



Testimony of Ann S. Moore
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Special Panel on Postal Reform and Oversight
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Chairman John McHugh, Ranking Member Danny Davis, members of the Special Panel on Postal Reform and Oversight, thank you for this opportunity to share the views of Time, Inc. on the crucial issue of reforming the United States Postal Service. I want to salute your leadership and the effective guidance of full committee Chairman Tom Davis and Ranking Member Henry Waxman. It is on account of your collective leadership that we have this opportunity to pass a meaningful, comprehensive postal reform bill. Time Inc. is committed to working with you to achieve that goal.

I have been involved with postal reform issues for a long time, almost as long as Chairman McHugh. I first went to work on postal reform when I was President of People Magazine. Why would I do that? There is no issue more crucial to the magazine business than the future viability of the postal system. The great majority of our readers depend upon the postal system to deliver their magazines. We need to work together to ensure that this can continue over the long term. It affects all of our readers, from the moms and dads who read *Parenting* to the sports fan who reads *Sports Illustrated*.

Since becoming Chairman and CEO of Time Inc., postal reform has become an even more important priority for me. At Time Inc., we have 15,000 employees who have a vital stake in the work that is before you here in Congress. If you count all the suppliers that depend on us, from the paper mills to the printers to the mail houses, even more peoples' livelihoods are at stake.

We are all familiar with the challenges that confront the Postal Service. Mail volumes are declining while the number of addresses served is growing. Operating under an out-of-date statutory business model that virtually demands that declining volume and revenue be met with larger and more frequent price increases, Congress has an obligation to provide the Postal Service with legislative relief from what the General Accounting Office described as a "death spiral."

Few doubt that the Postal Service is absolutely worth saving. The impact of mail is valued at over \$900 billion annually and 8 percent of Gross Domestic Product. Our industry - including paper, card, and envelope manufacturers, makers of automation equipment, direct marketers, printers, publishers and shippers - employs over 9 million workers nationwide. Our products touch every household and business six days a week and provide the communication fabric of our nation. The value of universal access and delivery at reasonable prices is as great as the value of equal opportunity and should not be underestimated.

The success of the Postal Service is also critically important to our company. We spend more on postage than any other company in America. We believe the challenge you confront is urgent and deserves a resolution before the death spiral reaches a crisis that puts at risk the Postal Service's ability to deliver its value to our fellow citizens.

The current business model of the USPS is not sustainable. Time Inc. applauds the efforts of the Postmaster General and the Postal Service's employees to reduce costs, but reducing costs alone won't solve the problem long-term. Broad and sweeping change is required.

President Bush and U.S. Department of Treasury deserve credit for tackling this difficult issue and creating the Presidential Commission to help fashion solutions. The heart of the December 8 Department of Treasury principles is broad and sweeping reform, the development of a more flexible enterprise that is empowered to match the challenges of both today and tomorrow.

We concur with Treasury that best practices should be at the core of the new business model. We fully support the recommendations on financial transparency, self-sufficiency and accountability. We agree with the recommendations on management flexibility and have recommendations about the scope and role of the Postal Regulatory Board.

Any government-sponsored monopoly requires strong oversight. It is crucial that Congress put a rational rate cap system in place to prevent unsustainable rate increases.

As a result of postal rate increases, postage expenses have become the most expensive single line item at Time Inc. This year, we will spend more than \$500 million on postage.

We are acutely aware that postage costs have increased at a rate that far exceeds any inflation benchmark. In 2001 and 2002, we experienced three rate increases

within an eighteen-month period. Looking back to 1986, Time Inc.'s postage costs have outpaced inflation by more than 60 percentage points.

Out of control postal costs drive mail volume out of the system, compounding the problems this committee seeks to address. The success of postal reform will depend a rate system that delivers a strong incentive to hold down costs and to provide mailers with predictable rates. If I can plan ahead for rate increases, more mail will result - and that is the real growth that the Postal Service needs to survive.

At Time Inc., we have a lot of creative ideas on the drawing board for magazines that consumers tell us they want and that I am itching to launch. If I can't predict the future costs of mail, and thus the long-term cost of a new launch, the risk of building a new magazine is sometimes just too high. Give me predictable rates, and I can launch more magazines, creating jobs not just at Time, Inc., but all the way down our supply chain.

We suggest that rate increases not exceed some inflation-based benchmark. Since approximately 80 percent of the Postal Service's costs are labor, an inflation based rate cap will keep all employees whole against inflation and will allow compensation for productivity increases beyond the rate of inflation. To maintain flexibility for the Postal Service to take advantage of new work-sharing opportunities within a given class of mail, such a cap should be applied at the subclass level. The establishment of this cap should be the responsibility of Congress and not an independent regulatory body. As a statutory standard, we would suggest the elimination of the exigent circumstances exception. The elimination of the exigent circumstances provision will provide a strong incentive for the Postal Service to operate below the rate cap.

