

BEFORE THE
COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION,
FEDERAL SERVICES, AND INTERNATIONAL SECURITY
UNITED STATES SENATE

“FINDING SOLUTIONS TO THE CHALLENGES FACING THE U.S. POSTAL SERVICE”

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TESTIMONY OF

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ON BEHALF OF
AFFORDABLE MAIL ALLIANCE

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Good morning, Senator Carper and members of the Subcommittee, I am Jerry Cerasale, Senior Vice President for Government Affairs of the Direct Marketing Association, and I thank you for the opportunity to appear today on behalf of the Affordable Mail Alliance concerning the future of the Postal Service.

The Affordable Mail Alliance (AMA) is a coalition of more than 1,200 Postal Service customers who joined together this summer to oppose the Service's postage request that was in excess of the inflation-based CPI cap. AMA is pleased that the Postal Regulatory Commission rejected the Postal Service's proposed postage increases, which would have precipitated a further decline in mail volume and caused additional job losses throughout the mailing community.

AMA members account for approximately 80% of mail volume in all classes of mail and contribute 90% of the revenue of the U.S. Postal Service. It is our postage—our money, not taxpayers' money—that pays the bills of the Postal Service. That is why we are pleased to have been invited to testify before you today on the financial health of the Postal Service. Our financial health and the financial health of our employees are equally at stake.

AMA thanks this Subcommittee, and particularly Senators Carper and Collins, for your past commitment to the Postal Service and its customers. We are pleased with your continued involvement and look forward to working with you to find solutions for the challenges facing the United States Postal Service. We applaud Senator Carper for S. 3831, the POST Act, and Senator Collins for her draft legislation, the Postal Service Improvement Act of 2010 (PSIA).

Postal Pensions and Retiree Health Benefits

We note with approval that both Senators Carper and Collins begin their legislation with the postal pension and retiree health benefits issue. Through the postage we pay, postal customers have been funding Postal Service employee pensions since July, 1971. Recently, both the Postal Service Inspector General and the Postal Regulatory Commission determined that postal customers have overfunded pension obligations for postal retirees under the Civil Service Retirement System (CSRS) by between \$50 billion and \$75 billion. Without this overpayment, postage would have been lower, and there

would have been much more that businesses could have done with mail to stimulate economic development and job growth. We could have employed more than the 7.5 million Americans we currently employ—prior to the recession we employed 9 million Americans. Excess CSRS payments have affected businesses and consumers in the same manner as any overpayment of taxes. This tax hits small businesses, the job creation engine in the American economy, particularly hard.

In addition to this \$50 billion to \$75 billion tax on postal customers, the Postal Accountability and Enhancement Act of 2006 (PAEA) has required postal customers to fund future postal retiree health benefits with a steep 10-year payment schedule averaging approximately \$5.5 billion per year. As with the CSRS tax, this payment schedule suppresses economic activity and job creation in the private sector. This schedule was created prior to the discovery of the CSRS overpayment. We again commend Senators Carper and Collins efforts to account for this overpayment.

Both S. 3831 and PSIA, in effect, would eliminate the CSRS tax on postal customers and would allow, not require, the Board of Governors of the Postal Service to utilize relief from this burden to fulfill the postal retiree health benefits obligations required by PAEA. We believe the Postal Board of Governors should be required to use any CSRS overpayments to fund all retiree health benefit obligations. This would improve the fiscal well-being of the nation's postal infrastructure and eliminate the subsidy of Federal Government retirees by postal customers.

There is another postal pension issue that we urge the Subcommittee to include in any postal legislation. We understand that our payments to the Federal Employee Retirement System (FERS) are overfunded by approximately \$6.8 billion and growing. Moreover, the Postal Service's FERS contribution percentage is being increased, potentially creating an even greater overpayment. This simply does not make sense. As included in PSIA, we ask that any legislation provide for a full review of the FERS payments by the Postal Service to determine whether or not postal customers are also subsidizing Federal Government employees through the FERS payments that we fund.

Collective Bargaining

Since postal employees are barred from striking, postal law requires postal employees and postal management to submit to binding arbitration if there is a failure to

reach a negotiated labor contract. S. 3831 and PSIA provide that any arbitrator must consider the financial condition of the Postal Service in any arbitration award. S. 3831 adds two additional factors for the arbitrator to consider—that rates are inflation capped and that postal wages must be comparable with the private sector.

