

# PostCom Bulletin

## *The Journal of Postal Commerce*

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**POSTCOM BULLETIN 31-09**

**JULY 24, 2009**

### **HIGHLIGHTS . . . . .**

**. . . . .CBO PUBLISHES ITS COST ESTIMATE OF H.R. 22 ON THE FEDERAL BUDGET** -- CBO told Congress that granting the U.S. Postal Service relief from its PAEA-imposed employee health retirement payments would remove some of the pressure that is currently causing the Postal Service to reduce costs and become more cost-efficient.

**. . . . .USPS IG ISSUES REVISED REPORT ON USPS RETIREE HEALTH FUNDING** -- The USPS OIG has reported that "if the Postal Service continues the payment schedule required by the Postal Accountability and Enhancement Act of 2006 (the Act), our calculations indicate that the Postal Service could over fund its retiree health care liability by \$13.2 billion by the end of fiscal year 2016. The Postal Service could pay on average \$4.0 billion less each year from FYs 2009 to 2016 to prefund its retiree health benefits and still achieve the same level of funding anticipated under OPM's assumptions. The net present value of the interest savings from the reduced payments is \$5.95 billion. The funds should be put to better use.

**. . . . .HOPE SPRINGS ETERNAL; WHITE HOUSE MAY HAVE COMPROMISE ON USPS RETIREE FUNDING** -- Word has it that the green eyeshades over at the Office of Management and Budget have examined more closely the ideas that have been advanced thus far to help the Postal Service address the issue of its prefunding obligations retiree health benefits. A redraft of what today is know as H.R. 22 ("Postal Service Retiree Health Benefits Funding Reform Act of 2009") is being circulated and discussed within the Washington postal community.

**. . . . .PRC ISSUES NOTICE OF PUBLIC FORUM** -- The Postal Regulatory Commission (PRC) has issued a notice of public forum on two issues it would like to further explore, to be held on August 11 at 1PM.

**. . . . .HOW DOES POSTAL PAY STACK UP AGAINST GOVERNMENT PAY?** -- The U.S. Postal Service is facing the biggest deficit it has ever seen since it left the cocoon of being supported by tax revenues and became the self-supporting USPS we know today. A fixed cost idea to consider is the actual pay that postal employees receive, whether they are unionized or EAS, compared to that of their counterparts in the other government agencies. Here are the facts.

**. . . . .POSTAL NOTES** -- White House pressured to fix postal budget crisis. USPS debuts largest green roof in NYC. Direct mail volume flattens out. USPS gateway district profits with SOX. Pharmaceutical returns program extended. UPS profits fall.

**. . . . .AT THE POSTAL REGULATORY COMMISSION** -- Updates on dockets at the Postal Regulatory Commission.

**. . . . .DMM ADVISORY NOTICES** -- An update on DMM Advisory notices issued by the U.S. Postal Service.

**. . . . .POSTAL SNIPPETS** -- Short list of the many stories focusing on the potential post office and distribution center consolidation or closing.

**. . . . .OVER THERE . . . . INTERNATIONAL POSTAL NEWS** -- A review of postal news from around the world.

**. . . . .POSTAL PREVIEWS**

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## CBO PUBLISHES ITS COST ESTIMATE OF H.R. 22 ON THE FEDERAL BUDGET

The Congressional Budget Office (CBO) has published its estimate of the impact of H.R. 22 ("United States Postal Service Financial Relief Act of 2009") on the federal budget. H.R. 22 would authorize the United States Postal Service (USPS) to make payments for retirees' health insurance premiums from the Postal Service Retiree Health Benefits Fund (PSRHBF) for fiscal years 2009 through 2011. Under current law, funds in the PSRHBF are not available for spending until fiscal year 2017.

CBO said it "estimate[d] that enacting the bill would result in on-budget costs of about \$5 billion and off-budget savings of \$2.5 billion over the 2009-2019 period. (Cash flows of the Postal Service are classified as off-budget, while the PSRHBF is an on-budget account.) Combining those effects, CBO estimates that the net cost to the unified budget of enacting H.R. 22 would be about \$2.5 billion over the 2010-2019 period."

It told Congress:

CBO assumes that H.R. 22 will be enacted before the end of fiscal year 2009. The bill would authorize the Postal Service, over the 2009-2011 period, to shift payments for retirees' health insurance premiums from the off-budget Postal Service Fund to the PSRHBF, an on-budget account established by the Postal Accountability and Enhancement Act (Public Law 109-435) to prefund retirees' health benefits....

