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January 20, 2016

U.S. Senate Committee on Homeland Security and Governmental Affairs  
340 Dirksen Senate Office Building  
Washington, D.C. 20510

Dear Chairman Johnson, Ranking Member Carper, and members of the Senate Committee on Homeland Security and Governmental Affairs:

As you discuss the state of the United States Postal Service (USPS) and potential legislative reforms affecting USPS at tomorrow's hearing, "Laying Out the Reality of the United States Postal Service," the National Active and Retired Federal Employees Association (NARFE) would like to share its views and concerns with you. NARFE, a nonpartisan, nonprofit association, was founded in 1921 with the mission of protecting the earned rights and benefits of America's current and retired federal workers. As the largest federal employee/retiree organization with more than 225,000 members, NARFE represents the interests of the five million federal annuitants and employees, and their spouses and survivors.

Approximately 25 percent of NARFE's membership comes from the USPS and its retirees, and postal reform remains at the forefront of our legislative agenda. Thank you for providing us an opportunity to share our views, and for holding this important hearing.

### **The Reality of USPS**

The reality of the United States Postal Service is that it has been operating under the extraordinary, unnecessary and burdensome congressional mandate to fully prefund all of its future retirees' health care obligations within the unreasonably short time frame of 10 years (fiscal years 2007-2016).

The prefunding requirement is the unfortunate consequence of the quirks of congressional budget scoring. The annual prefunding payments by the USPS into the Retiree Health Benefits Fund, ranging from \$5.4 to \$5.8 billion, were mandated by the Postal Accountability and Enhancement Act of 2006. This scheme was designed to allow the USPS a refund for \$27 billion in overpayments for its share of former veterans' retirement benefits without creating an on-budget cost for the bill. That is not a sound policy rationale. No other federal agency or private-sector company fully prefunds its retiree health benefits, let alone within such a time frame.

Without this obligation, the USPS would have made a profit during the last two fiscal years (2014 and 2015). Its controllable operating income was \$1.357 billion in FY14 and

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\$1.188 billion in FY15.<sup>1</sup> Yet its FY15 books show a \$5.06 billion net loss, primarily due to its \$5.70 billion prefunding obligation.<sup>2</sup> But the USPS actually did not make its prefunding payments that year – it has not done so since 2010.

Even though the USPS has not made these payments, the liability remains current on its balance sheet. This liability is driving cost-cutting strategies at the Postal Service, and prohibits investments that could expand business and save money over the long term. It is a counterproductive congressional mandate that should be eliminated.

In major part due to the unnecessary prefunding burden, the USPS has engaged in cost-cutting strategies to try to balance its books. Since 2012, the USPS has reduced delivery standards, resulting in increased delivery times across the country, according to the Government Accountability Office (GAO-14-828R). Top-level USPS management continues to plan reductions in USPS infrastructure in line with the reduced delivery standards. Although plans to close 82 mail processing plants in 2015 were postponed, management plans to go forward with the closures in 2016, absent congressional action on the issue.

### **Legislative Action**

Congress has an easy fix for the USPS' perceived financial crisis: Eliminate the prefunding requirement.

Congress also could make it easier for the USPS to increase revenue by raising postal rates. The 4.3 percent exigent rate increase instituted in January 2014, and in place throughout FY15, was instrumental in increasing USPS revenue. In FY15 alone, it increased revenue by \$2.1 billion.<sup>3</sup> This rate increase may end this spring when the USPS' authority to maintain it will expire. The USPS could continue to increase revenue if that authority was extended.

Additionally, Congress could loosen its shackles on the USPS' ability to increase revenues in other ways. Notably, it could allow the USPS to ship alcohol. With the USPS prohibited from carrying alcohol, this revenue opportunity is left to its competitors, which have no such restrictions. Congress should examine closely its restrictions on the USPS'

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<sup>1</sup> 2015 United States Postal Service Annual Report and Comprehensive Statement, pp. 20-23, available at: <http://about.usps.com/who-we-are/financials/annual-reports/fy2015.pdf> (accessed January 19, 2015).

