UNITED STATES POSTAL SERVICE

STATEMENT OF
CHIEF HUMAN RESOURCES OFFICER AND EXECUTIVE VICE PRESIDENT
JEFFREY C. WILLIAMSON
BEFORE THE
SUBCOMMITTEE ON FEDERAL WORKFORCE,
U.S. POSTAL SERVICE AND THE CENSUS
UNITED STATES HOUSE OF REPRESENTATIVES

MARCH 13, 2014

Good afternoon, Chairman Farenthold, Ranking Member Lynch, and members of the Subcommittee. My name is Jeffrey Williamson and I serve as Chief Human Resources Officer and executive vice president of the U.S. Postal Service. In this role, I oversee all aspects of Human Resources for the entire postal workforce, including the Labor Relations and Employee Resource Management functions.

Thank you, Mr. Chairman, for calling this important hearing on the Postal Service's substantial unfunded liabilities. I am pleased to be here to discuss this important matter. As we have stressed over the past several years, the Postal Service urgently needs comprehensive reform legislation. As you are aware, last summer the House Oversight and Governmental Reform Committee passed H.R. 2748, the *Postal Reform Act of 2013*. In addition, last month, the Senate Homeland Security and Governmental Affairs Committee passed its version of postal reform legislation, S. 1486, the *Postal Reform Act of 2014*. We greatly appreciate the efforts of both the House and Senate oversight committees, and we strongly urge Congress to pass comprehensive reform legislation this year.

The Postal Service continues to do its part within the bounds of existing law to place the organization in a favorable financial position, and we are proud of the achievements we have made to reduce costs while significantly growing our package business. We are especially proud of our employees, who are determined to do their part to ensure the long-term viability of the Postal Service by growing revenue and cutting costs without sacrificing their commitment to high levels of delivery and customer service.

Despite all of our efforts and the hard work of our employees, we cannot return the Postal Service to profitability, nor can we secure our long-term financial outlook without the passage of comprehensive reform legislation. Our current business plan (available for viewing on usps.com) clearly demonstrates that management actions combined with comprehensive legislative reform is the only option for restoring the financial viability of the Postal Service.

USPS FINANCIAL CONDITION

Last year's financial results—and the results of the first quarter this year—illustrate the dire financial condition in which the Postal Service finds itself.

We ended Fiscal Year (FY) 2013 (Oct. 1, 2012 – Sept. 30, 2013) with a net loss of $5 billion and liabilities of $61 billion, which exceeded assets by approximately $40 billion. As we ended the first quarter of fiscal year 2014, we experienced a net loss of $354 million and saw our liabilities grow to $63 billion. The Postal Service has incurred a net loss in 19 of the last 21 quarters, highlighting the need to continue to capitalize on growth opportunities and cost reduction initiatives. The only two quarters during which the Postal Service did not incur a loss were the quarters in which Congress modified its retiree health benefits prefunding requirements. (*Figure 1*) This trend underscores the critical need for comprehensive reform legislation that provides a long-term solution to our financial challenges.