CBO estimates that the government's payments for retirees' health insurance premiums will be about \$2.0 billion in 2009, \$2.2 billion in 2010, and \$2.5 billion in 2011. Thus, the legislation **would increase spending** from the on-budget PSRHBF **by \$6.7 billion over the 2009-2011 period.** [Emphasis added.]

CBO expects that savings to the Postal Service Fund would be less than \$6.7 billion over the same period. **We expect that lowering the health care expenses of the Postal Service Fund by \$2 billion or more annually would cause the agency to modify its efforts to reduce other spending near the end of fiscal year 2009 and in future years.** Faced with an imbalance of receipts from postal customers and operational costs, the Postal Service has made significant efforts to reduce spending in recent years and is expected to continue to do so. [Emphasis added.]

Early in 2009, the Postal Service announced plans to cut spending by \$5.9 billion over the 2009-2010 period. Just a few months later in response to worsening financial conditions, the agency accelerated the cost-cutting program and aimed to cut \$5.9 billion in 2009 alone. **CBO expects that eliminating a \$2 billion expense would lead the agency to alter its cost-reduction program by cutting spending less aggressively than it would without the legislation.** Consequently, enacting this legislation would increase net postal outlays relative to current law. [Emphasis added.]

CBO estimates that the increase in net USPS outlays in 2009 would be relatively small because most of the fiscal year will have elapsed by the time the legislation is enacted and because the agency's financial condition is precarious. We expect that changes to the USPS's cost-cutting plan would become noticeably larger in 2010 and 2011. We estimate that the increase in net USPS outlays in 2010 and 2011 would be about half of the government's payments for retirees' health insurance premiums for those years—about \$1 billion in each year. (In fiscal year 2008, on a cash basis, the Postal Service reported expenses of \$78.6 billion.) On balance, CBO estimates that enacting H.R. 22 would increase spending (for the unified budget) by \$200 million in 2009 and by about \$2.5 billion over the 2009-2011 period.

## USPS IG ISSUES REVISED REPORT ON USPS RETIREE HEALTH FUNDING

The Office of the Inspector General for the U.S. Postal Service issued the results of its self-initiated review of the estimates of the U.S. Postal Service's Liability for Retiree Health Care Benefits (Project Number 09RO013ESS000). "Our objective," the IG said, "was to assess the reasonableness of the assumptions used to estimate the liabilities." Here is what the IG wrote:

The work of U.S. Postal Service Office of Inspector General's (OIG) actuarial consultant, Hay Group, determined that the Office of Personnel Management's (OPM) assumption that the annual health care cost inflation rate will average 7 percent annually for all future years is unreasonably high. Therefore based on OPM's assumptions and methodology, the Postal Service's future retiree health care liabilities will be overestimated.

***If the Postal Service continues the payment schedule required by the Postal Accountability and Enhancement Act of 2006 (the Act), our calculations indicate that the Postal Service could over fund its retiree health care liability by \$13.2 billion by the end of fiscal year 2016. The Postal Service could pay on average \$4.0 billion less each year from FYs 2009 to 2016 to prefund its retiree health benefits and still achieve the same level of funding anticipated under OPM's assumptions.*** The net present value of the interest savings from the reduced payments is

\$5.95 billion. We will report the \$5.95 billion monetary impact as funds put to better use in our Semiannual Report to Congress....

Postal Service officials have informed us that they have briefed various congressional stakeholders as well as OPM to seek relief from the current Act payment schedule. We believe the Postal Service should, based on the results of this review, further pursue relief from the burdensome payments currently required. Therefore, we are making the following recommendation: We recommend the Postal Service Chief Financial Officer and Executive Vice President pursue legislative relief from the mandated schedule of payments into the Postal Service Retiree Health Benefit Fund.

### **HOPE SPRINGS ETERNAL; WHITE HOUSE MAY HAVE COMPROMISE ON USPS RETIREE FUNDING**

Word has it that the green eyeshades over at the Office of Management and Budget have examined more closely the ideas that have been advanced thus far to help the Postal Service address the issue of its prefunding obligations retiree health benefits. A redraft of what today is known as H.R. 22 ("Postal Service Retiree Health Benefits Funding Reform Act of 2009") is being circulated and discussed within the Washington postal community.

Under current law, the Postal Service is required to pay for the period of 2009-2016 a stream of scheduled payments, as required by PAEA, toward paying down the unfunded liabilities (UFL) for current retirees as well as to regular annual premiums to ensure the liability for current retirees is covered. In addition, the Postal Accountability and Enhancement Act requires for 2017 and beyond for the Postal Service to amortize over a 40 year period payments for the remaining unfunded liability for current retirees.

