



POSTAL NEWS

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Postmaster General National Press Club Luncheon Speech

Postmaster General Patrick R. Donahoe was the featured luncheon speaker at the April 19th, 2013 National Press Club Newsmakers Luncheon in Washington, DC. He urged Congress to pass legislation soon and outlined requirements for that legislation to avoid any long-term burden to U.S. taxpayers.

Below is the text of the speech. Please note that the remarks as delivered may vary from the prepared text.

"It's a pleasure to be here today and to speak with all of you.

I would also like to thank the National Press Club for the invitation and for organizing today's event.

The last time I spoke here was about 18 months ago. I gave a speech that made the following points:

Number one. The Postal Service is a tremendous organization, and, it is in a financial crisis.

Number two. Congress needs to reform our business model and give us more flexibility to solve our financial issues.

Number three. The lack of quick action by Congress will doom the Postal Service and force it to become a burden to the taxpayer.

I was sorely tempted to give the exact same speech again.

But I thought, "Have I become that cynical?"

I will admit to being frustrated by the lack of progress on postal reform legislation over the past few years.

But, I'm not cynical about it.

And I'm certainly not so cynical that I would deliver the same speech again.

In fact, I'm more optimistic than ever about the future of the Postal Service.

A few weeks ago, the Congress blocked our plan to transition to a new delivery schedule.

We said we would deliver packages Monday through Saturday, and deliver mail Monday through Friday. We said Post Offices would stay open on Saturdays.

It will save the Postal Service \$2 billion dollars annually. It's a necessary part of closing what could be a \$20 billion dollar budget gap.

The American public supports it by a wide margin – more than 80 percent support it when they know the facts.

It's the financially responsible thing to do.

And yet, Congress passed a spending bill that stopped us in our tracks.

Am I cynical? I'm not.

I believe we will get the flexibility to move to our new delivery schedule....because....it's the right thing to do.

Congress faces a simple choice. It can decide to start appropriating a lot of money to prop up a broken Postal Service. Or, it can give the organization the flexibility to operate more effectively.

In case you're wondering, the cost of propping up our broken business model – including resolving the debts and defaults we can't currently afford to pay – might be in the neighborhood of \$58 billion dollars. And that's just through 2017.

And it would be a completely unnecessary.

It may shock you to learn that the Postal Service could be profitable today and for the long-term future. It just needs to operate differently.

And so.....I'm optimistic.

I'm optimistic that Congress will pass a bill this year.

I'm optimistic about a restructured Postal Service.

Earlier this week, we published an updated five-year business plan.

Our plan closes a substantial budget gap by 2017 and puts the Postal Service on a sound financial footing for years to come.

What's important about the plan is not that the math adds up – because I think anyone could find ways to get back to profitability....if you were willing to make extreme choices.

What's important about the plan is that it can be implemented in a responsible manner that is fair to our customers and our employees.

We don't have to resort to lay-offs, or contracting out large parts of our workforce. We don't have to make radical changes to our products and services, nor our pricing. We don't have to be bailed-out by the American taxpayer.

Do we need to make significant changes? Yes.

Can we do it in a responsible way? Yes.

But we can't afford to wait.

If we don't start making some of these changes, we will only be left with extreme options.

Our situation is not so different from what the federal government is facing – and many state and local governments too.

We have to get ahead of these fiscal imbalances.

If we want to avoid major, noticeable disruption later, we have to make responsible, thoughtful choices now.

That's what our plan aims to do.

One of the most important changes is to take over our own health care plan.

Everyone believes that the federal healthcare system is overly generous in terms of benefits.

The truth is that the federal healthcare system isn't overly generous to our employees.....but, it is overly expensive.

That's why we want to shift our employees and retirees from the federal system into a privately run plan.

When we do this, we will be able to provide our employees and retirees with the same or better healthcare coverage, at a dramatically lower cost.