As customers, we are not at the bargaining table. It is important to note that employee compensation and benefits still comprise 80% of Postal Service expenses after almost 40 years, billions of dollars of capital investment (particularly the billions spent on automation equipment), productivity gains, cost reduction programs, mailer worksharing, additional mail preparation requirements, and reductions in the Postal Service employee complement. No private sector business could ever hope to avoid bankruptcy with that kind of track record. Something is not working properly. We cannot afford to pay higher and higher postage, which will suppress our businesses. For the Postal Service to survive, its customers must reap the benefits from our investment in capital improvements. It is time for Congress to examine every idea to improve the collective bargaining process.

Delivery Service

Business-related transactions provide over 90% of all postal revenue. Businesses use the mail to reach their customers and potential customers with information, offers and product, much as political candidates use mail to communicate with voters. Mail is a valuable channel for business communication and commerce. That value, however, depends upon both price and service. Any change in delivery service must be based upon the needs of postal customers. This is imperative. We do not take a specific position on delivery days, but the financial viability of a Postal Service funded solely by customers requires service that meets the needs of those customers. Congress, moreover, should refrain from placing unfunded mandates on the Postal Service (and, thus, its customers) when that which is mandated is not necessary to meet customer needs.

Facilities

S. 3831 eliminates the prohibition on the Postal Service from closing a Post Office solely for economic reasons. It is important to understand that this prohibition does not apply to processing facilities or, in the view of the Postal Service, to stations and branches. Little progress has been made, sadly. The Postal Service should be actively consolidating its facilities while maintaining a commitment to service. The current mail

processing, transporting and delivering network has a capacity of well over 200 billion pieces of mail per year. (It may be as high as 300 billion.) The Service projects mail volume to be 150 billion pieces by 2020. We cannot afford to maintain excess capacity. It is important for Congress to require the Postal Service to right-size its network.

PSIA includes a provision requiring a Postal Service plan to ensure that postal customers have ready access to postal retail facilities by collocating postal retail operations within private retail locations within communities. This provision should allow for the economic use of private retail facilities to provide postal retail services.

New Products

In order to survive in the 21st century, the Postal Service must provide services that customers need at a price customers are willing and able to pay. The Service should be aggressively seeking to offer new products that meet customer needs. For postal related products, the Service should continue to poll its customers to discern the demand for new postal products that will enhance the ability of customers to improve their businesses.

Where non-postal products are concerned, some caution is required. Postal Service employee expertise is in collecting, sorting, transporting and delivering physical mail. Non-postal products do not fall within their expertise, and efforts to gain that expertise will reduce focus on efforts to improve performance dealing with postal products.

There is one caveat that needs to be addressed for any new product offered by the Postal Service. As former Deputy Postmaster General Michael Coughlin earlier stated before this Congress, the financial difficulties facing the Postal Service are huge—the Service had an \$8.5 billion loss in 2010. To cover that loss with net proceeds from new products, the Service would need 85 new products producing \$100 million annual net revenue or 850 new products producing \$10 million net revenue. New products will help, but they will not bring the Postal Service out of its financial difficulties.

The Postal Service should focus on increasing mail volume and avoiding actions that force mail out of the system. To do this effectively, it should look first very aggressively at removing barriers for customers to use the mail. In the past few years the Postal Service has placed many new requirements on business customers that

necessitated the reengineering of address placement on catalogs and magazines, new barcoding, new paper weight for lightweight flats and new demands on customers' IT systems in hopes of reducing costs of the Postal Service. Sadly, those Postal Service costs keep rising right along with the mailers' costs of compliance for the new requirements. All of those requirements should be reexamined by the Service in constant consultation with its customers. The cost of postage, coupled with a steady increase in costly and complex requirements to use the mail, has driven mail out of the system. This is not "good business." As the current experience has shown, these compliance costs remain whether or not mail volume is present to cover them.

We request that Congress include in any postal legislation the provision in PSIA that encourages the Postal Service to seek Negotiated Service Agreements (NSAs) for market dominant products. We also urge that this encouragement extend to NSAs to services that combine both market dominant and competitive products.

In conclusion, Congress must resolve the issue of the tax on postal customers for the overpayment of pension benefits and postal retiree health benefits. Failure will simply put the brakes on a slow and weak economic recovery, particularly job creation recovery.

I thank you and look forward to any questions you may have.