<sup>2</sup> Other items not under the control of USPS include non-cash expenses related to changes in the federal workers' compensation program, including fluctuations in expenses due to changes in discount rates, and the amortization of its portion of its portion of the Federal Employees Retirement System (FERS) using government-wide, rather than postal-specific, assumptions. These two items account for a loss of \$809 million and \$241 million, respectively.

<sup>3</sup> 2015 United States Postal Service Annual Report and Comprehensive Statement, p. 22, available at: <http://about.usps.com/who-we-are/financials/annual-reports/fy2015.pdf> (accessed January 19, 2015).

ability to increase revenues by eliminating or lessening the limitations it currently imposes on USPS activities.

Unfortunately, Congress has failed to do any of these things. Instead, Congress and this committee have focused on comprehensive reform bills that could do more harm than good, and that have still failed to gain the bipartisan, bicameral support necessary to become law.

### ***S. 2051, the Improving Postal Operations, Services and Transparency (iPost) Act***

The latest iteration of comprehensive reform legislation is Sen. Carper's Improving Postal Operations, Services and Transparency (iPost) Act, S. 2051, which was introduced last year. While Sen. Carper should be commended for his tireless efforts to build bipartisan, bicameral support for a reform bill that improves USPS operations while honoring its commitments, this bill still falls short.

NARFE has two major objections to this bill. First, it requires postal retirees to enroll in Medicare as a condition of continued receipt of retiree health insurance benefits. Second, the bill makes draconian reductions in compensation benefits for injured federal workers across the federal government. That provision has no place in a postal reform bill.

However, the bill is a significant improvement over Sen. Carper's legislation from the 113<sup>th</sup> Congress, S. 1486, as it applies the workers' compensation changes prospectively only, and does not allow collective bargaining over the retirement benefits of new postal employees.

### ***Mandatory Medicare Enrollment for Postal Retirees***

Section 102 of S. 2051 would require postal retirees to enroll in Medicare Part B in order to continue receiving their current health insurance coverage through the Federal Employees Health Benefits Program (FEHBP). This provision would increase total health insurance premiums paid by postal retirees, who would have to pay both full Medicare Part B premiums and FEHBP premiums.

Postal retirees earned their health benefits throughout long careers of service. They should not be required to pay for additional health insurance coverage as a condition of continuing to receive those benefits.

Recognizing that the mandatory Medicare enrollment represents a significant cost savings for USPS, it is the position of NARFE that the bill could be amended to allow postal retirees to retain Medicare coverage as an *option*, while still reducing USPS health care liabilities substantially in the future. Simply, the bill could require automatic enrollment in Medicare for Medicare-eligible retirees and family members currently covered by the FEHBP (and waive any late enrollment penalties), but allow them to opt out of this additional coverage. The notification of enrollment in

Medicare, along with notice that they may opt out, should include educational materials detailing the benefits of enrollment. Under this proposal, it is likely that a high percentage of postal retirees not currently enrolled in Medicare would not opt out, thus providing savings to the USPS and retaining choice for the retirees.

However, if the provision requiring Medicare enrollment as a condition of continued receipt of retiree health benefits must remain in the bill, those required to enroll should be enrolled automatically. Otherwise, some individuals unaware of the new requirement or those who simply fail to take the necessary action may lose all health insurance coverage as a result. This could have catastrophic health and financial consequences for those retirees or their survivors.

#### *Arbitrary Reductions in Federal Employees' Compensation Act (FECA) Benefits*

Sections 502 and 503 of S. 2051 would unfairly and arbitrarily reduce workers' compensation benefits for federal and postal employees disabled by job-related injuries or illnesses. Specifically, they would reduce the basic injured federal workers' compensation benefit by 25-33 percent for workers at retirement age and eliminate the supplemental benefit for injured workers with children or other dependents. These controversial provisions, which affect the entire federal workforce, have no place in a postal reform bill.

FECA's basic compensation benefit ought to make employees whole financially, maintaining their compensation at the level it would have been had their public service not been cut short by an unforeseen job-related injury or workplace-induced illness. This includes compensation during working-age and retirement benefits in retirement-age years.

Unfortunately, S. 2051's provision (s. 502) to reduce benefits at retirement age fails to make employees whole financially, and the justification for the proposal – that current benefits are excessive – simply is not supported by the evidence.

