

WHY CONGRESS SHOULD ADDRESS QUICKLY THE RETIREMENT FUNDING ISSUES AFFECTING THE NATION'S POSTAL SYSTEM

Background. The Postal Service has been required by law to fully fund all its obligations to pay for the retirement annuity benefits of its employees, particularly those whose benefits are provided through the Civil Service Retirement System. This has been done from revenue the USPS derives from postage paid by all users of the mail. More than 95% of that postage comes from mail that is business related.

The Postal Service also is required, under the Postal Accountability and Enhancement Act of 2006, to pre-fund the health-related retirement benefits provided to all postal retirees. This has amounted to an annual payment of something more than \$5 billion. Again, the revenue for this payment is derived from postage paid by all mail users. The most recent recession has shown that the pre-funding requirement has seriously drained the nation's postal system of the funds it very much needs to innovate and modernize its services to more appropriately meet the nation's changing postal needs in the years ahead.

In separate studies and reports, both the Office of the Inspector General of the U.S. Postal Service and the Postal Regulatory Commission have noted that, over the years, there has been an overfunding of the Postal Service's CSRS obligations by amounts that range from \$50 billion (PRC) to \$75 billion (OIG). Both have noted that the Postal Service's retirement health insurance pre-funding requirements could easily be met simply drawing on the CSRS overpayments.

If such an adjustment were to be made, all of the Postal Service's retirement-related funding obligations would be fully met. In other words, there would be no need to require users of the mail to continue making payments to the federal treasury or to require the U.S. Postal Service to divert much needed fiscal resources to fulfill an obligation that, through a less taxing approach, could be fully satisfied. The nation, and particularly those who rely on a universal mail system for business communication and commerce, awaits Congress' taking this prudent step.

Some Questions and Answers Congress Should Consider.

- Q. What's the big deal here? Isn't this just about doing something to make the Postal Service's life easier?
- A. Not at all. What's at stake here is not primarily the fiscal well-being of that agency of government known as the U.S. Postal Service. What's really at stake is the fiscal viability of the nation's postal system, and there really is a difference between the two. First, it's important to keep in mind that, by federal law, Congress has made what we call the U.S. Postal Service the primary steward of the nation's postal system. By law, only the Postal Service can carry and deliver mail or deposit any matter in personal and business mailboxes. The Postal Service is simply the agent that takes on the primary responsibility to ensure the nation's postal system works for the purposes which Congress had intended. Characterizing the Postal Service as some ideologue's political agent would be akin to accusing the Department of Defense of being some party's political patsy, simply because it has been charged by Congress to assume primary responsibility for the nation's defense.
- Q. Okay, okay, so in what manner *should* this issue be viewed.
- A. The nation's postal system is a vital part of this nation's economic infrastructure in much the same manner that roads, electrical power, water and sewer, and natural gas are elements of that infrastructure. All are designed to accomplish a specific national need. All are closely related to key aspects of our nation's economy.
- Q. And how is that true of mail?

A. Believe it or not, some 95% of all mail is related to a business transaction of one kind or another. Only five percent of all mail can be characterized as primarily personal correspondence. There are thousands of businesses nationwide of all types and sizes that use mail primarily as a business transactional medium. Their mail might take the form of business correspondence, billings, payments, statements of account, advertising, order fulfillments, philanthropic and political fund raising, charitable giving, dissemination of vital public information, and so on. Most of us are familiar with the uses of mail by financial institutions, local utilities, telephone companies, cable TV companies, magazines, major retailers, catalog companies, and a host of others.

Most are not as familiar with the many uses that are made of the mail to announce the availability of products and services that are provided by small businesses in every community across the nation. In fact, for many small businesses, mail is their primary (if not their only) means of advertising their goods and services. Without mail, many of these businesses simply could not sustain themselves, nor could they easily afford the ability to advertise in other media. Radio, television, and newspapers are alternatives, but none compare to the affordability and effectiveness of communicating and doing business by mail.

Q. So, what's your point?

A. The point, very simply is this: Mail is as vital a part of this nation's economic infrastructure. It has the power to affect the well-being of our nation's economy. Right now, the state of the postal system is imperiled by Congress' failure to act in a manner that can further facilitate our nation's economic well-being.

Q. What's the big deal? Isn't it true that businesses and citizens are changing the manner in which they communicate and do business in ways that make mail a less effective alternative?

A. It may be true that over the past two decades, we've seen many elements of our society adopt alternative communication methods. Today, the words "web," "internet," "email," "Facebook," "twitter," "smart phones," "iPhones," "iPads," "Kindle" have meaning that previously was unknown. While it may seem to some (who live and die by Blackberry or 24-hour cable news) that America has abandoned the mail for some new, whiz-bang, electronic alternative, nothing could be farther from the truth.

Q. How do you mean?

A. Today, 38% of all homes in America do not have access to the internet. For these people, there is no such thing as receiving and paying bills online, voting online, ordering goods and services online or any other such delights that today's digerati take for granted. For them, mail is still an essential part of living in America, and serves as their primary means for receiving and paying bills, learning about sales and services from local retail establishments, learning the pros and cons of issues subject to political debate, and getting other aspects of the day's news--particularly the news that's so central to local communities. In many respects, there is still a digital divide in this nation--a divide that mail can make seem less punitive for those who choose or simply cannot afford digital alternatives.

