UNITED STATES POSTAL SERVICE

STATEMENT OF
POSTMASTER GENERAL/CEO PATRICK R. DONAHOE
BEFORE THE
COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

SEPTEMBER 6, 2011

Good afternoon, Mr. Chairman, Ranking Member Collins, and members of the Committee. I appreciate the opportunity to testify today on behalf of the U.S. Postal Service. Thank you for the invitation and thank you, Mr. Chairman, for calling this hearing to discuss various ideas that will help ensure the future of our nation's postal system.

My testimony provides a brief synopsis of where the Postal Service stands today, particularly our serious financial situation. I will describe current projections, in terms of mail volume, revenue, costs, and liquidity as we move into fiscal year 2012 and beyond. I will brief you on a variety of actions taken by the Postal Service to address all elements of operations under our direct control – actions related to both cost savings and revenue generation. Actions we believe will help narrow the gap that currently exists between costs and revenue. Actions which must be supplemented by decisions made here, in Congress, to address areas outside the scope of the Postal Service's control and bring us closer to closing the gap completely.

Finally, I will discuss some new proposals the Postal Service has put on the table in recent weeks. These forward-thinking, unique and creative ideas have generated many comments, which is a good thing. Serious discussions about these critical policy matters, with all stakeholders weighing in, assure that concerns are heard, a wide range of options are examined, and long-term solutions are reached.

The importance of a healthy and thriving Postal Service cannot be overstated. The mailing industry, of which the Postal Service is only one component, depends on the continued evolution, growth and development of our organization. Over 8 million Americans are employed by thousands of companies and businesses which are deeply invested in the mail. The mailing industry, with the Postal Service at its core, is a major driver of the nation's economic engine – generating over $1 trillion each year. Our collective actions – particularly those of the Postal Service and Congress – to secure the future of the nation's postal system will directly affect a significant portion of the American economy. The mailing industry makes up approximately seven percent of the country's Gross Domestic Product (GDP). Failure to act could be catastrophic.

The most recent financial results continue to be grim. The Postal Service ended Quarter III of fiscal year 2011 (April 1 – June 30) with a net loss of $3.1 billion. Net losses for the nine months which ended June 30 amount to $5.7 billion and we are currently projecting a net loss of up to $10 billion by the end of this fiscal year, depending on interest rates. Total mail volume is expected to decline by 2.0 percent, to approximately 167 billion pieces, when compared to last year. This is being driven largely by continued and accelerated drops in First-Class Mail, historically the Postal Service's core product. *[Figure 1]*

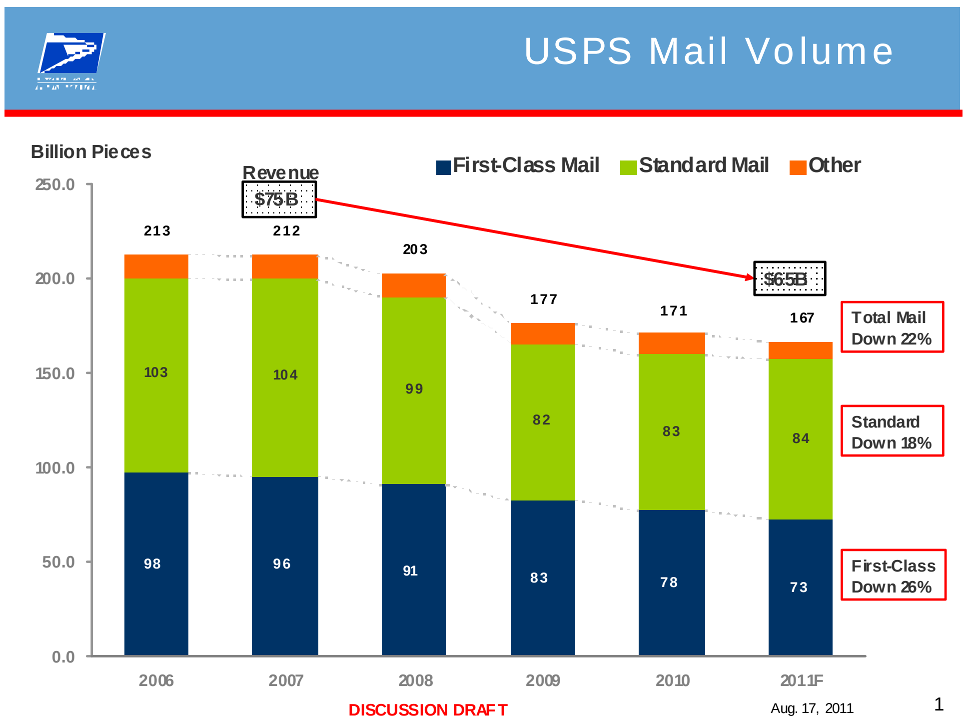

Figure 1

The growth in electronic communications continues to drive the diversion of First-Class Mail. Instead of buying stamps, many consumers pay bills online, send "e-vites" to friends and family, and simply press "Send" when they want to communicate. These shifting customer habits will continue to add to the migration away from traditional First-Class Mail.