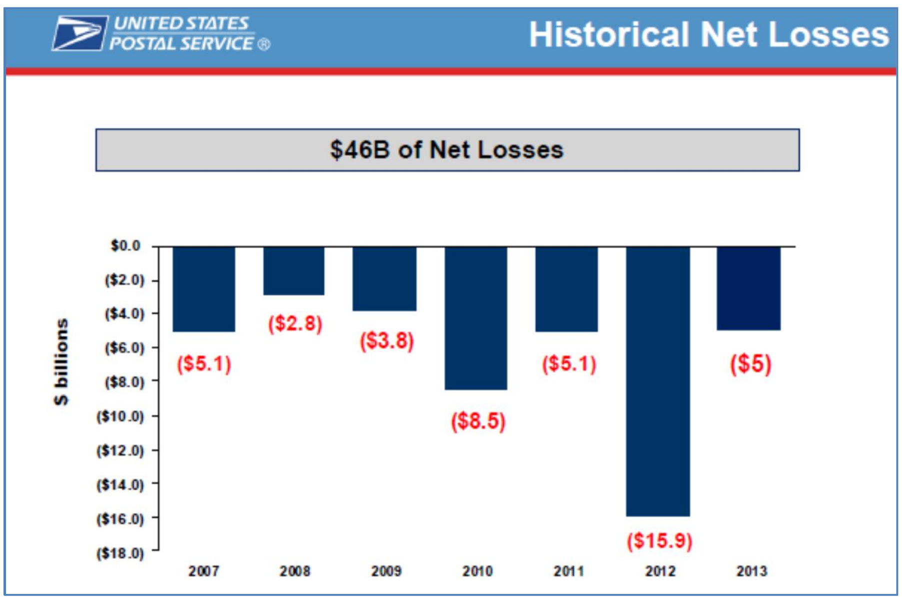

Figure 1

In FY 2013, the Postal Service achieved its first revenue growth since 2008. This growth was driven by an 8 percent, or $923 million increase in our package business, and a 3 percent, or $487 million increase in Standard Mail. Growth in our package business was fueled by our Priority Mail simplification and enhancement efforts. Marketed to customers as the Priority You campaign, we improved our package tracking system, added free insurance, and introduced day specific delivery dates. We also formed a strategic partnership with Amazon to test Sunday package delivery in select markets, and we are exploring similar partnerships with other companies.

Standard Mail revenue increases resulted from new innovative product offerings and a strong election mail season. In response to the changing needs of our customers we developed new products such as Every Door Direct Mail (EDDM) and EDDM Retail. EDDM is a saturation Standard Mail product with simplified addressing and acceptance requirements that allows local retailers and businesses to reach current and potential customers effectively and affordably. To capitalize on the advertising industry's increasing adoption of integrated campaigns, we launched seven promotions last year to encourage digital and mail integration.

While last year's operating revenue—excluding a $1.3 billion non-cash accounting adjustment—was $66 billion compared to $65.2 billion in 2012, the continued effects of the Great Recession on consumer and business behavior and the impact of digital diversion continues to negatively impact financial results. This is especially true for First-Class Mail, our most profitable product. In FY 2013, First-Class Mail revenue dropped $704 million or 2.4 percent on a 4.1 percent decrease in volume. In the first quarter of fiscal year 2014, First-Class Mail revenue decreased $209 million or 2.8 percent. The decline in correspondence and bill payment volumes was the largest contributor to these losses. In fact, total mail volume in 2013 declined by another 1.4 billion to 158.4 billion—as compared to 159.8 billion in 2012—and has declined 25 percent from 2007 to 2013. (*Figure 2*)

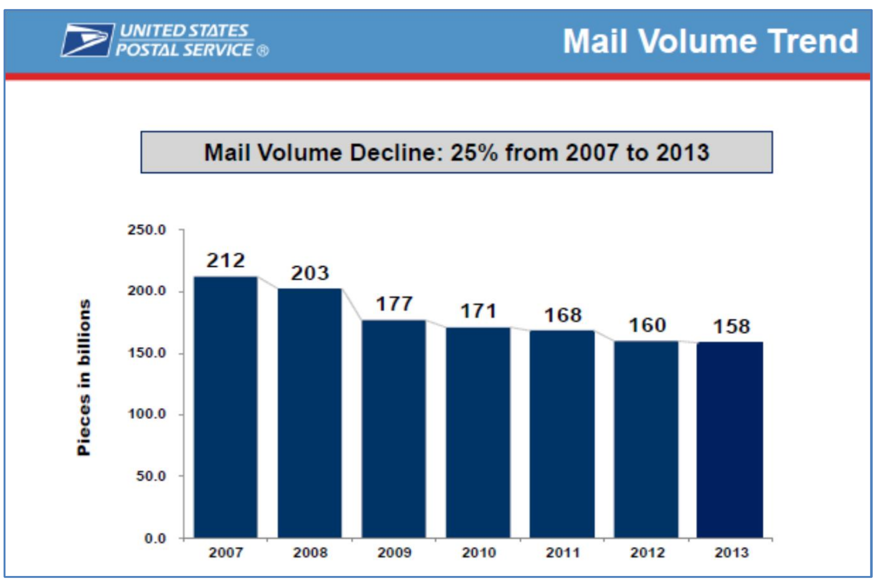

Figure 2

As the Postal Service simplified and enhanced products to minimize volume declines and to grow revenue, reducing expenses remained a priority. Total operating expenses were $72.1 billion in 2013, compared to $81.0 billion in 2012. Much of the operating expense decrease occurred because the 2013 retiree health benefits (RHB) prefunding expense was $5.6 billion, compared to $11.1 billion in 2012. In both 2012 and 2013, the Postal Service was unable to pay the RHB prefunding expenses. Expenses in

2013 were also favorably impacted by rising interest rates, which reduced the net present value of our workers' compensation liability by $1.7 billion. In total, workers' compensation expenses declined by $2.7 billion. Setting aside the workers' compensation expense decline and separation costs of $351 million that we incurred to incentivize employees to retire or resign, operating expenses declined by $900 million from $67.4 billion in 2012 to $66.5 billion in 2013.

