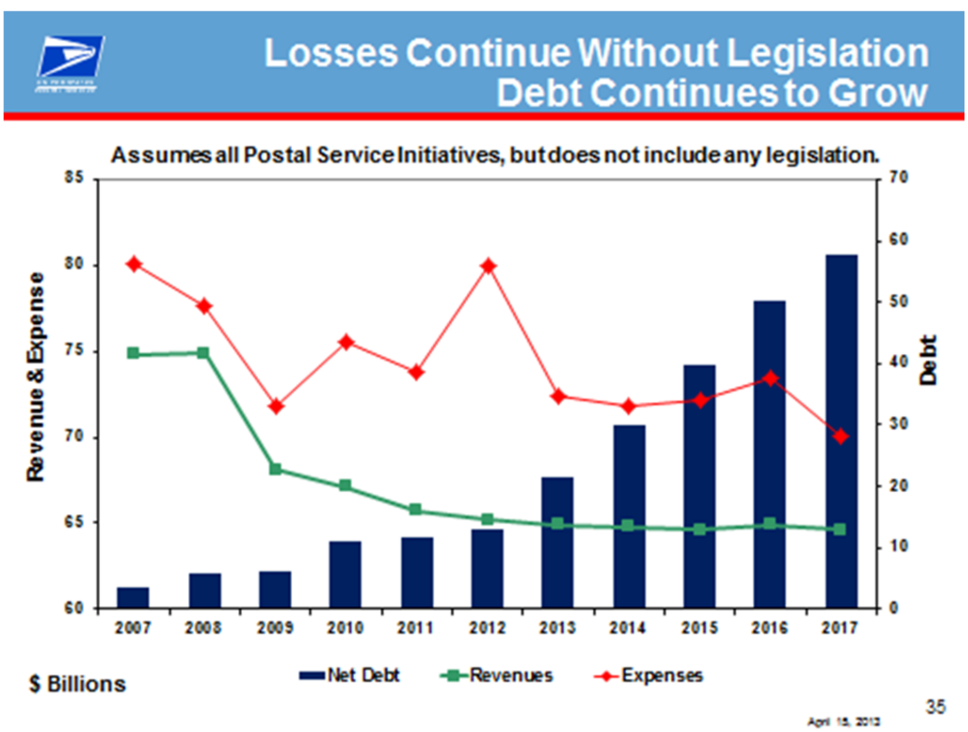


Figure 3

In February 2012, the Postal Service introduced its Five-Year Business Plan, which contained a set of strategies and initiatives designed to close the substantial and crippling budget gap we are facing. Attached to my testimony is an updated version of our plan. Legislative initiatives play an integral role in this plan, especially enactment of comprehensive postal reform legislation.

Key Legislative Goals:

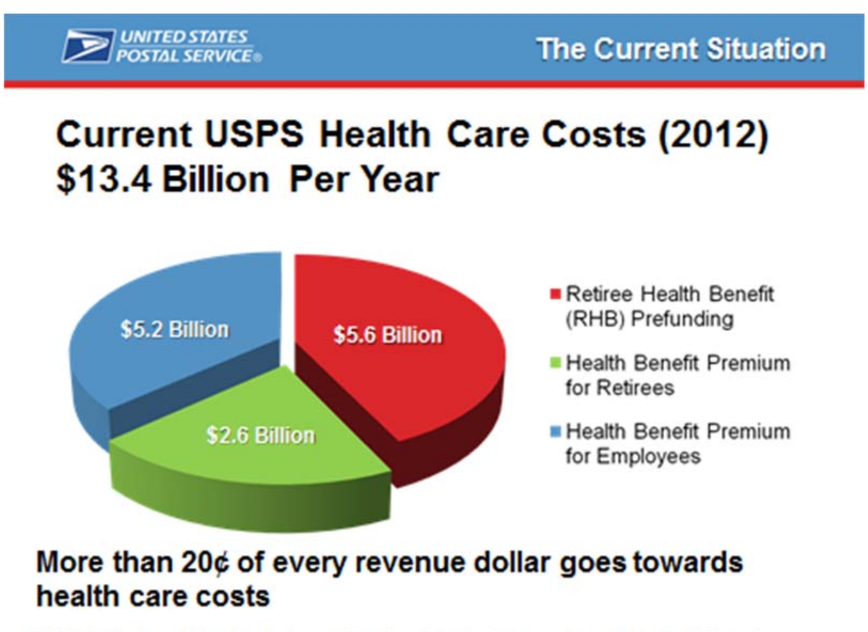
During the 112th Congress, although the House introduced a bill that was approved by this Committee, no action was taken on the House floor. As the 113th Congress prepares to take up postal legislation once again, below are reforms that are urgently needed. They include:

1. Require USPS Health Care Plan (Resolves RHB Prefunding Issue)
2. Refund FERS Overpayment and adjust the FERS payment schedule
3. Adjust Delivery Frequency (six-day packages/five-day mail)
4. Streamline Governance Model
5. Authority to Expand Products and Services
6. Require Defined Contribution Retirement System for Future Postal Employees
7. Instructions to Arbitrator
8. Reform Workers' Compensation
9. Right to Appeal EEOC Class Action Decisions to Federal Court

Require USPS Health Care Plan:

One of the most important proposals contained in our plan and one which represents tremendous cost savings is a change in the way we provide health care to our employees and retirees. More than 20 cents of every revenue dollar the Postal Service takes in goes toward health care costs. *[Figure 4]* The cost of this large component of our total operating costs, second only to wages, is largely outside of our control.

Figure 4



There is a substantial opportunity for savings – approximately $8 billion each year through 2016 – by moving to a more modern, responsive and customer-focused system. This would be accomplished by allowing the Postal Service to sponsor its own healthcare plan. By moving away from the federal system, nearly all of our employees and retirees would reap the benefits of getting equivalent or better healthcare coverage and paying less for it.

A Postal Service sponsored health care plan is critical, because it resolves the root cause of the Postal Service's retiree health benefits liability – soaring healthcare costs. Without addressing the liability issue in a responsible way, the Postal Service will be unable to afford to provide health benefits to retirees. In its proposal, the Postal Service would sponsor its own health care plan independent of the Federal Employee Health Benefits (FEHB) program. This would include employees, as well as current and future retirees. Congressional action to allow this fundamental change would dramatically reduce health care spending, helping the Postal Service take a significant step toward financial stability. It would also provide savings for employees and retirees. Our health care plan proposal provides savings and benefits in a variety of ways:

- Helps return the Postal Service to financial stability. Preliminary estimates indicate total cash savings for the first year would be approximately $2.1 billion. A savings of approximately $660 million in reduced premiums for employees and annuitants (about $700 annually per participant) is also projected.
- Eliminates the need for future scheduled RHB prepayments (ranging from $5.6 billion to $5.8 billion annually) under the Postal Accountability and Enhancement Act by reducing the unfunded liability to a manageable level.
- Leverages the tremendous buying power of more than one million employees and retirees to obtain better pricing.
- Achieves significant savings for the Postal Service, employees and retirees.
- Maintains the Postal Service's commitment to provide quality health care coverage to our dedicated workforce and retirees, as the cost of FEHB plans is unstainable.
- Implements best practices such as improved prescription coverage, integrated care and disease management, wellness incentives, and integrated Medicare and Employer Group Waiver Plans (EGWP) for retiree health benefits.
- Enables better choices with simple, more understandable options.

Regarding the RHB unfunded liability issue, below is a chart *[Figure 5]* showing how each plan component listed above eliminates the $50.9 billion liability, with a Postal Service-sponsored health care plan. Among the attachments to my written testimony, and submitted for the record, is a white paper with more detailed descriptions of our health care plan proposal.

