

HR 22

USPS Funding for Retiree Health Benefits

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The Postal Service is under serious financial strain due to challenging economic conditions that continue to reduce mail volume.

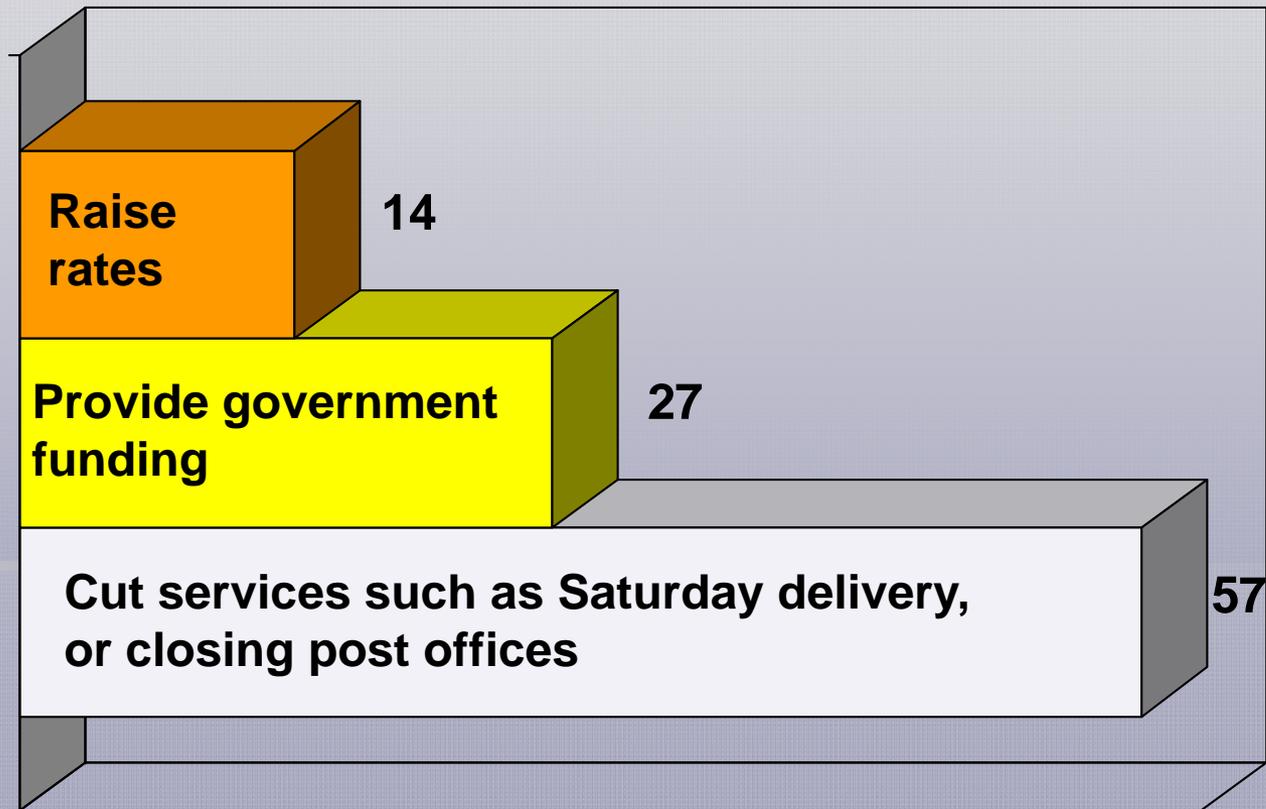
A combination of factors has led to the severity of the economic climate:

- Year after year fuel price increases
- Increases in the cost of paper
- Uncertainty in the financial markets
- Increased diversion of hardcopy messages to the Internet
- Continued increase in USPS expenses in pay and benefits

The Postal Service, Congress, and the rest of the postal community recognize that it is in a precarious financial condition. The public debate is whether to file an exigent rate case, reopen the political compact that led to the Postal Accountability and Enhancement Act (PAEA) and release it from its obligation to fund future health benefit premiums, cut back on the frequency of delivery, or drastically reshape the Postal Service's workforce.

Public Sees Reduced Services as Solution to the USPS Financial Problems

What would you most like to see done to help the Postal Service out of its financial difficulties?



