

Will Congress let the Postal Service make the tough calls?

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The U.S. Postal Service needs a major restructuring, something akin to the painful makeover at American Airlines. The big difference is that the plan hinges on the approval of Congress, not a bankruptcy judge, and you know what happens to change in Washington.

The Postal Service, the second-largest employer in the nation, represents some of the best of big government and some of the worst.

It's been self-funded since 1971, paying for operations by selling postage and services, not taking taxpayer money. More than half a million career employees, including 40,000 in Texas, earn good wages and great benefits, and they've made striking gains in productivity. Yet since 2007, the Postal Service has lost \$37 billion and owes huge sums to future retirees and the Treasury.

The agency often says it wants to operate more like a business, and outsiders have long called for it to be privatized. But if the Postal Service actually went all in on that notion, its next move would be bankruptcy.

Revenue is falling faster than it can cut costs as traditional first-class mail loses ground to email, online bill pay, even electronic tax filings.

Cash is intolerably low, debt is high and the agency is skipping \$11 billion in payments for retiree health care. That includes \$5.6 billion due at the end of the month, the kind of default that would push most companies into Chapter 11.

Instead, the Postal Service wants help from Congress — not a bailout, officials insist, but a deadline extension on the health payments, along with approval for some tough moves. It wants to reduce mail delivery from six days to five, convert to its own health insurance and add more non-union workers.

These are standard restructuring changes, only kinder, gentler — and much slower — than in corporate America. No mass layoffs, no busted contracts, no dumping of pensions and retiree health benefits.

Contrast with AA

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After defaulting on the retiree health payment last month, the agency said it was “uncertain what consequences, if any, will result.” It expects to default on similar payments this September and next unless Congress changes the rules. Yet even in a cash shortfall, the agency wrote, the federal government is unlikely to close the Postal Service or slash operations — hardly a call for urgency.

Contrast that with American Airlines. Less than a year after filing Chapter 11, American has new money-saving labor contracts and more flexibility to partner with carriers. It's cutting thousands of employees and closing facilities, including a large maintenance center at Alliance Airport in Fort Worth.

These are game-changing moves, designed to ultimately make American profitable and competitive for years to come.

The Postal Service would argue that it hasn't been standing still. Its career workforce is down by 139,000 in the last five years as it cut \$14 billion in annual costs. It plans to trim more and, in the past, proposed closing thousands of post offices and hundreds of processing centers. Eliminating one day of delivery a week would save more than \$2 billion annually, it estimates. It wants to reduce pay and benefits by \$5 billion, in part by pushing its retirees to sign up for Medicare after age 65.

“We have no need for a bailout,” Ronald Stroman, deputy postmaster general, said during an interview in Dallas last week. “We just need Congress to give us the authority to make the necessary changes.”

Retiree health care

In practice, the agency can't even close post offices without a big backlash. Rural counties, inner cities, Democrats and Republicans tend to come together to keep postal facilities open. The agency frequently has to ratchet back its cost-cutting goals.

“Don't blame management,” said Tad DeHaven, a budget analyst at the Cato Institute and proponent of privatizing the agency. “Congress says the Postal Service should operate as a business, but they won't let management do it.”

The agency's primary complaint is a requirement to prefund retiree health care, mandated by Congress in 2006. Those payments totaled \$21 billion in the last five years and were the major driver in the agency's net losses.

It wants to stretch out payments, maybe to 2030, Stroman said. And it wants to tap about \$11 billion in overfunding in the federal pension system to shore up liquidity. Those maneuvers would clearly help, but for how long?

What's missing is a call to radically overhaul benefits so liabilities don't grow while revenue is declining. Almost two-thirds of large companies offered retiree health coverage in 1988; today, just 1 in 4 has the benefit. It's easily the largest liability at the Postal Service, yet Stroman says that won't change as long as other federal workers get the perk.

"These are not much different than the federal benefits," he said.

And that's not part of the problem?