UNITED STATES POSTAL SERVICE®

USPS Retiree Health Benefits ($ in Millions)

Assumptions	2014 Liability	2014 Assets	2014 Unfunded Liability	2014 Funding
Accounting Liability	$100,028	$49,097	$50,931	$8,665
Change from Federal accounting standards to OPM funding assumptions	$95,977		$46,880	$8,665
Element 1: Non Medicare Annuitants and Survivors assumed to enroll in Medicare A and B with no penalty	$72,912		$23,815	$3,597
Element 1 + Element 2: Additional savings arising from EGWP plan for Post-65 Enrollees.	$47,201		($1,895)	$1,522
USPS Plan: Revised four tier retiree contributions; Additional savings of 8 percent for Pre-65 retirees from Purchasing; Savings due to Future Retirees having Carve-out (Co-pay / Co-Insurance)	$45,414		($3,683)	$1,340

Figure 5

Based on OPM Valuation as of September 30, 2011
Developed by Hay Group

USPS Health Care Proposal Presentation to Congress (Subject to collective bargaining, consultation and other legal obligations). 1

<u>Refund FERS Overpayment:</u>

Postal Service employees participate in one of three Federal government pension programs. These programs are administered by the Office of Personnel Management (OPM), and employees and the Postal Service contribute to the programs. OPM has determined that the Postal Service has overfunded its obligation to the Federal Employees' Retirement System (FERS) and that a surplus exists. According to the most recent actuarial estimate from OPM, the Postal Service has overfunded its FERS obligation by $2.6 billion, as of September 30, 2011. This estimated surplus is less than amounts previously reported, due to changes in the government-wide economic and demographic assumptions made by OPM. OPM's most recent calculation (before adjustments using postal-specific assumptions and demographics) shows that the surplus is projected to have grown to approximately $3.0 billion by September 30, 2012.

In December 2012, the Postal Service's Office of the Inspector General (OIG) issued an update to a previously released paper on the causes of the FERS surplus. The Postal Service agrees with the major conclusions in the OIG's report. First, the distinctive characteristics of the Postal Service workforce, including lower salary increases than the rest of the Federal government, suggests that our FERS surplus is larger than the OPM's current calculation, and OPM should use Postal Service specific data to calculate the surplus. Second, in order to prevent excessive surpluses from accumulating in the future, OPM should adjust the USPS' FERS contribution rate. The current FERS charges are too high, as evidenced by 20 years of surpluses, and contribute to the Postal Service's financial crisis. Third, once calculated, the current deficit should be refunded to the Postal Service. The Postal Service, using postal-specific demographics and assumptions, estimates the FERS overfunding amount to be approximately $6 billion. Directing OPM to utilize postal-specific demographics and assumptions in calculating the correct amount of the FERS surplus and returning the full amount of that surplus to the Postal Service is important, and needs to be completed this year. The Administration agrees with this approach, as evidenced in its 2014 budget request, which requires OPM to calculate FERS costs using the specific demographics of the Postal Service workforce.

Adjust Delivery Frequency (six-day packages/five-day mail):

On Feb. 6, the Postal Service announced a proposal to move to a six-day package/five-day mail delivery schedule, effective the week of August 5, 2013. Savings projected from this move, when fully implemented, are estimated to be approximately $2 billion annually. This move would create a positive operational income in FY 2014, if implemented in August, as originally planned. The proposal provides mail delivery to street addresses Monday through Friday. Mail addressed to P.O. Boxes would continue to be delivered on Saturdays. Post Offices already open on Saturdays would not have been affected by this proposal. Packages would continue to be delivered six days per week, and Express Mail, currently delivered seven days per week, would not be impacted. The proposal was designed to serve a dual purpose; to respond effectively to the increase in package growth – a 14 percent volume increase over the last two years – and to address the realities of the public's changing mailing habits. The proposal implemented the primary recommendations made by the Postal Regulatory Commission (PRC) when it reviewed our five-day proposal.

