

NATIONAL PRESS CLUB LUNCHEON WITH POSTMASTER GENERAL PATRICK DONAHOE

SUBJECT: THE UNITED STATES POSTAL SERVICE

MODERATOR: ANGELA GREILING KEANE, PRESIDENT OF THE NATIONAL PRESS CLUB

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**ANGELA GREILING KEANE:** (Sounds gavel.) Good afternoon, and welcome to the National Press Club. My name is Angela Greiling Keane. I'm a reporter for Bloomberg News and the 106<sup>th</sup> President of the National Press Club. We are the world's leading professional organization for journalists committed to our profession's future through programming with events such as this while fostering a free press worldwide. For more information about the National Press Club, please visit our website at [www.press.org](http://www.press.org). To donate to programs offered through our National Press Club Journalism Institute to the public, please visit [www.press.org/institute](http://www.press.org/institute).

On behalf of our members worldwide, I'd like to welcome our speaker today and those of you in our audience today. Our head table includes guests of our speaker as well as working journalists who are Club members. If you hear applause from the audience, I'd note that members of the general public are attending so it's not necessarily evidence of a lack of journalistic objectivity.

I'd also like to welcome our C-SPAN and Public Radio audiences. Our luncheons are featured on our member-produced weekly Podcast from the National Press Club available on iTunes. And you can follow the action today on Twitter using the hashtag NPClunch. After our guest's speech concludes, we'll have a question and answer period. I will ask as many questions as time permits. Now it's time to introduce our head table guests. I'd ask each of you to stand briefly as your name is announced.

From your right, Sean Reilly, reporter for *Federal Times*; Marilyn Geewax, senior business editor for NPR and a Press Club board member; Elvina Nawaguna, a business

reporter for Thomson Reuters; Nagisa Manabe, the Postal Service chief marketing and sales officer, and Executive Vice President; Jerry Zremski, Washington bureau chief for the *Buffalo News* and a former National Press Club President; Ronald Stroman, the Deputy Postmaster General.

Skipping over the podium, Alison Fitzgerald, project manager for financial and state news for the Center for Public Integrity and the Speakers Committee chair; skipping over our speaker for a moment, Laura Lee, producer for National Public Radio and the Speakers Committee member who organized today's lunch. Thank you, Laura, for that. Megan Brennan, the Postal Service Chief Operating Officer and Executive Vice President; Phil Piemonte, the editor for *Federal Employees News Digest*. (Applause)

Our guest today runs a company that serves over 300 million Americans as customers and has enough employees to make it the second largest employer in the U.S. among publicly traded companies if it were to offer shares to the public. In spite of its size, the enterprise lost nearly \$16 billion last year alone. Postmaster General Patrick Donahoe is here to tell us the steps he wants to take to turn the gigantic U.S. Postal Service back to a profitable organization.

Even with the explosion of electronic communication, postal service delivery of snail mail is still a crucial part of American society with more than 650 million pieces of mail delivered per day. But the dire financial condition of the organization may hinder its ability to fulfill its famed, though unofficial, creed of completing delivery through rain and snow and sleet and hail.

In February, Mr. Donahoe announced a plan to end Saturday mail delivery, a change he said would save \$2 billion a year, or 1/8 of last year's loss. But at the urging of unions and Congress members, the postal board intervened last week and blocked the reduction in service. Congress has also blocked plans to close up to 3,000 post offices across the country, many in rural areas, and to close processing plants that were built for a mail network that used to carry a much higher volume of letters.

With nearly half a million employees, Mr. Donahoe is no stranger to labor issues. Healthcare, retirement and pension plans create mounting pressure on the already cash strapped postal service. In fact, personnel, pay and benefits make up \$56 billion, or almost 80 percent, of the organization's 2013 budget, a percent Mr. Donahoe this week at a congressional hearing said won't likely decrease even as the service downsizes.

A requirement to pre-fund 75 years of healthcare benefits for future retirees further burdens the organization that's supposed to be 100 percent self funded but that's also maxed out its \$15 billion credit line from the U.S. Treasury. And if things weren't bad enough, this week the postal service dealt with letters apparently laced with ricin that were mailed to a U.S. Senator and the President.

Appointed Postmaster General in 2010, Mr. Donahoe is a lifelong postal employee serving in various roles at the service for more than 35 years. He began his

work with the service as a clerk in his native Pittsburgh and as a proud new grandfather. Please join me in giving a warm National Press Club welcome to Postmaster General Patrick Donahoe. (Applause)

**MR. DONAHOE:** Thank you Angela for that kind introduction. It's a pleasure to be here today and speak with everyone, and we will make sure that we've got time for our questions. I'd also like to thank the National Press Club for the invitation and organizing today's event.

The last time I spoke here was 18 months ago, and I gave a speech that made the following points. Number one, the postal service is a tremendous organization and it's in a financial crisis. Number two, Congress needs to reform our business model and give us more flexibility to solve our financial issues. Number three, the lack of quick action by Congress will doom the postal service and force it to become a burden on the American taxpayer. You know, I was sorely tempted to give the same exact speech again. But I thought have I become that cynical?