In 2013, the Postal Service consolidated 143 mail processing facilities, modified retail hours to two, four, or six hours at nearly 8,000 Post Offices to better align operating hours with customer demand, consolidated 510 delivery units, and utilized all workforce flexibility available under the terms of our union contracts. These efforts resulted in a decrease of 12 million work hours, or 1.1 percent, despite an increase of approximately 774,000 delivery points last year. These combined efforts allowed us to capture approximately $1 billion of savings in 2013. Amidst these efforts to rightsize the Postal Service, our productivity did not suffer. In fact, total factor productivity improved by 1.9 percent last year, and as I mentioned earlier, our employees continued to deliver high levels of service performance.

As noted above, 2013 expenses included a required $5.6 billion contribution to RHB that the Postal Service was unable to make. Absent legislation, the Postal Service will almost certainly be forced to continue to default on these payments, the next of which is a $5.7 billion payment scheduled for September 30, 2014.

LEGISLATIVE REQUIREMENTS

Despite the Postal Service implementing a number of strategies that resulted in approximately $15 billion in annual expense reductions since the *Postal Accountability and Enhancement Act* (PAEA) was passed in 2006 and recent revenue growth, the combination of onerous mandates in existing law and continued First-Class Mail volume declines threatens the organization's financial viability. Initiatives undertaken by postal management will not, by themselves, be sufficient to ensure both immediate and long-term financial stability. Congressional action is necessary.

The legislative requirements put forward by the Postal Service, as outlined in our 2013 *Five-Year Business Plan*, include:

- Require within the Federal Employees Health Benefit (FEHB) Program, a set of specific health care plans that would fully integrate with Medicare and virtually eliminate the retiree health benefits (RHB) unfunded liability.

- Refund FERS overpayment and adjust future FERS payment amount using postal-specific demographic and salary growth assumptions.

- Adjust delivery frequency (six-day packages/five-day mail).

- Streamline governance model and eliminate duplicative oversight.
- Provide authority to expand products and services.
- Require defined contribution retirement system for future postal employees.
- Require arbitrators to consider the financial condition of the Postal Service.
- Reform Workers' Compensation.
- Allow the Postal Service the right to appeal EEOC class action decisions to Federal Court.

Many of these legislative requirements are directly related to the Postal Service's ability to address the unfunded liabilities that I will outline today.

UNFUNDED LIABILITIES

The Postal Service's financial crisis is even more severe than what the ongoing pattern of annual net losses on our income statement indicates. As shown on our balance sheet, there is a critical imbalance between our assets and liabilities, with liabilities totaling nearly three times our available assets. As of December 2013, the Postal Service had $23 billion in assets and $63 billion in liabilities on its balance sheet that is prepared in accordance with *Generally Accepted Accounting Principles* (GAAP). (*Figure 3)*

UNITED STATES POSTAL SERVICE®

A Deep Financial Hole - December 2013
US Postal Service Balance Sheet

- **Liabilities exceed assets by approx. $40 billion**
- **The USPS has only 36 cents of assets to cover each dollar of its liabilities**

ASSETS		LIABILITIES	
Unrestricted Cash	$ 3.8B	Retiree Health Benefits	$18.1B
Buildings & Equipment, net of depreciation	$17.2B	Workers' Compensation	$15.9B
		Debt	$15.0B
Other Assets	$ 1.8B		
		Accrued Compensation, benefits, and leave	$ 4.9B
		Deferred Revenue	$ 3.8B
		Other	$ 5.3B
Total Assets	**$22.8B**	**Total Liabilities**	**$63.0B**

- Under multi-employer accounting rules, there are approximately $50B in obligations not shown on the balance sheet.
  - ➢ Significant profits over multiple years and legislation are needed to recover.

Figure 3

This imbalance can only be addressed through legislative reform. Without legislative change the Postal Service will almost certainly default on another required $5.7 billion retiree health benefits prefunding payment due by September 30, 2014, and the Postal Service will continue to struggle with a very low level of liquidity. Our most recent calculations reveal that, as of September 30, 2013, we had available liquidity of $3.8 billion, representing only 14 days of average daily operating expenses. A healthy private sector firm of comparable size would have more than five times the available liquidity.