Following introduction of the proposal, a series of actions took place. Some Members of Congress supported the change, while many others opposed it. In March 2013, Congress completed work on H.R. 933, the Continuing Resolution (CR) funding the federal government for the remainder of Fiscal Year (FY) 2013. Although we strongly urged Congress not to include a requirement that would prevent us from implementing this change, the CR was enacted with restrictive language directing the Postal Service to maintain six-day delivery for all products.

The Postal Service twice sought the opinion of outside legal counsel. They first advised that the Postal Service had the authority to move to five-day delivery. Following enactment of the CR, the Postal Service posed a series of questions to the same firm. In a second opinion, they concluded that the law, as enacted, prohibited the Postal Service from moving forward with implementation of its proposal. The Government Accountability Office (GAO) also released an opinion that concluded the CR continued the applicability of the provision requiring six-day delivery. On April 9, the Postal Service's Board of Governors released a statement noting that, due to the inclusion of the restrictive language in the CR, the Postal Service had no choice but to abide by the law and delay implementation of the six-day package/five-day mail delivery proposal. As noted in the April 9 statement, this was a disappointing development. We believe the timing was right to implement this change, especially in light of overwhelming continued support for five-day mail delivery by a vast majority (over 70 percent) of the public. Additionally, in his FY 2014 budget proposal, released on April 10, the President again included a provision to allow the Postal Service to move to a five-day mail delivery schedule.

Although some Members of Congress held the opinion that the Postal Service could move forward, despite enactment of the CR, I had previously testified during a Senate hearing on Feb. 13 that I would follow the law, and the Board directed me to do just that. Certainly, in these serious financial times, forgoing such a significant savings is not a decision that was arrived at lightly. But I will not break the law and I will not negatively impact our customers. The uncertainty that would have proceeded from continuing to implement our proposal, given the possibility of a legal challenge, would have meant that many of our mailers could potentially have suffered significant monetary losses from business expenses made in anticipation of six-day package/five-day mail delivery. We continue to support moving to a six-day package/five-day mail delivery schedule and will continue to advocate for the authority to implement this change.

Streamline Governance Model:

The Board of Governors has the responsibility to manage the Postal Service, but does not have adequate authority to do so. In order to meet the challenges it faces both today and in the future, the Postal Service must be given the tools to become a more nimble, streamlined organization, better able to respond quickly to the needs of a dynamic marketplace and to adjust our operations as demand for products and services evolves. The Postal Service does not need any additional government bureaucracy to slow us down. We urgently need the flexibility to implement our Five-Year Business Plan.

In terms of network costs, the Postal Service Board of Governors should have the clear authority to make structural changes that reduce the costs of the retail, processing and delivery networks. Currently, the Governors must submit operational changes to the Postal Regulatory Commission (PRC) for an advisory opinion following a lengthy, litigious, administrative proceeding that does not promote timely and effective implementation of necessary, efficient cost reduction decisions. The current process imposes substantial costs on the Postal Service, delays savings and should be eliminated. At a minimum, PRC procedures should be substantially streamlined.

Another facet of restoring financial sustainability is the growth of revenue through product and pricing innovation, both with respect to existing lines of business and other lines of business. Giving the Board greater authority to exercise business judgment in this area does not mean the end of oversight by an external entity. A more nimble and well-defined regulatory approach is required that minimizes unnecessary bureaucracy, recognizes the Postal Service faces intense competition with respect to all of its products, and allows the Board to respond effectively to changing conditions. Even the PRC recognized in its Annual Report that the current system of regulation is not achieving the objective of financial stability.

Giving the Postal Service greater flexibility over pricing and product innovation would further advance the goal of providing universal service in a financially sustainable way. This is demonstrated by experience in other countries in which postal operators have been given such flexibility. The Postal Service, like other postal operators, is in the best position to determine the strategies necessary to ensure financial stability. In addition, the Postal Service faces the same competitive pressures as other postal operators, and has strong commercial incentives to be efficient and responsive to its customers' needs in order to ensure its products are competitive. Extensive price and product controls are therefore not necessary. Governors' decisions on new products and pricing should be subject to after-the-fact reviews or handled through the complaint process. Pairing much greater flexibility over pricing and product innovation with additional flexibility to address network costs would put the Board in a position to create a multi-faceted and balanced approach to restoring financial stability.

