COALITION FOR A
21st CENTURY
POSTAL SERVICE

Committee on Oversight and Reform
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Testimony of
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On Behalf of the Coalition for a 21st Century Postal Service

Good morning, Madame Chairwoman, Ranking Member Comer and Distinguished Members of the Committee. Thank you for your leadership on pursuing bipartisan postal reform legislation and for holding this hearing. From a combination of service and pricing circumstances over the past year, our coalition and the industry as a whole are alarmed about and questioning not only their own continued use of the postal system, but the overall impact on postal volumes and revenues, and the Postal Service's continued ability to fund and do its job. Raising prices and/or reducing service will only exacerbate the problem of retaining volume. The only solution, in our view, is for Congress to act on a package of proposals to help the Postal Service.

Let me be clear: our coalition – C21 -- strongly supports all three elements in the Chairwoman's Discussion Draft. But let me be equally clear: more needs to be done to put USPS on a firm footing going forward. These include: addressing the crushing and counterproductive rate increases a weakened industry faces – especially in light of the deterioration in service that has shaken the confidence of the industry in the system; investing of USPS funds; requiring 6-day delivery and an integrated network; and repatriating overcharges to USPS paid into the Civil Service Retirement System Fund. We will discuss all four.

<u>Introduction and Background</u>

I have the good fortune to lead an outstanding company in an outstanding industry. Quad is a worldwide marketing solutions provider with a strong foundation in print. We help brands and marketers reduce complexity, increase efficiency and enhance their marketing spend effectiveness. Quad also acts as the liaison between our clients and the U.S. Postal Service.

I am here on behalf of the Coalition for a 21st Century Postal Service: mailers, shippers and members of our supply chain which represent a broad cross-section of an industry that, in 2019, generated \$1.6 trillion in sales and employed 7.3 million workers (though that number is down dramatically over the past decade).[1]

To take a step back, Quad was founded by my father in 1971, when he took out a second mortgage on our home and he along with a handful of dedicated partners opened the doors to what today has grown into the nation's largest long-run printer with over 17,000 employees spanning 20 states. I was two years old when Quad was founded, so I have quite literally grown up as part of the industry. My father's vision has transformed many lives through hard work, dedication and smart business. However, that vision would not have happened without the tremendous partnership Quad has forged with the United States Postal Service. Today, Quad mails over 8 billion pieces of mail each year on behalf of our over 7,000 clients. This accounts for approximately 12% of the overall marketing mail volume in the country coming out of a Quad plant.

The USPS continues to be a vital partner to the mailing/marketing industry that Quad serves, and the shipping industry. An industry that is comprised of retailers, banks and financial companies, insurance, utilities, marketers, catalogers, directories, direct mailers, greeting card, magazine, newspaper and book publishers and many more in the "Market Dominant" categories of mail, as well as shippers of every size as ecommerce and a mix of mail and digital communications generate huge and still swelling package volume. These, along with paper manufacturers, timber producers and many others, constitute the enormous industry the country

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[1] Chapman and Johnson, EMA Foundation's US Mailing Industry Jobs & Revenue Study, pp. 8-9 (2019). https://www.envelope.org/emaf/wp-content/uploads/sites/3/2020/04/04062020EMA2019U.S.MailingIndustryEconomicJobStudy5B52725D-1.pdf

also relies upon, and of which C21 represents a broad cross-section. The industry size is on par with or larger than industries such as air travel, automotive and oil and gas. We represent nearly 7% of GDP. The industry provides family-supporting jobs throughout the country and business generally, led by the postal-reliant industry, generates more than 90% of the Postal Service's revenue.

<u>The Postal Service Remains invaluable</u>

If ever the country needed a graphic illustration of how indispensable our postal system remains, it received one in 2020. We all know that the USPS lets neither snow nor rain nor heat nor gloom of night stay it from delivering the mail – and now we can add a global pandemic to that list. From its indispensable service in delivering PPE, medications, staples, groceries, and other essential goods to a population largely sheltering in place and helping distressed retail businesses expand their reach online, to its efforts as a bulwark of democracy, the Postal Service played and is still playing a critical role in the nation's life during this most difficult time. We salute the men and women of USPS who literally and courageously put their lives on the line every day to deliver for America.

There is little doubt why USPS continues to enjoy wide job approval and ranks as the most trustworthy and popular federal agency with the American public. It's also why the founders of the country, in their wisdom, included the post office in the Constitution. It is clear the USPS remains a backbone of our society in the 21st Century and vital infrastructure that underpins a major segment of the economy.

Plus, my company's experience illustrates the kind of granular value the postal system provides for businesses throughout our coalition and the nation. Print works! The industry may be challenged due to the disruption of digital substitution for paper-based communications, but the best way to reach consumers remains getting marketing material into the home and into their hands. Print, through direct mail accomplishes this and in 2021 is expected to be the top media channel used by local advertisers. According to eMarketer.com the expected expenditure is over $31 billion. Retail ecommerce works best with a coordinated marketing plan that utilizes print in conjunction with a multi-channel marketing effort and direct mail is the foundation of any such effort.