I will admit being frustrated by the lack of progress on postal reform legislation over the past few years, but I will tell you I am not cynical about it. And I'm not so cynical that I would deliver that same speech again. In fact, I'm more optimistic than ever about the future of the postal service. A few weeks ago, the Congress blocked our plan to transition to a new delivery schedule. We said we could deliver packages Monday through Saturday, mail Monday through Friday and keep post offices open on Saturday and it would save the postal service \$2 billion annually and it's a necessary part of closing a gap which could be \$20 billion by 2017.

The American public supports it by a wide margin; more than 80 percent support it once they understand the facts, including citizens over 55 and citizens in rural areas, across the board support. It's the financially responsible thing to do. And yet Congress passed a spending bill that stopped us in our tracks. Am I cynical? No, I am not. I believe we will get the flexibility to move to our new delivery schedule because it is the right thing to do.

Congress faces a simple choice. It can decide to start appropriating a lot of money to prop up a broken postal service or it can give the organization the flexibility to operate more effectively. And in case you're wondering what that cost might be, the cost of propping up our broken model, including resolving all the debts and defaults we currently can't afford to pay might be in the neighborhood of \$58 billion, and that's just through 2017. And you know what? It would be completely unnecessary.

It may shock you to learn the postal service could be profitable today and in the long-term future. We just need to operate differently. And so I am optimistic. I am optimistic that Congress will pass a bill this year, and I'm optimistic about a restructured postal service for the future.

Earlier this week, we published an updated five year business plan. And our plan closes a substantial budget gap by 2017 and puts the postal service on sound financial footing for years to come. And what's important about the plan, it's not the fact that the math adds up because I think anybody here could figure out a way to make math add up if you want to make some pretty extreme choices. What's important about this plan is that it can be implemented in a responsible manner that is fair to both customers and employees. We do not have to resort to layoffs or contracting large chunks of business out from our workforce. We don't have to make radical changes in our products or services, nor to our pricing. And we do not have to be bailed out by American taxpayers.

Do we need to make substantial change? Yes. Can we do it in a responsible way? Absolutely. But we cannot afford to wait. In this whole situation, time is money. If we do not start making some of these changes, we'll only be left with extreme options. And our situation, if you think about it, is not so much different than what the rest of the federal government faces, and a lot of state and local governments face today. We have to get ahead of these fiscal imbalances. If we want to avoid major noticeable disruption at a later time, we have to make responsible, thoughtful choices now. And that's what our plan aims to do.

One of the most important changes that we think in the plan is to take over our healthcare plan. Everybody believes that the federal system is overly generous in terms of benefits. The truth is the federal healthcare system is not overly generous to our employees, but it is overly expensive. And that's why we want to shift our employees and retirees from a federal system to a privately run plan. And when we do this, we'll be able to provide our employees and retirees with the same or better healthcare coverage at a dramatically lower cost. Such a move would save our employees and retirees, in our best estimate, \$700 million a year in annual premiums and would save the postal service \$8 billion because we would effectively eliminate the need to pre-fund one day further.

We would also be able to invest much more in effective health and wellness programs which we can't do now. Financially, it's a smart move and it's also the responsible thing to do for both the employees and the retirees. And it makes so much sense that it fills me with optimism that Congress will support it. We have to move in this direction, and I believe we will.

One of the concepts I think a lot about relates to pensions and the notion of the postal employee of the future. As Angela said, I started my postal career as a clerk in Pittsburgh in 1975, 37 years, almost 38. I went to the University of Pittsburgh by day and at night I was a mail processing clerk in the downtown post office. So I think a lot about the organizational change from the perspective of a lot of my own experiences coming up through this place in all those years. And I have seen tremendous change in the mailing industry, not just the postal service. Our entire industry in the last ten years, and I will tell you this, if you think there was a lot of change in the last ten years, wait until we see what happens in the next ten to twenty years. It's going to be more dramatic.

And we'd be hard pressed to say what our industry is going to look like in the year 2030 or 2040. Think about that. But a young person that we hire today like I was hired 20 years old in 1975, will probably be here working well past the year 2050 and probably, in today's environment, past the year 2060. Our current retirement model is designed to give an employee a defined pension after a long career. And it's a model that made a lot of sense in the 1940s and 1950s, but is not going to be appropriate for the 2040s and the 2050s. Our world is becoming far too dynamic to make promises about pensions 40 and 50 years down the road. The benefit of a defined contribution system is it gives employees options to consider. If job changes are possible, why hold people to benefits that they may not be able to use for 50 years?

We're currently on a trajectory to hit about 400,000 career employees by the year 2017, and that's with all the changes that we propose; the six to five day and the network changes as we shrink down. And after we reach that number, it's going to give us a pretty lean workforce. We have a pretty lean workforce right now from the standpoint of the network and the six day delivery. But after that, we will start hiring people. In fact, we estimate in the next ten years, between 2017 and 2027, depending on volume, and volume is the key here, the postal service will be hiring up to, potentially, 20,000 people a year annually to replace our workers. I'm above average in that I'm 57 years old, but our average is 54 years old in this organization. So we're going to have some people leaving the organization.

We have to put a retirement system in place that is appropriate for these new people coming online and it's got to provide a high level of certainty and predictability in an unpredictable world. And I'm confident that we can design a great system and tie it into systems like the Federal Thrift Savings Plan and it could offer attractive employee contributions and enable our employees to plan for and manage retirement finances much more effectively than they do today.