Even with the (temporary) exigent price increase implemented on January 26, 2014, we project that our liquidity will remain dangerously low for the foreseeable future. In the event of insufficient cash, the Postal Service would be required to implement contingency plans to ensure that all mail deliveries continue. These measures could require the Postal Service to prioritize payments to employees and suppliers ahead of some payments to the federal government.

In order to more fully understand the dire financial situation, however, it is important to consider items not included on our GAAP balance sheet. *(Figure 4)*

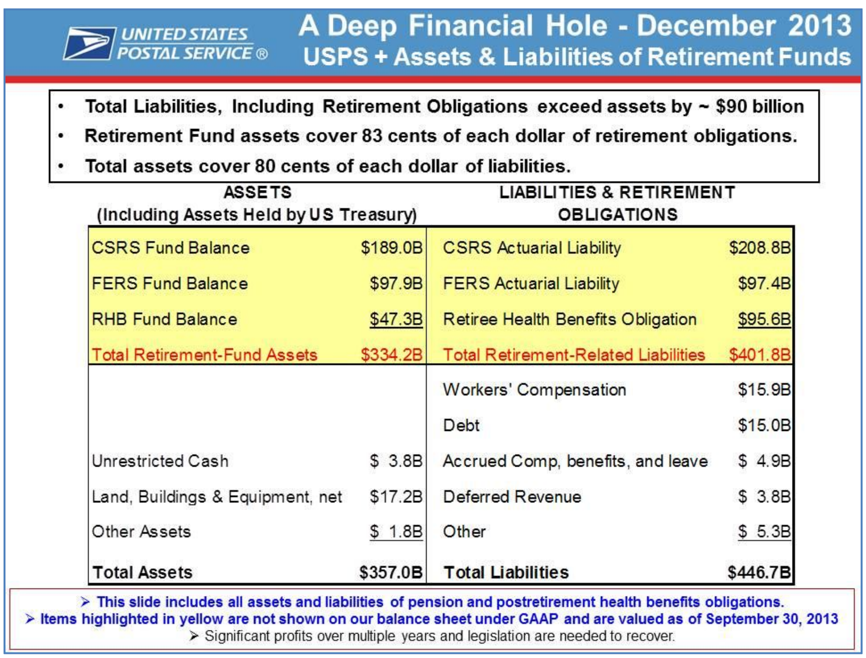

Figure 4

This chart shows our total unfunded retiree health benefits liability of $48.3 billion ($95.6 billion in liabilities versus $47.3 billion in assets) as of September 30, 2013, as calculated by the Office of Personnel Management (OPM), rather than the $18.1 billion reflected on our GAAP balance sheet, which represents only the statutorily required retiree health benefit fund payments that the Postal Service has been forced to miss. The chart also includes OPM's estimate of our CSRS unfunded liability of $19.8 billion ($208.8 billion in liabilities versus $189.0 billion in assets), which is also not reflected on our balance sheet. Further, it reflects OPM's estimate of our FERS surplus, of $0.5 billion ($97.4 billion of liabilities versus $97.9 billion in assets), rather than the estimated $6.0 billion that would exist if postal-specific salary growth and demographic assumptions were used in the calculation. This chart also demonstrates that total obligations exceed assets by approximately $90 billion. While the imbalances are substantial, it is important to note that the Postal Service has significantly funded these liabilities, and with legislative reform we will have essentially fully funded these liabilities. As information, the "other" category includes such items as accounts payable, customer deposits, contingent liabilities, outstanding money orders, deferred gains on the sale of property, and long-term capital lease obligations.

The following sections describe the Postal Service's largest liabilities and initiatives we have proposed to provide long-term solutions to our financial challenges.

A. Retiree Health Benefits (RHB)

Currently, approximately 20 cents of every revenue dollar the Postal Service takes in goes toward health care expenses. This major component of our total operating cost is second only to wages, and is largely outside of our control. Total health care cost for 2013 was $13.4 billion, which includes $4.9 billion for current employees, $2.9 billion for retirees, and $5.6 billion for RHB prefunding. As illustrated in *Figure 4*, the Postal Service has a very large unfunded liability for RHB benefits. By 2014, we project the total liability to be $95.9 billion, with an unfunded liability of $46.8 billion. *(Figure 5)*

Savings from Current USPS Healthcare Proposal with Full Integration of Medicare Part A, B and D
(in Billions)