Print also works with the growing mobile marketing efforts, as it is estimated that nearly a third (32%) of the U.S. population actively engages with QR codes with their smartphones. Just another example of how print may be changing but is still a vital component of any good marketing plan.

Leading Quad at this critical time gives me a sense of urgency in knowing that the future of our industry is absolutely at stake. That said, I am also excited about what the future holds. With Congress' help the USPS will be the partner to the industry that we need to ensure our nation's economy continues its recovery from the impacts of the pandemic and the financial challenges it has been struggling with for over a decade.

I have had the privilege to testify before the U.S. Senate and House of Representatives three times over the past 10 years, under both Republican and Democratic leadership. Additionally, I was invited to meet with and advise the President's Postal Taskforce in 2018. Each time the message was clear, without help from Congress and the White House, further contraction in the industry and even more job loss would occur. Each time we, the mailers, have offered or supported common sense, bipartisan solutions that at the time enjoyed the support of postal management, postal unions and the broader mailing industry.

When I first testified before Congress in 2011, the mailing industry employed 8.7 million people. It's unfortunate that the predictions of industry decline have come true and we have lost nearly 1.5 million jobs in our industry – the pandemic has only exacerbated the challenges our industry and our customers are facing. There is no doubt that that some of the volume that has been lost is due to shifting communication habits of the American public but the significant growth in the cost of postage has hastened the shift to digital options.

<u>Sustaining this Invaluable Institution – An Overview</u>

The postal reforms that this committee has been working on will start to put the USPS on a path to sustainability and in turn will support the private mailing economy. A cost-effective and efficient Postal Service is integral to the recovery of the American economy as we struggle to overcome the ravages of COVID. Washington spends a great deal of time on stimulus programs that, while important and necessary, can create winners and losers. However, by ensuring that the Postal Service is as effective and affordable as possible, all businesses and all households in every locality of the United States will benefit. Whether you live or work in one of our largest cities or in the most remote parts of the country, USPS is there for you six days a week.

To this point, I think we can all agree, especially as we live through this pandemic, that the greatest strength of the United States Postal Service is its last-mile delivery network. It is truly part of the critical infrastructure of this country.

That network and how it enables our businesses to grow and our citizens to live healthy, safe lives should be the focus of how we sustain the USPS. And, it provides opportunities to partner with the private sector to sustain universal postal service. Our plans must preserve, enhance, and better leverage that network to benefit every citizen, whether they live in a city, a suburb, a town, or in the country as many do in my home state of Wisconsin.

That network benefits from economies of scale and scope by carrying both mail and packages at least six days per week. The network needs both mail and packages to be efficient. In this past fiscal year, packages revenues not only ensured USPS could cover the cost of offering those products, but USPS earned $11 billion in "contribution," or additional revenues to help cover the institutional costs of the USPS. And mail continues to be profitable, notwithstanding its volume declines.

That must continue. Mail rates must be affordable and predictable, given USPS is the only entity permitted by law to deliver most of it. And though volumes are declining, there seem ample indications that mail and digital communications together can increase the value of mail.

Package rates must be consistent with the market and competitive with the express carriers. All businesses, but especially small businesses, benefit from having USPS in the package delivery market. In part, this is because USPS doesn't charge a "rural surcharge" for deliveries as the express carriers do.

In addition to rates, service must be predictable and meet the needs of businesses and consumers. That's why the network exists. And any reform proposal should likely be rooted in understanding how it would impact those the network serves.

Notwithstanding its value to the nation in crisis, USPS is ailing. Its challenges long pre-dated the pandemic, but were accentuated by it. Our coalition and our industry as a whole believe reform is imperative. From the service meltdown during and following the holidays, to impending price increases that will be multiples of inflation, factors have gathered to push mailers to move much more mail out of the system – exacerbating USPS' problems.

So, we are most encouraged by the Chairwoman's determination to produce and pass through the House a bipartisan bill within 100 days, and will do everything we can to help her meet that ambitious, but necessary, goal. There's not a moment to lose.

We strongly support the elements that are in her discussion draft:

- Repeal of the Postal retiree healthcare prefunding mandate;
- Integrating postal retirees who are not currently subscribed into Medicare;
- Service performance measurement study and transparency.

As positive as these provisions would be to USPS and the industry, they unfortunately will not be enough to restore stability to the USPS. It is vital to add more legislative changes in order to avoid the punishing outcomes of major price increases, and slower and deteriorating service:

- The Postal Regulatory Commission should be directed to conduct a second, time-limited rate-setting review that recalculates the price increases it just sanctioned based on the changes to the mail stream and performance during 2020, the impact of this bill at enactment on USPS finances, and the impact of any other legislation upon USPS;
- Assets from the Postal Retiree Health Benefits Fund, and from USPS pension funds, should be invested in a conservative suite of instruments patterned on the federal government's Thrift Savings Plan; and
- USPS should be directed to maintain one integrated network with delivery at least six days per week in service of the Universal Service Obligation, and the essential communications tool, sometimes even a lifeline, it offers to citizens no matter where they live.