It would be portable, which is going to be very important going forward in this world. I would like to have a defined contribution plan in place for every new employee by the year 2015. It's about continuing to be a great place to work, have a competitive workforce and being fair and responsible as an employer. And it makes so much sense that it makes me optimistic that we can get the authority under law to get this done.

Another important area of flexibility relates to products and services that we provide. The postal service does not have pricing flexibility. For example, we can't bend a little bit on an offer we've got with a customer. Let's just say we're asked to compete on a contract to ship 100,000 packages for a potential customer over the course of the year. We'll provide a proposal and a price and our competitors, great competitors out there, they do the same. This potential customer often case, goes back to the competitors and says, "Hey, you got the contract if you can do a little bit better on price." They don't come back to us because they know it would take way too long to be able to get back to them with some flexibility.

What we would like to do is make a deal like that and then have the regulatory commission just take a look and review after the fact. Makes us a lot more competitive. It's a small change that makes a lot of sense and it would obviously help us to compete more effectively. And because it makes a lot of sense, it makes me, again, optimistic that we can get this type of flexibility.

We would also like to have more flexibility in the types of products and services we provide. Technology is going to transform the mailing industry in a lot of new and exciting ways, and we need to support that speedup in the transformation. It's not hard to imagine that customer expectations are going to change dramatically in the coming years. They already have been. If you look around and see the changes that we've all experienced, customers' tastes are changing.

Imagine being able to use your smart phone to redirect your mail and packages, have them delivered to a current location you're at right now. Imagine being able to use a mobile app that has the ability to display what you're going to be getting in your mailbox over the next few days. That's going to create opportunities for marketers to build anticipation of what's in the mail. When you think about all the emails and all the messages you get today, the mail is the one last place where you can get a surprise and there's a lot of anticipation you can build around that.

Imagine if you were to get a notification the moment that your packages and your mail were delivered to your door. Imagine if the mail carrier-- technology enabled someone to tap a piece of mail on a smart phone and not only in one click make a purchase, have it delivered at the same time. We can dramatically improve the experience of mail and the experience of delivery if we unlock the power of data and digital technologies.

Now, the postal service is working on some of these technologies right now with a number of our customers to transform the experience of mail and shipping. We're pursuing avenues of product development today that are not restricted by existing laws, and that's good. But we're also seeking additional flexibility in other promising areas.

You know, the postal service provides a delivery platform for the \$800 billion mailing industry that employs eight million people. It is a big industry. And the way to keep that platform strong is to innovate in ways that improve the experience of delivery and the experience that people have with their mail. Having the flexibility to create new products and pursue business opportunities is an important way to keep the postal service and the mailing industry in total healthy. And, I hope everyone is as optimistic as I am that we can get the flexibility through law to make this happen.

You know, as I look out into the future, there is a lot to build on. Marketing mail, or direct mail as people talk about, it's rebounding nicely. I mean, we went through a rough spot there with the recession. And despite all the ways that people change in terms of communicating and selling products, marketing mail continues to garner roughly 12 percent of the total spend in marketing in this United States. It's been consistent for 30

years, and that's because marketing mail provides such a strong return on investment for the center. And I have no doubt it will continue to be a strong and growing part of our business.

The largest and most profitable part of the mail is, of course, first class mail. That's what pays the bills. Have we seen a decline in the use of first class mail? Yes, we have. You know, people pay bills online, it's free and it's awfully hard to compete with free. But there's another part of that story, and it has to do with first class mail that businesses send to their customers. It's down a little bit, about 1 ½ percent per year since 2003, but that also includes a substantial drop that we experienced with the recession in 2008 and 2009. And a fairly weak economy since then.

But that says that people really do value hard copy statements and correspondence that they receive from businesses. They want that information in hard copy and they're resisting the idea of going totally digital. You know, we've heard anecdotally a lot of people that did do that and either missed a payment or nervous what's on their bill and they've said, "Hey, start those bills back up again." So don't write the obituary for first class mail. It delivers a lot of value for both the sender and the receiver and it accounts for \$28 billion of revenue for the postal service today and I guarantee you it's going to be around for a long while.

The most promising part of our business in terms of growth is package delivery, which is up more than 14 percent over the last two years. We've created much of that growth by innovating and marketing new offerings and we're also benefiting from the big rise in ecommerce. The way people use the mail and delivery services is changing, and I think it's exciting. And I think these changes will create opportunities for growth for the postal service and throughout the entire mailing industry.

You know, the postal service is a tremendous organization with an exceptionally dedicated workforce. Our people do a tremendous job day in, day out. You saw them this week with the ricin threat, mail got delivered. You saw what happened with Hurricane Sandy, mail got delivered. Day in, day out, do an excellent job. And the postal service plays an indispensable role in the American economy.

But today, it has a business model that is broken. The good news is that we can fix what's broken. It just requires that we set aside some outdated visions and views of this organization. It also requires that we ask some fundamental questions about what kind of postal service is best for America in the future. We know we can't stick with our current structure, so we've got to create a new one. And we have to be bold because the scale of our problems is pretty large.

In the past year, the postal service recorded a financial loss of \$15.9 billion. I'm tired of talking about that, I will tell you. Included in there is an \$11 billion default on payments due to the U.S. Treasury and we've used up all of our borrowing authority. At one point last year, we only had four days of cash on hand which means we came pretty close in some cases to not being able to pay our bills. The postal service can't continue to

limp along in such a weakened financial state. And it's unfair to the businesses that support us.

