May 11, 2016

The Honorable Jason Chaffetz
Chairman

The Honorable Elijah Cummings
Ranking Member

Oversight & Government Reform Committee
2157 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Chaffetz and Ranking Member Cummings,

The undersigned companies and organizations write to you to reiterate our support for legislation to stabilize the finances of the United States Postal Service. We believe passage of such legislation this Congress is critical to ensuring the continued viability of this vital public institution that is the centerpiece of a $1.4 trillion mailing industry employing 7.5 million Americans. We offer our support for a balanced and impactful set of reform principles that will address the most pressing financial problems facing the Postal Service and encourage you to introduce legislation embodying them.

More than two years ago mailer companies and associations and postal unions came together in an unprecedented effort to identify a set of solutions to ensure Postal Service financial solvency. The result of those discussions was the joint legislative proposal that had the support of mailing groups of all mail classes and the four largest postal unions that was shared with you last December. The hope was that it could provide a blueprint for legislation that could be enacted early this year, prior to the elimination of the exigent surcharge. Unfortunately, this did not occur, however, we believe this group of reforms still provides the most effective solution for the Postal Service's financial problems.

Many of the provisions continue to have the support of virtually the entire mailing industry and postal union community and broadly reflect the adoption of private sector best practice with respect to health insurance benefits and investment practices. Most of these elements are drawn from or inspired by bipartisan legislation developed by the Senate Homeland Security and Governmental Affairs Committee in recent years, including S. 2050 introduced by Senator Carper earlier this year. We are assured by the Postal Service that, if adopted, they would effectively address their most pressing financial problems. They include:

Pensions

The proposal requires the Office of Personnel Management (OPM) to calculate the Postal Service's normal cost percentage and supplemental liability under the Federal Employees' Retirement System (FERS), and the supplemental liability under the Civil Service Retirement

System (CSRS), using salary growth and demographic assumptions that are specific to the postal population, rather than by using Government-wide assumptions.

The proposal establishes a process by which any FERS surplus, calculated by OPM through postal-specific assumptions, would be returned to the Postal Service. A surplus calculated as of the end of FY2014 (the subject of OPM's most recent determination) would be returned to the Postal Service immediately for use in paying down debt. Future surpluses could also be returned: 2/3 of any surplus calculated for FY2015 would be returned immediately, and any surplus calculated for later years would be returned through annual installments designed to liquidate the surplus over 40 years. Surplus amounts returned in these years would be used to first address the Postal Service's pension and retiree health benefits (RHB) liabilities, and then to pay down debt.

The proposal lengthens the amortization periods regarding any FERS or CSRS unfunded liability, to better accord with the period for paying down any unfunded RHB liability.

Retiree Health Benefits

The proposal requires OPM to create separately rated postal plans within the Federal Employees Health Benefits Program (FEHBP) beginning with the 2017 contract year. These plans would be fully integrated with Medicare Parts A, B, and D, consistent with best practices in the private sector. These plans would be offered by any existing FEHBP carrier that currently covers at least 1,500 postal employees and annuitants, as well as other carriers that desire to participate. All postal employees and annuitants who elect coverage through FEHBP would enroll in one of these postal FEHBP plans, with some limited exceptions.

The proposal requires OPM to calculate the RHB actuarial liability on the basis of annuitant net claims costs, rather than annuitant premiums, in accordance with standard actuarial practice. The Postal Service Retiree Health Benefits Fund (PSRHBF) would be used to pay annuitant net claims costs, with any remaining amount necessary to cover the Government share of the annuitant premium being paid directly by the Postal Service.

The proposal cancels the fixed prefunding schedule established in the Postal Accountability and Enhancement Act of 2006, and instead requires the Postal Service to make actuarially-based RHB prefunding payments beginning in FY2016. Each year, the Postal Service would make a normal cost payment, except to the extent that such a payment would cause the RHB actuarial liability to be more than 100% funded. In addition, the Postal Service would be required to amortize any unfunded RHB liability, predicated on an 80% funding target.

The proposal requires that a portion of the existing assets in the PSRHBF be invested in a more productive manner. Instead of investing the funds only in Treasury securities, the Secretary of

Treasury would be required to invest 50% of the funds in a manner designed to replicate the performance of the longest-term L Fund in the Thrift Savings Plan. In investing these funds, the Secretary would consult with a Postal Service Retiree Health Benefits Fund Investment Committee also consisting of the Chairman of the Postal Service Board of Governors, the Chairman of the Federal Retirement Thrift Investment Board, and two members appointed by the President to represent the interests of Postal Service employees and annuitants. Five years after enactment, the Investment Committee could increase the percentage of the RHB funds invested in this manner, with the percentage not exceeding 75%.

Other Issues

Other elements of the proposal we discussed in December have proven more controversial. We understand that authorizing Postal Service delivery services for wine and beer is problematic. Similarly, the expansion of Postal Service offerings to cover non-postal products beyond the provision of services for state, local and tribal governments has raised concerns among some mailer organizations. Neither of these provisions has the potential of the others to impact the Postal Service's fiscal situation and could be set aside in the interest of moving expeditiously.

Our original proposal also included a provision to maintain market dominant rate levels incorporating the 4.3% exigent surcharge and delaying any further increases until January 1, 2018. At that time any changes determined necessary by the Postal Regulatory Commission (PRC) concurrent with their review of the rate setting system due to commence in December 2016 could be implemented. With the expiration of the exigent surcharge, this approach is no longer feasible.

What to do regarding market dominant rates is a divisive issue within the mailer community with competing strong feelings about what to do. But it seems clear the financial condition of the Postal Service will weigh heavily in the upcoming PRC review, which is mandated by law. The reforms detailed above concerning pensions and Postal Service retiree health benefits are required in order to stabilize Postal Service finances in advance of that review.

We would consider a provision to make an adjustment to the market-dominant rate base necessary to ensure adequate revenue for the Postal Service through the period of the PRC review, if that is deemed absolutely necessary. The mailers supporting this proposal are committed to a long-term relationship with the Postal Service and would not reject a moderate adjustment if it provided rate predictability and stability while maintaining service quality. We do believe that the scope of the financial remedies provided by legislation will have a significant bearing on the outcome of the PRC review and that a more fulsome package would increase the potential of rate predictability and stability for the long-term.

We appreciate your attention to these concerns. The mailer and employee organizations represented by this letter would be eager to work with you in support of legislation that fulfills these basic principles. In view of the short amount of legislative time remaining in the session, we would urge introduction of focused legislation incorporating them at the earliest possible date with the assurance that it would be met with our full support for swift enactment.

Sincerely,

American Postal Workers Union
Envelope Manufacturers Association
Greeting Card Association
National Association of Letter Carriers
National Postal Mail Handlers Union
National Rural Letter Carriers Association
Parcel Shippers Association