Statement by MPA – The Association of Magazine Media

Submitted for the Record of the House Committee on Oversight and Reform hearing on "Legislative Proposals to Put the Postal Service on Sustainable Financial Footing"

February 24, 2021

MPA – The Association of Magazine Media respectfully thanks Chairwoman Maloney, Ranking Member Comer, and the distinguished Members of the Committee for holding this hearing and moving expeditiously to examine and propose reform measures to improve Postal Service finances. MPA has long championed postal reform and continues to support proposals we believe are under consideration by the committee, including eliminating the Postal Service's retiree health benefit prefunding obligation, integrating the postal retiree health benefits system into Medicare, and enhancing the measurement, transparency, and accountability of postal service standards.

Our comments today focus on three additional measures that will ensure the continuation of predictable and affordable postage rates, while placing the Postal Service on firm financial footing:

- A New Review of the Postal Rate-Setting System
- A Study and Plan to Address "Underwater" Mail
- A Higher-Yield Investment Plan for the Postal Service's Retirement Funds

Representing over 500 magazine media brands, MPA has been the voice of the magazine industry for over 100 years and an active supporter of the Postal Service since its founding 50 years ago. Today our members deliver the trusted content that informs, inspires, and entertains consumers across multiple platforms, connecting with a diverse, multigenerational audience that is 1.8 billion strong. Yet, print remains our foundation and our core. Over 90 percent of magazine circulation is delivered to readers in their mailboxes. Coincidentally, more than 90 percent of Americans read print magazines, across all ages and demographics, even with the vast array of digital offerings available 24/7. And with over 7,000 consumer print magazine titles in the United States, a number that has held steady for eight years, our industry has long demonstrated a commitment to the mail, and the widespread communities we serve.

We set forth below details on the three legislative proposals we urge this committee to include in postal reform legislation. We also explain why a focus on these measures will allow magazine publishers to continue delivering trusted content to Americans – and why that is good not just for consumers, our companies, and communities – but why it is good for the U.S. Postal Service as well.

I. A New Review of the Postal Rate-Setting System

Stable and affordable postage is critically important to maintain and grow current volume levels, particularly for market-dominant classes and products. If volumes are driven from the system by rate increases more than five times the rate of inflation, the Postal Service will fail and, with it, a critically important piece of our country's infrastructure.

To avoid this outcome, the Postal Regulatory Commission should be required to initiate a new review of the postal rate-setting system. Congress, of course, already permits the Commission to review the rate-setting system "from time to time." And the Commission completed in November 2020 the previous rate system review required of it by Congress. Unfortunately, during that review the Commission refused to reopen the record and consider the effects of the pandemic and the funding provided to the Postal Service in the amended Cares Act on the Postal Service's financial condition.

The Commission's determinations must be based on a full understanding of the Postal Service's financial position, including the impact of the pandemic and legislation passed in response to the pandemic. We support the proposal put forth by the Coalition for a 21st Century Postal Service in testimony presented by Joel Quadracci at the Committee hearing. As we understand it, that proposal would require a recalculation of rate authority based on: (1) mail volume and mail mix changes in calendar years 2020-2021; (2) the financial impact of laws affecting the Postal Service enacted since the start of the COVID-19 pandemic; and (3) the financial and other impacts of the current legislation.

During the pendency of the Commission's review, any above-inflation rate authority previously granted by the Commission should be "banked". If still allowed after the second review, the banked authority should be made available to the Postal Service on a phased-in basis.

II. A Study and Plan to Address "Underwater" Mail

Below, we detail some of the concerning trends in the Postal Service's handling of flat-shaped mail, and the dramatic growth in costs that has led such mail to be considered "underwater" and potentially subject to an above-inflation surcharge authorized by the Commission.

Previous legislative proposals before this Committee and in the Senate have required a study of the underlying reasons for the Postal Service's dismal performance for flats mail, and for the results of such study to be taken into account in setting rates for underwater classes and products. For reference, we have provided copies of the study provision contained in HR 2748, reported out of Committee in the 113th Congress, and a similar provision contained in S.2629, introduced by Senators Carper, Moran, Heitkamp, and McCaskill in 2018.

We urge inclusion of an underwater study in the current legislation also, as well as a requirement that the Postal Service implement a plan to improve flats' productivity and efficiency and to reduce costs for underwater products and classes. The above-inflation rate authority for underwater classes provided to the Postal Service by the Commission should be "banked" until after completion of the study and implementation of the cost reduction plan.