Under the OMB backed relief proposal, still would be required to pay the accrual cost for the future retiree health benefits of current employees and a stream of regularly scheduled payments to pay down unfunded liabilities. It would do so, however, in accordance with a payment schedule that would provide USPS financial relief in the early years and pay slightly more in the later years to ensure PAYGO neutrality. After 2019, USPS would pay the remaining unfunded liability amortized over a 40-year period at a rate of about \$2.7B/year. Current retiree premiums would be paid from the retirement fund created by PAEA and maintained by the Office of Personnel Management instead of the USPS.

The proposal also calls for extending the Postal Service and emergency line of credit that would provide additional liquidity for postal operations during the recession (in case revenues are lower than currently forecast) by increasing the Postal Service's annual borrowing limit for operating expenses from \$3 billion to \$5 billion during fiscal years 2009 and 2010. The amounts borrowed above \$3 billion in 2009 and 2010 would be exempt from the overall debt ceiling of \$15 billion, avoiding a permanent increase in the debt ceiling (which would increase the deficit). After 2010, though, the usual annual borrowing limits would become again effective.

It's still too early to tell how this proposal is likely to fly. It's chances of actually winding its way to enactment, however, is enhanced by OMB's fingerprints being all over the document.

### **PRC ISSUES NOTICE OF PUBLIC FORUM**

The Postal Regulatory Commission (PRC) has issued a notice of public forum on two issues it would like to further explore in Docket RM2009-3, which is examining "a number of complex issues relating to the proper application of the PAEA" to the latest market dominant price change. The public forum is scheduled for August 11 at 1 PM in the PRC's hearing room. The technical aspects of the issues may be commented upon during the forum itself or in written comments that are due on August 31.

Here are the PRC's two issues as they appear in Order No. 243:

The first issue of whether the users of single-piece First-Class Mail are entitled to special protection under the PAEA, and if so, whether protection should take the form of:

- Maintaining the traditional linkage of single-piece rates to the rates charged for Presorted First-Class Mail through a suitable benchmark;
- Establishing a separate class of single-piece First-Class Mail subject to its own rate cap;
- Adopting a regulation that would limit the difference allowed between single-piece and presorted First-Class Mail in terms of either average revenue per piece or percent contribution to institutional costs;
- Relying on a qualitative or subjective standard of protection, such as the "just and reasonable" standard of section 3622(b)(8); or
- Other suggested forms of protection.

The second policy issue that the Commission would like the public forum to address is whether a worksharing discount should be defined as:

- A “pure” presorting, prebarcoding, handling, or transportation activity that is a direct substitute for an equivalent Postal Service activity; or
- A “pure” worksharing activity as described above, plus other cost-reducing mail characteristics that are facilitated by or naturally support the “pure” worksharing activity, *e.g.*, walk sequencing and density.

A related aspect of the second policy issue is whether a discount that reflects both cost reducing characteristics that are directly related to a worksharing activity, and others that are indirectly related to, or unrelated to the worksharing activity:

- Should be defined as “worksharing” or “non-worksharing” according to some rule, such as which cost-reducing effect is thought to predominate;
- Should be unbundled so that separate discounts are developed for the worksharing and non-worksharing components; or
- Should remain bundled, but be analytically decomposed into its worksharing and other components so that section 3622(e) standards may be applied to the worksharing component.

In addition to these two issues, the PRC is considering issues specific to First-Class Mail (FCM) and Standard Mail. The PRC “. . . encourages parties to provide empirical support for their understanding of the state of the markets for single-piece and presort FCM letters,” as well as “information about attributes of small business mailers who can be converted (or already have been converted) by presort firms from users of single-piece into users of presorted First-Class.” The PRC has also requested information on “. . . how price signals influence mailers’ decisions to invest in hardware, software or quality control processes to avoid postage penalties that could result from failing Postal Service acceptance tests.”

For Standard Mail, the PRC “. . . encourages parties to provide empirical support for their understanding of the state of the markets for the former components of Enhanced Carrier Route mail,” relating to Carrier Route, High Density, and Saturation mail. The PRC “. . . welcomes additional comment on how worksharing cost avoidance should be defined and measured in the context of Standard Mail.”

