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Fact-checking the postmaster general—

The Postal Service's 'white paper' on postal finances is misleading

In this issue of the *NALC Bulletin*, we're taking a critical look at a document sent out at the end of June by U.S. Postal Service Headquarters to every postal facility in the country.

This so-called "white paper" from L'Enfant Plaza, entitled "U.S. Postal Service: Facts About Our Financial Situation, A Real Crisis Requiring Real Solutions," seeks to bamboozle postal employees into supporting the postmaster general's disastrous "recovery plan" as well as legislation that would empower Postmaster General Pat Donahoe to execute it. The document is chock-full of red herrings, straw-man arguments, misleading statements and glaring omissions.

In June, the Postal Service sent this document to every postal facility in the country.

But let's start with something about which the NALC can agree with the USPS: The Postal Service does face a "real crisis" that requires "real solutions." However, in addition to the *financial* crisis—manufactured by Congress in 2006 when it enacted the crushing mandate to pre-fund decades' worth of future retiree health benefit costs—we also have a *leadership* crisis at L'Enfant Plaza. At a time when the Postal Service needs creative and imaginative leadership, there is an enormous leadership void at Postal Service HQ, made worse by the soon-to-be five vacancies in the nine-member Postal Board of Governors. That void has been widened by a postmaster general who has joined forces with Washington politicians whose top priorities are to downsize the government, cut services and attack public employees.

We desperately need comprehensive postal reform, but it's not the reform that the PMG and his partners in Congress are promoting. NALC and its allies in the other unions and the mailing industry have rallied behind a much better approach than the doomed-to-fail "shrink to survive" strategy of the PMG. In the absence of leadership from the Postal Board of Governors, the NALC asked the renowned Lazard Co. to analyze hard-nosed, detailed and comprehensive approaches to reform that offer a positive alternative to "shrink to survive." We'll come back to that later. But first, let's fact-check the Postal Service's white paper.

Overview: Framing the issue to mislead

In the paper's overview, the Postal Service frames the financial crisis in a most misleading way. Yes, the Great Recession and technology caused a 25 percent reduction in mail volume. Yes, Americans are texting and paying bills online and using smartphones. Those are real threats to the USPS that NALC takes very seriously. But they explain very little about the Postal Service's finances in recent years—volume and revenues indeed plummeted, but so did work hours and expenses. The overview, though, does not even mention the most important factor contributing to the financial crisis: the pre-funding mandate. Pre-funding has accounted for 83 percent of the USPS' losses since 2007 and 100 percent of its losses since October 2012.

The glaring omission of pre-funding is telling, but not surprising, since the PMG cannot be honest about this most important source of the financial crisis for two reasons. First, his allies in Congress won't let him—the bill approved by the House Oversight and Government Reform Committee, H.R. 4670, offers no real relief from the pre-funding mandate. Second, the case for closing more processing plants, eliminating Saturday delivery, and cutting door-to-door delivery virtually collapses if the pre-funding problem is solved as part of a package of reforms that garners broad support.

