

The Power of Direct:
Relevance. Responsibility. Results.

DMA 
Direct Marketing Association

Postal Perspectives

Webinar Series

October 13th

Darrell Issa

Chairman, House Oversight & Government Reform Committee

October 31st

John Kilvington

Democratic Director, Senate Postal Subcommittee

DMA:2011 – Monday October 3rd

David E. Williams

Vice President, Network Operations Management - USPS

Postal Perspectives



Patrick Donahoe
Postmaster General, United States



**Congress must remove USPS' shackles
and let it operate as a real business.**

**Take DMA Action - Today!
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USPS Financial Future

DMA Conference Call

September 27, 2011

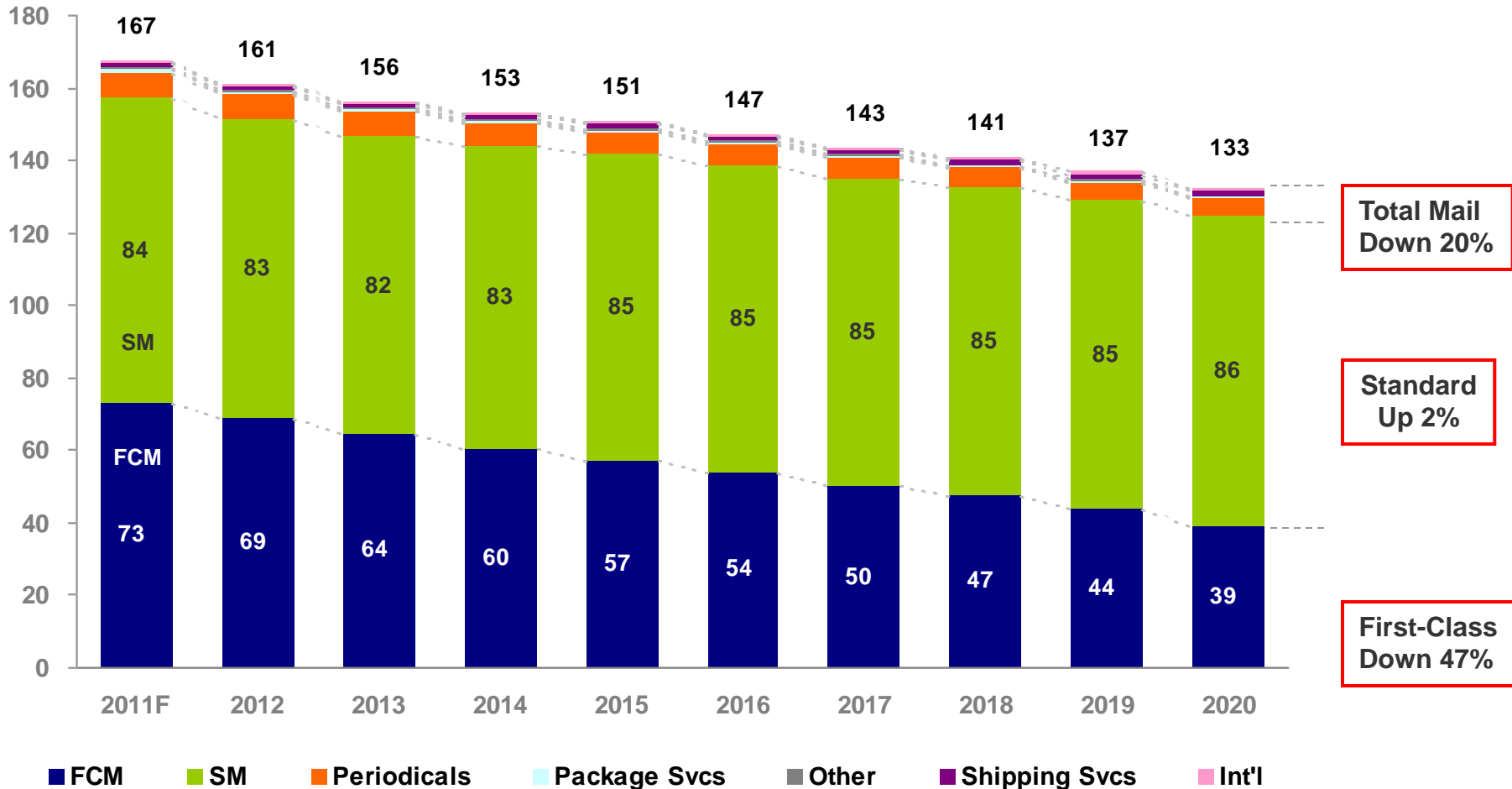


- Mailing industry employs over 8 million Americans and generates over \$1 trillion each year
- Continual First-Class Mail erosion due to digital/electronic diversion
- Restrictive Business Model
- Insolvent on September 30
 - Debt Ceiling Reached at \$15 billion
 - Unable to pay \$5.5 billion Retiree Health Benefit Pre-Payment
- Enactment of legislation needed by September 30 to avoid default