In addition to commenting on the broader, more theoretical questions discussed above, the Commission invites interested participants to comment on the following specific issues and questions:

- What empirical evidence is there supporting the proposition that Carrier Route, High Density, and Saturation mail each serve separate markets?
- If High Density and Saturation mail serve the same market, should the difference in worksharing unit cost between High Density and Saturation mail be subject to the standards of section 3622(e)? If the answer is no, specify why marginal worksharing cost differences are not pertinent to rate setting.
- If Carrier Route and High Density mail serve the same market, should rates for Saturation mail be set as though it serves a separate market, even though it is not classified as a separate product?
- What bearing does the probability of mail receiving automated or manual delivery point sequencing have on the answers to the above questions?

The PRC’s Order No. 243 can be found at [http://www.prc.gov/Docs/63/63655/Order\\_No\\_243\\_Final.pdf](http://www.prc.gov/Docs/63/63655/Order_No_243_Final.pdf).

## HOW DOES POSTAL PAY STACK UP AGAINST GOVERNMENT PAY?

The U.S. Postal Service is facing the biggest deficit it has ever seen since it left the cocoon of being supported by tax revenues and became the self-supporting USPS we know today. The recent markup of the \$2.3 billion H.R. 22 postal relief bill by the House Committee on Oversight and Government Reform will not even put a dent in the close to \$7 billion deficit the Postal Service is now facing. There are lots of ideas being discussed within the industry and proposed by the Postal Service.

A fixed cost idea to consider is the actual pay that postal employees receive, whether they are unionized or EAS, compared to that of their counterparts in the other government agencies. Here are the facts:

- No postal employee receives locality.
- Other government agencies receive locality pay, including the Postal Service IG.
- A postal employee in Biloxi, MS is making the same amount of money as someone performing the same duties in New York, NY or San Diego, CA.

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- A federal government employee, on the other hand, could earn as much as 14% above the base salary in Biloxi MS, while their counterpart earns 28% above base in NY, according to the OPM's 2009 Locality Pay Tables for Geographic Areas.

*The Numbers*

Take a look at the position description for a postal craft-level Electronic Technician position. Then look at a comparable position within the FAA. Take the FAA position's grade and step from 2009 (Grade 8, Step 1) and use this as the basis for the 2000 salary in the same grade and step. In 2000, the postal craft position was upgraded from a PS 9 to a PS 10. Take this grade from 2000 (Grade 10, Step D) and use it as the basis for a 2009 salary. You can get all the requisite information from these sources:

- 3-11-2000 pay scale for APWU Full Time Regulars
- APWU Full Time Regulars Salary and Rates - Effective August 30, 2008
- OPM's 2000 General Schedule Locality Rates of Pay for the Base
- OPM's 2000 Locality Pay Tables for Geographic Areas
- OPM's 2009 General Schedule Locality Rates of Pay for the Base
- OPM's 2009 Locality Pay Tables for Geographic Areas

The table below shows the salary differences between a postal craft Electronic Technician using the USPS Pay Scale and an FAA Electronic Position using the GS Pay Scale from 2000 to 2009. Here are some things to note:

- The postal craft worker's FY2000 annual salary is above the starting FY2009 GS Base annual salary.
- The Difference column represents the difference between the FY2000 annual salary and the FY2009 annual salary for each row.
- The postal craft worker's nine-year increase is in line with what the GS geographical increases for the Federal Government, as shown in the Difference column.
- The FAA Electronic Technician position is located in Oklahoma, OK, which is represented by the Rest of the US locality pay. This means the postal craft Electronic Technician makes on average 28 percent more than an FAA Electronic Technician on OK.

**Table 1: Pay comparison example between a postal craft position and comparable GS position**

	<b>FY2000 Annual Salary</b>	<b>FY2009 Annual Salary</b>	<b>Difference</b>	<b>Postal Craft Difference</b>
Postal Craft (Grade 10, Step D)	\$38,676	\$54,298	35%	N/A
GS Base (Grade 8, Step 1)	\$29,315	\$37,075	26%	41%
GS Rest of US - Locality	\$31,303	\$42,214	35%	24%
Atlanta	\$31,561	\$43,952	39%	19%
Boston	\$32,458	\$45,966	42%	14%
Dallas	\$31,833	\$44,471	40%	185
Denver	\$32,405	\$45,243	40%	16%
Indianapolis	\$31,364	\$42,351	35%	23%
Miami	\$32,188	\$44,568	38%	17%
New York	\$32,859	\$47,441	44%	10%
San Diego	\$32,238	\$45,765	42%	14%
Washington DC	\$31,968	\$45,639	43%	15%

*Additional research*

Although this is a quick, back-of-the-envelope type of analysis, it does show the need for further investigation by a talented agency. Whether this agency is OPM, GAO, or the USPS IG - a definite deep dive into the figures is needed to accurately portray union and EAS salaries as compared to the rest of the Federal Government.