Dire financial situation: Assets and liabilities

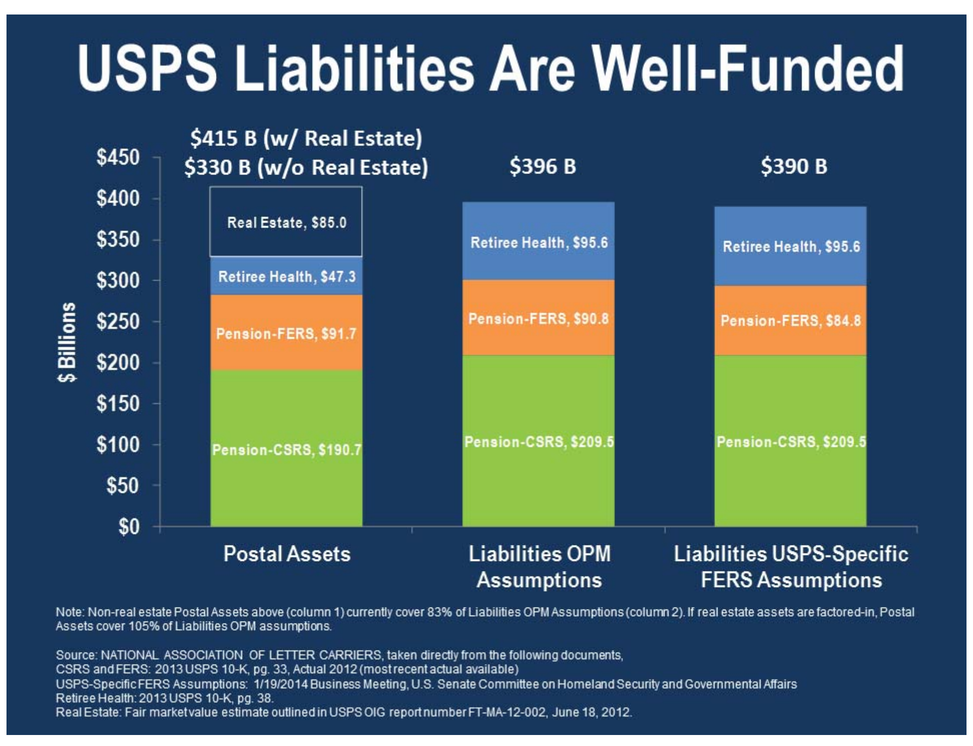
To stoke fear among members of Congress, postal employees and gullible outsiders, the Postal Service makes every effort to hype the gap between its assets and its liabilities. The second section of the white paper states that the Postal Service's $64 billion in liabilities exceed its assets by $42 billion. This suggests that the USPS' assets amount to just $22 billion. Although consistent with Generally Accepted Accounting Principles (GAAP), this statement is meant to conceal more than it reveals. That's because the liabilities are measured at their current market value, while the agency's assets are carried at their book value (the price paid for them long ago). The market value of the Postal Service's real estate assets alone is $85 billion, according to an evaluation by the USPS Office of Inspector General. The Postal Service doesn't mention this important fact in its white paper "facts." (See "Leveraging Assets to Address Financial Obligations," Report Number FF-MA-11-118, dated July 12, 2011.)

USPS retirement obligations ($ billions)

	Assets	Liabilities	Overfunded/ (Underfunded) Amount	Funded Ratio (%)
CSRS pension	$189.0	$208.8	$(19.8)	90.5%
FERS pension				
A) FERS—federal wide	$97.9	$97.4	$0.5	100.5%
B) FERS—postal assumptions	$97.9	$91.9	$6.0	106.5%
Retiree health benefits (RHB)	$47.3	$95.6	$(48.3)	49.5%
TOTAL—using FERS (A)	**$334.2**	**$401.8**	**$(67.6)**	**83.2%**
TOTAL—using FERS (B)	**$334.2**	**$396.3**	**$(62.1)**	**84.3%**

The Postal Service then seeks to heighten the misunderstanding by noting that "our total liabilities of $113 billion exceed our assets by $90 billion" if "underfunded" retiree health benefits and pension obligations are counted. The implication is that the USPS' pension and retiree health funds are grossly under-funded, which is not true. The Postal Service's pension plans are extremely well funded (90 to 100 percent) compared to typical private-sector plans. Moreover, most Fortune 1000 companies don't pre-fund their retiree health benefits at all.

If the Postal Service wanted to fully inform its employees about its financial condition, it would not hide behind GAAP reporting rules. It would compare all of its assets to all of its liabilities at market value, instead of the partial, apples-to-oranges comparisons it offers in the white paper. The chart below does that. It shows that the USPS' liabilities are well funded.



Rather than attempting to scare postal employees into supporting damaging service and job cuts by whipping up fears about unfunded liabilities, the Postal Service should be fighting for fair treatment from the Office of Personnel Management (OPM), which routinely adopts valuation and pension allocation methods that discriminate against the USPS. It would also fight to require OPM to invest our retiree health and pension funds more appropriately, to reduce those unfunded liabilities.

