



Principles for Postal Service Reform

Reforming the Service While Preserving a Beloved U.S. Institution

By Kristina Costa

March 13, 2012

The only way to reach Supai, Arizona (pop: 208), is to hike or helicopter eight miles to the bottom of the Grand Canyon. The U.S. Postal Service delivers mail and supplies there three days a week—by mule.

Our country's steepest canyon may be no match for the American mail carrier, but our postal system does face a gaping threat from a huge hole of another kind: After several years of modest surpluses, the postal service lost \$25.4 billion between 2007 and 2011, plunging \$13 billion into debt.

Digging out of that financial chasm will require congressional action, and lawmakers are considering several reform plans. As they do, members of Congress should make every effort to preserve this critical and beloved American institution. Shoring up the postal service's finances for the Internet Age is essential, but so are these core principles:

- **Minimize harm.** Reform efforts should minimize harm to economically and socially vulnerable communities that depend on the mail, to other government functions that rely on the postal service, and to the 574,000 Americans who count on the postal service for good, middle-class jobs.
- **Address the real problems.** Congress should ensure any legislation to resolve the postal service's financial crisis actually addresses the major drivers of that crisis, among them the congressional mandate that the service prefund 75 years' worth of retiree health benefits over just 10 years.
- **Refrain from additional burdensome mandates.** Congress should give the postal service more flexibility in its operations, not less, and refrain from applying additional burdensome controls on postal operations.

This issue brief examines the crisis facing the U.S. Postal Service in light of these core principles. As will be demonstrated, it is possible to enact reforms that resolve the postal service's financial crisis while minimizing negative effects in communities across our country.

Background: How did we get here?

The postal service is an independent federal agency that is supposed to fund its operations through the sale of postage. The approximately \$100 million the postal service gets from Congress each year (to pay for free mailing services for the blind and for overseas voters) is just one-tenth of 1 percent of its \$75 billion operating budget.

If the postal service were a private-sector company, it would rank 29th in the Fortune 500. But it's not only big; it's also popular at a time of mounting cynicism about government. A 2010 Pew Research Center survey found that 83 percent of Americans gave the postal service a “favorable” rating. In the same survey favorability ratings for the two major political parties, Congress, and the government in general all reached record lows.

But the postal service is under undeniable financial pressure. Mail volume has been in decline for several years. After reaching an all-time high of 213.1 billion mail pieces handled by the postal service in 2006, volumes first leveled off and then plunged precipitously during the recession. Since 2008 mail volume has fallen 17.7 percent.

Still, the U.S. Postal Service delivers 40 percent of the world's cards and letters. And some postal service observers believe the Great Recession—not email and the Internet—is the biggest driving force behind the recent decline in mail volume. That's not to say that the postal service shouldn't work to develop innovative ways to earn revenue and remain competitive as the economy recovers. But policymakers should not ignore the role played by the most severe economic downturn since the Great Depression when considering the postal service's own financial crisis lest they find “solutions” that do more harm than good.

Three reform proposals

Three legislative ideas introduced in Congress last year represent three different approaches to solving the postal service's financial problems. These proposals are outlined below.

The Issa proposal

The Postal Reform Act, sponsored by Rep. Darrell Issa (R-CA), contains provisions to allow the postal service to switch from six- to five-day residential delivery and to make adjustments to rural delivery practices. But the bill focuses most of its attention on closing budget gaps through changes to the postal workforce. The bill would create two new oversight organizations for the postal service:

- The Commission on Postal Reorganization, which would review plans for facility closures (a role already undertaken by the independent Postal Regulatory Commission)
- A new solvency authority, which would have the ability to “reject, modify, or terminate one or more terms of conditions of an existing collective bargaining agreement”

According to the Center for American Progress Action Fund’s David Madland, this is nothing more than hidden union busting and ignores the successful workforce reduction agreements that postal service management and the postal workers’ unions reached during the recession.

The Sanders proposal

The Postal Service Protection Act, sponsored by Sen. Bernard Sanders (I-VT), looks to close the postal service’s financial gap in part by refunding overpayments made to the Postal Service Retiree Health Benefits Fund, the Postal Service Fund, and the Employees’ Compensation Fund under the Federal Employees’ Compensation Act. The postal service is estimated to have overpaid pension funds by as much as \$13 billion.

The bill would also encourage the postal service to find additional revenue sources by establishing criteria under which post offices can provide nonpostal services such as document notarization and check cashing, and by legalizing the mailing of wine and beer by licensed wineries and breweries across state lines. These are among the many services that the post office is legally prohibited from offering.