We also would like to bring to the Committee's attention overcharges of the Postal Service for contributions to the Civil Service Retirement System. These overcharges should be refunded to the Service.

The Chairwoman's bill along with these additional items are all commonsense reforms that will ensure both the long-term viability of the USPS, maintain its self-funded status and that taxpayers will not have to bear any more of the burden in funding the Postal Service. We will discuss all of these below.

<u>The Service and Price "Squeeze</u>"

The Postal Service is on the precipice of losing another substantial tranche of volume.

Processing and delivery of mail and packages imploded during and after the holiday "peak" season and have yet to recover fully. Christmas cards and packages were delivered weeks late; invoice delays caused payments to be missed, and remittances to be late. Additionally, retailers lost sales when advertisements through direct mail and catalogs missed their "in-home," or usability dates which dramatically impacted business. At many postal plants, incoming trucks of mail were delayed many hours and sometimes for several days, to the point of some plants being "embargoed" or temporarily blocked from any more incoming mail or packages. Newspapers coming to many post offices for delivery were simply turned away. Important notifications, some required by law to be in the mail, from banks, insurance companies, retailers, telecommunications and utilities companies, and more, were missed.

Some of this, of course, was due to many postal employees' being out with COVID or quarantining from exposure. Some of it was due to a surfeit of packages, caused by necessary societal adaptations to life during the pandemic. And some was due to planning that left USPS short of personnel and transportation capacity. All of these issues contributed to the bottlenecks that developed. From the industry's perspective, there was a lack of transparency as to where USPS was struggling with staffing and other shortages. Had there been better communication by USPS as to the extent and locations facing these challenges, industry partners very well may have been able to shift volume to other processing plants better able to handle it and keep valuable mailings and marketing efforts on time for our clients, as well as smoothing out to some degree the stress on the postal system.

While hindsight is 20/20, USPS needed to take even more aggressive actions than it did to ensure that its network could handle the foreseeable huge increase in package deliveries. The result was tremendous clogging and disruption of the network, with eroding confidence from the mailing and packaging industry, as well as the public.

Other private sector package delivery companies, facing their own COVID challenges, effectively left it to USPS to deliver their excess parcels when their systems filled up, further straining the USPS network at a critical time for our industry. This foreseeable circumstance in light of the impacts of COVID led to crippling delays in the mail costing the industry untold amounts in terms of sales and credibility. The industry's faith and confidence in the USPS to perform is critical; without that confidence, alternatives for mailers throughout our coalition will become more attractive out of necessity. And, unfortunately, the industry's confidence in USPS has been shaken.

Increasing Postage Rates Will Drive Volume Down

At the same time as this dysfunction about service has come about, the Postal Regulatory Commission has authorized the Postal Service to raise rates on mail as much as triple to quadruple the rate of inflation. Triple for most of the Market Dominant categories; quadruple or more if your category is "under water," or not covering its costs.

Annual postal increases have been held to CPI-U since the enactment of the Postal Accountability and Enhancement Act in 2006. The Postmaster General told his Mailers Technical Advisory Committee on January 26 that the Postal Service will use the new authority and use it "imminently," depending upon a decision by the Postal Governors. Should the Governors decide to go ahead, most observers take that to mean a mid-summer's increase, because the Commission must first verify the authority proposed by USPS under its new density calculation, and for collecting funds to pay for retiree health prefunding amortization and normal costs. That decision is expected in March. Then, USPS has to request an actual increase and give 90 days' notice. That would bring us to the neighborhood of July 1. All of this on top of a CPI-U price increase this past January mailers have already absorbed. To make matters worse, no mailer budgeted for a mid-year increase, meaning volume would have to be cut so as to not overspend budgets.

Either one of these developments would be discouraging to mailers aknd encourage them to pull mail out of the system. Together, they create a huge squeeze: paying more – a lot more – and getting less. For small businesses and nonprofits, this can be problematic to the point of leaving the system altogether, or even existential. One example is newspapers; higher prices along with problematic service likely will result in reduced news coverage and in some cases, newspaper closures in rural communities. This will lead to more news deserts across the country.

For larger businesses, that will mean reducing their exposure to the mail. Already, a number of financial companies and perhaps others have cited the service chaos and its impact on timely receipt of payments and other important documents, to encourage their customers to move accounts online. As I lead Quad through the pandemic, I can tell you that performing for our customers has never been more important. Customers do not have to be in print as the digital option is our biggest competitor. If we are not performing, and the USPS is a factor in our ability to perform, volume will most assuredly go down. I cannot ask my customers to accept poor performance and we should not accept it from the USPS. Not delivering mail on-time reduces, if not eliminates the value of all mail. As an example, for marketing mail, if the advertisement arrives after the retailer's promotional sale has ended, it is valueless and the customer may well turn to an alternative to the mailk.

