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Postmaster General Says Postal Service Health Care Plan Key to Solvency

Below is Postmaster General Patrick R. Donahoe's oral testimony before the Senate Committee on Homeland Security and Governmental Affairs today. Please note that the delivered remarks may vary from the prepared text.

The Postmaster General's written testimony is available at: <http://about.usps.com/news/testimony-speeches/welcome.htm>

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Good morning, Mr. Chairman, Dr. Coburn, and members of the Committee. Thank you, Mr. Chairman, for calling this hearing.

There is a fundamental question to be answered about the future of the Postal Service....and it is this:

Will the Postal Service be given the authority and flexibility that enables it to continue as a self-funding entity? I believe everyone wants the answer to be yes.

- The Postal Service can be profitable and pay down its debt.
- It can continue to provide secure, affordable, and reliable universal service.
- It can continue to meet the needs of rural America.
- It can continue to drive economic growth.
- It can continue to be a responsible employer and a great place to work.
- And, if given the flexibility and authority to adapt to a changing world, it can meet all of these goals without becoming a burden to the American taxpayer.

The choice is simple: greater flexibility and authority now, or massive taxpayer exposure and service degradation later.

The Postal Reform Bill of 2013, S. 1486 goes a long way toward putting us on the path to financial stability. It provides flexibility and authority in many critical areas.

Most importantly, it acknowledges our primary challenges — the related issues of health care benefits and the need to pre-fund liabilities. As currently written, the bill would provide significant savings. But, as both you, Mr. Chairman, and you, Dr. Coburn, have said: it remains a work in progress. Working together with all stakeholders, and by including stronger language regarding

Medicare integration and health care costs, Senate Bill 1486 can accomplish the goals we all share.

As the committee knows, we are seeking the added authority under the law to control our health care costs. We want to negotiate better and more cost efficient health care coverage for our employees and retirees, and ensure better integration with Medicare. If we do so, we can virtually eliminate our unfunded liability for retiree health care benefits. We can also reduce the amount we will need to set aside for our retirees in the future to an amount we can manage.

This in turn will secure lifetime coverage for all of our retirees; it will maintain choices for all employees and retirees; and it will immediately reduce our health care cost burden from 20 cents out of every revenue dollar to just 8 cents. This is a savings of approximately \$8 billion a year through 2016, compared to our current expenses.

Today, the Postal Service and its employees are paying for benefits we don't even use. We are effectively buying insurance we don't need, and we're overpaying for it.

Both the Postal Service and our retirees have paid \$27 billion into Medicare; yet many don't draw the benefits that they're entitled to. And so we are obligated to overpay to compensate for this fact.

Under the current law, the Postal Service and our retirees pay full freight to insurance companies within the FEHB system. Instead, our retirees should be using Medicare Parts A, B and D as their base coverage. Under this vastly preferable scenario, the Postal Service and our retirees would merely need to fund far less costly benefits wrapped around full Medicare coverage.

This is more than just a budgeting issue: this is an issue of fairness. It is fundamentally unfair to ask our employees, our retirees—and ultimately our ratepayers—to continue to needlessly overpay for healthcare insurance.

In simple terms, we are merely asking to be able to manage our retiree healthcare, not by reducing benefits -- like many employers are currently doing -- but by wrapping supplementary plans around Medicare. This will allow us to maintain current levels of coverage and generate annual savings for both the Postal Service and our employees and retirees. We can do this simply by eliminating unwarranted overpayments.

Does the Postal Service have an obligation to its employees and retirees to provide health care insurance for decades to come? Of course it does.

And the best way to meet that obligation is to create a program that is financially sustainable in the long-term. Our proposal accomplishes that goal. We developed our plan with leading experts in the field, which is essentially the approach that nearly every other company takes, and which the GAO supports.

If we are allowed to negotiate our own health care program—either within FEHB or in a separate program—the Postal Service will be able to provide the same or better coverage at a much lower cost for the vast majority of our employees and retirees.

I cannot overstate how important it is for the Postal Service to have its own health care plan—or—to have the FEHB and OPM work with us to negotiate new integrated health care plan choices, specifically for the Postal Service, within FEHB.

We want to work with this Committee to establish an effective—and sustainable—health care program for our employees and retirees. We want Senate Bill 1486 to include a clear mandate for the Postal Service, FEHB and OPM to make this happen.

Mr. Chairman, by taking this approach, the Postal Service can reduce its annual costs by up to \$8 billion dollars annually through 2016. This goes a long way toward our goal of closing a projected

\$20 billion dollar budget gap.

Yesterday the Postal Service announced a price increase above the rate of inflation. We did not want to take this step, but we had little choice due to our current financial condition. Resolving our healthcare issues will mitigate the pressure to raise prices and to take other unpalatable steps in the future – but – we must fully address our health care costs to do so.

I would like to thank the Committee for taking up postal reform legislation this year, and for holding this important hearing today. I look forward to answering your questions and supporting your work in any way that I can. This concludes my remarks.