It should be noted that the Postal Service's liabilities for retiree health and pension benefits have been temporarily inflated by the decline in interest rates during the Great Recession and its aftermath. The same trend has artificially increased the liability for future workers' compensation benefits. As interest rates rise and as the economy recovers, these liabilities will decline. But the USPS' "fact sheet" ignores this reality. Indeed, it does not even mention that interest rates have declined to historic lows in recent years.

Many factors, no context

When the Postal Service finally acknowledges the pre-funding mandate on Page 2 of the white paper, the mention comes near the end of a long list of factors that have contributed to the financial crisis: the recession, electronic substitution, "legacy" retirement and health care plans and an inflexible business model. Leaving aside the strange use of the term "legacy" to characterize our current well-funded health and pension plans, there is no hint that one factor—the unique mandate to pre-fund future retiree health—is by far the most important driver of the crisis. That factor, which no other independent government agency or private company shares, accounts for four-fifths of the USPS' financial crisis. The Postal Service would have you believe that pre-funding is a minor issue.

We agree that the Postal Service, as it exists today, is unsustainable. That's why the NALC supports comprehensive reforms on pre-funding, pricing and new services. But more than that, the USPS needs executive leadership and vision, leaders who recognize that "shrink to survive" is not a winning business strategy. Offering less service or slower service will drive even more business away and make things worse, not better.

Forty percent of the Postal Service's business customers (hundreds of thousands of companies) say they want Saturday delivery, and if we don't give it to them, other companies will. Those new competitors would also pursue the rest of our business and become a force for deregulation and privatization. Either the PMG thinks he knows better and is willing to roll the dice with our future, or he is working with the political forces in Congress that favor privatization and deregulation. Either way, NALC is not willing to gamble with the most affordable universal delivery service in the world.

Packages and e-commerce are only the beginning

The white paper notes the Postal Service has taken significant steps to adapt during the crisis. Leave aside the fact that the paper gives postal employees no credit for working to preserve the USPS during the Great Recession. Ignore for the moment the decline in service quality caused by the reduction in service standards and retail hours. Instead, focus on what legislative authority the Postal Service is seeking: It wants the freedom to do more of the same—cost cuts, service reductions and downsizing. That's it. There is no legislative agenda for growth.

Worse, the paper totally ignores the possibility of using our existing networks to offer new services and to generate additional revenues to support a strong national postal service. While other state-owned postal services around the world have diversified, the USPS has remained steadfastly uninterested in new revenues. It does not promote voting by mail. It is not interested in NALC's plans to expand Customer Connect into an aggressive front-line sales strategy that would target not just packages, but direct mail and other services as well. The Postal Service has no real vision to grow itself into something beyond a niche player in the parcel market.

Look no further than the USPS' reaction to the Office of Inspector General's report on using the nation's post office to provide non-bank financial services. When the report was released back in January, both the PMG and the chief financial officer rushed out statements to say it wouldn't work in the United States. It's been done in the U.K., Italy, France, Brazil and New Zealand in recent years, but apparently we aren't smart enough or skilled enough to provide such services in America. That "can't do" spirit is a real and present danger to the future of the Postal Service.

The Postal Service's irresponsibility

The white paper notes that the Postal Service has taken significant steps to adapt during the crisis. Leave aside the fact that the paper gives postal employees no credit for working to preserve the USPS during the Great Recession. Ignore for the moment the decline in service quality caused by the reduction in service standards and retail hours. Instead, focus on what legislative authority the Postal Service is seeking: It wants the freedom to do more of the same—cut cost, cut service and downsize. That's it. There is no legislative agenda for growth.

The Postal Service cannot downsize its way to health. This is where the PMG's alliance with the most anti-government forces in Congress amounts to a betrayal of all postal employees and of the broader mailing industry we serve. The goal of these forces is not to strengthen the Postal Service; their goal is to dismantle it.

Apparently, the PMG agrees with their goals. After all, it was Donahoe who proposed saddling the Postal Service with a new unaffordable pre-funding burden (this time, for future workers' compensation benefits) when the Senate took up S. 1486. And how else can we explain the PMG's support for using the elimination of Saturday delivery as a "pay-for" for a temporary fix for the nearly insolvent Highway Trust Fund? Had that budget gimmick succeeded, it would have set a terrible precedent for the future—an invitation to Congress to pay for other government spending through Postal Service cuts or postage rate increases. Nothing could be more irresponsible.