Existing postal law requires that the rate-setting system maximize incentives to reduce costs and increase efficiency. It also requires the Commission to account for several important factors, including: (1) that each class or type of mail should bear the costs attributable to it; (2) the ECSI value of certain types of mail; and (3) the need for the Postal Service to increase its efficiency and reduce its costs in order to maintain high quality, affordable postal services. Consistent with these Congressional mandates, the underwater provision should:

- Require the Commission, in conjunction with the Office of Inspector General, to study the extent to which market-dominant postal products and classes are "underwater";
- Require that such study quantify the impact of Postal Service inefficiencies (e.g., excess capacity) on attributable cost calculations, and that the study determine whether costs were inappropriately attributed to underwater products;
- Require that the Postal Service develop a plan to reduce flat-shaped mail processing costs and improve efficiency, and that the Postal Service's plan be presented to the Commission and subject to notice and public comment before it is finalized;
- Prevent the Postal Service from accruing or using a rate surcharge on underwater products until after its study is completed and its cost reduction plan implemented; and
- Mitigate the impact of any underwater surcharge on mailers, by: (1) requiring the Postal Service to account for the study's findings in imposing any such surcharge; (2) requiring the Postal Service to account for mail's ECSI value when imposing any such surcharge, and (3) requiring that such surcharge be phased in to avoid market disruption and the loss of classes and products that enhance the mail.

III. A Higher Yield Investment Plan for the Postal Service's Retirement Funds

Among the postal reform measures considered and proposed in recent years has been a provision to allow the Postal Service to invest a small portion of its retirement assets in higher yielding securities than the currently allowed U.S. Treasuries. In HR 760, introduced by Representative Lynch in 2017, the Postal Service would have been allowed investments similar to the federal Thrift Savings Plan.

To maximize the improvement in the Postal Service's financial position, we urge this Committee to go even further, allowing all USPS funds in retirement-related accounts, more than $300 billion in assets, to be invested in a diversified portfolio. This could provide USPS in excess of $10 billion more in average annual earnings and, by itself, put the Postal Service on more sound financial footing.

Adding a higher yield investment plan to the other financial provisions that have long been part of postal reform legislative proposals and which we believe are intended to form the cornerstone of the legislation under consideration by this committee – 1) eliminating the Postal Service's retiree health benefit prefunding obligation and 2) integrating the postal retiree health benefits system into Medicare – would do much to put the Postal Service on sustainable financial footing and ensure a viable future for the most-trusted government agency that matters to our country more than it ever has before.

The Economic and Policy Rationale for Rate Stability

We are very concerned about the effect the above-inflation rate authority the Commission has provided to the Postal Service will have on us and on the Postal Service. A rate increase more than five times the rate of inflation on top of January's rate hike would devastate magazines and newspapers at an already fraught time, with all media – especially print media – suffering from significant declines in advertising during the pandemic. On top of that, USPS's unprecedented service failures this year have led to a huge jump in customer delivery complaints and greatly increased costs for publishers, from printing and mailing replacement copies to significant costs and penalties from transportation work-arounds and truck delays. The full impact of this year's record low service performance on long-term magazine renewals – and publishers' bottom lines – remains to be seen.

In recent years, while some publications have chosen to emphasize digital offerings, other publishers decided to upgrade the print product, investing in higher-grade paper and larger formats, to deliver copies that subscribers would enjoy, display, and keep. A potential 7.6 percent postage increase above inflation would force publishers to pivot from investing in print to cutting costs by shuttering titles, reducing issue frequencies, and shedding subscribers.

Magazines' ECSI Value versus the Underwater Surcharge

Congress has always recognized – and even codified – Periodicals' Educational, Cultural, Scientific, and Informational (ECSI) value, and the loss of magazines from the mailstream would hurt publishers, printers, readers, and ultimately the Postal Service itself. The implications would be far-reaching for an industry with 83,000 direct jobs and supporting nearly 160,000 additional indirect and induced jobs.

Despite authorizing an underwater surcharge**,** the Commission recognized the risks thereof. In its final rule, the PRC made three significant admissions**:**

- "The Commission acknowledges the concern regarding the potential effect of price increases on mailers and on mail volume.
- "The Commission also acknowledges that reducing costs will improve cost coverage.
- "The Commission further acknowledges that the Periodicals class, in particular, comprises mailpieces that offer ECSI value."

The answer for improving cost coverage is not simply to raise rates on an "underwater" class with ECSI value. A study is needed to get at the root causes of the problem and a plan must be developed and implemented to improve operations. Imposition of an underwater surcharge should not be allowed until flats costs are under control.