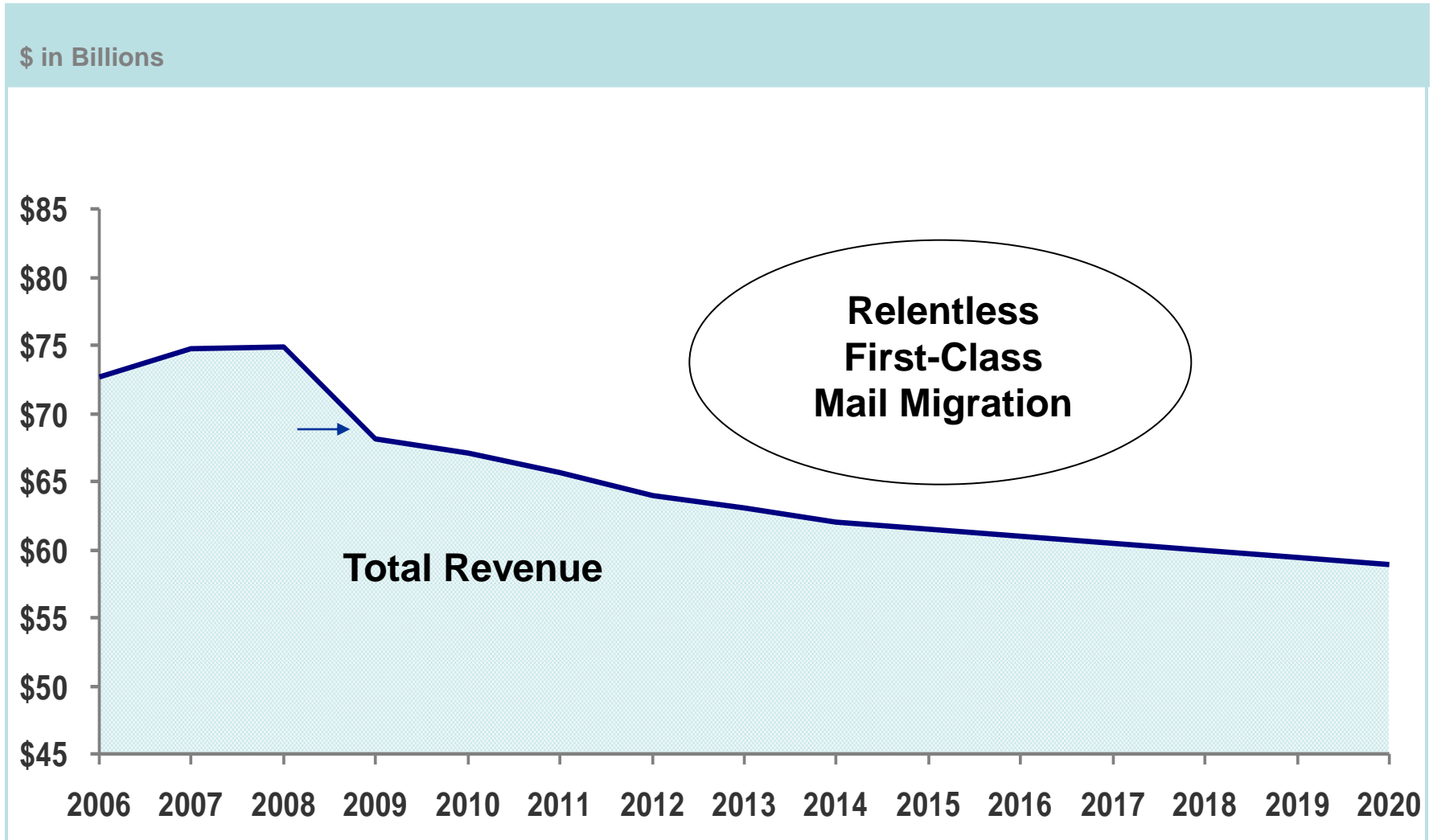
Volume Outlook

Volume Billion Pieces





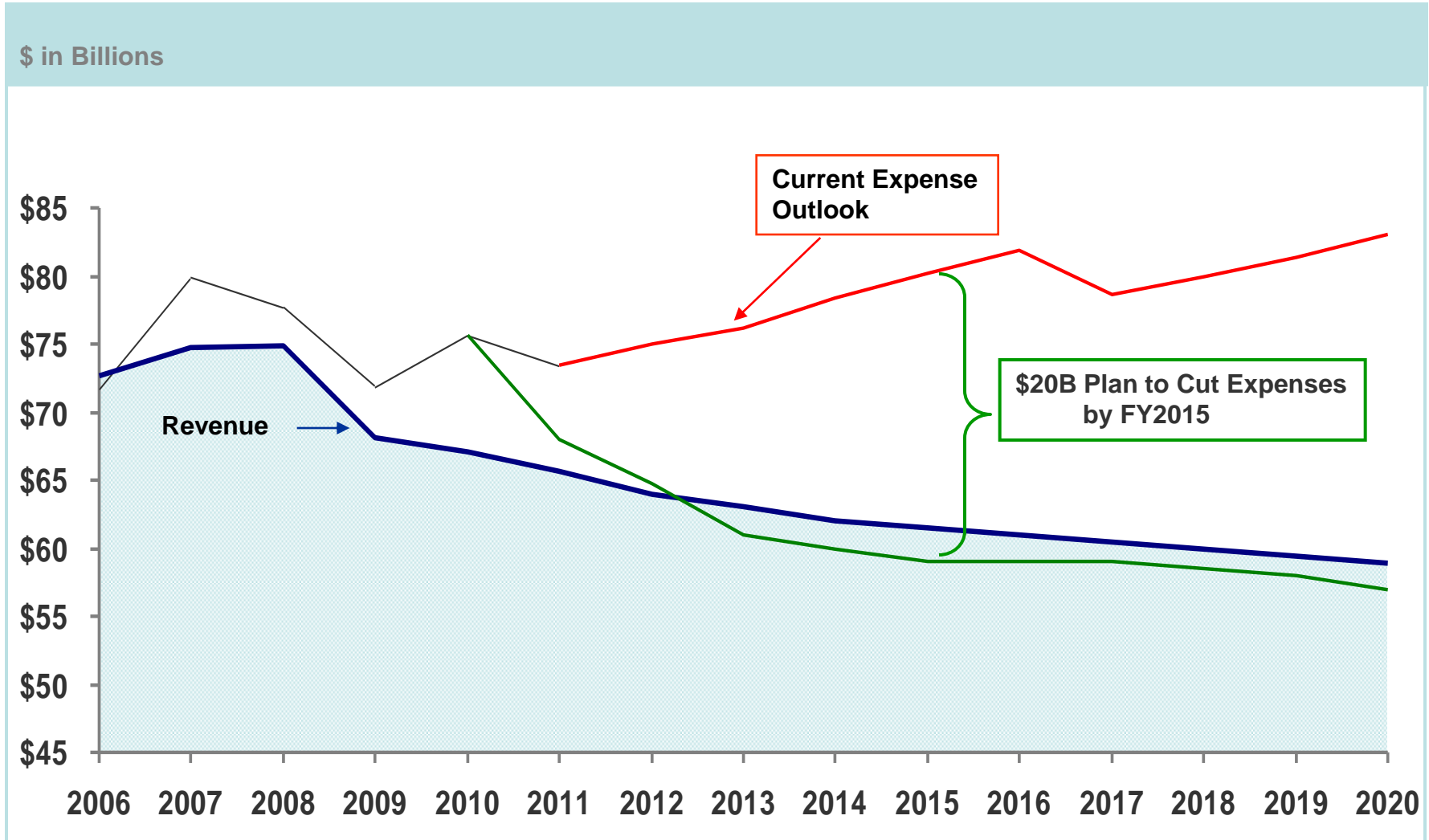
Reducing Revenues





Plan to Profitability

\$20B Cost Eliminated by FY 2015





Plan to Profitability

\$20B Cost Eliminated by FY2015

(\$ Billions)	2011	2012	2013	2014	
Revenue	\$ 65.5	64.0	63.0	62.0	
Operating Expenses - Prior Year		68.3	66.4	60.6	
Plus: Inflation (Estimated)		1.6	1.7	1.5	
Current Yr OpEx before Initiatives *	\$ 73.8	69.9	68.1	62.1	
<u>Incremental Pro-Forma Annualized Savings:</u>					Cumul
Legislative Changes:					<u>Savings</u>
RHB Pre-Funding Resolved	\$5.5	-	-	-	\$5.5
FERS \$6.9B Refund	✓	-	-	-	-
Five-Day Delivery	-	1.0	2.0	-	3.0
					8.5
Operations:					
Network: Sortation & Transportation	-	0.5	2.0	0.5	3.0
Retail	-	0.5	0.5	0.5	1.5
Delivery	-	0.5	1.0	0.5	2.0
					6.5
Compensation & Benefits:					
Flexibility, Benefits, Wages / Admin	-	1.0	2.0	2.0	5.0
Total Potential Savings	5.5	3.5	7.5	3.5	\$ 20.0
Current Yr. OpEx After Initiatives	\$ 68.3	66.4	60.6	58.6	
Income/(Loss) * (Excludes FERS Refund)	\$ (2.8)	(2.4)	2.4	3.4	
Net Debt (Includes \$6.9B FERS Refund)	\$ (5.9)	(7.5)	(5.0)	(1.2)	

* Operating Expenses exclude Non-Cash Workers' Compensation



Key Areas Requiring Legislative Action

- **Delivery Frequency** – authority to go from 6- to 5-Day Delivery
