

THE POSTAL SERVICE ALWAYS PAYS ITS DEBTS...

OR “THE ELEPHANT IN THE ROOM”

LAST time, if you can remember, there was talk about the Postal Service going bankrupt because it was constantly losing money. Everyone had his or her own ideas on why the Post Office was going broke. Opinions ran rampant, urged on by each individual's theory and what each one of us heard. Then conclusions started forming, which then turned into gossip and rumors that other people began citing as the truth.

What is clear in all of this talk and discussion is that everyone has his or her own ideas on the matter. Some of these ideas however, differ significantly from one person to the next. They diverge so much that not all of them can rightfully be called the truth. Therefore, some of them, safely it can be said, can be called “wrong” ideas.

For example, one time I asked a new maintenance mechanic on the AFSM100 machine where I work that question, why was the Postal Service losing money. He answered that it was because Congress won't let the Post Office stop six-day delivery. Another person I asked said it was because too many old people don't want to retire. And another person, a supervisor who shall remain nameless (this is my favorite response though) said the losses were because nobody (clerks and mail handlers alike) “wants



to do anything. As soon as we ask any of them to do something they want to run to the Union and say, ‘I want to see my shop steward.’”

One article I read from Forbes magazine (<http://www.forbes.com/sites/adahartung/2011/12/06/why-the-postal-service-is-going-out-of-business>) blames it on the Postal Service being irrelevant. The

author, Arthur Hartung states that, *“Today mobile devices provide texting and social media, shifting the acceleration away from physical letters. Fewer people write letters, send bills or even pay bills via physical mail. Are you mailing any physical holiday cards this year? How many?”*

Another article on “The Motley Fool,” (<http://www.fool.com/investing/general/2013/04/30/no-wonder-the-post-office-is-losing-money.aspx>) by Rich Smith states, *“With mail volumes dropping, and losses mounting, it's starting to look like the days are numbered for the U.S. Postal Service. It probably doesn't help matters, either, that USPS just announced a big contract to pay one of its rivals -- FedEx (NYSE: FDX) -- to haul its mail. Apparently, FedEx does a better job of this than USPS can do for itself. But that's not the Post Office's real problem. Its real problem is that FedEx knows how much its superior service is*

worth, and has the pricing power to charge for it, while USPS... doesn't."

One of the better written articles, grammar-wise, by Paul B. Carroll and Chunka Mu, which appeared in the Washington Post (<http://www.washingtonpost.com/wp-dyn/content/article/2010/07/22/AR2010072204241.html>), states their reasoning this way: "The Postal Service, too, is looking at the future as a variant of the present. USPS, convinced of the long-term need for physical mail delivery, has been relying on increases in volume, according to a Government Accountability Office report published in April. Yet delivery volume for first-class mail fell 22 percent from 1998 through 2007, tumbled an additional 13 percent last year and was down 3 percent in the first half of this year despite heavy mailings from the Census Bureau."

As I said, everyone has their own ideas. These articles all unfortunately miss the point, the "elephant in the room," so to speak, where they pretend this "massive thing" (let's just call this "massive thing" *the elephant*) does not exist, when in reality it's nearly impossible to miss. ("*Elephant in the room*" is "an English metaphorical idiom for an obvious truth that is either being ignored or going unaddressed. The idiomatic expression also applies to an obvious problem or risk no one wants to discuss. It is based on the idea that an elephant in a room would be impossible to overlook; thus, people in the room who pretend the elephant is not there have chosen to avoid dealing with the looming big issue." – Wikipedia)

But, there is some clarity in this morass, as this response, finally from "Yahoo Answers" (<https://answers.yahoo.com/question/index?qid=20100724002941AAvehGg>) provides to the question, "Why (is the) USPS losing money and FED EX and UPS thriving?"

The answer:

-- "The USPS isn't in reality losing money. In 2006 Congress passed the **Postal Accountability and Enhancement Act**. In that law they required the USPS to prefund its retiree health care benefits for the next 50 years. No private company, and no other governmental agency, is required to do that. All others are pay as you go. That fund comes out to \$75 billion dollars to be funded in a 10 year span. If you take out that \$7.5 billion a year payment the USPS has actually been in the black every year since 1982. How many companies can make that claim? In reality the USPS has had a surplus; the USPS isn't allowed to make a profit, of \$800 million dollars so far this year. If UPS and Fed Ex were required by Federal Law to have a Fed Ex Office and UPS store in almost every town in the US, as the USPS is, they would lose money. If UPS and Fed Ex were required by law to deliver to every house 6 days a week (not Cherry-picking the profitable ones), they wouldn't have a profit. If every time UPS or Fed Ex talked about closing a store, every Congressman would be hauling their butts to hearings to justify it, as they do with the USPS; they might operate differently. If UPS and Fed Ex couldn't close one of their stores because it only did a whopping \$23 in business one day, they would have less profit margins."