In addition, the stagnant economy has held other mail classes to a flat or relatively modest growth pattern. Advertising, or Standard, mail revenue increased slightly by 1.7 percent in the third quarter, and Package Services revenue increased 3.3 percent. Shipping Services, which includes Express Mail and Priority Mail, was another bright spot, increasing 7.2 percent for the quarter. However, these small gains are not enough to offset the dramatic and steep decreases in First-Class Mail, which contributes much more to the Postal Service's bottom line. In the third quarter, single-piece First-Class letter revenue declined 8.7 percent, or $259 million.

Of even greater concern is the looming liquidity crisis that will come to a head in less than one month. By the end of this fiscal year, on September 30, the Postal Service will reach its statutory $15 billion borrowing limit. We are committed to paying our employees and our suppliers first, but without changes to the law, we will be unable to maintain the aggressive Retiree Health Benefits (RHB) pre-funding schedule set forth in the Postal Accountability and Enhancement Act (PAEA).

Without legislative change this year, the Postal Service faces default, as available liquidity at the end of this month will be insufficient to meet our financial obligations. Even our unavoidable default on the required $5.5 billion RHB pre-payment and the suspension of our employer contribution to the defined benefit portion of the Federal Employees' Retirement System (FERS) will not stave off financial disaster. After reimbursing the Department of Labor (DoL) $1.3 billion for workers' compensation payments in October 2011, we will have liquidity equal to approximately one week's operating expenses. Foregoing the RHB pre-payment this year, without fundamental changes in the funding schedule, will likely only forestall insolvency until this time next year. *[Figure 2]* An adverse decision by the Department of Justice on our FERS funding suspension would likely accelerate this date. In the absence of legislation, and before savings from the planned network realignment, the Postal Service projects a $9 billion loss next year, as well as mounting losses which could reach an estimated $16 billion by 2015 and exceed $20 billion by 2020.

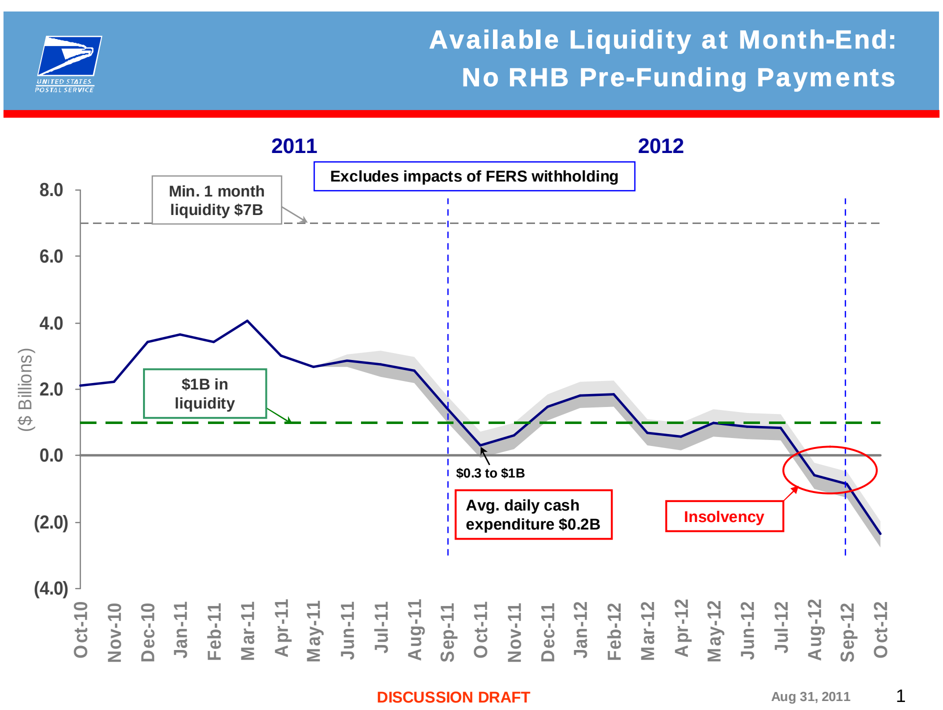

Figure 2

Future mail volume projections show a continued shift to a less profitable mix of mail. In 2010, First-Class Mail contributed $17 billion of profit to offset our institutional costs, while Advertising, or Standard Mail contributed $6 billion. The contribution from each piece of First-Class Mail is generally three times that of Advertising/Standard Mail. As we look to the future, the volume of First-Class Mail will continue to decline significantly while Advertising/Standard mail volume should remain flat. Even with growth in our package business, we cannot replace the profit contribution of First-Class Mail that has been lost over the past few years and will continue to decline in the future. Looking forward, we must build upon our already successful efforts to reduce costs, in order to align anticipated revenue figures with the current expense outlook.

