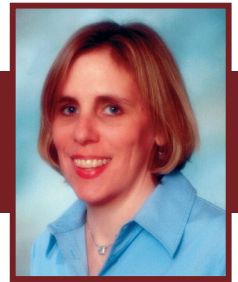


Pushing the Envelope

With Kate Muth



Big Issues Await Congress

Thanks to some last-minute legislative maneuvering, the Postal Service got a little financial breathing room at the end of fiscal year 2009 (September 30). As part of a bill to keep the government operational at the start of the new fiscal year, Congress included a provision allowing the USPS to reduce the payment to its retirement health account by about \$4 billion. So, instead of a \$7 billion net loss at the end of FY 2009, the Postal Service had a net loss of \$3 billion.

The legislative relief was just that: a huge relief to the USPS and the mailing industry. The Postal Service simply could not afford to make its mandated payment on September 30 to its Retiree Health Benefits Fund. Without the legislative fix, the USPS would have had to pay \$5.4 billion on September 30. Instead, it paid \$1.4 billion into a fund that already had accumulated \$34 billion. But the legislation is a stop-gap measure — a fix that amounts to a band-aid for a patient on life support. USPS stakeholders have come to the conclusion that long-term solutions are needed to return the Postal Service to health.

Here's the deal. Things are not going to get better in the near term. The Postal Service expects another tough year in 2010. Mail volume is likely to decline by 10 billion pieces, and the net loss in 2010 could top \$7 billion. While signals indicate the beginning of a modest economic rebound in 2010, recovery for the USPS will lag behind the overall economy. Further, the recession has prompted a major change in consumer behavior. Consumers are more cautious with their money, meaning they will save more and look for bargains. They are also more comfortable online. The shift to electronic bill paying has been under way for years, but more and more households are taking electronic presentment as well. Consumers are comfortable shopping online, and they are getting used to targeted online advertising or ads sent to mobile devices.

Businesses will still look to mail as an advertising medium, and in some ways, mail could benefit from the effort of businesses to woo back their customers. They'll have to do this by communication and marketing. Advertising will pick back up as the economy

recovers. But the USPS will never regain the 40 billion pieces of mail it has lost over the past few years.

In short, the USPS can't keep chugging along as it exists today. Major structural changes are needed, and the industry cannot wait 30 years for a reform bill. Congress will have to tackle these issues in the very near future. Many postal pundits expect Congress to revisit the postal law in the coming year or two. For starters, Congress might have to consider the funding schedule for the retiree health plan again in 2010. The USPS will not be in a financial position to make the \$5.5 billion payment next year. Further, a few hot-button issues, such as closing of facilities and a change in the number of delivery days, will force a broader reflection on postal policy. And last, but not least, the Postal Service has contracts expiring with its labor unions in 2010 and 2011. This is not a legislative issue, but I can tell you right now it's a political issue. The contract negotiations are expected to raise a number of thorny issues about who should give — or get — what in tough times. When the viability of the entire system is threatened, can it be business as usual at the negotiating table?

Labor makes up 80% of the Postal Service's costs. The USPS now lives life under a price cap that restricts its annual price increases to the rate of inflation. This price cap puts pressure on the Postal Service to cut costs. The USPS has shed work hours at an impressive pace, but labor costs are still high. It's time to dig deeper. And it might just mean the Postal Service has to take a hard line in contract negotiations.

Lawmakers probably won't tackle actual reform legislation in 2010; it is an election year, after all. But Congress is likely to begin debating the issues next year. The mailing industry needs to let elected officials know how important a viable Postal Service is to their organizations. Mailing companies need to be involved in the debate. Don't wait for an invitation. Let your member of Congress know how you feel today, and then remind him or her again tomorrow. ■

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