Yahoo Answers comes closest to the truth. What should be changed in the above response however is that "50 years" should be "75 years," and the "\$7.5 billion a year payment" should be "\$5.5 billion a year payment."

What I will try to do here is explain as concisely as I can what I believe is the real cause of the US Postal Service losing money. Then, having said all this, at the very least give you, the reader, a clearer understanding to what I believe is the real nature of the problem on why the Postal Service is losing money.

First, this is a chart of revenue, expenses and profit and losses of the United States Postal Service covering the last twelve years. This was obtained from the USPS Financial website (<http://about.usps.com/who-we-are/financials/welcome.htm>):

<u>YEAR</u>	<u>REVENUE</u>	<u>OPERATING EXPENSES</u>	<u>NET GAIN or LOSS</u>
2002	\$66,463,000,000	\$65,234,000,000	+ \$1,227,000,000
2003	\$68,529,000,000	\$63,902,000,000	+ \$4,627,000,000
2004	\$68,996,000,000	\$65,851,000,000	+ \$3,145,000,000
2005	\$69,907,000,000	\$68,287,000,000	+ \$1,626,000,000
2006	\$72,650,000,000	\$71,681,000,000	+ 969,000,000
2007	\$74,778,000,000	\$80,105,000,000	-- \$5,327,000,000
2008	\$74,932,000,000	\$77,738,000,000	-- \$2,806,000,000
2009	\$68,090,000,000	\$71,884,000,000	-- \$3,794,000,000
2010	\$67,052,000,000	\$75,426,000,000	-- \$8,374,000,000
2011	\$65,711,000,000	\$70,778,000,000	-- \$5,067,000,000
2012	\$65,223,000,000	\$81,129,000,000*	-- \$4,406,000,000**
2013	\$67,318,000,000	\$72,295,000,000	-- \$4,977,000,000

*-The USPS had defaulted on the two previous years' required Retiree Healthcare prefunding payments to the U.S. Treasury. The total net loss for just this year is stated. Taking into consideration also the two defaults, the loss would be an amount of \$15,906,000,000.

**.-This USPS loss as stated is in consideration of not including the two defaults of payments to the U.S. Treasury for Retiree Healthcare prefunding.

As you can see, years 2002 through 2006 were profitable years. From the years 2007 to the present, these were financially disastrous years.

So the question is, what happened during those disastrous years of 2007 to the present?

First, a description and explanation of H.R. 6407, "The Postal Accountability and Enhancement Act" (<http://www.gpo.gov/fdsys/pkg/BILLS-109hr6407enr/pdf/BILLS-109hr6407enr.pdf>).

This bill was **passed** in the U.S. House of Representatives on December 8, 2006. This bill was then **passed** on December 9, 2006 in the U.S. Senate. And on the date of December 20, 2006, it was **signed into law** by then U.S. President George W. Bush.

The conditions under which the bill was passed in both the House of Representatives and the Senate were the following:

In the House, as transcribed by the United States Government Printing Office (<http://www.gpo.gov/fdsys/pkg/CREC-2006-12-08/html/CREC-2006-12-08-pt1-PgH9160-2.htm>):

“The SPEAKER *pro tempore*: The question is on the motion offered by the gentleman from Virginia (Mr. Tom Davis) that the House *suspend the rules and pass the bill*, H.R. 6407, as amended. The question was taken.

The SPEAKER *pro tempore* (Mr. LaHood): *In the opinion of the Chair*, two-thirds of those voting have responded in the affirmative.

Mr. PENCE: Mr. Speaker, on that *I demand the yeas and nays*.

The yeas and nays were refused.

A motion to reconsider was laid on the table.”

[The meaning of “*pro tempore*” is: for the time being.]

[The meaning of “*suspend the rules and pass the bill*” is there is no discussion, pro or con, regarding the merits of the bill brought to the House floor, and a voice approval is given to pass the bill. The members of the House of Representatives only responded by “voice” to carry the motion to pass the bill.]

[The meaning of “*in the opinion of the chair*” is that the chairperson, Ray LaHood, in his opinion, believed he heard at least two-thirds of the members of the House of Representatives voice their approval to *suspend the rules and pass the bill*.]

[The meaning of “*I demand the yeas and nays*” was actually a request by another congressman to have the vote taken by another type of voice count which would be one in response to the question of “All in favor say yea. All opposed, say nay.” This request was refused by the Speaker of the House, Ray LaHood.]