- **FERS Refund** – return \$6.9 billion in overpayments to the Postal Service
- **Resolve the current mandate to pre-fund Retiree Health Benefits** by \$5.5 billion annually and manage legacy cost going forward
 - Transfer CSRS overpayment (\$50 billion), or
 - Allow Postal Service to restructure its healthcare system to make it independent of federal programs – USPS Health Care Program
- **Managing Complement** – allow reductions in bargaining unit postal employees be governed under the Reduction-in-Force provisions applicable to federal competitive service employees
- **Retirement Plan** – allow Postal Service to provide a defined contribution retirement plan for its new hires; can be accomplished via OPM
- **Streamlined Governance Model** to speed pricing and product decisions



Key Areas Requiring Legislative Action

- **USPS Health Care Plan** – allow Postal Service to restructure its healthcare system to make it independent of federal programs
 - For annuitants, current employees, and future employees
 - Assume responsibility for 100 percent of the post-reorganization liability for retiree health care (\$91 billion, as of the end of FY2010)
 - Assume control of Retiree Health Benefits Fund (\$42.5 billion, as of end of FY2010)
 - **USPS Health Care Program**
 - Maintain benefit choices with consistent alignment between value and cost
 - Simplify plan structure, self-insure
 - Adopt best practices in private sector – pharmacy benefit management, wellness incentives, etc.
 - Establish incentives for Medicare eligibles to fully participate in Medicare benefits



Legislative – USPS Health Program

USPS Retiree Health Benefits Elements (\$ in millions)

Scenario	Assumptions	2013 Actuarial Liability	2013 Assets	2013 Unfunded Liability
Current Law	Continued participation in FEHBP and declining workforce. No prefunding payments in 2011, 2012, 2013	\$106,930	\$49,330	\$57,600
USPS Health Plan in 2013 (Element 1)	New USPS Health Plan beginning January 2013. Required accounting method change.	\$91,875	\$49,330	\$42,545
	Improved healthcare purchasing.	\$88,200	\$49,330	\$38,870
USPS Health Plan in 2013 (Element 2)	Includes Element 1, and fully integrated with Medicare Parts A, B, & D	\$72,415	\$49,330	\$23,085
USPS Health Plan in 2013 (Element 3)	Includes Elements 1 & 2, but with retiree contributions frozen at current levels, plus inflation.	\$61,511	\$49,330	\$12,180
USPS Health Plan in 2014 (Element 4)	Includes Elements 1, 2, & 3, but with USPS contributions frozen for future retirees.	\$52,106	\$49,330	\$2,776