The Lieberman proposal

The 21st Century Postal Service Act, sponsored by Sen. Joseph Lieberman (I-CT), takes a different tack, seeking to reduce the overall workforce of the postal service while adjusting retiree-benefit formulas to close that financing gap. The Lieberman bill authorizes the postal service to offer buyouts to employees with the goal of reducing the workforce by as many as 100,000 workers over three years. The bill also recalibrates the amortization formula for mandated prefunding of retiree health benefits but does not rescind the requirement as Sen. Sanders has advocated.

The differences between these three bills highlights why keeping the postal service financially viable during our nascent economic recovery while maintaining the high quality of mail services Americans expect is a difficult practical and political proposition. But Congress should take care to ensure that new postal service legislation helps solve, rather than create, problems for the postal service.

Principles for postal reform

Reforms must not endanger vulnerable Americans

Cost-saving ideas floated frequently for the postal service—including by the postal service itself—include reducing delivery from six days per week to five, and closing some of the service’s 31,871 locations. But these reforms alone would not solve the postal service’s financial problems, and in fact would greatly inconvenience customers who rely on the postal service for vital mail and packages. A number of studies have been conducted considering possible savings from a reduction in delivery days. Conclusions vary widely.

A U.S. Postal Service study in 2008 estimated the five-day week could save \$3.5 billion annually, with no reduction in revenues. But another study that year by the Postal Regulatory Commission, the postal service’s regulatory overseer, estimated savings of \$1.93 billion annually, with a loss of \$580 million in decreased sales. And in 2010 the commission reviewed the 2008 U.S. Postal Service study and found that the postal service had overestimated savings and underestimated revenue losses. The revised net savings totaled \$1.7 billion annually. These are significant sums to be sure, but are not nearly large enough to close the postal service’s budget gap.

The postal service has also proposed closing post offices in 3,700 communities across the country—many of them rural—in order to cut costs. These closures would likely disproportionately affect the elderly, who may receive Social Security benefit checks and retirement benefits through the mail, along with vital prescription drugs. Of the post offices being considered for closure, 80 percent are in rural areas where the poverty rate is higher than the national average, and one-third are in areas with limited or no access to wired broadband Internet.

Not only would closing these offices endanger vulnerable Americans and communities, but the savings are also minimal in the context of the postal service’s operating budget. Closing all 3,830 post offices on the proposed closures list would save about \$295 million per year. That’s about four-tenths of 1 percent of the postal service’s \$70 billion in annual expenses. In a Reuters article, former Postmaster General William Henderson said these savings amount to “not even a drop in the bucket. The bucket won’t ripple.”

And the planned closure of about half of the postal service’s 487 mail processing facilities means the first decline in delivery standards in 40 years. Under current standards, the postal service must deliver first-class mail within the continental United States within three days. After the processing facility closures, however, delivery time will increase by two to three days. The elimination of Saturday delivery and the closing of post offices in vulnerable communities would exacerbate problems for those Americans who are most reliant on mail services.

Reforms should not endanger or degrade other government functions

The postal service does more than make sure that Grandpa gets his cholesterol medication out on the farm. The decennial Census, for instance, uses postal service databases to help build its list of residences. And of course the government sends a good deal of mail. Between 1997 and 2007 the House of Representatives alone sent 1.24 billion pieces of mass mail.

Moreover, the proposed closure of both retail and sorting facilities has voting officials around the country concerned about the November election. California and Arizona voting officials are concerned about the anticipated delays in mail speed that will result from processing facility closures, while the state registrar in the swing state of Ohio is worried about security if mail-in ballots are sent to a processing facility across state lines to be sorted. And in Oregon, the first state to require its residents to vote by mail, the closure of rural post offices will make it more difficult for those residents to submit their ballots at all.

And in the event of “man-made or natural disasters or national emergencies,” the postal service remains a reliable mode of communication in reaching affected areas, as the U.S. Postal Service Office of the Inspector General points out in its semiannual report to Congress. The report also claims that the postal service is uniquely situated to provide secure services—after all, mail tampering is a federal offense but email tampering is not. “The Internet was not constructed to ensure privacy, validate participant identity, or facilitate financial transactions,” the inspector general writes. “A trusted government entity might best provide services that ensure privacy is protected around medical records, data collection, and confidential transactions.”

Reforms must not unnecessarily endanger middle-class jobs

The postal service currently employs 574,000 career postal workers. Of those half a million employees, 21 percent are African American, making the postal service one of the largest single employers of minority workers. And the postal service is also the single-largest employer of veterans, who make up 22 percent of the postal workforce. Some 49,000 veterans employed by the postal service—about one-third of the veterans employed there—are disabled.