We need to provide customers who comprise every part of the American economy with a predictability and confidence that they need while they're investing in the mail. And the best way to do that is for Congress to help us fix this broken business model the sooner the better.

We're asking Congress to give the postal service the authority and flexibility to close what could be a \$20 billion budget gap by the year 2017. We can achieve this if the postal service can get ahead of the curve and be profitable for years to come, and it can be done without being a burden to the American taxpayers. All it requires is flexibility in a few key areas; the ability to determine our own delivery frequency; the ability to develop and price products quickly; the ability to control our healthcare and retirement costs; the ability to switch to a defined contribution retirement system for newly hired employees; a streamlined governance model and more flexibility in the way that we leverage our workforce.

I am encouraged that Congress is working on legislation to address these issues. I am optimistic that we will gain these important areas of flexibility. And if we make these changes, I'm confident that the postal service will better serve the American public and drive growth in the American economy into the future. We are on a responsible, commonsense path to create a postal service that can adapt to a changing world. We just require the authority to make it happen. Thank you very much. (Applause)

**MS. GREILING KEANE:** You said you're optimistic about congressional action this year. What makes you optimistic?

**MR. DONAHOE:** Well, I think there's a couple of things. Number one, if you think about what's happened over the past few years, there's been a lot more attention to this issue. I think from an industry perspective, everybody has brought that issue, I'd hope, from a postal service standpoint between our initial five year plan last year, a lot of communication there from what Congress hears from our employee unions, management association, the customers. People know that we have to fix this issue.

I was very encouraged the other day by the hearing in the House. There was a lot of discussion afterwards from both sides saying, "We need to fix this and we need to move."

**MS. GREILING KEANE:** Lawmakers from the House and the Senate said they were going to meet this week to begin discussions on hashing out a bill. What have you heard about any meetings and any progress on actually putting a bill in writing?

**MR. DONAHOE:** We are waiting to hear the outcome of any meetings that happened. I think one of the things, unfortunately, this week that's caused a little bit of disruption is what's gone on with the-- I know the ricin threats and some of those



concerns, and it's been disruptive. I know especially on the Senate side. So we're waiting to hear. I think that the leaders in both the House and the Senate and both parties have expressed to us their desire to move on this.

I think the other thing that speaks well is the fact that Chairman Carver's hearing a couple, about a month and a half ago, both Chairman Issa and Representative Cummings came in and testified that they want to move ahead.

**MS. GREILING KEANE:** Paint for us the picture of what happens if Congress doesn't pass postal reform legislation this year.

**MR. DONAHOE:** Well, our board has been concerned with it. That's why we've taken the actions that we've taken. Let me give you a little time frame on that so you understand a lot of the thinking behind that. Last fall, we thought after the lame duck-- or before the lame duck session began-- that we would have an opportunity to see some legislation. It looked pretty encouraging, and at the last moment things didn't get done. Our board has been concerned, as I mentioned, about liquidity. You know, last year we came dangerously close to not paying our bills. Four days cash is not a good idea for somebody that pays as many people and as many businesses as we do.

And so the board said, "Hey, go back and re-look at and see if you can speed some things up." So we came back with some recommendations, some that the board gave thumbs up on, some they said hold off on. Couple of them you know about; advancing the consolidations and the move from six day to five day mail delivery. The intent there was to make sure that we do what we have in our control and be responsible around keeping the liquidity in the organization. After the decision a couple of weeks ago in Congress to change the CR and pretty much limit us from making the six to five day move, the board has gone back and said to us, "Hey, evaluate pricing. Is there some things we can do in there? Reach out to the union's management associations and see if there's some things we could do there." So we've got to keep every option open.

What we'd really much rather do is get this legislation moving now because time is money.

**MS. GREILING KEANE:** Recently, Senator Carper said August is a goal for passing postal reform and Congressman Issa yesterday said his goal is the end of the year. What are you doing to regroup your strategy to make them move faster?

**MR. DONAHOE:** Well, again, it would be our hope that it would be done in August. I know as the four of them talk, maybe they can get everybody on a timeline to get it moved that much quicker. Our biggest fear is that with everything Congress deals with, you never know when something comes up that really ties everybody up over there with a lot more attention. So from our perspective based on the finances and based on the fact, what I said to you guys before, the quicker we move on these, the better so we'd like to see it move as quickly as possible.

**MS. GREILING KEANE:** You said that you don't want and you don't need a bailout, but is the postal service headed for a bailout regardless of whether you don't need or don't want one?

**MR. DONAHOE:** Well, let me talk about bailout. I think that the worst thing we could ever do as an industry is let that happen. I also think that within this industry, I would encourage you to read the five year plan, I would encourage you to provide some feedback. What that five year plan says is that everybody puts a little sacrifice in, and a little is the word. If we don't end up in a situation where we put that little sacrifice in, I will tell you eventually we will be sorry for that. And I don't see there's a big taste in the American public, we didn't see it in any of the polls in the six to five. When we asked the question, "Would you support a bailout for the postal service to maintain six day delivery?" 90 percent people said no, they don't want to do that.

