



# POSTAL NEWS

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## Postmaster General Urges Congress to Fix Postal Service Business Model to Address Marketplace Realities

*Flexibility and Authority Needed to Close \$20 Billion Gap*

WASHINGTON — Postmaster General Patrick R. Donahoe told a House committee today the Postal Service continues to face systemic financial challenges because it has a business model that does not allow it to adapt to changes in the marketplace and it does not have the legal authority to make the fundamental changes that are necessary to achieve long-term financial stability.

“We cannot pretend these marketplace changes aren’t happening or that they don’t require us to make fundamental changes to our business model. We need comprehensive reform now,” Donahoe testified before the House Oversight and Government Reform Committee.

Donahoe said the Postal Service is moving quickly down a road that leads straight to a large financial chasm and postal reform legislation can be the bridge over that chasm. “If we build the bridge properly, the Postal Service can have a bright future. It can adapt and better serve the changing mailing and shipping needs of American industry and the American public. It can be a more powerful engine for economic growth and it can be profitable and operate without burdening the American taxpayer,” he said.

“We need a bridge that gets us all the way to the other side. Half measures are about as useful as half a bridge,” Donahoe added. “We need legislation that, together with our planned changes, confidently enables at least \$20 billion in savings by 2016. If not, we go over the edge.”

The Postal Service [Five-Year Business Plan](#) provides a roadmap to restore financial stability and preserve affordable mail service for the American public. Much of the savings cannot be achieved without legislative action.

“There is a simple question to ask about the legislation this committee is in the process of developing,” Donahoe testified. “Does it enable \$20 billion in savings by 2016? We believe our plan meets this test and provides the most responsible approach for our customers and employees, but we cannot implement it without legislation.”

Donahoe said the Postal Service has been very aggressive in reducing costs, including decreasing its annual cost base by \$16 billion and reducing the size of its career workforce by 202,000 employees since 2006. “We have been able to accomplish these incredible operational changes because of the tremendous dedication and effort of our employees. It is to their credit that the organization continues to function at a high level and provide the service our customers and communities expect,” said Donahoe.

Donahoe added that the Postal Service’s package business is strong and growing, and marketing

mail will remain strong into the future. “Unfortunately, declines in First-Class Mail overshadow these healthy parts of our business and the efforts we have taken to adapt to lost revenue.”

The Postal Service’s legislative requirements, as part of its Five-Year Business Plan, include:

1. Require USPS Health Care Plan (Resolves Retiree Health Benefits Prefunding Issue)
2. Refund FERS Overpayment and Adjust Future FERS Payment Amount
3. Adjust Delivery Frequency (Six-Day Packages/Five-Day Mail)
4. Streamline Governance Model (Eliminate Duplicative Oversight)
5. Provide Authority to Expand Products and Services
6. Require Defined Contribution Retirement System for Future Postal Employees
7. Require Arbitrators to Consider Financial Condition of Postal Service
8. Reform Workers’ Compensation

These legislative requirements are fully explained in the written testimony, available at: <http://about.usps.com/news/testimony-speeches/welcome.htm>

**Below is the Postmaster General’s oral testimony before the committee. Please note that the remarks as delivered may vary from the prepared text.**

“Good afternoon Chairman Issa, Ranking Member Cummings, and members of the Committee. Thank you, Mr. Chairman, for calling this hearing.

Let me begin by thanking this committee for taking on the important challenge of restructuring the business model of the Postal Service. The Postal Service continues to face systemic financial challenges because it has a business model that does not allow it to adapt to changes in the marketplace. We cannot pretend these marketplace changes aren’t happening or that they don’t require fundamental changes to our business model. We need comprehensive reform now.

In the past eighteen months, the Postal Service recorded \$19 billion dollars in net losses, and has defaulted on \$11.1 billion dollars in retiree health benefits payments to the U.S. Treasury. And, without legislation, we will be forced to default on our \$5.6 billion dollar payment due September 30, 2013. Our liquidity also remains dangerously low.

Our financial condition should not obscure the fact that the Postal Service plays a vital role in American commerce and delivers great value to its customers. Our package business is strong and growing, and marketing mail will remain strong for the long-term. Unfortunately, declines in First-Class Mail overshadow these healthy parts of our business and the efforts we have taken to adapt to lost revenue.

We have taken aggressive steps to reduce costs. Since 2006, we have reduced our annual cost base by \$16 billion dollars. We have reduced the size of our career workforce by 202,000 employees. We have consolidated more than 350 mail-processing facilities. We are modifying hours of operation at 13,000 Post Offices. We have eliminated 21,000 delivery routes.

We have been able to accomplish these incredible operational changes because of the tremendous dedication and effort of our employees. It is to their credit that the organization continues to function at a high level and provide the service our customers and communities expect.

America deserves a Postal Service that can adapt to basic marketplace changes and invest in the future. It needs a Postal Service that can evolve and change over time. The Postal Service has advanced a plan that can meet these expectations. It requires making fundamental changes to the way we currently do business.

Mr. Chairman, we are seeking the authority under the law to control our healthcare and retirement

costs. We can completely eliminate the need for Retiree Health Benefit prefunding if we can move to our proposed solution. Our goal should be the elimination...not just re-amortization...of any prefunding, and this is achievable. Our employees and retirees will also benefit from lower premiums and get the same or better health benefits. Just by pursuing this one element of our plan, the Postal Service can reduce its annual costs by up to \$8 billion dollars.

We seek the ability to establish a defined contribution retirement system for *new* employees. Given the changes that will occur in our industry in the coming decades, I believe it is fundamentally unfair to lock the postal service...and future employees...into a defined pension system.

With the authority to move to a schedule that includes six days of package delivery and five days of mail delivery, the Postal Service can save nearly \$2 billion dollars annually. The American public supports this delivery schedule and it's the financially responsible step to take.

We require a more streamlined governance model, and flexibility under the law, to *develop, price* and *implement* products quickly.

And, we are also seeking a refund of the approximately \$6 billion dollars in overpayments to the Federal Employees Retirement System.

If Congress can pass legislation that addresses each of these areas, we can close a \$20 billion dollar budget gap by the year 2016 and operate on a financially sustainable basis. If we do not gain this flexibility, our unsustainable losses will continue and we risk becoming a significant burden to the American taxpayer.

There is a simple question to ask about the legislation this committee is in the process of developing: Does it enable \$20 billion dollars in savings by 2016? We believe our plan meets this test and provides the most responsible approach for our customers and employees— but we cannot implement it without legislation.

Mr. Chairman, we are quickly moving down a road that leads straight to a large financial chasm. Postal reform legislation can be the bridge over that chasm.

If we build the bridge properly, the Postal Service can have a bright future. It can adapt and better serve the changing mailing and shipping needs of American industry and the American public. It can be a more powerful engine for economic growth. It can be profitable and operate without burdening the American taxpayer.

However, we can't get to that future if we don't build that bridge. And, we need a bridge that gets us all the way to the other side. Half-measures are about as useful as half a bridge. We need legislation that, together with our planned changes, confidently enables at least \$20 billion in savings by 2016. If not, we go over the edge.

I strongly urge this committee to pass comprehensive reform legislation that affirmatively grants us the authority to operate the Postal Service in a financially responsible manner and creates a financially sustainable business model for the next decade and beyond.

Let me conclude by thanking this committee for its willingness to address these tough issues and to pass comprehensive reform legislation this year. The Postal Service is a tremendous organization, and it needs your help."

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