Workforce Optimization

I. Introduction

The United States Postal Service is the cornerstone of an industry that employs over seven million Americans. Mail service providers, fulfillment companies, shipping firms, printers, transportation companies, and "Mom-and-Pop" small business owners all combine to use the mail and generate over $1 trillion in sales and revenue for the nation's economy. This important segment of the business world represents seven percent of the total Gross Domestic Product (GDP) in the United States.

Today, despite unprecedented cost and staffing reductions over the past decade, the Postal Service is facing the equivalent of Chapter 11 bankruptcy and the need to reorganize. While our business remains vital to the U.S. economy, we will be insolvent next month. Since 2007, the Postal Service has faced the financial strain of steep declines in mail volume and revenue, combined with increases in network costs, wages and benefits, and new legal requirements.

In the four year period through Fiscal Year (FY) 2010, mail volume declined 20%, from 213 billion to 171 billion pieces, while prices for postal products remained capped at the rate of inflation—resulting in net losses over the period of just over $20 billion, including a loss in FY2010 of $8.5 billion. The decline in First-Class Mail—by 20% during that four-year period—has had a particularly significant negative impact on the bottom line as that one mail class provides two-thirds of the Postal Service's income contribution. In total, the volume decline and change in mail mix outpaced even the most pessimistic forecasts and, along with unique legislative mandates, has now placed the Postal Service at the precipice of insolvency.

These volume declines are the result of the recent recession, the resulting economic slowdown and the shifting of hardcopy communications to digital alternatives, which has been exacerbated by the economic slowdown. Going forward, the First-Class Mail volume that has been lost will not return, because the movement to electronic alternatives—accelerated by the recession—constitutes a fundamental and permanent change in mail use by households and businesses. Hardcopy communication of all types continues to shift to digital alternatives. More people are paying bills and transacting business online. Advertisers are switching from print to internet and mobile channels. And, while online purchases have increased the volume of packages, this part of the Postal Service's revenue stream is not large enough to offset overall mail volume trends.

In response to the continuing decline in mail volume and revenue, the Postal Service has taken unprecedented steps over the past decade to reduce cost in areas within its control, including cost reductions totaling $12 billion in the past four fiscal years. The Postal Service has already identified and is pursuing a number of needed legislative changes that would help to return it to solvency.

The Postal Service is also undertaking, or has proposed, a number of additional steps to help it achieve the cost savings necessary to restore financial solvency. With respect to its delivery network, the Postal Service has and continues to aggressively pursue an optimization initiative that has led to fewer delivery routes, despite the growth in delivery points, along with more efficient usage of vehicles and fuel. In addition, the Postal service has urged Congress to allow 5-day delivery, an essential step in right-sizing the delivery network to reflect the fact that the Postal Service is now delivering a decreasing amount of mail to an ever-expanding number of delivery points.

The Postal Service is also closely examining its retail network, to identify opportunities where postal-operated facilities can be consolidated or replaced with alternate access channels that are both more cost-effective and provide greater access and more convenience for customers. The first step in this process was recently taken by the identification of approximately 3,700 retail facilities that will be studied for possible closure or conversion to contract postal services.

The Postal Service is also moving forward with efforts to streamline its mail processing network. Currently, the Postal Service has over 500 facilities where mail is processed. Because of the decline in mail volume, referenced above, and the change in mail mix that has led to fewer pieces of mail requiring end-to-end processing, efforts are underway to continue to optimize this network using Area Mail Processing studies and other consolidation initiatives. We anticipate reducing transportation miles and costs and reducing the number of processing facilities to below 200.

However, despite all of the efforts to reduce costs that have been undertaken or that are underway, it is clear that they will not be enough to return the Postal Service to financial stability. As we continue to review our volume, revenue and financial projections for fiscal years 2012 through 2015, it has become apparent that our financial situation is becoming even more precarious. First-Class Mail volume is declining even more rapidly than we had previously predicted. Standard Mail volume is flat, and in any event cannot adequately compensate for the declines in the much more profitable First-Class Mail that we are experiencing. Therefore, it is clear that we must reduce costs at an accelerated pace.