And I think after the pushback you've seen around the auto industry and the banking industry and the insurance industry, there's not that much of an appetite. And in a very different way, think about what happened with those bailouts. General Motors lost six different-- or I think it was four different divisions coming out of there, so they had to make substantial changes to come out much smaller, much leaner in order to close the gap going forward. Bailing out or hoping for a bailout or hoping somebody's going to step in is not a good strategy. As an industry, we need to step up and fix this problem ourselves.

**MS. GREILING KEANE:** And if there were a bailout, you'd still need legislation later to restructure, right?

**MR. DONAHOE:** If there were a bailout, all bets are off at that point. I mean, if you think about how poorly-- and most people in this room didn't work in the postal service pre-1970. It was a very poorly operated organization, very undependable, depending upon the American taxpayer. If you think about it, the American taxpayer has a lot of options today that they didn't have back then. The worst thing we could do in this organization is hurt from a pricing perspective people who use the mail for their products, hurt from a service perspective, erratic service. We have to address some service issues like the Saturday delivery issue. But if you're hit and miss on a service perspective and you chase people out of the mail, it will only end up hurting this entire industry.

So again, I would encourage us to step up as an industry, read that five year plan, give us feedback but we need to push ahead as quickly as possible and get this legislation done at the same time.

**MS. GREILING KEANE:** Last time you pushed successfully for postal reform, of course you ended up with the pre-funding mandate that's part of what you're looking to change now. How do you insure that the measure that would be passed this year by this Congress would be favorable to what you need and want to do?

**MR. DONAHOE:** Let me say something about the pre-funding I think is important. I think that we are responsible, period, for our healthcare. There's no way in the world-- it is irresponsible for people to be standing there saying, "Well, we shouldn't have to pre-fund, nobody else does it." That's like when you were a kid saying nobody else does their homework so I shouldn't have to. You know, if we expect as employees of this organization to get benefits, we're responsible for paying for them. So what we have to do is figure out the best way to do it. Our own healthcare plan, and a suggestion came up the other day by Mr. Orlando at the testimony and he said we could support a healthcare plan that was managed or was operated through the FEHPP. I'm fine with that as long as it reaches the same outcome of a better plan and a lower cost for the employees, a better plan and a lower cost for the retirees and the elimination of the pre-funding going forward. That's a critical issue.

Now that said, when the pre-funding was passed in the year 2006, it was a very different postal service. Let's do the math for a second. If you go back to the year 2003 when pre-funding first started to be discussed, and a lot of other situations that ended up in that bill, we delivered in 2003 51 billion pieces of single piece first class mail. There are very few people in this room who can see clearly into the future and see exactly what's going to happen. But if they would have known ten years ago what they know today, it might have been different. Because today, we'll deliver 21 billion. And if you take that 30 billion piece difference at a 46 cent rate, you're looking at almost \$14 billion in revenue that has evaporated over that time frame.

I will say to you in 2006, the Congress passed a law thinking they were doing the right thing. I can't fault them for that. Now, the time frame, the burden, that ten year burden, that was tough. But even at that time, if you think about the fact that if we hadn't lost a substantial volume we've lost with electronic diversion and the recession, we would have been a lot close to being able to make those payments.

As a matter of fact, our employees have done a tremendous job making up the difference for a lot of the volume that we've lost. So the key thing is this. On the legislation, we have been very involved. Ron Stroman and his team, I think, have done an excellent job. I know Joe Corbett and Megan and Nagisa and Ellis Burgoyne and Jeff Williamson and before him Tony Vegliante, and Mary Anne on our leadership team have done an excellent job shepherding this five year plan in place. What we can do with that five year plan, any scenarios, run it through the model and see what it might look like.

So we're looking at things now and trying to look ahead, then that's why we propose things like defined contribution retirement systems, because we know that will help reduce costs and provide much more clarity going out into the future. So the key thing is knowing what's in that bill, having some influence and doing it the right way, trying to push the things that we've got in that five year plan. And I will tell you, we will have a successful postal service for the long term.

**MS. GREILING KEANE:** Got several questions on the ricin letters from this week. Tell us, first of all, what's the latest on the tests of the substance? What do we know that might be new on that?

**MR. DONAHOE:** I'm going to tell you what I know, pretty much I think that I'm allowed to say. The ricin was mailed by some fellow down there in Mississippi known, from what we understand, the way it came through the system, our best information right now is it's in a format that is, you could say, kind of roughly broken up. It's not something that either came out of the envelope or not something that came out in any other way. We have very quickly, as soon as we found out about it, and I'll tell you, I was irritated because we didn't find out until long after it started rolling, reached out to the employees, the unions, reached out to medical people that we were in contact with both under contract and the CDC to get that message out.

The person's been apprehended. We don't know if anything else is in the system in terms of any other letters at this point in time, and we've got to just make sure-- we'll go back, any recommendations that we get from the CDC or anybody else in that area as far as next steps that we might have to take, we'll take those.

**MS. GREILING KEANE:** How was it detected? Was it some sort of machine that automatically detects a dangerous substance? Was it visual inspection, something else?

**MR. DONAHOE:** It was detected over in the mail room of the Senate. And what happened is they do the opening off site and somebody said, "Oh gees, what's this?" I didn't see what was on the notes or anything like that. A lot of times, people write this stuff in and say what it is and they do a test and that's what they found out.

**MS. GREILING KEANE:** As far as you know, have any postal workers, or I guess any workers in Congress and are you concerned for the safety of any of them?