The Postal Service has a proven track record, especially in the past decade, of removing costs from the system and we plan to accelerate those efforts going forward. We know we can significantly narrow the estimated $20 billion gap between revenue and expenses by continuing to implement proven strategies and by introducing new ideas and initiatives. Our actions alone will not be enough, however. This must be a collaborative effort – one which includes legislative changes. Congress must act this year to address these core issues:

- Resolve the pre-funding of Retiree Health Benefits (RHB)
- Return the $6.9 billion overfunding of the Postal Service's obligations to the Federal Employees' Retirement System (FERS)
- Grant the Postal Service the authority to determine delivery frequency
- Allow the Postal Service the flexibility to restructure its healthcare and pension systems
- Permit the streamlining of pricing and product development

For its part, the Postal Service will continue to focus relentlessly on narrowing the future estimated $20 billion revenue and cost gap by responsibly employing a variety of strategies and plans. This includes optimizing the overall network by properly aligning mail processing, retail and delivery operations, in accordance with the realities of consumer habits in the 21st century; continuing to eliminate work hours and employee complement; and pursuing the flexibility to set wages, benefits and employee complement. As a self-supporting entity for more than 40 years, receiving no taxpayer appropriations for our operations, the Postal Service knows how to balance cost management and efficiency increases.

Our employee workforce continues to decline significantly. At the end of June 2011, the total career employee complement stood at 563,402, a reduction of more than 8,000 employees during the quarter. This includes 1,850 administrative employees who left the Postal Service in Quarter III as a result of an early-out incentive. The Postal Service has, over the last four fiscal years, reduced the number of career employees by approximately 110,000, plus an additional 20,500 thus far in 2011. These reductions have been accomplished primarily through attrition and incentives. Similarly, work hour reductions have produced additional savings. The first nine months of 2011 saw the Postal Service use 25 million, or 2.8 percent fewer work hours than in 2010. The combination of significant reductions in work hours and employee complement has produced substantial savings over the last several years. The graph below *[Figure 3],* shows the accumulation of annual cost savings since 2000; we have reduced annual operating costs by more than $19 billion. Without these savings, our level of huge net losses would, today, be three times worse.