We strongly believe that rates should be based on cost, and suggest that each class of mail be required to cover its attributable costs and make a contribution to overhead. The regulator should determine the amount of contribution for each class of mail after applying the current statutory ratemaking criteria. Time, Inc. is a staunch supporter of the criterion that recognizes the Educational, Cultural, Scientific, and Informational value provided by certain classes of mail. We feel that the existing ratemaking factors should remain a key component of the future ratemaking process.

Within this structure, we believe the Postal Service should be free to operate with minimal oversight regarding rates, provided this freedom not come at the expense of service. Prior to the implementation of any rate cap system, the Postal Service must first establish service measurement systems for all mail classes.

We fully support the concept of universal service to every household in America and six day per week delivery. The quid pro quo for this social responsibility is the retention of the lettermail and mailbox monopolies.

We do not oppose the establishment of a Postal Regulatory Board with somewhat broader powers than those of the existing Postal Rate Commission, but the scope of those powers should not be as broad and sweeping as proposed in the Commission's report. A Postal Regulatory Board should perform five primary functions and should possess subpoena power over the Postal Service where necessary for the performance of these functions:

- 1) Enforcement of the prohibition against cross-subsidization between classes and an after the fact review of all rate changes upon a complaint by consumers or mailers.
- 2) Review of the Postal Service's delivery standards and measurement system to ensure that rate caps are not being met at the expense of service.
- 3) Annual review of the Postal Service's performance incentive system to ensure that no bonuses are issued if the Postal Service fails to operate below the rate cap or meet its service standards.
- 4) Oversight of Postal Service accounting and reporting systems to ensure financial transparency.
- 5) Review of independent rate agreements such as Negotiated Service Agreements.

We support Congressional assignment and oversight of several Postal Service functions that the Commission proposed to assign to the Postal Regulatory Board, including:

- 1) The scope of universal service.
- 2) The scope of the Postal Service monopoly.
- 3) The design and level of the rate cap.
- 4) The Postal Service's debt limit.
- 5) The assignment of products to the competitive and non-competitive categories.

The Commission also proposed assigning the following responsibilities to the Postal Regulatory Board that we feel should be the responsibility of the Postal Service Board of Directors:

- 1) Ensuring that Postal Service employees receive total compensation comparable to that in the private sector.
- 2) Ensuring that retained earnings are accumulated at a level that is appropriate and consistent with the public interest.

We are also strongly in favor of promoting worksharing. This concept provides the Postal Service and the mailing community an incentive to seek the lowest possible cost and the highest quality service.

We believe that the Postal Service has adequate flexibility to adjust its network size and facility locations under the existing statute. Efforts to expand access to consumers through increased use of vending machines, ATM machines, and other venues should be encouraged, although no statutory changes are need to accomplish this goal. We believe the same holds true in the areas of procurement reform, automation technology, and processing standardization. All of these initiatives are priorities for the Postal Service today and will gain importance upon the implementation of a price cap mechanism.

We fully support the Commission's recommendations on revisions to the collective bargaining process. Negotiators on both sides must know that today's system of binding arbitration does not always provide an optimal solution. We feel that mediation arbitration and a last best final offer will bring all parties closer to an equitable resolution while protecting the interests of the employees and Postal Service.

We also believe that "pay for performance" should be applied at all levels of the Postal Service and that employees should share in any form of bonus pool. This will provide an incentive for both the employees and management to operate under the price cap, increase productivity, and improve service.

Some of the most significant problems facing the Postal Service and mailers today are the CSRS escrow account, military pension benefits, carryover obligations, and health care benefits. Any legislation regarding the Postal Service must address these problems.

We suggest repealing the escrow provision in S. 380, since the CSRS liability has already been fully funded. Maintaining the escrow provision will cause postage rates to increase unnecessarily. We further recommend that military pension benefits should be transferred to the Treasury. Military pension should be the responsibility of taxpayers, not Postal Service customers. The same should be true for pension benefits earned by Post Office Department employees prior to the creation of the Postal Service in 1971.

The savings accrued from these suggested reforms should be used first to stabilize postage rates until 2008 and second to fund the retiree health care liability. Postal service customers have been making excessive contributions to the funding of retiree benefits since 1971. Rate stabilization is necessary to bring the rates back in line with fairness. Once that is done, retiree health care issue deserves to be the next priority.

We believe that the issues challenging the Postal Service and the mailing industry are urgent and demand action by the Congress and the Postal Service. The American people deserve bi-partisan action to stabilize and strengthen the postal system. The alternative is a “death spiral” that will severely impact the daily lives of your constituents, the \$900 billion mailing industry and the American economy at large. I want to emphasize Time, Inc.’s commitment to working with all interested parties to achieve a successful outcome and is willing to assist Congress in any way possible to help implement urgently needed postal reform.

Thank you again, Mr. Chairman, for this opportunity to share the views of Time Inc. with this special panel.