
**Hearing before the Subcommittee on Financial Services and
General Government
Committee on Appropriations
United States Senate**



**Oral Statement
On the
Financial Situation of the Postal Service**

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Mr. Chairman and members of the subcommittee, I appreciate the opportunity to discuss the Postal Service's current financial condition. The Postal Accountability and Enhancement Act of 2006 set the Postal Service on a visionary, imaginative course to behave with the agility and customer responsiveness found in the private sector. However, the Act's incentives and pressures served to illuminate chronic business model problems that required rapid correction. Also, the recent economic downturn hit the postal community very hard. Lastly, the Digital Age has entered a creative-destructive phase, disrupting numerous industries including the Postal Service.

The Postal Service is moving in the right direction, but its velocity is insufficient to avoid an economic catastrophe that will severely challenge its viability. Actions are needed now in several key areas.

- Each year, the Postal Service pays \$7 billion more than is warranted for its benefit funds. This overcharge is a result of exaggerated health care inflation percentages, a transfer of federal pension responsibilities to the Postal Service, and excessive prefunding targets for the retiree health care and pension funds. Addressing this overcharge could allow needed time to plan and integrate large-scale cost reduction initiatives.
- The large network of post offices, plants, and administrative apparatus is financially burdensome. To its credit, the Postal Service has streamlined some of its network, reducing over 130,000 employee positions since 2003 and cutting \$6 billion in costs for 2009 alone. The Postal Service must accelerate its infrastructure optimization plan, while balancing its commitment to service.
- The Postal Service's complex workforce rules do not always match mission requirements. The ebb and flow of mail in the processing plants suggests the need for more flexible staff willing to perform a wider range of duties. The current method of paying carriers by the hour requires closer management than is possible and disincentivizes optimal performance.
- We, along with the Postal Service, have recognized the need for a simplified, modernized pricing structure. The Postal Service has 3 primary product lines: letters, flat mailings such as magazines, and packages; yet, it has thousands of price variations for them. Additionally, twenty-four of the 135 workshare discounts exceed costs avoided, and other discounts may no longer be of value. A simple pricing structure could be easier to use and allow more accurate charges to customers.
- A recent poll indicated that reducing six day delivery to five days has the support of mail recipients, though mailers have expressed concerns. Mail pieces per mailbox have declined significantly, from 6 pieces per day to 4, and reducing delivery days would seem to balance costs by restoring the number of pieces being delivered. Additionally, with the nation's 40 hour work

week, managing resources for a five day business cycle is much simpler than for six days.

The Postal Service needs to weigh potential savings against possible decreases in revenue, and loss of its competitive advantage, since other companies charge premiums for Saturday delivery.

Lastly, my office is concerned that the Postal Service build down could be so rapid that the dynamics within and among the large initiatives are not fully understood. Adding five day delivery changes to infrastructure optimization, management of the FSS investment, and Intelligent Mail Barcode implementation is daunting. Perhaps a test beginning in the quieter summer months would provide a great deal of useful information.

To conclude, I am not aware of a business in the world that could forfeit \$7 billion annually, before it opens its doors, and survive. Benefit prefunding overcharges should be fixed. Additionally,

- The Postal Service should aggressively rightsize its infrastructure without delay. The clock is ticking, and this may be their last shot.
- Work rules should be better aligned with mission requirements.
- A simplified pricing structure should be implemented to bring in new business and enable accurate calculation of revenues due.

The world is in the midst of a digital revolution and it's a wild ride for the nation's entire communications infrastructure. Globalization and the Digital Age are providing exciting opportunities, but only for some. Tech Centers in India and China are tightly surrounded by people pulling plows with water buffalo—people who have been completely left behind.

America has taken many actions in the past, such as Land Grant Universities, TVA, rural mail delivery, and interstate highways, to ensure that people are not left behind. The powerful and unpredictable events facing the communications industry may require such action to assure that all Americans have universal access and the opportunity to take part in this exciting new world. Our communications infrastructures have to recover from the shock and trauma of a changed world to assure their readiness to play both traditional and emerging roles in support of our citizens.