According to the Government Accountability Office (GAO), the proposed reduction would leave disabled federal workers worse off in terms of retirement-age benefits than they would have been had they been able to continue working.<sup>4</sup> GAO concluded that the median FECA benefit package would be 22-35 percent *less* than the median Federal Employees Retirement System (FERS) retirement package, had the disabled worker not been injured on the job and been able to complete the same 30-year career as their uninjured coworkers.

Even if providing a different retirement-age benefit made sense on a theoretical level, an arbitrary benefit reduction to 50 percent of pre-injury pay does not adequately account for the lost retirement income and savings that FECA recipients would have earned absent their on-the-job injury. Notably, these individuals: lose the ability to increase their

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<sup>4</sup> U.S. Government Accountability Office, *Federal Employees' Compensation Act, Analysis of Proposed Program Changes*. (GAO-13-108), available at <http://www.gao.gov/assets/650/649716.pdf>.

salaries through raises and promotions; have a reduced ability to save because they are not able to contribute to the Thrift Savings Plan (TSP) during the period of their disability (or receive matching contributions); and would have a reduced Social Security benefit because employees covered by Social Security are unable to earn quarterly credits to increase average monthly earnings while receiving FECA benefits. Thus, it was no surprise that GAO's analysis found that, under current law, for an individual with a 30-year career, the median FECA benefit is "on par or 10 percent less than the median FERS retirement benefit package, depending on TSP contributions."

NARFE also opposes the provision (s. 503) to eliminate augmented compensation for FECA beneficiaries with dependents. According to GAO, this change would cause workers without dependents to achieve a higher replacement rate of pre-injury income than workers with dependents. This is due to the effect of lower marginal tax rates on the pre-injury, after-tax income of FECA recipients. While section 503 intends to improve equity between those with and without dependents, in practice, it would do the opposite.

As you consider taking up this bill in committee, we hope you keep in mind the many individuals who may be affected by these proposals: medical professionals combating disease; postal workers with legs or backs crushed by cars or heavy machinery; firefighters taming wild fires; federal law enforcement seeking to put dangerous criminals behind bars and the prison guards who are tasked with keeping them there; and employees who volunteer to go overseas in hostile territories or even combat zones.

### ***Additional Legislative Proposals***

#### ***Rural Postal Act of 2015***

NARFE supports S. 1742, the Rural Postal Act of 2015, introduced by Sen. Heitkamp. This bill would maintain service standards, including six-day delivery and rural delivery, preventing the USPS from entering a downward spiral of decreasing volume and revenue.

#### ***Six-Day Delivery***

NARFE supports maintaining six days of mail delivery throughout the United States. This modest delivery standard, or a more demanding one, has existed since at least 1888. Therefore, NARFE supports H. Res. 12, in support of six-day delivery, and continuing to mandate six-day delivery through the appropriations process, as in S. 1742.

#### ***To-the-door Delivery***

NARFE supports maintaining curbside and to-the-door delivery, opposing a transition to cluster box delivery. This is of particular concern to NARFE members, as most of them are retired and some may not have the ability to walk several blocks to retrieve their mail – and they shouldn't have to. Therefore, NARFE supports H. Res. 28 and S. 1742, in support of to-the-door delivery.

### *Maintaining Service Standards*

NARFE supports efforts to preserve high service and delivery standards. Lowering the quality of service is not the way to improve the USPS business model. Therefore, NARFE supports H. Res. 54, in support of restoring service standards, and H.R. 784 and S. 1742, requiring the USPS to maintain service standards.

### **Conclusion**

The management and employees of the United States Postal Service are doing a remarkable job providing a vital service to the American public, and they are doing it without taxpayer funds, and operating at a profit. Yet their efforts are hindered by the unreasonable congressional mandate to prefund future retiree health benefits obligations decades into the future.

There are simple legislative solutions to the challenges facing the USPS. NARFE urges you, the members of this Committee, and your fellow members of Congress, to adopt them.

Thank you for considering NARFE's views. If you have any questions or comments regarding this request, please contact NARFE Legislative Director Jessica Klement at 703-838-7760 or [jklement@narfe.org](mailto:jklement@narfe.org).

Sincerely,

A handwritten signature in cursive script that reads "Richard Thissen".

Richard Thissen  
National President