In the Senate regarding this bill, as transcribed by the United State Government Printing Office (<http://www.gpo.gov/fdsys/pkg/CREC-2006-12-08/html/CREC-2006-12-08-pt2-PgS11821.htm>):

“Mr. FRIST: I ask *unanimous consent* that the bill be read a third time and passed, the motion to reconsider be laid upon the table, and any statements be printed in the RECORD.

The PRESIDING OFFICER: *Without objection*, it is so ordered.

The bill (H.R. 6407) was ordered to a third reading, was read the third time, and passed.”

[The meaning of “*unanimous consent*” is to set aside a specified rule of procedure so as to expedite proceedings.]

[The meaning of “*without objection*” is, a motion that is used in lieu of a vote on non-controversial motions, amendments or bills that may be passed in either the House or Senate if no member voices an objection.]

Therefore, essentially, the bill, H.R. 6407 was passed in the 2006 **Republican**-controlled House of Representatives by a presumed super-majority “voice consent” to *suspend the rules and pass the bill*.

The bill was passed in the 2006 **Republican**-controlled Senate *without objection*, indicating that no vote was taken.

The bill was signed into law by the 2006 **Republican** President, George W. Bush.

The relevant portion of bill H.R. 6407 as it relates to the financial status of the U.S. Postal Service is the following which appears on pages 54 & 55 of the **Postal Accountability and Enhancement Act**:

“§ 8909a. Postal Service Retiree Health Benefit Fund

“... (a) There is in the Treasury of the United States a Postal Service Retiree Health Benefits Fund which is administered by the Office of Personnel Management...

*“(3)(A) The United States Postal Service shall pay into such Fund—
“(i) \$5,400,000,000, not later than September 30, 2007;
“(ii) \$5,600,000,000, not later than September 30, 2008;
“(iii) \$5,400,000,000, not later than September 30, 2009;
“(iv) \$5,500,000,000, not later than September 30, 2010;
“(v) \$5,500,000,000, not later than September 30, 2011;
“(vi) \$5,600,000,000, not later than September 30, 2012;
“(vii) \$5,600,000,000, not later than September 30, 2013;
“(viii) \$5,700,000,000, not later than September 30, 2014;
“(ix) \$5,700,000,000, not later than September 30, 2015;
and
“(x) \$5,800,000,000, not later than September 30, 2016.”*

All of these payments into the “Postal Service Retiree Health Benefit Fund” are considered “operating expenses,” and are calculated into the United States Postal Service’s profit and loss statements.

Re-calculating the chart of revenue, expenses and profit or losses of the United States Postal Service covering the last twelve years *without* consideration of the pre-funding requirement of the enacted into law 2006 H.R. 6407 bill of Retiree Healthcare Benefits would give us the following:

<u>YEAR</u>	<u>REVENUE</u>	<u>OPERATING EXPENSES</u>	<u>PREFUNDING</u>	<u>NET GAIN or LOSS</u>
2002	\$66,463,000,000	\$65,234,000,000	not in effect	+ \$1,227,000,000
2003	\$68,529,000,000	\$63,902,000,000	not in effect	+ \$4,627,000,000
2004	\$68,996,000,000	\$65,851,000,000	not in effect	+ \$3,145,000,000
2005	\$69,907,000,000	\$68,287,000,000	not in effect	+ \$1,626,000,000
2006	\$72,650,000,000	\$71,681,000,000	not in effect	+ 969,000,000
2007	\$74,778,000,000	\$80,105,000,000	\$5,400,000,000	+ 73,000,000
2008	\$74,932,000,000	\$77,738,000,000	\$5,600,000,000	+ \$2,794,000,000

2009	\$68,090,000,000	\$71,884,000,000	\$5,400,000,000	+ \$1,606,000,000
2010	\$67,052,000,000	\$75,426,000,000	\$5,500,000,000	-- \$2,874,000,000
2011	\$65,711,000,000	\$70,778,000,000	\$5,500,000,000	+ 433,000,000
2012	\$65,223,000,000	\$81,129,000,000	\$5,600,000,000	+ \$1,194,000,000
2013	\$67,318,000,000	\$72,295,000,000	\$5,600,000,000	+ 623,000,000

Taking out the Prefunding from years 2007 to 2013 would show a profit during that period of **= + \$3,849,000,000**

As you can see without the prefunding, the USPS nearly made \$4,000,000,000 from 2007 through 2013. That is right, it “made,” not “lost,” nearly \$4 billion during the last seven years. Also, during the last 12 years the USPS would have made over \$15 billion, were it not for the prefunding.