Our most significant area of cost is in compensation and benefits, and one key driver of those costs is simply the sheer size of our workforce. Therefore, the Postal Service has to be able to reduce the size of our workforce if we are to have any hope of insuring that our costs are less than our revenue. Based on current revenue and cost trends, and assuming a move to 5-day delivery, the Postal Service can only afford a total workforce by 2015 of 425,000, which includes approximately 30% lower cost, more flexible, non-career employees.

Attrition and certain other measures will allow us to achieve a portion of the savings needed to match expenses with revenue by 2015. We estimate that attrition will only result in a staff reduction of approximately 100,000. However, in order for the Postal Service to reduce complement to meet projected volume degradation, we must eliminate roughly 220,000 career positions between now and 2015.

In order to eliminate the remaining 120,000 career positions by 2015, to restore the Postal Service to financial viability, it is imperative that we have the ability to reduce our workforce rapidly. Unfortunately, the collective bargaining agreements between the Postal Service and our unionized employees contain layoff restrictions that make it impossible to reduce the size of our workforce by the amount required by 2015. As explained below, it is not likely that the Postal Service will be able to eliminate these layoff protections through collective bargaining, given the nature of collective bargaining and interest arbitration. Therefore, a legislative change is needed to eliminate the layoff protections in our collective bargaining agreements.

II. The Challenge Created by the Contractual Layoff Provisions

The Postal Service inherited its four principal bargaining units and their collective bargaining agreements from the old Post Office Department in 1971. Those contracts all contained significant job protections for the employees. In 1978, the Postal Service proposed to eliminate layoff protections; however, when this issue went to interest arbitration, the arbitrator declined to accept this proposal, and instead gave complete layoff protection to those employed on the date of the decision, and to all newly hired employees once they had achieved six years of continuous service with the Postal Service. Arbitral precedent therefore indicates that arbitrators are unlikely to eliminate layoff protections entirely.

In subsequent negotiations, the no-layoff protections have been the subject of collective bargaining but no agreement or arbitration decision has eliminated those provisions, which effectively limit the number of employees that can be laid off in the face of severe volume degradation. In the past, the layoff limitations did not cause an insurmountable problem. The Postal Service could readily accommodate complement reduction needs through attrition. From 1999 to the present, a period of twelve years, the Postal Service was able to reduce 235,000 career employees primarily through attrition. When we concluded the APWU collective bargaining agreement earlier this year, we were virtually certain we could not successfully change the no layoff clause through agreement or arbitration. Even though attrition had slowed due to the recession, we anticipated that the overall agreement would provide sufficient flexibility to reduce that craft as quickly as the Postal Service then anticipated was necessary.

However, our financial picture has worsened significantly. Fiscal Year 2010 results were worse than plan projections and even Fiscal Year 2011 results to date are worse than plan projections prepared as recently as a few months ago, due primarily to revenue shortfalls. First-Class mail volume loss has nearly doubled from plan projections. We now anticipate ending this fiscal year with a loss (before non-cash workers' compensation adjustments) of approximately $9 billion.

To survive, the Postal Service needs to reduce our infrastructure significantly and make corresponding reductions in the number of employees to reflect volume degradation. Unfortunately, the existing no-layoff protections in the collective bargaining agreements will not allow us to reduce the workforce as quickly as is now clearly needed. The Postal Service needs the ability to right size its workforce without being limited by the layoff protections in the collective bargaining agreements.

The no layoff provisions contained in the text of the collective bargaining agreements covering the majority of postal bargaining unit employees are found in Article 6 of the respective agreements. Given the network consolidations and other plans we are presently pursuing to restore the Postal Service to financial solvency by 2015, the no-layoff provisions will not allow the Postal Service to reduce a sufficient number of employees, in the impacted crafts, quickly enough.

While the numbers discussed above are preliminary estimates and are subject to change upon further analysis, it is clear that we cannot achieve the needed savings given the current no layoff provisions in our collective bargaining agreements. For example, given the number of plants we will target to close, there will not be enough remaining work for all of the employees impacted over the next few years. In plants targeted for closure, where most or all of the employees have protection from layoff, we could eliminate jobs but would be unable to layoff the employees whose jobs had been eliminated. Therefore, we would be paying employees who were not performing any work and would not achieve the needed savings.