And the damage would not stop there. To the extent that mail revenues would be driven down, more of the financial burden of maintaining the network would fall to the Postal Service's Competitive products. The very name implies the state of that wing of USPS' business, so the likelihood is competitors would take advantage of that dislocation, effectively undermining USPS' planned push for additional market share in packages, and the revenues that would bring.

One of the most problematic aspects of the PRC rate decision is the lack of available data to determine what the impact of increases substantially above CPI might be. USPS's elasticity analytics have constantly changed methodology making their predictive value questionable based on that alone. But they also rely, in part. on data that predates PAEA and was predicated on the old cost-of-service approach which PAEA replaced with a rate cap, and certainly predated the iPhone and the advent of mobile and social media and their profound effects on communications and commerce. As important, rates capped at inflation for well more than a decade have little to no predictive value as to the impact of increases multiples of inflation.

One current piece of research that sheds some light on this question is an analysis by NDP Analytics of the nickel price increase that was imposed on the Forever Stamp in 2019.[2] At ten percent, this was the largest stamp increase since postal reorganization, some fifty years ago. Due to work the USPS had been doing in cooperation with the Greeting Card Association to promote card mailing, growth in both holiday and non-holiday cards in the mail had occurred over three consecutive years, reversing a multi-year pattern of decline. After the implementation of the nickel increase, greeting card volumes dropped sharply and the analysis demonstrates that the price increase was directly responsible for the decline. We fully expect other mail categories to respond similarly to large increases and the volume losses will likely be even worse since there are more viable electronic alternatives to other mail products than exist

[2] Report on Rates Stamped Letters and Greeting Card Volume Factors , NDP Analytics, 11-20-20. https://www.greetingcard.org/wp-content/uploads/2021/02/NDP-Report-on-Rates-Stamped-Letters-and-Greeting-Card-Volume-Factors-11-20-20.pdf

for greeting cards. To sum it up, volume is volume; and the past 15 years have taught us that once it's gone, it's gone – it's not coming back.[3]

The Postal Service must right its own financial and operational ship, but the Service must look beyond only raising postage rates and cutting services. It must also find enough efficiencies to make up the difference. Every day my team at Quad implements new strategies to bring more efficiency and therefore lower costs to printing in order to offset postage increases and maintain as much volume as possible. History teaches that even with aggressive effort, as the Postal Service exercised after PAEA (the price cap incentive to reduce costs and become more efficient actually worked), the focus must remain constant on efficiency and cost control.

Raising prices beyond inflation, let alone as dramatically as the PRC authorizes, or not meeting expected service standards and proposing to change those standards reduces the timeliness and value of mail, will push much more mail out of the system and create a negative, reinforcing cycle for the mail that will endanger the economic recovery and substantially harm the mailing industry. News reports of the coming USPS Strategic Plan say it will include both postage increases and reduced services. If accurate, this will leave mailers with little choice but to reduce their mail footprint. That squeeze must be avoided, and this Committee and Congress can make that happen, and thereby help save and support the over 7 million private sector jobs that rely on USPS.

C21 Supports the Provisions Already Likely to be Included in a Bill

End retiree health prefunding. There is widespread agreement that removing the burden of postal retiree health prefunding, including normal cost payments, is a major priority. This well-intended, but clearly unaffordable requirement, has hung like an albatross around the Postal Service's neck. Of the approximately $68 billion in losses USPS racked up through 2019, $55 billion or so were from prefunding.

By repealing the prefunding requirement, USPS will be relieved of paying $2-3 billion annually, as well as nearly $50 billion in defaulted payments, for an obligation not *mandated* of any other public or private sector entity of which we are aware. Those others can, and sometimes do, elect to set aside funding for the future when they can afford to do so. But they are not required to do so. Repealing this outdated requirement enjoys broad bipartisan support and C21 strongly supports and appreciates the Chairwoman's focus on this issue and the other reforms contained in her legislation.

Integrating postal retirees who are not subscribed to Medicare into that program would also save USPS significant money in the future. It would greatly reduce the cost of premiums for retirees and employees, lightening the burden on revenues generated by the postage stamp while requiring only a small fraction of a percent increase in Medicare expenditures. This reform is also a matter of equity as both USPS and its employees have consistently paid the employer's portion and Medicare taxes, respectively, for decades.

C21 strongly supports both prefunding repeal and Medicare Integration inclusion in the bill.

[3] The exception may prove the rule here, however. It is our expectation that as the economy reflates in 2021, some mail will come back. It would be distressing to see that comeback stalled by dramatically higher rates and reduced levels of service.

Service Performance. At the heart of the postal system is service, and that service must be not only universal and affordable, but as close to uniform as possible throughout the country; i.e., assuring there is no *de facto* discrimination in service. This principle is so important, Congress has required USPS to provide it. *See* 39 USC §101(a). This is not only of inestimable value to residents and businesses in rural areas, but to the country as a whole as businesses, governments and individuals try to reach and maintain relationships with rural residents and businesses, as they do with all others. That means rural areas must be as well-served as urban and suburban communities. Often, they have not been equitably served. Better measurement of, and more transparency into, that service is essential to assure progress toward the goal of uniformity.