**MR. DONAHOE:** What we understand about ricin, there are two things you have to be careful of. One is inhalation if it's finely ground and almost aerosolized, and we do not think from every indication there's any concern there, or ingestion and nobody's eaten any of it. What you have to do is, again, just make sure that you can account for everybody and that's what we've done. We've gone back to the plants where we think the mail may have come from. And I know the mail opening sites have done the same. Make sure somebody's not at work, are you okay and that way if they had to get to the doctor's, they could.

**MS. GREILING KEANE:** A questioner says, I'm just a regular person. Does the postal service screen my mail for poisons like ricin?

**MR. DONAHOE:** No.

**MS. GREILING KEANE:** Going back to legislation, questioner talks about the losses over the past several fiscal years that are attributable to the pre-funding requirement and says, “Why have you not been more vocal in making the magnitude of the loss attributable to that more part of public knowledge and are you focusing more on Congress with changing that?”

**MR. DONAHOE:** The key issue we face, bar none, is the loss of volume, period, exclamation point. This industry is facing the same issues as many people sitting up here at the dais and the newspaper industry. You've got technology change, you've got substitution, you've got competition. That's what's happening to us. People pay bills online. When you lose 30 billion pieces of mail, that's what's continuing to affect this organization, and it will continue. And as you have options to go electronically with advertising mail or electronically with first class bill presentment and statements, which is a very scary thought for us, that's why we've got to keep the price right and the service levels where they are, that is the major threat.

The pre-funding issues are solvable 100 percent by managing our own healthcare. And it's not managed by a bunch of people in the postal service, we compete it just like any other person sitting in this room. I would tell you, there are people in this room who are enjoying very good health plans because your companies or the groups that you belong to have competed it. You've got good benefits and you're able to address those things going into the future.

The key for the healthcare, it's not we want to run away from our responsibilities, we want to pay exactly what we should pay. So if the postal service is paying for Medicare, we're the second largest contributor to Medicare in the United States. And it is paid for by our employees and by your postage rates. It's irresponsible for me to say, “Oh, we shouldn't make people go on Medicare.” Every other company does. That's what we should do. And we should have a system set up that if a person's on Medicare, they are not carrying a fully loaded federal healthcare system which we do today. There's no wrap around plans in the federal system. That's why we need to change this. That's why the federal system should be changed, not just the postal service. So that you can actually pay for what you should be paying for.

Our retirees will save a ton of money with the plan because instead of having to pay for a portion of a \$12,000 plan, they'll pay for a portion of a five or six thousand dollar plan. And when you take that over the course of 500,000 retirees, that adds up to a lot of money. That issue is fixable.

What is not fixable is the fact that paying bills online is free. We will lose another \$5 billion worth of single piece mail and we can't stop that. So all of the-- that's why we have said, instead of let us out from this responsibility, it's let us take the responsibility and do it in a responsible way. Own our own healthcare plan, downsize the network and infrastructure, focus on packages, set up retirement plans for people in the future that are more affordable and focus on those type of things to build a strong postal service.

**MS. GREILING KEANE:** Questioner says absent postal reform legislation, I would add, or even if you get reform legislation, do you plan on maintaining current first class delivery standards, or do you plan to change them to accommodate the closing of more processing plants?

**MR. DONAHOE:** Absent postal reform, you'll see a grown man cry. (Laughter) Here's the thing on the standard. If you step back and think about it, as we made the changes our employees have done a tremendous job. Our service measurement for commercial first class mail, single piece first class, standard mail, periodicals is at an all time high. People are doing a great job. We are consolidating because we've got all kind of excess capacity.

The problem that you have in a shrinking world, whether it's a shrinking volume or shrinking revenue, or whatever you want to say, you come down to two choices, okay? If you are a customer, the choice is shrink infrastructure or raise prices. We don't want to do that. We would much rather keep the prices very predictable so that you can keep your business predictable and we keep the revenue stream at the 65 billion where we're at.

If you're an employee, the choices are shrink infrastructure, or eventually shrink wages. It's that basic. Because there's no other out in any of this. And that's why we've been so adamant about laying out a plan that is fair, that it doesn't hurt anybody inordinately, that it tries to get ahead of the curve so we don't hurt the employees, get ahead of the curve so you don't hurt the customers and push that plan and get that thing done. That is critical. And that's why talk of not getting postal legislation through is something we should not entertain as an industry. We have an opportunity to get this thing fixed, and as an industry we need to get this thing fixed.

**MS. GREILING KEANE:** Questioner asks, after restructuring, can you absolutely guarantee to continue universal service for folk in Montana, Alaska and other far-flung places like that?

**MR. DONAHOE:** Absolutely positively. Let me say this. People have said things, and let me say this to you and I'm going to say some people might take this as an insult. There's a lot of people that say things with no responsibility for, A, what they say; or, B, the responsibility to make things happen. Whatever I say, I'm responsible for making happen, okay? So in a five day world, we will continue to provide universal service. The reason why we changed to the post plan type of a format is so that we could provide universal service. People told me, "Hey, I need to just be able to get to my post office and get my mail and I'd like to be able to get my mail without having to drive 30 or 40 miles. I'm not too worried about Saturday, I'm much more worried about being able to get to my mail."

