

---

**Hearing before the Subcommittee on Federal Financial Management,  
Government Information, Federal Services, and International Security  
Committee on Homeland Security and Governmental Affairs  
United States Senate**



**Oral Statement  
On  
“The Future of the U.S. Postal Service”**

**April 22, 2010**

**David C. Williams  
Inspector General  
United States Postal Service**

---

Mr. Chairman and members of the Subcommittee, I appreciate the opportunity to appear today to discuss the financial situation facing the Postal Service. The fiscal condition is serious and the Postal Service has an ongoing aggressive plan to address it. A concern of my office is that the plan calls for huge simultaneous actions across a very broad and fast moving front. These will produce significant project management challenges, as well as, unintended consequences among the initiatives that now include:

- Flats Sequencing System
- Intelligent Mail Barcode
- Plant network and post office optimization
- 6 to 5 day mail delivery
- And a major transformation of its sales and marketing effort.

A second concern is that a large portion of the Postal Service financial loss is not a result of the Postal Service business model or the Postal Accountability and Enhancement Act of 2006 (PAEA). We believe that \$7 billion of the expected \$11 billion loss this year is a mischarge by the federal government against the Postal Service. In earlier years, the mischarge accounted for all of the losses and the absence of profitability anticipated in PAEA. Until the Postal Service is no longer bled white by the federal government before it opens its doors for business, identifying challenges and constructing solutions are highly prone to error. We may be fixing the wrong things and learning the wrong lessons. For instance:

- Is the Postal Service facing a \$4 billion or an \$11 billion loss this year?
- Does the Postal Service have a debt to the treasury or owe nothing?

These issues are not difficult to grasp or to correct. While the solutions are being found, I do not believe contributing to benefit plans that appear to be overfunded is prudent during this financial crisis.

This year Congress directed the Postal Service, OPM, and OMB to develop “a fiscally responsible legislative proposal” for Postal Service benefit payments. My office has identified three areas for resolution:

- An exaggerated 7 percent health care inflation forecast, instead of the 5 percent industry standard, resulting in an overpayment of \$13.2 billion by 2016;
- An excessive 100 percent pension benefit plan prefunding requirement compared to OPM’s own prefunding level of 41 percent and the S&P 500’s, 80 percent rate. Even using the higher 80 percent funding goal would result in a \$52 billion surplus.
- Lastly, the Postal Service Pension Fund was overcharged \$75 billion, so that employees could retire at promised levels. When the Post Office Department became the Postal Service, employees that belonged to the Federal Pension Fund now contributed to the Postal Service. Retirement costs were divided according to the number of years employees had belonged to each fund. However, the Federal Pension Fund paid for retirements based on 1971 salaries, not final salaries. The Federal Pension Fund collected full contributions, but paid only partial benefits.

OPM has explained that these mischarges were in response to what they believed to be the will of Congress expressed in 1974 legislation. However, the 1974 language was repealed by Congress in 2003, when large overpayments were discovered. At that time OPM inexplicably had not detected a 41 percent overfunding error in this \$190 billion pension fund. Congress directed OPM to use its authority to oversee the reforms using accepted “dynamic assumptions” that include pay increases and inflation. OPM switched to dynamic funding for the Postal Service portion, but did not for their share. The Postal Service was forced to pay the \$75 billion difference.

Resolving these issues would provide an accurate map of financial challenges that require resolution. The resolution would also allow the Postal Service to execute its plan at a safer velocity less prone to error, and at a pace where unintended consequences can be identified and resolved.

My office does believe that long-term solutions are needed to effectively address a few critical areas. These include the optimization of the network of plants and post offices and changing its rigid work rules to match the ebb and flow of customers and mail. In addition, simplified pricing is needed to replace the over 10,000 prices contained in the 1,700 page customer manual to encourage new customers and improve revenue accountability. These will allow Postal Service operations to closely fit business opportunities.

A significant success factor for leadership through the journey to 2020 will be fairness, transparency, and a single focus on reform. Postal stakeholders have demonstrated they are responsible and dedicated, but they deserve assurance that everyone is lifting and sharing responsibilities for needed actions. It is important to understand that accommodations made outside the interests of the nation can easily become the pebbles that cause a crippling avalanche halting actions that the Postal Service must take.