In 2010 the postal service reduced total work-hours by 75 million—a number equal to 42,800 full-time employees. And since the recession began in 2007, the postal service has eliminated 110,000 jobs while maintaining service quality. Labor costs may be the postal service’s biggest operating expense but that’s to be expected in a very labor-intensive line of work. The postal service makes daily deliveries to seven to eight times as many addresses as private parcel delivery companies.

The total number of jobs at risk of being cut from proposed retail and processing facilities is unclear but could reach 220,000. Congress should be finding ways for the post office to be more competitive, not encouraging even more of the public-sector layoffs that have been exerting a drag on our economic recovery.

Reforms must address the retiree health benefit mandate

First-class mail volume has declined since fiscal year 2006. The postal service responded to this decline by doing one of the few things they are authorized to do without congressional approval: increasing postage rates. When the recession hit, the postal service was able to keep mail revenues steady through these rate increases and by working with its unions to cut more than 110,000 jobs. It's important to note, however, that the postal service cannot raise postage rates higher than the Consumer Price Index without approval from the Postal Regulatory Commission—and that the commission declined one such request in the fall of 2010, when the postal service attempted to raise postage rates by 5.6 percent to help balance its books.

The postal service's efforts to respond to the recession, however, were complicated by the Postal Accountability and Enhancement Act of 2006. Among other provisions, this legislation requires the postal service to prefund 75 years' worth of its future retirees' health benefits in just 10 years. No other company or federal agency in the United States is required to prefund future retiree benefits in full or in such a short time. This legislative mandate costs the postal service a stunning \$5.6 billion every year. But the 10-year payment schedule was set primarily to make the legislation budget-neutral "rather than corresponding to actuarial requirements or financial conditions at the Postal Service," according to a 2009 committee report from the House Oversight and Government Reform Committee.

Without this legislative requirement to prefund retiree health benefits, the U.S. Postal Service would not have experienced operating losses until fiscal year 2009, instead of beginning to run losses in fiscal year 2007. Even after that point operating losses would have been relatively small and traceable to recession-related declines in mail volume.

The mandate to prefund retiree health benefits is also the driver of the postal service's large debt burden. The postal service's \$15 billion credit line from the U.S. Treasury Department was established in 1970 and was intended to allow the postal service to make capital investments in keeping its facilities and fleet of vehicles up to date. In 2005, before the Postal Accountability and Enhancement Act, the postal service had no outstanding debt. Today, however, it has racked up \$13.2 billion in debt, largely because of trying to meet its statutory obligations for health benefits for future retirees, according to the National Association of Letter Carriers, a trade union.

Reforms should give the postal service more flexibility, not less

The postal service by law is prohibited on its own from:

- Reducing the number of residential delivery days
- Raising postage rates any higher than the Consumer Price Index
- Selling anything other than “postage stamps, stamped paper, cards, envelopes, philatelic services, and ancillary items”
- Providing nonpostal services such as document notarization or check cashing

Lifting some combination of these legal restrictions—and refraining from adding additional burdensome mandates—would allow the postal service to work with its employees and with the Postal Regulatory Commission to address its financial problems while remaining competitive.

Conclusion

Most Americans aren’t as dependent on the postal service as are the residents of Supai, Arizona, at the bottom of the Grand Canyon. But the postal service is the most demonstrable example of government working the way it ought to, every day, for every citizen. For far less than a dollar, you can mail a birthday card, a wedding invitation, or a letter to your mother from any part of the country to any other.

You can send it from a post office, from a curbside mailbox on a busy street, or from your own front door. It will arrive in less than a week and it will arrive at the addressee’s home or office. It’s an organizational miracle that has been made predictable—even prosaic—by the postal service’s consistent professionalism.

Saving the postal service isn’t about minimizing competition for private-sector parcel deliverers, or about saving a few thousand dollars a year by closing a low-grossing post office, or even about reforming benefits for the postal service’s labor force. Saving the postal service is about the public good.

In a series of congressional hearings on six-day delivery in 1977 and 1978, former Rep. Timothy Wirth (D-CO) stated that the service was a “social value” and that cutting service would worsen the opinions of those who were “losing some of their faith in what government can do for them.”

At a time when distrust in government is at an all-time high, it’s more important than ever to give the government agency most trusted by the public to perform well on their behalf the flexibility it needs to meet the economic demands of the 21st century.

Kristina Costa is a Research Assistant at the Center for American Progress.