Q. Okay, so mail's still important. But how is it "imperiled?"

A. As an element of infrastructure (and given that 95% of all mail is business transaction-related), it can be rightly said that our postal infrastructure exists primarily to *facilitate* the use of mail for business communication and commerce. Failing to address the postal retirement-related funding does little to facilitate mail's use, but, in fact, *impedes* businesses' ability to use mail as a vehicle for commerce.

The viability of the nation's postal system is being imperiled in several ways:

- Requiring mailers to continue to make payments for postal retirement-related obligations that are already fully covered by postage collected by the Postal Service and paid to the Treasury makes the cost of using mail much higher than it really needs to be.

- The higher cost of using mail is causing businesses to seek out, explore, and use electronic alternatives whenever feasible. The continued, *forced* diversion of this business out of the mail and into other media worsens the fiscal circumstances of the nation's postal system.
- As a commercial medium, mail is *not* on the road to extinction. Perpetuating circumstances that make the use of mail more expensive or of lesser value than it otherwise could be most certainly will hasten the extinction of the nation's postal system as a self-supporting infrastructural element. As needlessly higher costs and prices force business mail to leave the system, that increases the burden others will have to shoulder to continue to fund a universal mail delivery system.
- Congress' failure to rectify the postal retirement funding issues will most certainly not avoid the necessity of supporting a postal system with taxpayer revenues, it will hasten the need for doing so. Quite simply, the *need* for a universal postal system will not go away for the foreseeable future, but the ability to fund it solely from user-paid revenues most certainly will.
- Just as the manner is changing in which some in America communicate and do business, so are there changes in which businesses will seek to use mail for commercial purposes. There will be a continuing need for the Postal Service to adjust its physical plants, its equipment, and its software to accommodate these changes in a manner that better facilitates the use of mail for business purposes. Until and unless these retirement-funding issues are resolved, there will be little available to invest to adapt to these changing market demands.
- By viewing the postal retirement-funding issues as a political matter, rather than as an investment in infrastructural improvement, Congress will lessen the ability of business users to further economic development, business growth, the creation of new jobs, the provision of salaries and benefits, and the generation of business and personal taxable revenues.

Q. That's a pretty inflated view of the mail, isn't it?

A. Not at all. Today, industry studies have shown (and others within government have corroborated) that mail-related activities account for some \$900 billion in business, some nine percent of the nation's GDP, and for some million American jobs--jobs that are not outsourced to companies overseas, but are here in America benefitting families and communities nationwide.

Q. But how can you square what you want with the reality that "fixing" the postal retirement funding might worsen the nation's apparent budgetary deficit? I mean, without the influx of new funds into the Treasury, we'll only make the nation's deficit worse, won't we?

A. If the name of the game is whether an action "scores" or doesn't "score" according to congressional budgeteers, then perhaps it's possible to characterize a postal retirement funding fix as something that increases the deficit. But that's only if that's the only manner in which you choose to view it.

Q. And there's another manner in which to view it?

A. Most definitely. How do we go about *reducing* the nation's deficit? The only effective manner is by stimulating economic growth, spurring employment growth, reducing the need for government to make up for any perennial economic weaknesses through costly public sector programs, and by generating a growth in tax revenues that derive from the creation of wealth.

Mail *is* an engine of commerce and economic growth. At least, it can be, if Congress is willing to make the necessary "investment" for it to actualize its potential.

Q. What do you mean "investment?"

A. I mean exactly that--*investment*. Fixing this postal funding issue is just as important as fixing roads and

bridges that are in a state of disrepair, or providing access to broadband communications in the parts of the nation that are unserved or underserved. We have all the necessary postal elements in place to truly make mail an engine of commerce and growth. All we need is the resolve to start things travelling down the right road.

Q. And what about postal wages? Or benefits? Or post office closings? Or any of these other matters?

A. Current postal law already has in place mechanisms for addressing these issues. Wages and benefits, by law, are covered by contracts either bargained collectively or determined by arbitration.

The paramount concern to those who use mail as a business transactional medium is simply that the postal system *work* in a manner that facilitates the conduct of business communication and commerce. Continuing to drain \$5 billion a year to satisfy an already fully-funded obligation will only impede mail's effectiveness as a business transactional tool.

Q. But shouldn't Congress use this time to reform further the nation's postal laws to address a multitude of issues?

A. There will be little room for rational discussion or debate on the future of the nation's postal system as long as it faces the threat of hastened extinction by a matter that Congress quickly can rectify. Once corrected, there will be ample time for reasoned discussion of the nation's changing postal needs and the alternatives that could be explored to ensure a continued justifiable and properly structured postal infrastructure.

Items Worth Reviewing:

"Management Advisory – Summary of Substantial Overfunding in Postal Service Pension and Retiree Health Care Funds (Report Number FT-MA-10-002)" Office of the Inspector General, U.S. Postal Service.

http://www.uspsoig.gov/foia_files/FT-MA-10-002.pdf

"Civil Service Retirement System Cost and Benefit Allocation Principles," Postal Regulatory Commission.

<http://prc.gov/Docs/68/68679/Report%20on%20CSRS%20Cost%20and%20Benefit%20Allocation%20Principles%201126.pdf>

"PRC Review of Retiree Health Benefit Fund Liability as Calculated by Office of Personnel Management and U. S. Postal Service Office of Inspector General," Postal Regulatory Commission.

<http://prc.gov/Docs/63/63987/Retiree%20Health%20Fund%20Study%20109.pdf>