	PAEA (Today)	Medicare Integration Inside FEHB (Proposed)
Estimated 2014 Liability for current plan using OPM funding assumptions	$95.9 B	$95.9 B
Non-Medicare Annuitants and Survivors assumed to enroll in Medicare A & B with no penalty		($20.7 B)
Additional savings from EGWP (Medicare Part D) plan for Post-65 enrollees		($23.1 B)
Total Savings		$43.8 B
Estimated 2014 Liability	**$95.9 B**	**$51.1 B**
Estimated 2013 RHB Fund Assets	$48.8 B	$48.1 B
Estimated 2014 Unfunded Liability	**$46.8 B**	**$3.0 B**

This chart above demonstrates the differences of how the integration of health care with Medicare reduces USPS' remaining unfunded retiree health benefits from $46.8 B to approximately $3 B.

Figure 5

In order to address the Postal Service's long-term financial stability, it is absolutely essential to deal with the root cause of the problem—the size of the RHB liability, which is dictated by the costs the Federal Employees Health Benefits (FEHB) Program incurs in providing health care benefits to our annuitants. Moving to a system in which our annual prefunding payments are actuarially-based, and allowing the existing assets in the RHB fund to be used to pay annuitant premiums more quickly than is contemplated under current law, are important aspects of comprehensive reform legislation. However, these reforms are insufficient by themselves, because they do nothing to reduce the size of the RHB liability. Even if the prefunding payments are changed to an actuarial basis with a longer amortization schedule, they will still be unaffordable without changes to address the Postal Service's unnecessarily high health care costs.

By addressing the costs of providing RHB directly, we can almost completely eliminate the unfunded liability associated with those benefits. The way to do this is by properly integrating retiree health care benefits with Medicare, so that Medicare becomes the primary payer of health care claims for eligible annuitants and covered family members, with FEHBP being the secondary payer. Under FEHBP, Medicare-eligible individuals are not required to enroll in Medicare. Ten percent of Postal Service retirees are not enrolled in Part A, and 24 percent are not enrolled in Part B. This failure to integrate fully with Medicare is despite the fact that the Postal Service and its employees are the second-largest payer into Medicare, contributing $27 billion since 1983, and has resulted in significantly higher retiree health care costs and liabilities. Failing to properly integrate our retiree health benefits with Medicare increases the Postal Service's FEHBP costs, and is contrary to the virtually universal practice among private sector employers and state and local governments that provide health care benefits for their retirees.

The Postal Service has worked extensively with all stakeholders to develop a proposal that would ensure proper integration with Medicare Parts A, B, and D within the structure of FEHBP. Under this proposal, Postal Service employees and annuitants would remain in FEHBP, and their health care benefits would still be administered by OPM. FEHBP carriers that have more than 5,000 postal participants (active and retired) in their plans would be segregated from the rest of FEHBP. These carriers would establish rates for Postal Service employees and annuitants based on a separate, postal-only claims pool. Postal Service Medicare-eligible annuitants (and covered family members) covered by those carriers would be required to enroll in Medicare Parts A and B, and the carriers would provide prescription drug benefits to Medicare-eligible individuals through Medicare Part D Employer Group Waiver Plans (EGWPs). These requirements, in combination with the separate claims pool, would lead to lower FEHBP premiums for Postal Service employees and annuitants.

This proposal would almost completely eliminate the current unfunded RHB liability, and would make future amortization payments manageable (*Figure 5*). Properly integrating our health care with Medicare, consistent with the universal practice of private sector employers, is the only way to reduce our liability and make retiree health benefits an affordable proposition for the Postal Service moving forward. This, in turn, will ensure that we can continue to fulfill our commitment to employees and retirees to provide those benefits.

B. Pension Obligations

Based on their starting date of employment, career Postal Service employees primarily participate in the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). The obligations of the Postal Service under either of these pension systems are set by statute or implementing regulations, and are outside the control of the Postal Service under current law. In that regard, while the Postal Service has overfunded its obligations for FERS, and has funded 91 percent of its CSRS obligations, there is a problem looming on the horizon, which is described later in my testimony. That problem will further exacerbate the precarious financial condition of the Postal Service unless Congress enacts comprehensive postal legislation that addresses our long term costs.