Debunking myths or creating myths?

The remainder of the Postal Service's white paper focuses on three so-called myths. The first myth is a straw-man argument; that is, a claim that nobody is making and that is easy to knock down. The second "myth" is no myth at all. The third seeks to dress up the Postal Service's discretionary financial reporting practices as required by accounting rules when they are not. Let us address each myth in turn.

First, nobody is claiming the "Postal Service has manufactured a crisis." The crisis is real, but it was manufactured by Congress, not the USPS. The unaffordable pre-funding mandate has plunged the Postal Service into crisis. What is plain to all, however, is that the USPS is attempting to exploit the pre-funding crisis to achieve legislated service cuts that are not necessary to solve the crisis, cuts that the agency has wanted to implement for years. For example, postal management has proposed the elimination of Saturday delivery repeatedly over the past several decades, including in 1947, 1957, 1971, 1975, 1977 and 1980—as well as 1983, the year Congress mandated the delivery of mail six days a week in appropriations legislation, a mandate that has been renewed ever since.

The way the USPS characterizes the missed pre-funding payments as "defaults" is intended to serve this purpose. It suggests insolvency and possible bankruptcy, like when a mortgage goes into default. Of course, if a homeowner were singled out by his bank and required to massively pre-fund his future mortgage payments in advance, a missed pre-funding payment would not be the same thing as a "default." But it might prove the bank was being highly unfair with the homeowner.

Second, the Postal Service claims it is a myth that fixing pre-funding would return the Postal Service to profitability. But the numbers don't lie. In 2013, for example, the Postal Service reported a loss of $5 billion and a pre-funding expense of $5.6 billion. In the absence of the pre-funding expense, the USPS would have reported a $600 million profit. The same is true for the first half of 2014.

Nobody is saying that fixing the pre-funding mandate is the only reform we need to make; that's why NALC supports comprehensive reform—reform that does not include the Postal Service's proposed and disastrous service cuts. And nobody is saying that the USPS' cash reserve—depleted after seven years of pre-funding and a poor economy—is adequate. But the Postal Service's cash position has been improving: It now has about $4 billion on hand, up from $1 billion in 2011. The USPS refuses to acknowledge any improvement, lest the case for unnecessary service cuts be weakened. Worse, it resorts to the use of truly bogus charts like the one on Page 4 of its white paper, a chart that compares the Postal Service's current cash position to the cost of several decades' worth of future liabilities.

As the NALC noted on its website on June 20, CFOs of major companies don't compare their total liabilities over several decades into the future to the tiny percentage of assets they currently hold in cash to determine how healthy they are. That would be like a homeowner declaring bankruptcy because the balance in his savings account is a tiny fraction of what he owes on his mortgage. Only a comparison of total assets and total liabilities, as presented in the "USPS Liabilities Are Well-Funded" chart above, makes sense.

Third, the Postal Service claims it is a myth that it is making an operating profit. The USPS wants to claim that its GAAP loss is the same thing as its operating loss. In reality, accounting rules give businesses wide discretion in how they define operating income. Generally, non-standard expenses "imposed from without" (e.g., pre-funding) or "outside the control of management" (e.g., actuarial adjustments to future FECA costs due to changing interest rates) are excluded from the calculation of operating profits or losses. The Postal Service has acknowledged this in the past, as it did most recently in its 10-Q report for the second quarter of fiscal year 2014. From page 19 of that report:

> Because the legislative mandates for prefunding of retiree health benefits and the participation in the FECA are not subject to management's control, we believe that analyzing operating results without the impact of certain of these charges provides a more meaningful insight into current operations. In the day-to-day operation of our business, we exclude these items from our internal financial analyses in order to direct focus upon relevant expenses that management can control and include only those workers' compensation costs representing current year payments on behalf of postal claimants. The following table illustrates the net income or loss for the three and six month periods ended March 31, 2014 and 2013 from ongoing business activities when these charges are not considered, and reconciles this amount to our GAAP net loss. Enhancements implemented in our business operations, as more fully described in the sections below, have yielded improvements to our non-GAAP operating net income (loss), for the three and six month periods ended March 31, 2014 when compared to the same period last year.