The universal service requirement also provides USPS with a genuine competitive advantage to offer to mailers. Knowing that we are able to communicate with every household in the country 6 days a week ensures that those folks living in rural parts of the United States will continue to have access to and a connection with the rest of the country. It is a quintessential binding of the nation together, especially now as the country continues to deal with societal changes brought on by the pandemic. This is especially important considering the spotty availability of broadband internet access to millions of people throughout rural areas.[4] In fact, many of the private sector package delivery companies rely on USPS to deliver to these rural areas around the country, which illustrates the importance of the Postal Service to ensuring all areas of the country are connected and commerce flows seamlessly everywhere.

The language in the draft bill embodies a bipartisan compromise to achieve progress toward uniformity. It requires the Postal Service to take steps to not only more accurately measure actual performance, as contrasted with setting service standards and relatively perfunctory service measurements, it very importantly requires an enhanced degree of transparency by USPS with the data and analyses it produces on service performance. This provision remains as necessary and appropriate now as it was when first worked out in 2018.

Therefore, C21 strongly supports including this provision in the bill.

These provisions represent a very good start toward the guidance and assistance the Postal Service needs from Congress in order to address its challenges and sustain its long track record of excellence in serving the American people and business. But it is not enough and we urge Congress to act aggressively now to help our industry continue to provide those millions of family-supporting jobs throughout the country. C21 believes that several other provisions must be added in order to provide USPS with the resources it needs in a competitive future, while not driving away customers and exacerbating rather than fixing its problems.

A Second Review of the Postal Rate-Setting System by The Postal Regulatory Commission is Essential

The Postal Regulatory Commission recently completed its statutorily-required (39 USC §3622(d)(3)) review of the postal rate- and classification-setting system. PRC Order No. 5763, November 30, 2020. Notwithstanding the concerns and outright fears of mailers expressed to it in the regulatory process, which I outlined above, the Commission determined it would permit USPS to levy crushing increases that will damage businesses and jobs, and drive mail out of the system faster. The Commission decision would allow USPS to raise rates on Market

[4] The FCC in 2020 found 21 million Americans did not have broadband access. In a 2019 study, Microsoft found up to 162 million Americans were not using broadband.

Dominant classes by multiples of inflation when postal increases have been limited to inflation (CPI-U) annually by PAEA since 2007.

The additional increases include a “density” category which, by formula, essentially permits USPS to raise rates as the number of addresses served goes up and the mail to support delivery declines. The Commission also permitted an increase to enable USPS to expressly collect funds earmarked to pay for its retiree obligations; obligations that would disappear with congressional action to repeal prefunding. Based on 2020 numbers, which would be the foundation for a 2021 increase, this would be 4.5% on density and another 1.062% for retiree obligations, according to the Postal Service. The total of 5.62% would be more than triple inflation. Plus, there’s a kicker: for underwater mail – charities and other nonprofits, magazines and newspapers, and catalogs – an additional 2% per annum can be assessed. That means for so many businesses and nonprofits only precariously hanging on, the increase would be more than quadruple inflation.

And these increases will be compounded for at least the next five years. The stress on mail and mailers will be very high, and the likelihood of keeping them in the system will diminish accordingly.

To make matters worse, the impact of the density provision will not be known until well after budgets have been set, meaning the vicious cycle of financial surprises to business mailers will continue indefinitely. It is virtually impossible to run a business with no visibility into your future expenses and for some mailers, postage is one of, if not the, largest expenses they have. We have moved a long way away from PAEA’s desired predictability, transparency and stability of rate setting.

If the Chairwoman’s legislation becomes law, and we intend to do all we can to ensure that it does, the retiree obligations will have changed, and therefore it would seem appropriate and necessary for the PRC to amend the rate authority it provided the USPS on this topic.

The Commission, at bottom, determined USPS needed the money and gave it to them. The Commission’s record on this review closed in March, 2020. It declined to reopen to consider either the circumstances of 2020 and their impact on mail and packages, or to consider the effect of the CARES Act, a duly enacted law of the United States. The Postmaster General has now publicly confirmed that USPS will use this new rate authority and will do so “imminently,” pending a decision by the Postal Governors.

Congress plays a vital oversight role and now is the time for Congress to step in and provide some direction. Business mail and packages, as I noted, generate more than 90% of postal volume and revenues. The increases the Commission’s Order would permit will drive much more mail out of the system, as I’ve explained. USPS can ill afford the loss of even more mail, even if it gets a temporary sugar high in revenue, as companies pay up until they can plan and move mail out.