Civil Service Retirement System (CSRS)

CSRS is a defined benefit plan, which is closed to new participants, and covers most federal employees who first entered a covered position prior to January 1, 1984. CSRS provides a basic annuity toward which the Postal Service and the employee contribute at rates prescribed by law. Effective October 2006, the PAEA suspended the Postal Service's obligation to make employer contributions to the Civil Service Retirement and Disability Fund (CSRDF) until 2017. At that time, OPM will perform an actuarial valuation to determine whether additional payments are necessary.

The Postal Service's CSRS liability is 91 percent funded. This is a higher funding percentage than the remainder of the Federal Government and a mechanism to fully fund the Postal Service's liability exists under current law. As of December 2013, the Postal Service's unfunded liability for CSRS, as estimated by OPM's actuarial calculations, is $19.8 billion. *(Figure 6)*

Present Value Analysis of Retirement Programs as calculated by OPM
(9/30/13 latest actual data available)
(Dollars in billions)

CSRS	Projected 2013	Actual 2012	Actual 2011
Actuarial Liability 9/30	$ 208.8	$ 209.5	$ 210.8
Current Fund Balance	189.0	190.7	193.0
Unfunded	$ (19.8)	$ (18.8)	$ (17.8)

Figure 6

In accordance with the provisions of the PAEA, OPM will, in 2017, perform an actuarial valuation of the CSRS liability and establish an amortization schedule to be paid through 2043. It is currently estimated that the required amortization payment will be approximately $1.6 billion per year. This amortization payment, in combination with the ongoing retiree health benefits obligation will simply be unaffordable. If the Postal Service is ever going to be in a position to assume yet another substantial payment, enactment of comprehensive reform legislation that addresses the Postal Service's other liabilities is essential.

Federal Employees Retirement System (FERS) Overpayment

Effective January 1, 1987, career Postal Service employees hired after December 31, 1983, are covered by the *Federal Employees Retirement System Act of 1986*, except for those covered by Dual CSRS. Also included are employees formerly covered by CSRS who elected in either 1987, 1988, or 1998 to participate in FERS.

FERS consists of Social Security, a basic annuity plan (defined benefit plan), and Thrift Savings Plan (TSP) (defined contribution plan). The Postal Service and the employee contribute to Social Security and the basic annuity plan at the rates prescribed by law. The Postal Service is required to contribute to TSP a minimum of 1 percent per year of the basic pay of employees covered by this system. It also matches a voluntary employee contribution up to 3 percent of the employee's basic pay, and 50% of an employee's contribution of between 3 percent and 5 percent of basic pay.

OPM has determined that the Postal Service has overfunded our obligation to FERS by $0.5 billion, as of September 30, 2013. This analysis applied government-wide salary increase and demographic assumptions to the Postal Service. *(Figure 7)*

Present Value Analysis of Retirement Programs as calculated by OPM
(9/30/13 latest actual data available)
(Dollars in billions)

FERS		Projected 2013		Actual 2012		Actual 2011
Actuarial Liability 9/30	$	97.4	$	90.8	$	84.0
Current Fund Balance		97.9		91.7		86.6
Surplus	$	0.5	$	0.9	$	2.6

Figure 7

In December 2012, the Postal Service Office of the Inspector General (OIG) issued an update to a previously released white paper on the causes of the FERS surplus. The OIG reported that demographic and salary growth differences between postal employees versus other federal employees impacted the calculation of the FERS liability estimate, resulting in a higher liability being attributed to the Postal Service than was warranted. The OIG specified that Postal Service employees have distinguishing characteristics (termination, retirement, disability, death, life expectancy, and health care plan elections) and salary growth expectations that are significantly different from the rest of the federal employee population and that OPM does not take these factors into consideration when applying actuarial assumptions. The Postal Service agrees with the major conclusions in the OIG's report.

We believe that OPM should take the following actions: first, OPM should use postal-specific demographic information and salary growth assumptions to calculate the FERS liability, second, in order to prevent excessive surpluses from accumulating in the future, OPM should adjust the Postal Service's future FERS contribution rate to take into account postal-specific demographic information and salary growth assumptions, and third, once calculated, the current surplus should be refunded to the Postal Service. The Postal Service, using postal-specific demographic information and salary growth assumptions, estimates the FERS overfunding amount to be approximately $6 billion.

Directing OPM to utilize postal-specific demographic information and salary growth assumptions in calculating the FERS surplus and returning the full amount of that surplus to the Postal Service is important. The Administration agrees with this approach, as reflected in its 2015 budget proposal, which requires OPM to calculate FERS costs using actuarial assumptions and demographics specific to the Postal Service workforce.