And so that's the thing. Universal service is our mandate. In this continental United States, in Alaska, Hawaii, Guam, the American Samoas and we will uphold and meet that mandate. The key thing is we've got to do it in an affordable way because if you

let the affordable side of that go, there won't be any mail in the system to meet that mandate.

**MS. GREILING KEANE:** Questioner asks about the \$2 billion savings estimate that you gave for ending Saturday delivery. Can you take us behind the scenes to how you calculated that number?

**MR. DONAHOE:** Absolutely. On a daily basis, if you take the actual delivery days and processing days that we have in the postal service, every day is worth about 4 ½ billion dollars. That's what we spend, 4 ½ billion. And so what we did as you go through, some work gets absorbed in and some work doesn't. And we've put some numbers against that work. Just for example, we think that on a daily basis, from a percentage of hours and delivery, we use 16.7 hours. From a rural mail perspective, we think that we can absorb 10 percent based on the way their contract is structured. We would carry forward that additional 6 ½ percent onto either Friday or Monday or through the week.

From a city carrier perspective, we number of about 12 percent. And so, I think that knowing our employees and knowing our managers, those are conservative numbers. I think we can easily get the \$2 billion in savings. Remember, 4 ½ billion is what we spend for a day to operate in that environment. So saving two, when in fact you will not go on the street with the exception of package delivery, which will be done with dynamic routing with a lower cost employee whether it's in the rural craft or the city craft, allows us to provide that kind of service at a lower cost. The mail processing costs, the transportation costs, network changes, that's all money that could come out of the system.

We've also calculated in what we think is the revenue loss and we've talked to a lot of customers to validate that. And we think we're on pretty good terms with that. So the two billion is doable.

Let me clear something else up with the two billion. People say, "Well, it's only two out of twenty billion." It is not. If we had it this year, we would break even from an operational standpoint. This year, we will lose about \$1.7 billion in the operating line. That's revenue minus cost with the exception of workers comp costs and pre-funding. We would actually make money if we made the six to five move at the beginning of this year. What happens with the 20 billion, that gap exists when you do nothing over four or five year period and with inflation, that continues to grow. So when people have used, "Well, it's only 10 percent of the cost differential," it is not. It would make up the entire loss this year.

**MS. GREILING KEANE:** Your FedEx air contract is up soon. Where do you see going with that contract next?

**MR. DONAHOE:** Well. We are going to be awarding a contract to an air carrier probably within the next two weeks. It would have been a little bit earlier but with the decision with the six to five, we had to make sure we crossed Ts and dotted Is with the competitors to make sure we knew where they were.

**MS. GREILING KEANE:** Questioner says you committed to Senator Schumer to keep the Buffalo postal processing facility open until 2015. Does that mean there will be no large scale transfer of employees from Buffalo to Rochester until 2015?

**MR. DONAHOE:** Who asked that question? (Laughter) Well, now it all depends on how I answer this question whether I'll get a phone call this afternoon. Here's the thing. As we've worked through these consolidations, what we've been trying to figure-- and poor Megan, she'll be shooting glances at me with this-- I keep saying to her, "We deliver 35 percent of all first class mail in one day. That's a bargain for 46 cents apiece, I think." And we do it very consistently. And so as we've been making these changes in the network, the one thing we've been worried about is not putting a whole lot of that overnight at risk.

So as we've made the big changes last year and this year, we're okay with that. You know, Buffalo starts to bend the curve and there's some other big places and we've just got to make sure that we'll work through that in terms of trying to preserve as much of the overnight service.

What's happened in the industry, those of you in especially the first class mailing industry, that whole world is consolidated. Where we used to get phone bills in every facility every night, we get phone bills from AT&T at like three or four locations, Verizon three or four locations. And so, when the mail is not dropped in all these plants across the country, you're pretty much left to figure out what do you get out of the blue mailbox which continues to shrink, remember 60 percent, and how do you shrink the network in order to get the costs out, at the same time maintain service. So it's a tricky thing. And that affects things like Buffalo and all these other places where we're trying to work through.

Here's a key thing. We have reduced the workforce in this organization by 310,000 career people. Nobody's done it. We've reduced more of a workforce than exists in any other company except Wal-Mart. That's how much has been reduced. And guess how many people have been laid off? Zero. We have been very careful, we have been very conscientious about that. When people say, "Oh, there's going to be massive layoffs," that's BS, there won't be. We are very careful about that.

I come from a city in Pittsburgh, the introduction was made, where we lost 100,000 jobs in four years. People lost their houses, lost everything and have never, in many cases, recovered. If you drive up and down the river towns in Pittsburgh, you will find vacant main streets because once the mills went down, everything else went with it. And it has left a mark on me forever that I will not allow that to happen in this organization. There are ways to do things, there are ways to shrink when you have to shrink and not hurt people when you do it.

**MS. GREILING KEANE:** Questioner says the post office employees in my area feel overworked and have a sense of being not needed. They have no old American



spirit about how the post office always gets there regardless of snow, hurricane disaster, et cetera. How can we get that spirit back?

**MR. DONAHOE:** Well, that's an issue. I mean, our people do a tremendous job. We measure what we call voice of the employee and it's pretty interesting. With all the turmoil that's gone on, the voice of the employee surveys have actually gone up. And it's because people feel, A, that they do have a good job. Our employees, thank goodness, have a job that has a paycheck every two weeks, has healthcare, has a retirement system and a little bit of vacation and some other benefits in there. It's tough on them because they hear a lot of talk. "Oh, you know, is there going to be a layoff? Am I going to lose this or that?"