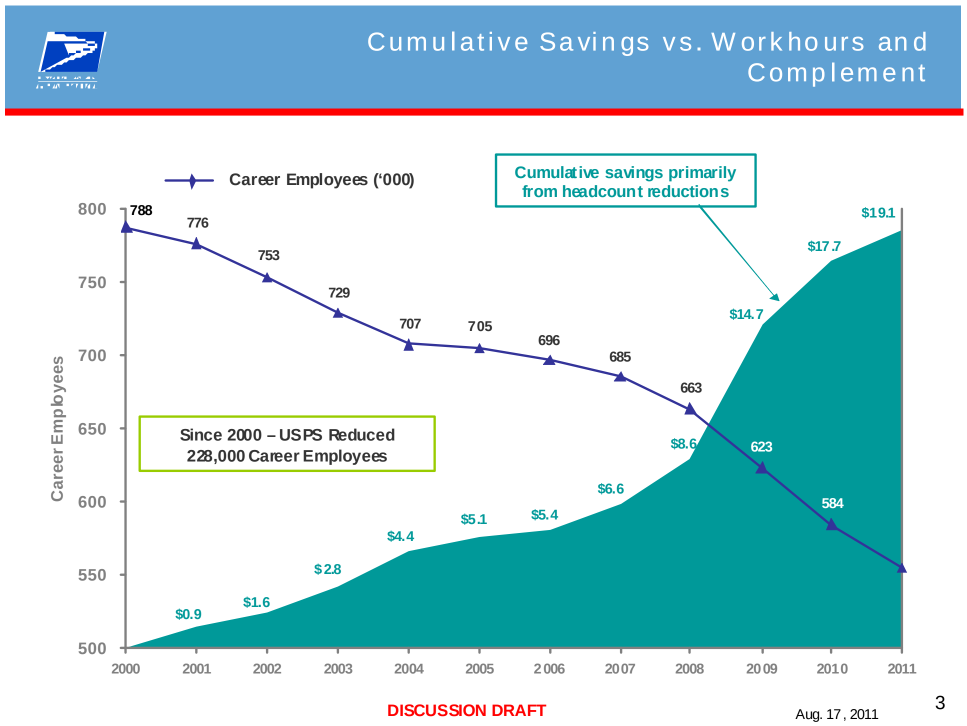

Figure 3

We continue to focus on aligning our infrastructure to more accurately reflect the ways customers use our services. We are accelerating the use of proven and effective tools, such as Area Mail Processing (AMP) optimization studies, as well as reviewing our retail network for opportunities to reduce costs while improving access. Using modern management tools, such as Lean Six Sigma, we have evaluated our processes in hundreds of operational areas and made improvements that save both time and money and increase productivity. By leveraging technology to our advantage, we have enhanced our processes for sorting, delivering and transporting mail.

Working in collaboration with our unions has brought additional savings and efficiency gains. Since 2008, we have worked with members of the National Association of Letter Carriers (NALC) to continually reevaluate delivery routes and capture savings by aligning routes for maximum efficiency. This effort has resulted in cost savings of almost $1.3 billion. This year, we reached a new four-year agreement with members of the American Postal Workers Union, AFL-CIO (APWU). This agreement contains a number of positive changes, including freezing wages for two years, lowering Postal health insurance contributions and providing Postal Service management with new flexibility in hiring and staffing. Using this new flexibility, the Postal Service will be able to continue realizing both cost savings and efficiency gains by utilizing the right person, in the right job, at the right location.

Although we have achieved cost reductions totaling $12 billion over the last four fiscal years – results that any company would be proud to claim – we are not slowing down. The Postal Service has a well-supported strategy going forward to build on the successes of the past decade. As always, the focus remains on all areas under our direct control. We have gathered together a number of efforts under the umbrella of Network Optimization. These actions, occurring simultaneously across the organization, will combine to bring the Postal Service to its goal of reducing costs by $20 billion *[Figure 4]* to earn a profit in 2015, rather than losing $16 billion as forecast under the current cost and revenue base. The 2015 profit, of as much as $4 billion, will be used to pay down debt and invest for the future, particularly in delivery vehicles.

$20B of Cost to be Eliminated by 2015

($ Billions)	
Operations:	
Network: Sortation & Transport	$3.0
Retail	1.5
Delivery	2.0
	6.5
Legislative Changes:	
RHB Pre-Funding Resolved	$5.5
Five - Day Delivery	3.0
	8.5
Compensation & Benefits:	
Flexibility, Benefits, Wages	**5.0**
Total Potential Savings	**$20.0**

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Figure 4

Improvements in Operations consist of a variety of initiatives, such as:

Streamlining our Network of mail processing facilities

- Going from 508 processing locations today to approximately 200
- Reduction of career employee complement by 35,000 positions
- Potential annual savings of $3 billion

Modifying Delivery routes (apart from five-day delivery)

- Involves eliminating approximately 20,000 city routes out of 144,000
- Reduction of employee complement by 22,000 positions
- Potential annual savings of $2 billion

Retail network changes

- Reviews of Post Offices; total of 15,000 offices will be reviewed
- Potential annual savings of $1.5 billion
- Enhancing and expanding alternate access sites, including Village Post Offices and *usps.com*
- Exploring franchising

Modifying service standards

- Revision of First-Class Mail (FCM) service standards and entry times
- FCM Standards move from 1-3 days to 2-3 days
- Allows for longer operating windows, which means less equipment needed, fewer facilities needed, and fewer work hours used.

In conjunction with our network optimization effort, the Postal Service continues to explore ways to reduce our greatest cost – that of labor and benefits. Compensation and benefits costs, including workers' compensation and the federally-mandated prefunding of RHB, represent approximately 80 percent of total operating costs. But, with more than 85 percent of career employees covered by collective bargaining agreements, making significant changes to compensation and benefits is challenging.

The new APWU agreement, which was touched upon earlier, also establishes pay levels for new career employees that are approximately 10 percent lower than the existing pay schedule, provides significant workforce flexibility, and allows for increased use of non-career employees. The Postal Service's contribution to employees' health insurance premiums will also decrease. Last month, the Postal Service began labor contract negotiations with two more of our major unions, the NALC and the National Postal Mail Handlers Union (NPMHU), whose current contracts each expire on November 20, 2011. These two unions represent 247,000 of the Postal Service's 560,000 career employees. Negotiations with a fourth union, the National Rural Letter Carriers Association (NRLCA), reached an impasse after nearly a year of negotiations and now will be resolved through interest arbitration.