Retirement System for Future Employees

Addressing the FERS overfunding issue today is critical. However, just as important is developing a solution to address pension liabilities for future employees. The Postal Service is changing, and so are our employees and their career expectations. Employees joining the Postal Service today will likely have different career paths than our current employees. We need to provide a retirement system that better matches benefits with long-term employee needs, while ensuring that the system is financially viable. The defined benefit portion of FERS leaves the Postal Service with little ability to control future costs and leaves employees with limited investment and portability options. We should provide a defined contribution retirement system that benefits both the employee of the future and the Postal Service. The TSP portion of FERS does this very thing.

The Postal Service is proposing a new defined contribution retirement system, for future employees only, for the following reasons:

- The ability to meet obligations under the *Postal Reorganization Act* (PRA).
  The Postal Service is required to provide wages and benefits comparable to those provided in the entire private sector. The FERS system is not comparable to pension programs in the entire private

sector and is more costly. Permitting this move would allow the Postal Service, like the private sector, to adjust to market conditions by modifying plan design, portability, provider services, employee engagement and other factors.

- The Postal Service's employee base is changing.
  Our emerging workforce is younger and less likely to stay with one employer for their entire career, as most of our established employees have done. This type of portable and flexible retirement program holds a greater appeal for the younger demographic.

- Permits a reduction in labor costs.
  The Postal Service is a labor intensive organization, with labor costs making up the majority of our total costs. Benefit costs constitute approximately half of total labor costs when RHB prefunding is included. We cannot resolve our fiscal problems without addressing this issue.

A defined contribution retirement system for future employees would help ensure that the Postal Service remains financially viable, and can therefore fulfill its obligations not only to future employees, but to retirees and current employees as well. It should be noted that this change would not impact the existing retirement systems for current employees. The new system would be implemented for newly hired employees in the future.

C. Workers' Compensation

A top priority for the Postal Service is employee safety and injury prevention. We have a safety philosophy that all accidents are preventable. We believe it is our responsibility to provide safe working conditions in all of our facilities and to train and develop a safe workforce. We work closely with our unions to support safe working conditions through national, regional and local safety committees. Unfortunately—with the size of our workforce and the occasional hazards encountered while meeting our universal service obligation, such as walking, driving and loading equipment in snow, ice and rain conditions—some employees do get injured.

Postal employees injured on the job are covered by the *Federal Employees, Compensation Act* (FECA), administered by the Department of Labor (DOL) Office of Workers' Compensation Programs (OWCP), which makes all decisions regarding injured workers' eligibility for benefits. The Postal Service annually reimburses the DOL for all workers' compensation benefits paid to or on behalf of postal employees, and pays an administrative fee to DOL. In October 2013, the Postal Service paid OWCP $1.4 billion, including an administrative fee of $68 million.

As of June 30, 2013, the Postal Service had 16,380 employees on Workers' Compensation Periodic Rolls and an additional 7,628 employees on the Workers' Compensation Daily Rolls. A liability is recorded for the net present value of estimated future payments to postal employees, or their qualified survivors. The estimate is based on the total cost of claims, segregated by the date of injury, based on the pattern of historical payments, frequency (number of claims per hours worked) or severity (average cost per claim) of the claim-related injuries, and the expected trend in future costs.

As of September 30, 2013, the net present value of the liability for future workers' compensation payments was $17.2 billion, compared to $17.6 billion at September 30, 2012, a decrease of 1.9 percent. Changes in the workers' compensation liability are attributable to the combined impact of changes in the discount and inflation rates, routine changes in actuarial estimation, new compensation and medical cases, and the progression of existing cases.

The existing FECA benefit structure is, in most cases, superior to benefits available under normal federal retirement, and, as a result, these more lucrative payments often continue for the rest of the lives of the claimants. The Postal Service has been actively working with our employees to move them off the workers' compensation rolls and return them to work. At the same time we have taken steps to ensure that our workplace remains safe in order to prevent accidents from happening, whenever possible. However, legislation that would require recipients who reach retirement age to transition from workers' compensation to a retirement program would be cost effective, and create a more equitable system that would also reduce the Postal Service's unfunded liability. In addition, legislation that would allow the Postal Service to settle workers' compensation claims would be beneficial for both the Postal Service and those employees who are unable to return to postal employment.