It takes many companies months to two years or more, depending on mailing size, to budget for and ready operations for handling much more business online. An instructive example was what happened with the “exigency” surcharge imposed by the Commission several years ago. In 2017, a year after the surcharge was lifted and after several years of relative volume stability, USPS lost 2 billion pieces of mail each in First Class and Marketing Mail.[5] In the short term,

[5] US Postal Service, Cost and Revenue Analysis, Volume 1, ACR Annual Documents 2013-2020

they cut where they can, but otherwise pay the higher rates that they cannot afford to pay. However, it doesn't take long for mailers to make adjustments that will result in a loss of volume to the print and mailing industry and ultimately a loss of volume for the USPS.

Sometimes, though, mailing plans can change very quickly. Consider what happened in 2020: print demand changed wildly. Stay at home directives, and the closure of brick and mortar businesses, prompted much greater use of digital ordering. Demand became so light that, for instance, some catalogers sent pallets of catalogs to the recycler instead of into the mail which had become too expensive given the loss of profitability. Marketers were motivated to adjust quickly. The industry saw a reduction in volume of more than 30% in a matter of two or three months.

The fire combusted by the rates decision has been exacerbated by the collapse in service during and after the holidays. Many companies are taking advantage of the ill effects of service performance to entice customers out of the mail. And, just the decision to grant the USPS broader rate authority has already had a chilling effect on mail planning for 2021 and beyond.

C21 submits that the best way to remedy this situation is to direct the Commission to do a second, time-limited review, requiring recalculation of outcomes in light of:

- Volume numbers and mail and package mix changes through calendar year 2020 and into 2021;
- the financial and other impacts of the current legislation; and
- any laws affecting USPS enacted since March, 2020.

The second review should be time-limited, perhaps 180 or 270 days from enactment of reform legislation. In the meantime, any increases USPS decides to apply using the rate authority newly granted by the Commission should be "banked." Depending upon whether the second review continues to justify increases of this magnitude, the banked authority could be applied on a phased-in basis over 3 – 5 years.

This recommendation is built upon language incorporated in S, 2629 from the 115th Congress to require the Commission to consider in their review the impact of the legislation under consideration. However, since the Commission review is now completed, a second review becomes the only choice.

The previous language also specifically included a study of underwater products and held off any rate increases until such a study could be completed. Proposals before this Committee and in the Senate included such a study of the underlying reasons for the Postal Service's dismal performance for flats mail, and for the results of such study to be taken into account in setting rates for underwater classes and products. For reference, copies of the study provision contained in HR 2748, reported out of Committee in the 113th Congress, and a similar provision contained in S.2629, introduced by Senators Carper, Moran, Heitkamp, and McCaskill in 2018 can be found in the statement by the to the Committee by the MPA - The Association for Magazine Media and the American Catalog Mailers Association. C21 endorses their call for inclusion of an underwater study in the current legislation, as well as requiring the Postal Service to implement a plan to improve flats' productivity and efficiency and reduce costs for underwater products and classes. Any above-inflation underwater surcharge rate authority provided to the Postal Service by the Commission should be "banked" until after completion of the study and implementation of the cost reduction plan.

C21 strongly encourages the Committee to act to prevent what would be a self-inflicted body blow by the Postal Service, and direct a second review.

<u>Assets in the USPS Retiree Health and Pension Funds Should be Invested for Higher Returns</u>

USPS retirement funds are limited to investing in Treasury instruments by law. This vast pool of money is therefore limited to returns at 2% or less. They functionally provide a low-cost source of funding to the Treasury for other uses. They also fall short of the annual increase in outflow. With better investing, USPS could be in much better shape on its balance sheet.

C21 strongly suggests that the Committee consider investing funds from its retirement assets in a conservative manner which would drive consistent returns at multiples of investing in Treasuries. In this, we recommend following the lead of Mr. Lynch's bill, HR 760, the Postal Service Financial Improvement Act of 2017, and pattern the investments after the highly successful federal Thrift Savings Plan. Its relatively conservative Life Cycle 2040 plan has returned an average of 8.1% annually between 2008 and 2020, including the tremendous drop experienced in the Great Recession.