As cited in several articles relating to the effects of the prefunding, one by consumer advocate Ralph Nader (<http://mrzine.monthlyreview.org/2011/nader230911.html>),

“The deep hole of debt that is currently facing the U.S. Postal Service (USPS) is entirely due to the burdensome prepayments for future retiree health care benefits imposed by Congress in the PAEA. By June 2011, the USPS saw a total net deficit of \$19.5 billion, \$12.7 billion of which was borrowed money from Treasury (leaving just \$2.3 billion left until the USPS hits its statutory borrowing limit of \$15 billion). This \$19.5 billion deficit almost exactly matches the \$20.95 billion the USPS made in prepayments to the fund for future retiree health care benefits by June 2011. If the prepayments required under PAEA were never enacted into law, the USPS would not have a net deficiency of nearly \$20 billion, but instead be in the black by at least \$1.5 billion.”

another by USPS Inspector General, David Williams (<http://www.gpo.gov/fdsys/pkg/CHRG-111shrg53836/html/CHRG-111shrg53836.htm>),

“The Postal Service's financial stability is currently threatened by disruptive effects of new communications technologies and the massive and sudden economic downturn. This situation has turned into an immediate crisis because of the significant diversion of cash to pay for future retiree health care benefits. For example, the first 6 months of this year's payment to the benefit funds was \$2.7 billion. If not for this payment, the Postal Service would have made \$400 million instead of losing \$2.3 billion in the first half of 2009. The Postal Accountability and Enhancement Act of 2006 requires the Postal Service to make 10 annual payments of \$5 billion each in addition to the \$20 billion already set aside for prefunding its retiree health benefits. The size of the \$5 billion payments has little foundation, and the current payment method is damaging to the financial viability of the Postal Service, even in profitable times.”

and yet another by former APWU President William Burrus (unfortunately, this link, as has been discovered, https://www.apwu.org/news/webart/2010/10-023-testimony_5-day-100318.pdf is broken)

“The PAEA has forced the Postal Service virtually into insolvency. It imposed on the Postal Service a \$75 billion obligation to pre-fund retiree health benefits, a liability that is not borne by any other federal agency. This requirement, more than any other single factor, has created a USPS deficit of alarming size. A 2008 GAO report found the USPS's \$5.3 billion shortfall in FY 2007 was caused primarily by this

provision of the PAEA. If the USPS were to release financial records showing liabilities minus this obligation, such documents would clearly demonstrate the disastrous effect the legislation has had. Absent this pre-funding burden, the Postal Service would have experienced a cumulative surplus of \$3.7 billion over the last three fiscal years, despite declining mail volume, an economy in chaos, and electronic diversion. The APWU is compelled to ask: If funding future healthcare liabilities meets sound accounting standards, why isn't this requirement applied to all federal and private enterprises? Why doesn't every branch of government, including Congress, pre-fund future healthcare liabilities?"

this piece of legislation, H.R. 6407, is "burdensome," "damaging" and "disastrous" to the U.S. Postal Service.

As a counter-balance to some of the above, this "study" (<http://www.downsizinggovernment.org/usps>) was provided by the CATO Institute, a Republican "think-tank," in support of why the Postal Service should be privatized because it cannot control its finances.

"The USPS is in a financial death spiral because of the myriad factors discussed. It faces a projected \$238 billion in losses over the next 10 years under the status quo. To avoid a large and growing burden from being foisted on taxpayers in coming years, the USPS should be privatized and postal markets open for competition from FedEx, UPS, and upstart entrepreneurs.

With privatization, Congress should end its micromanagement of the nation's postal services. It should rescind the complex laws and regulations on delivery schedules, price caps, restrictions of facility shut-downs, and other business decisions. Such congressional meddling ultimately hurts the consumers that any postal business is supposed to serve by pushing up costs.

Consider the USPS's recent request that Congress allow it to end Saturday mail delivery. Congress has blocked that move, which will raise USPS costs and ultimately result in higher stamp prices. The Saturday mail delivery issue also highlights the lack of consumer choice in the current system. If the USPS decides not to provide Saturday service, customers should be free to contract with other commercial entities to provide Saturday service, or service for any day of the week for that matter.

Policymakers resistant to reform often depict the USPS as a "national asset" that "binds the nation together." But these days, it's the Internet and our telecommunications networks that bind families and businesses together across the nation. It's time to let go of the nostalgia for the USPS and bring America's postal services into the 21st century with privatization, open competition, and entrepreneurial innovation."

In the above CATO Institute statement however, you will notice that there is no mention of the USPS pre-funding obligation: "the elephant in the room," as it were, as a reason for its "financial death spiral," which, as shown, if eliminated would return the USPS to prosperity.

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