D. Debt to US Treasury

As an independent establishment of the Executive Branch of the Federal Government of the United States, the Postal Service receives no tax dollars for ongoing operations and has not received an appropriation for operational costs since 1982. We fund operations chiefly through cash generated from our products and services, and by borrowing from the Federal Financing Bank (FFB). The annual increase in debt is limited by statute to $3 billion and we have a statutory debt ceiling of $15 billion.

Due to operational and financial limitations that can only be lifted through legislation, the Postal Service has been forced to borrow up to its statutory limit. In 2012, we reached our $15 billion debt ceiling. Our interest expense in 2013 was $191 million. The RHB prefunding, lack of control of pension and workers compensation costs, and inflexible business model have forced the Postal Service to reach its debt ceiling. Comprehensive legislative reform can provide the Postal Service with the ability to reduce its long-term liabilities, better control costs and grow revenue, pay down its debt, and enable the Postal Service to make investments to further modernize.

CONCLUSION

The enactment of comprehensive postal reform legislation cannot wait. The Postal Service has exhausted its borrowing authority, faces unnecessary and artificial costs that it cannot afford, and is constrained by law from correcting the problem.

The Postal Service has implemented a series of innovative revenue generating initiatives including Sunday delivery, Every Door Direct Mail, and Priority Mail simplification and enhancement efforts, resulting in revenue growth in 2013 for the first time since 2008. In addition, the Postal Service has implemented a number of strategies that resulted in approximately $15 billion in annual expense reductions since the Postal Accountability and Enhancement Act (PAEA) was passed in 2006. However, much more needs to be done to return the Postal Service to long-term sustainability.

We cannot get there by our actions alone. There exists no scenario where the Postal Service returns to financial stability without enactment of postal reform legislation. Now is the time for bold and sweeping action, which will allow us to move forward with solutions that will last for years to come, instead of piecemeal efforts that will only bring the Postal Service back here again, pursuing legislative reform in a few years.

Our proposals and legislative requirements address our key liabilities.

- Retiree health benefits – full Medicare integration would reduce the unfunded liability by almost $44 billion, almost to zero.

- FERS overfunding– utilizing Postal Service specific demographic and salary growth assumptions would result in approximately $6 billion in overfunding which should be returned to the Postal Service. This would minimize the likelihood that FERS would become overfunded in the future.

- Long-term pension liabilities – creating a defined contribution plan for future employees would provide a retirement system that better matches benefits with long-term employees' needs, while ensuring the system's financial viability.

- Worker's compensation reform that would require recipients who reach retirement age to transition from workers' compensation to a retirement program would be cost effective, and create a more equitable system that would also reduce the Postal Service's unfunded liability. In addition, legislation that would allow the Postal Service to settle workers' compensation claims would be beneficial for both the Postal Service and those employees who are unable to return to postal employment.

We need to act now to implement strategies designed not only for the Postal Service of today, but for the Postal Service of ten, and even twenty years into the future. The problems we face are significant, but they are very solvable. With help from Congress, we are confident that the future of the Postal Service can be very bright.

Mr. Chairman, we look forward to continuing to work with you and the rest of the Subcommittee to accomplish meaningful postal reform legislation.

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Jeffrey Williamson

Chief Human Resources Officer and Executive Vice President

Jeffrey (Jeff) C. Williamson was named Chief Human Resources Officer and executive vice president in March 2013. He reports to the Postmaster General. In this role, Mr. Williamson oversees all aspects of Human Resources for the Postal Service's over 500,000 employees, including Labor Relations and Employee Resource Management. In addition, he manages the largest Human Resources Shared Services and Human Capital Enterprise System in operation.

Previously, Williamson was vice president of Pricing where he led the development and implementation of programs designed to simplify the mailing experience for small businesses, to create innovative ideas for commercial customers, and to tailor services for specific markets.

Prior to his appointment as vice president of Pricing, he was manager, Performance and Field Operations Support responsible for the implementation of standardized field operations process and information systems designed to improve productivity, reduce cost and improve service. He joined USPS in 2004 as manager, Network Modeling and Development and served as the manager, Network Development and Support. In this role, Williamson designed the Network Distribution Center system, which positioned the network for service improvements and cost savings.

Williamson began his career in the private sector as a management consultant in business strategy, finance, and supply chain management.

A graduate of Gettysburg College, where he earned a Bachelor of Arts degree in history, and American University, where he earned a Master of Business Administration degree, Williamson also earned a Master of Science degree in management from the Massachusetts Institute of Technology as the Postal Service's 2011-12 Sloan Fellows Program representative.

March 2013