President's Plan for USPS Reform

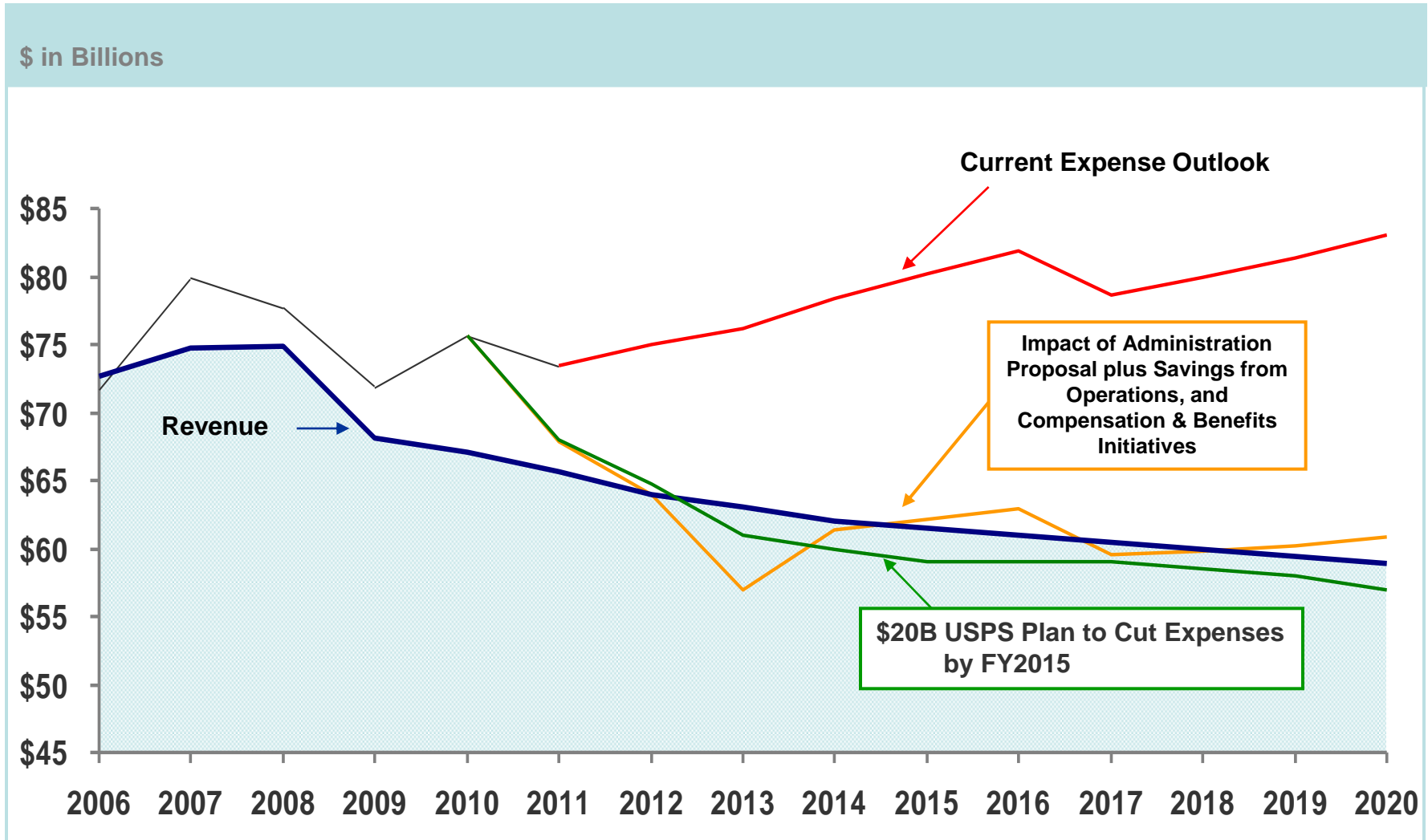


President's Plan for USPS Reform

- Restructure retiree health benefit pre-funding to reduce near-term postal payments
- Provide USPS w/ refund over 2 years of \$6.9 billion surplus contributed to Federal Employee Retirement System
- Reduce USPS operating costs by giving USPS authority to reduce mail delivery from 6 to 5 days
- Allow USPS to increase collaboration w/ state and local governments; e.g. non-postal products and beer and wine
- Give USPS ability to raise postage rates above current price cap



Administration Proposal and USPS Planned Operations and Benefits Actions





Questions?

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Thank You!

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