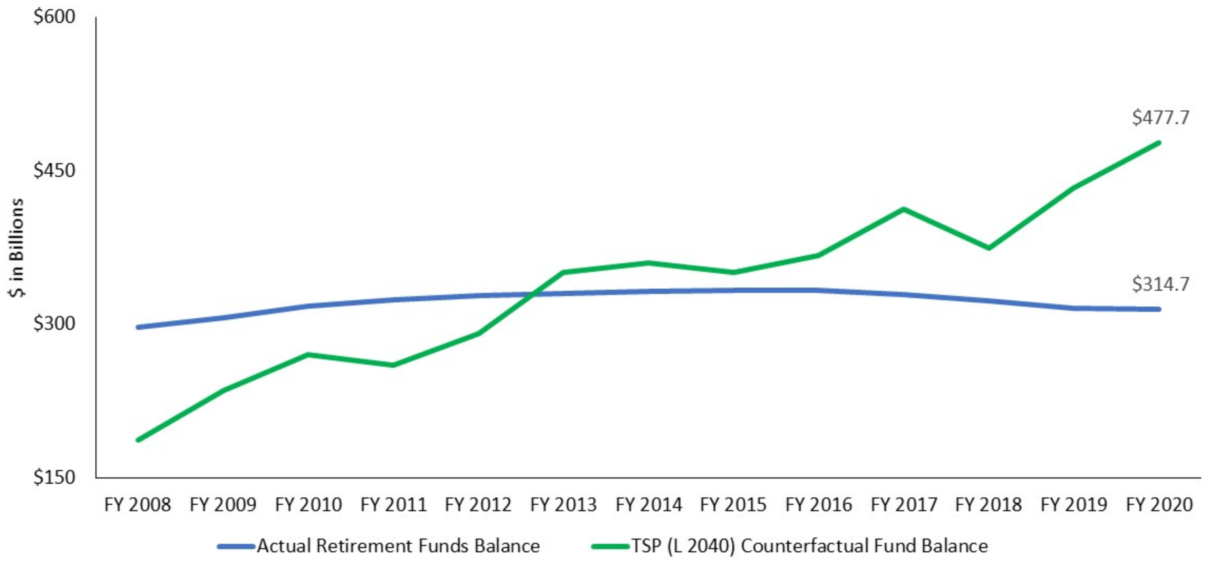
As the following graph shows, the cumulative increase for USPS Treasury investments for that period of time was just over 64%, while the cumulative increase for TSP was nearly 139%. To take the extreme case, had all USPS retirement funds been invested in a TSP-like program, the funds would be ahead some $160 billion.

USPS & Thrift Savings Plan (L 2040) Total Rate of Return & Missed Opportunity (FY 2008 – FY 2020)[6]

	Cumulative Rate of Return (FY 2008 – FY 2020)	$ in Billions	
		Total Fund Balance	USPS Missed Opportunity
PSRHBF, CSRS, & FERS Actual	64.34%	$314.7	$163.0
If USPS had invested in Thrift Savings Plan	138.94%	$477.7	

Sources:
United States Postal Service, Reports on Form 10-K
https://www.tsp.gov/fund-performance/

[6] The chart and all three tables prepared for C21 by SLS Consulting, Inc.



This next table shows the lost opportunity for USPS had it been able to invest $20, $40 or $75 billion in a TSP-style program.

USPS Missed Opportunity with Investing a Portion of Balances

USPS Missed Opportunity (FY 2008 – FY 2020)	$ in Billions
If USPS had invested $20 billion in TSP at beginning of FY 2008	$14.9
If USPS had invested $40 billion in TSP at beginning of FY 2008	$29.8
If USPS had invested $75 billion in TSP at beginning of FY 2008	$56.0

And this last one shows a projection of gains for USPS if it were able to invest $20, $40 or $75 billion TSP-style for the next five years.

USPS Opportunity for Future Returns

	FY 2025 ($ in Billions)
If USPS Invests $20 billion in TSP, USPS has an additional…	$5.3
If USPS Invests $40 billion in TSP, USPS has an additional…	$10.5
If USPS Invests $75 billion in TSP, USPS has an additional…	$19.8

Assumes average USPS rate of return (FY 2008 – FY 2020) of 3.9% and Thrift Savings Plan (L 2040) Average Rate of Return (FY 2008 – FY 2020) of 8.1%

The amounts of money that would be returned from such investments are simply too large to ignore. Patterning on TSP evidently leads to returns that are both reliable and safe. A substantial segment of USPS' financial woes could be addressed by taking this one simple step.

C21 strongly recommends the Committee look seriously into these investments with a view toward adding authority for USPS to so invest in the reform bill.

USPS Must Maintain Six-day and Unified Delivery

Delivery of Market Dominant mail should be provided at least six days per week, integrating delivery to the greatest extent possible operationally with the six and seven-day schedule for packages in one system. Postmaster General DeJoy is a leading voice on retaining 6-day delivery and there is no mystery why.

There are numerous advantages to maintaining a six-day delivery schedule for traditional mail products. Mail was first delivered on a six-day schedule in 1896, and has been required by Congress in annual appropriations legislation since 1983. In addition, the bipartisan, passage-proof majorities for resolutions supporting six-day delivery in the last three congresses demonstrate universal support for the standard, but more importantly, reflect consumer expectations. It is time to codify this requirement into law, and not leave it to the sometimes-fraught annual appropriations process.

Six days of delivery is an important competitive advantage for the Postal Service and is critical in keeping mail products relevant in an environment where we often see the combination of digital and physical communications producing the best impact for businesses.

The six-day delivery schedule is also the most cost-effective option for the Postal Service. While in the recent past there have been proposals to eliminate a day of delivery, the projections of savings from eliminating a day of service are obsolete and were based on a processing facility network with significant excess capacity that no longer exists. Since the last proposal to cut a day of delivery was made, the Postal Service has made significant changes that have led to a reduction of excess capacity, thereby mitigating any significant benefit to the overall operations. Further, the Postal Regulatory Commission reviewed the process and determined that the savings estimates in the original proposal were grossly overstated. With the lean network currently in place, it is highly unlikely that there would be any savings to compensate for the lost volume that would undoubtedly result from service reductions.