To further reduce costs, the Postal Service is continuing the implementation of its January 2011 plan to significantly realign administrative functions (employees not covered by collective bargaining agreements). We are in the process of reducing headquarters management positions, as well as reducing the number of Area and District Offices, and decreasing the number of administrative, supervisory, and Postmaster positions by approximately 7,500. The organizational redesign, which is being implemented through March 2012, is anticipated to capture annualized savings of over $750 million, beginning in 2012. Over 1,800 employees took advantage of the most recent Voluntary Early Retirement authority (VER) and the Postal Service is eager to maintain the ability to continue offering such packages, in order to further trim the workforce.

In this time of serious financial concerns, the Postal Service is making tough decisions to keep the organization viable into the future. In June 2011, the Postal Service's Board of Governors elected to suspend the employer's contributions to the Office of Personnel Management (OPM) for the defined benefit portion of the FERS retirement obligations, due to the critically low liquidity level projected for October 2011 and the remainder of 2012. According to OPM, the Postal Service had a FERS account surplus valued at $6.9 billion as of September 30, 2009, the most recent actuarial valuation date. Due to the surplus in its FERS account, the Postal Service believes that it has satisfied its current funding obligations, which approximate $3 billion annually. The Postal Service continues to transmit to OPM the employees' contributions to FERS and also continues to transmit employer automatic and matching contributions and employee contributions to the Thrift Savings Plan (TSP). Such decisions are extremely difficult and were made only after much thought and deliberation. These actions underscore the severity of the Postal Service's financial situation.

Our plans and strategies for the future are not limited merely to cost cutting. We are rightfully proud of our achievements in making significant productivity gains while simultaneously reducing work hours. Our employees have worked hard to bring about incredible cost savings while at the same time achieving record levels of service. In fact, something that often gets lost in the discussions about record volume and revenue losses is the point that, even with monumental expense reductions, we continue to maintain excellent service performance. That is quite an achievement – one that belongs to every employee in the organization.

It isn't enough to simply cut costs. You also have to build your business, grow revenue and develop products and services customers need and want to use. We are doing that as well; continually pursuing new revenue by creating innovative products and building upon existing services. Some examples of this pursuit include:

- Building on the continued success of our Priority Mail Flat Rate Box, with the introduction of additional shipping products, such as Priority Mail Prepaid Forever packaging and Priority Mail Regional Flat Rate Boxes.
- Making it easier than ever to do business with us by introducing products like Every Door Direct Mail (EDDM). Since its inception, EDDM has generated approximately $73 million in revenue.
- Launching a redesigned *usps.com* website, making it the platform for future developments and continued integration into the digital world.
- Proposing new solutions to generate increased use of First-Class Mail by introducing concepts like Reply Rides Free, which allows customers to mail two ounces for the price of one.
- Testing a Direct Mail hub, which shows new business customers how to use the mail to expand their customer base by creating their own unique mail pieces.
- Increasing our presence in the global market by growing international mailing and shipping products, which have seen a 12.3 percent increase in revenue so far in fiscal year 2011.
- Continuing to provide postal products and services where our customers live, work and shop by expanding retail access points, including the Village Post Office concept.
- Leveraging the Postal Service's core elements – trust, dependability, simplicity, and security – to develop digital mail service solutions for today's wired world.

To supplement these innovative ideas, the Postal Service has also sought enhanced flexibility in the area of pricing. The PAEA divided postal products into two broad categories: market-dominant and competitive, with different rules for each. Market-dominant, or mailing services, refers primarily to First-Class Mail, Periodicals, and Standard Mail. Rate increases for mailing services products are tied to a price cap applied to each mail class based on the Consumer Price Index – Urban (CPI-U). Market Dominant products account for about 90 percent of Postal Service revenue.

Competitive, or shipping services, refers to products such as Priority Mail and Express Mail that compete with private carriers. Shipping services products do not have a price cap, but do have a price floor. The Postal Service has repeatedly sought the flexibility to price according to market conditions, in order to maximize revenue. We believe the prices of market dominant products should be based on the demand for each individual product and its costs, rather than capping prices for each class at the rate of inflation, although an appropriate degree of regulatory oversight remains necessary. This action would help the Postal Service ensure that products cover their costs.