In addition to limiting the ability of the Postal Service to right size its workforce, the layoff rules set forth in the collective bargaining agreements are different from reduction-in-force rules that govern bargaining-unit postal employees. Having several sets of rules for the same situation is inefficient, burdensome, and can raise conflicting obligations.

Below, we explain the benefits of limiting bargaining unit employees' layoff protections to those set forth in the statutory and regulatory reduction-in-force provisions applicable to government employees in the competitive service.

III. Protections Afforded by Statutory and Regulatory Competitive Service Reduction-in-Force Provisions

Application of the statutory and regulatory Reduction-In-Force (RIF) provisions applicable to the competitive service would provide significant protections for bargaining unit employees. In order to effectuate a RIF, the employer establishes competitive areas, competitive levels within those areas, and then employees are grouped within those levels using a number of factors. These factors determine the relative order in which employees will be released from their respective competitive level and whether they will have a right to assignment to another position if they are released from their competitive level.

RIF procedures determine the order of RIF actions to be taken. RIF procedures consider tenure of employment, veterans' preference, seniority, and an employee's work performance. Initially, the RIF procedures consider an employee's seniority based on total length of federal employment. That seniority is then supplemented with additional years of service based upon the employee's average performance for the three years preceding the RIF. Employees with unsatisfactory ratings who are released from their competitive level cannot bump, retreat or receive other assignment rights to another position and therefore are at a significant disadvantage in a downsizing situation.

As there is not a formal rating system for bargaining unit employees, the order in which they would be subject to layoff would be determined by veterans' preference and seniority. These protections are similar to the protections bargaining unit employees enjoy today when they are subject to layoff.

The RIF procedures also include procedural protections. For example, they provide that individual employees are entitled to specific notice sixty days in advance of any action taken against them (lateral reassignment, separation, or demotion). They also allow for appeals to the Merit Systems Protection Board for those who have been separated or demoted.

IV. The Solution

Reductions in bargaining unit postal employees should be governed by the RIF provisions applicable to federal competitive service employees. These provisions must supersede existing contract provisions and should not be subject to modification or supplementation through collective bargaining to avoid conflicts of law and to maintain necessary continuity among bargaining units.

Applying the federal statutory and regulatory competitive service process to the postal bargaining unit workforce could be done in a manner that would produce the following positive results:

- The Postal Service could quickly reorganize and right size its bargaining unit workforce utilizing one set of established rules.

- Postal bargaining unit employees would have the substantive and procedural protections provided by RIF rules, but collective bargaining agreements would be prohibited from having no lay-off clauses. Issues related to lay-off and reassignment to lower levels would be removed as subjects for collective bargaining.

- Postal bargaining unit employees would challenge their lay-offs or involuntary reassignments to lower levels to the MSPB rather than through the grievance procedure.

- Veterans' preference is preserved.

- The Postal Service would have a significant tool to return to financial solvency, thus protecting businesses and the majority of jobs for the hundreds of thousands of postal and other employees in the postal industry.

The recommended statutory change would be to modify Title 39, United States Code, to apply the RIF provisions of Title 5 and implementing regulations governing the competitive service to the Postal Service's bargaining unit employees and to make clear that collective bargaining cannot modify or add to such rights, nor limit the rights of management that are part of the current federal competitive service RIF process.

V. Conclusion

We recognize that asking Congress to eliminate the layoff protections in our collective bargaining agreements is an extraordinary request by the Postal Service, and we do not make this request lightly. Indeed, the Postal Service generally believes that it and its unions should be free from Congressional mandates as to the provisions of its collective bargaining agreements and that the Postal Service is best served when the bargaining parties can resolve their differences through collective bargaining. However, exceptional circumstances require exceptional remedies.

The Postal Service is facing dire economic challenges that threaten its very existence and, therefore, threaten the livelihoods of our employees and the businesses and employees in the broader postal industry and overall economy, of which the Postal Service continues to play a large part. If the Postal Service was a private sector business, it would have filed for bankruptcy and utilized the reorganization process to restructure its labor agreements to reflect the new financial reality. Because this option is not available to the Postal Service, we believe that this extraordinary request is a key to securing our future and our continuing ability to provide universal service to our nation.