USPS Revenue

Fiscal Year	Net income	Revenue	Expenses	Debt
2005	\$1,445	\$69,993	\$68,548	0
2006	\$900	\$72,817	\$71,917	\$2,100
2007	(\$5,142)	\$74,973	\$80,115	\$4,200
2008	(\$2,806)	\$74,968	\$77,774	\$7,200

Item 8.01. Other Events.

The U.S. Postal Service (USPS) previously announced a loss for the quarter ending December 31, 2008, in an 8K filed on February 9, 2009. USPS discloses that its unaudited January 2009 financial results were an estimated \$5.80 billion in revenue and \$6.55 billion in expenses, resulting in an estimated net loss of \$751 million. This loss compares to a loss of \$44 million in January 2008, which resulted from total revenue of \$6.58 billion and total expenses of \$6.62 billion. Mail volumes declined by over 16% in January 2009 from January 2008. The January results continue to illustrate that the downward pressure on the Postal Service business continues into 2009.

State of the USPS

- **Delivery Points up 1.1M from 2007 to 1.49M delivery points a day**
- **716,000 Employees of which 642,000 are Bargaining Unit Employees**
- **2008 Volume 202.7B pieces**

State of the USPS

- **9.5 billion or 4.5% fewer letter and flats were mailed in 2008 v. 2007**
- **Largest decline in history of USPS**
- **A loss of \$2.8 billion of revenue related to reduced mail volume**

State of the USPS

- **Mortgage and credit card mailings are down 57%**
- **Prices are expected to rise 5% this year**
- **Causing further decline in volume**

State of the USPS

- **Environmentalists argue against use of mails and promote 'do-not-mail-legislation**
- **Fluctuating oil prices have been an enormous cost factor for fueling a 220,000 vehicle fleet. For every penny increase of gas it costs the USPS \$8M annually.**

State of the USPS

- **The USPS must pay \$5 billion a year to prepay retiree health benefits**
- **Stamp prices not taxes fund services, the USPS is supposed to operate in black and can only raise rates based on inflation, not need.**
- **The USPS has already borrowed \$12B of its \$15B borrowing limit**

State of the USPS

- **2008 USPS cut 50 million work hours**
- **23,000 vending machines deployed**
- **2009 anticipated loss of another 10-15 billion pieces**

State of the USPS

- **Voluntary Early Retirements will continue to be offered**
- **Since 2002, almost 100,000 employees have left the Service**

State of the USPS

- **156,000 offered Voluntary Early Retirement**
- **3,685 retired on 12/31/08**
- **4,000 more were expected to go in February 2009**

State of the USPS

- **New Voluntary Early Retirement offer to 150,000 employees nationwide**
- **15% reduction of administrative personnel which will result in a reduction of postal supervisors**

What can we expect

- **More excessing**
- **More tour 2 compression**
- **PTF work hours reduced**
- **Letter carrier impacts with carrier route adjustments and deployment of Flat Sequencing Sorters**
- **Consolidation studies for mails and installations**

What GAO Found

In fiscal year 2008, mail volume fell by 9.5 billion pieces, fuel prices increased by over \$500 million, and cost-of-living allowances for postal employees increased costs by over \$560 million. Cutting costs by \$2 billion – primarily by cutting over 50 million work hours – did not close the gap between revenues and expenses. Thus, USPS recorded a loss of \$2.8 billion for fiscal year 2008. Its debt increased by \$3 billion by the end of the year to \$7.2 billion.

What GAO Found, pt 2

Two areas for further action to reduce costs include **compensation and benefits**, which is close to 80 percent of its costs, and mail processing and retail networks.

Accelerated volume declines and changes in the public's use of mail indicate that USPS needs to move beyond incremental efforts and take **aggressive action to streamline its workforce** and network costs to assure its long-term viability.

Outlook for 2009

- USPS's outlook for fiscal year 2009 has become more pessimistic. USPS projects a volume decline of 10 billion to 15 billion pieces, another loss, and \$3 billion more in debt. At this pace, USPS could reach its \$15 billion statutory debt limit by fiscal year 2011.