Net Income before Impact of Expense Related to the Long-term Portion of Workers' Compensation and PSRHBF Expense

(Dollars in millions)	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Six Months Ended March 31, 2014	Six Months Ended March 31, 2013
Net loss	$ (1,872)	$ (1,866)	$ (2,226)	$ (3,130)
Impact of:				
Change related to the long-term portion of workers' compensation	708	120	402	128
PSRHBF expense	1,425	1,400	2,850	2,800
Net income (loss) before the impact of expense related to long-term portion of workers' compensation and PSRHBF expense	$ 261	$ (346)	$ 1,026	$ (202)

This definition of operating profits, in the Postal Service's words, "provides a more meaningful insight into current operations." Applied to the first half of 2014, this approach revealed an operating profit of $1.026 billion through the second quarter, a $1.2 billion improvement over the $202 million operating loss during the same period of 2013. Most private companies take this approach to defining operating income. The USPS chooses not to do so. It wants to mislead people about the crisis it faces, to support its legislative agenda.

Conclusion: There is a better way

The NALC agrees that there is a crisis in the Postal Service and that comprehensive postal reform is needed. But the crisis goes beyond the congressionally manufactured financial crisis; there is a crisis of leadership. Postal employees long ago lost confidence in the honesty and business acumen of the postmaster general and the Board of Governors. The Postal Service's misleading white paper is only the latest example of why this has happened. Moreover, the comprehensive reform we need is not the plan that the PMG and his allies in Congress have in mind. Their plan would only hasten the demise of the Postal Service.

NALC, the other postal unions and our allies from a cross section of America's mailing industry have coalesced around a reform plan developed by Lazard after two years of study and analysis of postal operations. This plan, which will only work if Congress rejects damaging service cuts, includes six key elements:

- Reform of the Federal Employees Health Benefits Program (as it relates to postal employees) to follow private-sector practice on integration with Medicare to dramatically reduce the burden of pre-funding future retiree health benefits.
- Reforms to the way the Postal Service Retiree Health Benefits Fund (PSRHBF) is invested and financed to follow best practice in the private sector and to improve the fund's returns.
- The return of the Postal Service's Federal Employees Retirement System (FERS) pension surplus (measured using postal-specific economic and demographic assumptions) to the USPS for debt retirement and investment.
- Repeal of the 2014 exigent rate increase, to be replaced by a modified price cap, raising postage rates by 1 percent more than the Consumer Price Index each year for four years.
- A provision to preserve the existing (July 2012) service standards to prevent a further deterioration in service quality.
- Flexibility to offer selected new products and services through the Postal Service's networks.

These reforms would fully and effectively solve the pre-funding burden, address pension inequities and promote innovation, all without resorting to drastic service and job cuts that would cripple the Postal Service. These reforms would strengthen the Postal Service, not dismantle it.

These are the facts. No amount of propaganda from the PMG or from L'Enfant Plaza can change that.

In Philadelphia July 21-25

Last-minute convention items

Housing deadlines: The last day to change or cancel a room or book a room through Meeting Services Plus, based upon availability, was July 7. The first day that delegates may contact hotels directly for all changes, cancellations and new reservation requests is July 11.

Alternate delegates: Alternate delegates who replace registered delegates need to bring to the convention their letters of authorization signed by their branches' presidents and secretaries.

Welcome reception: The welcome reception is on Sunday, July 20, from 4 p.m. to 7 p.m. in the Pennsylvania Convention Center's Grand Hall.

Shuttle bus schedule: Free shuttle service is provided between the official convention block hotels and the Pennsylvania Convention Center (PCC). Hotels and boarding locations will be listed in your Pocket Guide and posted at nalc.org. Starting on Monday, July 21, you must have your convention credential to board the buses.

Election banners: The cost to hang an election banner is $250 per banner. Checks should be made payable to Secretary-Treasurer, NALC. All banners must be in the headquarters office at the convention center no later than 3 p.m. on Tuesday, July 22. Banner size is limited to 4 feet by 8 feet.

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