In addition to ongoing cost savings efforts and revenue generation activities, the Postal Service is putting a variety of new ideas on the table. Our stated goal is to reduce annual costs by $20 billion over the next three years, ultimately driving costs down to under $60 billion per year with a streamlined workforce of approximately 425,000 employees. This can only be achieved through a combination of initiatives, including operational changes, legislative changes, and changes in compensation and benefits. With all of these efforts working in concert, future cost/revenue gaps can be significantly narrowed and eliminated. With $20 billion of cost savings in 2015, the previously projected loss of $16 billion will become a $4 billion profit *[Figure 5].*

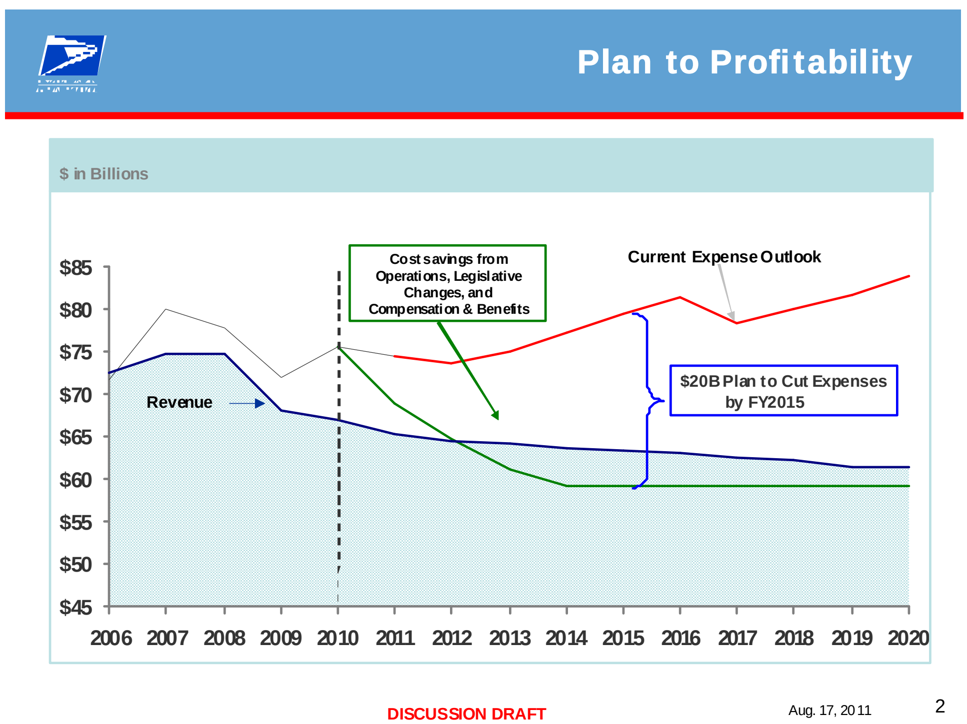

Figure 5

Recently, the Postal Service released two white papers which contained cutting-edge proposals. These proposals are in keeping with our desire to do all that we can to continue adapting to the changing world of communications by reducing the size of our workforce and addressing legacy benefits costs.

The first proposal, which addresses the issue of labor costs and the sheer size of our workforce, calls for the Postal Service to be provided with the ability to more rapidly reduce its workforce. Based on current revenue and cost trends, and with the objective of earning a profit by 2015, the ideal size of the Postal Service workforce, by 2015, is estimated to be approximately 425,000 employees. Current methods of workforce reduction, including attrition and other measures, will allow the Postal Service to achieve only a portion of the reductions needed to reach the desired number of employees. In order to ensure our workforce is aligned with our needs, we must reduce roughly up to 220,000 career positions by 2015. Attrition will result in only a portion of that – approximately 100,000. That means we must be able to reduce up to an additional 120,000 career positions over the next three years, in order to bring the Postal Service back onto sound financial footing.

Current labor agreements prevent the Postal Service from moving swiftly enough to achieve these workforce reductions. Our proposal would address existing collective bargaining prohibitions against layoffs and allow the Postal Service to make these difficult, but absolutely necessary, personnel moves, in order to remain viable. The development and submission of these plans illustrates the Postal Service's commitment to consider a wide range of options and solutions to our ongoing financial difficulties. Although there is disagreement with some of the proposals, the Postal Service is willing to put everything and anything on the table for discussion and consideration. We remain open to other solutions and are committed to working with all stakeholders to advance the common goal of helping the Postal Service to continue to provide universal service to our nation.

It is worth noting that the need to downsize the workforce is not limited to the Postal Service. In August, Office of Management and Budget (OMB) Director Jacob Lew wrote to the heads of all federal departments and agencies, directing them to make tough choices in these tight budgetary times. Reductions of five and ten percent in discretionary appropriations was the goal set forth by the Administration. The Air Force is seeking to eliminate 4,000 positions through a combination of attrition, a hiring freeze, early-out offers and buyouts. The Government Printing Office (GPO) has set an agency-wide target of reducing its workforce by 15 percent. Several other agencies, including the Commerce Department, Housing and Urban Development (HUD) and the Department of Education are also seeking deep cuts in the workforce. The Postal Service has, in fact, set the bar for how to effectively and meaningfully downsize total employee complement. Others are just now beginning to do what we have done for more than a decade.

