<u>Principles for Targeted Legislation to Stabilize Finances of the United States Postal Service</u>

The U.S. Postal Service is a "basic and fundamental service provided to the people by the Government of the United States," tasked with providing prompt, reliable, and efficient universal postal services. Although the Postal Service has dramatically downsized and restructured its operations in response to the sharp decline in mail volume caused by the Great Recession and ongoing technological change, its ability under current law to perform its statutory mission is imperiled, and it has not been able to fulfill all of its statutory obligations..

While there is a broadly recognized need for the enactment of postal reform legislation to address the Postal Service's financial situation, no bill has attracted sufficient support to pass Congress. To move the process forward, over the past several months the Postal Service has met with mailers, employee organizations, and other stakeholders to discuss ideas for stabilizing the Postal Service's finances. These discussions were frank, wide-ranging, and often impassioned. From them a consensus emerged around a legislative proposal that focuses on a few central concepts which, it was agreed, would constitute substantial progress towards restoring the Postal Service to financial health if enacted into law by Congress.

The elements of this consensus approach, which are described below, broadly reflect the adoption of private sector best practice with respect to health insurance coverage 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. These are the core proposals that should be included in postal reform legislation.

<u>Pensions</u>

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%.

Market-Dominant Rates

The proposal makes the 4.3 percent exigent increase, which is currently a surcharge on top of the base rates, part of the rate base. The Postal Service would be prohibited from raising market-dominant rates until January 1, 2018, following completion of the Postal Regulatory Commission (PRC) review of the market-dominant regulatory system pursuant to section 3622(d)(3) of title 39, United States Code.

The proposal specifies the time period of the PRC review of the market-dominant regulatory system: the PRC must begin the review by July 1, 2016, and must complete its review by March 31, 2017, so that the Postal Service will have time to develop, provide notice of, and implement the next market-dominant rate increase by January 1, 2018. No other changes are made to the provisions of current law governing the PRC review; therefore, the PRC's substantive authority with respect to the review remains unchanged.

Nonpostal Services

The proposal authorizes the Postal Service to provide nonpostal services to State, local, and tribal governments.

The proposal also authorizes new, commercial nonpostal services, so long as the PRC concludes that the provision of such services is consistent with a number of requirements. Specifically, any such nonpostal service must (1) be consistent with the public interest and demonstrated likely public demand for the Postal Service to provide the service; (2) not create unfair competition with the private sector, (3) not unreasonably interfere with or detract from the value of postal services, (4) be undertaken in accordance with all Federal laws and regulations applicable to the provision of such services, and (5) be reasonably expected to improve the net financial position of the Postal Service. The PRC would review whether the service meets these requirements before the service could be implemented.

Delivery of Alcoholic Beverages

The proposal authorizes the mailing of beer, wine, and distilled spirits, under specified conditions. First, the mailing must accord with non-federal laws that govern the private shipments of alcoholic beverages at both the place of mailing and the place of delivery. Second, delivery can only be made to an adult 21 years of age who provides a signature and valid identification.

The proposal also clarifies that it does not preempt any State, local, or tribal law that prohibits or regulates the delivery, shipment, or sale of distilled spirits, wine, or beer, so long as that law does not discriminate against shipment and delivery by the Postal Service compared to privately carried shipments and delivery.

Contact: Rafe Morrissey
Vice President, Postal Affairs
Greeting Card Association
202-438-6821; rafem@morrisseystrategic.com

List of Supporting Organizations

Amazon
American Greetings
American Postal Workers Union
Artists to Watch
Bluestem Brands
Capital One
Colony Brands
Comcast
Cronin Cards
CVS Health
DaySpring Cards
Deluxe Corporation

DHL eCommerce
Engineering Innovation, Inc.
Envelope Manufacturers Association
EPICOMM
Figi’s Companies, Inc.
Fine Impressions
Fixture Resource Group
Greeting Card Association
Greg & Company
Hallmark Cards, Inc.
Harland Clarke
Harris Seeds, Garden Trends, Inc.
Information Packaging
Karen Embry Designs
Kenmore Envelope Company
Legacy Publishing
Mason Companies, Inc.
National Association of Letter Carriers
National Newspaper Association
National Postal Mail Handlers Union
National Rural Letter Carriers Association
Newgistics
Newspaper Association of America
Ohio Envelope Manufacturing Company
Papercone
Parcel Partners
Parcel Shippers Association
Postmark Press
Pumpernickel Press
Royal Envelope Company
State Farm
The Occasions Group
Tri-State Envelope
Universal Presentation Concepts
Up With Paper
Valassis