Such a move would save our employees and retirees almost \$700 million dollars annually in premiums, and would save the Postal Service up to \$8 billion dollars annually.

We would also be able to invest in much more effective health and wellness programs.

Financially, it's a smart move. It's also the responsible thing to do for our employees and retirees.

And... it makes so much sense.... that it fills me with optimism... that Congress will support it.

We have to move in this direction, and I believe we will.

One of the concepts I think about a lot relates to pensions and the notion of the postal employee of the future.

I started my career with the Postal Service as a clerk in Pittsburgh. I went to the University of Pittsburgh by day, and I worked as a clerk in a mail processing facility by night.

And so I think about organizational changes from the perspective of my own experiences as an employee.

I have seen tremendous changes in the mailing industry throughout my career – and especially in the past 10 years. And the next 10 to 20 years will be even more dramatic.

We would be hard pressed to say what our industry will look like in the year 2030 or 2040. But a young person that we hire today will probably be working well past 2050.

Our current retirement model is designed to give an employee a defined pension after a long career.

It's a model that may have made sense in the 1940's and 50's – but it's not going to be appropriate for the 2040's and 50's.

Our world is becoming far too dynamic to make promises about pension benefits 40 or 50 years down the road.

The benefit of a defined contribution system is that it gives employees options to consider. If job changes are possible, why hold people to benefits that they may not be able to use for 50 years.

We are currently on a trajectory to reduce our career workforce down to roughly 400,000 employees by 2017.

After we reach that number – which would give us a very lean workforce given our network – we will begin hiring people.

In fact, we estimate that in the ten years from 2017 to 2027 – depending on volume – the Postal Service will be hiring almost 20 thousand people annually to replace retiring workers.

We have to put a retirement offering in place that is appropriate for those employees. It has to provide a high level of certainty and predictability.

I am confident that we can design a great system and tie it into the federal Thrift Savings Program. It could offer attractive employer contributions and enable our employees to plan for and manage their retirement finances more effectively.

And, it would be portable, which is going to be very important going forward.

I would like to have this program in place for every new employee we hire after the year 2015.

It's about continuing to be a great place to work, having a competitive workforce, and being a fair and responsible employer.

And...it makes so much sense...that it makes me optimistic that we can gain the authority under the law to make it happen.

Another important area of flexibility relates to the products and services we provide.

The Postal Service does not have pricing flexibility. For example, we can't simply bend a little on price to win a large piece of business.

Our competitors can do that quite easily.

We might be asked to compete on a contract to ship 100,000 packages for a potential customer over the course of a year. We provide a proposal and price, our competitors do the same.

That potential customer will then go back to our competitors and say "can you please lower your price?" They don't even ask us because they know it would take us too long to run it past the Postal Regulatory Commission.

What we would like to do is make the deal, and then have the regulatory commission review it after the fact.

It's a small change that makes a lot of sense, and it would obviously help us compete more effectively.

And because it makes a lot of sense.... it makes me optimistic that we can get this flexibility.

We would also like to have more flexibility in the types of products and services we provide.

Technology is going to transform the mailing industry in a lot of exciting ways. We need to support and speed-up that transformation.

It's not hard to imagine that customer expectations are going to change dramatically in the coming years – they already have been.

Imagine being able to use your smart phone to redirect your mail and packages – and – have them delivered to your current location?

Imagine using a mobile app that has the ability to display what you'll be getting in your mailbox over the next week? That's going to create opportunities for marketers to build anticipation of that mail.

Imagine if you were to get a notification the moment your mail and packages were delivered to your door?

Imagine if mail carried technology that enabled someone to tap a piece of mail to their smart phone and have that result in a one-click purchase and delivery?

We can dramatically improve the experience of mail....and the experience of delivery.... if we unlock the power of data and digital technologies.

The Postal Service is working to enable these technologies and to transform the experience of mail and shipping.

We are pursuing avenues of product development today that are not restricted by existing laws. We are also seeking additional flexibility in other promising areas.