## POSTAL NOTES

**WHITE HOUSE PRESSURED TO FIX POSTAL BUDGET CRISIS.** The Hill has reported that "workers from four USPS unions have written a letter to a senior Obama administration official saying that a House proposal will only serve as a short-term fix. Postal Service officials have said that the agency this year will lose \$6 billion and will have a cash shortfall of \$1.5 billion." The Unions have called for a loosening of the more than \$5 billion annual health care payment required by PAEA.

<http://thehill.com/leading-the-news/white-house-pressured-to-fix-postal-budget-crisis-2009-07-18.html>

**USPS DEBUTS LARGEST GREEN ROOF IN NYC.** The U.S. Postal Service this week dedicated New York's largest green roof. According to the USPS, "the Morgan Green Roof, the largest in New York, and one of the largest in the country, will help the Postal Service in meeting its goal to reduce energy use 30 percent by 2015." Trees, native plants, winding walkways are featured on the roof, as well as fixed seating and lighting so employees can enjoy the panoramic views of the NYC skyline.

[http://www.usps.com/communications/newsroom/2009/pr09\\_063.htm](http://www.usps.com/communications/newsroom/2009/pr09_063.htm)

**DIRECT MAIL VOLUME FLATTENS OUT.** It has recently been reported by Mintel Comperemedia that "after months of plummeting, mortgage and home equity marketing direct mail is finally leveling off." Mintel Comperemedia is a service that provides direct marketing competitive intelligence, reports "that for the last six months, after more than two years of declines, the number of home loan offers sent to Americans has been flat." It goes further to say that "this steady direct mail volume stands in sharp contrast to trends of the previous three years."

Mintel reports that the total number of mortgage and home equity direct mailings was 84% lower in Q1 of 2009 than in Q1 of 2007, because "lenders have also dramatically changed their direct mailings to better suit today's market."

"Today's direct marketing shows lenders taking a more prudent, conservative approach to mortgage and home equity lending," comments Stephen Clifford. "Low home prices, affordable rates and the homebuyer tax credit are all driving more buyers to the housing market, so the stage seems set for a gradual recovery."

<http://www.mintel.com/press-release/Mortgage-home-equity-direct-mail-volume-flattens-out-points-to-turnaround-in-housing-industry?id=367>

**USPS GATEWAY DISTRICT PROFITS WITH SOX.** The USPS' Gateway District is "profiting from increased focus on financial procedures brought on by the Sarbanes-Oxley Act (SOX)," according to a recent USPS NewsLink. The USPS reported that the district's review of business mail activities in non-PostalOne! offices, which began last October, has resulted in recovery of "thousands of dollars in uncollected revenue." Revenue deficiencies identified included failure to collect annual presort fees and using outdated postage statement forms, which resulted in short-paid commercial revenue. The effort has led to the recovery of \$10,000 this fiscal year, the USPS said, and noted that with the support of the U. S. Postal Inspection Service, the team also recovered an additional \$35,000 in short-paid commercial revenue, but the USPS report did not elaborate on the source of that revenue deficiency.

"Protecting the revenue the Postal Service earns is as important as finding new sources of income," said Gateway District Finance Manager Joe Orr. "SOX improves the accuracy of financial reporting and helps the Postal Service remain fiscally responsible."

[https://liteblue.usps.gov/news/link/2009/nl\\_0721.htm#ts](https://liteblue.usps.gov/news/link/2009/nl_0721.htm#ts)

**PHARMACEUTICAL RETURNS PROGRAM EXTENDED.** According to the USPS' NewsLink, the nation's first pharmaceutical mail-back program has been re-funded for another two years and will more than double in size and scope. The USPS in August 2007 partnered with the University of Maine's Center on Aging to make the return of unused pharmaceuticals an environmentally safe alternative.

"Pharmaceuticals don't break down naturally," the USPS said, "so they contaminate lakes, streams and water supplies — even after passing through wastewater treatment plants." Just as importantly, the USPS noted, the program also reduces the risk of these drugs falling into the hands of children and criminals. "The largest category of mailed-back drugs — 25 percent — includes pharmaceuticals like antidepressants and antipsychotic drugs, followed by heart medicines," the USPS noted.

In the new phase of the program, 20,000 mail-back envelopes will be distributed throughout Maine to more than 100 pharmacies, medical facilities and community agencies, according to the State's Center on Aging. So far, 2,000 participants have mailed more than half a ton of unused and unwanted medicines to the Maine Drug Enforcement Agency's Westbrook office for proper disposal.