The second major idea recently presented by the Postal Service addresses an area of tremendous cost – health care benefits plans. Under this proposal, the Postal Service would withdraw from the Federal Employees' Health Benefits Plan (FEHBP) and sponsor its own health care plan. Currently, health care benefit costs for the Postal Service annually reach approximately $12.8 billion, consisting of $2.5 billion for health benefit premiums for current retirees; $4.8 billion for health benefit premiums for active employees; and $5.5 billion (the largest portion) for RHB pre-funding, as required by PAEA. In addition, some of the existing health care plan offerings for Postal employees do not reflect a good value to participants, relative to their costs.

Under its proposal, the Postal Service would develop a health care plan for three categories of participants – annuitants, current employees and future employees. We would assume responsibility for 100 percent of the 1971 post-reorganization liability for retiree health care, estimated at $91 billion as of the end of fiscal year 2010. Tied to this assumption of liability would be a transfer to the Postal Service of the assets currently in the Postal Service Retiree Health Benefit Fund (PSRHBF), which approximated $42 billion as of the end of fiscal year 2010. The new Postal Service health care benefits plan would:

- Maintain benefit choices with a consistent alignment between value and cost;
- Simplify the existing plan structures;
- Adopt private sector best practices, including pharmacy benefit management, wellness incentives, disease management, and aggregated purchasing power, among others; and,
- Establish incentives for Medicare eligible employees to fully participate in Medicare benefits, which could save $550 million annually. The Postal Service and its employees currently contribute approximately $1 billion per year to Medicare through payroll taxes.

The proposal for the Postal Service to sponsor its own health care plan would reduce annual operating costs and provide a viable option to significantly **reduce or eliminate** RHB pre-funding. The requirement in the PAEA that the Postal Service pre-fund its RHB liability by $59 billion on an extremely aggressive ten-year schedule has had a significant impact on Postal Service finances. This annual contribution, which is currently $5.5 billion and is in addition to $2.5 billion in annual premium contributions on behalf of current retirees, is a requirement no other entity – public or private – faces. The RHB pre-funding obligation, coupled with the retiree premiums, now exceeds 12 percent of the Postal Service's annual revenue projected for fiscal year 2011. This level of funding simply cannot be sustained, especially in the face of crippling volume losses, reduced revenue and skyrocketing health care costs.

Allowing the Postal Service to gain control of its own health care program would save money annually, **reduce or eliminate** the current RHB unfunded liability, and allow for better management of health care costs going forward. We have laid out a solid structure for governance and oversight of such a plan, to ensure fairness, fiduciary responsibility, and transparency. Providing a stable and dependable health care plan for all employees is a crucial part of our future strategic plans. Having an affordable arrangement, similar in size and scope to FEHBP and utilizing best practices found in the private sector, will serve Postal Service employees well.

For the past few months, the Postal Service has discussed another provision that would further our cost savings into the future. This is the ability of the Postal Service to implement a more cost-effective retirement system for new employees; one that would consist of only a defined contribution system similar to TSP, plus Social Security. The authority to permit the Postal Service to implement such a retirement system is within the purview of Congress.

The proposals put forth in these white papers would allow the Postal Service to address some of the fixed costs that are set by statute, regulation, or contract and, are therefore, beyond the sole control of management. These legacy costs, which continue to inflate year after year, are something we must gain control of now and into the future. These legacy costs are taking an increasingly larger part of every dollar we spend. We need the authority to manage these costs and hold down this rapidly swelling portion of our overall budget. Where the Postal Service has had the ability to manage its costs, it has succeeded. Over the last decade, we have put in place strategies to capture savings, including removing $12 billion in costs over the last four years alone. However, we are rapidly reaching a point where we must look for additional savings in other areas, particularly in the legacy costs associated with certain types of benefits.

For example, despite our success in reducing the number of employees, FERS retirement expenses will increase by approximately $200 million in 2011. This increase is attributable to an OPM-mandated increase of 0.5 percent in the employer contribution rate for the FERS employees, which more than offset the savings achieved through work hour and headcount reductions. This rate will increase an additional 0.2 percent, starting October 1, 2011. These contribution increases are being imposed in spite of the fact that OPM and the Postal Service agree that our FERS retirement program is overfunded by roughly $6.9 billion.