Authority to Expand Products and Services:

The Postal Service must be allowed authority to establish new revenue sources and respond to a changing marketplace. Certain provisions contained in H.R. 2309, introduced in the 112th Congress, would have been helpful in providing flexibility to the Postal Service to offer products and services that would improve our net financial position. The Postal Service's financial viability is dependent not only on cutting costs but also generating additional revenue. As such, legislation enabling the Postal Service to offer additional products and services is a key component of our ability to continue to generate new revenue and improve our financial condition.

Require Defined Contribution Retirement System for Future Postal Employees:

The Postal Service's current employees participate in one of three federal government pension programs, all of which are defined benefit plans. But the Postal Service is changing. Employees coming in now have a much different future than current employees. We should provide a retirement system that benefits both the employee and the Postal Service. The Postal Service proposes this new retirement system for four main reasons, including:

1. The ability to meet obligations under the Postal Reorganization Act (PRA).
   The Postal Service is required to provide wages and benefits comparable to those provided in the private sector. The FERS system is not comparable to the private sector and is more costly. Permitting this move would allow the Postal Service, like the private sector, to adjust to market conditions by modifying plan design, portability, provider services, employee engagement and other factors.
2. Permits a reduction in labor costs.
   Benefit costs constitute roughly 48 percent of total labor costs, including RHB prefunding. Even if the RHB prefunding requirement were removed, benefit costs would still make up nearly 40 percent of the Postal Service's labor costs. As has been well reported, approximately 80 percent of the Postal Service's total costs are labor costs. We cannot resolve our fiscal issues without addressing these costs.
3. Separates Postal Service retirement system from the rest of the Federal Government.
   There continue to be ongoing debates regarding Postal Service overfunding of both the CSRS and FERS retirement systems. These tensions will continue and will likely escalate, given that the Postal Service has funded substantially more of its pension obligations than the remainder of the federal government. Allowing the separation of the Postal Service's retirement obligations would resolve these disputes.
4. The Postal Service's employee base is changing.
   Our emerging workforce is younger and less likely to stay with one employer for their entire career, as most of our established employees have done. This type of portable and flexible retirement program holds a greater appeal for the younger demographic.

It should be noted that this change would not impact existing retirement systems for current employees.

Instructions to Arbitrator:

More than 85 percent of the Postal Service's career employees are covered by collective bargaining agreements. The Postal Service has included in its legislative goals the request that Congress enact provisions that instruct interest arbitration panels to consider the financial condition of the Postal Service in interest arbitration awards. Although some argue that interest arbitrators do this already, they cannot function like bankruptcy courts under Chapter 11 in the private sector. The panels cannot restructure the Postal Service's regulatory or business models. They do not have the authority to look at the entirety of the Postal Service's finances—indebtedness, pricing, operations, service standards, capital sources, debt relief, etc.

All the arbitration panels can do is address wages and benefits for a particular bargaining unit. Even there the panel's power is limited, because they cannot alter or modify statutory benefits like retiree health care or defined benefit pension plans. Given these inherent limitations (which were explicitly recognized by the panels in the two most recent awards involving the NRLCA and the NALC), we believe it is especially important for Congress to make certain that the arbitration panels take into consideration the Postal Service's financial condition in the areas they do have authority to address: wage rates, leave, health care contributions, workforce mix, job protections and related matters and to make that legislatively explicit. The Postal Service needs legislative language requiring arbitrators to consider the Postal Service's overall financial health.