The Case for a Flats Study

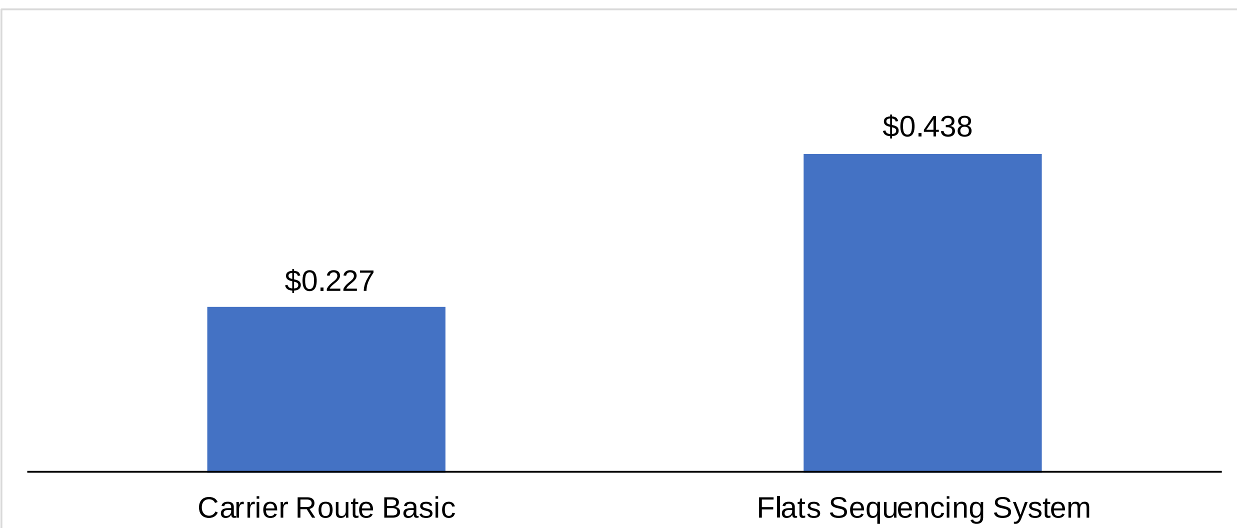
USPS' overall productivity has declined over the last five years, but the trends have been much worse for flat-shaped mail, including magazines. Flats processing productivities on all the machines used to process flats have declined substantially – by up to 50 percent – over the past decade.

Flats Mail Processing Productivity Trends

Operation	FY 2008 to 2019 Productivity Change (%)
AFSM 100 Incoming Secondary	-31.6%
SPBS/APBS Incoming	-21.8%
APPS Incoming	-50.9%

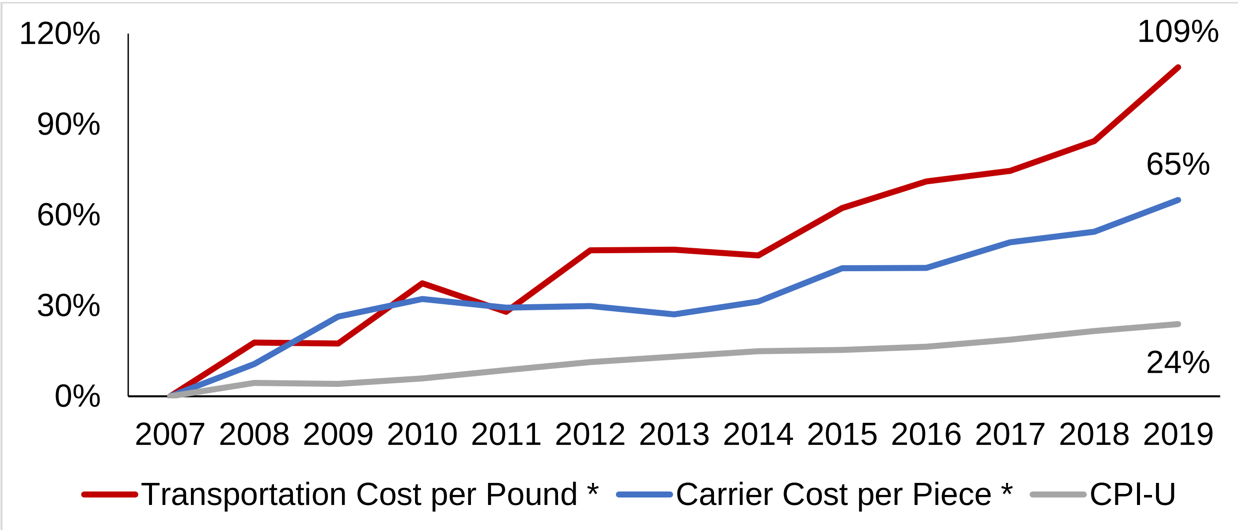
Deployment of the Flats Sequencing System (FSS) a decade ago has further hurt efficiency and increased costs. And FSS performance is worsening. FSS machine processing can cost twice as much as manual processing of the same mail.

FY 2019 Periodicals Outside County Cost per Piece



The problems are not confined to mail processing costs either. Both transportation and delivery costs for flats have increased much faster than inflation over the past decade as well.

Growth in Periodicals Transportation and Carrier Costs



<u>Conclusion</u>

MPA thanks the Committee for its hard work on postal reform. The Postal Service is part of the infrastructure that binds us as Americans, and magazines delivered through the mail are an important means of communicating with each other. MPA has long supported this Committee's efforts, and will continue to do so. We firmly believe that the legislative proposals outlined above will benefit consumers, protect mailers, and maintain the Postal Service for future generations. We look forward to working with you on bringing these sensible reforms to fruition.

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