In addition, postal employees injured on the job are covered by the Federal Employees' Compensation Act (FECA), administered by the Department of Labor's (DoL) Office of Workers' Compensation Programs (OWCP), which makes all decisions regarding injured workers' eligibility for benefits. The Postal Service annually reimburses the DoL for all workers' compensation benefits paid to or on behalf of our employees, and we pay an administrative fee to DoL. Benefits available under FECA far exceed those available under state workers' compensation programs or federal retirement programs; FECA has become a de facto alternative retirement system for injured workers. Because injured workers have an incentive to remain on the injury compensation rolls, and because the Postal Service does not have the authority to manage medical costs or settle claims, the Postal Service now has an accumulated workers' compensation liability of over $12 billion. In October 2011, the Postal Service is facing a payment of approximately $1.3 billion to DoL for the Postal Service's annual payment of its workers' compensation liability. In addition, when the Postal Service revalues its liability to reflect current interest rates, it creates significant non-cash fluctuations in our bottom line. For these reasons, we believe that comprehensive FECA reform legislation is necessary. This would benefit not only the Postal Service, but the federal government as a whole.

The volatility and magnitude of these expenses, as well as the inability of the Postal Service to control them, is a driving force behind the creation and submission of our recent proposals to administer our own healthcare and retirement programs. These ideas, in conjunction with ongoing Postal operational initiatives and legislative change, will allow the Postal Service to be effective now and in the future. With the ability to make these necessary changes, we can achieve our goal of removing $20 billion in costs by 2015.

We are committed to working with every stakeholder group to find long-term solutions to our ongoing financial issues. But despite all our efforts, there remain areas that are not under our direct control. These areas must be addressed by the members of Congress. I cannot emphasize enough the importance of action **this year** to help the Postal Service avoid default and insolvency. Without the involvement of Congressional leaders, in just over three weeks, we will reach our debt limit, experience a serious cash shortfall and be unable to make the required $5.5 billion RHB pre-payment.

We are appreciative of the interest of specific members, Mr. Chairman, especially to you for convening this hearing today. As you know, various measures are pending in both chambers that seek to address most of the issues I have discussed today. We are grateful for the bills proposed by Senators Carper and Collins, as well as those brought forward in the House by Representatives. We continue to appeal to Congress for action on a wide array of issues. Specifically, action is needed to address the following areas:

RHB pre-funding: The Postal Service is required to pre-fund health benefits for future retirees on an extremely aggressive schedule, like no other business in America. In the last four fiscal years, the Postal Service contributed $21 billion to the trust fund for RHB, while incurring $20 billion of net losses. This pre-funding requirement has put a stranglehold on our finances and cannot be sustained.

FERS overpayment: Refunding the Postal Service's estimated $6.9 billion overpayment into the FERS would give the Postal Service needed liquidity and provide several options, including paying down its debt.

Delivery frequency: The authority to determine delivery frequency would result in substantial annual savings of $3 billion. A recent Rasmussen Reports poll showed that 75 percent of Americans would prefer to see the Postal Service cut back mail delivery, rather than force the government to cover those losses. This is up considerably from 2009, when just 50 percent favored cutting back mail delivery.

Controlling legacy benefits costs: Allowing the Postal Service to restructure its existing healthcare and pension programs would yield significant long-term cost reductions. A separate Postal Service health care program would control rising fixed costs and provide a viable means to reduce or eliminate the unfunded RHB liability. Additionally, providing new employees with only a defined contribution pension plan (Thrift Savings Plan) and not a defined benefit pension (FERS) would provide an upper limit on future pension obligations.

Streamlining of pricing: The Postal Service should be permitted to price market dominant products based on demand and market conditions, rather than capping prices for each class at the rate of inflation. This would ensure that each class of mail covers its costs and would greatly enhance the ability of the Postal Service to compete for customers in a dynamic marketplace.

The world is changing. The way people work, interact, learn, communicate, do business, and live their daily lives is vastly different than it was for our parents and even for many of us. The Postal Service has a place in this new world, but getting there requires us to change and adapt in ways that might not have been thought of before.

We are at a critical juncture. Action from Congress is sorely needed by the close of this fiscal year. The Postal Service, as I have described in this testimony, has done and will continue to do our utmost to address both cost savings and generation of new sources of revenue. Solving these complex issues will take a truly collective effort, involving the Postal Service, Congress, our mailing industry partners, employees, and union leaders. A healthy Postal Service equates to a healthy mailing industry and to a more robust and vital American economy overall.

The American people have been well served by the Postal Service since the nation's beginning. We plan to continue serving them well into the future. Our future business model will undoubtedly look different from the Postal Service of today, but the core of what we do will not change. Our vast delivery network, reaching every home and business every day is something no one else offers. We intend to build upon that by continuing our evolution to fit the changing needs of the American public. They deserve no less.

I look forward to working with each of you and all our other partners to keep the Postal Service a solid, stable and meaningful symbol of our country's greatness and possibility. Thank you and I will answer your questions at this time.

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