Reform Workers' Compensation:

Postal employees injured on the job are covered by the Federal Employees' Compensation Act (FECA), administered by the Department of Labor's (DOL) Office of Workers' Compensation Programs (OWCP), which makes all decisions regarding injured workers' eligibility for benefits. The Postal Service has made tremendous strides in reducing its accident and injury rate, as measured by the Occupational Safety and Health Administration (OSHA). Since 2003, the rate of reported injuries has dropped by over 50 percent. Despite the declining level of accidents and injuries in our workforce, our workers' compensation costs and liabilities continue to grow. We pay approximately $1.4 billion per year to the DOL, and our workers' compensation liability is approximately $17 billion. The requirement to participate in the OWCP program, which does not allow cases to be settled, makes it extremely difficult to remove participants, and allows participants to continue to receive payments after reaching retirement age, is an extreme financial burden on the Postal Service.

We currently have 16,999 employees on the periodic roll, being paid for total wage loss. Some of these employees have been on the workers' compensation rolls since before postal reorganization in 1971. Although previous legislation, including H.R. 2309, would have provided flexibilities with regard to workers' compensation, specific provisions are still needed, such as providing the Postal Service with the ability to settle federal workers' compensation claims. We urge that any future legislation include specific provisions to address this costly area of the Postal Service's total operating expenses.

Right to Appeal EEOC Class Action Decisions to Federal Court:

Similar to the significant strides made in reducing accidents, the Postal Service has reduced EEO formal complaints by 40 percent since FY 2004, ensuring compliance with the law. Today, however, the Postal Service is subject to class actions in the Equal Employment Opportunity (EEO) process that we believe have been improperly certified. Defending against these class actions is extremely costly and burdensome, regardless of their merit. We believe we should have the right to appeal to the federal court final decisions of the EEOC. This is similar to the Postal Service's existing authority to appeal decisions of the Postal Regulatory Commission (PRC).

Moving Forward: Next Steps and Upcoming Proposals

All of the issues discussed here are serious, but they are also eminently fixable. Each of these issues, and the respective solutions, must be taken together to bring about both long-term and short-term change. Solving only RHB pre-funding or modifying our delivery schedule alone will not suffice to bring the Postal Service back to financial stability. We continue to seek ways to mitigate the extreme circumstances under which we are currently operating, while striving to avoid becoming a burden to the American taxpayers. In their statement released on April 9, the Postal Service's Board of Governors, in addition to discussing the delay in implementing six-day package/five-day mail delivery, also directed the Postal Service to pursue additional strategies to continue finding ways to survive. These include:

- Reopening negotiations with the Postal unions and consultations with management associations.
- Pursuing administrative actions necessary to reduce costs.
- Evaluating the option of an exigent rate increase, to raise revenues and address products not currently covering their costs.

We intend to move forward on these and all of the other proposals I have discussed in this testimony. This is the responsible thing to do. Our employees continue to do an excellent job, our customers are working with us, and we are intensely focused on bringing the Postal Service back to financial stability. But we cannot do it alone.

Mr. Chairman, time is of the essence. Every day that delays enactment of meaningful and effective postal reform legislation, the negative income gap grows. We are losing $25 million a day. Without legislative reform, the Postal Service's debt, in order to sustain operations, would need to climb to $58 billion in 2017. Every option has to be put on the table. These legislative goals cover a wide array of concerns and issues. No one single solution is enough, however. We agree that piecemeal efforts simply will not work.

Earlier, I mentioned making hard decisions. That must be done now. The financial problems of the Postal Service will not go away and they grow larger every year. Delaying reform for another year or more will only accelerate our already dire financial condition. Our liquidity will continue to be threatened and the day may come when we have insufficient cash to pay our employees or suppliers. Talk of an insolvent Postal Service has already made some customers look for other alternatives.

Mr. Chairman, in order to preserve our mission to provide secure, reliable, and affordable universal delivery service to all U.S. residents – and do so without burdening the American taxpayer – the Postal Service needs urgent reform to its business model. The American people deserve a financially healthy and vital Postal Service. We must make the difficult decisions necessary to ensure a reliable Postal Service for our customers and a bright future for our employees. The Postal Service is committed to working with you, and the rest of the Committee to achieve that goal. Thank you.

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