
**Hearing before the Committee on
Homeland Security and Governmental Affairs
United States Senate**



Oral Statement

Laying Out the Reality of the United States Postal Service

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Mr. Chairman, there are two sharply opposing views of the reality facing the Postal Service, and judgments are difficult to make when viewing ongoing financial data through the distorted lens of prefunding expenses.

The first view is that the financial situation is dire and that the Postal Service's mission is antiquated:

- The Postal Service is losing more than \$5 billion every year and has exhausted its \$15 billion borrowing limit.
- First-Class Mail volume, which has always supported the network, is in decline and will never return.
- The Postal Service owes nearly \$100 billion in unfunded liabilities for retiree benefits and workers' compensation.

The second view is more elaborate:

- The Postal Service has weathered the storm of digital disruption with much opportunity on its horizon. Technological advances are paradoxically creating new societal needs that the Postal Service's extensive network is uniquely positioned to fulfill regarding 1) e-commerce, 2) e-government, and 3) coming smart infrastructure services. For example, the Postal Service 1) could provide physical transaction points for industries that have gone partially virtual and 2) offer neighborhood logistics support for emerging smart cities.

- Secondly, the Postal Service ended 2015 with more cash reserves than it has had for many years — \$6.6 billion. It has set aside an unprecedented \$337 billion and possesses significant real estate assets to meet future contingencies.
- The \$15 billion Treasury debt is entirely due to required payments for distant and vacillating future retiree health obligations.

It is very difficult to decide what is actually needed to stabilize the infrastructure when prefunding activities are commingled with actual ongoing financial operating data. The arbitrary \$5 billion prefunding payments show up as annual losses in financial statements even if no cash is spent. Most stakeholders are simply lost attempting to understand postal financial reports. The Postal Service either made a controllable profit of \$1.2 billion last year or lost \$5.1 billion. Since 2007, did the Postal Service make more than \$1 billion or lose nearly \$57 billion? Decisions are extremely difficult with this kind of seemingly conflicting data. And these numbers do not include the neglect of infrastructure investment or that some savings were achieved through service cuts.

The Postal Service had historically been required to break even, so there was no extra money when the sudden 2006 PAEA mandate of \$5 billion annual prefunding payments went into effect. A CPI price cap and prohibitions against entering new business lines or closing certain facilities barred the Postal Service from attacking these problems using normal business strategies such as price

increases, rightsizing, or product diversification that are available to the other world posts and private express carriers.

The Postal Service's survival is a tribute to the men and women working there, as well as, the American people who demand that we, like every other nation, have a Postal Service infrastructure to connect the world to their homes and workplaces.

Legislative efforts to provide relief for the Postal Service have failed for the last 6 years, but recent legislative proposals offer some needed solutions:

- Replacing the arbitrary retiree health prefunding schedule with actuarially based payments will make prefunding retiree health payments more affordable for the Postal Service and improve the transparency of financial reporting.
- Proposed Medicare changes for postal retirees will likely eliminate much of the remaining unfunded retiree health care liabilities.
- Another useful proposal is to permit the Postal Service to explore offering modernized services in response to changing citizen needs and to enable private sector strategies. Collaboration between the Postal Service and private sector partners has worked well — a good deal for citizens and a great deal for American businesses.
- Finally, a more flexible, responsive pricing regime is needed to help ensure the Postal Service's financial stability at a time of rapid change.

In recent years, stakeholders have been starved for clear information, causing confusion about the road ahead for the Postal Service. In this age of extraordinary threats and game-changing opportunities, other nations are not confused. Other world posts are racing to support innovators, citizens, and businesses. The United States cannot afford to stagnate in decisions regarding investments for its public infrastructures, if we hope to enable citizens and maintain our leading position among nations.