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Postal Service on the Brink of Default

Postmaster General Tells Senate Committee Urgent Legislative Action Needed

WASHINGTON — Without enactment of legislation by the end of this month, the Postal Service faces default, as funds will be insufficient to make a congressionally mandated \$5.5 billion payment to pre-fund retiree health benefits, Postmaster General Patrick Donahoe told a Senate committee today.

“The Postal Service is in a crisis today because it operates within a restrictive business model and has limited flexibility to respond to a changing marketplace,” Donahoe testified before the Committee on Homeland Security and Governmental Affairs. “We need the ability to operate more as a business does. This applies to the way we provide products and services, allocate resources, configure our retail, delivery and mail processing networks and manage our workforce.”

The combination of weak economic conditions and diversion to electronic forms of communications continues to result in significant declines in the use of First-Class Mail and weakness in the use of Standard Mail. Future mail volume projections show this trend continuing, requiring even greater efforts to reduce costs.

In the past four fiscal years, the Postal Service has reduced costs by more than \$12 billion and reduced its career workforce by 110,000 employees. “As impressive as these reductions have been, we must significantly accelerate the pace of cost reduction in the next four years,” said Donahoe. Based on current revenue and cost trends, the Postal Service must reduce its annual costs by \$20 billion by 2015 to return to profitability.

“We do not currently have the flexibility in our business model to achieve all of these cost reductions. To do so, the Postal Service requires the enactment of comprehensive, long-term legislation to provide it with needed flexibility,” Donahoe added.

Specifically, legislation is needed that would do the following:

- Resolve a unique law requiring the Postal Service to make \$5.5 billion annual payments to prefund retirement health benefits
- Return \$6.9 billion in Federal Employees Retirement System overpayments
- Grant the Postal Service the authority to determine delivery frequency
- Allow the Postal Service to restructure its healthcare system to make it independent of federal programs
- Grant the Postal Service the authority to provide a defined contribution retirement plan for new hires, rather than today’s defined benefit plan
- Streamline the process for product development and pricing.

Donahoe also said the size of the Postal Service workforce needs to be addressed. In order to return to profitability, the Postal Service needs to reduce its career workforce by approximately 220,000 by 2015, but cannot do so under the terms of existing collective bargain agreements. To accelerate workforce reductions, the Postal Service is asking Congress to allow it to utilize the Reduction-in-Force (RIF) provisions currently applicable to federal competitive service employees for positions held by bargaining unit employees.

“We have advanced these and other proposals to provide Congress with a range of legislative options

while we aggressively do what we can within our current business model,” Donahoe said. “We need the flexibility to operate more as a business would, in order to return to sound financial footing so we can meet America’s evolving mailing and shipping needs for generations to come.

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

The Postal Service receives no tax dollars for operating expenses and relies on the sale of postage, products and services to fund its operations.

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A self-supporting government enterprise, the U.S. Postal Service is the only delivery service that reaches every address in the nation – 150 million residences, businesses and Post Office Boxes. The Postal Service receives no tax dollars for operating expenses, and relies on the sale of postage, products and services to fund its operations. With 32,000 retail locations and the most frequently visited website in the federal government, *usps.com*, the Postal Service has annual revenue of more than \$67 billion and delivers nearly 40 percent of the world’s mail. If it were a private sector company, the U.S. Postal Service would rank 29th in the 2010 Fortune 500. *Black Enterprise* and *Hispanic Business* magazines ranked the Postal Service as a leader in workforce diversity. The Postal Service has been named the Most Trusted Government Agency six consecutive years and the sixth Most Trusted Business in the nation by the Ponemon Institute.