GAO Proposed Options

Work with unions to modify work rules:

One option that would not require congressional action is similar to actions taken by other financially stressed entities, whereby USPS and its unions could agree on ways to achieve additional short-term savings, such as by **modifying work rules** to facilitate reducing work hours.

GAO Options, pt. 2

Another option would be for USPS to close unnecessary retail facilities, and by reducing the number of facilities, USPS could lower the costs of maintaining its network of facilities. USPS's network of retail facilities has been **largely static despite population shifts and changes in mailing behavior.** In considering options to provide retail services at a lower cost, it is important to note that large retail facilities – generally located in large urban areas – generate **much larger costs for the retail network than the smallest rural facilities** and may therefore potentially generate more cost savings.

GAO Option pt.2 cont.

- **Closing postal facilities** is often controversial but is necessary to streamline costs. Congress encouraged USPS to expeditiously move forward in its streamlining efforts in Postal Accountability and Enhancement Act (PAEA).
- We recommend that USPS enhance transparency and strengthen accountability of its realignment efforts to assure stakeholders that realignment would be implemented fairly and achieve the desired results.

PAEA

Retiree Health Costs

8089.a. Postal Service Retiree Health Benefit Fund

(a) There is in the Treasury of the United States a Postal Service Retiree Health Benefits Fund which is administered by the Office of Personnel Management.

The United States Postal Service must pay into the fund each September –

\$5,400,000,000, 2009	\$5,600,000,000, 2013
\$5,500,000,000, 2010	\$5,700,000,000, 2014
\$5,500,000,000, 2011	\$5,700,000,000, 2015
\$5,600,000,000, 2012	\$5,800,000,000, 2016

What the USPS Has to Pay

- An obscure legal requirement currently forces the Postal Service to prefund 80 percent of its future retiree health benefit costs by 2016, costing the agency at least \$5.5 billion a year on top of the \$2 to \$3 billion per year it annually pays. No other enterprise in the country – public or private – is required to prefund such costs at all, much less on such an onerous payment schedule.

	Pre-Funding	Premium Payments	Total
2009	\$5.4	\$2.3	\$7.7
2010	\$5.5	\$2.6	\$8.1
2011	\$5.5	\$2.9	\$8.4
2012	\$5.6	\$3.3	\$8.9
2013	\$5.6	\$3.6	\$9.2
2014	\$5.7	\$4.0	\$9.7
2015	\$5.7	\$4.4	\$10.1
2016	\$5.8	\$4.8	\$10.5
Total	\$44.8	\$28.1	\$72.9

The Bottom Line

- The survival of the USPS is dependent upon relief from these payments. The USPS is the only participant in the Federal Employees Health Benefit Program required to make these advance payments. The requirement for these payments were enacted before the present economic 'great recession' and will jeopardize postal operations, if they are continued as currently scheduled. HR-22 will allow the USPS relief from this unfair and crippling financial burden.

HR 22

To amend chapter 89 of title 5, United States Code, to allow the United States Postal Service to pay its share of contributions for annuitants' health benefits out of the Postal Service Retiree Health Benefits Fund.

- Introduced by –
 - Rep. John McHugh (R-NY)
 - Rep. Danny Davis (D-IL)
- Provides that funding come from Retiree Health Benefit Fund through 2016
- There are presently over 118 co-sponsors

What Would HR-22 Do?

- HR-22, calls for a change in the accounting treatment of retiree health benefits for USPS workers – a change that **would not affect employee benefits, or raise government costs**, but would make it far easier for the USPS to balance its books, as required by law, without drastic service cuts or layoffs.

How Would HR-22 Help the USPS?

- H.R. 22 would save the Postal Service an average of \$3.5 billion per year over the next eight years, and, as under current law, any remaining liability in 2016 would be amortized (paid by installment) over 40 years.

The Bottom Line

This is one of the most important legislative initiatives for postal workers this year. If this legislation is not passed, the future operations of the USPS are at risk.

There has to be a mobilization of postal employees, their families, and allies to save the service and our jobs. This will require our members to coordinate phone calls, e-mails, visits and letters to their congresspersons about the importance of co-sponsoring and passing this legislation.

Locals are encouraged to send to the Sally Davidow, Communications Director any pictures and stories about their efforts to get HR-22 passed.

It is our intent to recognize APWU members and officers who have committed to save the service and postal jobs.