The Postal Service provides a delivery platform for the \$800 billion dollar mailing industry that employs 8 million people.

The way to keep that platform strong is to innovate in ways that improve the experience of delivery, and the experience people have with their mail.

Having the flexibility to create new products and pursue business opportunities is an important part of keeping the Postal Service and the mailing industry healthy.

And...I hope everyone is as optimistic as I am...that we'll get the flexibility we need to make it happen.

As we look to the future, there is a lot to build on.

Marketing mail, or direct mail, is rebounding nicely. Despite all the change in the ways people communicate and sell products, marketing mail continues to garner roughly 12 percent of the total marketing spend in the United States.

That's been consistent over the past 30 years. And because marketing mail provides such a strong return on investment for the sender, I have no doubt it will continue to be a strong part of our business.

The largest and most profitable part of our business is First-Class Mail; it's what pays the bills.

Have we seen a decline in the use of First-Class Mail? Of course we have.

People are paying bills online, which is free. It's hard to compete with free.

But there's another part of that story – it has to do with the First Class Mail that businesses send to their customers.

It's down about 1.5 percent annually since 2003 – and that's factoring in an eight percent volume reduction in the midst of the recession, and a weak economy since then.

That says people really do value the hard copy statements and correspondence they receive from businesses.

They want that information in hard copy and they're resisting the idea of going completely digital.

And so don't write the obituary for First Class Mail. It delivers a lot of value for the sender and receiver....it accounts for \$28 billion dollars of revenue for the Postal Service today....and, it's going to be around for quite a while.

The most promising part of our business in terms of growth is package delivery – which is up more than 14 percent over the past two years.

We've created much of that growth by innovating and marketing new offerings. We're also benefiting from the rise in e-commerce.

The way people use mail and delivery services is changing. I think it's exciting.

I also think these changes will create opportunities for growth for the Postal Service and throughout the industry we support.

The Postal Service is a tremendous organization with an exceptionally dedicated workforce. The Postal Service plays an indispensable role in the American economy.

Today....it has a business model that is broken.

The good news is that we can fix what's broken. It just requires that we set aside some outdated views of the organization.

It also requires that we ask some fundamental questions about what kind of Postal Service is best for America.

We know we can't stick with our current structure, so we have to create a new one.

And... we have to be bold... because the scale of our problems is quite large.

In the past year the Postal Service recorded a financial loss of \$15.9 billion dollars. We defaulted on \$11.1 billion dollars in mandated payments to the U.S. Treasury, and we've used up all of our borrowing authority.

At one point last year the Postal Service had only 4 days' worth of cash on hand to fund operations – which means that we came very close to not being able to pay our bills.

The Postal Service can't continue to limp along in a weakened financial state. It's unfair to the businesses that depend on us.

We need to provide our customers – who comprise every part of the American economy – with the predictability and confidence they need to continue investing in mail.

The best way to do that is for Congress to help us fix our business model – and the sooner the better.

We are asking Congress give the Postal Service the authority and the flexibility to close what could be a \$20 billion dollar budget gap by the year 2017.

If we can achieve this, the Postal Service can get ahead of the proverbial cost curve and be profitable for years to come.

And, it can be done without burdening the taxpayer.

All it requires is flexibility in a few key areas.

- The ability to determine our own delivery frequency.
- The ability to develop and price products quickly.
- The ability to control our healthcare and retirement costs.
- The ability to switch to a defined contribution retirement system.
- A streamlined governance model.
- And, we need more flexibility in the way we leverage our workforce.

I'm encouraged that Congress is working on legislation to address these issues.

I'm optimistic that we will gain these important areas of flexibility.

And if we make these changes, I'm confident that the Postal Service will better serve the American public and drive growth in the American economy in the future.

We are on a responsible, common sense path to create a Postal Service that can adapt to a changing world.

We just require the authority to make it happen.

Thank you.”

END