It is worth noting that the PRC also found the estimates of volume loss unreliable. All businesses rely on timely payments, but small businesses with thin margins are impacted the most by payments that arrive late. Products such as community newspapers and medications depend on delivery on Saturdays. Cutting a day would eliminate a clear advantage that the USPS enjoys, force these products out of the system, and damage much of advertising by mail – still a key source of revenue for USPS.

A service the size of USPS must avail itself of economies of scope and scale. The accelerated growth in parcel volumes delivered six and, in many cases, seven days a week makes a unified and integrated delivery model that is optimized to process and deliver mail and packages together the most efficient option for the Postal Service to take advantage of such economies. As more and more addresses receive at least one package per day, the Postal Service should ensure that mail can be delivered at the same time. Analytics demonstrate the greater inherent efficiency in this approach. A review and study by NDP Analytics[7] demonstrate that volume is volume. So, if USPS has enough units to warrant six or seven-day delivery, it should optimize its systems to deliver all of the units entered by customers.

Not incidentally, it highlights the need to ensure that as the Postal Service considers replacing its vehicle fleet, it selects a truck that is optimized to effectively and efficiently deliver mail and packages. Finally, it is important to note that an integrated network handling mail and packages together, taking advantage of efficiencies of scale and scope, is more likely to be able to keep rates affordable for both, which benefits businesses and consumers.

C21 strongly urges the Committee to include these requirements in its reform legislation.

The Overcharges to the CSRS Fund Paid by USPS Should be Returned

Depending on which expert postal entity one relies upon, the Postal Regulatory Commission or the Office of Inspector General of the Postal Service, USPS has been overcharged anywhere from $50 to $111 billion on its contributions to the Civil Service Retirement System Fund. And that was only through 2018. The number is no doubt higher by now.

The reason there have been overcharges is that the Office of Personnel Management has mandated them in its calculations of what is owed to the CSRS Fund. There is a dispute among the agencies as to whether the law has required a recalculation pursuant to more modern forms of pension contribution calculations than the one long used by OPM.

The more modern approaches suggested by private sector experts the Hay Group and the Segal Group in separate analyses reveal the overcharges. C21 supports the view of the postal expert agencies. Since the Postal Service has little money not generated by postage, the overcharges have been paid by postal ratepayers. The law prevents any refunds (39 USC §3681) to ratepayers, so the obvious solution is to return them to USPS.

In the past it has been suggested that the overcharges be transferred to the Retiree Health Benefits Fund. But given both the extensive need of USPS and the likelihood that provisions in this bill will eliminate any further reason to buttress that Fund, USPS should be granted access to those monies for whatever use it deems best. That would help stabilize and preserve it for future generations.

C21 believes that this issue can be resolved by direction of the President. But if our estimation is incorrect, we recommend that the Committee look at this issue seriously with a view toward correcting this problem by law.

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[7] The NDP report found strong correlation, if not causation, between the 5¢ increase for the stamp in 2019 and an 11% decline in greeting card mailings, more than a 500% increase from 2018. Price matters. NDP Report, *supra,* n.3 at 1.

USPS Needs Neither Drastic Rate Increases nor Service Reductions to Restore Financial Stability

The reforms we recommend and this Committee is considering, would close the USPS' deficit gap and ensure that the Postal Service is on a path to sustainability without resorting to rate increases or service cuts that would squeeze mail and packages out of the system. Taking relative minima from retiree health prefunding repeal, asset investment, and restoration of CSRS overcharges, there would be well over $100 billion newly available to the USPS balance sheet. Calculated at the top end, there would be at least another $70 billion available. Given the Postal Service's comparatively handsome liquidity at the moment ($25 billion or more), there would be no need to seek dramatic rate increases or impose draconian service cuts at this time. USPS would not drive away its customer base, which would lead to an intensification of its currently deep problems.

Conclusion

The Postal Service is at a tipping point: with the impacts of COVID exacerbating the financial situation that has challenged the USPS for the last decade, there is an urgent need to act now. If the USPS goes down the path of intolerable rate increases and disruptive service reductions, the USPS and its stakeholders will be at Congress' doorstep again before long with the Service in even worse shape than it is now. But USPS can have its deficit closed without doing that through addressing retiree health obligations, more expansive investing from its retiree Funds, and repatriating overcharges paid to the CSRS Fund. In other words, USPS can be saved and renewed without resorting to short-term gain, longer-term pain initiatives. And that would be the ultimate postal win/win/win.

Thank you again, Madame Chairwoman, for inviting me to testify at today's hearing. My company and the broad industry coalition I represent truly appreciate your efforts, those of the Ranking Member and all other Members on this Committee in trying to craft a bipartisan way to assist USPS in remaining the indispensable institution it is to Americans and our democracy.

I will be pleased to respond to any questions you may have.