That's why it's critical to get this stuff behind us. It's the same thing for customers. You can't feel comfortable with customers, especially big first class mailers, if they're fearful that, you know, that question I get all the time, "When are you going to run out of money?" We don't plan on it. We'll figure out in one way, shape or form until we get this legislation done because we don't want our employees and we don't want our customers nervous and down in the mouth over this system. The faster we get this addressed, the faster everybody's going to be back feeling good about growing this industry.

**MS. GREILING KEANE:** We talked a lot about the cost side. What about the revenue side? How do you move from the idea of providing a service to providing a business and actually selling consumers on wanting to buy and buy more of the products?

**MR. DONAHOE:** Well, we think, as I said in the speech, that there is a big upside in mail. If you think about mail, mail is the most special thing you get today, period. How many of you in this room-- I need a show of hands-- how many in this room read your spam email, the stuff that goes in the trash before you ever look at it? I did have a couple of people raise their hands last time I asked that. I was like, man, they are danger seekers, want to ruin your computer.

But, you know, you think about look at eh TV some night. I was trying to find the Penguin hockey game the other night. There were nine Penguin games on, I couldn't open one of them. One was in Spanish, seriously. But when you see the plethora of TV, of radio, radio Sirius X, I'm going to have to listen to ads, all of either the swamp of that kind of stuff, even messages are coming across your smart phones today, mail is still the most special and direct way to get to people.

So, if we can tie mail in to the way people live today like you get a piece of mail, and we're doing a lot of these special programs now, Gary Reblin and his gang, you know, take a picture or click it or even just swipe the thing across your phone. It takes you to a site, one push, you can buy it and get it delivered, there's a tremendous value in that. The fact that we've got all the geo systems going now that when a city carrier or a rural carrier puts a piece of mail in your mailbox, you'll know that it's there and you can tie in a message across a smart phone or something else that says, "Hey, you know, look

on page 10 of your catalogue for Pottery Barn tonight and you can get a special 20 percent off.” There is a tremendous power in the mail. That's where we need to go.

But I will tell you if we don't get a lot of these things behind us, this cloud of uncertainty, people will be afraid to invest and we've got to get them thinking about investing.

**MS. GREILING KEANE:** Back to questions about cutting. Chairman Issa suggested at the hearing on Wednesday that moving to cluster boxes from door to door delivery could save \$6 billion annually. Do you agree with his math and is that a change you would support?

**MR. DONAHOE:** Moving to centralized delivery would probably save us about three billion a year. The reason why we think three billion is a pretty predictable number is because some places, you really can't centralize. There's some geography, it's impossible and it would be hard for a customer to do that. We're looking right now, Megan and her team, have been moving to centralize some business locations, strip malls and what not. The key thing on centralized delivery, you've got to find a win/win. You've got to find some people who are interested in doing it. So Ellis Burgoyne and his team, Mike Amato, have been developing centralized delivery boxes that instead of getting like a little sliver for your mail, you get a nice big box that you can put packages in there. And there are a lot of people that say, “Hey, I'll take my mail if I have to walk down the street maybe half a block as long as my two packages are in there.” In fact, Nagisa is asking for that all the time. So there is definitely some opportunities.

**MS. GREILING KEANE:** We are almost out of time, but before asking the last question, I have a couple of housekeeping matters to take care of. First of all, I'd like to remind you about our upcoming luncheon speakers. On May 5<sup>th</sup>, we have tennis legend Chris Evert, who is now publisher of *Tennis* magazine. And on June 5<sup>th</sup>, we will present the Gerald Ford Journalism Awards.

Second, I would like to present our guest with the latest in a series of your National Press Club coffee mugs.

**MR. DONAHOE:** I use this every weekend, thank you very much.

**MS. GREILING KEANE:** And for the last question, you are the chief face, the chief spokesman of the postal service. Tell us about you and the mail. Do you mail letters, do you pay your bills with checks and put them in the mail? Do you get your magazines on paper or are you like the rest of us have changed a lot of those things?

**MR. DONAHOE:** I am an absolute positive biggest fan of the mail. I am. And stamps. You know, I probably have eight or nine different types of stamps at home in the drawer and depending on what I send out, I'll use different stamps. I pay all my bills through the mail and I get all my statements through the mail and I get all my messages from the nonprofits in the mail and pay them in the mail, Tony. (Laughter) My wife gets

about-- this is no fib-- she probably gets at least 30 magazines a month in the mail. I probably get ten magazines a month in the mail. We are mail fanatics. And I'll tell you, it's great. Because, again, it is the most direct way to reach a person. And that's why I'm a big believer and I know that this industry can do great as we get past some of the things that hold us back.

So Angela, thank you very much for the opportunity. Thanks for seeing everybody here today. Look forward to continuing to work with you in the future, thank you. (Applause)

**MS. GREILING KEANE:** Thank you. Thank you, Mr. Donahoe for coming today. Thank you also to our National Press Club staff including our Journalism Institute and Broadcast Center for helping organize today's event. Finally, here's a reminder that you can find more information about the National Press Club including about becoming a member on our website. And if you would like a copy of today's program, please check out that site at [www.press.org](http://www.press.org). Thank you, we are adjourned. (Sounds gavel.)

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